

HB 2414
A Banker's Perspective

Thank you, Chair Barker, Vice Chair Highland, Ranking Member Ruiz.

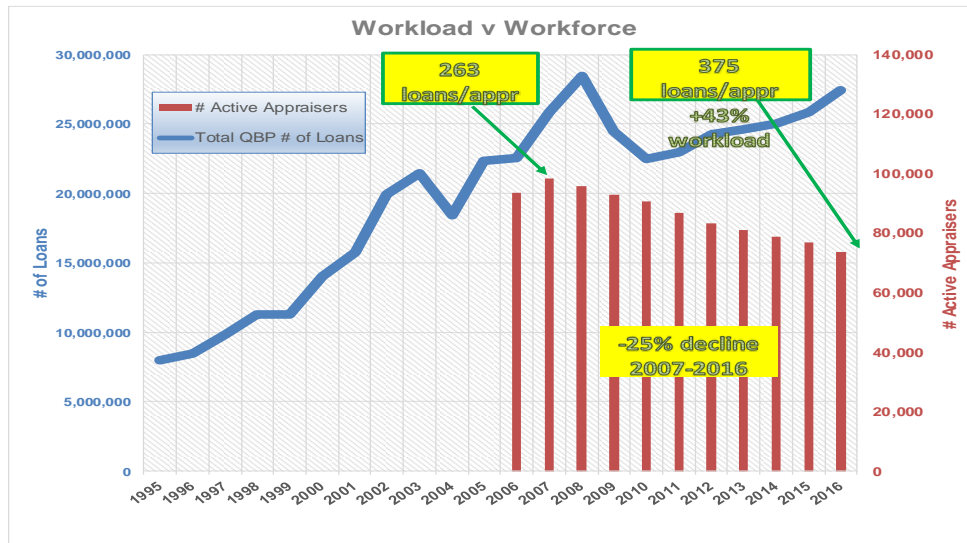
My name is Douglas Potts and I am Vice President and Chief Appraiser for Commerce Bancshares, Inc., a super-community which has offices in 9 states, including many banks throughout Kansas, where we lend to numerous large and small businesses. As a result, we regularly hire many appraisers throughout Kansas, and take an interest in appraisal-related legislative issues.

I am also an MAI and AI-GRS member of the Appraisal Institute. For many years I have vigorously advocated within the Institute the need to modernize the regulatory structures affecting the appraisal business, to improve its long-term stability, which will help protect both the banking industry and the most importantly the public through their services in advising on collateral values.

I am strongly in favor of HB 2414 for the following reasons:

- The quilt of existing regulations in Kansas are outdated. They represent a “triangle” of restrictions that are limiting the ability of appraisers to engage in the full range of value services to banks. The combination of state regulatory definitions, licensing requirements, and adherence to only USPAP-standards is inhibiting the ability of the appraisal community to adapt to changing business practices in the banking industry.
- Existing regulations were intended to help protect the appraisal profession from unfair competition. But banking has evolved and new competitors have entered the market. Rather than helping appraisers serve the public by being able to perform all types of valuations, existing regulations have instead restricted appraisers exclusively to valuations that conform to a single standard – the Uniform Standards of Professional Appraisal Practice (USPAP).
- USPAP was specifically intended for “federally related transactions,” which is only a portion of all the lending that occurs in banking. In fact, the vast majority of bank loans do not require appraisals. Since 1994, evaluations have been permitted and encouraged by the banking regulators. It is widely accepted that of all the transactions tracked by FDIC, only 10% require appraisals by law, with the remainder able to be satisfied by evaluations.
- As a banker, I am already exempt from Kansas appraisal rules (see KSA 58-4103). I can discharge my duties as necessary to serve my bank’s borrowers and lenders. I just want to be able to hire appraisers in a similar way as I am free to fulfill my duties, allowing appraisers to serve the public in the most effective way.
- The population of appraisers has declined 25% since 2006, partly due to demographics and licensing laws, but also due to the inability of appraisers to fully service the banking community for the 90% of loans that

do not require appraisals. As the chart below illustrates, the volume of loans tracked by the FDIC increased 43% over the same period that appraisers declined 26%.



- The forces of change in the industry are dramatic and ominous. To meet regulatory requirements and remain cost-effective, many banks are turning away from appraisers to non-appraiser evaluators or real estate brokers, who operate with far fewer restrictions, training, ethics, and independence. While existing laws protect the sanctity of USPAP as the only standard, they do not protect bank safety and soundness, nor do they ultimately protect the public interest.
- It is highly likely that the thresholds for “federally related transactions” (requiring appraisals) will increase significantly in 2018. New loans below these elevated thresholds will all be eligible for evaluations in lieu of appraisals. While appraisers can always try to force-fit appraisal standards into federally guided evaluation rules, I have found the results to be lacking and not cost effective given the scale of the problem.
- Unless regulations change to permit appraisers to expand their valuation services to cost-effectively compete with non-appraisers, even greater declines in the appraiser population will likely occur. Already Freddie-Mac has begun to permit non-appraiser evaluations for residential loans under \$100,000.
- Furthermore, financial institutions may be forced to seek relief if appraiser populations continue to decline, which they likely will if the economic environment does not change. Already in 2017, banks in both Tennessee and Oklahoma applied to the Appraisal Sub-Committee for waivers in multiple counties, that would permit them to procure appraisals from non-licensed individuals, citing the inability to obtain appraisals in a timely or cost-effectively, due to an insufficient number of practitioners.
- Some will argue that I am simply trying to push down fees, which will damage the industry even more. Keeping the existing regulations to protect the industry provides a veneer of safety, but as noted above, the industry has declined with those well-intended but misguided regulations in place.
- In the interests of giving appraisers the maximum latitude to exercise their professional judgement, training and experience, and serve banks and ultimately the public, I encourage the adoption of this bill.