
Sunset Review: Evaluation of the State Commission of Real Estate Appraisers and Home Inspectors

**Presentation to the
Senate Finance Committee**

**Department of Legislative Services
Office of Policy Analysis
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Overview

- Evolution of the commission
- Concerns raised by preliminary sunset evaluation
- Federal and State legislation address most issues
- Recommendations

Real Estate Appraisers and Home Inspectors

- Appraisers provide estimates of the value of commercial and residential real estate
 - Most often associated with the purchase of a home
 - Appraisal value is not the selling price
- Inspectors provide prospective homebuyers with an evaluation of the condition of the physical structure

Origins of the State Commission of Real Estate Appraisers

- 1980s – savings and loan crisis
- 1989 – U.S. Congress passes the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)
 - Title XI creates national uniform standards for the licensing of real estate appraisers, quality of appraisals
 - Appraiser Qualifications Board sets education and experience requirements
- 1990 – Maryland establishes the State Commission of Real Estate Appraisers

Commission Expands to Regulate Home Inspectors

- Commission expanded in 2001 to include regulation of home inspectors
- Chapter 470 of 2001
 - Establishes education and experience requirements for home inspectors
 - Creates regulatory system including professional standards of business and codes of conduct
- Funding delayed until fiscal 2007, licensing until 2008

Credential Holders

Number of License Holders, by Type of License Fiscal 2006-2011*

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Real Estate Appraiser Licenses						
Trainee	2,385	2,334	1,929	1,201	711	426
Licensed	1,302	1,325	1,287	1,119	912	734
Certified Residential	856	951	1,241	1,221	1,229	1,215
Certified	759	753	793	779	735	722
Home Inspector Licenses	-	-	631	661	844	822

*License count taken in May or June of each year.

Note: The commission did not begin licensing home inspectors until fiscal 2008.

Source: State Commission of Real Estate Appraisers and Home Inspectors

Licensing and Certification Fees as of July 2010

	<u>Original</u>	<u>Renewal</u>	<u>Reciprocal</u>
Real Estate Appraisers (3-year License Term)			
Real Estate Appraiser Trainee	\$75	\$75	N/A
Licensed Real Estate Appraiser	150	200	\$150
Certified Residential Real Estate Appraiser	175	200	175
Certified General Real Estate Appraiser	175	200	175
Home Inspector (2-year License Term)	450	400	450

Notes: The licensing fees for licensed real estate appraisers, certified residential real estate appraisers, and certified general real estate appraisers include a \$75 federal registry fee, which is maintained in a separate special fund and transmitted periodically to the federal Appraisal Subcommittee.

The original and reciprocal licensing fees for home inspectors include a \$50 application fee.

