



IDFPR

Illinois Department of Financial and Professional Regulation

Division of Real Estate

www.idfpr.com

JB PRITZKER
Governor

MARIO TRETO, JR.
Secretary

Laurie Murphy
Director

Illinois Department of Financial & Professional Regulation
Real Estate Valuation Task Force
OPEN Minutes

Date: March 20th, 2024

Call to Order: 11:05 a.m. –Ericka Johnson

Location: IDFPR - Division of Real Estate ("DRE")
555 West Monroe Street 4th Floor, Chicago Room
Chicago, IL 60661
And
Via Interactive Video Conference at IDFPR
320 West Washington Street, 2nd Floor, Conference Room 258
Springfield, IL 62786

Board Member(s) Present: Adrienne Suits Bailey, Jeffery Bakers (represented by Gideon Blustein), Paul Brown, Deborah Fears, Dan Hofacker, Steven Monroy, Tito Quinones, Anthony E. Simpkins, Ericka D. Johnson, Ashia Walker, Cassandra Halm.

Board Member(s) Absent: Jamie Cumbie, Javier Gumucio, and Leader Marcus Evans,

Division Staff Present: Ericka D. Johnson- Deputy Secretary, Gabriela Nicolau- DRE Deputy General Counsel, Jennifer Rossiter Moreno- DRE Operations Manager, Tia Davis- Legislative Liaison,

Guest(s) Present: Laurie Murphy- DRE Director, Jeremy Reed- DRE Deputy Director, Chris Posey- IDFPR Appraisal Board Member, Nicholas Pilz- Vice Chair of the Appraisal Stands Board, Scott Dibasio, Adrienne Levatino, Sofia Paputsis, Cecelia Marlow, Brian Weaver, Sarah Brune-NHS

Topic	Discussion	Action
Call to Order	With no Chair or Vice Chair present, member Ericka D. Johnson opened the meeting. (The VC arrived later).	The meeting was called to order at 11:05 am.
Roll Call	<p>Speaker of the House: Leader Marcus Evans- Absent</p> <p>Minority Leader of the House: Dan Hofacker- Present</p> <p>Minority Leader of the Senate: Jeffrey Baker- Present via Gideon Blustien</p> <p>Director of the Department of Commerce and Economic Opportunity or Designee: Tito G. Quinones - Present</p> <p>Director of Department of Human Rights or Designee: Steven Monroy - Present</p> <p>Director of Department of Revenue or Designee: Adrienne Suits Bailey - Present</p> <p>Executive Director of the Illinois Housing Development or Designee: Javier Gumucio - Absent</p> <p>Representative of Statewide Banking Association Representing banks of all asset size: Ashia Walker - Present</p> <p>Representative of Statewide Banking Association exclusively representing banks with assets below \$20,000,000,000: Jamie Cumbie - Absent</p> <p>Representative of a Statewide Association representing Credit Unions: Deborah Fears - Present</p> <p>Representative of an Agency, Organization, or Association advocating for Fair Housing: Anthony E. Simpkins Present</p> <p>Representative of an Agency, Organization, or Association for Consumer Protection: Cassandra Halm - Present</p> <p>Representative of a Statewide Appraisal Organization: Paul D. Brown - Present</p> <p>Secretary of Department of Financial and Professional Regulation or Designee: Ericka D. Johnson- Present</p>	The following members were absent: Leader Marcus Evans, Jamie Cumbie, Javier Gumucio
Approval of Minutes	<ul style="list-style-type: none"> • Ericka D. Johnson went over the last meeting's minutes and asked task force if they were any edits. • Hearing none, Miss Johnson motioned to adopt the minutes. 	Mr. Hofacker motioned to adopt edits. Adrienne Suits Bailey seconded him. Miss Johnson asked for approval of minutes. Miss Johnson asked for those who disapprove and there was no answer. Minutes were approved.

