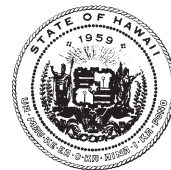

Analysis of a Proposal to Expand the Regulation of Real Estate Appraisers and Appraisals

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 98-13
April 1998



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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OVERVIEW

THE AUDITOR
STATE OF HAWAII

Analysis of a Proposal to Expand the Regulation of Real Estate Appraisers and Appraisals

Summary

The primary work of a real estate appraiser is to estimate accurately and impartially the value of particular pieces of real property, including both the land and any improvements such as a house. We analyzed the need to expand Hawaii's existing regulation of real estate appraisers and appraisals. We concluded that expanded regulation is not necessary but would foster consistency in regulation.

Under Chapter 466K, Hawaii Revised Statutes, and related rules, real estate appraisals used in connection with federally related transactions (such as loans by federally regulated financial institutions) generally must be performed in accordance with the national Uniform Standards of Professional Appraisal Practice (commonly referred to as USPAP) by persons licensed or certified as real estate appraisers by the Department of Commerce and Consumer Affairs. The existing regulatory program in the department was enacted to comply with federal banking law that resulted from many cases of abuse nationally in which substandard or fraudulent appraisals performed without sufficient independence contributed to billions of dollars in losses and failures of lending institutions.

As requested in House Concurrent Resolution No. 165 of the 1997 Regular Session, we studied the need to expand Hawaii's regulation to also include real estate appraisers and appraisals involved in non-federally related transactions as proposed in House Bill No. 566 of the 1997 session.

We found that expanding regulation to include non-federally related transactions is not necessary under federal law or applicable sunrise criteria from Section 26H-2, HRS, of the Hawaii Regulatory Licensing Reform Act. In Hawaii, negotiations to establish property values for lease-rent negotiations or lease-to-fee conversions—which tend not to be federally related transactions—have been marked by controversy centered on the appraised values. Proponents of expanded regulation claim it would reduce wide variations among valuations. However, we could not identify a clear harm to consumers that (1) resulted from a lack of skill by appraisers and (2) would be cured by requiring mandatory licensing and use of the Uniform Standards. The standards, issued by the Appraisal Standards Board of The Appraisal Foundation, are intended to reflect the current standards of the appraisal profession. The standards specify procedures for performing and communicating an appraisal. But there appears to be ample room in the standards and their application to result in very different valuations among appraisers.



However, we also found that expanded regulation would have the advantage of establishing a common baseline for conducting and reporting appraisals, which could reduce some of the confusion and controversy about the appraisal process and have other benefits. Many states (22) cover both federally and non-federally related transactions.

The costs of expanded regulation are uncertain. Examples of costs include the costs of newly regulated appraisers preparing for licensure, and possible increases in charges for performing appraisals for non-federally related transactions. The Legislature needs to consider the costs and benefits of expanded regulation, as well as legal issues in the areas of exemptions, retroactivity, and arbitration. For example, good arguments can be made for excluding tax-assessment appraisers from regulation, but exempting them could undermine the goal of establishing a common baseline for all appraisals.

Recommendations and Response

Primarily for consistency in regulation, we recommend that the Legislature strongly consider passing House Bill No. 566 requiring appraisals in both federally and non-federally related real estate transactions to be performed by state-licensed or state-certified appraisers following the Uniform Standards of Professional Appraisal Practice. In weighing whether to expand regulation of real estate appraisers and appraisals in this manner—and whether to grant exemptions—the Legislature may wish to consider the costs, benefits, and legal issues that are summarized in our report.

The Department of Commerce and Consumer Affairs elected not to submit a response to a draft of this report.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 98-13
April 1998

Foreword

This report was prepared in response to the Legislature's request in House Concurrent Resolution No. 165 of the 1997 Regular Session. The resolution asked the State Auditor to study the need to expand regulation of real estate appraisers and appraisals as proposed in House Bill No. 566 of the 1997 session.

We acknowledge the cooperation of the Department of Commerce and Consumer Affairs and other organizations and individuals knowledgeable about real estate appraisal whom we contacted during the course of our analysis.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

Under Chapter 466K, Hawaii Revised Statutes (HRS) and related rules, real estate appraisals used in connection with federally related transactions generally must be performed in accordance with the national Uniform Standards of Professional Appraisal Practice by persons licensed or certified as real estate appraisers by the Department of Commerce and Consumer Affairs. House Concurrent Resolution No. 165 of the 1997 Regular Session requested the State Auditor to study the need to expand regulation to also include real estate appraisers and appraisals involved in non-federally related transactions as proposed in House Bill No. 566 of the 1997 session. The following report responds to the Legislature's request.

Background on Real Estate Appraisers

The primary work of a real estate appraiser is to estimate accurately and impartially the value of particular pieces of real property, including both the land and any improvements such as a house. The accuracy of the estimates rests largely on the competence and skill of the professional and the pertinence of the data used. Appraisers need a solid understanding of valuation theory, principles, and methodology, along with familiarity with economics, finance, and property.

Real estate appraisers serve a wide range of purposes and their work affects many individuals and organizations including buyers and sellers of residential property, financial institutions, public agencies, and large-scale developers. Appraisers' services play important roles in property transactions, mortgages, mergers, investment analyses, earnings forecasts, rental valuations, urban-development planning, taxation, insurance, and arbitration. For some of these areas, an appraiser may serve as an expert witness in court.

Many appraisers specialize by the types of property appraised (for example: residential, commercial, industrial, or agricultural) or by the purpose of the appraisal (for example: taxation, public acquisition, mortgages, sales, or insurance).

