

TESTIMONY OF:

THE CONNECTICUT REAL ESTATE APPRAISAL COMMISSION

COMMISSION MEMBERS:

Christopher A Italia, MAI
Gerald V. Rasmussen, MAI, FRICS
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RE: Raised Bill 6677 AN ACT CONCERNING BROKERS PRICE OPINIONS

BEFORE: INSURANCE AND REAL ESTATE COMMITTEE

DATE: FEBRUARY 19, 2015

Chairman Megna, Chairman Crisco and members of the Insurance and Banking Committee, we represent the Connecticut Real Estate Appraisal Commission. We are here to speak in unanimous ***OPPOSITION*** to H.B. 6677. The mandate of the Real Estate Appraisal Commission is to license and certify real estate appraisers in Connecticut under the aegis of the Department of Consumer Protection (DCP). It is the opinion of this commission, which is based on experiences (collectively more than 75 years) in the fields of tax assessment, commercial real estate appraising, residential real estate appraising, banking, investing, commission meetings and as a public member on the commission, that passing H.B 6677 is a *major step backwards by removing existing protection for Connecticut Consumers.*

The five major reasons why we oppose H.B. 6677 are as follows:

- 1) Passing H.B 6677 negates industry advances to provide oversight, enforcement and accountability to the appraisal process to protect the consumer
- 2) Passing of H.B. 6677 undermines a layer of regulations surrounding licensing / certification of appraisers created over the past 25 years to protect the consumer.
- 3) Passing of H.B. 6677 will create the need for more regulations, as there are no current regulations pertaining to a Brokers Price Opinion (BPO) or a Competitive Market Analysis (CMA).
- 4) Passing of H.B. 6677 is not necessary as the existing law works.
- 5) Passing of H.B. 6677 will create public confusion and open the door for adverse financial circumstances that the heavily regulated appraisal industry has worked so hard to avoid.

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In the 1980's – we experienced the Savings & Loan Crisis – a major cost to the tax payer. The Savings & Loan Crisis exposed the problems caused by the lack of regulation with 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). The Act created the Appraisal Foundation, a quasi-governmental body, who enacted the Uniform Standards of Appraisal Practice (USPAP), which mandates guidelines and regulates to performance of real estate appraisals. Passing H.B 6677 negates industry advance that have been completed to date.

In Connecticut, USPAP is the standard of our state law used to strengthen the regulation of appraisers and protect consumers. The need for an UNBIASED OPINION OF VALUE was recognized by federal regulating agencies as an essential requirement of market stability; thus, avoiding a loss in tax dollars due to potential fraud and abuses within the mortgage lending process – AND it is paramount to provide a necessary layer of financial protection for the end users of the realty valuation process: the consumer – home owners – and investors. In Connecticut, this protection is provided by licensing / certification of appraisers.

The Federal Act, FIRREA, required each state to create a Real Estate Appraisal Commission to enact its licensing procedures for appraisers. Each State had the option to pass its own laws pertaining to Appraisal licensing and certification. To date, 38 states are considered *Mandatory* states, where appraisers are required to obtain a license / certification. Another 11 states have *Mandatory* licensing / certification limited to Federal Related Transactions (FRT). Of the remaining few states that have voluntary licensing / certification, nearly all are rural states, where there historically has been a shortage of appraisers (i.e. Alaska, North Dakota, Wyoming, etc.). Within Connecticut, there is no shortage of appraisers, as evidence by typical turnaround times (from order to delivery) within the market.

The Real Estate Appraisal Commission is annually examined by the Appraisal Subcommittee (ASC). During the last Federal exam the commission was informed by the Federal Regulators that the country is trending towards MORE regulation and mandatory licensing / certification rather than away from regulation of the appraisal process. In the state of Connecticut, we have made great strides in restoring Public Trust in the appraisal process and consumer protection has increased. Over the past several years, the CT Real Estate Appraisal Commission has raised the bar on the requirements to become a certified / licensed Appraiser in Connecticut.

