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determine if your vote is properly cast. And if all the members have voted, the machine will be locked and the Clerk will take a tally.

Will the Clerk please announce the tally.

THE CLERK:

Senate Bill 275 in concurrence with the Senate.

Total number voting	143
Necessary for adoption	72
Those voting Yea	143
Those voting Nay	0
Those absent and not voting	8

DEPUTY SPEAKER O'CONNOR:

The bill passes.

Will the Clerk please call Calendar Number 476.

THE CLERK:

On page 24, Calendar 476, Substitute for Senate Bill Number 13, AN ACT CONCERNING REAL ESTATE APPRAISAL MANAGEMENT COMPANIES, favorable report of the Committee on Judiciary.

Representative Fontana.

REP. FONTANA (87th):

Thank you, Mr. Speaker.

Mr. Speaker, I move for acceptance of the joint committee's favorable report and passage of the bill in concurrence with the Senate.

DEPUTY SPEAKER O'CONNOR:

The question is acceptance of the joint committee's favorable report and passage of the bill in concurrence with the Senate.

Representative Fontana, you have the floor.

REP. FONTANA (87th):

Thank you, Mr. Speaker.

Mr. Speaker, this bill creates comprehensive framework for regulating the operation of appraisal management companies or AMCs here in Connecticut. Under the bill, AMCs must register with Department of Consumer Protection before doing business in Connecticut and pay a $1,000 application fee. The bill also sets out other requirements for such companies and authorizes the DCP commissioner to investigate the companies and impose penalties for violations.

Essentially, Mr. Speaker, this represents a collaborative effort on the part of many parties and individuals to improve an area that is badly in need of regulation. And I'd like to thank those people if I could.

First, Mr. Speaker, I like to thank

Representative Lonnie Reed for her leadership, along with the members of the General Law and Banks Committee and especially Representative Shapiro and Barry. I'd also like to thank members of the industry, particularly banks, realtors and appraisers for the help. And finally, Mr. Speaker, I'd like to thank the Department of Consumer Protection. Whether it has to do, Mr. Speaker, with coercion of valuation on real estate properties, undercutting of commissions or other reprehensible activities, Mr. Speaker, appraisal management companies should come under a regulatory framework, and I'm pleased that various entities and stakeholders in the real estate transaction process have come together to draft and put forward this legislation, which we have embraced.

It has traveled unanimously through the Insurance and Real Estate Committee, through the Senate and I believe through the Judiciary Committee as well, and I urge passage.

DEPUTY SPEAKER O'CONNOR:

Thank you, Mr. Chairman.

Representative D'Amelio.

REP. D'AMELIO (71st):

Thank you, Mr. Speaker.

And good morning to you. I rise in support of the legislation before us. I agree with my colleague on the Insurance Committee. These real estate -- these appraisal management companies are doing a great share of the business here in the state of Connecticut. Regulation is needed. The industry agrees. And this is something we worked on for the last couple of years and I urge the Chamber's adoption. Thank you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Thank you, sir.

Will you remark further? Will you remark further?

Representative Alberts.

REP. ALBERTS (50th):

Through you, Mr. Speaker, a question or two to the proponent of the bill that's before us.

DEPUTY SPEAKER O'CONNOR:

Please proceed.

REP. ALBERTS (50th):

Thank you, Mr. Speaker.

So if I'm to understand this correctly, what we're working to do here is to put into code, if you will, put into law, a process to regulate the appraisal management companies. Is that correct? Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, yes.

Broadly speaking, that is what we are doing. We are not only creating that registration fee but giving the commissioner of Consumer Protection the ability to certify annually their records, audit their appraisals, disclose compensation to their customers, prohibit them from intentionally coercing valuations of properties, as well as to create a complaint process and, finally, an enforcement and penalty process. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Alberts.

REP. ALBERTS (50th):

Thank you, Mr. Speaker.

A couple more questions as to how we'll -- excuse me -- about how we'll do this. Lines 155 through 159 discuss the process of, I guess, getting to the point where the commissioner is satisfied that the individuals that are controlling the appraisal management companies are of good moral character. And I'm inquiring as to how does the commissioner satisfy that. Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, that's an excellent question. I do know that this legislation is based on existing and proposed statutes in other states. I think that is a general description, if you will, of the purpose that the commissioner is seeking to affect that particular paragraph, which is to know more about the background and the operations of the people behind these companies who seek to do business in the state, and to ensure that, in fact, there aren't issues having to do either with illegal or unethical conduct.

And I would submit to the gentleman, Mr. Speaker, that phrasing in line 157 is intended to get at the issue of unethical behavior, if you will, which wouldn't rise to the level of illegality, but nevertheless might be relevant for the purposes of certification and licensure. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Alberts.

REP. ALBERTS (50th):

So as part of this process there would be a criminal check of the applicants. Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, it refers to a background investigation in line 158. I certainly believe that a criminal background check would be appropriate. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Alberts.

REP. ALBERTS (50th):

Thank you, Mr. Speaker. And just continuing a little bit further, and I think I may be satisfied after this. In lines 160 through 162, "determine to the commissioner satisfaction that the controlling person has never had an appraiser license or certificate denied, refused to be renewed, suspended or revoked in any state." Is there a database that the Speaker is -- that the proponent is aware of that this information could be found. I'm sure. Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I am not aware offhand of any database. Through you. Regrettably, I'm not aware. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Alberts.

REP. ALBERTS (50th):

Thank you, Mr. Speaker.

And continuing in Section 3, this section, I believe, is broadly intended to ensure that there's an annual certification that all of the requirements are met. Is that not correct? Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I believe that is correct.

DEPUTY SPEAKER O'CONNOR:

Representative Alberts.

REP. ALBERTS (50th):

Thank you, Mr. Speaker. I thank the gentleman for his answers.

DEPUTY SPEAKER O'CONNOR:

Thank you, sir.

Representative Reed.

REP. REED (102nd):

Thank you, Mr. Speaker. This bill, which sounds sort of technical in nature when you first see it, is really a consumer bill and it decides to help home buyers and to also help with the housing recovery.

We were discovering that the appraisal management companies are not registered and, frequently, they were sending appraisers, say, from New Jersey to appraise a house in Old Lyme. Obviously, they did not understand Old Lyme. There would be problems. The deal would fall apart. The consumer would lose their rate lock and the deal -- if it ever began again would have to start from scratch.

So this is a way of getting a handle on what we're talking about, having more transparency so people know where their appraisers come from, how much money their appraisers are receiving if they really want to find out how much, which is also important information in terms of understanding your appraiser's credibility and their ability to know the market.

And then, to us, the other key to this will actually generate $50,000 a year within -- for the next two years. So each of the next two years, it will generate revenue of $50,000 a year, all-around a good bill in every way possible.

I want to thank everybody who was involved in making this possible. All the stakeholders came to the table and a special thanks to Representative Fontana, who really helped us steer it.

And so I, of course, am going to vote for it and I urge my colleagues to do as well. Thank you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Thank you, madam.

Will you remark? Will you remark further?

Representative LeGeyt.

REP. LeGEYT (17th):

Thank you, Mr. Speaker.

With your permission, a few questions to the proponent of the bill.

DEPUTY SPEAKER O'CONNOR:

Please proceed, sir.

REP. LeGEYT (17th):

Thank you. I'm trying to get a handle on the concept of appraisal management companies and the extent to which they are filling a gap because of the opportunities that the economy provides, and whether or not there's any regulatory or authorization for them to exist, and how they might have found a niche like that. Is that -- if I, if that sounds like a question. I hope it does. Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I don't believe there's any sort of national authorizing entity for the existence of such companies. And, certainly, the issue of registration certification, we are seeking to address with this bill. More generally, I think the gentleman is asking about how it is these companies came to be, and my guess is they identified an opportunity, an opportunity to handle, if you will, or process the huge number of appraisals that we needed over the last decade during the midst of a record-setting real estate bubble. And so it -- certainly from the banks perspective, facilitated their operations to deal with companies that could serve, essentially, as middlemen and deal with a variety of appraisers in every jurisdiction in this country rather than deal with each individual appraiser.

So my guess is they saw an opportunity to play that role and make some money in the process. So they've gained outsize importance in a relatively short period of time and have engaged in some practices that we really feel are inappropriate. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative LeGeyt.

REP. LeGEYT (17th):

Thank you, Mr. Speaker, and I thank the gentleman for his answer.

My sense is then that, as these appraisal management companies found their way into the marketplace, that they secured a larger and larger piece of the pie, and for that, took a healthier piece of the profit margin, therefore. But has it evolved to a point where an appraiser can't, sort of, go it alone and try to negotiate their own little piece of their business without going through appraisal management companies? Is there any type of, not lock hold, but control in the market that the appraisal companies, as a group, have managed to acquire?

Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I believe that there remains the opportunity for an individual appraiser to have direct contractual relations with a variety of clients or entities. I think that when it comes to dealing with larger and larger banks, however, who end up driving a lot of the work, whether it's refinancing or initial mortgages or what have you, I think that they are dealing primarily, if not exclusively, at this point with appraisal management companies.

So it's an industry that is evolving rapidly with the advent of these companies and changing the way that appraisers do their business. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative LeGeyt.

REP. LeGEYT (17th):

Thank you, Mr. Speaker.

And therefore, obviously, the concern that -- as appraisal management companies acquire more and more of the market and control more and more of the business of that appraisal process, it spreads, and it's not just banks, but it's municipalities and any other business that needs an appraisal would eventually fall under the umbrella of these appraisal management companies and, perhaps, they're even in a consortium now of their own. Am I correct in that, that's how this has evolved? Mr. Speaker. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I don't believe it's yet reached that point, but I believe that at this point it's headed in that direction and makes provisions in this bill that much more critical. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative LeGeyt.

REP. LeGEYT (17th):

And I can -- thank you, Mr. Speaker.

And I can see how that would be the case. Has there been any regulation of appraisal management companies up until this time? Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, not to my knowledge, which necessitates this bill today. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative LeGeyt.

REP. LeGEYT (17th):

Thank you, Mr. Speaker and I appreciate the answers from the good gentleman, and I share his concerns about the business of appraisal management companies, and I'll be voting in favor of this bill. Thank you.

DEPUTY SPEAKER O'CONNOR:

Thank you, Representative.

Will you remark further on this bill?

Representative Perillo.

REP. PERILLO (113th):

Mr. Speaker, thank you very much.

If I could, just a few questions, through you, to the Representative.

DEPUTY SPEAKER O'CONNOR:

Please proceed.

REP. PERILLO (113th):

Through you, Mr. Speaker, oftentimes, you know, when we pass legislation like this seeking to regulate further, typically, there's a trigger. There's something that is at -- there's a problem we've identified. It is very specific and finite and I'm wondering, is there anything in the state of Connecticut that has happened that would lead us to this, or is it just a general sense that perhaps there may be a problem? Through you, sir.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, a general sense. Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Perillo.

REP. PERILLO (113th):

Thank you very much.

Outside of the legislation before us today, are there any other ways that appraisers are regulated? I thought that there were national guidelines and organizational guidelines that appraisers had to abide by. And I'm wondering, you know, quite frankly, if this is required. Through you, sir.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, there are guidelines and such that regulate appraisers. This deals with appraisal management companies, which are different. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Perillo.

REP. PERILLO (113th):

Thank you, Mr. Speaker. Would not the appraisal management companies, because they employ or contract with appraisers, be subject to those same requirements and oversight features that the individual appraisers are required to abide by? Through you, sir.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, we believe not, which is why we have the bill before us today. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Perillo.

REP. PERILLO (113th):

Just a follow-up to that question. Through you, sir, why is it we believe that not to be so?

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, because appraisal management companies are not appraisers. They do not perform appraisals. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Perillo.

REP. PERILLO (113th):

Well, thank you. That answers my question very, very well. This is clearly consumer friendly and we're trying to protect consumers here, and I think that's a worthwhile goal, and I support the bill before us today. Thank you, sir. And I thank that gentleman, again, for his time.

DEPUTY SPEAKER O'CONNOR:

Thank you, sir.

Will you remark further on the bill?

Representative Rigby.

REP. RIGBY (63rd):

Good afternoon, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Good afternoon.

REP. RIGBY (63rd):

Mr. Speaker, through you, two or three questions for the proponent of the bill.

DEPUTY SPEAKER O'CONNOR:

Please proceed, sir.

REP. RIGBY (63rd):

Thank you.

Mr. Speaker, through you, I've heard complaints from appraisers that their piece has been whittled down to maybe 50 or even 40 percent of the total charge to a borrower client. The appraisal management company might keep over half of the total fee and the appraiser is not able to cover his operating costs and overhead.

Mr. Speaker, through you, is there anything in this bill that would help appraisers obtain a more fair and equitable fee? Thank you.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, one of the sections of the bill -- I believe the sections 3 or 4 deal with disclosure of compensation. One of the issues we faced is that end customers, if you will, do not know where those fees are going, how much they're paying and to whom. So we believe that, as a part of disclosing that compensation, we can begin to reveal to end customers exactly how much of those funds are going to the actual appraiser and how much are going to the appraisal management company. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Rigby.

REP. RIGBY (63rd):

Thank you. Mr. Speaker, through you, small banks and small mortgage lenders have been compelled by the Home Valuation Code of Conduct to establish their own in-house or subsidiary appraisal management companies. If a local bank has a two or three person operation charged with ordering appraisals and complying with the HVCC guidelines, would those small firms fall under this bill? Through you, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I was just reviewing the language in Section 1 of the bill, which defines appraisal management companies in lines 10 through 30. And it appears that a -- an appraisal management company that is wholly-owned by a state or federally regulated financial institution, such as a bank, shall not be included. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Rigby.

REP. RIGBY (63rd):

Thank you. A follow-up question, Mr. Speaker, so would that also would cover a licensed mortgage lender in the state of Connecticut? Would they also be exempt if they wholly owned the appraisal management company? Mr. Speaker, through you.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, if the lender is a state or federally regulated financial institution, then yes, they would be excluded as well. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Rigby.

REP. RIGBY (63rd):

Thank you. Mr. Speaker, one last question. The United States Congress has taken up the issue of the Home Valuation Code of Conduct, and there's a bill that seeks to impose a moratorium of 16 to 18 months on the HVCC system practice to study the matter further and look at the impact of the real estate market. Mr. Speaker, through you, if that were -- if that federal bill were to become law, what impact, if any, would it have on our bill that we're debating today? Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Fontana.

REP. FONTANA (87th):

Through you, Mr. Speaker, I can't answer that hypothetical question. Through you.

DEPUTY SPEAKER O'CONNOR:

Representative Rigby.

REP. RIGBY (63rd):

Thank you, Mr. Speaker. I thank the Representative for his answers and I'm very pleased to see this bill make it through the Senate and House, and I do hope that it becomes law. And I'd like to thank Representative Fontana for his efforts in Real Estate and Insurance for -- for dealing with this very difficult and troublesome issue. Thank you.

DEPUTY SPEAKER O'CONNOR:

Thank you, sir.

Will you remark further on this bill? Will you remark further on this bill?

If not, will staff and guests please come to the well of the House. Will the members please take their seats. The machine will be opened.

THE CLERK:

The House of Representatives is voting voted by roll call. Members to the chamber. The House is voting by roll call. Members to the Chamber, please.

DEPUTY SPEAKER O'CONNOR:

Have all the numbers voted? Have all the members voted?

Will the members please check the board to make sure and determine that your vote is properly cast.

If all the members have voted, the machine will be locked and the Clerk will take a tally.

Will the Clerk, please, announce the tally.

THE CLERK:

Senate Bill 13 in concurrence of the Senate.

Total number voting	146
Necessary for adoption	74
Those voting Yea	146
Those voting Nay	0
Those absent and not voting	5

DEPUTY SPEAKER O'CONNOR:

The bill passes.

Will the Clerk please call Calendar Number 459.

THE CLERK:

On page 20, Calendar 459, Substitute for Senate Bill Number 199, AN ACT CONCERNING THE STATE PLAN OF CONSERVATION AND DEVELOPMENT, favorable report of the Committee on Planning and Development.

DEPUTY SPEAKER O'CONNOR:

Representative Sharkey.

REP. SHARKEY (88th):

Good afternoon, Mr. Speaker.

DEPUTY SPEAKER O'CONNOR:

Good afternoon.

REP. SHARKEY (88th):

Good to see you up there today.

DEPUTY SPEAKER O'CONNOR:

Thank you.

REP. SHARKEY (88th):

Mr. Speaker, I move acceptance of the joint committee's favorable report and passage of the bill.

DEPUTY SPEAKER O'CONNOR:

The question is acceptance of the joint committee's favorable report and passage of the bill.

Representative Sharkey, you have the floor.

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Thank you, Mr. President. Calendar page 31, Calendar 212, Senate Bill 13, move to place on the consent calendar.

THE CHAIR:

Is there objection?

Seeing no objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President. Calendar page 31, Calendar 213, Senate Bill 93 is marked go.

And, Mr. President, Calendar page 31, Calendar 214, Senate Bill 192 is marked go.

And, Mr. President, calendar -- another item for the consent calendar, Mr. President, Calendar page 31, Calendar 215, Senate Bill 254, Mr. President, move to place that item on the consent calendar.

THE CHAIR:

Hearing and seeing no objection, so ordered.

SENATOR LOONEY:

Thank you, Mr. President. And, Mr. President, returning to Calendar page 1, Calendar 72, Senate Bill 95, Mr. President, that item is marked go.