The appraisal process

A property appraisal takes the following steps that lead to a "valuation" of the property:

- Define the appraisal problem (for example, identify the real estate to be appraised and the use of the appraisal);

- Perform preliminary analysis and planning (including data selection and collection);
- Estimate the highest and best use of the property (both the land and the improved property);
- Estimate the value of the land/site;
- Estimate the value of the improved property;
- Reconcile value indicators and reach a value estimate; and
- Report the value estimate.¹

Each of these steps can be complex. For example, the preliminary analysis can involve considering market supply and demand, site improvements, and the elements of comparison with competitive properties. Estimating the value of the improved property can involve considering the *sales comparison* approach (which is based on the value of comparable properties based on recent transactions), the *income capitalization* approach (which is based on the cost of a building being placed on the land, its gross rents, and applying a capitalization rate to the residual income to determine the value of the land), and the *cost* approach (which is based on the replacement cost of the buildings and the market value of the land under the buildings).

Professional organizations

National organizations for appraisers include the Appraisal Institute, the American Society of Appraisers, and the National Association of Real Estate Appraisers.

Many real estate appraisers choose to earn professional credentials from private organizations based on experience, education, and examinations. These credentials—such as Member of the Appraisal Institute (MAI)—may have stricter requirements than the standards for state licensing.

Appraisers in Hawaii

Hawaii had 387 licensed or certified real estate appraisers as of March 5, 1998, of whom 326 are on active status. There are approximately 200 MAIs in the state.

Reportedly very few appraisers in Hawaii are not licensed or certified. Some of these work for county tax assessment offices or other government agencies.

1988 Sunrise Report

In 1988, the Office of the Auditor issued a *Sunrise Analysis of Proposals to Regulate Real Estate Appraisers and Real Property Appraisals* (Report No. 88-10). We found insufficient evidence of consumer complaints and cases of damage by real estate appraisers in Hawaii to impose regulation. Moreover, no widely accepted qualification standards for this profession had emerged upon which to base regulation. The regulatory legislation being proposed at the time would not have significantly enhanced public protection to warrant its public and private costs.

Recent Federal Requirements

In 1989, national concern over deficient real estate appraisals resulted in federal legislation regulating real estate appraisers and appraisals connected with federally related transactions.

Federal reform amendments

A 1986 congressional report on financial crises afflicting certain savings-and-loan institutions, banks, credit unions, and federal and private mortgage insurers found that a cause of the billions of dollars in losses and failures was that many real estate loans were based on substandard or fraudulent appraisals. A key concern was “advocacy” appraisals, in which appraisers, instead of acting independently, adjusted valuations to make financing feasible, leading to bad loans and financial failures.

In response to this situation, Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)—the “Real Estate Appraisal Reform Amendments”—was enacted. Title XI is basically a banking law designed to protect federally guaranteed lenders and the integrity of federal insurance funds. Under Title XI, real estate appraisals used in connection with federally related transactions (such as loans by federally regulated financial institutions) generally must be made by state-licensed or state-certified appraisers, and the appraisals for these transactions must conform to the Uniform Standards of Professional Appraisal Practice (commonly referred to as USPAP).

The Appraisal Foundation—a nonprofit educational organization established in 1987—has an Appraisal Qualifications Board which establishes qualification criteria for state licensing and certification of appraisers. The board also reviews and approves state examinations, and has established education, examination, and experience requirements for three classifications of real estate appraisers: certified general appraisers, certified residential appraisers, and licensed appraisers. The board also has adopted recommended criteria for trainees or apprentices.

Uniform Standards of Professional Appraisal Practice

As noted above, the FIRREA also requires that federally related real estate appraisals generally must conform to the Uniform Standards of Professional Appraisal Practice. The Uniform Standards were first developed by an ad hoc committee of the appraisal profession in 1986-87 and accepted by the Appraisal Standards Board of The Appraisal Foundation in 1989. The board publishes a bound edition of the standards that is revised annually to reflect the changing needs of professional appraisers and users of appraisal services. We based the following summary of the standards on the 1998 edition.²

The Uniform Standards are intended to reflect the current standards of the appraisal profession. The standards cover three types of activity that can occur in the practice of an appraiser:

- *appraisal*—the process of estimating value;
- *review*—the process of critically studying a report prepared by another; and
- *consulting*—the process of providing information, analysis of real estate data, and recommendations or conclusions on diversified problems in real estate, other than estimating value (consulting can involve, for example, marketability analysis, highest and best use analysis, investment analysis, or feasibility analysis).

The Uniform Standards embody the principle that a professional appraiser must arrive at and communicate his or her analyses, opinions, and advice in a manner that will be meaningful to the appraiser's client and not misleading in the marketplace.

Ethics and competency provisions

The Uniform Standards contain an ethics provision based on fiduciary responsibility. The provision emphasizes the appraiser's objectivity, impartiality, and independent conduct. Unethical activities include accepting compensation that is contingent on reporting a value that favors the client's cause (except in consulting assignments where impartiality is not expected). Also, appraisers must protect the confidential nature of the appraiser-client relationship and must retain workfiles of their assignments for a specified length of time.

The Uniform Standards also contain a provision that requires appraisers, before accepting an assignment, to have the knowledge and experience to complete the assignment competently. Alternatively, the appraiser can disclose the lack of knowledge to the client, take the steps necessary to complete the assignment competently, and describe these matters in the report.

Provisions on jurisdiction and supplemental standards

The Uniform Standards say that any part of the standards will have no effect in a governmental jurisdiction (such as a state) whose law or public policy is contrary to that part of the standards.

The standards also acknowledge that other organizations such as regulatory agencies, eminent domain authorities, and financial institutions may issue supplemental standards applying to appraisals prepared for specific purposes or types of property.

Standards for performance and communication

The Uniform Standards contain ten standards specifying the procedures for performing and communicating an appraisal, review, or consulting service. Some elements within the ten standards are binding requirements from which appraisers may not depart. Other elements within the ten standards are “specific guidelines.” Under a “departure provision” in the Uniform Standards, appraisers may depart from the specific guidelines under certain limited conditions. The burden of proof is on the appraiser to decide before accepting an assignment and invoking the departure provision, that the result of doing so will not mislead anyone.