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Attached is a list of changes (upcoming and enacted). The list was created by the Appraisers Qualification Board of the Appraisal Foundation and carries the weight of a federal mandate. Also attached is a chart showing the different levels of education and experience requirements for a licensed / certified appraiser and for a licensed salesperson / broker in Connecticut. The chart clearly shows the level of appraisal experience, training and education mandated for the Connecticut appraiser is considerably greater than the requirements placed on the Connecticut salesperson / broker who would be performing a BPO or a CMA. In Connecticut, we have regulatory oversight and enforcement over the appraisal process. The bill in question would undermine this to the detriment of Connecticut Consumers by allowing two sets of standards with only one user.

An objective of FIRREA was to improve the professionalism of the appraisers and to protect consumers. By stripping away the appraisal process from the brokerage / lending equation, the regulated sector was created to assure independence in the real estate valuation industry. The need for this independence continues to grow, as evidences by recent changes, all to assure the appraisal / valuation process remains independent of other business functions. The recent changes now require an appraiser to have a four-year college education and complete education (200-300 hours) and experience requirements (2,500 to 3,000 hours) prior to taking an examination. Starting in January 2017, applicants for appraisal licensing must pass a background screening process.

In addition, restrictions have been made limiting the number of provisional appraisers that each supervising appraiser can manage in order to improve the quality of training. In 2010 the State of Connecticut also passed legislation to regulate Appraisal Management Companies (AMCs), and the DCP has written regulation of AMCs (yet to be approved); all efforts to maintain stability in the Connecticut Real Estate market, enhance Public Trust, and *protect the consumer*. In Connecticut, only brokers, not salespersons, have the option of taking one basic appraisal course, no more; however, licensed / certified appraisers are required to take 28 hours of continuing appraisal education every 2 years.

The last concern pertains to public confusion. A BPO / CMA that provides an estimate of value is an appraisal. It is an opinion of value determined by the professional creating the document. This opinion of value would be used by consumers to make major financial decisions in their lives. The average public participant in the real estate market does not understand the difference between a USPAP compliant appraisal report and a BPO / CMA. We are very concerned that without regulation, oversight, additional education requirements, accountability and enforcement, the consumer will be left vulnerable and unprotected.

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Because there are no regulations over the BPO process, neither the Real Estate Appraisal Commission, nor the Real Estate Commission, has enforcement power, today or in the future, to protect the consumer. Consequently, the consumer has no recourse. Eventually, public trust will be undermined.

Simply put, though we have a tremendous respect for the role of the real estate broker / salesperson in the market place, that role should not be co-mingled with the roll of the appraiser. Existing Connecticut law works. The existing law was a joint effort between real estate appraisers and real estate salespeople / brokers. Within Connecticut, there is transparency in the appraisal process, regulatory oversight, and enforcement. It is our concern that passing of H.B. 6677 will not only confuse the consumer, erode public trust with the appraisal process, and create a venue to allow value opinions to be provided with no enforceable accountability, but collectively opens a door for adverse financial circumstances for our Connecticut consumers.

In summary, the five major reasons why we oppose H.B. 6677 are as follows:

- 1) Passing H.B. 6677 negates industry advances to provide oversight, enforcement and accountability to the appraisal process to protect the consumer
- 2) Passing of H.B. 6677 undermines a layer of regulations surrounding licensing / certification of appraisers created over the past 25 years to protect the consumer.
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- 4) Passing of H.B. 6677 is not necessary as the existing law works.
- 5) Passing of H.B. 6677 will create public confusion and open the door for adverse financial circumstances that the heavily regulated appraisal industry has worked so hard to avoid.

