March 14, 2017

REVAA
REAL ESTATE VALUATION ADVOCACY ASSOCIATION

The Honorable Rosalyn H. Baker, Chair
Senate Committee on Commerce, Consumer Protection, and Health
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: H.B. 50, HD3 – Appraisal Management Company (AMC) Regulation

LATE

Aloha Chair Baker, Vice Chair Nishihara, and Members of the Committee:

On behalf of the Appraisal Management Companies (AMCs) represented by the Real Estate Valuation Advocacy Association (REVAA), **we are grateful for your consideration and strongly support passage of H.B. 50, HD3.** We believe this legislation will enact fair and balanced regulation of AMCs in Hawaii.

REVAA is an industry trade association whose membership includes 21 AMCs that collectively provide more than 80 percent of the residential appraisal transaction volume nationwide on behalf of mortgage lenders, many of whom serve Hawaii mortgage consumers. In addition, many REVAA members also provide other important lender valuation services such as Broker Price Opinions (BPO) and Alternative Valuation Methods (AVM).

AMC's are in a precarious situation whereby they need to advocate for their own regulation by all 50 states and the five U.S. territories to avoid a massive disruption in the residential mortgage servicing for consumers and lenders in Federally Related Transactions. Therefore, while generally we believe in less state government regulation, REVAA members do support minimal state regulation that complies with the federal mandate under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Dodd-Frank added section 1124, Appraisal Management Company Minimum Requirements, to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 19893 (Title XI). Section 1124 required the Office of the Comptroller of the Currency (OCC); Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); National Credit Union Administration (NCUA); Bureau of Consumer Financial Protection (Bureau); and Federal Housing Finance Agency (FHFA) (collectively, the agencies) to establish, by rule, minimum requirements for State registration and supervision of AMCs. In accordance with the statute, the agencies recently issued a final rule (referred to as the AMC Rule) which was published on June 9, 2015, with an effective date of August 10, 2015. States have 36 months to comply – August 10, 2018.

AMCs Play a Vital Role in Protecting Consumers

- **Safeguard Appraiser Independence and Protect Against Fraud** – AMCs help ensure that appraisals are completed in compliance with federal and state law and that the opinion of value was achieved by the appraiser independently, without undue influence. Prevention of coercion is critical to avoiding collusion within the valuation process and therefore potential fraud.
  - » A lack of appraiser independence has led to previous housing bubbles and predatory lending. Long before the HVCC and Dodd-Frank the nation had been adversely affected by prior valuation crises in the 1930s and 1980s. FIRREA was part of an effort to rein in abuse but was inadequate. The same independence protects consumers and lenders by providing assurance that real estate assets are correctly valued as there are reams of federal/state reports estimating the losses to the economy from valuation fraud.
  - » Most AMCs have systems and processes in place to:
    - o Investigate appraiser concerns regarding attempts to influence valuation
    - o Investigate consumer complaints regarding unprofessional conduct
    - o Communications with consumers to help educate them regarding misunderstandings of appraisal practices and/or principles

- **Help Lower Costs Associated with Borrowing** – While compliance with state and federal laws and rules is a big reason for lenders use of AMCs, another one is that lenders have high overhead and must compete in a competitive marketplace and the use of AMCs helps them provide the service efficiently and cost effectively to benefit the consumer while ensuring payment of Customary and Reasonable Fees to appraisers.
- **Provide Quality Controls** - AMCs employ quality control measures to ensure the integrity of a supportable, dependable and credible appraisal, which can identify mistakes and fraud in appraisal reports that protect consumers from faulty opinions of value.
- **Reduce Turnaround Times** - AMCs employ valuation experts to screen appraisal reports to identify issues early, and have a much larger success rate in resolving valuation issues without causing unnecessary delays and mitigation consumer dissatisfaction.
- **Assure that a Competent Appraiser is Selected** - Ensure only the most qualified and geographically competent appraisers are sent to a consumer's home.
- **Protect Public Safety** – Consumers are provided an extra layer of safety and protection as AMCs complete background checks of appraisers before they can be employed or empaneled. Further, AMCs continue to monitor their appraisers while they are employed or empaneled to ensure that unqualified appraisers or those that may pose a threat to public trust or safety are removed.
- **Assist Appraisers with Consumer Questions** - AMCs work with appraisers to resolve borrower questions and provide the borrower/lender an ability to submit value appeals while complying with appraiser independence.
- **Provide Customer Service Issue Resolutions** - AMCs resolve customer service escalations that are not directly related to the appraisal process through their access to lenders that the consumer may not otherwise have.
- **Support Hawaii Appraiser Regulatory Function** - In fulfilling their responsibilities, AMCs will help support the obligations that Hawaii has in regulating appraisers (i.e., by reporting on appraiser violations of the USPAP and other relevant professional licensing standards).

AMCs are Integrated into America's Mortgage Lending and Secondary Markets

It is estimated that nearly 70% of lenders now use AMCs exclusively for their facilitation of residential appraisals. The remaining one-third of lenders (primarily smaller lenders) manage their own in-house appraiser panels, many of which use their own panels which often include the use of AMCs.

- **Act as a Compliance Partner for AMC Regulations** - Serve as invaluable partners for ensuring efficiency and compliance with state and federal AMC regulations.
- **Ensure Lender Compliance with Banking and Mortgage Regulations** - Support lender compliance with federal banking regulations (e.g., Fed, FDIC, OCC, CFPB) governing mortgage lending (i.e., appraisal review).
- **Help Reduce Costs & Ensure Appraiser Independence** - Large and medium sized lending institutions have indicated that they need independent AMCs, because of the cost for them to establish and maintain the necessary internal firewalls for effective appraiser independence compliance.
- **Protects Against Marketplace Disruption** - Ensures that lenders who use AMCs get their valuation work completed. If AMCs were not to be regulated in Hawaii, lenders would be forced to create elaborate internal controls and firewalls that they would not have to create in other states to obtain their appraisal procurement functions on FRTs, with the least disruption to mortgage lending in the state.

Mahalo for considering our comments. Please do not hesitate to contact me with questions.

Respectfully,

Mark Schiffman
Executive Director