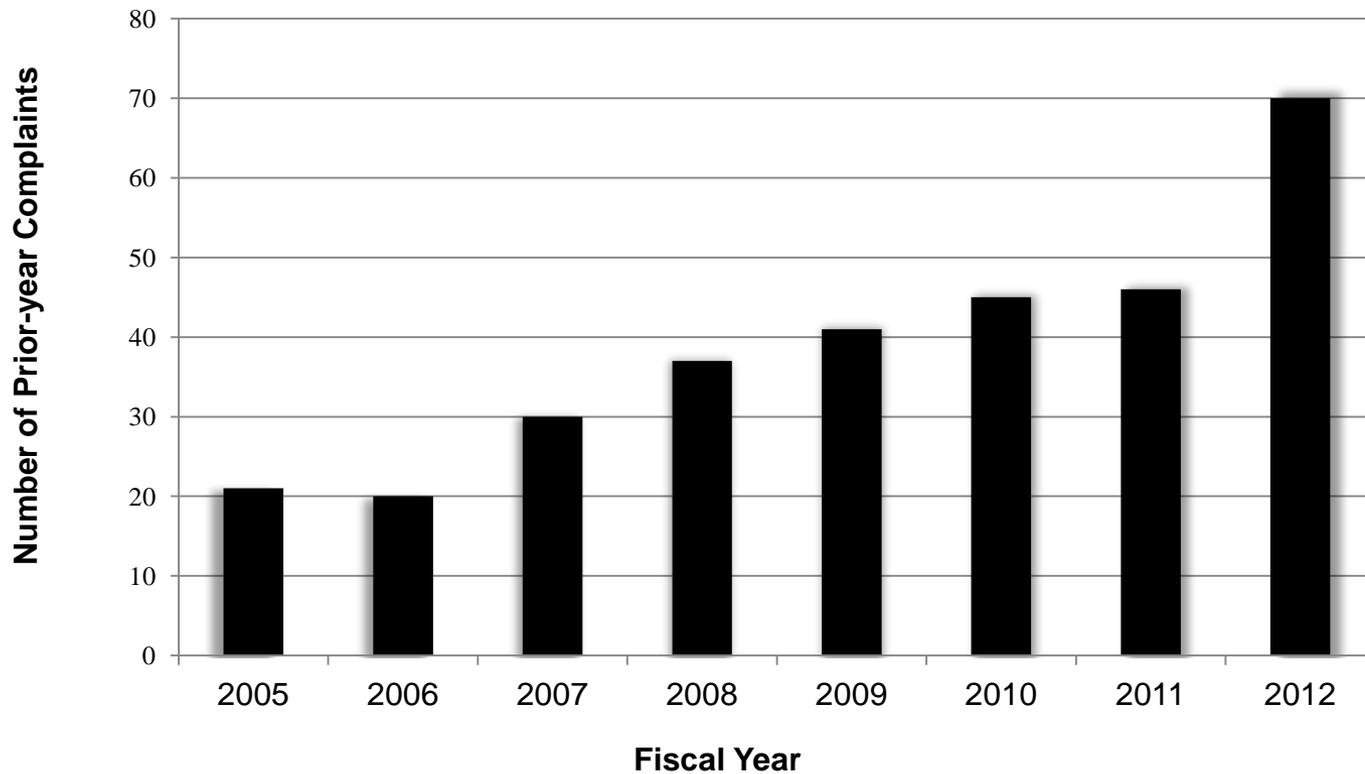
Source: State Commission of Real Estate Appraisers and Home Inspectors; Code of Maryland Regulations

Preliminary Evaluation – Findings

- (1) Complaints not closed in a timely manner
- (2) Potential cross-subsidization between programs
- (3) Commission revenue does not go to a dedicated-purpose special fund
- (4) Commission has terminated its reciprocity agreements with other states

Preliminary Evaluation: Growing Complaint Backlog

**Cumulative Backlog of Appraisal Complaints
Fiscal 2005-2012**



Preliminary Evaluation: Fiscal Condition of the Commission

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Positions	1.00	2.00	2.00	1.00	1.00	1.00
Total Revenues	\$199,845	\$318,495	\$406,678	\$289,948	\$398,366	\$311,358
Total Expenditures	\$319,137	\$206,682	\$265,973	\$252,047	\$202,063	\$212,802
Surplus/(Gap)*	(\$119,292)	\$111,813	\$140,705	\$37,901	\$196,303	\$98,556

*From fiscal 2006 through 2011 the surplus was transferred to the general fund.

Source: Department of Labor, Licensing, and Regulation; Maryland Governor's Budget Books, Fiscal 2006-2010

Preliminary Evaluation: Revenue Disparity Among Programs

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Revenues						
Appraiser Revenues	\$199,845	\$250,545	\$171,953	\$119,423	\$205,436	\$155,000
Home Inspector Revenues	-	67,950	234,725	170,525	192,930	156,358
Total Revenues	\$199,845	\$318,495	\$406,678	\$289,948	\$398,366	\$311,358

Preliminary Evaluation: Reciprocity Policy Has Changed

- Commission suspended all reciprocal licensing with other states in 2009
- Maryland's licensing and certification standards the most stringent in the region
- Federal law encourages, but does not require, reciprocity
- Federal auditors have cited the longstanding suspension of reciprocity as an area of concern

The Dodd-Frank Wall Street Reform and Consumer Protection Act

- Examination of housing bubble exposed issues in the appraisal industry
- Dodd-Frank sought to strengthen oversight, regulation – particularly for appraisal management companies (AMCs)
 - What is an AMC?
 - Why do AMCs need to be regulated?

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Cont.)

