



DAVID Y. IGE  
GOVERNOR  
SHAN S. TSUTSUI  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: 586-2850  
Fax Number: 586-2856  
cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN  
DIRECTOR  
JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

**PRESENTATION OF THE  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

TO THE HOUSE COMMITTEE ON  
INTRASTATE COMMERCE

THE TWENTY-NINTH LEGISLATURE  
REGULAR SESSION OF 2017

WEDNESDAY, FEBRUARY 1, 2017  
9:00 a.m.

**TESTIMONY ON HOUSE BILL NO. 50, RELATING TO APPRAISAL MANAGEMENT  
COMPANIES**

TO THE HONORABLE TAKASHI OHNO, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Catherine Awakuni Colón, Director of the Department of Commerce and Consumer Affairs (“DCCA” or “Department”). DCCA appreciates the opportunity to offer comments on H.B. No. 50, Relating to Appraisal Management Companies.

H.B. 50 would establish an appraisal management company (“AMC”) registration program within the Department to conform to the minimum standards established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203 (“Dodd-Frank Act”), and the Minimum Requirements for Appraisal Management Companies Final Rule, 80 Federal Register, 32657 et. seq. (“AMC Final Rule”).

The Dodd-Frank Act does not compel a State to establish an AMC registration and supervision program, nor is a penalty imposed on a State that does not establish a

regulatory structure for AMCs within 36 months of issuance of the AMC Final Rule. However, in a State that has not adopted the AMC minimum requirements established by the AMC Final Rule, AMCs are barred from providing appraisal management services for Federally related transactions, unless they are owned and controlled by a Federally regulated depository institution. Thus, appraisal management services may still be provided for Federally related transactions in non-participating states by individual appraisers, by AMCs that are below the minimum statutory panel size threshold, and by Federally regulated AMCs. 80 Federal Register at 32659.

Following the issuance of the AMC Final Rule, the Department solicited information and advice from stakeholders about whether regulation at the state level was necessary. Among the comments received, the Department has been advised that the absence of state regulation of AMCs may deter some lenders from offering mortgage financing in the State. Provided that an appropriate amount of resources can be included in this measure to cover the cost and complexity of the regulation, the Department does not object to this measure on the understanding that it will ensure that Hawaii's residential mortgage consumers have the widest range of financing choices available.

Regarding the specific language of H.B. 50, the Department supports the bill's intent, but not the bill's current form. For example, the Department recommends that the AMC statute be placed in a separate chapter rather than as a part of Chapter 466K, Hawaii Revised Statutes, so that its language can be reconciled more appropriately with the existing appraiser law and rules. Also, as noted above, the Department respectfully requests personnel and startup funding authorization to address the costs that will be

associated with this program. The Department is willing to work with stakeholders on its proposed revisions to the language of the bill.

Thank you for this opportunity to provide comments on H.B. No 50. I would be pleased to respond to any questions that you may have.



DAVID Y. IGE  
GOVERNOR  
SHAN S. TSUTSUI  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: 586-2850  
Fax Number: 586-2856  
cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN  
DIRECTOR  
JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

**PRESENTATION OF THE  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

TO THE HOUSE COMMITTEE ON  
INTRASTATE COMMERCE

THE TWENTY-NINTH LEGISLATURE  
REGULAR SESSION OF 2017

WEDNESDAY, FEBRUARY 1, 2017  
9:00 a.m.

**TESTIMONY ON H.B. NO. 50  
RELATING TO APPRAISAL MANAGEMENT COMPANIES**

TO THE HONORABLE TAKASHI OHNO, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda, Commissioner of Financial Institutions of the Division of Financial Institutions ("DFI"), offering comments on H.B. No. 50. Banks and mortgage loan originators are two industries under DFI licensure, examination and regulatory purview that make mortgage loans and may be impacted by this bill. Outside of DFI, the program for licensing or certification of real estate appraisers is overseen by DCCA's Professional and Vocational Licensing Division.

Appraisal management companies ("AMCs") are business entities that manage networks of independent appraisers who prepare appraisals on behalf of lenders. An AMC may also be responsible for the collateral valuation process, including appraisal

review, quality control, market value dispute resolution, warranty administration, and record retention. Although the government sponsored enterprises (“GSEs”) are exempt from the AMC laws, they each use an automated valuation model (“AVM”) to value the residential mortgage transaction<sup>1</sup>. The majority of Hawaii’s residential mortgages are sold through and to GSEs that now use an AVM. According to REVAA<sup>2</sup>, about 12% of residential mortgage transactions would be impacted by the AMC registration law.

