CONNECTICUT BANKERS ASSOCIATION

13

TO: COMMITTEE ON INSURANCE AND REAL ESTATE

FROM: CONNECTICUT BANKERS ASSOCIATION
CONTACTS: GERRY NOONAN, TOM MONGELLOW, OR FRITZ CONWAY

RE: SENATE BILL NO. 13: AN ACT CONCERNING REAL ESTATE MANAGEMENT COMPANIES

POSITION: SUPPORT WITH REVISIONS

SB 13 would establish a state registration system for appraisal management companies ("AMC's"). It would also impose certain substantive restrictions on AMC's. The Connecticut Bankers Association ("CBA") will support the concept of *registering* AMC's with the State Appraisal Commission, but is very concerned about some of the substantive restrictions. Those restrictions would likely have a negative impact on residential mortgage transactions in Connecticut and would raise costs for consumers.

By way of background, AMC's are a recent byproduct of a new requirement adopted by Freddie Mac and Fannie Mae, who are largest purchasers of mortgage debt in the United States. All mortgage loans purchased by those agencies must have appraisals that comply with their newly adopted Home Valuation Code of Conduct ("HVCC"). The HVCC was adopted to combat, among other things, abuses in appraisal practices where various parties inappropriately influenced appraisers (i.e., to provide inflated values).

These abuses were particularly prevalent in the southwest States and in Florida, which now have the some of the highest instances of mortgage fraud and foreclosures in the country. The HVCC establishes a code of conduct that helps to ensure arm's length independence in the appraiser selection and management process. Although the HVCC does not require a lender to use an AMC, many financial institutions have turned to AMC's to ensure the requisite degree of independence in the appraisal selection and management process.

The outgrowth of AMC's comes at a time when both federal and State law has been revised to strengthen appraiser independence. Last year, the federal Truth-in-Lending regulations were amended to expressly prohibit appraiser coercion. In Connecticut, the General Assembly's Banks Committee sponsored, and the legislature enacted, a bill strengthening Connecticut's anti-coercion provisions.

The CBA believes that AMC's can play a valuable role in the mortgage origination process. As active providers of mortgages in Connecticut, banks are very concerned with two

(860) 677-5060 10 Waterside Drive Farmington, Connecticut 06032-3083 FAX: (860) 677-5066

aspects of the appraisal process; namely, *quality* and *cost*. AMC's can help to promote the *quality* of appraisals by ensuring that parties involved in the mortgage transaction do not engage in improper coercion. AMC's can also help to manage the cost of appraisals through volume-based competitive contracts with appraisers. This is of benefit to Connecticut consumers, because consumers often pay for the cost of the appraisal, in connection with a mortgage loan.

While the CBA would support legislation that creates a *registration* system for AMC's, we are very concerned with some of the substantive provisions within SB 13. In particular, we are concerned with the provisions that restrain legitimate competition within the appraisal industry. We are also strongly opposed to any provision that attempts to regulate the cost of appraisals. Recent changes in federal law (i.e., HUD's amendments to RESPA) are creating opportunities for banks and others involved in the mortgage loan transaction, to lower the cost of obtaining a mortgage (by creating greater transparency in the cost of the various service providers that help to originate a mortgage). HUD over the years has never engaged in fee setting and they continue with that philosophy.

These new RESPA provisions hold great promise for consumers across the State and in America. We believe the rate regulation provision within SB 13 would serve to undercut the benefits of these new RESPA provisions by restraining the competitive marketplace for appraisal services.

In recent days, the CBA has been in productive discussions with representatives from the appraisal industry, real estate brokerage industry and home builders. Those discussions are continuing. We are hopeful that these discussions will produce a consensus on proposed revisions that we would collectively and respectfully submit to the Committee for its review.

Thank you for your consideration of our comments and concerns with regards to Senate Bill 13.