Topic	Discussion	Action
Report Drafting	<p>Miss Johnson thanked everyone for recommending potential speakers for the task force and responding to last months minutes.</p> <p>Miss Johnson stated she is working to schedule all the people that have been mentioned but today's speakers would be discussing limited or inactive markets to help those that are drafting that section of the report be more comfortable.</p> <p>Miss Johnson said that there would be two speakers today with the first being Nicholas D. Pilz who is the vice chair of the Appraisal Standards Board of the Appraisal Foundation. The Appraisal Foundation is a nonprofit organization established in 1987 whose primary mission is to advance the valuation profession by promoting education and upholding public trust. The way the foundation achieves their mission is through the development of appraisal standards and establishing appraiser qualifications and by being a resource for appraisers, regulators, and consumers. Even so, the Appraisal Standards Board (ASB) is one of three boards for the Appraisal Foundation and is primarily responsible for writing, interpreting and amending the Uniform Standards of Professional Appraisal Practice (USPAP) which is recognized as the ethical and performance standards for appraisal profession in the United States.</p> <p>Mr. Pilz is a compliance and appraisal theory expert with experience and dedication to advancing the appraisal profession.</p> <p>Miss Johnson said the second speaker is Cecelia Marlow who will be discussing underwriting challenges and will give her background when she speaks. Miss Johnson reminded the task force that we are trying to frame what the GA wants the task force to do in their report.</p> <p>As an illustration of appraisal bias being discussed in the context of limited and inactive markets Miss Johnson then brought everyone's attention to a lawsuit out of Marin City, California where a family sued their appraiser because the initial appraisal used the neighborhood the families home was located in as a way to appraise the value of the home even though that neighborhood was an inactive market due to there only being six home sales within the last year. The lawsuit stated that the initial appraiser should have used an adjacent neighborhood to appraise the home. Therefore, the task force should work to give the GA some background on underwriting in limited and inactive markets to help them better understand it. Miss Johnson then asked Mr. Pilz if he was ready to present.</p> <p>Mr. Pilz shared his screen with the presentation: USPAP Overview. Mr. Pilz thanked the task force for inviting him to speak and said that USPAP is written for appraisers to obtain public trust in appraiser practice by addressing underwriting guidelines and requirements set forth outside of USPAP.</p> <p>Mr. Pilz first mentioned there are four Uniform Standards of Professional Appraisal practice but appraisers more often only use the first two standards.</p>	

Topic	Discussion	Action
	<p>Mr. Pilz then went over definitions of different terms.</p> <ol style="list-style-type: none"> 1. Appraisal: the act of developing an opinion of value. 2. Appraisal Practice: valuation services performed by an individual acting as an appraiser, including but not limited to appraisal and appraisal review. 3. Appraiser: one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective 4. Credible: Worthy of belief <ol style="list-style-type: none"> a. Mr. Pilz discussed Scope of Work and how it applies to being credible. Credible assignment results require support by relevant evidence and logic. <p>Gabriela Nicolau informed Mr. Pilz that Vice Chair Simpkins has a question. Vice Chair Simpkins asked if Mr. Pilz could go back and discuss the standards he mentioned and what they are. Mr. Pilz said that Standard 1 is developmental and Standard 2 is the report guidelines. That Standard 1 (S1) is what happens in the appraisers mind. So that would be the collecting of different information from sources while Standard 2 (S2) is what the appraiser is reporting to the client in order to help lead the client to a solution.</p> <p>Mr. Pilz then finished with the definitions:</p> <ol style="list-style-type: none"> 5. Assignment Results: an appraiser's opinions, not limited to value, that were developed when performing an appraisal assignment, review assignments, or valuation service 6. Bias: a preference that precludes an appraiser's impartiality, independence or objectivity in an assignment. <p>Mr. Pilz moved on to discuss competency rule:</p> <ol style="list-style-type: none"> 1. An appraiser must be (1) competent to perform, (2) acquire the necessary competency to perform the assignment, (3) decline from the assignment if there are unable to achieve competency. 2. Before agreeing to perform an assignment, an appraiser must determine if they can perform the assignment competently by meeting the requirements of: (1) properly identifying the problem to be addressed, (2) have knowledge and experience to complete the assignment competently, and (3) recognition of and compliance with laws and regulations <p>Mr. Pilz followed up and said that even though there has be some leeway for appraisers by not requiring perfection because that is impossible to obtain, but an appraiser must not render services in a way that is careless or negligent and must disclose everything to their client.</p> <p>Mr. Pilz next discussed Standard 1 (S1) and how it's the step before writing the appraiser report. It is when an appraiser must identify the problem to be solved, determine the scope of work necessary to solve the problem, and complete research and analyses necessary to produce a credible appraisal. Mr. Pilz pointed out that these standards are used throughout the appraiser assignment</p> <p>Mr. Pilz went on to discuss the different rules within Standard 1:</p> <ol style="list-style-type: none"> 1. Standards Rule 1-1 are the development requirements <ol style="list-style-type: none"> a. Be aware of, understand, and correctly employ recognized methods and techniques that are necessary to produce a credible appraisal 	

