IDFPR

Illinois Department of
Financial and Professional Regulation

Initial Report of the Real Estate Valuation Task Force
January 1, 2025

Exploring the Roots: Appraisal Disparities, Regulatory Insights, and Real Estate Valuation Challenges in Illinois

LETTER OF TRANSMITTAL

Governor, JB Pritzker

The President of the Senate, Don Harmon

The Speaker of the House of Representatives, Emanuel Chris Welch

January 1, 2025

The Real Estate Valuation Task Force Act (20 ILCS 4113) was created pursuant to Public Act 102-934, to directly address discrimination in the valuation of real estate and underwriting of loans in racially diverse or ethnic communities. The Task Force was asked to evaluate the barriers of entry into the appraisal profession. The Task Force shall publish a report of its findings and recommended actions to the Governor and General Assembly by January 1, 2025. The Task Force is pleased to submit an initial report of our findings.

Respectfully,

Members of the Illinois Real Estate Valuation Task Force

CONTENTS

ACKNOWLEDGEMENTS

In recent years, the issue of racial disparities in real estate valuation has emerged as a critical concern nationally, highlighting a profound inequity that also affects communities across Illinois. This report represents the culmination of dedicated efforts led by Representative Lamont J. Robinson and Senator Mattie Hunter, whose commitment to social justice and economic equity has been instrumental in establishing the Illinois Real Estate Valuation Task Force. Formed under House Bill 4410, this initiative was passed in the House and Senate in early April 2022, driven by a shared resolve to combat the discriminatory practices that have long plagued property appraisals.

The Illinois General Assembly declared that the Federal Home Owners' Loan Corporation and the Federal Housing Administration played a major role in the development of the modern home mortgage origination industry; that both agencies explicitly considered the racial and ethnic makeup of neighborhoods when underwriting loans and valuing the real estate to be used as home loan collateral; and that both agencies devalued property or refused to make loans secured by property in communities of color and the harmful consequences of this discrimination remain unresolved.

With this declaration, the Task Force seeks to evaluate the real estate appraisal process statewide and provide legislators and the Governor with recommendations to ensure a fair and equitable valuation process. The challenges are stark: national reports reveal that Black homeowners often face lowball appraisals, leading some to go so far as to "whitewash" their homes by removing family photos and asking white friends to host appraisers to achieve fairer evaluations. As Robinson has pointed out, these disparities are "directly connected to the disinvestment, the poverty, and the lack of interest" in majority-Black communities. (The Real Deal, 2022). Senator Hunter's outlook is that "[t]his task force is a steppingstone toward eliminating discrimination for anyone who hasn't been given a fair shot in the housing industry." (Lee Scott Perres, 2022)

By focusing on the history of disinvestment and the ongoing effects of these inequities, the Task Force has made recommendations for impactful opportunities for improvement. The findings in this report are only the beginning of our work in dedication to building a fairer, more equitable valuation industry for all Illinois residents. As we present our findings and recommendations, we do so with the hope that this report will serve as a catalyst for real change. It is our shared responsibility to ensure that the path forward is paved with equity, integrity, and opportunity for all.

Task Force Members

- **Jeffrey Baker**, CEO, Illinois Realtors®
- **Paul D. Brown**, Real Estate Appraiser, Senior Instructor, Eastern Illinois University
- **Jamie Cumbie**, Vice President of Lending, MidAmerica National Bank
- **Marcus Evans**, Illinois State Assistant Majority Leader Representative
- **Deborah Fears**, President/CEO, Chicago Post Office Employees Credit Union
- **Javier Gumucio**, Director of Homeownership Department, Illinois Housing Development Authority
- **Cassandra Halm**, Deputy Bureau Chief, Consumer Fraud Bureau, Illinois Attorney General's Office
- **Dan Hofacker**, Managing Director, JPMorgan Chase
- **Ericka Johnson**, Deputy Secretary, Illinois Department of Financial and Professional Regulation
- **Steven Monroy**, Director of Fair Housing, Illinois Department of Human Rights
- **Tito G. Quinones**, Deputy Director, Office of Legislative Affairs, Department of Commerce and Economic Opportunity
- **Anthony E. Simpkins**, President/CEO of Neighborhood Housing Services of Chicago
- **Adrianne Suits Bailey**, Manager of Property Tax Division, Illinois Department of Revenue
- **Ashia Walker**, Community Development Senior Financial Analyst, CIBC Bank USA