Standard 1 covers the development of a real property appraisal, that is, an appraisal of the value of an identified parcel or tract of land (including improvements). Basically, the appraiser is required to be aware of, understand, and correctly employ the recognized methods and techniques necessary to produce a credible appraisal. Binding requirements include considering and analyzing any prior sales of the property that occurred within one year for one-to-four family residential property and within three years for all other types of property.

Standard 1 also includes “specific guidelines” that include considering how land use regulations, market area trends, and the highest and best use of the real estate affect its value; valuing the site by an appropriate appraisal method; basing projections of future rent and expenses on reasonably clear and appropriate evidence; and considering how the terms and conditions of a lease affect the value of a leased fee estate or leasehold estate.

Standard 2 requires that in reporting the results of a real property appraisal, the appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading. Any written appraisal report must state whether it is (1) a self-contained appraisal report, (2) a summary appraisal report, or (3) a restricted appraisal report.

Each of the three types of reports has certain guidelines. For example, a self-contained report should describe in detail the information considered by the appraiser, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions. The report should also describe in detail the appraiser's opinion of the highest and best use of the real estate (when such an opinion is necessary and appropriate). A summary report contains some detail but tends to be more concise. A restricted report differs from the others both in the level of detail and because it should be relied on only by the client (anyone else is considered an unintended user).

In the level of detail, for example, both self-contained reports and summary reports should "explain and support" the appraiser's exclusion of any of the "usual valuation approaches," while a restricted report need only state the exclusion. ("Usual valuation approaches" refers to the *sales comparison* approach, the *income capitalization* approach, and the *cost* approach, which were described earlier in this chapter.)

Standard 3 governs appraisers in reviewing an appraisal performed by another appraiser and in reporting on that review. *Standard 4* and *Standard 5* govern appraisers when developing and communicating various real estate consulting functions.

Standard 6 establishes criteria for developing and reporting on mass appraisals. A mass appraisal is the valuing of a universe of properties as of a given date, using a standard methodology and common data, and allowing for statistical testing. Mass appraisals are used primarily for *ad valorem* taxation (that is, the levying of a tax such as a residential property tax in proportion to the value of the property being taxed), but may also be used for other purposes.

Standard 7 and *Standard 8* cover the development and communication of appraisals of personal property (not real estate), for example, artwork, jewelry, collectibles, machinery, and equipment. *Standard 9* and *Standard 10* cover developing and communicating business appraisals.

In addition to the ten standards, the Uniform Standards contain statements issued by the Appraisal Standards Board clarifying, interpreting, explaining, or elaborating particular standards, and advisory opinions for guidance purposes only.

Hawaii's Existing Regulatory Program

The original version of Chapter 466K, Hawaii Revised Statutes (Real Estate Appraisers) was enacted in 1989. Currently, the law incorporates a legislative finding that (1) the regulation of real estate appraisers is

reasonably necessary to protect consumers and (2) federal law requires that real estate appraisals used in connection with federally related transactions be performed by certified appraisers.

All 50 states have enacted laws regulating real estate appraisal in compliance with federal law. Of these, 22 states, but not Hawaii, go beyond the minimum requirements by extending and enforcing regulation in non-federally related transactions.

Hawaii's law established a real estate appraisers program within the Department of Commerce and Consumer Affairs, to be administered by the department's director. To implement federal law, the director is required to grant permission to practice as a certified real estate appraiser, adopt any necessary rules, enforce the state and federal laws, discipline certified appraisers for violations, and appoint an advisory committee to assist with implementation. The regulatory program is administered through the department's Professional and Vocational Licensing Division.

Appraiser classifications

The department's administrative rules define "appraisal" or "appraisal report" as a statement independently and impartially prepared by an appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date or dates, supported by the presentation and analysis of relevant market information. The rules establish four classifications of real estate appraisers consistent with the classifications established by the national Appraisal Qualifications Board (the most complex are listed first below):

1. A *certified general appraiser* may appraise all types of real property of any value. Qualifications include completing 165 hours of approved courses with emphasis on nonresidential properties (including a course on the Uniform Standards), passing an exam, and having 2,000 hours of approved appraisal experience with at least half of the experience in nonresidential appraisal work.
2. A *certified residential appraiser* may perform residential appraisals of any transaction value or complexity and nonresidential appraisals in connection with any federally related transaction having a value under \$250,000. Qualifications include completing 165 hours of approved courses with emphasis on residential properties (including a course on the Uniform Standards), passing an exam, and having 2,000 hours of approved appraisal experience.
3. A *licensed appraiser* may perform non-complex appraisals on properties that contain from one-to-four family residential units in connection with any federally related transaction valued at under \$1 million and other appraisals in connection with any federally related transaction valued under \$250,000. Qualifications include

completing 75 hours of approved courses (including a course on the Uniform Standards), passing an examination, and having 2,000 hours of approved appraisal experience.

4. An *appraiser assistant* is not licensed or certified as an appraiser but is employed to assist in preparing appraisals under the supervision of a licensed or certified appraiser. The rules do not require assistants to meet any training, examination, or experience requirements.

All applicants for a license or certificate must possess a reputation for honesty, trustworthiness, truthfulness, fairness, and financial integrity.

Licenses and certificates are renewed every two years with the requirement that the appraiser has completed 20 hours of continuing education.

The rules also provide for temporary recognition of the license or certificate of an out-of-state appraiser.

Certified general appraisers account for 142 of Hawaii's 326 active appraisers. Certified residential appraisers (164) and licensed appraisers (20) make up the rest.

Scope of regulation

For federally related real estate transactions, the administrative rules generally make it unlawful for anyone not licensed or certified under Chapter 466K to prepare an appraisal. Exceptions include: (1) transactions valued below certain amounts; (2) certain real estate liens; (3) certain real estate leases; (4) certain renewals of existing transactions; and (5) certain institutional purchases of loans.

Under the rules, regulation in Hawaii also does not apply to opinions on the recommended listing price or purchase price given by real estate brokers and licensed salespeople in the ordinary course of their business provided that the opinions are not referred to as appraisals, that no compensation or fee was charged for the opinion other than the normal brokerage fee, and that no representation is made that the person giving the opinion is a licensed or certified appraiser.

