



CONNECTICUT ASSOCIATION OF
REALTORS® INC.

Statement on

S.B. 13 An Act Concerning Real Estate Appraisal Management Companies
SUPPORT

Submitted to the Insurance and Real Estate Committee
February 16, 2010

By Ken DeVecchio

Good afternoon. My name is Ken DeVecchio. I'm affiliated with RE/MAX Heritage of Westport, and I am a former president of the Connecticut Association of REALTORS®, for whom I speak today.

REALTORS® support Senate Bill No. 13, which requires the registration and regulation of appraisal management companies (AMC's). As you may know, AMC's have been around for some time, but only since May of last year have they have gained so much influence in the real estate market place. That is when the new "Home Valuation Code of Conduct" was promulgated following negotiations between New York Attorney General, Andrew Cuomo, Fannie Mae, Freddie Mac, and the Federal Housing Finance Agency.

These rules, in effect, imposed firewalls between a lender's loan production staff and the appraiser doing the evaluation of the collateral for the loan. The objective was to insulate individual appraisers from improper influence of those who may stand to profit from an appraisal figure that's overinflated or otherwise inaccurate.

Lenders were now confronted with a challenge – finding a way to use and employ individual appraisers but doing so with a buffer to insulate them from the appearance of improperly influencing their decisions. Thus, the solution emerged of using appraisal management companies as middlemen. The bank hires the AMC, the AMC has a list of approved appraisers, and (perhaps on a rotational basis) assigns appraisers to do the assignments required by the lender.

These rules unfortunately created severe, unintended consequences. Some of the very people who were to be protected by the new process are the very ones being hurt. Significantly, the rules give the AMC's a lot of influence, not only in assigning jobs to appraisers, but over what the AMC will charge the lender and what the AMC will pay the appraiser in the field. Consumers who pay for the appraisal report are usually left in the dark as to what portion of their payment went to the appraiser.

While individual appraisers are licensed and strictly regulated by the State of Connecticut, the appraisal management companies are not. This must change for three reasons: the increased influence of AMC's in the marketplace, the lack of any federal regulator for AMC's despite the benefit they now derive from these "quasi-

111 Founders Plaza, Suite 1101, East Hartford, CT 06108-3212
Tel: (860) 290-6601 | Toll Free: (800) 335-4862 | Fax: (860) 290-6615
www.ctrealtor.com



The Voice for Real Estate™ in Connecticut

federal" rules (the Home Valuation Code of Conduct), and most importantly, the injury being done to the public by some AMC's.

Properly licensed real estate appraisers must increasingly depend on receiving assignments from appraisal management companies. Last year, 39% of appraisers surveyed by the National Association of REALTORS® reported more than half their business came through AMC's -- nearly triple the amount compared to before the new rules. Yet these new "guardians" of appraiser independence in effect have no one watching over them.

The void was supposed to have been filled by a new "Independent Valuation Protection Institute" set up to give consumers -- and individual appraisers -- a place to report improper appraisal conduct and misbehavior by AMC's. No such institute exists, even though the Home Valuation Code of Conduct boasted that the availability of its services would be announced to both borrowers and appraisers by its participating lenders.

The injury to the public is evident in numerous ways:

- >> Homesellers have suffered inexcusable delays and even lost sales due to AMC-assigned appraisers not being geographically competent or otherwise qualified. I had one case of a willing seller and a qualified buyer who were told by the AMC appraiser that their agreed-upon price was \$100,000 too much. It turned out that the report overlooked a bedroom, one fireplace, and half a garage! Weeks were wasted seeking an "appeal" that was fruitless.
- >> Homebuyers (like the one in this case, relocating from California) are injured. Although the original price was validated, he had to pay \$750 more for another application and appraisal through a second lender.
- >> Homebuyers have lost favorable interest "rate locks" due to the complexities of navigating the system when AMC-assigned appraisers make mistakes or the AMC's are slow to respond to complaints.
- >> "Transparency" of costs has been clouded; buyers don't know how their payment is being divided up between the AMC, the appraiser, and the lender.
- >> Since a healthy and sound real estate market is crucial to fostering Connecticut's business recovery, our local and State economies (and the taxes they produce) are impaired by faulty property valuations and cancelled home sales.

While the Connecticut Association of REALTORS® strongly favors SB 13 as a means for consumers redress, we are not absolutely wedded to every provision in its 12 pages. Some will say it's too strict; others that it's not strict enough. By establishing a State registration system and standards that can be enforced, we believe SB 13 provides a "measured" degree of oversight with little if any fiscal impact.

We are confident that through ongoing collaboration with you and other lawmakers, a bill such as this will "get the job done". We look forward to working with the Appraisal Institute, the Connecticut Bankers Association, the Home Builders Association, Consumer Protection Department, and other interested parties in this urgent matter.

Are there any questions?

Thank you for raising this bill and for your kind attention.

