



## House Bill 12-1110

**House Economic & Business Development Committee Meeting February 21<sup>st</sup>, 2012**

### CoAMP position statement in regards to this bill concerning the regulation of Appraisal Management Companies

**Background:** In December of 2008, Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA), agreed to the final version of HVCC on the condition then New York Attorney General Andrew Cuomo, drop the GSE's from his valuation fraud investigation.

Since HVCC was implemented on May 1, 2009, valuation fraud has risen by over 50%, appraisal quality has decreased substantially, thousands of appraisal professionals have been forced out of business and home values have continued to decline. Additionally, new appraisal rules have created a sharp increase in settlement costs for consumers.

Although, the HVCC agreement expired late 2010, it's been replaced by similar language in the Dodd-Frank Act and GSE guidelines.

The laws that regulate the process, by which an appraisal can be ordered and performed, require the objectivity and independence of the professional appraiser. The result adds layers of communication between interested parties and the appraiser. Some institutions decided that the Appraisal Management Company would best expedite this objectivity and independence.

The AMC was around pre-HVCC. They were known to provide Quality Control and reviews of the reports, a service to support lenders in their process and to assure the quality of appraisal reports. Their claim, pre-HVCC, was quality and service. Their competition was the direct relationship of the independent appraisers (or appraisal companies) with the lender.

But the HVCC rule created a higher demand for the AMC. The competition of the appraiser/lender relationship was gone. This created many problems in the housing market:

- The portion of the price of an appraisal that goes to the AMC can sometimes be just as much, if not more then the licensed professional is paid. The average pay per report to the appraiser in these instances has gone down. As a result we've seen the quality of the work diminish.
- AMC's are vying for the relationship with the lender, over promising and under-performing. Turn times have grown longer due to the layers of communication. As a result, purchase contract deadlines cannot be met.

- Appraisers are encouraged to be extremely conservative in their valuations for fear of losing their relationship with the AMC. Purchase contracts die because appraisers are afraid, or are unfamiliar with a market, and consumers pay for appraisal reports without having the benefit of the transaction.
- The professional appraiser is being abused with less pay and more demands. Fewer professionals renew their licenses, and very few people are entering the profession.

All of these unintended consequences stem from an agreement meant to add objectivity and professional independence to the one professional underwriter's rely on for an evaluation of the collateral.

Unfortunate as it is, the AMC and this process has gotten out of control. Having their actions and formation regulated has become another layer of government involvement in the behavior of business. We support these changes to the state statues and hope the results will benefit the consumer with transparency regarding costs and quality of the appraisal reports.

### **Errors & Omissions Insurance for Licensed Mortgage Loan Originators**

Included in this bill is an amendment to statue 12-61-903.5 regarding the errors and omissions insurance that is required to be carried by all active licensed mortgage loan originators. This amendment would allow for the mortgage loan originator to participate in a group program. The requirement of E&O is a state law for a licensee. Unfortunately, the insurance providers have rated loan officers that primarily originate reverse mortgages as a higher risk then a loan officer that originates forward mortgages. The standard cost of an E&O policy for a reverse mortgage specialist is three times the level of the other. The ability to buy into a group insurance policy will be a benefit for all licensed professionals. We are in favor of this part of bill and hope the results will support the health of our Colorado housing market.

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