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General Law Committee
Connecticut General Assembly
Legislative Office Building
Hartford, CT 06106

Re: Bill No. 5221
An Act Concerning The Registration of Real Estate Management Companies

Senator Colapietro, Representative Shapiro and members of the committee, my name is **John Galvin, President of the Connecticut Chapter of the Appraisal Institute.** I am here to let you know that although The Connecticut Chapter of the Appraisal Institute supports the concepts included in Bill No 5221, and applaud its submission, we strongly encourage you to support Raised Bill 13 instead, An Act Concerning Appraisal Management Companies, which is currently in front of the Insurance and Real Estate Committee.

Although Bill No 5221 contains very similar language to that detailed in Bill No. 13 – An act Concerning Appraisal Management Companies, Bill No. 13 is an act that has evolved from a tremendous amount of input from not just the Appraisal Institute, but also from the ***Department of Banking, Department of Consumer Protection, Attorney General, Connecticut Association of Realtors, Connecticut Homebuilders Association, Connecticut Bankers Association, Connecticut Real Estate Appraisal Commission, as well as several independent groups concerned about this issue.***

The Appraisal Institute is an International Organization that is the largest voice for those appraising real property. Though there are associate and affiliate membership options with our organization, designated membership requires a rigorous certification program that includes not only a college education, but a series of course work, the passing of comprehensive exams, several levels of documented appraisal experience that can take 3 – 7 years to attain and the passing of a very detailed demonstration appraisal report, which is equivalent to a college thesis.

Members of the Appraisal Institute are not only bound by the requirements of the Uniform Standards of Appraisal Practice, which are appraisal standards written by the Appraisal Foundation (a quasi-governmental board) but also our own Code of Ethics and additional standards in order to assure the "Public Trust". We are required to perform a credible and quality appraisal analysis and to clearly communicate the appraisal analysis and/or value in a manner that is not misleading.

The two primary designations are the SRA, which is given primarily to residential and small commercial property appraisers and the MAI, which is awarded to those who appraise commercial property types and solve complex real estate valuation problems.

As you may be aware, in 2009 the Home Valuation Code of Conduct (HVCC) was adopted with honorable intentions; requiring residential appraisals to be ordered by an independent third party to the lending transaction. The results, however, have not been all that honorable-having an adverse impact on the collateral review function of the lending process, which is a critical part of loan quality, not just for the consumer and the underwriting institution, but also the end investor who is the source of funding that provides liquidity to this large segment of our economy.

Appraisal Management Companies have been in existence for a long time. An AMC's primary function is to assist their clients in the appraisal ordering, and often review, function of the loan underwriting process. Prior to HVCC, there were few AMC's in existence. However, HVCC mandated a market format that resulted in a sudden increase in the number of AMC's throughout the Country. At the same time, the demand for appraisal services declined in line with the downturn in the economy. This activity resulted in an oversupply of appraisers, particularly those who appraise residential property. Consequently, some AMC's (not all) elected to take advantage of the oversupply by placing inappropriate pressure on appraisers in an attempt to get the lowest fee possible. Unfortunately, this pressure has – in some cases – compromised quality. Since the typical AMC gets a set fee from their client for each appraisal order, the lower the fee that can be contracted with an appraiser, the greater the profit to the AMC.

In hindsight, one result of HVCC is that it has exposed a large number of practices that unscrupulous users of appraisal services historically have placed on appraisers in an effort to attain a desired result. **Currently, the function of the AMC is the only part of the lending process that is not required to register or is regulated**. AMC legislation is necessary in order to assure appraisal reports are ***competently completed by qualified appraisers who are appropriately certified.*** Again, legislation is necessary to register those involved in the AMC function in order to protect those who rely on the value estimates reported to make a competent purchase and finance decision. Legislation is also required to assure that loans are sufficiently collateralized to restore stability within the banking and secondary mortgage markets.

The Appraisal Institute has recognized the need for legislation to make Appraisal Management Companies accountable, not just in Connecticut, but across the country. Last year, the Appraisal Institute was instrumental in getting legislation passed in 6 states and currently is supporting efforts in approximately 30 more states, 18 of which appear to have a favorable possibility of passing legislation similar to that being written into Bill 13 that is in front of the Insurance and Real Estate Committee.