Respectfully,

Connecticut Real Estate Appraisal Commission

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EDUCATION & EXPERIENCE REQUIREMENTS

Credentialed	Education Requirements	Education	Experience Requirements	Examination Requirements	College Requirements
* Salesperson	60 Hours	Real Estate Principles and Practices	None	Yes	None -- <i>no appraisal course</i>
* Broker	120 Hours	Real Estate Principles and Practices – 60 Basic Appraisal Principles or Basic Appraisal Procedures -30 Related Subjects in Real Estate - 30	At least 2 years licensure as Real Estate Salesperson	Yes (Exams are for selling not appraising)	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 (7 Hour USPAP Update Course every Two Years) 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	Bachelor's degree or higher from an accredited college or university.
** Certified General Appraiser RCG	300 Hours	Basic Appraisal Principles – 30 Basic Appraisal Procedures – 30 National USPAP – 15 (7 Hour USPAP Update Course every Two Years) 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	Bachelor's degree or higher from an accredited college or university.

Source:

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

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

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



THE APPRAISAL FOUNDATION
*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

APPRAISER QUALIFICATIONS BOARD

UPCOMING CHANGES TO REAL PROPERTY APPRAISER QUALIFICATIONS

On December 9, 2011, the Appraiser Qualifications Board of The Appraisal Foundation adopted changes to the *Real Property Appraiser Qualification Criteria* that will become effective January 1, 2015. These changes represent minimum national requirements that each state must implement no later than January 1, 2015.

OVERVIEW OF CHANGES	
National Uniform Licensing and Certification Examinations	Education <u>and</u> experience must be completed prior to taking the AQB-approved <i>National Uniform Licensing and Certification Examination</i> .
Background Checks*	All candidates for a real property appraiser credential must undergo background screening. State appraiser regulatory agencies are <i>strongly</i> encouraged to perform background checks on <i>existing</i> credential holders as well.
College Degree Acceptance and Core Curriculum Requirements	Credit towards qualifying education requirements may be obtained via the completion of a degree program in Real Estate from an accredited degree-granting college or university provided the college or university has had its curriculum reviewed and approved by the AQB.
Deletion of the Segmented Approach to Criteria Implementation	States had the option to implement the 2008 <i>Real Property Appraiser Qualification Criteria</i> via the "segmented approach." This implementation option will no longer be valid effective January 1, 2015.
Restriction on Continuing Education Course Offerings	Aside from complying with the requirements to complete the <i>7-Hour National USPAP Update Course</i> (or its AQB-approved equivalent), appraisers may not receive credit for completion of the same continuing education course offering within an appraiser's continuing education cycle.
Distance Education Requirements	A <i>written, proctored</i> examination is required for all qualifying education distance course offerings. The term <i>written</i> refers to an examination that might be written on paper or administered electronically on a computer workstation or other device.
Revisions to Subtopics in Guide Note 1 (GN-1) and Continuing Education Topics	Added topics on green building (qualifying and continuing education), seller concessions (qualifying and continuing education) and developing opinions of real property value in appraisals that also include personal property and/or business value (continuing education only).

*At its April 11, 2014 Public Meeting, the AQB voted to delay implementation of Section VI, Background Checks, until January 1, 2017.

COLLEGE LEVEL EDUCATION REQUIREMENT CHANGES*		
CLASSIFICATION	CURRENT REQUIREMENTS	1/1/15 REQUIREMENTS
Trainee Appraiser	None	None
Licensed Residential Appraiser	None	30 semester credit hours of college-level education from an accredited college, junior college, community college, or university OR an Associate's degree or higher (in any field).
Certified Residential Appraiser	21 semester credit hours in specified collegiate subject matter courses from an accredited college or university OR an Associate's degree or higher.	Bachelor's degree or higher (in any field) from an accredited college or university.
Certified General Appraiser	30 semester credit hours in specific collegiate subject matter courses from an accredited college or university OR a Bachelor's degree or higher.	Bachelor's degree or higher (in any field) from an accredited college or university.

