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The Connecticut Appraisal Institute is standing up for the consumer

March 15, 2012 - Connecticut

Unless you are over 50 years old, the Savings and Loan crisis of the 1980s is something you may only recall from a text book, just like the Great Depression for the rest of us actually over 50. However, both of these economic fiascos had a great impact on regulating real estate appraisals to protect the consumer. For example, the result of the Great Depression was recognition for the need for an appraisal discipline that could help keep some balance in the market by having professionals who could provide credible value opinions to assist in a business decision process. The Savings & Loan crisis of the 1980s surfaced the need for regulations so that only properly trained appraisers could provide those credible opinions of value.

The mandate that followed the banking industry collapse of the roaring '80s was the Federal Reform Real Estate Recovery Act of 1989 (FIRREA). This Act caused the formation of the Appraisal Foundation, which resulted in the adoption of the Uniform Standards of Professional Appraisal Practice or USPAP. These standards are now recognized in the real estate market as the uniform set of rules and ethics that professional appraisers practice. As a part of maintaining uniformity, FIRREA required the licensing of trained appraisers. The Connecticut Appraisal Commission was formed to oversee appraisal licensing and education in our state. The Appraisal Commission is part of the Department of Consumer Protection. In Connecticut, consumers are fortunate that we have mandatory licensing of appraisers, and that our appraisal licensing law is tied to USPAP. This system forces appraisers in Connecticut not only to be accountable, but to continue taking educational offerings, so the consumer is getting a trained professional when a value opinion is required.

Over the years, the Connecticut Chapter of the Appraisal Institute has been an advocate for laws that protect the consumer in the real estate appraisal process. It is often overlooked that the appraiser is typically the only unbiased party involved in a real estate transaction. The FIRREA and USPAP regulations have helped ensure the appraiser has no vested interest in the property being appraised. Consequently, consumers have someone in the real estate conveyance, refinance process, and mortgage modification process who will tell the truth about the value of a property. The appraiser also provides an unbiased opinion to protect the consumer from predatory practices, helps lenders make prudent credit decisions, and provides value opinions for equitable assessments.

In 1995, the Connecticut Chapter of the Appraisal Institute worked to separate the law regulating appraisers from that already regulating real estate brokers and real estate sales agents. Appraising real estate is a different discipline from brokering and selling real estate. The Connecticut state legislature overwhelmingly agreed with the objective to protect the consumer. The result of the 1995 law essentially was that if you provide a value opinion or act as an appraiser in Connecticut, you have to be licensed.

In 2003, it was recognized that real estate brokers needed to provide opinions of value when seeking a listing. Consequently, the law was modified. Real estate agents in Connecticut can now only provide an opinion of value, or a Broker's Price Opinion (BPO), when in pursuit of a listing. If the agent charges for this fee for the BPO, obtains the listing, and sells the property, they have to provide a credit for that fee at the time of sale. When passing the change in 2003, the Connecticut legislature made it clear that in order to protect consumers, only a licensed and trained appraiser could provide an opinion of value, particularly for lending purposes.

In 2009, the Dodd-Frank bill passed. It included a requirement that mandated banks and mortgage companies to order residential appraisals through an Appraisal Management Company (AMC). The AMC industry grew overnight with several actually being affiliated with banking institutions. Concerns over exploitation of the appraisal process quickly became a concern. The Connecticut Chapter of the Appraisal Institute responded and helped write and support legislation that would regulate AMC's who conduct business within the state of Connecticut. In 2010, an Act Concerning Appraisal Management Companies was passed, and to date there are over 130 AMCs registered with the Department of Consumer Protection.

In 2011, legislation was submitted to allow real estate brokers and agents to appraise real estate instead of trained and licensed real estate appraisers. In other words, real estate brokers and real estate agents could conduct BPO's for services other than just to pursue a listing. The Connecticut Chapter of the Appraisal Institute responded to defend the consumer. Testimony was presented to the Committee on Insurance and Real Estate to explain the conflict of interest. If an unbiased value estimate was being made for real estate within Connecticut, it should only be done by a licensed, trained real estate appraiser. The reason is simple - so the consumer remains protected. As a result, the Connecticut state legislators made it clear, that in Connecticut, real estate brokers and real estate sales agents should sell real estate and only licensed real estate appraisers should appraise real estate.

Now, for the current 2012 legislative session, a similar bill has been introduced, but this time through the Committee on Banks. Raised Bill No. 5417 is "An Act Concerning Broker Price Opinions." This bill is essentially the same bill presented last year through the Committee on Insurance and Real Estate. The purpose is to change the existing law to "add mortgagees or mortgagees' agents and attorneys to the list of people to whom a licensed real estate broker or real estate salesperson may provide an estimated valuation of real estate as part of a market analysis."

The change in the existing law would simply be a step backwards to the unregulated and unfair practices of the roaring '80s when the consumer was unprotected. Consumers must be protected. Expedience is not an adequate reason to restrict progress. The law now provides protection for consumers in what is often the largest financial decision of their lives - by allowing only trained and licensed real estate appraisers to provide that unbiased opinion of value.

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