And, Mr. President, if we might stand at ease for a moment because there will be a few more consent

<u>for Senate Bill 176.</u>

Calendar page 5, Calendar Number 242, <u>Substitute for Senate Bill 403.</u>

Calendar page 14, Calendar Number 472, <u>Substitute for House Bill 5539.</u>

Calendar page 23, Calendar Number 63, <u>Senate Bill 185.</u>

Calendar 68, <u>Substitute for Senate Bill 221.</u>

Calendar page 24, Calendar 104, <u>Substitute for Senate Bill 45.</u>

Calendar page 25, Calendar 125, <u>Substitute for Senate Bill 316.</u>

Calendar 128, <u>Substitute for Senate Bill 330.</u>

Calendar page 26, Calendar 141, <u>Substitute for Senate Bill 188.</u>

Calendar page 29, Calendar 194, <u>Substitute for Senate Bill 412.</u>

Calendar page 30, Calendar Number 212, <u>Substitute for Senate Bill 13.</u>

Calendar page 31, Calendar 213, <u>Substitute for Senate Bill 93.</u>

Calendar 214, <u>Substitute for Senate Bill</u>

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Calendar 219, Substitute for Senate Bill 402.

Calendar 220, Substitute for Senate Bill 325.

Calendar page 32, Calendar 234, Substitute for Senate Bill 167.

Calendar page 35, Calendar Number 278, Senate Bill Number 400.

Mr. President, that completes the items placed on consent calendar number 2.

THE CHAIR:

Thank you, Mr. Clerk, the machine will be open.

THE CLERK:

Mr. President, there's one correction. Calendar page 2, Calendar 118 was not placed on consent, that was referred to Finance, Revenue and Bonding.

THE CHAIR:

Thank you, Mr. Clerk.

Senator Fasano.

Have all members voted? Have all members voted?

Please check the board to make sure your votes are properly recorded? Have all members voted?

The clerk will announce the tally.

THE CLERK:

The motion is on adoption of the consent calendar number 2.

Total number Voting	32
Those voting Yea	32
Those voting Nay	0
Those absent and not voting	4

THE CHAIR:

The consent calendar passes

Senator Looney.

SENATOR LOONEY:

Thank you, Mr. President. Mr. President, I believe the clerk is now in possession of Senate Agenda Number 5 for today's session.

THE CHAIR:

Mr. Clerk.

THE CLERK:

Mr. President, Clerk is in possession of

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Okay. Thanks. Thanks very much for your testimony.

ROBERT CLERMONT: Okay. Thank you, Mr. Chairman.

REP. BARRY: Next on the list is Nora King.

NORA KING: Representative Barry, members of the committee, hello. My name is Nora King. I'm a real estate appraiser and actively involved in the Connecticut's Association of Real Estate Appraisers.

I am also an appraiser that works with large banks and appraisal management companies. And I see, on a day-to-day basis, what is happening due to the large banks and AMCs seeing the appraisal as a profit center.

HB5221
SB13

I think Bill 228 will solve the problem and fully provide transparency to the consumer. I think this bill addresses the more underlying issues of consumer transparency and stopping the erosion of the appraisal industry alongside of the registration and regulations of AMCs.

The issues that you may not be aware of that are happening today and why this bill is so crucial and critical, is there's a lack of transparency and lack of quality in the appraisal process. Separation of fees is the solution. This is primarily because AMCs and large banks, such as Chase -- I also submitted letters I've written to Chase -- and an example of a management company that is -- as doing this practice, so that you can see backup material -- they are treating the appraisal process as a profit center, with no regard to the consumer or to the quality. They have lost sight that buying a house is the biggest investment most consumers make in

REP. KIRKLEY-BEY: And pocket the rest?

NORA KING: And pocket the rest.

REP. KIRKLEY-BEY: Thank you.

REP. BARRY: Senator Duff.

SENATOR DUFF: Good afternoon, Nora. How are you?

NORA KING: Hi. Hi, thank you.

SENATOR DUFF: Thank you for coming up. And I know you've been very interested and involved in this issue for the last few years.

As you know, there are a couple other bills out there in different committees with regard to appraisal reform. Committee members may not be aware of some of the other bills that are in -- that are in this building right now.

Can you explain the difference between your bill, not your bill, the bill you are advocating for and the other bills that you may or may not have an opinion on, but if you see any differences between those bills.

NORA KING: Yes, I did. Those are H.B. 5221. I've had lots of discussions with Lonnie Reid regarding those, and Senate Bill 13. And I -- I'm actually in support of both of those bills. I think that AMCs do need to be regulated and registered in the State of Connecticut. However, I don't think that'll solve the problem. I think the issues with consumer transparency are going to be solved with the fee issue, which is the core of this bill. And I think the bills actually compliment one another. I don't see them competing against each other. I think they are two separate issues and actually compliment each other nicely. I think, by having all three of them, you realize the immediacy that there is a huge problem out there right now.

SENATOR DUFF: Okay. So have you -- have you studied all the three bills that are out there?

NORA KING: Yes, I have.

SENATOR DUFF: Is it, in your opinion, that this bill does not circumvent or get in the way of the other two bills that may be out there. This compliments it, in your opinion?

NORA KING: Absolutely.

SENATOR DUFF: Okay.

NORA KING: I think this is the strongest one, though.

SENATOR DUFF: Okay.

NORA KING: For the problems at hand.

SENATOR DUFF: And as far as -- from a standpoint of the consumers, do you feel that it is -- consumers have an -- have an idea? You know, they write a check to the -- to the -- mortgage broker, I'm sure, to the -- to the lenders --

NORA KING: Uh-huh.

SENATOR DUFF: -- bank, whoever, about an appraisal. They probably don't know what -- who gets what and where and why. They just want to know whether the house appraises at the purchasing or it doesn't appraise.

JOINT STANDING COMMITTEE HEARINGS

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HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.
1245 FARMINGTON AVENUE, 2nd Floor, WEST HARTFORD, CT 06107
Tel: 860-521-1905 Fax: 860-521-3107 Web: www.hbact.org

Your Home Is Our Business

February 16, 2010

To: Senator Joseph Crisco and Representative Steve Fontana, Co-Chairs, and members of the Insurance & Real Estate Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: RB 13, AAC Real Estate Appraisal Management Companies

The HBA of Connecticut is a professional trade association with 1,100 member firms statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, home improvement contractors, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. We estimate that our members build 70% to 80% of all new homes and apartments in the state.

We support the intent of RB 13 to provide the public greater assurance that the critically important function of real estate appraisals, when done through appraisal management companies, is done with a high level of competency.

Home builders have experienced severe lending issues as a result of the financial collapse and restructuring that has taken place in our economy. We testified before a joint invitational hearing of the Banks and Commerce Committees last December to highlight the issues our members have faced. This testimony can be found on our home page at www.hbact.org. We do not want to paint with a broad brush but some of these credit crisis issues relate to poor appraisals conducted through appraisal management firms.

The common complaint has been that some management companies hire appraisers from outside the area where a new home has been built and sold and is ready to close. Such appraisers may not be familiar with a municipality, let alone a particular neighborhood, and nonsensical appraisals result in lost sales. The cramming down of appraisal fees paid to certain appraisers and the demand for very quick turn-around may also result in the use of poor comparables and a "rushed" job, producing poor appraisals. Nationally, we have urged better guidance be sent out regarding the HVCC rules (or amendments to same) to all parties so that reasonable, permissible and necessary conversations and information exchange can take place between appraisers and interested parties to a transaction. State governments can also do their part to address these issues.

As sellers of new homes and, therefore, very interested consumers of real estate appraisals, we have participated in discussions with the CT Chapter of the Appraisal Institute, the CT Association of Realtors, CT Bankers Association and appraisal management firms over this bill. **At this point, we are comfortable with the direction being taken with the group's negotiations and potential amendments to the bill's language, but reserve comment until we see final language.**

We believe that the registration of appraisal management companies is necessary to ensure accountability to the citizens of Connecticut. Appraisal management companies may be domiciled anywhere and many are not located here even though they engage appraisers here. Registration would at least help to identify such firms and create a framework to hold firms and the appraisers with whom they contract accountable, again for high level of appraisal competency.

To achieve the accountability desired, minimal regulation through clear, objective standards may be necessary to accompany registration. For example, familiarity with the neighborhood of a property should be a minimum requirement to conduct an appraisal. Familiarity with the extent, scope of and reasons for each distressed or foreclosed property in specific neighborhoods and appropriate adjustments to same should be required before using such properties as comparables. To the extent such requirements are already a part of the regulation of licensed appraisers, that's great. To the extent they are not, that needs to be fixed. Appraisal management companies should also internally enforce such rules on the appraisers they hire or be subject to losing their registration to do business in this state.

Having said the above, we strongly urge you to keep regulations to a minimum necessary to ensure a high level of competency of <u>all</u> appraisals. **We do not support the requirement for appraisal management firms to conduct market surveys on pricing.** To our knowledge, such surveys are not required of any other business and could subject the appraisal process to much unnecessary discussion and possible liability or enforcement over survey methods. The expense of conducting such surveys is an unnecessary added cost to real estate transactions.

Frankly, we are not interested in the market share or fee disputes between independent appraisal firms and appraisal management companies. We just want <u>all</u> appraisals to be done competently. **As an alternative to the survey and market rates language of <u>RB 13</u>,** a much better way to address fee issues is to make the cost of appraisals more transparent so that all parties who order an appraisal or are affected by an appraisal understand the actual cost of the appraisal. This can be accomplished by simply requiring appraisers to note on each appraisal the price they were paid for that appraisal. The free market and competition would then take over to stabilize prices at a level that works for appraisers, appraisal management companies, bankers, sellers, buyers and borrowers.

The legislation needs to clarify several other provisions and we await language to be offered by the other interests. For now, we urge your support of <u>RB 13</u> with the caveats noted above and your consideration of compromise language we trust is forthcoming.

Thank you for the opportunity to comment on this legislation.

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speaker is that a lot of the points that you intended to make have already been made. So I won't reiterate a lot of that except to just reinforce that sudden cardiac arrest is one of the leading causes of death in this country. The key to survival is quick recognition of and quick application of CPR, and then quick use of the aforementioned AED. We teach that every day in our CPR/AED training. And again, access to an AED is an important step or an important link in the cardiac chain of survival.

So again, I just want to go on the record on behalf of the American Red Cross to supporting the passage of that bill and I will entertain any questions you might have.

REP. SHAPIRO: I think one of the benefits from being the 17th person to testify on something is that you don't get grilled with questions. So thank you very much for your testimony. We have John Galvin followed by Bill Mackey.

JOHN GALVIN: Good afternoon, Senator Colapietro, Representative Shapiro and members of the committee. My name is John Galvin, I'm the president of the Connecticut chapter of the Appraisals Institute. I'm here to let you know that although the Connecticut chapter of the Appraisal Institute supports the concepts included in Bill Number 5221, and applaud its submission, we strongly encourage you to support Bill 13 instead, AN ACT CONCERNING APPRAISAL MANAGEMENT COMPANIES, that is currently in front of the Insurance and Real Estate Committee.

Although Bill 5221 contains very similar language to that detailed in Bill 13, Bill 13 is an act that has evolved from a tremendous amount of input from not just the Appraisal Institute, but also from the Department of banking, the Department of Consumer Protection, the attorney general, Connecticut Association of Realtors, Connecticut Homebuilders Association, Connecticut Bankers Association, Connecticut Real Estate Appraisal Commission, and several independent groups concerned about this issue.

As you may be aware, in 2009 the Home Valuation Code of Conduct, HVCC, was adopted with honorable intentions requiring residential appraisals to be ordered by independent third parties to lending transactions. These were called appraisal management companies, AMCs. The results, however, have not been all that honorable and have had an adverse impact on the collateral review function of the lending process, a critical part of loan quality not just to the consumer and the underwriting institution, but also the end investor who is the source of funding that provides liquidity to this large segment of the economy.

Prior to HVCC, there were a few AMCs in existence. However, HVCC mandated a market format that resulted in a sudden increase in the number of AMCs throughout the country. One result of HVCC is that it has exposed a large number of practices that unscrupulous users of appraisal services have placed on appraisers in an effort to obtain a desired result.

Currently, the function of the AMC is the only part of the lending process that is not required to register or is regulated. AMC legislation is necessary in order to assure appraisal reports are competently completed by qualified appraisers who are appropriately certified. The Appraisal Institute has recognized the need for legislation to make appraisal management companies accountable not just in Connecticut, but across the country.

Last year the Appraisal Institute was instrumental in getting legislation passed in six states and currently efforts are taking place in approximately 30 states, all with language being written into Bill 13 that is in front of the Insurance and Real Estate Committee.

In summary, Bill 13 has been written with the group of stakeholders conscientious of fiscal impact and focused on the concepts of revenue neutral. Bill 13 also considers suggestions from the Title Vendor Management Association, which is a trade association of four AMCs. The voices coming from appraisers, though sounding different and in some cases quite emotional, are really all on the same page of passion for this issue.

As a result, the Connecticut Chapter of the Appraisal Institute respectfully requests that all the effort go into supporting one of the bills, and that being Bill 13. Thank you.

REP. SHAPIRO: Thank you for your testimony and Representative Reed, who I know has also put some time and effort into this issue.

REP. REED: Thank you, Mr. Chairman. I'm glad that you, too, are talking. I think this is really important. I have spoken to Realtors from Middlesex, New Haven and Fairfield counties who tell me how many problems they've had with appraisers who are just not well trained. They've had people come in from New Jersey to evaluate properties in Old Lyme. And they've had people coming to look at condominiums who've walked right past the amenities and wrote down in an appraisal that there were not amenities, and blew the deal on that little tight time line that people have. So I'm wondering do you have any sense now what areas there are that would kill this bill in your terms? I mean, what has to be in there, the top one thing?

JOHN GALVIN: The top one thing I think is accountability. That -- you know -- the biggest thing we're focused on is -- one big thing is that the appraisal management companies have to have somebody who is licensed and certified appraiser on staff to review the -- to do the review function. That is the biggest thing and that person be responsible not only for the review function, but also the ordering of the appraisal and making sure that a competent appraiser is ordered. Not just a competent appraiser being able to appraise property, but competent in that geographic location.

And also other factors, by not putting an strenuous burden on appraisers by requiring them to do ten appraisals a day or insisting on doing them on a certain day of the week so they have to hit quotas, to give them the time necessary to competently appraise a property, to competently analyze it, to take the time to stop and look at the pool and the amenities of the condominium complex, et cetera.

REP. REED: Thank you and one other quick question. Just doing my research I was stunned to realize that some of the major banks now own these AMCs. But there's supposed to be a Chinese wall between them, when in reality they've actually created a new revenue stream. So I'm very interested in having some level of transparency so that everyone knows what we're talking about, who's really in charge and how much the AMCs are getting relative to how much the appraiser is getting and how much that impacts the consumer.

JOHN GALVIN: That is something that we're looking into and there's language being considered by several groups that includes something more structured in Bill 13 in the draft that's coming out for review.

REP. REED: Thank you very much. Thank you, Mr. Chairman.

REP. SHAPIRO: Thank you. Are there further questions? Thank you for your testimony. Bill Mackey followed by Paul Costello.

VOICE: (Inaudible).

REP. SHAPIRO: We're aware of that situation, that's fine.

MICHAEL MOCONYI: Good afternoon, Senator Colapietro, Representative Shapiro and committee members. My name is Michael Moconyi and I'm the executive director for the Connecticut Chapter of the National Electrical Contractors Association.

Thank you for allowing me to make a few brief remarks on Bill 5225, AN ACT CONCERNING SOLAR WORK. Connecticut NECA is here today to speak in favor of requiring the installation of solar work to be performed by E-1 and E-2 electrical license holders.

Solar electric is loosely defined as the installation, erection, repair, replacement, alteration or maintenance of photo voltaic or wind generation equipment used to distribute power. This technology has been around for decades and the installations have been performed by E-1 and E-2 licensed electricians.

Historically, the state of Connecticut has issued E-1 and E-2 licenses that regulate the

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SETH MELLEN: No, we have at all times a PV-1 or an E-1 on staff, excuse me, on the job site while I'm on the job site. And then we also have what would be considered laborers as well.

SENATOR COLAPIETRO: Well, I guess what I'm going to ask again is do you install these by yourself or do you have a supervisor with you installing these?

SETH MELLEN: I have a supervisor with me.

SENATOR COLAPIETRO: Thank you. David Chapman. Is that you? Thank you for your testimony. Robert Clermont, followed by Nora King.

ROBERT CLERMONT: Good afternoon, Mr. Chairman, members of the committee. My name is Robert Clermont, I am a certified real estate appraiser here in the state of Connecticut. I reside in Meriden, Connecticut. I own a company called Value Quest Appraisal and I also serve as the president for the Connecticut Association of Real Estate Appraisers. Before I begin I just wanted to thank Representative Reed for her efforts in putting this bill forward. We think that it's really a long time coming,. Many of you may remember we came up last year and testified before the committee on a different House bill, but it also -- Senate bill -- but it also pertained to management companies and escrow, a lot of the focus was. (HB5221)

We've basically been working on , as John Galvin, the president from the Institute testified earlier, we've been working on Senate Bill 13. And this bill -- a lot of language in this bill mirrors the language in that bill. Some of the concerns that we have with this bill are the same concerns that we have with the other bill so. First of which is really the issue of the principle representative or who serves as the principle representative for the company.

We're of the belief that that person really needs to be a certified real estate appraiser here in the state of Connecticut. The laws for real estate appraisers have already been tested. We have a commission in place to deal with, if I can say, behavioral issues as well as legal issues. By having an appraiser serve as the principle representative, another upside to it is that it offers no additional cost to the state because the consumer protection is in place already as well as the appraisal commission. So again, our concern is really over who that principle representative is going to be and who's going to serve for that company.