Bill 13 has been written as a team effort, taking into the considerations that will best serve all those who are involved within this Connecticut industry segment. Bill No 13 has also considered suggestions from the Title Vendor Management Association, which is the trade association for Appraisal Management Companies. The language in Bill No 13, through The Government Relations Committee of the CT Chapter of the Appraisal Institute, has also considered comments from several of its members that operate within the Appraisal Management Service business, who have grave concerns about the ethical inequities that are plaguing their segment of the Real Estate Market.

You have heard a number of testimonies to date in support of AMC legislation; however, I would like to take a moment to speak to the rumor that there is division amongst appraisers regarding this issue by shedding some light on what has happened within the appraisal industry over the past two years that has forced us here today.

Though within the State of Connecticut we have licensing laws for appraisers, and as part of that law appraisers are required to comply with the Uniform Standards of Professional Appraisal Practice, appraising real property is a profession that relies on experience. Though the educational requirements were recently increased by the Ct. Real Estate Commission to obtain State Certification, the requirements are designed to meet minimum criteria to competently appraise real estate.

With the majority of residential work now coming from AMC's, appraisers are forced to either accept low fees and the business terms demanded by many AMC's or abandoned this business segment. Unfortunately, some of the demanding terms placed on appraisers have resulted in a compromise in quality, a factor that is very damaging to the credibility of the appraisal industry as a whole. Fortunately, between some continued changes taking place within the market, and new legislation (hopefully Bill 13), the shake-up created by HVCC that is impacting the consumer is expected to settle out.

The supply of appraisers is declining. According to the State of Connecticut Department of Consumer Protection, there are now 1,765 licensed appraisers in the Connecticut. Since 2002, when the housing market started heating up, the number of Residential Certified Appraisers increased by 75%. However, the count has been declining for the past four years when it hit a high of 1,966 in 2006.

With a recertification year in 2010, it is anticipated the count will drop further by the loss of another 200. The decline correlates with the slowdown in market activity. The number of provisional appraisers has also declined by 61% since 2003. The limited amount of work has been forcing many to leave the industry, nearly all of which are appraisers who have entered the business within the past five years.

The Appraisal Institute recognizes that the Appraiser is responsible for the competent development of a credible appraisal analysis for every assignment, regardless of the fee. In order to conduct a proper appraisal analysis of any property type, there is a certain amount of time required, and costs are incurred. When the fees get too low to cover the costs, the fear is that quality could be compromised and/or that an AMC could manipulate the appraisal process. The voices coming from appraisers, though sounding different, and in some cases quit emotional, are really all on the same page of passion and respect for appraisal industry. As one member of the Connecticut Real Estate Appraisal Commission summarized, when the Connecticut Appraisal Licensing Laws were being discussed back around 1990, there was a lot of disagreement on exactly how the law should be written, but the simple fact was that everyone agreed a law was necessary. This same scenario again exists with the need for AMC legislation. As a result, the Connecticut Chapter of the Appraisal Institute respectfully requests that all of the effort go into supporting one bill – that being Bill 13.

The Senate Bill No 13 is the other half of the equation that essentially puts an adult in the playground to keep an AMC from bullying market participants. It requires AMC's that order appraisals in the State of Connecticut to register with the Department of Consumer Protection. It also includes minimum requirements for AMC's, such as requirements to make sure appraisers utilized are licensed, that reports are compliant with USPAP, and that competent appraisers are selected, particularly in terms of knowledge of the appraised property's geographic market area. Other restrictions prohibit threats to withhold payment, etc. in order to influence value or reporting, ***and most importantly, Bill 13 requires AMC's to use licensed appraisers to review the appraisal reports***.

Senate Bill 13, ***An Act Concerning Real Estate Management Companies*** provides a level of protection to assure that the real estate appraisal industry can continue to provide credible market data and unbiased value opinions to allow consumers to make competent business decisions. Please also note, though most bills will add to the budget constraints of the State of Connecticut, the results of this bill are expected to have a positive impact on fiscal policy. The end result of Senate Bill 13 will not only be less complaints for the Department of Consumer Protection to investigate that may require costly legal action to mitigate, but will also enhance the stage of the Connecticut real estate market so it can function in a more liquid format; thus, adding to the pattern of economic recovery, which in time creates revenues that can be taxed.

Thank you for your time and consideration,
John J. Galvin, MAI, President of the CT Chapter of the Appraisal Institute

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