## The Commonwealth of Massachusetts

#### PRESENTED BY:

### Thomas M. Stanley

To the Honorable Senate and House of Representatives of the Commonwealth of Massachusetts in General Court assembled:

The undersigned legislators and/or citizens respectfully petition for the passage of the accompanying bill:

An Act to regulate real estate appraisal management companies.

#### PETITION OF:

NAME:

Thomas M. Stanley

DISTRICT/ADDRESS: 9th Middlesex

# HOUSE . . . . . . . . . . . . . . . . No. 00124

By Mr. Stanley of Waltham, petition (accompanied by Bill, House, No. 00124) of Thomas M. Stanley relative to the licensing of real estate appraisal management companies. Joint Committee on Consumer Protection and Professional Licensure.

## The Commonwealth of Massachusetts

In the Year Two Thousand Eleven

An Act to regulate real estate appraisal management companies.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

1 SECTION 1. Chapter 112 of the General Laws, as appearing in the 2008 Official Edition

2 is hereby amended by adding at the end thereof the following 14 new sections:-

3 Section 236. Definitions.

4 (a) As used in sections 237 through 249, inclusive, the following words shall have the

5 following meanings, unless the context clearly requires otherwise:

6 "Applicant", a person who applies to be registered as an appraisal management company in the

7 Commonwealth.

8 "Appraisal management company" means, in connection with valuing properties collateralizing

9 mortgage loans or mortgages incorporated into a securitization, any external third party

10 authorized either by a creditor of a consumer credit transaction secured by a consumer's principal

11 dwelling or by an underwriter of or other principal in the secondary mortgage markets, that 12 oversees a network or panel of more than 15 certified or licensed appraisers in a State or 25 or 13 more nationally, excluding those appraisers who do not provide appraisal services for Covered 14 Transactions, within a given year--

15 `(A) to recruit, select, and retain appraisers;

16 `(B) to contract with licensed and certified appraisers to perform appraisal17 assignments;

18 '(C) to manage the process of having an appraisal performed, including providing 19 administrative duties such as receiving appraisal orders and appraisal reports, submitting 20 completed appraisal reports to creditors and underwriters, collecting fees from creditors and 21 underwriters for services provided, and reimbursing appraisers for services performed; or

22 `(D) to review and verify the work of appraisers.'

23 "Appraisal practice", valuation services performed by an individual acting as an appraiser,

24 including but not limited to appraisal, appraisal review, or appraisal consulting.

25 "Appraisal review", the act or process of developing and communicating an opinion about the 26 quality of another appraiser's work that was performed as part of an appraisal assignment related 27 to the appraiser's data collection, analysis, opinions, conclusions, opinion of value, or 28 compliance with the Uniform Standards of Professional Appraisal Practice. The term does not 29 include: (i) a general examination for grammatical, typographical or similar errors, or (ii) a 30 general examination for completeness including regulatory and/or client requirements as 31 specified in an agreement process that does not communicate an opinion of value. 32 "Appraisal services" means the services required to perform an appraisal, including defining the 33 scope of work, inspecting the property, reviewing necessary and appropriate public and private 34 data sources (for example, multiple listing services, tax assessment records and public land 35 records), developing and rendering an opinion of value, and preparing and submitting the 36 appraisal report.

37 "Board", the Massachusetts Board of Registration of Real Estate Appraisers under Section 92 of38 Chapter 13.

"Controlling person", means one or more of the following: (1) an officer or director of an 39 40 appraisal management company, or an individual who holds a 10 percent or greater ownership interest in an appraisal management company; (2) an individual employed, appointed, or 41 42 authorized by an appraisal management company that has the authority to enter into a contractual relationship with clients for the performance of appraisal services and that has the authority to 43 enter into agreements with independent appraisers for the completion of appraisals; or (3) an 44 individual who possesses the power to direct or cause the direction of the management or 45 policies of an appraisal management company. 46

47 "Covered transaction" means an extension of consumer credit that is or will be secured by the48 consumer's principal dwelling.

"Dwelling" means a residential structure that contains one to four units, whether or not that
structure is attached to real property. The term includes an individual condominium unit,
cooperative unit, mobile home, and trailer, if it is used as the consumer's principal residence.