A concern, Representative Reed, that you raised earlier is very valid. And that's over really the geocompetency of appraisers. And what's happening today is management companies -- appraisal management companies are really focused on the profits rather than the quality of the appraiser that they're selecting. Just to kind of give you an overview of how that happens, and how you get appraisers in different areas who are coming in who are unfamiliar with a particular market, it's essentially like this.

The appraisal management company will send us a request to appraise a property, let's say, you know, in Hartford, Connecticut. And you may look at the request and it may be something that you're interested in appraising, but the more you get into it and the more you research that property, you find out that it really is beyond your competency issue. It's something that you're not really comfortable in appraising.

And you tell the management company. You tell the management company, you communicate this to them and you say, "You know, I'm really not comfortable in appraising this type of property. I've never done this before. You know, I can reach out to my colleagues and I can ask for advice, but in the end, I'm really not comfortable in doing it." And what they say is "Well, we've assigned it to you . It's on a deadline. Either you do it or we take you off the list." So appraisers are forced to appraise properties that they're uncomfortable in appraising.

And sometimes, you know -- we feel that that practice is really harming consumers in the end. So again, it's really a long time coming. We think that this is a step in the right direction. We certainly look forward to working with the committee as well as the legislators who are working on this sort of bill, and I don't know if anyone has any questions for me.

SENATOR COLAPIETRO: Thank you. Representative Reed, you want to say hi?

REP. REED: Hello. You know, I loved the gentlemen who testified earlier speaking that these two bills, the individuals involved in these two bills are talking, and I think that's really, really important to come up with a strong bill that really gets something done because I think it's an really important area that we need to ride herd over more closely. And I have spoken to several appraisers who told me they were very uncomfortable. They were being sent out and it was customary to recuse yourself from certain venues because you didn't understand the real estate markets there, and that they were forced to do it in order to keep their jobs. And I've heard this again and again and again. So I think somewhere along the line we should find some language that can work. Thank you.

REP. SHAPIRO: Thank you, Representative. And just to follow up on what Representative Reed was talking about and what was mentioned by a prior speaker, I assume you're following Bill 13 out of the Banks Committee and you're supportive of it?

ROBERT CLERMONT: Not in its present form, but we -- there's an ongoing dialog between myself and the -- John Galvin from the Appraisal Institute. You know, we've spoken to other legislators who kind of wade in and ask the questions on that bill. So you know, we've talked to Tim Calnen, whom many of you may know from the Connecticut Association of Realtors. So we're really trying to forge something that's better than what it is. You know, we're trying to find that balance where it satisfies everyone's concerns.

One of the main concerns, again, as Representative Reed just alluded to is that, you know, we don't think we're going to have the problems that we had. The problem that we have now is that management companies are focused on that profit, you know. The appraiser's credentials, their knowledge of the market, their expertise has really become secondary to the fee that charge. So we think that you solve that problem by having someone who is certified serve as the principle representative for that organization.

That way, in doing that, they're going to have a little skin in the game. They're going to be responsible for the selection of those appraisers. They're going to be responsible for the review of that appraisal and they're going to be signing off on it. So there's certainly going to be a greater level of care and maybe that means something to you all. Maybe it doesn't, but I think that the thing that would really have meaning is that when you have that care then you're going to have a greater level of protection for the consumers of Connecticut, which doesn't exist today.

REP. SHAPIRO: Okay. Thank you very much. Further questions? If not, thank you for your testimony.

SENATOR COLAPIETRO: Yes, I just want to apologize to this gentlemen, John Chamberlain, because I missed you and I thought you were one of the three that were up there so I'll call you at this time here.

HB5225

JOHN CHAMBERLAIN: Chairman, members of committee, thanks for giving me the opportunity to speak to you about this today. My name is John Chamberlain, I'm a resident of Trumbull, employed by Sunlight Solar Energy. I'm the office coordinator for Sunlight Solar and here today to speak to you guys on behalf of our 25 employees, residents of Connecticut, as well as our owner, Paul Israel, who is a licensed home improvement contractor and a PV-1 license holder here in the state. He couldn't be here with us today. But we operate out of an office in Milford.

Sunlight Solar was one of the first approved installers through the CCEF program here in the state and our success in Connecticut has helped us grow a business and given us the exciting opportunity to offer hardworking craftsmen positions that provides them a chance to be a part of not only a growing business, but

One small detail that I want to throw in before I go too much farther that was shared with me by Mike Trahan -- Sunlight Solar is a part of Solar Connecticut and a proud one -- is that the DCP has reviewed House Bill 5225 and does not support it. So I hope there will be an opportunity for you guys to verify that with the commission, but I did want to go ahead and share that now speaking with you.

I wanted to also sort of reiterate some of what you've heard on the front as far as saying -- looking at our work and only seeing the fact that we are required to think about electricity and handle it carefully limits the scope of what we do. I'll try to be brief as I wrap up.

But there is absolutely a concern on our companies part about what it would mean to our business to remove these exemptions from licensing for workers who hoist, place and anchor equipment. I know specifically one of our installers in Branford is looking up something in writing that we can get to you guys regarding his job as an unlicensed employee. He's been with the firm for three years, works hard every day to support his five year old daughter like many of our installers. And of the 15 staff members that we have doing solar installs on a daily basis, a good portion of those are folks that we would have to look at how we could manage to keep them on staff if that exemption were dropped. So I suppose I'll finish with that and ask for any questions.

REP. SHAPIRO: Thank you very much for your testimony. Nora King, followed by Glenn Marshall, who I think will be played by Jim Lohr for -- all right.

NORA KING: Hi, my name is Nora King. A few of you may remember me from last year when I addressed HB5221 SB13 your committee regarding Proposed Bill 303. I want to thank Lonnie for her work on this one.

For those of you that don't remember, I'm a real estate appraiser and I'm actively involved in the Connecticut Association of Real Estate Appraisers. I am an appraiser that works with appraisal management companies on a day to day basis and I see what is happening by the large banks and the AMCs seeing the appraisal as a profit center. Many of the issues that I addressed last year have become progressively worse in the last twelve months. Though I think the intent of Bill 5221 addresses a small part of the reform process that is needed for AMCs, I do not believe it will solve the current problem today. I think that we need to include additions in the bill for it to be successful.

One is the lack of transparency and a lack of quality in the appraisal process, which we sort of all addressed today. This will be solved by the separation of fees. This is primarily because AMCs and large banks such as Chase are treating the appraisal process as a profit center.

A fee schedule or a fee panel is not enough. The consumer has no idea the AMCs are focused on the cheapest appraiser and the quality is suffering. They rarely ask for qualifications, but go by who can do it for the cheapest price. HUD clearly states the full disclosure of fees must be made to the borrower. AMCs and large banks do this because they clearly place their processing fees in the appraisal fee. They clearly state on the appraisal order "Do not discuss or disclose fees to the borrower." This means one thing. They do not want the consumer to know what they are paying for.

They are breaking anti-trust laws by setting the fees and stopping the competitiveness of the appraisal process, as well as driving costs up for the consumer with no thought to the quality or the risk that is being assumed by the consumer. The only way to stop this from happening is providing a full disclosure and allowing the appraiser to provide the invoice both in the report and at the time of inspection.

Another thing that I have not heard addressed with Senate Bill 13 and today is the alteration of reports. I have witnessed this firsthand. No AMC should be allowed to alter the report, add data or remove data. Many of the larger AMCs do this. They strip out invoicing, addendums, content. The Banking commissioner, Howard Pitkin, is aware of it. He has no legal recourse to do anything about that. And if you want further documentation about that I have plenty.

And thirdly, if I can just wrap up, I think that the tax -- the revenue needs to stay within Connecticut. By putting someone who's licensed, who's responsible which Rob had addressed, it helps keep the money flowing into Connecticut, which is going to further support our economy and our state as well as advocate the use of transparency.

I put a few more points on this testimony so you guys can read it if you want as well.

REP. SHAPIRO: Thank you very much and I appreciate your testimony and that you're actually adding something to the bill that you think we may have missed and the Banks Committee may have missed and I'd like to have us pursue that as we go forward. It sounds like a real problem.

NORA KING: Thank you.

REP. SHAPIRO: Thank you for being so patient and waiting it out. All right. Glenn Marshall followed by Steve Guveyan will be our last speaker.

GLENN MARSHALL: Chairman Colapietro, Chairman Shapiro and members of the General Law Committee, my name is Glenn Marshall. I'm the district business manager for the Connecticut Carpenters, I'm president of Carpenters Local 210. I am here today to testify against Raised Bill 5225, AN ACT CONCERNING SOLAR WORK.

I strongly support the growth of solar power in efforts to improve energy efficiency. However, we strongly oppose the change in section three of this bill which would eliminate employees of or any contractor employed by and under the direction of properly licensed solar contractor performing work limited to the hoisting, placement and anchoring of all solar collectors, photo voltaic panels, towers and turbines. Eliminating this language in current law, which was carefully crafted and compromised several years ago would adversely impact not only carpenters, but other trades as well.

The technology is rapidly evolving to the point where solar membranes are included in many windows, roofing and exterior panel products. As nanotechnology continues to make photo voltaic membranes and receptacles smaller and smaller, I suspect all exterior building products, namely windows, roofing and siding will include photo voltaic membranes in one form or another in the very near future.

Let me give you just one example of why this change would be a problem for carpenters and

Hello,

My name is Nora King. - A few of you may remember me from last year when I addressed your committee regarding proposed Bill 303. For those of you that don't remember, I am a Real Estate Appraiser and actively involved in the Connecticut Association of Real Estate Appraisers. I am also an appraiser that works with Appraisal Management Companies and sees on a day-to-day basis what is happening due to the large banks and AMCs seeing the appraisal as a profit center. Many of those issues that were addressed last year have become progressively worse in the past 12 months.

Though I think the intent of Bill 5221 addresses a small part of the reform process that is needed for Appraisal Management Companies, I do not believe it will solve the current problem without the following additions. I also believe that SB 228 which will be heard on March 11th will address the more underlying issues of consumer transparency alongside of the registration and regulation of AMCs (SB13.) These bills should both be passed.

The issues that are happening today that needs to be included in this bill.

1: Lack of transparency and lack of quality in the appraisal process. Separation of fees is the solution. This is primarily because AMCs and large banks (such as Chase) are treating the appraisal process as a profit center. A fee schedule or fee panel is not enough!

- The consumer has no idea that the AMCs are focused on the cheapest appraiser and the quality is suffering. They rarely ask for qualifications but go by who can do it for the cheapest price.
- HUD clearly states the full disclosure of fees must be made to the borrower. AMCs and major banks do not do this because they clearly place their processing fees in the appraisal fee. They clearly state on the appraisal order "Do no discuss or disclose fees to borrower." This means one thing - they do not want the consumer to know what they are paying for.
- They are breaking anti-trust laws by setting the fees and stopping the competitiveness of the appraisal business as well as driving costs up for the consumer with no thought to the quality or risk that is being assumed by the consumer

- The only way to stop this from happening and provide full disclosure is to allow the appraiser to provide their invoice both in the report and at time of inspection.

2: Alteration of reports. No AMC should be allowed to alter the report, add data or remove data. Many of the larger AMCs do this. They strip out invoicing, addendums, add their own content and the consumer has no idea this is going on. Howard Pitkin from the Banking Commission is aware that this is happening but has no legal rights to go after the banks and AMCs that are doing this and accepting this practice. They do this through such companies as FNC, which owns Appraisal Port and is currently working with lobbyists to ensure the continued ability to alter or change the data and strip out invoices.

3: Tax dollars should remain in CT. The tax dollars should be kept in the State of CT and the appraiser should be collecting the fees that are paid for a service within their state. Many appraisers have financially been suffering due lack of regulation of large banks like Chase, BOA and large Appraisal Management Companies (Rels, LSI, Quantrix etc.) and in most cases have no legal recourse do to the size of these entities and inability for the States to help. By keeping the fees in the State of CT it will help our economy and help ensure our CT consumers are getting full transparency.

4: Each appraisal management company must have a licensed appraiser from the state of CT doing the review and assignment of work. This appraiser and management company should have to maintain the same level of continuing education that every appraiser must have. It is critical for the person who is assigning and reviewing the work to understand the marketplace, especially in such areas as the shoreline communities and the more rural areas.

5: Furthermore AMCs should be prohibited from including "hold harmless" provisions in their contracts with appraisers, or from requiring appraisers to indemnify the AMC against liability. New Mexico has been leading the United States in Appraisal reform and this as well as full disclosure of fees are part of this reform.

Thank you so much for your interest in this matter and I hope that this year we can act and ensure full consumer transparency and lessen the risk by ensuring the quality in the appraisal process.

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February 25, 2010

General Law Committee
Connecticut General Assembly
Legislative Office Building
Hartford, CT 06106

Re: Bill No. 5221
An Act Concerning The Registration of Real Estate Management Companies

Senator Colapietro, Representative Shapiro and members of the committee, my name is **John Galvin, President of the Connecticut Chapter of the Appraisal Institute.** I am here to let you know that although The Connecticut Chapter of the Appraisal Institute supports the concepts included in Bill No 5221, and applaud its submission, we strongly encourage you to support Raised Bill 13 instead, An Act Concerning Appraisal Management Companies, which is currently in front of the Insurance and Real Estate Committee.

Although Bill No 5221 contains very similar language to that detailed in Bill No. 13 – An act Concerning Appraisal Management Companies, Bill No. 13 is an act that has evolved from a tremendous amount of input from not just the Appraisal Institute, but also from the ***Department of Banking, Department of Consumer Protection, Attorney General, Connecticut Association of Realtors, Connecticut Homebuilders Association, Connecticut Bankers Association, Connecticut Real Estate Appraisal Commission, as well as several independent groups concerned about this issue.***

The Appraisal Institute is an International Organization that is the largest voice for those appraising real property. Though there are associate and affiliate membership options with our organization, designated membership requires a rigorous certification program that includes not only a college education, but a series of course work, the passing of comprehensive exams, several levels of documented appraisal experience that can take 3 – 7 years to attain and the passing of a very detailed demonstration appraisal report, which is equivalent to a college thesis.

Members of the Appraisal Institute are not only bound by the requirements of the Uniform Standards of Appraisal Practice, which are appraisal standards written by the Appraisal Foundation (a quasi-governmental board) but also our own Code of Ethics and additional standards in order to assure the "Public Trust". We are required to perform a credible and quality appraisal analysis and to clearly communicate the appraisal analysis and/or value in a manner that is not misleading.

The two primary designations are the SRA, which is given primarily to residential and small commercial property appraisers and the MAI, which is awarded to those who appraise commercial property types and solve complex real estate valuation problems.

As you may be aware, in 2009 the Home Valuation Code of Conduct (HVCC) was adopted with honorable intentions; requiring residential appraisals to be ordered by an independent third party to the lending transaction. The results, however, have not been all that honorable-having an adverse impact on the collateral review function of the lending process, which is a critical part of loan quality, not just for the consumer and the underwriting institution, but also the end investor who is the source of funding that provides liquidity to this large segment of our economy.

Appraisal Management Companies have been in existence for a long time. An AMC's primary function is to assist their clients in the appraisal ordering, and often review, function of the loan underwriting process. Prior to HVCC, there were few AMC's in existence. However, HVCC mandated a market format that resulted in a sudden increase in the number of AMC's 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 who appraise residential property. Consequently, some AMC's (not all) elected to take advantage of the oversupply by placing inappropriate pressure on appraisers in an attempt to get the lowest fee possible. Unfortunately, this pressure has – in some cases – compromised quality. Since the typical AMC gets a set fee from their client for each appraisal order, the lower the fee that can be contracted with an appraiser, the greater the profit to the AMC.

In hindsight, one result of HVCC is that it has exposed a large number of practices that unscrupulous users of appraisal services historically have placed on appraisers in an effort to attain a desired result. **Currently, the function of the AMC is the only part of the lending process that is not required to register or is regulated**. AMC legislation is necessary in order to assure appraisal reports are ***competently completed by qualified appraisers who are appropriately certified***. Again, legislation is necessary to register those involved in the AMC function in order to protect those who rely on the value estimates reported to make a competent purchase and finance decision. Legislation is also required to assure that loans are sufficiently collateralized to restore stability within the banking and secondary mortgage markets.

The Appraisal Institute has recognized the need for legislation to make Appraisal Management Companies accountable, not just in Connecticut, but across the country. Last year, the Appraisal Institute was instrumental in getting legislation passed in 6 states and currently is supporting efforts in approximately 30 more states, 18 of which appear to have a favorable possibility of passing legislation similar to that being written into Bill 13 that is in front of the Insurance and Real Estate Committee.

Bill 13 has been written as a team effort, taking into the considerations that will best serve all those who are involved within this Connecticut industry segment. Bill No 13 has also considered suggestions from the Title Vendor Management Association, which is the trade association for Appraisal Management Companies. The language in Bill No 13, through The Government Relations Committee of the CT Chapter of the Appraisal Institute, has also considered comments from several of its members that operate within the Appraisal Management Service business, who have grave concerns about the ethical inequities that are plaguing their segment of the Real Estate Market.

You have heard a number of testimonies to date in support of AMC legislation; however, I would like to take a moment to speak to the rumor that there is division amongst appraisers regarding this issue by shedding some light on what has happened within the appraisal industry over the past two years that has forced us here today.

