

Public Testimony SB 303

Proposal to only allow properly licensed Real Estate Appraisers to charge or collect a fee in connection with a real estate appraisal.

Over the past several months myself as well as many of my colleagues have noticed a significant increase in the number of appraisal requests from appraisal management companies.

The primary function of the appraisal management company is to locate appraisers who are able to fulfill appraisal assignments for their clients who are typically mortgage brokers, mortgage lenders and or banks. The underlying goal of the appraisal management company is to locate an appraiser who will perform the appraisal assignment at the lowest fee thereby ensuring the greatest profit margin for the appraisal management company. Rather than bill their client separately for their service the appraisal management company will typically be compensated for their service in one of the following three ways: (41 sec)

- 1) They request a "kick back" from the appraiser in exchange for sending them the appraisal assignment.
- 2) They impose a fee to the lender/bank greater than the reduced fee to the appraiser thereby allowing the management company to profit on the difference.
- 3) They charge or collect a fee from the borrower for the appraisal then locate an appraiser who will perform the assignment for less than what was collected thereby allowing the management company to profit on the difference. (time 1:07)

Moreover, appraisers are often instructed not to discuss their fee with the homeowner or the end lender. Also, quite often appraisers are asked not to include an invoice with the appraisal but rather send an invoice for their services as a separate attachment to the appraisal management company.

Such requests can only serve one purpose which is to conceal the true cost of the appraisal from the homeowner and or lender. (time 1:34)

Since there is currently no law prohibiting the aforementioned practices appraisers have no choice but to comply with the appraisal management company's instructions or they run the risk of losing the assignment as well as future work from the appraisal management company.

Since the primary goal of the appraisal management company is to maximize their profits the appraisers qualifications become secondary to the fee in which they charge. This sort of hiring practice may not ensure that the borrower or the lender is receiving an appraisal from the most suitable and or qualified appraiser. (time 2:12)

These practices also come at a time when our State as well as Federal government are working hard to create more appraiser independence as well as make homeownership more affordable and create more transparency with respect to the costs associated with obtaining mortgage financing. All the while the aforementioned practices of the appraisal management company make it less affordable as these practices unnecessarily drive up the cost of mortgage financing and in turn homeownership within the State of Connecticut. Not to mention that these practices also lead to less transparency with respect to the actual costs associated with mortgage financing. (time 2:48)

The same sort of steering, skimming, markups, bird dog fees, kick backs and referral fees have become prohibited practices in Connecticut with respect to the insurance industry, the real estate industry and the legal profession as the practice itself indivertibly leads to higher and unnecessary costs that are eventually passed on to the consumer. (time 3:00)

At this time I would respectfully request that the committee further strengthen our consumer protection laws by including the following three items into SB 303.

1) Appraisers shall be prohibited from giving "anything of value" in exchange for receiving an appraisal assignment or the transmittal of the appraisal assignment.

2) The inclusion of the term "collect" a fee in the first sentence of the Bill. The sentence would then read: The only person who may charge or collect a fee in connection with a real estate appraisal performed for property located in this state are those persons who hold a valid real estate appraisal license issued by the Department of Consumer Protection.

3) Appraisers shall be required to provide the borrower with a fee disclosure thereby indicating the actual fees charged by the appraiser for the appraisal assignment.

4) A \$1,000 fine per occurrence.

Submitted by: Rob Clermont (Certified Real Estate Appraiser) Date: 02/05/2009