Topic	Discussion	Action
	<p>b. not commit a substantial error of omission or commission that significantly affects an appraisal</p> <p>c. not render appraisal services in a careless or negligent manner, such as by making a series of errors in the aggregate affects the credibility of those results.</p> <ol style="list-style-type: none"> 2. Standards Rule 1-2 is for problem identification 3. Standards Rule 1-3 is for market analysis 4. Standards Rule 1-4 is where an appraiser must collect all information for credible assignment results <p>c0 Y j gp" c"ucrgu"eqo r ctkuqp"cr r tqcej "ku"pgeguuct { "hqt" etgf kdrng"cuuki po gpvt guwuu"cp"cr r tckugt"o wuv"cpn{ g" uwej "eqo r ctdrng"ucrgu"fcv"cxclcdng"vq"lpf lecvg" c"xcnwg" eqpenwukqp</p> <p>d0 Y j gp" c"eqcu"cr r tqcej "ku"pgeguuct { "hqt"etgf kdrng" cuuki po gpvt guwuu"cp"cr r tckugt"o wuv< k0 f gxgnqr "cp"qr kpkqp"qh"uksg"xcnwg"d{ "cp"cr r tqr tlcvg" cr r tckucn"o gj qf "</p> <ol style="list-style-type: none"> ii. analyze comparable cost data to estimate the cost of the new improvements if any ii. analyze comparable data to estimate the difference between the new cost and the present worth of the improvements <p>c. When an income approach is necessary for credible assignment results, and appraiser must</p> <ol style="list-style-type: none"> i. analyze rental data and the potential earnings capacity of the property to estimate the gross income potential of the property ii. analyze operating expense data as available to estimate the operating cost <p>VC Simpkins asked if there was anything in USPAP of when an appraiser is supposed to use a certain approach and if there were any rules that say appraisers must use a sales comparison approach?</p> <p>Mr. Pilz said that USPAP states to use the approach that is applicable for each assignment</p> <p>Chris Posey spoke and gave an example from his experience. Mr. Posey spoke on how he was appraising a bungalow and wasn't able to use an income approach for the two unit property and therefore had to use a different approach for his appraisal. That cost approach is usually used for new construction or homes that are under 5 years old. A cost approach is not useful for homes that are 60 to 100 years old due to the cost appreciation being low.</p> <p>Miss Johnson then asked whether it is an expectation from Fannie Mae and Freddie Mac to use sales comparison approach</p> <p>Mr. Pilz said that he is not an expert but a sales approach is featured on their form and the underwriting guidelines for those entities require that approach. Mr. Pilz gave the example that a multi family property would fall under the sales approach for value. Mr. Pilz went on to point out how on the Fannie Mae forms, appraisers cannot change the form and have to go by what's there. Even so, appraisers using USPAP have to reconcile the data that's available and requires appraisers to know about market data which falls</p>	