Special Contributors

- **Gideon Blustein**, Senior Director of Advocacy Programs, Illinois Realtors®
- **James Brady**, Executive Director, JP Morgan Chase Bank
- **Sarah Brune**, Director of Public Policy, Neighborhood Housing Service of Chicago
- **Sonja Dinkins**, Operations Supervisor, JP Morgan Chase Bank
- **Luis A. Lopez**, Ph.D., Assistant Professor, Stuart Handler Department of Real Estate, College of Business Administration, University of Illinois Chicago
- **Beryl Omeeboh**, Law Clerk, IDFPR Division of Real Estate
- **Danielle Stanley**, Associate Director of Public Policy, Neighborhood Housing Service of Chicago

Notes

Davis, M. (n.d.). Illinois task force to address racial bias in appraisals. The Real Deal. https://therealdeal.com/chicago/2022/03/10/illinois-task-force-to-address-racial-bias-in-appraisals/

Real Estate Valuation Task Force Act, 20 ILCS 4113, (2022). https://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=4301&ChapterID=5

Young, R. (n.d.). Real Estate Valuation Task Force Promising to Confront Bias. Lee Scott Perres, Illinois Real Estate Attorney Blog. https://flatworm-cinnamon-t5ks.squarespace.com/blog/real-estate-valuation-task-force-promising-confront-bias

EXECUTIVE FINDINGS

This report presents initial findings of the Real Estate Valuation Task Force, which aimed to examine the complex dynamics of property valuation in Illinois.

Our findings reveal that racial disparities in real estate valuation reflect systemic issues, rather than isolated cases of bias or the fault of a single group.

While there certainly are disturbing instances attributable to individuals within the appraisal profession, the comprehensive understanding that disparities are influenced by a range of interconnected factors is crucial for addressing the broader factors that influence property valuation and for developing effective strategies to promote equity. While not fully explored in this initial report, future reports will provide an in-depth examination of collateral underwriting standards and challenges as well as other aspects affecting property valuation.

Historical Roots Have Led to Injustices That Persist Today

The devaluation of real estate and systemic denial of loans in communities of color in the United States has roots in historical injustices that persist today, particularly across Chicago and southern Illinois. Discriminatory practices, including the redlining security maps instituted by the Federal Housing Administration ("FHA") and the now defunct Home Owners' Loan Corporation ("HOLC") in the 1930s, have led to significant barriers for Black families accessing homeownership and wealth accumulation. By the early 1940s, Black-majority neighborhoods in Chicago were deemed "hazardous" and were given the letter grad of "D" by the HOLC's security maps, effectively limiting the supply of mortgage credit to those neighborhoods. A recent study by a team of researchers at the Federal Reserve Bank of Chicago shows historical evidence that the security maps caused home values in "D" grade areas to drop by 16% below that of "C" grade areas during the 1930s, leading to long-term ramifications. As a response to redlining, many Black families resorted to contract buying, a predatory practice that often resulted in inflated prices and a lack of legal protections. The Civil Rights Movement prompted the introduction of laws like the Fair Housing Act of 1968 and the Equal Credit Opportunity Act of 1974; however, enforcement remained weak, and racial disparities continued in lending practices. More recent legislative efforts, such as the Community Reinvestment Act and the Dodd-Frank Act, aimed to address these issues, yet significant disparities persist, with Black and Hispanic borrowers facing higher denial rates for mortgage loans compared to white borrowers. Although the extent of usage and economic impact of the HOLC/FHA redlining security maps on housing and mortgage markets is still under academic debate, historical redlining has been linked to broader disparities in pollution exposure, police violence, food deserts, and even broadband access.