Though within the State of Connecticut we have licensing laws for appraisers, and as part of that law appraisers are required to comply with the Uniform Standards of Professional Appraisal Practice, appraising real property is a profession that relies on experience. Though the educational requirements were recently increased by the Ct. Real Estate Commission to obtain State Certification, the requirements are designed to meet minimum criteria to competently appraise real estate.

With the majority of residential work now coming from AMC's, appraisers are forced to either accept low fees and the business terms demanded by many AMC's 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 new legislation (hopefully Bill 13), the shake-up created by HVCC that is impacting the consumer is expected to settle out.

The supply of appraisers is declining. According to the State of Connecticut Department of Consumer Protection, there are now 1,765 licensed appraisers in the 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, nearly all of which are appraisers who have entered the business within the past five years.

The Appraisal Institute recognizes that the Appraiser is responsible for the competent development of a credible appraisal analysis for every assignment, regardless of the fee. In order to conduct a proper appraisal analysis of any property type, there is a certain amount of time required, and costs are 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 voices coming from appraisers, though sounding different, and in some cases quit emotional, are really all on the same page of passion and respect for appraisal industry. As one member of the Connecticut Real Estate Appraisal Commission summarized, when the Connecticut Appraisal Licensing Laws were being discussed back around 1990, there was a lot of disagreement on exactly how the law should be written, but the simple fact was that everyone agreed a law was necessary. This same scenario again exists with the need for AMC legislation. As a result, the Connecticut Chapter of the Appraisal Institute respectfully requests that all of the effort go into supporting one bill – that being Bill 13.

The Senate 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 AMC's that order appraisals in the State of Connecticut to register with the Department of Consumer Protection. It also includes minimum requirements for AMC's, 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 to withhold payment, etc. in order to influence value or reporting, ***and most importantly, Bill 13 requires AMC's to use licensed appraisers to review the appraisal reports.***

Senate Bill 13, ***An Act Concerning Real Estate Management Companies*** provides a level of protection to assure that the real estate appraisal industry can continue to provide credible market data and unbiased value opinions to allow consumers to make competent business decisions. Please also note, though most bills will add to the budget constraints of the State of Connecticut, the results of this bill are expected to have a positive impact on fiscal policy. The end result of Senate Bill 13 will not only be less complaints for the Department of Consumer Protection to investigate that may require costly legal action to mitigate, but will also enhance the stage of the Connecticut real estate market so it can function in a more liquid format; thus, adding to the pattern of economic recovery, which in time creates revenues that can be taxed.

Thank you for your time and consideration,
John J. Galvin, MAI, President of the CT Chapter of the Appraisal Institute

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Your Home Is Our Business

February 25, 2010

To: Senator Tom Colapietro and Representative Jim Shapiro, Co-Chairs, and members of the General Law Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: RB 5221, AAC the Registration of Appraisal Management Companies

The HBA of Connecticut is a professional trade association with 1,100 member firms statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, home improvement contractors, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. We estimate that our members build 70% to 80% of all new homes and apartments in the state.

We note for your information two other bills dealing with appraisal management companies and the licensing of appraisers: SB 13 in the Insurance & Real Estate Committee, and SB 288 in the Banks Committee.

RB 5221 is very similar to RB 13, and we offer to you as general background on the issue of appraisal management companies our attached testimony provided to the Insurance & Real Estate Committee on SB 13.

As noted there, this is an important issue and the competency of all appraisals must be ensured to improve the viability of real estate transactions for all, lenders, sellers and buyers. We urge you to coordinate your efforts with the Insurance & Real Estate Committee.

Thank you.

Attachment (HBA of CT testimony on RB 13)

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Other questions for Mr. Bayer from members of the committee?

Seeing none, thank you, sir.

MICHAEL BAYER: You're welcome.

REP. FONTANA: Unless there's somebody else from the public to testify on House Bill 5141, that completes testimony on that bill.

We'll now proceed to Senate Bill 13, and the first person I have signed up to testify is Ralph Biondi followed by John Galvin.

RALPH BIONDI: Good afternoon, Senator Crisco, Representative Fontana, and members of the Insurance and Real Estate Committee. I am Ralph Biondi; I'm a principal in the real estate appraisal company of Biondi and Rosengrant. We are headquartered in Waterbury Connecticut. I am a general certified appraiser with approximately 35 years of experience in my profession. I'm here today as the Director of Legislative Affairs for the Connecticut Chapter of the Appraisal Institute.

The Appraisal Institute is a global membership organization of real estate appraisers. We have approximately 25,000 members worldwide with over 400 dues-paying members here in Connecticut. The Appraisal Institute has long been active in setting the standards for professional credentials, professional practice, and ethics in order to assure the public receives properly developed estimates of market value. We are the leading advocate, we feel, of the appraisal profession in

Connecticut. Public service -- I'm sorry -- public-minded members of our profession have served on the Real Estate Appraisal Commission since its inception in 1990.

I'm here today to speak to you about House Bill -- or Senate Bill 13, AN ACT CONCERNING REAL ESTATE APPRAISAL MANAGEMENT COMPANIES. An appraisal management company is a third-party vendor of services to lenders. It is an intermediary between the mortgage originators and banks and the real estate appraisers. They recruit appraisers, qualify them, handle fees, handle solicitation of work, verify licenses; they, at times, can review and handle quality control issues in the real estate appraisal management function for financing.

AMCs have been in business for many years and always afforded lenders a potential to outsource the real estate appraisal function. However, the passage of the Home Valuation Code of Conduct, a consent decree between the New York Attorney General and Fannie Mae and Freddie Mac, the two largest purchasers of home mortgage in the secondary market, have caused an explosive growth in appraisal management companies.

REP. FONTANA: Thank you, Mr. Biondi.

RALPH BIONDI: Yes.

REP. FONTANA: Are there questions for Mr. Biondi from members of the --

Senator Caliguiri.

SENATOR CALIGIURI: Thank you, Mr. Chairman.

Mr. Biondi, thank you for testifying today. Just one quick question for you: Is this legislation based on any kind of a model act that's been adopted in other states? What was the -- do you know whether this is based on something that's being done in other states that was used here?

RALPH BIONDI: Yes. The Appraisal Institute has put forth model legislation that is being used by chapters throughout the country. Six states have passed appraisal management bills, California being the most recent in January. Thirty other states are considering passing similar legislation.

I would note to the Committee that H.R.4173, the Wall Street Reform and Consumer Protection Act of 2009 has language that would mandate the establishment of regulations -- registration and regulation of appraisal management companies on a national basis. It's similar to the licensing and certification of appraisers in that the feds mandated it but left the implementation of the standards, the licensing, the testing, education, standards and everything to the states.

SENATOR CALIGIURI: Thank you very much, Mr. Biondi.

Thank you, Mr. Chairman.

RALPH BIONDI: Thank you.

REP. FONTANA: You're welcome.

Representative D'Amelio.

REP. D'AMELIO: Thank you, Mr. Chairman.

Good afternoon, Ralph, it's -- it's nice to see you here --

RALPH BIONDI: Thank you, Representative.

REP. D'AMELIO: -- outside of Waterbury.

Just quickly, I'm -- I'm just a little confused. There's appraisal management companies versus appraisal companies?

RALPH BIONDI: Yes.

REP. D'AMELIO: And -- and can you just kind of give me an idea what the difference is, 'cause I -- this is like the first that I've heard of it.

RALPH BIONDI: Well, a traditional appraisal company is a real estate valuation firm offering valuation services to the broad spectrum of the public. It could include lenders, municipal agencies, governmental agencies, private individuals, attorneys, federal agencies.

An appraisal management company has focused and does focus on the residential valuation component. There was complaints, and I know the -- there has been actually language passed by this committee and the Banking Committee in terms of assuring that the appraiser was not pressured into achieving a value or hitting the mark in order to make a mortgage or a sale go through. That language and that feeling on the part of this body and this House is -- is well established here in Connecticut.

Unfortunately, there is pressure of a variety -- from a variety of sources in terms of the -- the real estate valuation component, and appraisers are constantly pushed to produce product, produce it in a timely fashion, produce it accurately, and now with the evolution of these appraisal management companies to produce it at a lower price. And it's put a tremendous amount of pressure on the appraisers as the sources of the business have been consolidated into relatively few companies -- by lenders into relatively few companies. And while you're thinking of a company like my own, which is a traditional real estate appraisal management company, the appraisal management companies sit between my firm and the lenders and act as an intermediary.

SENATOR CALIGIURI: Are -- are -- do they have to be licensed in the state?

RALPH BIONDI: Well, the interesting irony of the situation is that in -- if you want to use the house financing situation, a sale of a house, everybody else in the transaction has a license or a certification, be it the bank that is registered or chartered, a mortgage company, the realtor, the appraiser, the home inspector, the attorney, the title company. Appraisal management companies are sitting right in the middle of the transaction because financing is key, is key to most real estate transactions, and the value of the property is key to make sure that there's sufficient collateral to support the loan. And these appraisal management companies have been consolidating their activities and using their strength to consume a greater part of the typical appraisal fee that someone would pay when they apply for a mortgage. There's also no disclosure of that or very little disclosure of that, and we think that's an issue that needs to be addressed. And we feel that, by regulating the appraisal management companies or registering them, if there's a dispute between an appraiser and the company, that there should be a level playing field between them so that disputes can be adjudicated.

At this point, if you're an individual appraiser working for a national company and there is a fee in dispute and they say we're not paying you, you have little practical recourse as they're not headquartered here, there's not even an agent for service if you decided to pursue your legal option.

If there was a nonpayment, they operate on their own to their own benefit. And many appraisers -- and I know others here today are going to testify to what has happened in the past year as the appraisal management companies have become more and more active in the home, especially the home mortgage financing area.

SENATOR CALIGIURI: Forgive me, I haven't gone through this bill. So what -- what does the bill seek to do? Is it just --

RALPH BIONDI: Well, it's a registration-and-regulation act. It first requires the companies to register with the Department of Consumer Protection. And then they will be regulated based on the actions of this Committee by the Real Estate Appraisal Commission. They will have to pay a fee to register with the State of Connecticut, and our hope is that it's -- helps the revenue situation, and hopefully it makes this bill revenue neutral.

There will be -- we are asking for the agent of service, so that, again, in case of a fee dispute, there is a recourse. If the company is providing real estate appraisal review functions it's done by a properly licensed and certified individuals. We would like to have a -- the controlling member of the company hold a proper real estate appraisal license so that if we're dealing with someone, in terms of the real estate appraisal function, they hold the same license and certification as we do, and again, if there is disputes, there's at least a legal recourse for the appraiser.

There our language -- our bill contains language discussing if a relationship between the appraisal management company and the appraiser is in conflict, that there's a set of guides that they should follow in order to notify and deal with the issue. It shouldn't just be arbitrarily you're no longer going to be receiving any work from us, which is -- is a common phenomenon.

SENATOR CALIGIURI: These -- these companies are hired primarily by individuals or banks or?

RALPH BIONDI: They would be working for a lender. They're a intermediary between the real estate appraisers and the -- what they call the "production side" of the mortgage-lending process, and they handle -- they're an intermediary. They handle the order. They find appraisers to complete the order. They would essentially upload the -- the real estate appraisal report to a bank, whether it's a national bank or a regional bank or a local bank.

SENATOR CALIGIURI: And once that bank employs them, then they'll go out and seek an appraiser --

RALPH BIONDI: Yes, this is --

SENATOR CALIGIURI: -- because they don't have that experience or technical --

RALPH BIONDI: They're not real estate appraisers, they're a management company, an intermediary.

SENATOR CALIGIURI: They don't necessarily have to have an office in the state --

RALPH BIONDI: Not at this --

SENATOR CALIGIURI: -- that they do business?

RALPH BIONDI: Not at this present time. They don't need to be registered. There's no -- they don't need to have even what they call an "agent for service" so that if there's a dispute, as you know, Representative, at least you -- you send your notice and say, you know, you -- you owe me -- you owe a fee. Your attorney can't sue -- serve anyone; you have to go to, perhaps, Indianapolis, Los Angeles, Houston, (inaudible) it could be anywhere in the country.

SENATOR CALIGIURI: Thank you.

REP. FONTANA: You're welcome.

Representative Altobello or Schofield.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Good afternoon, sir.

What -- what else do these companies do besides arrange for appraisers to appraise property on behalf of another party?

RALPH BIONDI: Well, some of the companies do handle what they call "quality control," which would be a review of the real estate appraisal for clerical accuracy as well as what we would call "appraisal/valuation content accuracy." They may be a warehouse for the lender of -- I don't want to call them a copy anymore 'cause most everything is done electronically -- but they would be a warehouse for a copy of every appraisal. They may, in turn, send out copies to the borrower within the timing that's dictated here in Connecticut by the banking regulations in terms of a borrower receiving a copy of the appraisal prior to a certain date before the closing.

And, in addition, they are seeking appraisers to provide them with services and -- and develop territories and see if they can secure the real estate appraisal services at a -- a very affordable price. That's one of the most difficult situations that all appraisers face. And, again, others here will testify to it -- to that type of a situation.

REP. ALTOBELLO: Yes. Uh-huh. So, nothing outside of the appraisal process then that you're aware of that these companies perform on behalf -- on --

RALPH BIONDI: The --

REP. ALTOBELLO: -- behalf of the lender?

RALPH BIONDI: It's interesting that they have a trade association where --

REP. ALTOBELLO: They're not doing public adjusting as well, are they?

RALPH BIONDI: No.

REP. ALTOBELLO: No.

RALPH BIONDI: As far --

REP. ALTOBELLO: Okay.

RALPH BIONDI: -- as I know --

REP. ALTOBELLO: Good.

RALPH BIONDI: -- no, but --

REP. ALTOBELLO: Good, so far.

RALPH BIONDI: Although sometimes in a public adjusting setting real estate appraisers can be hired -- I'll make a small pitch for us -- in terms of a value dispute of the property. But no, as far as I know, most of their work is under what they call the "title and vendor management" for the lenders. And other companies that are larger have divisions, I know on a national basis, to handle the solicitation of title searches and -- and they handle sometimes the credit report solicitation work also.

REP. ALTOBELLO: And around --

RALPH BIONDI: (Inaudible.)

REP. ALTOBELLO: -- the Brass City what's a -- what would be a typical range for a single-family home appraisal these days?

RALPH BIONDI: It would be between 350 and $450.

REP. ALTOBELLO: Thank you. Thank -- thank you, sir.

Thank you, Mr. Chairman.

REP. FONTANA: You're welcome.

Representative Schofield.

REP. SCHOFIELD: Thank you, and I appreciate everybody's questions because then I don't feel so uninformed. I've never heard of these before either, so glad I'm not the only one.

I -- I don't quite understand why -- why they exist yet. I mean, why doesn't a lender go directly to an appraiser? Why do they need this middleman? It sounds like an extra layer --

RALPH BIONDI: Well, I --

REP. SCHOFIELD: -- that doesn't add value, based on your descriptions to Representative Altobello, so what are we missing here?

RALPH BIONDI: Ironically, I would call this an unintended consequence of the consent decree between the Attorney General of New York, Andrew Cuomo, and Fannie Mae and Freddie Mac, who are the -- two of the biggest purchasers of home mortgage in the secondary mortgage market. There's been an ongoing debate about a pressure on appraisers, and there is no doubt that some of the downfall of the subprime home market and the real estate market in general can be traced to pressure on appraisers to meet numbers and to actually hit the mark. Appraisers have complained about this for years. We've worked on trying to deal with the issue in a -- in a way that would make sense. The HVCC or the Home Valuation Code of Conduct was an attempt to do that. And from an appraiser's standpoint, it's had severe unintended consequences, Representative.

You do have a recognized code for the lender to follow in terms of the issue of dealing with the appraiser, separation from the producers, the mortgage brokers, the bankers, and those who might receive a fee for the loan closing, whether it's a refinancing transaction or a home sale. That was the good part.

The bad part is that the evolution of the HVC has caused many lenders to mistakenly believe that they must outsource their services. Many community sized and medium-sized and regional banks have or are exploring outsourcing their real estate appraisal relationships to a third party. They don't have to as long as they can demonstrate to the -- to the secondary market that they have a inhouse mechanism to assure that appraisals are ordered and the appraisers given the information he needs. And if there's any questions there is an intermediary between the appraiser and the mortgage originator so that it tends to lessen the chance of pressure on an appraiser.

However, again, the unintended consequence is that the companies that have gone to these appraisal management companies and especially the national banks, they -- they are subsidiaries or wholly owned entities or whatever you'd like to call them -- they realized that as they consolidate to -- all of this business to relatively a few sources, there is the opportunity to achieve some fee savings, which we are all in favor of competition, fair fees. We don't, you know, we -- we compete; we are business people, we compete. We want to pay a fair fee, but when you're in an unfair situation and the size of one of the parties gives them substantial leverage, of course there's a chance for the appraisal management companies to drive down appraisal fees and say if you want our work, here's what you're going to be paid. You're going to go here; you're going to go there; you're going to do this; you're going to do that, and if you don't like it, we'll find someone else who will.

And many appraisers on appraisal blogs throughout the country can demonstrate and speak about very difficult situations in dealing with the companies. Well, and as I said earlier, they're not regulated, they're not registered. In a way you are dealing with a large firm and have a very hard time in leveling the playing field. And we feel that this registration and regulation act is the -- is the beginning of a procedure that can introduce some fairness and equity to the process.

REP. SCHOFIELD: So it sort of sounds to me like in trying to slay one monster we have created another?

RALPH BIONDI: Yes. Yes. I -- I think that's a fair, fair way to put it.