Registration of AMCs is not mandatory under federal law. If Hawaii does not implement an AMC registration scheme, a lender would need to maintain its own independent appraiser panel and ensure that appraisal orders are randomly assigned. DFI recognizes that AMCs are used by bank and nonbank lenders that do not have a physical presence in Hawaii. Registration of AMCs would enable such lenders to continue to manage appraisers through AMC, and may result in greater choices of lenders for consumers.

Finally, if this bill becomes law, DFI will need to add to its bank and mortgage loan originator examination procedures the determination whether the AMC is duly registered pursuant to State law. DFI would not be examining the AMC itself for the AMC's compliance with State law.



Thank you for this opportunity to provide comments on H.B. No 50. I would be pleased to respond to any questions that you may have.


---

<sup>1</sup> Fannie Mae, Freddie Mac, US Department of Veterans Affairs, and Federal Housing Administration use an automated appraisal risk assessment application aimed to help lenders manage appraisal quality, originate mortgages with more certainty and efficiency, and lower costs.

<sup>2</sup> Real Estate Valuation Advocacy Association



 | 808-733-7060  
 | 808-737-4977

 | 1259 A'ala Street, Suite 300  
Honolulu, HI 96817

February 1, 2017

**The Honorable Takashi Ohno, Chair**  
House Committee on Instate Commerce  
State Capitol, Room 429  
Honolulu, Hawaii 96813

**RE: H.B. 50, Relating to Appraisal Management Companies**

**HEARING: Wednesday, February 1, 2017, at 9:00 a.m.**

Aloha Chair Ohno, Vice Chair Choy, and Members of the Committee.

I am Myoung Oh, Director of Government Affairs, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 9,000 members. HAR **strongly supports** H.B. 50, which establishes an appraisal management company (AMC) registration program within the department of commerce and consumer affairs to conform to minimum standards established under federal law and regulations.

An AMC is an entity that administers networks of independent appraisers to fulfill real estate appraisal assignments for lenders. AMCs serve as an intermediary to ensure independence between the appraisal and loan originator. Additionally, AMCs perform essential functions in many residential transactions, including coordinating appraisal completion, maintaining a roster (panel) of qualified appraisers, maintaining appraiser independence by serving as a liaison between the appraiser and lender, and performing quality control reviews of the appraisal before sending it to the lender.


The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) directed that six federal financial regulatory agencies<sup>1</sup> promulgate rules on the minimum requirements for states to register AMCs. The final rules were published in the Federal Register on June 9, 2015, and became effective August 10, 2015. While the final rule does not force a State to enact these minimum requirements, it specifies that if a State fails to do so by August 10, 2018, non-federally regulated AMCs will be barred from providing appraisal management services for federally-related transactions in that State.


---


<sup>1</sup> The six agencies include the Board of Governors of the Federal Reserve System, Comptroller of Currency, Federal Deposit Insurance Corporation, National Credit Union Administration Board, Federal Housing Finance Agency and Bureau of Consumer Financial Protection.





 | 808-733-7060

 | 808-737-4977

 | 1259 A'ala Street, Suite 300  
Honolulu, HI 96817

---

In response to Dodd Frank and the federal rules, 40 states have enacted legislation to regulate AMCs. The impact of not adopting these rules could have a significant disruption on the mortgage market in Hawaii. It is estimated that a variety of lenders currently utilize between 60-100 AMCs in Hawaii. Without regulation, these lenders would have to create new ways to process appraisals, or might choose not to provide mortgages in the State. Ultimately, this may increase consumer costs, and limit the availability of mortgage products in Hawaii.

S.B. 390 enacts a regulatory structure to meet the minimum federal requirements, and to allow AMCs to continue to operate in Hawai'i. These regulations will ultimately help protect consumers by providing full oversight over all aspects of the appraisal process in real estate transactions.

Mahalo for the opportunity to testify in strong support of this measure.