*These requirements are effective for individuals seeking a real property appraiser credential *after* January 1, 2015. However, in some cases, the requirements may also apply to *existing* real property appraisers (for example, a state may require a credentialed appraiser to meet the new Criteria if he or she moves from a state that does not have reciprocity with that state. Or some states may require appraisers seeking to change their credential level to meet all of the 2015 Criteria prior to obtaining the new credential). **Credentialed appraisers are urged to contact the applicable state appraiser regulatory agencies if they are contemplating relocation or changing credential levels.**

SUPERVISORY APPRAISER AND TRAINEE APPRAISER REQUIREMENT CHANGES	
SUPERVISORY APPRAISER	TRAINEE APPRAISER
State-certified Supervisory Appraiser shall be in good standing with the training jurisdiction and not subject to any disciplinary action within the last three (3) years that affects the Supervisory Appraiser's legal ability to engage in appraisal practice. Shall have been state certified for a minimum of three (3) years prior to being eligible to become a Supervisory Appraiser.	All qualifying education must be completed within the five (5) year period prior to the date of submission of an application for a Trainee Appraiser credential.
A Supervisory Appraiser may not supervise more than three Trainee Appraisers at one time, unless a state program in the licensing jurisdiction provides to progress monitoring, supervising certified appraiser qualifications, and supervision oversight requirements for Supervisory Appraisers.	A Trainee Appraiser is permitted to have more than one Supervisory Appraiser.
Shared responsibility to ensure the appraisal experience log for the Trainee Appraiser is accurate, current, and complies with the requirements of the Trainee Appraiser's credentialing jurisdiction.	
Both the Trainee Appraiser and Supervisory Appraiser shall be required to complete a course that, at a minimum, complies with the specifications for course content established by the AQB. The course will be oriented toward the requirements and responsibilities of Supervisory Appraisers and expectations for Trainee Appraisers. The course must be completed by the Trainee Appraiser prior to obtaining a Trainee Appraiser credential, and completed by the Supervisory Appraiser prior to supervising a Trainee Appraiser.	

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State Operations and Requirements

State statutes governing appraiser certification and licensing can be characterized in three ways:

Mandatory (Man) - Certified/licensed appraisers required for any service for which an opinion of value (evaluation or appraisal) for real property is developed;

Mandatory for Federally Related Transactions (M/FRT) - Certified/licensed appraisers required to perform appraisals in any federally related transactions and real estate related financial transactions when Federal law requires the services of such appraisers; and

Voluntary (Vol) - Certified/licensed appraisers not required for any appraisal/evaluation assignments. If appraisers wish to perform appraisals in such federally related transactions and real estate related transactions, appraisers can choose to become certified/licensed and submit to the State's regulatory jurisdiction.

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State	Law Type	State	Law Type
Alabama	Man.	Montana	M/FRT
Alaska	Vol.	Nebraska	Man.
Arizona	Man.	Nevada	Man.
Arkansas	M/FRT	New Hampshire	M/FRT
California	M/FRT	New Jersey	Man.
Colorado	Man.	New Mexico	Man.
Commonwealth of the Northern Mariana Islands	Man.	New York	M/FRT
Connecticut	Man.	North Carolina	Man.
Delaware	Man.	North Dakota	Vol.
District of Columbia	Man.	Ohio	M/FRT
Florida	Man.	Oklahoma	Vol.
Georgia	M/FRT	Oregon	Man.
Guam	Man.	Pennsylvania	Man.
Hawaii	Man.	Puerto Rico	Man.
Idaho	Man.	Rhode Island	Man.
Illinois	Man.	South Carolina	Man.
Indiana	Man.	South Dakota	Man.
Iowa	Vol.	Tennessee	Man.
Kansas	Man.	Texas	Man.
Kentucky	M/FRT	U.S. Virgin Islands	Man.
Louisiana	Man.	Utah	Man.
Maine	Man.	Vermont	M/FRT
Maryland	M/FRT	Virginia	Man.
Massachusetts	Vol.	Washington	Man.
Michigan	Man.	West Virginia	Man.
Minnesota	Man.	Wisconsin	M/FRT
Mississippi	Man.	Wyoming	Vol.
Missouri	Man.		

Through our [State agency directory](#), you will find website links and contact information for each of the State appraisal regulatory agencies to use to make inquiries regarding their particular appraiser licensing credentials,