52 "Employee", an individual who has an employment relationship with a person acknowledged by
53 both the individual and the person, and who is treated as an employee for purposes of
54 compliance with federal income tax laws.

55 "Employee in Charge" or "(EIC)", a designated employee of the appraisal management
56 company, who is a state certified appraiser in at least one state, with the responsibilities and
57 obligations to the board as set forth in section 241.

<sup>58</sup> "Fee Appraiser means: (A) a natural person who is a state-licensed or state-certified appraiser <sup>59</sup> and receives a fee for performing an appraisal, but who is not an employee of the person <sup>60</sup> engaging the appraiser; or (B) an organization that, in the ordinary course of business, employs <sup>61</sup> state-licensed or state-certified appraisers to perform appraisals, receives a fee for performing the <sup>62</sup> appraisals and is not subject to Section 1124 of the federal Financial Institutions Reform, <sup>63</sup> Recovery and Enforcement Act of 1989. A fee appraiser, as defined in (A) above, shall be <sup>64</sup> exempt from the provisions of Massachusetts General Law Chapter 149, Section 148B."

65 "Person", an individual, sole proprietorship, partnership, limited liability company, limited
66 partnership, corporation, association, or other group engaged in joint business activities, however
67 organized.

68 "Registrant", a real estate appraisal management company registered under this Act.

69 "Valuation Services", services pertaining to all aspects of property value

70 (b) The definitions contained in section 173 of Chapter 112 also apply.

71 Section 237. Registration required of real estate appraisal management companies; exceptions.

(a) It shall be unlawful for a person, as defined herein, to directly or indirectly engage or
attempt to engage in business as an appraisal management company, to directly or indirectly
engage or attempt to perform appraisal management services or to advertise or hold itself out as
engaging in or conducting business as an appraisal management company without first being
registered by the Board under the provisions of this Act, regardless of the person's use of the
term "appraisal management company", "mortgage technology company", or any other name.

78 (b) The provisions of this Act shall not apply to:

79 (1) Any agency of the federal government or any State or municipal government;

(2) An appraisal management company that is a subsidiary owned and controlled by a
financial institution regulated by a Federal financial institution regulatory agency provided the
appraisal management company is in compliance with Section 1124 of the Federal Financial
Institutions Reform, Recovery and Enforcement Act of 1989 and any rules promulgated pursuant
to the authority granted in said Section 1124.

(d) A fee appraiser may not perform appraisal services for real property located in
Massachusetts for an appraisal management company that is not registered under this Act unless
exempt from licensing as provided for in this section

88 Section 238. Rule making authority.

(a) The Board shall have the authority to adopt rules consistent with the provisions of this
Act and the General Laws of the Commonwealth that are reasonable and necessary to
implement, administer, and enforce the provisions of this Act.

92 Section 239. Qualifications for registration; duties of registrants.

93 (a) Any person desiring to be registered as an appraisal management company in the Commonwealth shall make written application to the Board on forms prescribed by the Board 94 setting forth the applicant's qualifications for registration. The application shall be accompanied 95 by the applicable fee under Section 243 of Chapter 112 of the General Laws, and any other 96 information the Board deems necessary pursuant to rules adopted by the Board. Upon receipt of 97 98 a properly completed application and fee and upon a determination by the Board that the 99 applicant is of good moral character, the Board shall issue to the applicant a certificate of registration authorizing the applicant to act as a real estate appraisal management company in the 100 101 Commonwealth.

(b) An application for registration under this Act must include the following certificationsfrom the applicant:

(1) A certification that the applicant has a system and process in place to verify that a
person being added to the appraiser panel of the appraisal management company for appraisal
assignments on real property located in Massachusetts holds a license or certification in good
standing in the Commonwealth issued pursuant to this Chapter;

(2) A certification that the applicant has a system in place to review the work of all fee
appraisers that are performing real estate appraisal services for the appraisal management
company on a periodic basis to confirm that the real estate appraisal services are being conducted
in accordance with the Uniform Standards of Professional Appraisal Practice; and

(3) A certification that the applicant maintains a detailed record of each service request
that it receives and the fee appraiser that performs the residential real estate appraisal services for
the appraisal management company.

