

Testimony of John J. Galvin, MAI

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RAISED BILL 5417: AN ACT CONCERNING BROKER PRICE OPINIONS

Chairman Duff, Chairman Tong and members of the Banking Committee, my name is John Galvin and I am here to speak in opposition to Raised Bill 5417. I am a commercial real estate appraiser, holding the MAI designation from the Appraisal Institute and past president of the Connecticut Chapter of the Appraisal Institute. I have been involved in banking, real estate, and commercial real estate appraisal for over 25 years. Based on my experience, not just participating in the real estate appraisal process, but also from being a bank credit analyst and watching our Connecticut real estate market fluctuate since the oil crisis in the 1970's, Raised Bill 5417 is taking a *major step backwards by removing existing protection for Connecticut Consumers* from abuses in the mortgage lending / foreclosure process.

GOES AGAINST THE HISTORY OF APPRAISAL REGULATION

In the 1980's – we experienced the Savings & Loan Crisis – a major cost to the tax payer. One primary reason for this fiasco was the lack of regulation on the appraisal process, especially with regard to who could complete an appraisal for lending purposes. As a result, the Federal Government adopted the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). As part this, the Appraisal Foundation, a quasi-government body, was created and enacted the Uniform Standards of Appraisal Practice (USPAP), which mandated guidelines and regulations to perform real estate appraisals.

As part of this regulation, each state had to create a Real Estate Appraisal Commission and enact a licensing procedure for appraising real property. In Connecticut, USPAP became part of our state law, requiring appraisers, once certified, to complete a USPAP update course bi-annually. The purpose was to enhance the appraisal profession and protect consumers. The need for an UNBIASED OPINION OF VALUE was recognized by federal regulating agencies as a mandatory requirement for having stable market conditions; thus, avoiding a loss in tax dollars due to potential fraud and abuses within the mortgage lending process – AND to provide a necessary layer of financial protection for the end user of the realty, the consumer – home owner.

In the state of Connecticut, we have made great strides in restoring Public Trust with the appraisal process and protecting the consumer. A few years ago, the CT Real Estate Appraisal Commission raised the bar on the requirements to become a Certified / Licensed Appraiser in Connecticut. In addition, more restrictions were placed on the trainee process and in 2010 we passed legislation to regulate Appraisal Management Companies, all efforts not just to maintain stability in the Connecticut Real Estate market, but also to enhance Public Trust in the appraisal process – why? *To protect the consumer.*

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RAISED BILL 5417 WILL CAUSE DESTABILIZATION IN THE CT MARKET

The purpose of **Raised Bill 5417** is to enhance the foreclosure process, to reduce costs to the few large mortgage servicers, and most would argue, to *liquidate* all of the troubled and delinquent loans in order to return to a market of growth. In my opinion, this is a false perception that will have to be paid for by the tax payer and the consumer, primarily because it will cause a shift in the supply and demand curve resulting in value declines. This is particularly disconcerting since the housing market in Connecticut is now perceived to have stabilized.

Just this week, Connecticut MLS published fourth quarter and year end statistics on the median price and sales volume within our state. Since July of 2011, the number of pre-foreclosure sales, auction sales and REO (bank owned real estate) sales has stabilized. Sale prices and the number of listings have also stabilized. For example, in Hartford County, the average sale price of a single-family home 1st Quarter 2011 was \$214,500, and by the end of the 4th Quarter 2012 it was essentially in line with the beginning of the year at \$210,000. The average days of a single family home on the market in Hartford County was 133 days as of December 2010. As of December 2011, the average days on the market slightly improved to 128 days. The data indicates the *Connecticut housing market has bottomed out and is now stabilizing. Disrupting the current economic equation by adding to the supply side will simply create downward pressure on values that are now showing several quarters of stabilization.*

Economic history clearly demonstrates that the further the decline in values, the longer it takes to recover and retain stability in the market. Enhancing the foreclosure process will cause an increase in inventory of available real estate (supply). At the same time, the pool of potential buyers will be reduced, as those getting foreclosed will not be able to re-enter the market for some time (demand). This shift of activity will result in lower prices, which will just perpetuate the economic downturn, as values will have to decline in order for the inventory to sell. This in turn will cause more existing homeowners to become under water on their mortgage (value is less than their mortgage). It has taken the Connecticut housing market 4 years to get to the point of stabilization. The passing of Raised Bill 5417 will just extend this historic downturn in our housing market.