REP. FONTANA: Thanks.

Representative Altobello.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Just briefly, so that the -- for instance, B of A, Chase, and Wells, they could all own or wholly own a subsidiary that -- that performs this service?

RALPH BIONDI: Yes.

REP. ALTOBELLO: So the whole purpose of the -- the wall between this -- so they're looking at it as a bank fee then, in other words.

RALPH BIONDI: Well, I -- I can't speak to exactly --

REP. ALTOBELLO: Well, okay.

RALPH BIONDI: -- how it is now, but it does -- the -- the appraisal management subsidiary is removed from the bank, but it has become a profit center.

REP. ALTOBELLO: Well --

RALPH BIONDI: And I think they have used their size in a -- we feel in a, at times, very unfair fashion. And I know there's other testimony that's --

REP. ALTOBELLO: Well, I own --

RALPH BIONDI: -- that's coming up.

REP. ALTOBELLO: I own two houses. I live in one but the house next door, I also own. I'm removed from that house, but I certainly have a very big interest --

RALPH BIONDI: (Inaudible.)

REP. ALTOBELLO: -- in it, so.

Thank you, Mr. Chairman.

REP. FONTANA: You're welcome.

Other questions for Mr. Biondi, members of the committee?

Seeing none, thank you, Mr. Biondi.

RALPH BIONDI: Thank you.

REP. FONTANA: Mr. John Galvin, followed by Ken DelVecchio.

JOHN GALVIN: Thank you.

Senator Crisco, Representative Fontana, and members of the committee, my name is John Galvin, I'm President of the Connecticut's Chapter of the Appraisal Institute, and I'm here to speak in favor of Senate Bill 13, AN ACT CONCERNING APPRAISAL MANAGEMENT COMPANIES.

I have a written testimony, which is submitted, but briefly I'm going to go over it, 'cause --

because Ralph has answered quite a few questions. The Appraisal Institute is one of the largest organizations of appraisers in the country, and a couple years ago we started seeing some abuses taking place and felt it was necessary to step forward 'cause we felt that the public trust of the appraiser and the appraisal process was being jeopardized.

And I want to point out that we are a dues-paying organization. We have -- our membership requires not only just a -- a state license and certification requirements but also a -- a number of years of experience credits. Experience has to be submitted in order to get designated and -- and along with additional coursework comparable, if not exceeding, the requirements of a CPA.

But, essentially, Senate Bill 13 is -- is basically a -- is something to just get the AMCs to register within the State of Connecticut, as Ralph indicated. Currently they're the only part of the loan process that is not really regulated. No one is really looking at them. No one is really watching them. Essentially what it really does, in my opinion, is anything that puts an adult in the playground of a whole lending process to get them to basically to play to par.

What happened with HVCC, as of the same time we also had a downturn in the economy and we also had an oversupply of appraisers and a diminished appraisal services in the country. In the State of Connecticut, we had a -- at one -- as of 2006, we ended up with almost 2000 appraisers in the state. We're down to about 1700, as of -- and this year we expect to lose about 200 more.

About 75 percent of the appraisers have come into the business since 2006, in this current boom that we've had. The AMCs -- the HVCC, the Home Valuation Code of Conduct that came about, unfortunately the downturn has exposed something that's been taking place within the industry for quite a while, and that is putting undue pressure on appraisers to do certain things within the industry. This Senate Bill 13 basically allows the means to actually get a grip on that one portion to help stop this -- this
-- basically abuses that are taking place. I'm sure other people will testify. And -- and --

REP. FONTANA: Thank you, Mr. Galvin.

JOHN GALVIN: Thank you.

REP. FONTANA: Thank you.

Questions for Mr. Galvin from members of the committee?

Seeing none, thank you very much --

JOHN GALVIN: Okay.

REP. FONTANA: -- for your testimony, and we appreciate your coming.

Ken DelVecchio, to be followed by Tim Calnen.

KEN DelVECCHIO: Mr. Chairman, and members of the committee, thank you very much.

I'm Ken DelVecchio. I'm a real estate broker SB13 with RE/MAX Heritage Real Estate in Fairfield and Westport. I -- I'm also Past President of the Connecticut Association of Realtors, for the association for which I speak today.

The good news is that I have two pages of a statement that I don't have to read, because Mr. Biondi pretty much covered it all. But I am the realtor who's out in the field. I sell houses; that's what I do. So I'm the person that kind of has to deal with the appraiser who has to deal with the AMCs. And so we kind of look this, and -- and I have this whole thing -- but we talk about
-- or hasn't been discussed yet, one of the most important things which is injury to the marketplace, injury to sellers, injuries to buyers.

And those injuries are -- and I'll give a couple examples, and I'll be happy to answer any other questions regarding them. I recently had a -- a sale in Wilton. It was a General Electric corporate relocation buyer, very intelligent. We looked at 57 houses. We then decided upon one particular house that had been priced over $1 million, went through a series of price reductions, got down to 899; we negotiated a price of 850. After looking at 57 houses, my buyer was convinced he was getting a very good deal. I received a phone call, while I happened to be in San Diego at the National Association of Realtors Convention, from an appraisal management company in San Diego who said we'd like to arrange for an appraisal on the property.

The appraiser came out of Englewood Cliffs, New Jersey and came back with an appraisal of

$750,000. Now, right away, that makes -- to my buyer -- makes them wonder what do I know about the real estate business if he's spending 850 for a house that just appraised at 750. But because he was a smart buyer, he said, let's look at other homes. In the meantime, the seller, who happened to be a real estate agent, said I'm going to have my own appraisal done. I said that's fine, but it's not going to be accepted.

She had her own appraisal done and it -- that came in obviously at the 850 price. But in the meantime, that first appraisal was lacking a bedroom. It was a five-bedroom house; it was appraised as a four- bedroom house. It was a 3 1/2 bath house; it was appraised as a 2 1/2 bath house. And it had a 2 1/2 car garage that was never noted. I filed an appeal with the appraisal management company -- this is the paperwork on that -- which was a lot of time; in three weeks, the appeal was denied.

So in the meantime, my buyer who had to move into a house decided let's look at others. We looked at ten more houses only for him to decide that that was the best possible deal out there at 850. But he couldn't pay 850, so I convinced him to change banks. Fortunately for him, he was able to get the same mortgage rate; it had gone up and then had come back down again. He did have to pay for an appraisal and application fee. The appraisal was 750, the application fee was another 550.

The third appraiser, who I got to meet at the house, said I think the problem I'm going to have is getting this to appraise something close to 850, 'cause it's obviously worth so much -- excuse me -- so much more. So his appraisal came in at 865, and that, he felt, was a challenge to get it at that price. The property closed, the buyer's very happy. The whole process, though, from that first bad appraisal, was almost six weeks.

We had another appraisal in -- in Trumbull --

REP. FONTANA: Let me --

KEN DelVECCHIO: -- where the --

REP. FONTANA: Let me stop you --

KEN DelVECCHIO: Sure.

REP. FONTANA: -- right there, Mr. DelVecchio. Thank you for that specific example of what you've gone through and -- and thank you for being part of what I hope is an ongoing series of discussions among substantially all the stakeholders, interested parties trying to work out language that will be mutually acceptable for everyone.

KEN DelVECCHIO: So you do have copies of the statement.

REP. FONTANA: Yeah.
KEN DelVECCHIO: Connecticut Association of Realtors supports --

REP. FONTANA: Yeah.

KEN DelVECCHIO: -- SB 13.

REP. FONTANA: Right. And we thank you.

Are there questions for Mr. DelVecchio from members of the committee?

Representative Altobello.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Appraiser number three, where was his office?

KEN DelVECCHIO: Oh, he was in Fairfield.

REP. ALTOBELLO: Fairfield County? Thank you.

Thank you,. Mr. Chairman.

REP. FONTANA: You're welcome.

Other questions for Mr. DelVecchio?

Seeing none, thank you.

KEN DelVECCHIO: Thank you.

REP. FONTANA: Tim Calnen, to be followed by Robert Clermont -- Clermont, I believe.

TIM CALNEN: Senator Crisco, Representative Fontana, and other members of the Insurance and Real Estate Committee, thank you for raising this Senate Bill 13. My name is Tim Calnen; I'm Vice President of Government Affairs for the Connecticut Association of Realtors.

I would like to say and inform you that this bill is in two other committees dealing with this subject matter. General Law just raised the concept, as well as Banks, but I think your bill is really the foundation and the core that can get to the crux of the problem quickly in a short session and protect the public. So (inaudible) --

REP. FONTANA: You're just not saying that, are you?

TIM CALNEN: No, I -- I -- I've wait -- I've -- and I've tried to talk with your colleagues on those other two committees to encourage them to work together in a single bill, in such a short session where we have such other big issues, as well, as a state, to confront.

But the bill that you have, Section 2(c), I think, is very important because in a -- before these companies can be registered in Connecticut, they have to show that they have systems in place, procedures in place to make sure that the appraisals are being done according to the Uniform Standards of Professional Appraisal Practice, and it gives the Commissioner of Consumer Protection the power to yank their registration if they are doing things that are wrong, along the lines that Ken DelVecchio mentioned. But you have a fellow colleague Legislator from Branford who has something -- excellent examples of how appraisal-management-company-assigned appraisers have gone out and appraised a condominium complex and left out such things as amenities as tennis courts. And that's -- that's incompetence and it's -- it's unfair to the seller. As -- as Mr. DelVecchio said, it's - it's unfair to the buyer who's -- you've got to go pay other mortgage application fees to -- to pay for it.

This is a work in progress. I know the Connecticut Bankers Association has some objection to some of the language about the -- the fee schedule, and there is some alternative language coming down; however, I think the public should have an ability to find out how much they're paying the appraiser and how much is actually added on to -- as a result of this new middleman process. And that -- that's where the appraiser is -- is getting in a sense a -- a raw deal, because the -- the fee he actually charges is often added onto by different layers in this new process of the Home Valuation Code of Conduct. So we -- we urge your support of this bill.

REP. FONTANA: Thank you, Tim. And -- and we should note at this point that I did receive a phone call from Senator Duff who mentioned that the Banks Committee is looking at this, and he committed to working with us on the language along with Representative Barry. And certainly we maintain good relations with Senator Colapietro, Representative Shapiro, so we look forward to trying to work with them to make sure we've got the best bill, and hopefully it'll be right here so --

TIM CALNEN: Thank you, sir. We hope --

REP. FONTANA: And thank you.

TIM CALNEN: -- so too.

REP. FONTANA: Questions for Tim from members of the committee?

Seeing none, thank you, Tim.

TIM CALNEN: Thanks.

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REP. FONTANA: Robert Clermont, followed by Nora King, perhaps?

ROBERT CLERMONT: Ready?

REP. FONTANA: Okay. Please proceed.

ROBERT CLERMONT: All right.

Good afternoon, Mr. Chairman, and committee members. My name is Rob Clermont; I'm a certified real estate appraiser here in the State of Connecticut. I'm also the owner of Valley Quest Real Estate Appraisal based in Meriden, Connecticut, and I serve at the President for the Connecticut Association of Real Estate Appraisers.

I've come before you today because we support this bill in -- in concept, however, we still believe that there's some work that needs to be done on it. In the weeks to come, we hope to work with your committee as well as the Appraisal Institute, maybe to clean up some of the language and to -- so that the bill with the proposal is able to best serve the needs of -- of the profession as well as the people of Connecticut.

One of the most important things you've heard testimony today about, really, about geocompetency, appraisers coming from -- from different parts of Connecticut who -- who really are unfamiliar with the markets in which their appraising. And one of the concerns we have and one of the things we'd like to see this bill include to -- to be able to -- to alleviate that concern is to have the controlling member of the management company or the principal representative of that management company actually be an appraiser from Connecticut. You know, much like a real estate broker, agencies have a broker from Connecticut. The broker isn't from San Diego, California, the broker isn't from Orlando, Florida, the broker is from Connecticut. And why? Because they know Connecticut. So we -- we'd love to see that -- that provision in there.

Another reason is because these management companies also provide, as Mr. Biondi stated earlier, two types of -- of ancillary services, and one is a technical review, the other is a clerical review. The technical -- the clerical review is just merely where they're going through the appraisal looking for typos and that sort of thing. The technical is where they're actually getting to the heart of the appraisal. They're looking at the analysis, they're looking at the appraiser's comp selection, and they're rendering their own opinion on that, whether that -- that, you know, if -- if that's accurate. Well, how do they do when they're from anywhere other than Connecticut and they don't have access to multiple listing in our data sources? They don't have a familiarity with our market, you know, for that matter.

And -- and we think that, you know, again, it's important to have that controlling person or that principal representative be from, an appraiser from the State of Connecticut. We think that that best serves, you know, the needs of -- of the people of the state. The management companies aren't concerned if -- if that house goes into default. You know, they're concerned about their -- their fee, you know, which is why in most cases they're selecting appraisers based on the fee they charge rather than the competency that they -- that they have.

One of our other concerns -- last, you know, wrap it up; I realize you're out of time -- is -- is the issue of transparency. You know, in many cases we receive a appraisal request whereby we're specifically asked not to discuss the fee that we're paid with the homeowner. Well, I got to be honest. I mean, there's only one reason why they do that, and that's because they don't want the homeowner to know, you know, that the fee they're paying us is less than what they collected from the homeowner, for less than what the bank collected from the homeowner on their application; you know? And we think that's wrong, so we think there should be transparency.

The -- they're providing a -- an appraiser procurement service, plain and simple; they're appraisal brokers. You know, they're -- they're finding an appraiser and -- and that service they provide is completely separate from what we do as appraisers. And -- and if they want to represent our fee on the HUD statement or the closing statement as the appraisal fee, they should represent their fee on that HUD statement as their appraiser procurement fee. The homeowner should have an opportunity to negotiate that fee out of there but not being misled into believing that both fees are an appraisal fee.

So, with that said, I'll open up any questions that the committee may have.

REP. FONTANA: Thank you, Rob. And are you participating in these ongoing stakeholder discussions that we talked about? Are you -- have they -- have you had the chance to participate and provide input?

ROBERT CLERMONT: We -- we have. Yeah, we've been in -- we have a dialogue, an ongoing dialogue with the Appraisal Institute. We hope that that -- that continues. It was actually our organization that asked for the (inaudible) to put the -- the bill forward. It's really that concerning, you know, who may collect the fee for an appraisal.

REP. FONTANA: Okay, great. Well, I'm glad to hear that you're part of the discussions.

Question for Rob from the rest of the committee?

Representative Altobello.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Good afternoon, sir. You said that there's a, you know, not -- not to disclose to a homeowner how much your fee they're actually charging the lender, because the lender is actually charging it back to the homeowner, eventually. What -- what would this show on, let's say, the rest of the form? How did they -- how did they -- did they break it out or is it just one appraisal number?

ROBERT CLERMONT: Yeah.

REP. ALTOBELLO: Do you know, off the top of your head?

ROBERT CLERMONT: The companies that, you know, that -- the brokers that I've spoken to and -- and the lenders I've spoken to say that they -- they reflect that entire fee. And they hire the management company, you know, to find an appraiser. Well, management company charges $500. Well, it doesn't show as the management company appraisal fee, it shows as an appraisal fee. So -- so they're really -- what they're doing is they're really -- the -- the borrower is led to believe that that's the actual cost of the appraisal, which is why the management company is clever.

You know, so they tell us on our form, they say, well, do not discuss your fee with the homeowner, because they don't want the homeowner to know that that appraisal cost two or three or, you know, whatever, $200 or $250, whatever that actual appraiser charged for that particular assignment.

REP. ALTOBELLO: Has -- has your group had an opportunity to do any kind of analysis of --

A VOICE: (Inaudible.)

REP. ALTOBELLO: Clever; right? How so? -- how much the actual onsite appraiser gets as a percentage of -- of that end fee?

ROBERT CLERMONT: Yeah. It -- it's anywhere from, I mean, typically, I mean back a -- a couple years ago before the -- because of the evolution of -- of the appraisal management companies, appraisers would -- would typically collect anywhere or charge anywhere -- it was competitive; you know, we have a couple thousand appraisers here in the State of Connecticut -- you know, we -- we would charge anywhere from, you know, $275 to probably $350, depending on -- depending on complexity of the assignment.

Today, the management companies more or less dictate what those fees are going to be. They range anywhere -- my experience -- anywhere from $180 up to $250, but rarely do I ever see one -- and I understand
Mr. Biondi in testimony -- $350. And I hope to get the name of that client from him at the end of my testimony. But -- but I -- our membership, in my own -- as well as my own experience, I -- I haven't seen a fee that high in probably a year since the -- the management companies came on the scene.
And -- and if may add to that, this is a concern to us as well because we've seen this having a -- a very severe, destabilizing effect on this profession.

You know, we're a fragile profession, a couple thousand appraisers, you know, to service a city of -- of, you know, we're -- we're representing all the fellows from Meriden, let's say, 17,000 parcels, you know, in one city alone. We have a couple thousand appraisers. Well, it takes 3 1/2 years to become an appraiser in Connecticut. It's not a -- it's a laborious process; it's not fast, by any means. But what happens when those numbers of appraisers dwindle down to, let's say, a thousand or let's say 900. You know, it's going to, in turn, drive the cost of appraisals up farther than where they're at today, because the supply of appraisers is far less than it is today.

You know, but we need to strike a balance somehow between the number of appraisers and fees in which they -- fees in which they charge.

REP. ALTOBELLO: And then, finally, Mr. Chairman, if I may? How many -- how many of these companies do you think are doing business in Connecticut?