Appraisal standards

The rules require that generally, appraisals for federally related transactions be performed by an appropriately licensed or certified appraiser and conform to the Uniform Standards of Professional Appraisal Practice, except that the departure provisions in the standards do not apply. It is unclear whether this exception means that applying the standards is inflexible in Hawaii, with no departures allowed, or that

departures *are* allowed. At any rate, the Department of Commerce and Consumer Affairs is working to amend the rules to clarify that the departure provisions can be used in Hawaii.

The rules also contain other minimum requirements for an appraisal. For example, the appraisal must be based on a detailed legal definition of market value provided in the rules.

Penalties

Disciplinary sanctions for violations of the law or rules include suspension and revocation of appraisal licenses or certificates. Unauthorized practice as an appraiser can result in fines and imprisonment. Violators may also face injunctions against performing appraisals and legal obstacles to recovering their appraisal fees.

Request for the Analysis

House Bill No. 566 was introduced during Hawaii's 1997 legislative session to amend Chapter 466K, HRS, to require that *all* persons practicing as real estate appraisers in Hawaii be state-licensed or state-certified and comply with the Uniform Standards when performing appraisals in connection with federally *or* non-federally related transactions.

Subsequently, House Concurrent Resolution No. 165 of the 1997 session requested the Auditor to analyze the probable effects of the proposed regulatory measure in House Bill No. 566, assess whether the proposal is consistent with the regulatory policies in Section 26H-2, HRS, and assess alternative forms of regulation. The Auditor was asked to study the impact of the measure on all appraisers, financial institutions, the real estate market, and consumers.

Objectives of the Analysis

1. Determine whether expanding the existing regulation of real estate appraisers and appraisals is warranted.
2. Assess the appropriateness of alternative forms of regulation.
3. Make recommendations based on our findings.

Scope and Methodology

We determined the need to expand the existing regulation of real estate appraisers and appraisals under Chapter 466K, HRS, as proposed in House Bill No. 566. We examined whether federal law requires

expanding regulation as proposed. We also examined the need to expand regulation in light of the regulation policies set forth in Section 26H-2, HRS, of the Hawaii Regulatory Licensing Reform Act.

The Legislature established these criteria to ensure that regulation of an occupation takes place only for the right reason: to protect consumers. Regulation is an exercise of the State's police power and should not be taken lightly. The policies in Section 26H-2, most recently amended by Act 45 of 1996, continue to reinforce the primary purpose of consumer protection:

- the State should regulate professions and vocations only where reasonably necessary to protect consumers;
- regulation should protect the public health, safety, and welfare and not the profession;
- evidence of abuses by providers of the service should be given great weight in determining whether a reasonable need for regulation exists;
- regulation should be avoided if it artificially increases the costs of goods and services to the consumer unless the cost is exceeded by the potential danger to the consumer;
- regulation should be eliminated when it has no further benefits to consumers;
- regulation should not unreasonably restrict qualified persons from entering the profession; and
- aggregate fees for regulation and licensure must not be less than the full cost of administering the program.

We were also guided by and applied as appropriate any related criteria from the publication *Questions a Legislator Should Ask*, published by the Council on Licensure, Enforcement and Regulation, a national organization. The primary guiding principle for legislators, according to this publication, is whether the unregulated profession presents a clear and present danger to the public's health, safety, and welfare. If it does, regulation may be necessary; if not, regulation is unnecessary and wastes taxpayers' money.³

We considered additional criteria for this analysis, including whether:

- the incidence or severity of harm based on documented evidence is sufficiently real or serious to warrant regulation;

- the cause of harm is the practitioner's insufficient skill or incompetence;
- the occupational skill needed to prevent harm can be defined in law and measured;
- no alternatives provide sufficient protection to consumers, for example federal programs, other state laws, marketplace constraints, private action, or supervision; and
- most other states regulate the occupation for the same reasons.

As applicable, we also assessed House Bill No. 566 as to whether:

- the scope of practice to be regulated is clearly defined and enforceable;
- the licensing requirements are constitutional and legal, for example, no residency or citizenship requirements;
- licensing requirements, such as experience or continuing education, are directly related to preventing harm;
- provisions are not unduly restrictive nor do they violate federal competition laws;
- prohibited practices are directly related to protecting the public; and
- disciplinary provisions are appropriate.

In addition to considering whether expanded regulation of real estate appraisers is warranted and assessing its impact, we determined if the approach proposed in House Bill No. 566 is appropriate and we also considered the appropriateness of other regulatory alternatives.

We reviewed literature on real estate appraisers, their regulation, and the Uniform Standards (both the 1997 and 1998 editions), including information from other states. We considered evidence of harm to consumers.

We obtained information from national and Hawaii organizations of real estate appraisers and interviewed appraisers and others knowledgeable about the subject. We contacted staff of the Department of Commerce and Consumer Affairs, members of the department's Real Estate Appraiser Advisory Committee, and other government agencies as appropriate. This included contacts to assist us in identifying activities

being conducted under Chapter 466K, obtaining information about complaints against appraisers, and assessing the costs related to regulation.

We were limited somewhat in our work because hard evidence concerning the costs of expanded regulation was not readily available and because those whom we interviewed did not clearly and convincingly identify the specific provisions in the Uniform Standards that would make a difference in the outcomes of appraisals.

Our work was performed from June 1997 through March 1998 in accordance with generally accepted government auditing standards.

Chapter 2

Expanding the Regulation of Real Estate Appraisers and Appraisals Would Foster Consistency in Regulation

Real estate appraisers and appraisals are regulated by Chapter 466K of the Hawaii Revised Statutes (HRS), which requires that appraisals in federally related transactions must generally be performed by appraisers licensed or certified by the Department of Commerce and Consumer Affairs. These appraisals must meet the national Uniform Standards of Professional Appraisal Practice.

