



THE APPRAISAL FOUNDATION  
*Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications*

Testimony

of

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Before the  
Subcommittee on Housing and Transportation  
of the  
Senate Committee on Banking, Housing and Urban Affairs

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## EXECUTIVE SUMMARY

### Background

The Appraisal Foundation serves as the private sector resource to appraiser regulators. It is not a membership-based trade association, but rather a not-for-profit educational organization that serves as an umbrella group for organizations with an interest in valuation.

The appraisal profession in the United States has traditionally been somewhat fragmented. In the interest of promoting consistency and uniformity in the areas of professional standards and qualifications, eight national appraisal organizations created The Appraisal Foundation in 1987. Its mission is to promote professionalism in appraising by setting qualifications that one must meet to *become an appraiser* and establishing performance standards for *how an appraisal should be performed*.

### Congressionally Authorized Responsibilities

In 1989, through the enactment of Title XI of FIRREA, the Congress gave The Appraisal Foundation specific responsibilities relating to the regulation of appraisers.

- All appraisals performed for federally related transactions must be in conformance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*, which is promulgated by the Appraisal Standards Board of The Appraisal Foundation.
- State certified real estate appraisers must meet the minimum education, experience and continuing education requirements established by the Appraiser Qualifications Board of The Appraisal Foundation.
- Examinations used by states to certify real estate appraisers must be reviewed and approved by the Appraiser Qualifications Board.

### Title XI Is Working as Intended

One of the most tangible measurements of how Title XI has performed is a review of the disciplinary action taken by the states for the period of 1992-2002. During that time period, a total of 4,360 disciplinary actions were reported by the states to the Appraisal Subcommittee. Of these, over 1,250 were serious violations which resulted in the suspension, revocation or voluntary surrendering of an appraiser's state credential.

As to alternatives to the existing structure of Title XI, it is important to keep several factors in mind. First, the Federal Registry of real estate appraisers maintained by the Appraisal Subcommittee currently contains over 95,000 appraisers. Accounting for individuals who hold a credential in more than one state, the total number of real estate appraisers is estimated to be approximately 80,000. The majority of real estate appraisers in the United States are not affiliated with any professional appraisal organization. Accordingly, absent the current system, any type of "self-regulating" alternative is virtually impossible due to the fact that most appraisers are not subject to peer review procedures.



Regarding the elimination or dilution of the federal oversight component of Title XI, it is important to remember that Title XI was enacted, not as consumer protection legislation, but rather from a safety and soundness perspective to ensure the integrity of the deposit insurance fund. Absent Federal oversight, states would be free to establish very low threshold levels or none at all. Without credible enforcement, there could be a detrimental impact on the safety and soundness of the nation's lending institutions.

The current hybrid system of private sector expertise, state administration and Federal oversight (a) ensures that minimum levels of competency are met, (b) provides administrative latitude to each of the states, and (c) ensures overall accountability.

### **Recommendations**

While we believe Title XI is generally working as intended and should remain intact, the following recommendations are offered as suggested enhancements:

- Provide greater regulatory latitude for the Appraisal Subcommittee
- State licensed appraisers should meet the qualification and examination requirements of the Appraiser Qualifications Board
- To facilitate interstate commerce, mandate reciprocity among the states.

### **Conclusion**

When recently confronted with concerns about the accounting profession, the Senate Banking Committee addressed the issue by increasing federal oversight through the creation of the Public Company Accounting Oversight Board (PCAOB). Similarly, with the revelations about financial reporting variances at Freddie Mac, this Committee is pursuing options for greater federal oversight of the Government-Sponsored Enterprises (GSEs).

Fifteen years ago, when faced with a deposit insurance crisis the Congress opted to create a regulatory system that includes federal oversight of the state regulatory programs that credential the individuals who determine the value of the underlying assets of our financial institutions. To dilute or remove federal oversight at this time would be sending the wrong message at the wrong time.



## TESTIMONY

Mr. Chairman, The Appraisal Foundation appreciates the opportunity to appear before the Subcommittee on Housing and Transportation of the Senate Committee on Banking, Housing and Urban Affairs and offer its perspective on Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), fifteen years after enactment.

### Background

My name is David Bunton and I serve as the Executive Vice President of The Appraisal Foundation. Our organization plays a somewhat unique role in that it serves as the private sector resource to appraiser regulators. We are not a membership-based trade association, but rather a not-for-profit educational organization that serves as an umbrella group for organizations with an interest in valuation. We refer to these groups as Sponsoring Organizations, a listing of which is attached to this testimony as Attachment #1.