Current Appraisal Regulatory Structure Needs Modernizing

The regulatory structure for appraisers consists of three main components: federal oversight through the Appraisal Subcommittee ("ASC"), private oversight through The Appraisal Foundation ("TAF"), and state oversight via individual state regulatory bodies. A primary critique of the current appraisal regulatory system is that it is an overly complex, decentralized structure leading to a lack of transparency, accountability, and inconsistencies in enforcement standards.

The Federal Financial Institutions Examination Council ("FFIEC") oversees the appraisal process for federally regulated financial institutions. It establishes uniform standards and guidelines to ensure the reliability and independence of appraisals. The FFIEC enforces compliance with

Young, R. (n.d.). Real Estate Valuation Task Force Promising to Confront Bias. Lee Scott Perres, Illinois Real Estate Attorney Blog. https://flatworm-cinnamon-t5ks.squarespace.com/blog/real-estate-valuation-task-force-promising-confront-bias the Uniform Standards of Professional Appraisal Practice ("USPAP") and conducts regular examinations of financial institutions to verify adherence to appraisal regulations. Additionally, the FFIEC collaborates with state appraisal boards to ensure proper licensing and standards.

The ASC, an independent subcommittee of the FFIEC, focuses specifically on the real estate appraisal industry. Established under the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA"), the ASC monitors state licensing requirements for appraisers and appraisal management companies, maintains a national registry of certified appraisers, and submits annual reports to Congress detailing its activities and oversight of state appraisal regulatory agencies.

TAF, a non-profit organization founded in 1987, is responsible for advancing appraisal quality and integrity. It establishes USPAP, which sets ethical and performance guidelines for appraisers. TAF also includes the Appraiser Qualifications Board ("AQB"), which defines the minimum education and experience requirements for appraisers, ensuring they possess the necessary skills to perform their duties.

In Illinois, the Illinois Department of Financial and Professional Regulation ("IDFPR") oversees state-level appraisal regulations. IDFPR sets licensure requirements that can exceed, but not fall below, federal standards, mandates continuing education for appraisers, and has the authority to investigate complaints and impose disciplinary actions against licensed appraisers or unlicensed practitioners.

As we will explore, the current appraisal regulatory system is fragmented, with disjointed oversight that can complicate compliance and create inconsistencies, particularly regarding state-based licensing and disciplinary practices. TAF lacks accountability and transparency as highlighted by the Consumer Financial Protection Bureau ("CFPB") in early 2024. While states cannot fully restructure the system, Illinois can improve its appraisal oversight by aligning state regulations with federal guidelines, ensuring diverse and inclusive representation on the state's appraisal board, and promoting transparency through accessible public databases like the Illinois Department of Financial and Professional Regulation's ("IDFPR") License Lookup Tool.

Valuation Methods, Guidance, and Standards Have Limitations but Updates to the Nondiscrimination Section of USPAP Are Valuable

The three primary valuation methods for residential appraisals are not without their drawbacks and challenges. The sales comparison approach (also known as market approach), cost approach, and income approach each offer distinct ways to determine property value based on different factors. The sales comparison approach focuses on comparing a property with similar ones recently sold, making adjustments for unique features. The cost approach calculates value based on the cost to rebuild the property minus depreciation, relying on the principle that no buyer should pay more than the cost of constructing an equivalent. The income approach, typically used for income-generating properties, estimates value based on future income potential, dividing net income by a capitalization rate to determine worth.

While all three of these methods are standard for valuation, each has its limitations. The sales comparison approach relies on appraiser subjectivity and the availability of recent sales data, estimating replacement costs under the cost approach can be difficult, and the income approach is challenging because residential real estate is not purely income driven. We provide recommendations for enhancing data collection and access and the use of technology in working with the limitations of each of these valuation methods.

Appraisal standards, such as those established by USPAP, guide appraisers in their analysis and reporting, ensuring credibility and public trust. USPAP covers multiple aspects of the appraisal process, from ethics to competency, and includes specific rules to ensure impartiality and compliance with antidiscrimination laws. Historically, however, the previous edition of USPAP lacked clarity, particularly in articulating the ethical obligations regarding bias. In the 2024 edition of USPAP, significant updates were made to the Ethics Rule, particularly regarding nondiscrimination. The new section was a step in the right direction for appraisers, clarifying appraisers' legal obligations to avoid bias and comply with federal antidiscrimination laws like the Fair Housing Act and the Equal Credit Opportunity Act.