The following chapter of our report presents our findings and recommendations on expanding regulation to include non-federally related transactions, as proposed in House Bill No. 566 of the 1997 Regular Session.

Summary of Findings

1. Expanding the regulation of real estate appraisers and appraisals to include non-federally related transactions is not necessary under federal law or the sunrise criteria.
2. Nevertheless, expanded regulation would have the advantage of establishing a common baseline for conducting and reporting appraisals, which could reduce some of the confusion and controversy about the appraisal process and have other benefits. The costs of expanded regulation are uncertain. The Legislature needs to consider the costs and benefits of expanded regulation, as well as legal issues in the areas of exemptions, retroactivity, and arbitration.

Expanding the Regulation of Real Estate Appraisers and Appraisals Is Not Necessary Under Federal Law or Sunrise Criteria

We assessed the need for expanded regulation of real estate appraisers and appraisals—particularly as proposed in House Bill No. 566 of the 1997 Regular Session—in light of (1) Title XI of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the federal law), and (2) our standard “sunrise” criteria.

The *existing* regulatory program under Chapter 466K, HRS, was enacted to comply with the federal law. However, we found that *expanding* regulation to cover non-federally related transactions is not necessary under the federal law or the sunrise criteria.

The existing regulatory program was enacted to meet federal law

Our 1988 sunrise report recommended against state regulation of appraisers and appraisals. However, much has changed since then, making some form of regulation necessary. The federal law was enacted, requiring that appraisers involved in federally related real estate transactions must generally be state-licensed or state-certified and adhere to the Uniform Standards of Professional Appraisal Practice. As we described in Chapter 1, the federal law resulted from many cases of abuse in which substandard or fraudulent appraisals performed without sufficient independence contributed to billions of dollars in losses and failures of lending institutions.

To meet the federal requirements, Hawaii enacted Chapter 466K regulating real estate appraisers and appraisals. Without state certification and licensing, appraisers in the state would not be allowed to perform appraisals for federally regulated institutions such as banks or savings-and-loans institutions; for Fannie Mae, Ginnie Mae, and other federal corporations that purchase loans; and for various other projects that have federal money involved.

According to an official of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council, all states now comply with the federal law, no court has ruled against the law, and no major problems have occurred.

Hawaii's program was approved

In 1994, a review by the federal Appraisal Subcommittee found Hawaii's Real Estate Appraiser Advisory Committee and program staff of the Department of Commerce and Consumer Affairs to be operating in a manner that is generally consistent with the spirit and intent of Title XI.

Expanded regulation probably is not necessary under federal law

In requesting our analysis, House Concurrent Resolution No. 165 made note of a policy statement of the federal Appraisal Subcommittee. We found that the policy statement does not clearly require expanded regulation.

On August 4, 1993, the Appraisal Subcommittee issued a document titled *Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers* which included the following statement:

In the ASC's view, Title XI intends that states supervise all of the activities and practices of persons who are certified or licensed to perform real estate appraisals in connection with all real estate appraisals involving real estate related financial transactions, and not just federally related transactions.¹

We considered whether the subcommittee's statement means that states *must* certify or license *all* appraisers—not just those involved in federally related transactions—and require all to follow the Uniform Standards.

Hawaii's Department of Commerce and Consumer Affairs has testified in the State Legislature that the subcommittee's 1993 policy statements did not have the effect of law and are not mandatory because they were not published in the Federal Register.²

The department in its testimony also made another argument concerning the policy statement. The subcommittee says that its policy statements reflect the general framework that it uses to review a state program for compliance with the federal law. The department correctly pointed out that it was *after* the policy statement was issued that the subcommittee found Hawaii's program (which does not require all appraisers to be licensed or certified) to be operating generally consistent with the intent of the federal law.

For clarification, we contacted the subcommittee. One of its staff informed us that all states are in compliance with the federal law and the subcommittee has no official position on whether states should require all appraisers—not just those involved in federally related transactions—to be licensed. The staffer said the policy statement means that if an appraiser is licensed or certified by the state, he or she must follow the Uniform Standards even if the appraisal is for a non-federally related transaction. The subcommittee apparently sees the issue as an ethical one: it would be difficult to follow a high standard some of the time and no standard at other times.

Subsequently, another staffer informed us that the policy statement *recommends* to the states that all licensed appraisers be required to use the Uniform Standards in all appraisals, for reasons of ethics and confidence. This staffer also commented that neither federal law nor the subcommittee require that all appraisers be licensed.

We conclude that the policy statement probably does not mean that federal law requires Hawaii to expand regulation to require licensing or certification for all appraisers, even those who do not perform appraisals for federally regulated transactions. The statement appears to indicate the subcommittee's *desire* that appraisers who must be licensed or certified because they are involved in federally related transactions adhere to the Uniform Standards even for appraisals not involving federally related transactions. This desire apparently is expressed as a recommendation and not a requirement, although the matter is not entirely clear.

Expanded regulation is not necessary under the sunrise criteria

The standard criteria our office uses to conduct a “sunrise” analysis of whether to regulate a previously unregulated occupation flow from the policies stated in Section 26H-2, HRS, of the Hawaii Regulatory Licensing Reform Act. Although real estate appraisers are already regulated for federally related transactions under Chapter 466K, HRS—and thus do not constitute a previously unregulated occupation—we applied our sunrise criteria as applicable in analyzing whether expanding the regulation to include non-federally related transactions is appropriate. We found that expanded regulation is not necessary under the relevant sunrise criteria.

Sunrise criteria are strict

The sunrise criteria are stringent. Section 26H-2 says that professions and vocations should be regulated only when reasonably necessary to protect the health, safety, or welfare of consumers. The law also says that evidence of abuses by providers of the service should be given great weight in determining whether a reasonable need for regulation exists. Regulation should be avoided if it artificially increases the costs of goods and services to the consumer unless the cost is exceeded by the potential danger to the consumer. Regulation should not unreasonably restrict qualified persons from entering the profession.