The appraisal profession in the United States has traditionally been somewhat fragmented. In the interest of promoting consistency and uniformity in the areas of professional standards and qualifications, eight national appraisal organizations created The Appraisal Foundation in 1987. Our mission is to promote professionalism in appraising by setting qualifications that one must meet to *become an appraiser* and establishing performance standards for *how an appraisal should be performed*.



### *Our Congressionally Authorized Responsibilities*

In 1989, through the enactment of Title XI of FIRREA, the Congress gave The Appraisal Foundation specific responsibilities relating to the regulation of appraisers. All appraisals performed for federally related transactions must be in conformance with generally accepted appraisal standards, which are known as the *Uniform Standards of Professional Appraisal Practice* (USPAP) and are promulgated by the Appraisal Standards Board of The Appraisal Foundation. It is these standards which are used by the state appraiser regulatory agencies for disciplinary purposes.

In addition, Title XI mandates that state certified real estate appraisers must meet the minimum qualifications established by the Appraiser Qualifications Board of The Appraisal Foundation. These qualifications include education, experience and continuing education requirements.

Finally, in order to become a state certified real estate appraiser, an individual must achieve a passing grade on a state certification examination that has been reviewed and approved by the Appraiser Qualifications Board.

### *A Unique System for a Unique Task*

There is no question that Title XI established a rather unique relationship between federal regulators, state regulators and the private sector. However, given the unique task at hand, it is working quite well.



The Appraisal Foundation establishes the minimum qualification and performance thresholds that ensure a base level of competency. The 55 states and territories regulating appraisers then use these thresholds and, if they so choose can raise them to facilitate the specific needs of their jurisdiction. The federal oversight entity, the Appraisal Subcommittee, ensures that each of the 55 jurisdictions is operating in a manner that is consistent with Congressional intent. The Appraisal Subcommittee also monitors the activities of The Appraisal Foundation to ensure that it is fulfilling its Title XI responsibilities. This hybrid system (a) ensures that minimum levels of competency are met, (b) provides administrative latitude to each of the states, and (c) ensures overall accountability.

In addition, this regulatory system does not operate with annual Congressional appropriations. Rather it is funded by appraisers through an annual "registry fee," currently \$25.00, which is paid to the Appraisal Subcommittee. This fee offsets the operating expenses of the Appraisal Subcommittee as well as a significant portion of the expenses of the Appraisal Standards Board and the Appraiser Qualifications Board.

One of the ancillary benefits of this system is that over the past decade a very productive working relationship has developed between the three entities. Foundation representatives participate in all state regulator conferences and we have conducted training sessions specifically for state appraiser investigators. We also have frequent meetings with Appraisal Subcommittee representatives. From our perspective, the input we have received from the states and the Appraisal Subcommittee has been



invaluable in ensuring that the work of our Boards continues to meet the needs of the regulatory community and the marketplace.

### **What Has Been Accomplished**

Over the past fifteen years The Appraisal Foundation has taken its Congressionally authorized responsibilities very seriously. As I previously indicated, our work has focused on two areas: appraiser qualifications and standards of professional practice.

### **Appraiser Qualifications**

During the implementation period of Title XI, the lending community expressed strong concerns that, if the qualifications for appraisers were set too high, there would be a subsequent shortage of appraisers which would impede lending. This concern was coupled with the fact that there was very little, if any, demographic information available about appraisers.

With this in mind, the Appraiser Qualifications Board initially set relatively modest thresholds for education, experience and examination requirements to become a state certified real estate appraiser. The philosophy of the Board then, as it is now, was to periodically increase the qualifications over time to ensure continued appraiser competency and reflect changes in technology and the needs of the marketplace.



Subsequent increases in appraiser qualifications became effective in 1998 and 2003, with another increase scheduled for implementation in 2008.

For some time, federal and state regulators had shared their concerns with The Appraisal Foundation about deficiencies in USPAP education (the quality of the course materials as well as the competency of the instructors). Very few would argue that sound education is an essential component of understanding USPAP due to the complexities of the document and its evolving nature.

In response to this problem, in 2000 the Appraiser Qualifications Board (AQB) adopted new Criteria intended to improve the overall quality of USPAP education. The changes, which became effective on January 1, 2003, include:

- **Consistent Course Content:** USPAP courses taken for qualifying and continuing education must be the *National USPAP Courses* or their equivalent. For 2004, 11 courses developed by educational providers have been deemed to be equivalent to the *National USPAP Courses*.
- **Instructor Competency:** In order for an appraiser to receive state credit for attending a USPAP course, it must have been taught by an AQB Certified USPAP Instructor and state certified appraiser. In order to become an AQB Certified USPAP Instructor, an individual must attend a two-day course and receive a passing grade on a comprehensive examination. As of this date, 462 individuals have become AQB Certified USPAP Instructors.
- **Increased USPAP Continuing Education Requirement:** Continuing education requirements for real property appraisers were modified to require 7 hours of USPAP instruction every two years. There was previously no specific requirement for USPAP continuing education.