- Other provisions of Dodd-Frank:
 - Gives federal auditors greater sanctioning power
 - Requires states' laws to conform to newly established appraisal standards
 - Creates a complaint process for appraisers
- Several provisions of Dodd-Frank will expand the workload and scope of duties of the commission

Legislature Intervenes, Addresses Most Preliminary Findings and Dodd-Frank

- Chapters 269 and 270 of 2011
 - AMC regulation – designates commission as regulatory body
 - Special fund – creates the State Commission of Real Estate Appraisers and Home Inspectors Fund
 - Fee-setting authority – gives the commission authority to set its own fees for all three programs
 - Fees must cover program costs – fees for each industry can only generate enough revenue to offset costs of that program
 - Fiscal impact – any fund balance greater than \$100,000 automatically sweeps to the general fund

Commission Begins to Implement New State Laws

New Licensing Fees Adopted by the Commission on August 9, 2011

	Old Fee Schedule			New Fee Schedule		
	<u>Original</u>	<u>Renewal</u>	<u>Out-of-state</u>	<u>Original</u>	<u>Renewal</u>	<u>Out-of-state</u>
Real Estate Appraisers (Triennial)						
Trainee	\$75	\$75	N/A	\$150	\$150	N/A
Licensed	150	200	\$150	325	325	\$325
Certified Residential	175	200	175	325	325	325
Certified General	175	200	175	325	325	325
Reinstatement		25			75	
Home Inspectors (Biennial)						
Application	50		50	50		50
Reinstatement		50			50	
AMCs (Annual)						
Registration	N/A	N/A	N/A	2,250	2,500	
Nonrefund. Initial Application Review	N/A	N/A	N/A	250		

Notes: All appraiser fees shown include a \$75 National Registry fee that each appraiser must pay in addition to Maryland's licensing fee set by the commission. National Registry fees are transferred to the Appraisal Subcommittee and do not impact State revenues. Beginning January 1, 2012, the National Registry fee will be increased from \$75 to \$120 for each three-year license issued (increasing the annualized rate from \$25 to \$40 per year). This increase is exempted from the 12.5% cap because it does not affect State revenue.

New Funds for the Commission

- Governor's proposed budget for fiscal 2012 included \$30,000 to reinstate the technical review panel
- Additional spending authority approved during budget deliberations to fully fund requirements of Chapters 269 and 270

Commission Should Be Extended

Recommendation 1 (pg. 41): The State Commission of Real Estate Appraisers and Home Inspectors should be continued, and legislation should be enacted to extend its termination date to July 1, 2023, with an evaluation date of July 1, 2022

Report on Technical Review Panel

Recommendation 2 (pp. 41-42): The commission should submit a report to the Senate Finance Committee and the House Economic Matters Committee by October 1, 2013, on the extent to which the creation of a technical review panel has assisted in the elimination of the backlog. Specifically, the report should evaluate the rate at which the newly established panel is able to resolve open complaints with \$30,000 in funding for fiscal 2012 and any funding that may be provided for this purpose in fiscal 2013 as well as whether additional funding and staffing will be needed to eliminate the backlog and process new complaints within an appropriate period of time

Report on Fee-setting Methodology

Recommendation 3 (pg. 43): The commission should report to the committees by October 1, 2013, on the methodology used to develop the fee structure for each profession, including the direct and indirect costs attributable to each profession. In addition, the commission should report, by October 1, 2013, on whether the fee structure has eliminated or minimized cross-subsidization and ensured sufficient special fund revenue to support each of the commission's three functions. This will enable appropriate oversight to ensure that the new special fund addresses the concerns expressed in the federal Appraisal Subcommittee's most recent compliance review while maintaining compliance with Chapters 269 and 270

Reevaluate Reciprocity Agreements

Recommendation 4 (pp. 43-44): The commission should reevaluate the licensing standards of other jurisdictions with which Maryland had reciprocity agreements in the past and report its findings as part of its report to the General Assembly. The report should include a detailed assessment of what steps other jurisdictions have taken or intend to take, if any, to establish licensing requirements on par with Maryland's standards. The report should also include steps the commission is taking to reinstate reciprocity agreements, where appropriate, and how it will monitor the progress of other jurisdictions with lesser standards. The report should be submitted to the committees by October 1, 2013

Rename the Commission

Recommendation 5 (pg. 44): The General Assembly should rename the commission in order to reflect its newly delegated responsibilities and the appraisal management company industry that it now oversees

Staff Should Optimize Training Opportunities

Recommendation 6 (pg. 44): Commission staff should take advantage of training opportunities created by federal agencies with any money that may be authorized under Dodd-Frank and should attend national conferences and training seminars when appropriate

Repeal Statutory Reporting Requirement

Recommendation 7 (pg. 44): Given that the home inspector and real estate appraiser programs have been operating together effectively for several fiscal years, the General Assembly should repeal the requirement for the report on implementation of the home inspector licensing program