

AARO Conference Presentation Background Investigations

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Key Topics and Recommendations

Holistic Approach to Background Investigations

Big Brother? or Business Partner?



Agenda

- Regulatory Framework
- Role of State Appraiser Regulators
- Role of Federal Regulators
- Industry Impact
- Recommended Solutions

Navigating the Regulatory Winds....



Sailing Peacefully into the Sunset



Or Bracing For Yet Another Storm ?

Regulatory Guidance



AQB Authority Relating to Background Investigation Requirements

AQB Minimum Criteria

- Fifth Exposure Draft, Guide Note 9 and
- The Three E's -
 - The identified scope of the AQB is
 - Education
 - Experience
 - Examination

Background investigations do not fit into any of the three buckets.

AQB Minimum Criteria

Rather than admit the AQB overstepped its authority (Scope) and remove itself from participation in regulatory requirements relating to the moral behavior of applicants, the Fifth Exposure Draft published in January 2015 sets the stage for the 55 states and jurisdictions to operate under 55 different individually perceived platforms of compliance making it impossible to determine what the MINIMUM criteria in the regulation actually is.

AQB Minimum Criteria

- Fifth Exposure Draft and Guide Note 9
 - A. All Applicants for a Real Property Appraiser Credential Shall Possess a Background That Would Not Call Into Question Public Trust.

What would call into question Public Trust?

AQB Minimum Criteria

- Fifth Exposure Draft and Guide Note 9
 - B. Applicants shall provide state appraiser regulatory agencies with all of the information and documentation necessary for the jurisdiction to determine the applicant's fitness for licensure.

What would meet minimum criteria for ALL NECESSARY INFO & DOCUMENTATION TO DETERMINE FITNESS ?

AQB Minimum Criteria

- Fifth Exposure Draft and Guide Note 9
 - D. Additional guidance (may be found)
in Guide Note 9 (GN-9)

Relates to Background Check requirements specified in the Real Property Appraiser Qualification Criteria that become effective on January 1, 2017

Most States Already Have Process in Place

Guide Note 9 - Examples

- Conviction of or Plead Guilty to a crime involving moral turpitude

Moral Turpitude -A phrase used in Criminal Law to describe an act or behavior that gravely violates the moral sentiment or accepted moral standards of the community.

How many communities exist within the 55 States and Jurisdictions.... With similar moral sentiment or moral standards?

Guide Note 9 - Examples

- Conduct that would be grounds for revocation or suspension of credential.

What is likelihood all 55 States and Jurisdictions agree on the Conduct that would be grounds for revocation or suspension?