Topic	Discussion	Action
-------	------------	--------

	<p>under standard two.</p> <p>Mr. Posey said that the sales approach is often used because it is tied to substitution and when it comes to the lending transaction, sales is given the greatest weight. Mr. Posey then gave the example of 3 identical homes for sale and that a buyer will choose to buy the home that is at the lowest price even though all three homes are identical. That on average, a buyer does not buy a home for what it cost to build the home and that a multi unit is bought based on a capital rate. Mr. Posey said that the main decision marker is usually substitution</p> <p>VC Simpkins then went on to say that educating consumers should be a priority because consumers could be making decisions on their homes that they shouldn't. That certain approaches make the most sense but if the effect of those approaches is bias, then the purpose of the task force is to address that effect and other economic approaches to value and be open to integrating the standard practices that we have. Miss Johnson agreed with VC Simpkins.</p> <p>Mr. Posey asked if VC Simpkins could elaborate on what he meant by integrate.</p> <p>VC Simpkins said that in an effort like this task force, the excuse of 'this is the way we have always done it' is not going to be a sufficient answer. That the task force should be thinking critically about the way things are done in current practices. Which is what was done on a larger scale with the mortgage lender process. VC Simpkins pointed out that it's important for people to come to the table without any assumptions; that things are considered axiomatic when they are not. That having a debt to income ration of 38 and 43 is a conviction and where decades of mortgage lending happened without a person's debt to income ratio. Therefore, as questions are raised by the task force, people should be open to thinking about innovative solutions to the problem.</p> <p>Dan Hofacker spoke and said that an additional point would be to confirm with Freddie Mac and Fannie Mae if the sales approach is typically used when a loan is sold to GSE and that this can be confirmed when the task force speaks to someone from their agency.</p> <p>Mr. Posey then gave an example to the task force where the sales approach was unable to be used on a 4 unit home because there were no sales to compare it to. Therefore, the buyers were advised to use the income approach since they were buying the home for income purposes. However, the lender was not able to then use the loan and therefore the buyer had to hold the loan.</p>	
--	---	--

Topic	Discussion	Action
	<p>Miss Johnson then confirmed that limited and inactive markets is the current topic being discussed. Miss Johnson then summarized that limited and inactive markets were the reason for the California lawsuit and also summarized what Mr. Pilz had stated, to that point which was, that when dealing with a limited and inactive market, appraisers should not be completing their assignments if there is bias, be unaware of different techniques or changes in the market, and should not act with carelessness or neglect. Appraisers must collect, verify and analyze all data while using sales for comparison. USPAP does give a boundary of what appraisers should do. Even so, when it comes to writing recommendations to the GA, as VC Simpkins has previously mentioned, it can be recommended that consumers be told their options when they feel like an appraiser is not working within the boundaries of USPAP. Miss Johnson went on to further say that Mr. Pilz is able to provide the appraiser perspective while Miss Marlow will be giving the perspective of the underwriter.</p> <p>Mr. Pilz then said, to tie everything together, Standards 1 and 2 are for residential and commercial uses.</p> <p>Mr. Pilz then went back to his presentation and discussed Standard two as being what the appraiser communicates to their client.</p> <p>30 Ucpf ctf u"Twg"4/3"ctg"vj g'i gpgtciitgr qt vki "tgs wktgo gpx c0 ergctn{ "cpf "ceevtcvgn{ "ugvhtj vj "j g'cr r tclucnlp"c" o cpgt "j cvy knipqv'dg'o kugcf kpi d0 eqpvcip "whtelgpv'kphqto cvkp"vq"gpcedng"vj g'kpvgpf gf " wugt "qh'vj g'cr r tclucn'vq"wpf gtucpf "vj g'tgr qt v'r tqr gnt e0 ergctn{ "cpf "ceevtcvgn{ "Fkerqug"cm'cuwo r vkpu." gzvcqtf kpc{ "cuwo r vkpu."j { r qy g'vctn'eqpf kkpqu," cpf "rko kipi "eqpf kkpqu"vugf "kp"vj g'cuuki po gpx</p> <p>40 Standards Rule 2-2 is the content of a Real Property Appraisal Report and reports are either an Appraisal Report or a Restricted Appraisal Report</p> <ol style="list-style-type: none"> a. the content of an Appraisal Report must be appropriate for the intended use of the appraisal and at a minimum state the identity of the client b. summarize the scope of work used to develop the appraisal c. summarize the extent of any significant real property appraisal assistance d. provide sufficient information to indicate that the appraiser complied with the requirements of standard 1 by <ol style="list-style-type: none"> i. summarizing the appraisal methods and techniques employed ii. stating the reasons for excluding the sales comparison cost or income approach iii. summarizing the results of analyzing the subject sales, transfers, agreements of sale, options, and listings 	