(c)(i) A person who, directly or indirectly owns more than 10 percent of an applicant for registration, or (ii) any officer, controlling person, employee in charge or managing principal of an applicant for registration, who has had a license or certificate to act as an appraiser or to engage in any activity related to the transfer of real property refused, denied, canceled or revoked in this state or in any other state, whether on a temporary or permanent basis or, who is not of good moral character as determined by the Board, shall not be eligible for registration under this Act.

(d) Each applicant for registration under this Act shall submit the name and address of theapplicant's registered agent located in the Commonwealth.

(e) Any registrant having a good faith belief that a real estate appraiser licensed in the
Commonwealth has violated applicable law or the Uniform Standards of Professional Appraisal
Practice (USPAP) or engaged in unethical conduct shall promptly file a complaint with the
Board.

128 Section 240. Controlling person.

Each appraisal management company applying to the board for registration in this state shall designate one controlling person that will be the main contact for all communication between the board and the appraisal management company. The controlling person may also be designated the employee in charge.

133 Section 241. Employee in charge.

In order to serve as the employee in charge for a registered AMC, a designee shall, in
addition to continually holding a valid license issued by a state appraiser licensing authority as a
state certified appraiser:

(a) not have had a license to practice as an appraiser or to engage in any activity related to
the transfer of real property refused, denied, canceled or revoked in this state or in any other
state;

140 (b) be of good moral character;

141 (c) submit to a state background investigation; and

142 (d) shall be responsible for:

(1) management of the process of selecting appraisers for the performance of real estateappraisal services;

(2) management of the process of conducting appraisal reviews. Any employee of an
appraisal management company or any contractor working on behalf of such company who has
any involvement in the performance of an appraisal review of completed appraisals of real
property located in Massachusetts shall be licensed or certified in the Commonwealth and in
good standing pursuant to the provisions of this Chapter.

150 (3) maintaining required documentation as part of the board file.

151 Section 242. Vacancy in controlling person or employee in charge.

152 The appraisal management company shall file a form with the Board indicating the153 appraisal management company's designation of controlling person and employee in charge and

the individual's acceptance of the responsibility. An appraisal management company shall notify 154 the Board of any change in the appraisal management company's controlling person or employee 155 in charge and shall have 30 days from the date a vacancy occurs in either position to designate a 156 temporary or permanent replacement and, in the event a temporary designation is made, 90 days 157 to appoint a permanent replacement. Any appraisal management company that does not comply 158 159 with this section shall have the appraisal management company's registration suspended pursuant 160 to Section 246 of Chapter 112 of the General Laws until the appraisal management company 161 complies with this section. An individual operating an appraisal management company as a sole 162 proprietorship shall be a certified general or certified residential appraiser and shall be considered the managing principal for purposes of this Act unless another managing principal is 163 designated. 164

165 Section 243. Fees and renewals.

166 The following fees shall be determined annually by the commissioner of administration 167 and finance under the provision of section three B of chapter seven and shall be collected by the 168 board: (a) application fee; (b) initial license fee; (c) annual renewal fee; (d) change in controlling 169 person or employee in charge; and (e) late renewal fee.

170 Section 244. Surety Bond.

171 In addition to the filing fee, each applicant for registration shall post with the board and 172 maintain a surety bond in the amount of twenty thousand dollars (\$20,000). The bond shall:

173 (1) Be in the form prescribed by rule of the board; and

174 (2) Accrue to the state for the benefit of a claimant against the registrant to secure the175 faithful performance of the registrant's obligations under this Act.

The aggregate liability of the surety shall not exceed the principal sum of the bond. A party having a claim against the registrant may bring suit directly on the surety bond, or the board may bring suit on behalf of the party having a claim against the registrant. A deposit of cash or security may be accepted in lieu of the surety bond. A claim reducing the face amount of the bond shall be annually restored upon renewal of the registrant's registration.

