

HB 3040 – LICENSING OF APPRAISAL MANAGEMENT COMPANIES (AMCs)

Background:

An appraisal management company (AMC) is a third-party outsourcing company usually paid to act on the lender's behalf to engage real estate appraisers and conduct administrative functions of appraisal ordering, tracking, review and delivery. Although AMC's have functioned for many years, they are becoming more prevalent in the appraisal ordering and management process, along with a number of problems associated with unregulated AMCs.

New York State Attorney General Andrew Cuomo, Fannie Mae, and Freddie Mac announced the final agreement of the Home Valuation Code of Conduct (HVCC) in late 2008, which became effective as of May, 2009. This agreement was designed to change the appraiser selection criteria to eliminate conflicts of interest on mortgage appraisals. In addition to Fannie and Freddie, this agreement is also supported by the Federal Housing Finance Administration.

While state regulation of AMC's is not a direct response to the Home Valuation Code of Conduct, it would address several areas of concern that have surfaced regarding the appraisal management company industry. At least six (6) states have so far passed legislation to regulate and require licensing or registration of AMCs, and about another 20 – including WA – are in the process of passing or are considering such legislation.

This bill represents a consumer protection effort, along with ensuring consistency with and reinforcing basic principles of the Uniform Standards of Professional Appraisal Practice (USPAP) to which appraisers are required to adhere.

The bill to require the regulation and licensing of AMCs in WA was drafted by a task force comprised of wide variety of real estate industry representatives, and is supported by the following:

- Appraisers' Coalition of Washington (ACOW)
- Washington Realtors
- WA State Attorney General Rob McKenna
- WA State Department of Licensing (DOL)
- WA State Department of Financial Institutions (DFI)

Key Provisions of Legislation:

- Requires Appraisal Management Companies (AMCs) to be licensed in order to conduct business in the State of Washington, and to provide a surety bond
- Requires the identification of a “controlling person” for each AMC, and that the controlling person may never have had a license or certification as an appraiser surrendered, denied, refused, cancelled or revoked by any state
- Limits the ownership interest in an AMC to be not more than 10% by any individual who has had an appraisal license or certification surrendered, denied, refused, cancelled or revoked by any state
- Limits AMC from employing any person who has had an appraisal license or certification denied, refused, cancelled or revoked by any state, or who has been convicted for fraud, among other provisions
- Enacts requirements that ensure that appraisers are free from coercion or inappropriate influence from AMCs, and provides that AMCs may not prohibit appraisers from following or complying with Uniform Standards of Professional Appraisal Practice (USPAP)
- Provides that AMCs may not prohibit appraisal trainees from signing appraisal reports as long as the appraisals are also signed by the state licensed or certified supervisory appraiser
- Requires AMCs to have systems in place to verify that they only utilize licensed or certified appraisers who are in good standing, that their work is in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), that they have a system in place to review the work of appraisers, and that they maintain copies of the appraisal reports similar to and consistent with the recordkeeping provisions of USPAP that apply to real estate appraisers
- Requires disclosure of all fees paid to certified or licensed appraisers and AMCs in order to promote increased transparency of loan transaction costs for consumers
- Requires a system for the adjudication of disputes between an appraiser and the AMC
- Provides for grounds for disciplinary actions against AMCs by the Department of Licensing