Topic	Discussion	Action
	<p>iv. stating the value opinion and conclusion v. summarizing the information analyzed and the reasoning that supports the analysis, opinions, and conclusion, including reconciliation of the data and approaches</p> <p>Miss Johnson followed up and said that USPAP does give guidance on how to communicate and develop a report. That the initial appraiser in the California lawsuit did use USPAP to develop a report but did not do a good job according to the complaint. Miss Johnson then asked, how does the task force address this topic for appraisers.</p> <p>Mr. Posey said Market adjustment. That appraisers need to look at current and older markets in order to see the difference between them because some appraisers are favorable of one market over the other. However if an appraiser goes outside of the market a home is located in, that appraiser has to justify why they are doing that.</p> <p>VC Simpkins followed up and said that in order to make an adjustment based upon sales, data on median sales is needed. That in the California lawsuit, part of its importance is that the market had very few sales. That a basic standpoint is that if there is a market where there are not enough sales or median sale data, how can someone make a reliable sale? Without being able to point to recent data, can adjustments be made?</p> <p>Mr. Posey said that adjustments can be made. Mr. Posey then discussed a townhome he appraised where there had been no sales in the townhomes' neighborhood in 12 months. An appraiser that is competent will look at other neighborhoods and go beyond the last 12 months and look at the past 36 months due to no comparable sales. That there isn't a rule saying an appraiser has to stay in a certain market.</p> <p>VC Simpkins asked if it had to be in the same market.</p> <p>Mr. Posey said that it all comes back to the appraiser being competent and taking all factors into consideration. It is not simple for an appraiser to arrive at valuation.</p> <p>Mr. Hofacker then thanked Mr. Pilz for speaking with the task force and said he had two questions. First, is ASB planning to make any changes in the appraiser space over the next year and two, if Mr. Pilz had any comment on the California lawsuit.</p> <p>Mr. Pilz said that the board adopted rules that went into effect January 2024 but if there is a specific topic people want to make edits to, that is open for discussion. Mr. Pilz pointed out ASB offers guidance through different mechanisms such as an advisory opinions that has a Q and A. In regards to the lawsuit, ASB is aware of it and had discussed the case, specifically to make sure competency is obtained by appraisers.</p>	

Topic	Discussion	Action
	<p>Miss Johnson then informed the task force that there was time for one more quick question but that Mr. Pilz is available via email if there are more questions.</p> <p>Tito Quinones asked Mr. Pilz if there was a force of law that requires an appraiser to follow USPAP guidance or consequences for those who violate USPAP.</p> <p>Mr. Pilz said that licensing is required to work in certain states and most states have adopted USPAP as a baseline for appraisers. USPAP is in Florida statutes and has to be followed but is unsure about Illinois. However, many states have codified USPAP.</p> <p>Mr. Quinones thanked Mr. Pilz and said that as a task force, this is something they should have knowledge on and that he has one more question. Mr. Quinones asked that in regards to limited and inactive markets, is there a way for members or the public to see a snapshot of what is considered a limited or inactive market in order to give people a scope or resource in order to have an idea on how to solve the problem.</p> <p>Miss Nicolau said that the statute does not define limit or inactive markets.</p> <p>VC Simpkins said that the task force needs to define it.</p> <p>Miss Johnson followed up and said that the Real Estate Appraiser Licensing Act of 2002 is regulated by IDFPR and DRE regulates appraisers. Now the task force needed to move on to the next presenter, Cecelia Marlow and thanked Mr. Pilz for his presentation.</p> <p>Miss Johnson then asked Miss Marlow to introduce herself and informed the task force that Miss Marlow would give her perspective from the lenders point of view.</p> <p>Miss Marlow introduced herself and said that she has been a Residential Lender for 20 years. That she is on the Appraisal Board and a Real Estate broker and has been advocating for fair housing. The challenges as a lender come into play in a limited and inactive market. That there is no formal training for lender and underwriters as well as no CE requirements to learn more about appraisers. Even so, there is some education on limited and inactive markets and USPAP gives guidance but there are industry norms. Those norms are looking at comparable sales, the neighborhood, and properties within 90 days for a sale and a one mile radius from the home. That brokers use these industry norms and therefore it would be a flag for a loan if an appraiser looked at a market from 36 months prior.</p>	