The Appraiser Qualifications Board is also responsible for the content of the examinations used by the states to certify appraisers. With the assistance of an outside psychometric consultant, the Board has developed and updated examination content outlines for use in the review and approval of state examinations. The AQB conducted comprehensive reviews of the state appraiser examinations in 1991, 1995 and 2002.

### **Standards of Professional Practice**

Since the enactment of Title XI the distribution of the generally accepted appraisal standards, USPAP, has received wide dissemination, increasing from 10,000 copies annually in the early 1990's to 80,000 copies in 2003. With this increased exposure has come a considerable increase in the number of inquiries to the authors of USPAP, the Appraisal Standards Board. Accordingly, the Appraisal Standards Board has offered a significant amount of guidance to appraisers on performing appraisals in conformance with these standards.

The Board conducts public meetings around the nation and publicly exposes all proposed changes to USPAP. Any changes to USPAP must be adopted in a public meeting. The Board has issued 27 Advisory Opinions to date and publishes Questions and Answers on USPAP every month on the Foundation website ([www.appraisalfoundation.org](http://www.appraisalfoundation.org)). The USPAP document is available to the general



public on the Foundation website and all appraiser regulators are granted permission to reproduce the document free of charge.

At the time of enactment of Title XI, USPAP was revised periodically throughout the year (as often as quarterly). The Standards were subsequently published in a format that was revised twice a year and for the past several years have been published on an annual basis. It is our hope to publish USPAP once every two years in the near future. In order to promote consistent USPAP enforcement among the states, the Foundation has published two editions of a publication entitled *A Digest of Court Cases and Administrative Rulings Citing USPAP*.

### **Advisory Councils**

In order to ensure that the work product of our two Boards continues to reflect the needs of the regulatory community and the marketplace, we have established two advisory councils. One council, known as The Appraisal Foundation Advisory Council, has over fifty members that are either non-profit organizations or government agencies. The membership of this diverse group ranges from the American Bankers Association and the National Association of Realtors to the U.S. Department of Justice and the Internal Revenue Service.

Our other advisory council, known as the Industry Advisory Council, provides valuable input from the for-profit sector. Members of this council include such companies as the Bank of America, Deloitte & Touche, Washington Mutual, Prudential



Insurance and Wells Fargo. Membership listings of both advisory councils are included with this testimony as Attachments #2 and #3.

### **Government Assignments Beyond Title XI**

In recent years, The Appraisal Foundation has also provided assistance to the Federal government outside of its specific Title XI responsibilities. Because we are viewed as an objective, unbiased resource, we have been approached by several Federal government agencies to perform evaluations on their behalf. We have been engaged by the U.S. Forest Service, the Bureau of Land Management, the Inspector General of the Department of Interior and the Office of Special Trustee for American Indians to perform evaluations of their appraisal policies and procedures.

### **Title XI Is Working as Intended**

One of the most tangible measurements of how Title XI has performed is a review of the disciplinary action taken by the states for the period of 1992-2002. During that time period, a total of 4,360 disciplinary actions were reported by the states to the Appraisal Subcommittee. Of these, over 1,250 were serious violations which resulted in the suspension, revocation or voluntary surrendering of an appraiser's state credential; over 1,200 individuals that, due to competency or conduct, were no longer permitted to make value determinations in federally related transactions.

As to alternatives to the existing structure of Title XI, it is important to keep several factors in mind. First, the Federal Registry of real estate appraisers maintained



by the Appraisal Subcommittee currently contains over 95,000 appraisers. Accounting for individuals who hold a credential in more than one state, the total number of real estate appraisers is estimated to be approximately 80,000. There are several fine national appraisal organizations, including the Appraisal Institute and the American Society of Appraisers in attendance today. However, the majority of real estate appraisers in the United States are not affiliated with any professional appraisal organization. Accordingly, absent the current system, any type of “self-regulating” alternative is virtually impossible due to the fact that most appraisers are not subject to peer review procedures.

Regarding the elimination or dilution of the federal oversight component of Title XI, it is important to remember that Title XI was enacted, not as consumer protection legislation, but rather from a safety and soundness perspective to ensure the integrity of the deposit insurance fund. That need continues to exist today and should not be delegated exclusively to the 55 states and territories regulating appraisers.

For example, the states currently adhere to the minimum standards and qualification thresholds established by The Appraisal Foundation because they are required to by law. Absent that requirement, states would be free to establish very low threshold levels or none at all. This could severely impact the competency of appraisers and meaningful enforcement in certain states and have a significant negative effect on consistency among all of the states. Without credible enforcement, there could be a detrimental impact on the safety and soundness of the nation’s lending institutions.