Other criteria that we use in our sunrise assessments include the following:

- whether the incidence or severity of harm based on documented evidence is sufficiently real or serious to warrant regulation;
- whether the cause of the harm is the practitioner’s insufficient skill or incompetence;
- whether the occupational skill needed to prevent harm can be defined in law and measured;
- whether no alternative exists to provide sufficient protection; and
- whether most other states regulate the occupation for the same reason.

As applicable, we also assess regulatory proposals as to whether the scope of practice to be regulated is clearly defined and enforceable and whether the licensing requirements are directly related to preventing harm.

Leasehold controversies have stimulated concern over appraisal standards

The issue of expanded regulation of appraisals came to a head because of controversies surrounding leasehold real estate in Hawaii. Negotiations to establish property values for lease-rent negotiations or lease-to-fee conversions—which tend not to be federally related transactions—have been marked by controversy centered on the appraised values. Typically, the landowner views the appraisal performed on behalf of the leaseholder as too low and the leaseholder views the appraisal performed on behalf of the landowner as too high.

The dramatic rise and subsequent fall in real estate values—Hawaii’s real estate “bubble”—has intensified the controversy. The role of appraisers and the standards used in appraisals have been central issues in the controversy. In the real estate field, there is a widespread perception that appraisers will arrive at the value their client wants, leading to a wide range of appraised values for the same property. The letters MAI—officially an abbreviation for “Member of the Appraisal Institute”—are sometimes used to mean “Made as Instructed,” only partly in jest. This insider joke apparently reflects the perception that appraisals sometimes are tailored to the client’s needs.

Proponents claim expanded regulation would reduce wide variations among valuations

Appraisers and other interested parties who are proponents of requiring the Uniform Standards for all transactions claim that doing so would significantly reduce the wide price ranges of appraised values and produce more equitable outcomes. For example, proponents believe that requiring all appraisers to conform to the standards will result in fair market rent and allow disputing parties to understand the basis for arbitration awards.

According to lessee advocates, landowners’ appraisals for condominium fee conversions do not conform to the standards and use comparisons to other real estate transactions that were not open-market sales, but were forced sales to condo lessees who had no choice but to pay the asking price.

In addition, it has been suggested that landowners’ appraisals often ignore what is feasible in today’s economy and that landowners find one extreme case of high value and apply that value to a large area that cannot feasibly sustain such rents.

Proponents point to extreme appraisal variations in the cases of the Kahala Hilton Hotel, the International Market Place, and the airport industrial area. In the Kahala Hilton arbitration, reportedly the hotel’s appraisals of the land value varied from \$19 million to \$25 million and

the landowner's appraisals varied from \$450 million to \$540 million. In arbitration involving the International Market Place, appraisals reportedly varied from \$250 to \$800 per square foot. In the airport industrial area, prices per square foot reportedly varied from \$50 to over \$140.

Another complaint is that landowners will not permit anyone to review their appraisals.

Expanded regulation is not clearly linked to consumer protection

The direct consumer of an appraiser's services is the customer, or client, who orders the appraisal. A principal argument in favor of expanding regulation of appraisers and appraisals is based on the need to protect these consumers, particularly leaseholders—and benefit the general public—by ensuring that the Uniform Standards apply to both federally and non-federally related transactions. However, we found expanded regulation is not clearly necessary to protect consumers and the public.

Fundamentally, we could not identify a clear harm to consumers that (1) resulted from a lack of skill by appraisers and (2) would be cured by requiring mandatory licensing and use of the Uniform Standards. Judging from the opinions of those we interviewed, requiring all appraisers to be licensed or certified and all appraisals to conform to the Uniform Standards probably would not significantly reduce the wide range of valuations of a property that often occur in land lease rent and fee conversion negotiations or arbitrations. Appraisers view the Uniform Standards as flexible guidelines that permit fair valuations in widely varying circumstances. The three methods of valuation—market comparison, income, and replacement cost—result in a range of values that form the basis of the appraiser's final judgment of value. There is ample room in the Uniform Standards and their application to result in very different valuations among appraisers.

Despite vigorous efforts on our part, we were unable to obtain from proponents of expanded regulation—or from others in the appraisal industry—a clear explanation of precisely which provisions in the Uniform Standards would make a significant difference in the outcomes of appraisals.

Standard 1 says:

In developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to perform a credible appraisal.

This includes not making errors that significantly affect the appraisal, not being careless or negligent, and exercising due diligence and care. In addition to these absolute requirements, appraisers must observe specific guidelines when applicable (unless a departure from them is justified), that include, for example, valuing the site by an appropriate appraisal method and analyzing and reconciling the three approaches to value.

However, these requirements seem quite flexible and we are not persuaded that applying them would substantially reduce the variations in valuations that are the subject of so much controversy. One knowledgeable appraiser observed that the standards do not solve problems created by economic forces.

We asked an official of the Appraisal Subcommittee whether the Uniform Standards have been successful in increasing the quality and fairness of appraisals. We were informed that no information exists for reliable comparisons, although lenders and others have observed that quality has improved substantially. This still leaves us with insufficient evidence that the standards make a significant difference in the outcome of appraisals. The same official echoed the view of many others we interviewed: wide variations in valuations are possible even under the standards.

Expansion of Regulation Would Foster Consistency in Regulation

Consistency has several benefits

While expanded regulation of real estate appraisers does not appear to be necessary, it would have certain advantages, including consistency in regulation. The cost impact of expanded regulation is uncertain. Exemptions and other legal issues also need to be considered.

The wide range of appraisal estimates has caused skepticism about the current appraisal process. Also, the constant debate over whether the Uniform Standards should be applied more broadly has generated its own controversy. Confusion may also occur when customers of financial institutions obtain an appraisal from their own appraiser that does not meet the Uniform Standards and that differs sharply from the appraisal performed by the institution's appraiser, for which the Uniform Standards must be followed.