ROBERT CLERMONT: Well, today --

REP. ALTOBELLO: From afar, the --

ROBERT CLERMONT: Sure.

REP. ALTOBELLO: -- (inaudible)?

ROBERT CLERMONT: There's maybe one or two appraisal management companies that I know of that are located in the State of Connecticut, and they're owned by appraisers. You know, the -- the quality of the appraisers that they -- that they seek is very good. You know, they have competency in this market, which is excellent. But the -- the vast majority, I would say, are located in -- in states other than Connecticut.

And -- and just so the -- the committee is aware, you know, just about every loan today -- every loan today ordered in America is going to go through an appraisal management company -- not -- not every -- I'm sorry -- not every one. But a huge percentage of -- of appraisals are going to be ordered through appraisal management companies, which is why we -- we think that they believe that -- that they should have somebody from Connecticut on their staff. We believe that they should be located here in Connecticut. We should be realizing those tax dollars; you know? Every dollar that -- that's going -- they're collecting, it's going to California or going to Orlando or San Diego, wherever the locations are. There's a dollar that we can't tax and a dollar that we have to find from within our state. So it makes good sense to us that we have them right here in Connecticut and we legislate that -- that, you know what, if you want to do business in Connecticut, you know, have a physical presence in Connecticut. You don't pay your taxes in Connecticut. Have a vested interest in the state, just as we do as appraisers.

REP. ALTOBELLO: But just how many do you think there are nationally?

ROBERT CLERMONT: Thousands.

REP. ALTOBELLO: There are thousands of independent? So they're not all owned by the -- the two --

ROBERT CLERMONT: No.

REP. ALTOBELLO: -- big, the failed bank systems?

ROBERT CLERMONT: It's thousands. In -- in my experience, I've seen appraisal management companies, and some of them have been, you know, mortgage brokers who business got slow so they got the idea, hey, I want to become an appraisal management company. And -- and now they start their own appraisal management company and -- and, you know, and -- and they're in the game, so to speak.

You know, banks have basically, you know, the -

- the fire wall; it was talked about earlier. Banks can't -- there's concern over collusion with the appraises so the banks had to, you know, run all their appraisals through appraisal management companies. Well, guess what? They formed their own appraisal managements companies. So, it hasn't been -- as it's been stated earlier, not all -- but it's been stated earlier.

Well what -- what purpose has really been served? You know, the -- the bad behavior that once existed by -- by certain lenders has -- has been shipped over to the management companies. And -- and we think that's a good part of what this bill tries to do is -- is tries to, you know, curb some of that bad behavior. You know, and we think that's importance. That's something that -- that we completely support.

REP. ALTOBELLO: Well, thank you, sir.

Thank you, Mr. Chairman.

REP. FONTANA: Thank you.

Are there question for Mr. Clermont?

Oh, Representative Schofield.

REP. SCHOFIELD: Thank you, Mr. Chairman.

I have one question and one comment. You -- you'd stressed the point a lot about wanting to make sure that all appraisers from Connecticut come from Connecticut, and so I -- I would just make the point that I -- I actually think somewhat an appraiser from, say, Long Meadow, Massachusetts knows more about Enfield than one from Greenwich. And, conversely, perhaps, an appraiser from Hollywood knows more about Greenwich than someone from East Hartford. So I'm not sure that that argument holds all that much water as much as I would like to see jobs held in Connecticut, as much as possible. I'm not sure that the basis for that is -- I mean, really, my understanding is appraisers should be using data and comparable sales and et cetera in the area, and should be, even in you're not from that town, you should be able to make a fair appraisal.

Am I missing something there?

ROBERT CLERMONT: No, and -- and I think we're -- I think we're talking about the same thing, really. We're talking about -- about geocompetency. But what we'd like to see is the, you know, the bill -- the bill asks for a, what they refer to as a "controlling person"; we -- we call it a "principal representative," somebody who's going to oversee the day-to-day operations of that management company and be responsible for it. And we believe that, that that person should be someone who holds a license in Connecticut.

And if they're from Long Meadow, Massachusetts, that's -- that's fine. You know, but as long as they hold a valid license in the State of Connecticut, you know, they're familiar with our -- our markets and some -- some they may not. But in those instances where -- where they're not, then they should be able to -- to seek out appraisers who are familiar with those markets.

REP. SCHOFIELD: And so my question is, again, 'cause this is like a new area to me.

ROBERT CLERMONT: Sure.

REP. SCHOFIELD: I didn't even know these things existed. Do they add enough value? You know, you're saying they're relatively new and now we're trying to regulate them to keep them from doing bad things. If -- if the reason for which they were created has not been fulfilled, would we be in your estimation better off just going back to the old system rather than now trying to regulate these new middlemen entities? And just we've been on (inaudible).

ROBERT CLERMONT: Yeah. No, I think I understand the question. And I guess to get my answer for the -- you know, I mean, we -- we'd love to see it go back to the old way, you know. You know, they destabilized our profession. They've -- they've taken a huge part of our fee. You know, you've heard testimony about competency, you know, appraisers coming from other states and who aren't familiar with -- with what's happening here in Connecticut --

REP. SCHOFIELD: Right.

ROBERT CLERMONT: -- in our market. But, unfortunately, we don't know if we can go back to the old way. You know, with -- with all of the bad behavior that existed, you know, Mario Cuomo from -- from New York, as the one that stated earlier, he struck this agreement with Fannie and Freddie Mae -- you know, Fannie Mae and Freddie Mac, where New York was saddled with all these bad -- bad loans, and Cuomo went to Fannie Mae and Freddie Mac and said, look, you know, why should -- why should New Yorkers have to bear the burden of cleaning up your mess, you know, and basically started a lawsuit against Fannie and Freddie or Fannie Mae, from what I understand.

And Fannie said don't do that. You know, what do we do? Well, we're going to come to an agreement. You know, all the appraisals that you order from now on are going to have to be ordered through -- through some third party, you know, this -- this appraisal management company, appraisal brokers.

Now, we as appraisers, we -- we have no love for them; I mean, I'm going to be quite honest with you. To us, this is the equivalent of a shotgun wedding. You know, we don't love them whatsoever, but we're forced to deal with them. You know, the Legislature was so inclined as to say, you know, we're going to back to the old way, then -- then we think that's a move, personally, in the right direction. You know?

Unfortunately, the flip side of that is that we're in this mess because, you know, bad morals. You know, and I don't know how hard to try, but I don't know if we can legislate morality. We can legislate people to do the right thing; either you want to or you don't. You know, and unfortunately a lot of these lenders -- you know, it -- it -- it's, you know, it's a lot of money at stake, you know, in this business. And -- and that's what it's always going to be about. And as long as that -- that money is at stake, they're going to continue to look for a way around, you know, this bad behavior and lot of our -- I'm sorry -- around some of our -- our laws, no matter how hard we try to make them right. I hope that answers the question.

REP. SCHOFIELD: I -- I just want to understand better, when the middlemen didn't exist, what the pressure was to do it? Was it to deflate the value of a home so that the lender would then be lending against the less expensive home or to inflate it so they could make you borrow --

ROBERT CLERMONT: Yeah.

REP. SCHOFIELD: -- more money or --

ROBERT CLERMONT: But --

REP. SCHOFIELD: -- I'm not sure --

ROBERT CLERMONT: But --

REP. SCHOFIELD: -- what --

ROBERT CLERMONT: Sure, yeah. What -- what --

REP. SCHOFIELD: What (inaudible) --

ROBERT CLERMONT: What would happen is, I mean --if I may -- I'm sorry.

REP. SCHOFIELD: It'd be --

ROBERT CLERMONT: Okay. If -- if I may? Typical appraisal requests would come in. We want you to appraise, you know, 200 Capitol Avenue in Hartford, Connecticut. You know, we'll say it's a single-family house. You know, they would put estimate of value $300,000. You know, please call if you can't get to this value. Well, let me tell you, unfortunately, a lot of appraisers would get to that value because they wanted that figure; you know?

Other appraisers, so that they're able to -- so that they're able to make their loan and sell the loan. And this loan goes to Fannie Mae, then it goes to Wall Street, then it goes to some other mortgage-backed security. Then it ends up in the fishing village in somewhere, and that's -- then it ends up somewhere and somebody's left holding this. And, unfortunately, whoever is left holding that bad loan is the one that -- that bears the burden of that loss.

So, but -- but this gave, you know, the idea was, well, we're going to have management companies, some -- some intermediary come between banks and the firewall, which is probably the --

REP. SCHOFIELD: (Inaudible).

ROBERT CLERMONT: Well, what they would do is they would -- they would issue the request for the appraisal. You know, one of the last -- last components, last things they do. They'd run the person's credit. They would get their income statements, and so forth, then they'd issue the request for the appraisal. The request for the appraisal would have a target value that they need in order to make that loan work. Again, as I said earlier, unfortunately, a lot of appraisers, you know, will just get -- a lot of appraisals would just meet that value because they're getting paid for their service if they did. If they didn't meet that value, then they -- then it's likely that they wouldn't get paid for that service.

REP. SCHOFIELD: The reason I ask is one of the previous testifiers indicated that the appraisal was coming in unrealistically low, so I was confused of which one was -- was happening --

ROBERT CLERMONT: Okay.

REP. SCHOFIELD: -- more often.

ROBERT CLERMONT: Yeah. I -- I would say -- I would say more -- in my experience, more often, in the experience department, more often it was the -- the other way around whereby the banks -- and banks, I say "banks," I really mean -- mean lenders, mortgage brokers -- were -- were really looking for -- for the value that they needed more to make their loan work.

Whether the value was -- was realistic or not was -- was different. But it's sort of the, you know, it's sort of the equivalent of -- of going to get your taxes done, you know, in a lot of ways where you go to the accountant and -- and you say, well, listen, we need to get $3000 back because, you know, we want to go on vacation, we want this car or whatever. And -- and if you're not the guy that can get us that $3000 refund, then tell us now so that we can go to the guy down the street. Well, the guy down the street has got to play by the same laws that -- that the other guy does. But -- but the reality is somebody is going fudge those numbers. And that's what the mortgage broker or banker is really hoping that will happen. So the -- the management company is supposed to alleviate that, you know, some of that because, you know, again, they're acting as that -- that firewall in between them. But -- but we just don't see that happening in their release, and so we think that some components of this bill address that, and that's a good thing. I hope that answers the question.

REP. SCHOFIELD: So maybe the -- the real issue is that the lenders are not at risk. If they were really at risk, they'd want an accurate appraisal. But we had mortgage originators who were not ultimately at risk. Their rules was the problem and we ended up solving the wrong problems, but that's a discussion for another day.

ROBERT CLERMONT: That's -- well, it's -- excellent point, though.

REP. FONTANA: They were solving a problem not necessarily the problem.

REP. SCHOFIELD: Right.

REP. FONTANA: But we're trying to do what we can.

Other questions for Rob?

Seeing none, thank you, Rob.

ROBERT CLERMONT: Sure. Thank you.

REP. FONTANA: Nora King to be followed by Vickie Kelley.

NORA KING: Good afternoon.

I sat here a year ago in front of the Law SB 13

Committee for Bill 303, and I've been working closely with Senator Duff on the new legislation that is about to come. A little bit about my background, I have a master's in business, had a corporate background about eight years ago and chose to become a real estate appraiser. So I have a lot of business experience. And I'm certified residential. And until a couple of years ago, I actually really loved the profession; I thought it was a great way to make a living and loved doing the job for homeowners.

Though I agree with the principle of registering management companies, I do not believe that this bill is going to solve the problems that I sat and addressed before that committee over a year ago. Primarily, I don't believe it's going to solve the key issues. And why I don't feel that is I -- I do believe that appraising is a legitimate profession. It's the same as a real estate agent. It's the same as a home inspector, same as an attorney. No one is being asked to mark up those fees or collect those fees but that person. And no one but a real estate appraiser should be collecting our fees. And I think if the Connecticut Association of Real Estate -- real estates agents is a much more powerful organization, and I think if someone was wanting to collect their fees, there would be an immediate stop to it. By allowing the management companies to determine or collect the fees have allowed them to focus on the appraisal of being a profit center.

In the handout material that I've provided, I just wanted you all to take a note of a job posting that was put out there by First

American, that is actually Quantrix, hat was owned by Chase. Chase and Wells Fargo are two of the largest violators who come with these issues that are going on today. It reads: "For this reason, it is important for the product analyst to attempt to place the order to an appraiser with the lowest fees to maintain our profitability. In situations where we must use one-time vendor or fee appraiser, the PA will need to check as many options as possible to attain the lowest fee."

I work with these people every day; I'm in the trenches. This is what I see every, single day. And what is happening has been the lack of transparency to the consumer, lack of disclosure. The lowest-qualified people are being hired to do the job. There's no risk or no skin in the game for the banks or the lenders. At the end of the day, they've pushed on to the borrower, the person who's the biggest purchaser or investment they make.

There's also something else going on with AMCs. Everyone addressed some of the other issues, but the one thing I did not hear today is the changing of data in the appraisal reports. I have spoken with the head of the Banking Commission. I have tried to speak with Blumenthal's Office. Howard Pitkin, who's actually in the Banking Commission, is very well aware that the AMCs are changing and altering reports. To me, as a consumer, that's also a very scary thing, and there's no regulation to really stop them. And this bill doesn't address those issues.

So I think, though, Bill 13, it has very broad language. I don't really feel it's going to solve the issues that as appraisers and as transparency issue to the consumer, it -- it's not going to fix the issues that are out there.

REP. FONTANA: Well, thank you, Nora, for your testimony. And you sort of hit on the nature of our business, which is we operate in the world of what we can achieve with the amount of time that we have and the amount of support that we have. So I think that's why we've been pleased that there's been this meeting of various stakeholders trying to hash out these issues amongst all of you so that way we could embrace something that reflects a consensus view about how to at least address some of the problems.

I mean, I think what Representative Schofield was sort of hitting on and other, the (inaudible) issue, and you and Rob have talked about some of the other things that need to be addressed. And I think certainly we'll look forward to talking to Senator Duff and others about how we best do that. But I think given the gravity of the situation that we've been led to understand, it seems like it's important to move forward as much as possible. And given that we're -- unlike you, we're only busy for a new months out of the year. We're focussed as much as we can on trying to do as much as we can with the time that we've got. So that's sort of why we're working with the language you see before you and trying to do as much as we can, given the constraints under which we operate.

NORA KING: I -- I think you just have to be very careful that you don't further validate. 'Cause what the -- some -- I work with lots of

different management companies;
90 percent of my business is management companies, unlike many of the other appraisers who were sitting here, Representative, in front of you. I think the one thing you have to be careful of with this if the language isn't revised is you're going to be further validating larger companies like the Quantrix, the LSI, the Realm, the First American. The smaller management companies often do play by the -- the rules. They will hire the person that knows the area. They will pay the appraiser the fee. The large management companies like the LSIs will not. So I think you just have to be really careful with how the language is in the bill that you're not further validating that model by allowing them to set their fee schedules with just a review panel, 'cause I don't think it will work.

REP. FONTANA: Okay.

Questions for Nora from members of the committee?

Seeing none, thank you, Nora.

NORA KING: Okay. Thank you.

REP. FONTANA: And then, finally, Vickie Kelley will testify.

VICKIE KELLEY: Good afternoon.

My name is Vickie Kelley, and I'm a broker and principal of a small real estate firm in Weston, Connecticut, and I'm here to support this Senate Bill 13. And I'm really here as a foot soldier working on a daily basis as a buyer's broker and a seller's broker. I'm dealing with the consumer, and the harms that I see taking place with the lack of regulations with AMCs and the -- and the things that are occurring as a result of it are harsh.

It's hard enough to sell houses these days. It takes a -- a year sometimes to sell a house. Then we have an appraisal come from New Jersey or from New York or wherever, and the data is not collected purely. They're not visiting town halls. They're not doing their due diligence. They're not investigating other sales, because they don't have time. I've learned first-handedly from the AMCs that come that they're being paid $200 or less, oftentimes these are, these bids are put out on the Internet, like Priceline.com to the lowest bidder to take it, and the -- the consumers is at risk.

Recently, I had two cases I want to share with you. I sold a house for a -- a client in Weston. They lived in the home 35 years. They're making a move out of state. The buyers came from out of state, qualified for a conventional loan, 30 percent down. We waited 27 days for an appraisal to show up. Finally when the appraiser came -- it usually takes three days to get a qualified appraiser in for a situation like this -- the AMC told us that they only received the bids the night before and that she was a Veteran appraiser of 25 years, she just signed up for this AMC account because she's a single mom supporting three children, and now she's having to work twice as hard to earn her fees because of the appraisal management center is charging more for the appraisal and paying her less. So data quality is a concern. Data -- data capture is a concern.

Second care is this: I've had another sale recently on 7 1/2 acres in Weston. The property was valued at a million dollars. There's a first -- first -- head right to the property. They had two lots, a house with a pool and the extra acreage, which could be a building lot. The AMC came -- may I continue?

REP. FONTANA: Please just finish, yeah. Thank you.

VICKIE KELLEY: The AMC came, looked at the property, looked at the comparables and told us that it was more trouble to justify the -- the extra land with the house, even though the house was perfectly livable, and it had been occupied for 30 years. And so the loan was denied because the highest and best use assigned to that property was a land deal. We couldn't get a -- a loan on a land deal, so the seller was harmed because he couldn't sell his property unless my buyer came up with cash. Fortunately, my buyer had to liquidate 401(k)s, retirement money, struggle at the end of the year to close the -- there was a tax consequence for the seller -- to close the transition.

