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Bill No. 13 - An Act Concerning RE Appraisal Management Cos.

February 17, 2010 - Connecticut

At the request of The Connecticut Chapter of the Appraisal Institute, when the Connecticut General Assembly convened February 3, the co-chairs of the Committee on Insurance and Real Estate, Senator Joe Crisco and Representative Steve Fontana, raised a bill entitled "An Act Concerning Real Estate Appraisal Management Companies (AMC)". The act is identified as Raised Bill No. 13 and was referred back to the Committee on Insurance and Real Estate for public hearing. The committee will then vote to refer it to the Connecticut House of Representatives or State Senate by their March 18 deadline. Why is this act necessary? Simply put, to protect the consumer.

Appraisal Management Companies have been in existence for a long time. An AMC's primary function is to assist its clients in the appraisal ordering, and often review, function of loan underwriting. Prior the Home Valuation Code of Conduct (HVCC), there were few AMCs in existence. However, HVCC created a market format that resulted in a sudden increase in the number of AMCs throughout the country. At the same time, the demand for appraisal services declined in line with the downturn in the economy. This activity resulted in an oversupply of appraisers, particularly those that appraised residential property. Consequently, some AMCs (not all) elected to take advantage of the oversupply by placing inappropriate pressure on appraisers in an attempt to get the lowest fee possible. Since the typical AMC gets a set fee from its client for each appraisal order, the lower the fee that can be contracted, the greater the profit. This activity is common in any market were supply and demand changes shift points of equilibrium.

With the majority of residential work now coming from AMCs, appraisers are forced to either accept low fees and the business terms demanded by many AMCs or abandoned this business segment. Unfortunately, some of the demanding terms placed on appraisers have resulted in a compromise in quality, a factor that is very damaging to the credibility of the appraisal industry as a whole. Fortunately, between some continued changes taking place within the market, and this new legislation, the shake-up created by HVCC that is impacting the consumer is expected to settle out.

The market changes taking place have to do with the supply of appraisers. According to the State of Connecticut Department of Consumer Protection, there are 1,765 licensed appraisers in Connecticut. Since 2002, when the housing market started heating up, the number of Residential Certified Appraisers increased by 75%. However, the count has been declining for the past four years when it hit a high of 1,966 in 2006. With a recertification year in 2010, it is anticipated the count will drop further by the loss of another 200. The decline correlates with the slowdown in market activity. The number of provisional appraisers has also declined by 61% since 2003. The limited amount of work has been forcing many to leave the industry.

The Appraisal Institute recognizes that the appraiser is responsible for the burden of competently developing a credible appraisal analysis for every assignment, regardless of the fee. Approximately

25% of all appraisers in the state of Connecticut are members of the Appraisal Institute and are not only required to comply with the Uniform Standards of Professional Appraisal Practice (USPAP), but also the Appraisal Institute's Code of Ethics. In order to conduct a proper appraisal analysis of any property type, there is a certain amount of time required and a cost incurred. When the fees get too low to cover the costs, the fear is that quality could be compromised and/or that an AMC could manipulate the appraisal process.

The proposed Bill No. 13 is the other half of the equation that essentially puts an adult in the playground to keep an AMC from bullying market participants. It requires AMCs that order more than 10 appraisals in the state of Connecticut to register with the Department of Consumer Protection. It also includes minimum requirements for AMCs, such as requirements to make sure appraisers utilized are licensed, that reports are compliant with USPAP, and that competent appraisers are selected, particularly in terms of knowledge of the appraised property's geographic market area. Other restrictions prohibit threats of not being paid, etc. in order to influence value or reporting. Most of these items proposed are included in the Title Appraiser Vendor Management Association's recent publication "Standards of Good Practice in Appraisal Management", which are guidelines for operating an ethical AMC. However, these guidelines are voluntary.

Proposed Bill 13, An Act Concerning Real Estate Management Companies, provides one more level of protection to assure that the credible real estate appraisal industry can continue to provide market data and unbiased value opinions to allow consumers to make competent business decisions. This Connecticut effort is being matched across the country with six states passing similar legislation last year and approximately 30 more proposing legislation this year.

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