



Office of The Attorney General
State of Connecticut

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*TESTIMONY OF
ATTORNEY GENERAL RICHARD BLUMENTHAL
BEFORE THE INSURANCE AND REAL ESTATE COMMITTEE
FEBRUARY 16, 2010*

I appreciate the opportunity to support Senate Bill 13, An Act Concerning Real Estate Appraisal Management Companies.

This proposal regulates any entity that acts as a middleman between the individual or bank that is requesting an appraisal and the appraiser. The measure would require these entities - appraisal management companies -- to register with the Department of Consumer Protection and be operated by individuals in good standing as licensed appraisers. Importantly, it would preserve the independence and integrity of appraisers from management companies who may wish to direct a particular outcome of an appraiser. Finally, management companies would establish a system of fair compensation for appraisers based on a survey of market rates and a fair, due process procedure for removing any individual from the management companies panel of approved appraisers.

The Attorney General's office has received numerous complaints from homeowners who purchased their dream house only to encounter a nightmare of problems. Home selling prices mortgages were granted on the basis of wildly optimistic appraisals -- often at the direction of the seller or the mortgage company. My staff has worked with banks and federal and state agencies to keep these homeowners -- victims of mortgage and real estate fraud -- in their homes.

In response to this problem, the federal government adopted the Home Valuation Code of Conduct requiring a separate entity standing between the bank and the appraiser to shield appraisers from undue influence. A new entity has appeared -- the appraiser management company, an unregulated business enterprise with broad authority. Appraisers generally cannot issue appraisals for banking transactions without going through a management company. The management companies may low-ball appraiser commissions, profiting by charging the bank full price and pocketing the difference. The companies can also hire appraisers who may not have a full understanding of the market where they are requested to make an appraisal. In the end, consumers may pay more for appraisals but receive less quality and accuracy.

Regulation of these companies will ensure that the Home Valuation Code of Conduct cure for influencing appraiser decisions does not simply replace one source of bad influence with another.

I urge the committee's favorable consideration of Senate Bill 13.