ASC Compliance

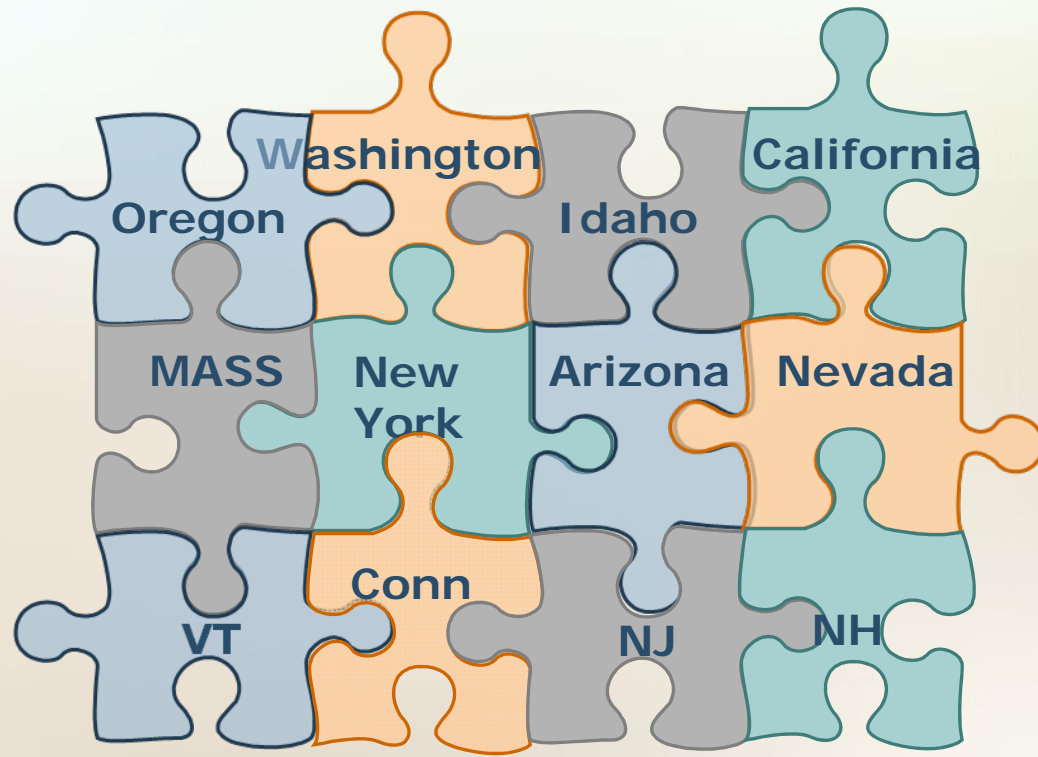


Definitive Guidance



Overlapping Oversight

Appraisers Licensed in Multiple States
each requiring background investigations



Sharing the Pain

Mortgage Industry is
Still the Wild Wild West



No Federal Regulation

There currently exists no federal regulation specifically directing a lender to conduct a background investigation of a real property appraiser.

OCC Bulletin 2013-29

Third Party Oversight

Qualifications, Backgrounds, and Reputations of Company Principals

Ensure the third party periodically conducts thorough background checks on its senior management and employees as well as on subcontractors who may have access to critical systems or confidential information. Ensure that third parties have policies and procedures in place for removing employees who do not meet minimum background check requirements.

The OCC only covers senior management and employees as well as subcontractors who may have access to critical systems or confidential information. No mention of appraisers providing the valuations.

AMC Regulations

- 38 States Enacted AMC Registration Laws
 - Scope includes a background investigation of:
 - Owners, officers, anyone with a financial interest of 10% or more, including stockholders.
 - Language in Laws or Regulations do not include requirement of the AMC to conduct a background investigation of a fee panel appraiser.

Impact to Appraisal Industry

- Virtually every AMC acting as a third party vendor for a national lender is requiring a background investigation prior to acceptance on the AMC fee panel.

Financial Burden to Appraisal Industry

- Two of Nation's largest staff appraiser companies budgeted nearly \$100k/year for background investigations as a requirement for the staff appraisers to be on lender panels in 2015.

Financial Burden to Appraisal Industry

- Metro-West staff appraisers are submitted for background investigations through as many as five different background investigation providers with varying background investigations depending upon the lender.

Impact to Regulators

- Resource Allocation
 - Legal / Compliance
 - Ensuring System is Compliant
 - Responding to Rebuttals
 - Processing staff

Collaboration Can Be a Win-Win



Uniformity and Collaboration

- **Background Investigation Working Groups**
 - AARO - State Regulators
 - National Appraisal Congress - Lenders/AMCs
- **Common Goal**
 - Uniformity and Collaboration

Uniformity and Collaboration

- Among States
- Among Lenders / AMCs
- Collaboration between State Regulators and Lenders / AMC
 - Reciprocity
 - Temporary Permits

Uniformity is the Key

- Standardize Requirements
 - Investigation Content
 - Investigation Time Period
 - Secure System for Information Sharing *
 - Real Estate Appraiser Response to AQB ED & GN-9
 - Comergence and Clear Box

Smooth Sailing Or a Ship Wreck ?



It could be said the current AQB Exposure Draft, Guide Note 9 and the mortgage lending background investigation processes are a ship wreck.

Through Collaboration of the stakeholders we can initiate change for the better.

Thank You