Leaving the existing appraisal law in place, and not passing Raised Bill 5417, will keep us on the current stabilizing and upward trend in Connecticut's housing market. It will also provide time for the market to absorb the unavoidable foreclosures, as well as provide time and create options for those in the beginning stages of the foreclosure process – to perhaps work out their situation (i.e. a laid-off worker who can no longer afford the house time to sell the house and get out from under the mortgage without filing bankruptcy, etc.). Simply put, though I have a tremendous respect for the role of the real estate broker / sales agent in the market place, that role should not be co-mingled with the roll of the appraiser just so a few large institutions can save a few dollars at the expense of others.

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ADDITIONAL REPERCUSSIONS FOR THE UNPROTECTED CONSUMER

While circumventing the appraisal process may seem like it will save money for the foreclosing bank, long term it will cost the consumer money. Using an opinion of value developed from a biased interest who does not have appraisal training or experience, and who may be looking to capitalize on the negative situation of others to eventually obtain a commission sets up the consumers for additional costs after a foreclosure. A mistake in the value process can create large tax consequences for the consumer (the IRS considers the difference between the loan amount and the foreclosed sale price a tax gain) and it creates larger deficiency judgments after the property has been foreclosed. A deficiency judgment against the foreclosed homeowner can be filed by the lender for the difference in the loan amount and the foreclosed sale price including all related costs. Banks and/or mortgage servicers then can collect these costs from the consumer over time. The consumer has a better chance of avoiding these eventualities by having a professional unbiased and regulated appraisal during the entire process, as opposed to a BPO value developed by an inexperienced, unbiased, and less trained party.

THE BPO PROCESS ERODES EQUITY FROM THE CONSUMER IN FAVOR OF THE FORECLOSING LENDER

It is also noted that when a BPO is ordered on a troubled loan, and the broker's opinion is below the loan amount, the foreclosure process begins. It may take up to 6 months or longer before the bank can foreclose on the real estate. When they do, they have to order an appraisal for court. If at that time it is evident that the broker's opinion was underestimated, it is simply *too late* for the consumer. By the time the six or more months have passed, the consumer often has been forced out of the house, their credit has deteriorated, they are demoralized, and they have no way of knowing that there was actual equity in their home that possibly could have been sufficient to avoid the situation in the first place (667 days is average delinquent days before a property is foreclosed in this country). The bottom line is the broker has a vested interest in obtaining eventual listings from the foreclosing institution. By utilizing BPO's in the market place, you are removing the one unbiased party that the consumer can actually rely on for a credible opinion of value in what is often, the largest investment of their lives.

COSTS INCREASE TO THE STATE OF CONNECTICUT

I would also like to point out that the passing of this bill will actually increase the costs for the state of Connecticut. Because there is no regulating body over the BPO process, any issues with BPO's will most likely fall into the lap of the Department of Consumer Protection. The Real Estate Appraisal Commission will have no enforcement power nor will the Real Estate Commission. In all likelihood, additional staff will have to be added to oversee and monitor consumer complaints created by inexperienced and untrained sales agents conducting BPO's. In addition, licensed and certified appraisers who also hold a broker's license will give up their appraisal license, as the fee for this license will

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COSTS INCREASE TO THE STATE OF CONNECTICUT, continued

no longer be necessary. In addition, the fee for an appraisal license is more than that for a sales agent. *The bottom line, less revenue into the State of Connecticut but an increase in costs for the State of Connecticut.*

EDUCATION – WHO WOULD YOU WANT TO APPRAISE YOUR HOUSE?

Testimony on the difference in education between what is required by an appraiser and that required by a real estate sales broker or a sales agent has already been submitted by others. However, attached is a chart displaying the difference in the level of education. From the chart, it is evident that not only do licensed appraisers have more appraisal education; they are also required to have college education and work experience. This work experience is reviewed by their peers. There is no one reviewing the real estate sales agents BPO's to determine the quality of work or if the values estimated are credible and supported. So, who would you rather appraise your house?