Topic	Discussion	Action
	<p>Miss Johnson asked where does the industry get these norms such as a 1 mile radius, apples to apples, and within 90 days and if this information is on a form.</p> <p>Miss Marlow said that these are best practices that are used in the industry and when appraisers go outside of those practices, such as with limited and inactive markets, things become more gray.</p> <p>Miss Johnson asked if there were any questions and then screen shared the Fannie Mae guidelines and informed everyone that there is some guidance. Miss Nicolau asked if there were any guidelines afterward sales are not available per these norms and are there steps in place?</p> <p>Miss Marlow said that as a lender, she has to do her own research on the market and lean on the listed broker for data. Even so, the data received in terms of what goes to an appraiser will often be what makes or breaks a sale and sometimes adjustments are made.</p> <p>Miss Johnson then told the task force that Fannie Mae does list guidelines for what is unaccepted appraisal practice and that who writes these section of the report can refer back to the list.</p> <p>Miss Marlow went further on to state that challenges can come from an appraiser's lack of knowledge on a particular market. That understanding and knowing a market can make a difference.</p> <p>Miss Johnson stated that its an important point to make on appraisers not having an understanding of the market the home is being sold in. That this reasoning could have played a part in the California lawsuit. USPAP talks about how it's the appraiser's job to be competent on an assignment or to become competent if they are not.</p> <p>Mr. Posey followed up and reiterated what Miss Johnson said on how if an appraiser is not competent, then it is their job to become competent. Even so, if an appraiser does not have the skill set to complete an assignment, then that appraiser should excuse themselves from the job. However, some don't do that and just hope that their report isn't submitted for review.</p>	
Open Discussion	<p>Miss Johnson asked if anyone on the task force has anything they would like to openly discuss.</p> <p>Due to lack of comments, Miss Johnson moved on to the next section on the agenda.</p>	
Public Comments	<p>Miss Johnson asked if anyone from the public would like to comment and to please state their first and last name. With there being no comments, Miss Johnson moved on to New Business.</p>	

Topic	Discussion	Action
<p>New Business</p>	<p>Aisha Walker asked Miss Johnson if a type of presentation for the presenter Miss Walker set up for the task force would be okay.</p> <p>Miss Johnson told Miss Walker that a powerpoint for the presentation would be perfect but to try and keep presentations around 20 minutes. Miss Johnson told the task force that admin support is working to get presenters scheduled that can discuss various topics or at least the most complicated topics given the timeline of when the draft to the GA will need to be completed. Miss Johnson then asked task force members if there was other new business that needed to be covered.</p> <p>Vice Chair Simpkins then asked if Miss Johnson could go over the timeline for the draft again.</p> <p>Miss Johnson said yes and that the final goal everyone should keep in mind is December 31st as that is the deadline to have the report due to the GA and Governor's office. That the internal goal for the task force is to have a final draft completed by October 1st. Miss Johnson then asked what would be a good deadline for the task force to have the initial draft done.</p> <p>Jennifer Rossiter Moreno said August as that is two months from October.</p> <p>Miss Johnson asked the task force if August was a good time.</p> <p>Deborah Fears said that she was going to suggest August as well.</p> <p>Miss Johnson then noted that certain themes may emerge as the task force continues to work and that a recommendation the task force could make would be to provide more consumer guidance. Even so, the goal is to aim for August for the initial draft of the report. Miss Johnson then informed the task force that June's meeting falls on a holiday and therefore, the meeting for that month will be moving to a new day. That the task force will be updated as soon as a day has been decided. Miss Johnson then asked VC Simpkins if his question was answered.</p> <p>VC Simpkins said his question was answered</p> <p>Miss Johnson asked if there was any other questions. Hearing none, Miss Johnson moved on to adjournment.</p>	
<p>Adjournment</p>	<p>The next meeting is scheduled for April 17, 2024.</p>	<p>There being no further business to discuss, motion made by Deborah Fears and seconded by Adrienne Suits Bailey at 12:35pm. Motion carried unanimously</p>