Harm to the seller. Harm to the buyer. But what was worse is I was told that the AMC flagged that property in a national data bank for the AMCs saying that the property was not financeable. We didn't have time to go to -- to a local bank to try to redo a loan. So, for me, I'm seeing more sales fall through in this time when we really need to be moving families and people, because junior people are -- people are coming out with the appraisal management centers, they don't have the time or the experience to really view the data and collect the data, and especially when you have these sales, it's harder. It requires more time. So, really, the appraiser should be taking more not less for this hard job that they're doing.

I think that not all the AM -- AMCs are -- are bad; I think there's good. But I'm seeing big business take over and 'cause it's -- clearly it's a profit center, as -- as many of you have spoken about.

I've been a broker for 27 years. I was a past (inaudible) president for Wilton, Weston, Westport, and Norwalk. I can cite dozens of cases, and I've seen houses fall through on sales that should have taken place because the appraisal management center has -- has ruined the opportunity for the sales.

REP. FONTANA: Thank you, Vickie, appreciate your testimony.

Questions for Vickie from the committee?

All right. Seeing none, thank you, very much for your -- your observations.

That concludes public testimony on Senate Bill 13, unless there's somebody who failed to sign up.

So we'll now proceed to Senate Bill 18. Before we do, just want to alert everyone that following with our rules, around 3:12 p.m. we will then proceed to the Legislator's agency heads and municipal

RICHARD BLUMENTHAL
ATTORNEY GENERAL

55 Elm Street
P.O. Box 120
Hartford, CT 06141-0120

SB 13

Office of The Attorney General
State of Connecticut

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.

CONNECTICUT BANKERS ASSOCIATION

13

TO: COMMITTEE ON INSURANCE AND REAL ESTATE

FROM: CONNECTICUT BANKERS ASSOCIATION
CONTACTS: GERRY NOONAN, TOM MONGELLOW, OR FRITZ CONWAY

RE: SENATE BILL NO. 13: AN ACT CONCERNING REAL ESTATE MANAGEMENT COMPANIES

POSITION: SUPPORT WITH REVISIONS

SB 13 would establish a state registration system for appraisal management companies ("AMC's"). It would also impose certain substantive restrictions on AMC's. The Connecticut Bankers Association ("CBA") will support the concept of *registering* AMC's with the State Appraisal Commission, but is very concerned about some of the substantive restrictions. Those restrictions would likely have a negative impact on residential mortgage transactions in Connecticut and would raise costs for consumers.

By way of background, AMC's are a recent byproduct of a new requirement adopted by Freddie Mac and Fannie Mae, who are largest purchasers of mortgage debt in the United States. All mortgage loans purchased by those agencies must have appraisals that comply with their newly adopted Home Valuation Code of Conduct ("HVCC"). The HVCC was adopted to combat, among other things, abuses in appraisal practices where various parties inappropriately influenced appraisers (i.e., to provide inflated values).

These abuses were particularly prevalent in the southwest States and in Florida, which now have the some of the highest instances of mortgage fraud and foreclosures in the country. The HVCC establishes a code of conduct that helps to ensure arm's length independence in the appraiser selection and management process. Although the HVCC does not require a lender to use an AMC, many financial institutions have turned to AMC's to ensure the requisite degree of independence in the appraisal selection and management process.

The outgrowth of AMC's comes at a time when both federal and State law has been revised to strengthen appraiser independence. Last year, the federal Truth-in-Lending regulations were amended to expressly prohibit appraiser coercion. In Connecticut, the General Assembly's Banks Committee sponsored, and the legislature enacted, a bill strengthening Connecticut's anti-coercion provisions.

The CBA believes that AMC's can play a valuable role in the mortgage origination process. As active providers of mortgages in Connecticut, banks are very concerned with two

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aspects of the appraisal process; namely, *quality* and *cost*. AMC's can help to promote the *quality* of appraisals by ensuring that parties involved in the mortgage transaction do not engage in improper coercion. AMC's can also help to manage the cost of appraisals through volume-based competitive contracts with appraisers. This is of benefit to Connecticut consumers, because consumers often pay for the cost of the appraisal, in connection with a mortgage loan.

While the CBA would support legislation that creates a *registration* system for AMC's, we are very concerned with some of the substantive provisions within SB 13. In particular, we are concerned with the provisions that restrain legitimate competition within the appraisal industry. We are also strongly opposed to any provision that attempts to regulate the cost of appraisals. Recent changes in federal law (i.e., HUD's amendments to RESPA) are creating opportunities for banks and others involved in the mortgage loan transaction, to lower the cost of obtaining a mortgage (by creating greater transparency in the cost of the various service providers that help to originate a mortgage). HUD over the years has never engaged in fee setting and they continue with that philosophy.

These new RESPA provisions hold great promise for consumers across the State and in America. We believe the rate regulation provision within SB 13 would serve to undercut the benefits of these new RESPA provisions by restraining the competitive marketplace for appraisal services.

In recent days, the CBA has been in productive discussions with representatives from the appraisal industry, real estate brokerage industry and home builders. Those discussions are continuing. We are hopeful that these discussions will produce a consensus on proposed revisions that we would collectively and respectfully submit to the Committee for its review.

Thank you for your consideration of our comments and concerns with regards to Senate Bill 13.

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Date: February 16, 2010

Re: RB # 13: AN ACT CONCERNING REAL ESTATE APPRAISAL MANAGEMENT COMPANIES, Testimony for the public hearing on 2/16/2010

Dear Senator Crisco, Representative Fontana and members of the Committee on Insurance and Real Estate,

My name is Tony Homicki and as the Assessor of the Town of Darien and also Co Chair of the Legislative Committee of the Connecticut Association of Assessing Officers. I am here today to offer what I believe you will regard as a friendly amendment to Raised Bill #13.

As municipal officials, my colleagues and I are often required to assign a variety of appraisals. These appraisals assist us in our determination of value, as well as in our defense of values in court. The Connecticut Association of Assessing Officers requests that you consider adding a sentence to the bill that would exempt Assessors, along with revaluation companies that are certified by the Office of Policy and Management from its provisions. This would eliminate potential duress that might be raised while we are performing our duties at the local level. You might also want to consider extending the exemption to all federal, state and local agencies or departments.

I thank you for your time and efforts in regard to this issue.

Respectfully,

Anthony J. Homicki CCMA II
Darien Assessor, 203-656-7310
Co Chair of the Connecticut Association of Assessing Officers Legislative Committee

HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.
1245 FARMINGTON AVENUE, 2nd Floor, WEST HARTFORD, CT 06107
Tel: 860-521-1905 Fax: 860-521-3107 Web: www.hbact.org

Your Home Is Our Business

RB13

February 16, 2010

To: Senator Joseph Crisco and Representative Steve Fontana, Co-Chairs, and members of the Insurance & Real Estate Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: RB 13, AAC Real Estate Appraisal Management Companies

The HBA of Connecticut is a professional trade association with 1,100 member firms statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, home improvement contractors, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. We estimate that our members build 70% to 80% of all new homes and apartments in the state.

We support the intent of RB 13 to provide the public greater assurance that the critically important function of real estate appraisals, when done through appraisal management companies, is done with a high level of competency.

Home builders have experienced severe lending issues as a result of the financial collapse and restructuring that has taken place in our economy. We testified before a joint invitational hearing of the Banks and Commerce Committees last December to highlight the issues our members have faced. This testimony can be found on our home page at www.hbact.org. We do not want to paint with a broad brush but some of these credit crisis issues relate to poor appraisals conducted through appraisal management firms.

The common complaint has been that some management companies hire appraisers from outside the area where a new home has been built and sold and is ready to close. Such appraisers may not be familiar with a municipality, let alone a particular neighborhood, and nonsensical appraisals result in lost sales. The cramming down of appraisal fees paid to certain appraisers and the demand for very quick turn-around may also result in the use of poor comparables and a "rushed" job, producing poor appraisals. Nationally, we have urged better guidance be sent out regarding the HVCC rules (or amendments to same) to all parties so that reasonable, permissible and necessary conversations and information exchange can take place between appraisers and interested parties to a transaction. State governments can also do their part to address these issues.

As sellers of new homes and, therefore, very interested consumers of real estate appraisals, we have participated in discussions with the CT Chapter of the Appraisal Institute, the CT Association of Realtors, CT Bankers Association and appraisal management firms over this bill. **At this point, we are comfortable with the direction being taken with the group's negotiations and potential amendments to the bill's language, but reserve comment until we see final language.**

We believe that the registration of appraisal management companies is necessary to ensure accountability to the citizens of Connecticut. Appraisal management companies may be domiciled anywhere and many are not located here even though they engage appraisers here. Registration would at least help to identify such firms and create a framework to hold firms and the appraisers with whom they contract accountable, again for high level of appraisal competency.

To achieve the accountability desired, minimal regulation through clear, objective standards may be necessary to accompany registration. For example, familiarity with the neighborhood of a property should be a minimum requirement to conduct an appraisal. Familiarity with the extent, scope of and reasons for each distressed or foreclosed property in specific neighborhoods and appropriate adjustments to same should be required before using such properties as comparables. To the extent such requirements are already a part of the regulation of licensed appraisers, that's great. To the extent they are not, that needs to be fixed. Appraisal management companies should also internally enforce such rules on the appraisers they hire or be subject to losing their registration to do business in this state.

Having said the above, we strongly urge you to keep regulations to a minimum necessary to ensure a high level of competency of all appraisals. **We do not support the requirement for appraisal management firms to conduct market surveys on pricing.** To our knowledge, such surveys are not required of any other business and could subject the appraisal process to much unnecessary discussion and possible liability or enforcement over survey methods. The expense of conducting such surveys is an unnecessary added cost to real estate transactions.

Frankly, we are not interested in the market share or fee disputes between independent appraisal firms and appraisal management companies. We just want all appraisals to be done competently. **As an alternative to the survey and market rates language of RB 13,** a much better way to address fee issues is to make the cost of appraisals more transparent so that all parties who order an appraisal or are affected by an appraisal understand the actual cost of the appraisal. This can be accomplished by simply requiring appraisers to note on each appraisal the price they were paid for that appraisal. The free market and competition would then take over to stabilize prices at a level that works for appraisers, appraisal management companies, bankers, sellers, buyers and borrowers.

The legislation needs to clarify several other provisions and we await language to be offered by the other interests. For now, we urge your support of RB 13 with the caveats noted above and your consideration of compromise language we trust is forthcoming.

Thank you for the opportunity to comment on this legislation.

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NORA KING
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James Dimon
JP Morgan Chase

January 28, 2010

Dear Mr Dimon,

My name is Nora King and I am the owner of Nora King and Company which is a residential real estate appraisal company based in the State of Connecticut. Additionally, I am an officer of CARA (The Connecticut Association of Real Estate Appraisers.)

I am writing in regards to the appraisal management companies that your company has chosen to manage your appraisal process, moreover Quantrix and LSI.

In my experience these two companies are more focused on the mark up in which they are able to place on an appraisal. Procuring the most experienced appraiser with GEO competency at a reasonable fee is secondary to procuring the cheapest appraiser irrespective of that appraisers GEO competency.

As someone who works for both Quantrix and LSI I can attest to the fact that these companies are constantly trying to solicit the cheapest appraisers who are willing to appraise extremely complex multi million dollar homes for as little as 200.00 or 300.00 dollars.

As appraisers we have to maintain our appraisal work files therefore the aforementioned requests and others like them have been well documented by myself as well as my colleagues within the Connecticut Association of Real Estate Appraisers. To put it bluntly Quantrix and LSI do not care about your customer; all they care about is finding the cheapest appraiser so they can mark and profit off the appraisal service. Also, these same management companies threaten to black ball or decrease the ability of small appraisal offices to survive.

As the CEO of JP Morgan Chase I would hope you would be appalled that your company is allowing the aforementioned AMC's to procure your appraisals based on this methodology.

It is about time that the large banks take responsibility for allowing this practice to continue. I have an MBA in business and I love appraising. However, I have watched the AMCs slowly ruin this business mostly due to big banks like yourself allowing this to happen. You and other Chase executives talk about risk-management continually in the news but yet you actually don't practice what you are preaching. I have hundreds of examples of this with supporting evidence on how Chase uses AMCs and doesn't care about the transparency to the consumer or practice strong risk assessment in the appraisal process.

Your further endorsement of fee erosion and poor quality of the appraisal process would never be tolerated if your own bonuses were tied to it. It seems like the big banks keep profiting more and more from the small business owner and the home buyer everyday!

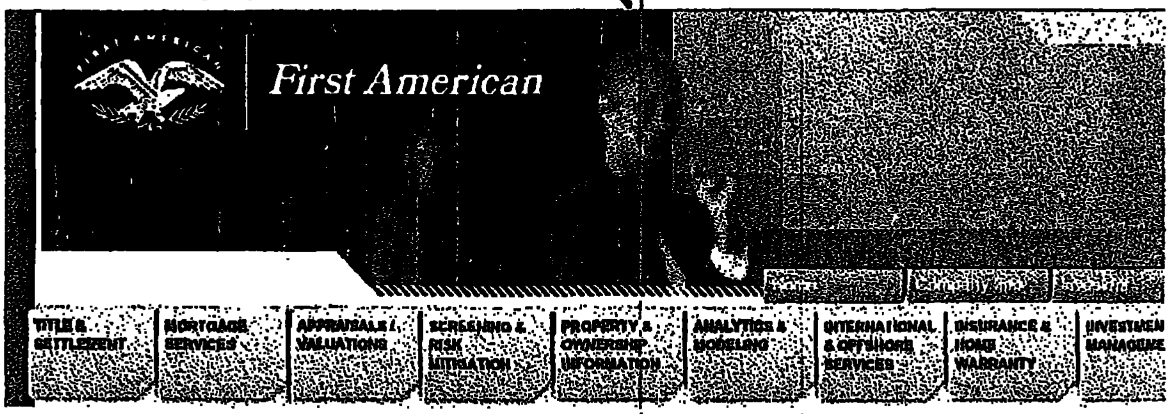
The appraisal is one of the most important steps in the mortgage process. A home is often the largest investment a consumer can have yet you continual endorse this process with AMCS. It must stop!

Regards,

Nora King
Nora King and Co. LLC
294 Rowayton Avenue
Norwalk CT, 06853

CC: CT Banking Commission, Appraisal Commission, Senator Chris Dodd, Senator Joseph Lieberman, President Barack Obama

JP Morgan Chase
aKa Quantrix



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First America - Bloomington, MN
Tuesday, February 02, 2010

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POSITION SUMMARY:

Processing Analysts are responsible for the timely and accurate placement of all Conventional and FHA orders within 24 hours of their receipt. Proper placement is ensured by the PA's analysis of the appraisers available and selection of one that meets the company standard turnaround time, profitability requirements, and quality standards. Complete and concise documentation, as well as clear communication to all parties, is required on all files.

ESSENTIAL FUNCTIONS:

• Appraisal Management functions including answering incoming calls, placing of FHA and Conventional orders, telephone contact with the customer as needed, managing your assigned branch in box and other duties as assigned. These responsibilities may be changed from time to time as appropriate.

• Placing orders. Focusing on rushes, orders on Hold, Finals and orders over 48 hours old first. Order Placement standards are as follows: Conventional – Placed with in 2 hours of activation, FHA – Placed with in 4 business hours, Declines – Reassigned same day, and Holds – Followed up on daily until resolved. The goal is to have 92% of all orders placed with in 24 hours. Each PA will be responsible for calling on any non accepted orders within their area along with placement of new orders.

• Assuring vendor acceptance of the Quantrix Valuation standard turn around time of 5 business days.

• If an appraiser requests a higher fee or longer tat, the PA is expected to get a minimum of 2 other quotes (for a total of 3) in order to determine the best appraiser option for each order

• After eliminating all reasonable options in VOM (by checking previous orders in the subject area and checking the vendor coverage detail report) a One Time Vendor can be used, check www.yahoo.com or the other web-sites given.

• Shorten turn around times by establishing a good flow of communication with our appraisers, keeping in contact with both the appraiser and lender to accomplish this goal.

• Holds – When the reason a hold was requested is out of the appraiser's control, place the order on hold and contact the client to update them and-or request needed information.

• Fees – Products have a standard flat fee regardless of what state the property is located in on all properties up to 1 million dollar or 1.5 million dollars dependant on business line. For this reason it is important for PAs to attempt to place the order to an appraiser with the lowest fee to maintain our profitability. On orders over 1 million dollars the PA is to obtain 3 fee quotes from 3 different offices before assigning the order. In situations where we must use a one time vendor or fee appraiser the PA will need to check as many options as possible to obtain the lowest fee.

Maintain Profitability

• The use of fee appraisers should be limited unless determined to be the best option

• Documentation Habits – ways to improve
o Use the correct abbreviations and acronyms.
o Be clear and concise.
o Do not over abbreviate.
o Do not abbreviate when downloading notes to the client.
o Record the name of the person with whom you spoke.
o Record the person's position.
o Do not use one or two word follow-ups.
o Record the reason for a fee increase request.

Job Qualifications EDUCATION, EXPERIENCE AND SKILLS:

To perform this position successfully, an individual must be able to perform each function satisfactorily. The requirements listed below represent minimum levels of knowledge, skills and/or necessary abilities. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

REQUIRED:

• High School diploma or equivalent
• Strong analytical and problem resolution skills.
• Ability to be creative regarding current processes and future improvements.
• Demonstrated ability to work independently and meet multiple goals and deadlines.
• Effective time management and organizational skills.
• Proven ability in building, nurturing, and protecting customer relationships.
• Excellent oral, written, analytical and interpersonal communication skills.
• Professional demeanor.