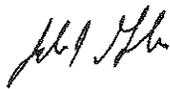
RAISED BILL 5417 WILL COST MUNICIPALITIES MORE MONEY

Allowing BPO's to be performed for assessment appeals, estate tax planning, divorces, etc. In tax assessments situations, a property owner has the right to appeal their assessments. However, in our State, the Connecticut Courts require appraisals be completed for a pre-trial. The pre-trial system reduces costs to municipalities and to the Connecticut court system. By using trained professional real estate appraisers, property owners and municipalities nearly always work out an agreement when there is a discrepancy in the assessment. However, allowing property owners to obtain a BPO to submit when they are appealing a tax assessment will lead to an increase in unfounded appeals. This increase will not only tie up the Connecticut court system, but also result in additional legal and appraisal costs for municipalities across Connecticut.

CLOSING COMMENT AGAINST RAISED BILL 5417

Finally, I would like to refer to the February 21, 2012 testimony to the Banks Committee by Attorney General George Jepsen. Attorney General Jepsen reported information regarding the \$25 billion national multi-state foreclosure settlement. As part of his report, Mr. Jepsen expressed his frustration and anger over the problems created by the banks that resulted in the settlement. Mr. Jepsen stated, "Changing how banks operate and treat their customers is ultimately a public policy issue that must be dealt with by Congress, the President and the State Legislatures. I support strong, sensible regulations of banks." The passing of Raised Bill No. 5417 is taking a step backwards toward deregulation, not regulation ***AND AT THE EXPENSE OF THE CONSUMER.***

Thank you,



Digitally signed by John J. Galvin,
MAI
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Date: 2012.03.15 10:03:49 -0400

John J. Galvin, MAI

WHO DO YOU WANT TO APPRAISE YOUR HOUSE? EDUCATION & EXPERIENCE REQUIREMENTS

Credential	Education Requirements	Education	Experience Requirements	Examination Requirements	College Requirements
* Salesperson * Broker	60 Hours 120 Hours	Real Estate Principles and Practices Real Estate Principles and Practices – 60 Basic Appraisal Principles or Basic Appraisal Procedures – 30 Related Subjects in Real Estate - 30	None At least 2 years licensure as Real Estate Salesperson	Yes Yes (Exams are for selling not appraising)	None – <i>no appraisal course</i> None – <i>only one appraisal course and it is not a requirement</i>
** Certified Residential Appraiser RCR	200 Hours	Basic Appraisal Principles – 30 Basic Appraisal Procedures – 30 National USPAP – 15 Residential Market Analysis & Highest and Best Use – 15 Residential Appraiser Site Valuation and Cost Approach – 15 Residential Sales Comparison & Income Approaches – 30 Residential Report Writing and Case Studies – 15 Statistics, Modeling & Finance – 15 Advanced Residential Applications & Case Studies – 15 Appraisal Subject Matter Electives - 20	2500 Hours 24 Months (all appraising experience)	AQB Certified Residential	Associate degree or higher. In lieu of the required degree, twenty one (21) semester credit hours covering the following subject matter courses: English Composition; Principles of Economics (Micro or Macro); Finance; Algebra, Geometry or higher mathematics; Statistics; Computer Science and Business or Real Estate Law. Nine Required Appraisal Courses
** Certified General Appraiser RCG	300 Hours	Basic Appraisal Principles – 30 Basic Appraisal Procedures – 30 National USPAP – 15 Statistics, Modeling & Finance – 15 General Appraiser Market Analysis & Highest and Best Use – 30 General Appraiser Sales Comparison Approach – 30 General Appraiser Site Valuation and Cost Approach – 30 General Appraiser Income Approach – 60 General Appraiser Report Writing and Case Studies – 30 Appraisal Subject Matter Electives - 30	3000 Hours 30 Months (all appraising experience)	AQB Certified General	Bachelors degree or higher. In lieu of the required degree, thirty (30) semester credit hours covering the following subject matter courses: English Composition; Micro and Macro Economics; Finance; Algebra, Geometry or higher mathematics; Statistics; Computer Science and Business or Real Estate Law; and two (2) elective courses in accounting, geography; agriculture economics; business management; or real estate. Ten Required Appraisal Courses

Source:

* State of CT Dept of Consumer Protection: RE Freq Questions 3/11

** The Appraisal Foundation: Student Appraiser Guide. Appraisal Foundation oversees USPAP. USPAP

---Uniform Standards of Professional Appraisal Practice is part of our CT State Law