# HAWAII FINANCIAL SERVICES ASSOCIATION

c/o Marvin S.C. Dang, Attorney-at-Law

P.O. Box 4109

Honolulu, Hawaii 96812-4109

Telephone No.: (808) 521-8521

February 1, 2017

Rep. Takashi Ohno, Chair

Rep. Isaac W. Choy, Vice Chair

and members of the House Committee on Intrastate Commerce

Hawaii State Capitol

Honolulu, Hawaii 96813

Re: **H.B. 50 (Appraisal Management Companies)**

**Hearing Date/Time: Wednesday, February 1, 2017, 9:00 a.m.**

I am Marvin Dang, the attorney for the **Hawaii Financial Services Association** (“HFSA”). The HFSA is a trade association for Hawaii’s consumer credit industry. Its members include Hawaii financial services loan companies (which make mortgage loans and other loans, and which are regulated by the Hawaii Commissioner of Financial Institutions), mortgage lenders, and financial institutions.

The HFSA **supports** this Bill.

This Bill: (a) establishes an appraisal management company registration program within the Department of Commerce and Consumer Affairs to conform to minimum standards established under federal law and regulations; and (b) establishes registration requirements, standards, and penalties for violations.

Because of a federal law requiring that the real estate appraisal function of a financial institution be separate and independent from the financial institution’s loan origination function, over 60% of lenders nationally use “appraisal management companies” (“AMC”) for residential appraisals. AMCs ensure appraisal independence by being the liaisons between lenders and appraisers. AMCs maintain lists of qualified appraisers, arrange for appraisals to be done, and provide quality control reviews of the appraisals before the AMCs send the appraisals to the lenders.

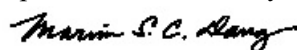
A federal interagency group issued a Final Rule in 2015 regarding AMCs. Beginning on August 10, 2018, lenders will be barred from using AMCs for “federally regulated transactions” in a state which doesn’t have an AMC registration and supervision program in place that meets the Rule’s minimum requirements.

A “federally regulated transaction” is generally a real estate-related financial transaction that involves an insured depository financial institution and that requires the services of an appraiser. An example is a mortgage loan by a bank to a consumer to purchase a home or to refinance a home loan. The appraisals are for loans that are on origination or for the secondary market (e.g. VA, Fannie Mae, etc.).

Hawaii is one of only 10 states that doesn’t yet have an AMC registration and supervision program. If Hawaii doesn’t implement an AMC program, the residential mortgage market would be negatively impacted. We understand that while most local financial institutions don’t currently use AMCs, many mainland financial institutions which make mortgage loans in Hawaii do use AMCs. Because mainland lenders provide a large portion of mortgage loans in Hawaii, unless there is an AMC program in place in Hawaii, those lenders will not be able to use AMCs for federally regulated transactions. A consequence will be a disruption for consumers, lenders, and real estate professionals for mortgage loans for home purchases and refinancings. Reduced lending options and availability will not be in the best interest of consumers.

We understand that this Bill needs to pass during this legislative session (and not wait until 2018) so it can be signed into law this year to timely establish an AMC program within the Department of Commerce and Consumer Affairs.

Accordingly, we ask that your Committee pass this Bill. Thank you for considering our testimony.



MARVIN S.C. DANG

Attorney for Hawaii Financial Services Association





TEL:  
808-524-5161  
FAX:  
808-521-4120  
ADDRESS:  
1000 Bishop Street, Suite 301B  
Honolulu, HI 96813-4203

Presentation To  
House Committee on Intrastate Commerce  
February 1, 2017 at 9:00am  
State Capitol Conference Room 429

**Testimony in Support of House Bill 50**

TO: The Honorable Takashi Ohno, Chair  
The Honorable Isaac W. Choy, Vice Chair  
Members of the Committee

My name is Edward Pei and I am the Executive Director of the Hawaii Bankers Association (HBA). HBA is the trade association representing eleven FDIC insured depository institutions with branch offices in the State of Hawaii.

We support the intent of House Bill 50, which would establish a registration program for Appraisal Management Companies (AMC) wishing to do business in Hawaii. Most other states in the country have already established a registration program for AMCs and we are concerned that the lack of AMC regulation in Hawaii would create unintended consequences for consumers, including lessening the availability of credit for mortgages and other real estate secured lending. We join with the Real Estate Valuation Advocacy Association (REVAA), the Mortgage Bankers Association (MBA), and the American Bankers Association (ABA) in supporting nationwide adoption of this registration program.