PREFERRED:

• Proficient computer skills in Window-based software products such as Word, Access, Excel, Email and Power Point.
• 2-4 year college degree or equivalent relevant experience in the customer service field.

First American offers an empowered work environment that encourages creativity, initiative and professional growth. Our competitive salary and benefits package includes:

• Health, dental and vision care
• 401(k) retirement savings plan including a company match tied to profitability
• Long-term disability insurance
• Short-term disability insurance
• Discount stock purchase program
• Tuition assistance program
• Title and escrow fee reimbursement program
• Company credit union

First American Corporation is an Equal Employment Opportunity/Affirmative Action Employer and maintains a Drug-Free Workplace.
% of Travel Required None
NOTICE: Individual is responsible to adhere to First American Corporation's and department's compliance and information security policies, practices, and procedures, including the handling of systems and data, in the performance of the role.

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Testimony Regarding SB 13

The Controlling Person / Principal Representative should be a real estate appraiser who has been properly licensed as such by the Connecticut Department of Consumer Protection.

1) Many appraisal management companies currently offer their clients a service known as a technical review whereby the appraisal management company will critique the appraisal and render their own opinion of value or state which comparables and/or analysis they feel do not support the value indicated in the appraisal. In many cases this practice violates USPAP as well as our Connecticut general statutes which say that the only one who can offer these types of services is someone who has been properly licensed as a real estate appraiser by DCP.

2) An appraiser/principal representative from this state will also have a greater knowledge about the various markets within this state as compared to an appraiser/principal representative who is from another state. By knowing the various markets doesn't guarantee but rather helps to ensure that management companies are selecting appraisers based on their geo competency rather than just their fees and E&O policy limits.

3) By requiring the principal representative to hold a valid Connecticut appraisal license also ensures that the state can serve a summary process to the principal representative much like the state is are able to currently do with registered agents who are acting on behalf of out of state corporations.

4) Requiring the principal representative to be an appraiser from Connecticut would also be in keeping with our current real estate laws as they relate to the real estate profession in Connecticut. Currently each real estate agency is required by law to designate a real estate broker who has been properly licensed as such in Connecticut. And, each real estate appraisal company is owned by a real estate appraiser who has been properly licensed as such in Connecticut. This isn't to say that the Principal Representative/Controlling Person can't reside in a state other than Connecticut but it does say that if you are acting as the person responsible for the day to day operation of the company you are representing then you need to hold a valid appraisal license in this state.

5) Also, the Principal Representative/Controlling Person shouldn't be allowed to act as such for any more than one Appraisal Management company at any given time.

6) If the Controlling Person / Principal Representative is an appraiser from Connecticut then most likely the company they represent will also be based in Connecticut.

I believe there is also an economic argument that can't be overlooked and that is that every dollar collected by an appraiser from within our state typically stays in our state and is taxed in our state. However, every dollar collected by an out of state Appraisal Management Company will leave this state and be taxed in the state where the Appraisal Management Company is located. Further, every dollar that leaves this state is a dollar that our Legislature will be forced to find from within our state.

I believe we have an opportunity to keep those tax dollars right here in Connecticut and we do that by only allowing a properly licensed Connecticut Real Estate Appraiser to act as the Controlling Person / Principal Representative for no more than one Appraisal Management Company at any given time and by requiring each Appraisal Management Company to maintain a physical presence within our State.

Submitted by: Rob Clermont – Certified Real Estate Appraiser & President, The Connecticut Association of Real Estate Appraisers

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CONNECTICUT ASSOCIATION OF
REALTORS® INC.

Statement on

S.B. 13 An Act Concerning Real Estate Appraisal Management Companies

SUPPORT

Submitted to the Insurance and Real Estate Committee
February 16, 2010

By Ken DelVecchio

Good afternoon. My name is Ken DelVecchio. I'm affiliated with RE/MAX Heritage of Westport, and I am a former president of the Connecticut Association of REALTORS®, for whom I speak today.

REALTORS® support Senate Bill No. 13, which requires the registration and regulation of appraisal management companies (AMC's). As you may know, AMC's have been around for some time, but only since May of last year have they have gained so much influence in the real estate market place. That is when the new "Home Valuation Code of Conduct" was promulgated following negotiations between New York Attorney General, Andrew Cuomo, Fannie Mae, Freddie Mac, and the Federal Housing Finance Agency.

These rules, in effect, imposed firewalls between a lender's loan production staff and the appraiser doing the evaluation of the collateral for the loan. The objective was to insulate individual appraisers from improper influence of those who may stand to profit from an appraisal figure that's overinflated or otherwise inaccurate.

Lenders were now confronted with a challenge – finding a way to use and employ individual appraisers but doing so with a buffer to insulate them from the appearance of improperly influencing their decisions. Thus, the solution emerged of using appraisal management companies as middlemen. The bank hires the AMC, the AMC has a list of approved appraisers, and (perhaps on a rotational basis) assigns appraisers to do the assignments required by the lender.

These rules unfortunately created severe, unintended consequences. Some of the very people who were to be protected by the new process are the very ones being hurt. Significantly, the rules give the AMC's a lot of influence, not only in assigning jobs to appraisers, but over what the AMC will charge the lender and what the AMC will pay the appraiser in the field. Consumers who pay for the appraisal report are usually left in the dark as to what portion of their payment went to the appraiser.

While individual appraisers are licensed and strictly regulated by the State of Connecticut, the appraisal management companies are not. This must change for three reasons: the increased influence of AMC's in the marketplace , the lack of any federal regulator for AMC's despite the benefit they now derive from these "quasifederal" rules (the Home Valuation Code of Conduct), and most importantly, the injury being done to the public by some AMC's.

Properly licensed real estate appraisers must increasingly depend on receiving assignments from appraisal management companies. Last year, 39% of appraisers surveyed by the National Association of REALTORS® reported more than half their business came through AMC's – nearly triple the amount compared to before the new rules. Yet these new "guardians" of appraiser independence in effect have no one watching over them.

The void was supposed to have been filled by a new "Independent Valuation Protection Institute" set up to give consumers - - and individual appraisers - - a place to report improper appraisal conduct and misbehavior by AMC's. No such Institute exists, even though the Home Valuation Code of Conduct boasted that the availability of its services would be announced to both borrowers and appraisers by its participating lenders.

The injury to the public is evident in numerous ways:

>> Homesellers have suffered inexcusable delays and even lost sales due to AMC-assigned appraisers not being geographically competent or otherwise qualified. I had one case of a willing seller and a qualified buyer who were told by the AMC appraiser that their agreed-upon price was $100,000 too much. It turned out that the report overlooked a bedroom, one fireplace, and half a garage! Weeks were wasted seeking an "appeal" that was fruitless.
>> Homebuyers (like the one in this case, relocating from California) are injured. Although the original price was validated, he had to pay $750 more for another application and appraisal through a second lender.
>> Homebuyers have lost favorable interest "rate locks" due to the complexities of navigating the system when AMC-assigned appraisers make mistakes or the AMC's are slow to respond to complaints.
>> "Transparency" of costs has been clouded; buyers don't know how their payment is being divided up between the AMC, the appraiser, and the lender.
>> Since a healthy and sound real estate market is crucial to fostering Connecticut's business recovery, our local and State economies (and the taxes they produce) are impaired by faulty property valuations and cancelled home sales.

While the Connecticut Association of REALTORS® strongly favors SB 13 as a means for consumers redress, we are not absolutely wedded to every provision in its 12 pages. Some will say it's too strict; others that it's not strict enough. By establishing a State registration system and standards that can be enforced, we believe SB 13 provides a "measured" degree of oversight with little if any fiscal impact.

We are confident that through ongoing collaboration with you and other lawmakers, a bill such as this will "get the job done". We look forward to working with the Appraisal Institute, the Connecticut Bankers Association, the Home Builders Association, Consumer Protection Department, and other interested parties in this urgent matter.

Are there any questions?

Thank you for raising this bill and for your kind attention.

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Line 1
Page 4

Andrews&Galvin Appraisal Services, LLC

16 Spring Lane | Farmington | CT 06032 | 860-677-5522 | Fax:860-677-5544

John J. Galvin, MAI
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February 16, 2010

Committee on Real Estate & Insurance
Connecticut General Assembly
Legislative Office Building
Hartford, CT 06106

Re: Senate Bill No. 13
An Act Concerning Real Estate Appraisal Management Companies

Senator Crisco, Representative Fontana and members of the committee, my name is **John Galvin, President of the Connecticut chapter of the Appraisal Institute** and I am here to speak in favor of Senate Bill 13, An Act Concerning Appraisal Management Companies.

The Appraisal Institute is an International Organization that is the largest voice for those appraising real property. Though there is an associate and affiliate membership options with our organization, designated membership requires a rigorous certification program that includes not only a college education, but a series of course work, the passing of comprehensive exams, several levels of documented appraisal experience that can take 3 – 7 years to attain and the passing of a very detailed demonstration appraisal report, which is equivalent to a college thesis.

Members of the Appraisal Institute are not only bound by the requirements of the Uniform Standards of Appraisal Practice, which are appraisal standards written by the Appraisal Foundation (a quasi-government board) but also our own Code of Ethics and additional standards in order to assure "Public Trust" that we routinely perform a credible and quality appraisal analysis and clearly communicate the appraisal analysis and/or value in a manner that is not misleading. The two primary designations are SRA, given primarily to residential and small commercial property appraisers and the MAI, awarded to those who appraise commercial property types and solve complex real estate valuation problems.

Senate Bill 13 is simply a bill to get Appraisal Management Companies (AMC's) to Register with the State of Connecticut. Currently, they are the only part of the lending process that is not required to register or is regulated. This bill is necessary in order to assure appraisal reports are competently ***completed by qualified appraisers appropriately certified.*** This Act is not just necessary to protect those relying on the value estimates reported to make competent purchase and finance decision, but also to assure loans are sufficiently collateralized to maintain stability within the banking and secondary mortgage markets.

Raised Bill No 13 has the support of nearly every group the Connecticut Chapter of the Appraisal Institute has had discussions with over the past year, including, but not limited to, the Connecticut Home Builders Association, the CT Association of Realtors, CMBA, independent fee appraisers and even the Title Vendor Management Association, which is the 30 year old trade association for Appraisal Management Companies. You have heard a number of testimonies to date in support of this bill; however, I would like to take a moment to clarify the deception that there is division amongst appraisers on this issue by shedding some light on what has happened within the appraisal industry over the past two years that has forced us here today.

Though within the State of Connecticut we have licensing laws for appraisers, and as part of that law appraisers are required to comply with the Uniform Standards of Professional Appraisal Practice, appraising real property is a profession that relies on experience. Though the barrier of entry was recently raised by the Ct. Real Estate Commission to obtain State Certification, the requirements are designed to meet the minimum criteria to competently appraise real estate.

Appraisal Management Companies have been in existence for a long time. An AMC's primary function is to assist their clients in the appraisal ordering, and often review, function of loan underwriting. Prior to the Home Valuation Code of Conduct (HVCC), there were few AMC's in existence. However, HVCC created a market format that resulted in a sudden increase in the number of AMC's 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 AMC's (not all) elected to take advantage of the oversupply by placing inappropriate pressure on appraiser in an attempt to get the lowest fee possible. Since the typical AMC gets a set fee from their 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 AMC's, appraisers are forced to either accept low fees and the business terms demanded by many AMC's 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 now 1,765 licensed appraisers in the 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, nearly all of which are appraisers who have entered the business within the past five years.

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. 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 voices coming from appraisers, though sounding different, and in some cases quit emotional, are really all on the same page of passion and respect for appraisal industry.

The Senate 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 AMC's that order appraisals in the State of Connecticut to register with the Department of Consumer Protection. It also includes minimum requirements for AMC's, 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, ***and most importantly that a licensed appraiser is used by the AMC to review the appraisal report.***

Senate 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 6 states passing similar legislation last year and approximately 30 more proposing legislation this year.

Please also note, though most bills will add to the budget constraints of the State of Connecticut, the results of this bill are expected to have a positive impact on fiscal policy. The end result of Senate Bill 13 will not only be less complaints for the Department of Consumer Protection to investigate that may require costly legal action to mitigate, but will also enhance the stage of the Connecticut Real Estate market so it can function in a more liquid format; thus, adding to the pattern of economic recovery, which in time creates revenues that can be taxed.

Thank you for your time and consideration,
John J. Galvin, MAI, President of the CT Chapter of the Appraisal Institute

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Testimony of the

Connecticut Chapter of the Appraisal Institute

before the Insurance and Real Estate Committee

On

Senate Bill No. 13 – An Act Concerning Real Estate Appraisal Management Companies

Presented by

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Senator Joseph Crisco
Representative Stephen Fontana
Insurance and Real Estate Committee
Room 2800: Legislative Office Building
Hartford, Connecticut

Good Afternoon Senator Crisco, Representative Fontana and members of the Insurance and Real Estate Committee. My name is Ralph Biondi and I am a certified general appraiser with the firm of Biondi & Rosengrant L.L.C. in Waterbury, Connecticut. I am here today as the chairman of the Legislative Affairs Committee of the Connecticut Chapter of the Appraisal Institute.

The Appraisal Institute is a global membership association of professional real estate appraisers with nearly 25,000 members throughout the world, including 400 here in Connecticut. The Appraisal Institute was organized in 1932 with a mission to support and advance its members as the choice for real estate valuation solutions and uphold professional credentials, standards of professional practice and ethics consistent with the public good. The Appraisal Institute is recognized nationally, and within the state of Connecticut, as the leading advocate for the real estate appraisal profession. As members of the committee know, real estate appraisers provide very specialized services within the larger real estate economy and are unique in the process as our regulation is by virtue of a federal mandate but is administered by the state.

We appreciate the committee holding a hearing on Senate Bill #13, An Act Concerning Real Estate Appraisal Management companies. I would like to provide the members of the committee with some background so they may understand the reason for the bill before the committee.

Appraisal Management Companies (AMC) are business entities that administer networks of independent appraisers to fulfill real estate appraisal assignment on behalf of lenders. AMC's are third party brokers of appraisal services who sit between banks and other mortgage originators and licensed or certified appraisers who perform the real estate appraisals. The AMC recruits, qualifies, verifies licensure, negotiates fees and service level expectations with a network of third party appraisers. In some cases, the AMC is also responsible for many tasks associated with the collateral valuation process to include appraisal review, quality control, market value dispute resolution, warranty administration and record retention.

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Appraisal management companies have been in existence for many years and afford lenders the option of outsourcing the administration of the appraisal function. However, the industry has experienced explosive growth in the past year since the implementation of the Home Valuation Code of Conduct (HVCC). The Home Valuation Code of Conduct was a consent decree between the Attorney General of the State of New York and FNMA and FHLMC, the two largest purchasers of mortgages in the secondary financial market. HVCC was designed to prevent unfair pressure on real estate appraisers from mortgage originators and others with an interest in the financing transaction. It was hoped that this Code of Conduct would more completely address the issue of lender pressure on appraisers to *hit the mark* and meet the valuation expectations of the mortgage broker and borrower.

However, the implementation of HVCC had *unintended* consequences that are proving more and more disruptive to the appraisal process within the mortgage financing transaction.

These unintended consequences can be attributed to the consolidation of the appraisal ordering process with one entity. Some AMC's take an exorbitant percentage of the fee paid by the borrower for the real estate appraisal. They seek to maximize profit by intimidating appraisers into working for a lesser fee. They also seek to accelerate the turn around time for assignment completion. There are also reports of AMC's sending appraisers to distant areas where they lack full market knowledge. This may lead to inadequate valuation conclusions that can be disruptive to the sale or refinancing marketplace. I have read postings on a variety of appraiser oriented websites detailing what I would charitably call *very troubling* recitations of appraiser dealings with the more egregious appraisal management companies. I know there are others here today who will address those types of concerns.

We think it is important to note that the AMC's are the only entity in the real estate sale and financing transaction who are not licensed or regulated. All other participants, be they banks, mortgage companies, real estate appraisers, attorneys, title companies, home inspectors and realtors are licensed or certified by either federal or state regulatory agencies. The appraisal management companies are the notable exception. Six states have passed legislation regulating appraisal management companies with California being the most recent. It is my understanding that another thirty states are considering some form of regulation of appraisal management companies. Additionally, HR-4173 the Wall Street Reform and Consumer Protection Act of 2009, passed by the United States House of Representatives, includes a provision for mandating the regulation of appraisal companies within the next three years.

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The Connecticut Chapter of the Appraisal Institute has been proactive in dealing with the appraisal management company issue on behalf of appraisers in Connecticut. Members of the chapter, and our lobbyist, have met with representatives of the Connecticut Banking Department, the Connecticut Department of Consumer Protection and the Attorney General. A meeting took place this past Friday with representatives of the Connecticut Bankers and Mortgage Bankers Association, the Connecticut Association of Realtors and the Homebuilders of Connecticut. Representatives of T.A.V.M.A., the trade association for national, appraisal management companies, were included in this meeting by conference call. A clear consensus emerged that the language found in Senate Bill 13 represents a framework to properly address the issue of registering and adequately regulating appraisal management companies and protecting the interests of all of the participant groups and, most importantly, the consumers of real estate appraisal services.

The Connecticut Chapter of the Appraisal Institute would like to encourage the members of the Insurance and Real Estate Committee to pass An Act Concerning Real Estate Appraisal Management Companies. Thank you for allowing me to present this testimony and I would be happy to answer any questions from the committee.