181 Section 245. Prohibited acts.

(a) No employee, director, officer, managing principal or agent of an appraisal
management company or any other third party acting as joint venture partner or independent
contractor shall influence or attempt to influence the development, reporting, result, or review of
a real estate appraisal through coercion, extortion, collusion, compensation, inducement,
intimidation, bribery, or in any other manner, including:

187 (1) Withholding or threatening to withhold timely payment for a real estate appraisal
188 report except in cases of breach of contract or substandard performance of services;

(2) Withholding or threatening to withhold future business from a real estate appraiser ordemoting or terminating or threatening to demote or terminate a real estate appraiser;

(3) Expressly or impliedly promising future business, promotions, or increasedcompensation for a real estate appraiser;

(4) Conditioning the ordering of a real estate appraisal report or the payment of a real
estate appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached or on
a preliminary estimate requested from a real estate appraiser;

(5) Requesting that a real estate appraiser provide an estimated, predetermined, or desired
valuation in a real estate appraisal report or provide estimated values or comparable sales at any
time before the appraiser's completion of the appraisal report;

(6) Providing to a real estate appraiser an anticipated, estimated, encouraged, or desired
value for a subject property or a proposed or targeted amount to be loaned to the borrower;
provided, however, a real estate appraiser should be provided with a copy of the sales contract
for purchase transactions, if available;

203 (7) Providing to a real estate appraiser, or any entity or person related to the appraiser,
204 stock or other financial or non-financial benefits;

(8) Allowing the removal of a real estate appraiser from a list of qualified appraisers used
by any entity without prior written notice stating the reason for removal to the appraiser. The
notice shall include written evidence if the appraiser is removed from the list for illegal conduct,
substandard performance, or otherwise improper or unprofessional behavior or any violation of
the Uniform Standards of Professional Appraisal Practice (USPAP) or State licensing standards;

(9) Any other act or practice that impairs or attempts to impair a real estate appraiser's
independence, objectivity, or impartiality; or

(10) Requesting or requiring a real estate appraiser to collect a fee from, or be
compensated by, the borrower, homeowner, real estate agent, mortgage broker or any other third
party in the provision of real estate appraisal services.

(b) No employee, director, officer, managing principal or agent of an appraisal
management company or any other third party acting as joint venture partner or independent
contractor shall:

(1) Alter, modify, or otherwise change a completed appraisal report submitted by a feeappraiser without the appraiser's written knowledge and consent;

(2) Alter, modify, or otherwise change a completed appraisal report submitted by a fee
appraiser and must, in all cases, transmit a "true and exact copy" to the client and any intended
users;

(3) Use an appraisal report submitted by a fee appraiser for any other transaction;

(4) Require a fee appraiser to sign any indemnification agreement that would require
the fee appraiser to defend and hold harmless the appraisal management company or any of its
agents, employees, or independent contractors for any liability, damage, losses, or claims arising
out of the services performed by the appraisal management company or its agents, employees, or
independent contractors and not the services performed by the fee appraiser;

(5) Require a fee appraiser to provide the company with the appraiser's digital signatureor seal;

(6) Prohibit a fee appraiser from recording the fee the fee appraiser was paid for theperformance of an appraisal assignment within the body of the appraisal report;

(7) Require a fee appraiser to accept an appraisal assignment if the fee appraiser, in the
fee appraiser's own independent professional judgment believes, (i) the fee appraiser does not
have the necessary expertise for the assignment, or (ii) knowledge of the geographic area, or (iii)
that the time frame does not allow the appraiser the ability to meet all of the fee appraiser's
relevant legal or professional obligations.

238 (8) Knowingly fail to compensate fee appraisers at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised. Evidence for 239 such fees may be established by objective third-party information, such as the most recently 240241 published government agency fee schedule, an academic study, and an independent private 242 sector survey. A fee study or survey, if utilized in determining customary and reasonable fees, 243 shall exclude assignments ordered by known appraisal management companies and shall be 244 conducted annually. For purposes of this paragraph, an academic study may be commissioned by 245 and paid for by one or more appraisal management company or an association representing appraisal management companies provided the terms under which the study is conducted 246 complies with this paragraph and are published within the study results. 247

(c) Nothing in this section shall be construed as prohibiting an appraisal managementcompany from requesting that a fee appraiser:

250 (1) Consider additional appropriate material property information;

(2) Provide further detail, substantiation, or explanation for the real estate appraiser'svalue conclusion; or

253 (3) Correct errors in the real estate appraisal report.