## Recommendations

As stated above, we believe that Title XI is generally working as intended and should remain intact. However, in the event that specific improvements were sought, The Appraisal Foundation would offer the following recommendations:

- 1) **Greater Regulatory Latitude for the Appraisal Subcommittee:** The Appraisal Subcommittee should be given a series of graduated regulatory options for oversight of the state appraiser regulatory programs; as opposed to the single option it now is provided.
- 2) **State Licensed Appraisers Should Meet the Qualification and Examination Requirements of the Appraiser Qualifications Board:** The state licensure category was a last minute addition to Title XI. It appears that not including the state *licensed* classification along with the state *certified* classifications was an oversight.
- 3) **Mandate Reciprocity Among the States:** With the ongoing consolidation of the lending community, it is in the interest of improved interstate commerce that artificial barriers to practice be removed. At present, the Appraisal Subcommittee is charged with only “encouraging” reciprocity.



## Conclusion

Mr. Chairman, when recently confronted with concerns about the accounting profession relating to Enron, Worldcom and Arthur Andersen, the Senate Banking Committee addressed the issue by increasing federal oversight through the creation of the Public Company Accounting Oversight Board (PCAOB). Similarly, with the revelations about financial reporting variances at Freddie Mac, this Committee is pursuing options for greater federal oversight of the Government-Sponsored Enterprises (GSEs).

Fifteen years ago, your colleagues were faced with a deposit insurance crisis and opted to create a regulatory system that includes federal oversight of the state regulatory programs that credential the individuals who determine the value of the underlying assets of our financial institutions. To dilute or remove federal oversight at this time would be sending the wrong message at the wrong time.

Again, we appreciate the opportunity to share our perspective with you today and would be pleased to answer any questions.



# Sponsoring Organizations of The Appraisal Foundation

## **Appraisal Sponsors**

American Society of Appraisers  
American Society of Farm Managers & Rural Appraisers  
Appraisal Institute  
International Right of Way Association  
International Association of Assessing Officers  
Massachusetts Board of Real Estate Appraisers  
National Association of Independent Fee Appraisers  
National Association of Master Appraisers

## **Affiliate Sponsors**

American Bankers Association  
Farm Credit Council  
Mortgage Insurance Companies of America  
National Association of Realtors



# The Appraisal Foundation Advisory Council

## **2004 Members**

American Bankers Association  
American Institute of Certified Public Accountants  
American Society of Appraisers  
American Society of Farm Managers and Rural Appraisers  
America's Community Bankers  
Appraisal Institute  
Appraisers Association of America  
Association of Appraiser Regulatory Officials  
Association of Machinery & Equipment Appraisers  
California Association of Real Estate Appraisers  
Canadian National Association of Real Estate Appraisers  
Columbia Society of Real Estate Appraisers  
Conference of State Bank Supervisors  
Counselors of Real Estate  
Employee Relocation Council  
Equipment Appraisers Association of North America  
Fannie Mae  
Farm Credit Council  
Federal Agricultural Mortgage Corporation  
Federal Deposit Insurance Corporation  
Federal Highway Administration  
Freddie Mac  
General Service Administration  
Institute for Professionals in Taxation  
Internal Revenue Service  
International Association of Assessing Officers  
International Right of Way Association  
International Society of Appraisers  
Manufactured Housing Institute



Maryland Association of Appraisers  
Massachusetts Board of Real Estate Appraisers  
Mid-West Appraisers Association  
Mortgage Bankers Association of America  
Mortgage Insurance Companies of America  
National Association of Environmental Risk Auditors  
National Association of Federal Credit Unions  
National Association of Home Builders  
National Association of Independent Fee Appraisers  
National Association of Master Appraisers  
National Association of Mortgage Brokers  
National Association of Real Estate Brokers  
National Association of Realtors  
National Auctioneers Association  
National Council of Real Estate Investment Fiduciaries  
National Society of Real Estate Appraisers  
Office of Thrift Supervision  
US Department of Agriculture, Farm Service Agency  
US Department of Agriculture, Forest Service  
US Department of the Army  
US Department of Housing and Urban Development  
US Department of the Interior Bureau of Land Management  
US Department of the Interior Fish & Wildlife Service  
US Department of the Interior National Park Service  
US Department of Justice  
US Department of the Navy  
US Department of Veteran Affairs  
US Environmental Protection Agency

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## **Industry Advisory Council**

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### **2004 Members**

American Appraisal Associates, Inc.  
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Mortgage Information Services, Inc  
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Price Waterhouse Coopers  
Prudential Financial  
Valuation Information Technology, Inc.



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