One observer suggested that establishing the Uniform Standards as a minimum standard for all appraisals could reduce stress homeowners experience when negotiating their fees. Another said that no good reason exists for deviating from the standards in assessing the value of a property. Land fee purchases and land rent determinations have significant impact on consumers and the general economy. While extending regulation to all appraisers and all appraisals would probably not resolve all the controversies involved, it could establish a generally

accepted baseline for negotiating and arbitrating the value. Extending regulation could also demonstrate the State's interest in fairness and equity.

Besides these advantages, expanded regulation has the *possibility*, though not necessarily the *likelihood*—of actually reducing disparities in valuations because of the provisions in the Uniform Standards requiring the appraiser to be independent and to fully report on the basis for the appraisal.

Finally, expanded regulation would give aggrieved parties recourse to the enforcement resources of the Department of Commerce and Consumer Affairs for a broader range of appraisal activities than is now the case.

Many states regulate broadly

As of October 31, 1996, a reported 22 states were “mandatory,” that is both federally and non-federally related transactions are covered. The other states consist of 15 (including Hawaii) that are “mandatory for federally related transactions,” with state penalty sanctions for enforcement; and 13 that are “voluntary,” that is, minimally meeting federal requirements, but with limited state enforcement.

While most states still are not mandatory, the trend is toward mandatory. States we contacted found that administration was easier and consumers were less likely to be confused when appraisal activities were broadly regulated.

The federal Appraisal Subcommittee takes no position on whether states should be mandatory.

Amended Uniform Standards can be accommodated

The Kamehameha Schools Bishop Estate testified that our study would be premature because the Uniform Standards are being overhauled and the State should wait to see if the revisions address the issues we were asked to examine. We disagree. The standards undergo constant revision; a particular revision should not be allowed to forestall needed analysis and, as appropriate, changes in state law. A major restructuring and revision of the standards is indeed under way, but a March 1997 briefing statement by the Appraisal Standards Board indicated the process could be lengthy and the publication date uncertain.

The August 4, 1993 policy statements of the Appraisal Subcommittee recommend that the Uniform Standards be incorporated by general reference in state law or regulations. We believe this approach would ensure that Hawaii keeps pace with changes in the standards.

Cost impact of expanded regulation is uncertain

The overall cost impact of expanded regulation on appraisers, financial institutions, the real estate market, and consumers—and on loans, taxes, and rent—is unclear because of the many variables involved and the lack of hard data.

We did identify some cost considerations in expanding regulation. For example:

Most appraisers involved in real estate transactions in Hawaii are already licensed or certified by the State; these appraisers would have no new fees to pay. We contacted staff of the Department of Commerce and Consumer Affairs, which administers the existing licensing program, for assistance in assessing the costs of expanded licensing. When contacting the department, we suggested that House Bill No. 566 would generate about 50 new licensees, consisting of those appraisers working in county tax assessment offices who are currently not licensed because they do not need to be under existing law. We also indicated to the department that 500 appraisers are currently regulated, an estimate that we had obtained from a private source.

Department staff indicated that initially these costs could be integrated into the existing regulatory program with no change in the fee structure. However, after some experience with expanded regulation, fees might need to be reassessed. We note that this could result in higher fees for all appraisers depending on the results of the department's reassessment.

We should also note that subsequent to requesting the department's assistance in estimating costs, we obtained official information that put the number of regulated appraisers at 326 active and 61 inactive. Because this is fewer than the 500 initially estimated, the department's position might change. Also, as our study progressed, we learned about additional appraisers working for state or county agencies who also might have to be licensed unless an exemption were granted, possibly further impacting the fee structure. These appraisers include those who work on highway rights of way in the Department of Transportation. Currently, some state appraisers must follow the Uniform Standards, even though they need not be licensed.

Also, all newly regulated appraisers or their employers would incur costs of preparing for licensure (about \$1,000 to \$2,000 per person according to one county tax assessment official's estimate), maintaining continuing education requirements (20 hours every two years estimated at \$200-\$500 per person), and paying licensing fees (\$175 per person for initial licensure, plus examination fees). Mandatory licensure could also make the hiring and promotion process more cumbersome, for example, licensure might become a minimum qualification for a position.

In addition, although licensure costs presumably are already built into the existing appraisal fees charged by regulated appraisers to consumers, charges for performing appraisals for non-federally related transactions could increase in some cases if the appraiser requires additional time and effort needed to satisfy the Uniform Standards. Also, government agencies not currently required to follow the Uniform Standards could find work demands increasing due to the standards. However, some observers reportedly think the standards if applied to tax assessors would make no difference in how they do their work. Furthermore, some government appraisal activities already require the standards. The impact on federally regulated financial institutions would be even more limited because they already must follow the standards in their appraisals.

We should also note that the Uniform Standards apply not only to real estate appraisals but to an appraiser's review of someone else's appraisals and to real estate consulting. The costs of these other activities could increase if the State should require all to follow the standards.

Another key cost issue arises in the area of intergovernmental relations. Article VIII, Section 5 of the State Constitution states as follow:

If any new program or increase in the level of service under an existing program shall be mandated to any of the political subdivisions by the Legislature, it shall provide that the State shall share in the cost.

One county official cited this provision in arguing against requiring county appraisers to be regulated. While the strength of the argument is not clear, this matter may need attention.

Exemptions and other legal issues should be considered

In considering legislation to expand the regulation of real estate appraisers and appraisals, the Legislature should consider legal issues in two key areas: exemptions, and arbitration and retroactivity.

Exemptions

Other states may not consider estimates of real estate value made by real estate agents, architects, builders, government staff, and others in similar positions as appraisals. If fees are charged for these estimates of value, then most states would consider them appraisals and require them to conform to appraisal statutes. But if these estimates of value are incidental to the professional or vocational practice involved, then fees charged for the primary service involved are not considered fees for the estimate of value. Although at least one of these exemptions is already recognized in Hawaii's administrative rules—an exemption for real estate brokers and salespersons—it may be appropriate to build exemptions into the statute as well.