254 (d) An appraisal management company shall not refuse to assign requests or orders for 255 appraisals or reduce the number of assignments or otherwise penalize a fee appraiser who does 256 not accept an assignment or order in accordance with Section 245(b) 7 of this Act, except that nothing in this section shall require an appraisal management company to offer future appraisal 257 258 assignments of a particular nature or type to a fee appraiser who previously indicated a lack of 259 the necessary expertise or geographic knowledge for such assignments, except in the case where the fee appraiser subsequently demonstrates, to the satisfaction of the appraisal management 260 company, that they have gained the required experience or geographic knowledge to competently 261 262 complete the assignments.

263 Section 246. Disciplinary authority.

(a) The Board may, by order, deny, suspend, revoke, or refuse to issue or renew a
registration of an appraisal management company under this Act or may restrict or limit
activities of a person who owns an interest in or participates in the business of an appraisal
management company if the Board determines that an applicant, registrant, or any partner,
member, manager, officer, director, managing principal, or person occupying a similar status,
performing similar functions, or directly or indirectly controlling the applicant or registrant has

(1) Filed an application for registration that, as of its effective date or as of any date after
filing, contained any statement that, in light of the circumstances under which it was made, is
false or misleading with respect to any material fact;

(2) Violated or failed to comply with any provision of this Act or any rules adopted bythe Board;

(3) Been convicted of any felony or, within the past 10 years, been convicted of any
misdemeanor involving any activity related to the transfer of real property, including, but not
limited to mortgage lending or real estate appraisal or any offense involving breach of trust,
moral turpitude, or fraudulent or dishonest dealing;

(4) Been permanently or temporarily enjoined by any court of competent jurisdiction
from engaging in or continuing any conduct or practice involving any aspect of the real estate
appraisal management business;

(5) Been the subject of an order of the Board or any other state appraiser regulatory
agency denying, suspending, or revoking the person's license as a real estate appraiser;

(6) Acted as an appraisal management company while not properly licensed by theBoard;

(7) Structured an appraisal assignment or a contract with a fee appraiser for the purpose
of evading the provisions of this Act; or

289 (8) Failed to pay the proper filing or renewal fee under this Act.

(b) The Board may, by order, impose a civil penalty upon a registrant or any partner,
officer, director, managing principal, or other person occupying a similar status or performing
similar functions on behalf of a registrant for any violation of this Act. The civil penalty shall not
exceed \$10,000 for each violation of this Act.

(c) In addition to other powers under this Act, upon finding that any action of a person is in violation of this Act, the Board may order the person to cease from the prohibited action. If the person subject to the order fails to appeal the order of the Board or the person appeals the order and the appeal is denied or dismissed and the person continues to engage in the prohibited action in violation of the Board's order, the person shall be subject to a civil penalty of not more than \$25,000 for each violation of the order. The penalty provision of this section shall be in addition to and not in lieu of any other provision of law applicable to a registrant for the registrant's failure to comply with an order of the Board.

302 (d) Unless otherwise provided, all actions and hearings under this Act shall be governed303 by Chapter 30A.

(e) If the Board has reasonable grounds to believe that an appraisal management
company has violated the provisions of this Act or that facts exist that would be the basis for an
order against an appraisal management company, the Board may at any time, either personally or
by a person duly designated by the Board, investigate or examine the books, accounts, records,
and files of any registrant or other person relating to the complaint or matter under investigation.

(f) The Board shall have the power to issue subpoenas requiring the attendance of persons and the production of papers and records before the Board in any hearing, investigation, inquiry, or other proceeding conducted by the Board. Upon the production of any papers, records, or documents, the Board shall have the power to authorize true copies of the papers, records, or documents to be substituted in the permanent record of the matter in which the papers, records, or documents shall have been introduced in evidence.

315 Section 247. Records.

(a) The Board shall maintain a list of all applicants for registration under this Act that
includes for each applicant the date of application, the name and primary business location of the
applicant, and whether the registration was granted or refused.