Thank you for the opportunity to submit this testimony and please let us know if we can provide further information.

A handwritten signature in black ink, appearing to read 'Edward Y. W. Pei', is centered on the page.

Edward Y. W. Pei  
(808) 524-5161



February 1, 2017

The Honorable Takashi Ohno, Chair  
House Committee on Intrastate Commerce  
Hawaii State Capitol, Room 332  
Honolulu, Hawaii 96813

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

Aloha Chair Ohno, Vice Chair Choy, and Members of the Committee:

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

REVA 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 REVA 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, REVA 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:
    - Investigate appraiser concerns regarding attempts to influence valuation
    - Investigate consumer complaints regarding unprofessional conduct
    - 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



*Mortgage Bankers Association of Hawaii*  
*P.O. Box 4129, Honolulu, Hawaii 96812*

January 27, 2017

The Honorable Takashi Ohno, Chair,  
The Honorable Isaac W. Choy, Vice Chair, and  
Members of the House Committee on Intrastate Commerce  
State Capitol, Room 429  
Honolulu, Hawaii 96813

Re: House Bill 50, Relating to Appraisal Management Companies

**Chair Ohno, Vice Chair Choy, and Members of the Committee:**

I am Linda Nakamura, representing the Mortgage Bankers Association of Hawaii ("MBAH"). The MBAH is a voluntary organization of individuals involved in the real estate lending industry in Hawaii. Our membership consists of employees of banks, savings institutions, mortgage bankers, mortgage brokers, financial institutions, and companies whose business depends upon the ongoing health of the financial services industry of Hawaii. The members of the MBAH originate and service or support the origination and servicing of the vast majority of residential and commercial real estate mortgage loans in Hawaii. When, and if, the MBAH testifies on legislation, it is related only to mortgage lending and servicing.

The MBAH supports House Bill 50. According to the Mortgage Bankers Association of America, 60 percent of all appraisals ordered for residential mortgages originated in the United States were facilitated through Appraisal Management Companies (AMCs). Many lenders do not have in-house appraisal departments whose function is to coordinate the appraisal work, review and maintain a listing of qualified appraisers, serve as a liaison between the lender and the appraiser, and review the completed appraisal as part of their quality control process. These lenders may rely on non-federally regulated AMCs to do these functions.

The final rules of the Dodd-Frank Act require non-federally regulated AMCs to register and report to a state agency in every state where the AMC does business. However, it does not require each state to create a licensing agency. As a result, non-federally regulated AMCs will not be able to provide appraisal management services in those states. This places the burden on the lender to find other ways of procuring appraisals which may lead to added costs to consumers. If the lender is not able to economically find ways to procure appraisals, the lender may decide to not originate loans in those states. This then leads to decreased access to credit for consumers.

Thank you for the opportunity to present this testimony.

LINDA NAKAMURA  
Mortgage Bankers Association of Hawaii

IACtestimony

---

From: mailinglist@capitol.hawaii.gov  
Sent: Monday, January 30, 2017 6:18 AM  
To: IACtestimony  
Cc: ted@acmmaui.com  
Subject: Submitted testimony for HB50 on Feb 1, 2017 09:00AM

**HB50**

Submitted on: 1/30/2017

Testimony for IAC on Feb 1, 2017 09:00AM in Conference Room 429

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Present at Hearing</b> |
|---------------------|---------------------|---------------------------|---------------------------|
| Ted Yamamura        | Individual          | Support                   | No                        |

Comments: Committee Chair Takashi Ohno and committee members. As a real estate appraiser in the State of Hawaii for the past 38 years, I applaud the introduction of this Bill and speak in wholehearted support.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)



Testimony to the House Committee on Intrastate Commerce  
February 1, 2017

Testimony in Support of Intent of HB 50, Relating to Appraisal Management Companies

To: The Honorable Takashi Ohno, Chair  
The Honorable Isaac Choy, Vice-Chair  
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 61 Hawaii credit unions, representing over 800,000 credit union members across the state. We are in support of the intent of HB 50.

The majority of Hawaii credit unions offer mortgage loans to their members. All mortgage loans require independent appraisals of the property involved. The registration program of appraisal management companies would ensure federal compliance of these agencies, and ensure that financial institutions that utilize them are still able to do so.

Thank you for the opportunity to testify.

**LATE**

**LATE**