The central issue in deciding whether to grant exemptions for certain groups that are clearly involved in performing appraisals is whether the benefits of the exemption exceed the costs. For example, good arguments can be made for excluding tax assessors. Specifically, while landowners are not always pleased with their tax assessments, the impetus for expanded regulation does not appear to have been dissatisfaction about tax assessments. Furthermore, requiring tax appraisers to be licensed would have costs to government or individuals, as discussed above. However, exempting tax appraisers could undermine the goal of establishing a common baseline for all appraisals.

States that generally mandate the Uniform Standards may not require tax assessors to conform to the standards. One tax assessment official in Hawaii observed that training existing staff to pass the licensing examinations would be a problem because tax assessors do not have experience performing individual appraisals for each parcel and writing reports conforming to the Uniform Standards as a bank appraiser would.

However, the Uniform Standards do contain standards for mass appraisals performed by tax assessors and some states reportedly require their tax assessors to follow the Uniform Standards.

Also, even if the Uniform Standards were required for tax assessments, the standards say that state and local laws take precedence. Therefore the existing property tax laws and ordinances would be followed as they are now.

House Bill No. 566 requires using the standards in both federally and non-federally related transactions. Using the word “transactions” could be interpreted as intended to exclude tax assessment appraisals. But this is not clear, so any exemption for assessors should be explicitly stated.

Arbitration and retroactivity

Lease rent disputes may end up in arbitration under Chapter 658, Hawaii Revised Statutes, because of arbitration provisions in the lease document itself. It has been suggested that the appraisals submitted to arbitration panels are unfair and improperly performed even though all parties claim their appraisals conform to the Uniform Standards.

One approach would be to amend Chapter 658, HRS, to require that all real estate appraisals used in the arbitration process follow the Uniform Standards and be performed by licensed appraisers. This change could require appraisers to justify their methodologies and could possibly result in decisions that are more fair. Another view, however, is that arbitration decisions would not change, as arbitration appraisals already conform to the standards because the appraisers are required by their professional standards to use them.

Moreover, a key opponent of new legislation on arbitration questioned the argument that appraisers when serving as arbitrators must follow the Uniform Standards. The opponent pointed out that *arbitration*—in which the disputing parties submit their case to an impartial third party for a binding decision—is not the same as *appraisal*, the process of estimating value. Therefore, an appraiser serving as arbitrator is not performing an appraisal and should not be bound by appraisal standards.

Furthermore, opponents have objected to new legislation on lease rent arbitration that would retroactively change the terms of lease contracts.

Conclusion

The existing regulation of real estate appraisers and appraisals in Chapter 466K, HRS, was enacted to comply with federal law. Expanding the law to require that appraisers in both federally related transactions and non-federally related transactions be state-licensed or state-certified and follow the Uniform Standards of Professional Appraisal Practice, is not necessary to meet federal law or the sunrise standards. While opinions differ and the available information is “soft,” expansion is unlikely to resolve leasehold land rent and fee conversion controversies.

However, expanded regulation might help to improve the climate in which these controversies are addressed. Expanded regulation would establish a common baseline for all appraisals and could bring about more consistent regulation that is easier to administer for the benefit of consumers. Consistency would remove the cloud of confusion that currently exists over whether appraisals are following the Uniform Standards. Consistency may have other benefits such as requiring the appraiser to be independent and to fully explain the basis of the valuation. The costs of expanded regulation are uncertain.

All states regulate real estate appraisers and appraisals to some degree. States address some issues differently such as including or not including tax assessor appraisals. Appropriate exemptions could be included in Hawaii’s statute. Legal issues involving arbitration and retroactivity should also be considered.

Recommendation

Primarily for the sake of consistency in regulation, we recommend that the Legislature strongly consider passing House Bill No. 566 requiring appraisals in both federally and non-federally related real estate transactions to be performed by state-licensed or state-certified appraisers following the Uniform Standards of Professional Appraisal Practice. In weighing whether to expand regulation of real estate appraisers and

appraisals in this manner—and whether to grant exemptions—the Legislature may wish to consider the costs, benefits, and legal issues that are summarized in our report.

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Notes

Chapter 1

1. Our summary of the real property appraisal process is adapted from a chart appearing in The Appraisal Foundation, Appraisal Standards Board, *Uniform Standards of Professional Appraisal Practice*, 1998 Edition, Washington, D.C., 1998, p. 83.
2. *Uniform Standards*, 1998.
3. Benjamin Shimberg and Doug Roederer, *Questions a Legislator Should Ask, Second Edition*, The Council on Licensure, Enforcement and Regulation, Lexington, Kentucky, 1994, p. 24.

Chapter 2

1. Federal Financial Institutions Examination Council, Appraisal Subcommittee, *Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers*, Washington, D.C., August 4, 1993, p. 20.
2. Testimony on House Concurrent Resolution No. 130 and House Concurrent Resolution No. 131 submitted by Kathryn Matayoshi, Director of the Department of Commerce and Consumer Affairs, to the Honorable Ron Menor, Chair, House Committee on Consumer Protection and Commerce, March 28, 1996, p. 2.

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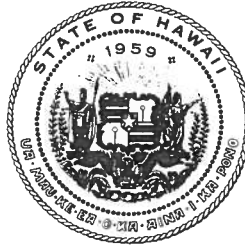
Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Commerce and Consumer Affairs on April 9, 1998. A copy of the transmittal letter is included as Attachment 1. The department elected not to submit a response to the draft report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

April 9, 1998

COPY

The Honorable Kathryn S. Matayoshi, Director
Department of Commerce and Consumer Affairs
Kamamalu Building
1010 Richards Street
Honolulu, Hawaii 96813

Dear Ms. Matayoshi:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Analysis of a Proposal to Expand the Regulation of Real Estate Appraisers and Appraisals*. We ask that you telephone us by Monday, April 13, 1998, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Wednesday, April 15, 1998.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Marion M. Higa'.

Marion M. Higa
State Auditor

Enclosures