(b) The Board shall maintain a current roster showing the names and places of business
of all registered appraisal management companies that lists the appraisal management
companies' respective officers and directors. The rosters shall: (i) be kept on file in the office of
the Board; (ii) contain information regarding all orders or other action taken against the
company, its officers, and other persons; and (iii) be open to public inspection.

324 (c) Every registered appraisal management company shall maintain the records related to
325 services provided by the appraisal management company as prescribed in rules adopted by the
326 Board. All records shall be preserved for five years unless the Board, by rule, prescribes
327 otherwise for particular types of records.

(d) If the information contained in any document filed with the Board is or becomes
inaccurate or incomplete in any material respect, the appraisal management company shall
promptly file a correcting amendment to the information contained in the document.

331 Section 248. Penalty; injunctive relief.

The Board may appear in its own name in superior court in actions for injunctive relief to prevent any person from violating the provisions of this Act or rules adopted by the Board. The superior court shall have the power to grant these injunctions whether criminal prosecution has been or may be instituted as a result of the violations or whether the person is the holder of a registration issued by the Board under this Act.

337 Section 249. Background Checks

338 (a) The Board shall have the authority to conduct investigations and examinations for:

339 (1) purposes of initial registration, registration renewal, registration suspension, registration conditioning, registration revocation or termination, or general or specific inquiry or 340 investigation to determine compliance with this chapter, the Board shall have the authority to 341 access, receive and use any books, accounts, records, files, documents, information or evidence 342 including, but not limited to: (i) criminal, civil and administrative history information, including 343 344 non-conviction data as specified in applicable provisions of the General Laws; and (ii) any other documents, information or evidence the Board deems relevant to the inquiry or investigation 345 regardless of the location, possession, control or custody of such documents, information or 346 347 evidence; and

(2) the purposes of investigating violations or complaints arising under this chapter, or for
the purposes of examination, the Board may review, investigate, or examine any licensee,
individual or person subject to this chapter, in order to carry out the purposes of this chapter.

(b) If an applicant, registrant or managing principal's criminal history record check
reveals one or more convictions, the conviction shall not automatically bar registration, provided
the conviction is not related to the transfer of real property. The Board shall consider all of the
following factors regarding the conviction:

355 (1) The level of seriousness of the crime;

356 (2) The date of the crime;

357 (3) The age of the person at the time of the conviction;

358 (4) The circumstances surrounding the commission of the crime, if known;

359 (5) The nexus between the criminal conduct of the person and the job duties of the360 position to be filled; and

361 (6) The person's prison, jail, probation, parole, rehabilitation, and employment records362 since the date the crime was committed.

363 Section 250 Appraisal Board

364 Chapter 13, Section 92 of the General Laws is hereby amended as follows:

365 Section 92. There is hereby established a board of real estate appraisers which shall consist of 366 nine members to be appointed by the governor, one of whom shall be members of the general 367 public, in accordance with the provisions of section nine B, one of whom shall be a member of 368 the banking industry, one of whom shall be a licensed real estate broker, one of whom shall represent an appraisal management company, and five of whom shall be real estate appraisers. 369 370 Each real estate appraiser member of the board appointed after January first, nineteen hundred 371 and ninety-two shall be a state-licensed or state-certified real estate appraiser under the provisions of sections one hundred and seventy-three to one hundred and ninety-five, inclusive, 372 of chapter one hundred and twelve. 373

The term of each appointed member shall be three years.

375 Upon expiration of their terms, members of the board shall continue to hold office until the 376 appointment and qualification of their successors. No person shall serve as a member of the 377 board for more than two consecutive terms. The appointing authority may remove a member for 378 cause. 379 Each member of the board shall be paid for expenses actually incurred in the performance of380 official duties.

381 The board shall annually elect a chairperson from among its members.

382 The board shall hold at least six meetings each year and may hold special meetings as required at

- 383 a time and place determined by the board.
- 384 The director of the department of professional licensure, with approval of the board, shall
- 385 appoint an executive secretary to serve the board. The department of professional licensure shall
- 386 employ such other clerical and technical assistants as may be necessary to discharge the official
- 387 duties of the board.