Appraisers are explicitly prohibited from basing value on characteristics such as race, religion, or national origin, ensuring ethical and equitable practices. The revised Conduct section further strengthens the guidelines that the Ethics Rule covers, requiring appraisers to act impartially and without misrepresentation or fraud, with an emphasis on awareness of and adherence to relevant laws.

Additionally, after several years of extended dialogue amongst industry, new advisory opinions now provide clarity and guidance on appraiser bias. The USPAP advisory opinions are not legally binding, but rather offer guidance from the Appraisal Standards Board ("ASB") on how USPAP applies in certain situations. In the context of appraisal bias and discrimination issues, advisory opinions can be extremely valuable in that they provide appraiser with critical insights and interpretations that can guide them into making informed decisions that uphold their standards and protect the public. New advisory opinion 39 reinforces these standards by highlighting how federal antidiscrimination laws impact appraisal practice, requiring appraisers to be fully knowledgeable about and compliant with laws at all levels. New advisory opinion 40 discusses the implications of pretext and coded language. It clarifies the obligations of appraisers regarding antidiscrimination laws in residential property assessments and elaborates on guidance concerning violations related to the use of protected classes, demographic information and geographic data.

Appraiser Liability for Discrimination Affords Protections

There are effective protections in place to safeguard the public against appraisers who discriminate in the course of their professions. Illinois law protects residents from discrimination in real estate appraisals at federal, state, and local levels.

The Fair Housing Act, enacted in 1968 and amended in 1988, prohibits discrimination in residential housing based on factors such as race, color, national origin, religion, sex, disability, and familial status. Appraisers are specifically prohibited from discriminatory practices in the appraisal process and from retaliating against individuals raising concerns related to fair housing.

The Illinois Human Rights Act, established in 1979, expands protections against discrimination in real estate transactions to include additional factors such as age, marital status, sexual orientation, and source of income. This Act empowers individuals to file complaints with the Illinois Department of Human Rights ("IDHR") or pursue lawsuits, with IDHR conducting investigations and enforcing findings.

IDFPR holds the power to determine appraisers' ability to practice under the Real Estate Appraiser Licensing Act of 2002. Violations can result in significant penalties for appraisers, including damages, civil penalties, attorney fees, and injunctive relief. Complaints against appraisers may also lead to disciplinary actions under the, which can include license suspension or revocation and fines for discriminatory practices of up to $25,000 per violation.

At the local level, various municipalities in Illinois, including Cook County and the City of Chicago, have enacted their own fair housing ordinances, offering additional protections and remedies. Collectively, these laws and ordinances create a comprehensive framework aimed at preventing discrimination in the appraisal process and ensuring fair housing practices throughout the state.

Challenges Exist in Limited or Inactive Markets

The appraisal process can be significantly impacted by the state of the real estate market, particularly in limited or inactive markets where comparable sales data is scarce. This can lead to inaccurate property valuations that fail to reflect the unique characteristics of a property or prevailing market conditions. While guidance for appraisers does exist, it can be strengthened, as an early and very visible lawsuit out of California filed by Paul Austin and Tenisha Tate-Austin illustrates. The couple alleged racial discrimination in the appraisal of their home, claiming their property was undervalued in comparison to neighboring homes despite substantial renovations and improvements.

After purchasing their home in California for $550,000 in 2016 and making extensive upgrades, the Tate-Austins encountered inconsistent appraisal values over the years. Notably, in January 2020, an appraisal valued their home at $995,000—almost half a million dollars less than a previous appraisal just a year earlier. This discrepancy was resolved only when they removed personal items that could indicate their race and had a white friend stand in as the homeowner, before a subsequent appraisal yielded a value of $1.48 million. This, coupled with the initial appraiser's reliance on limited market data and outdated trends raised concerns about appraisal bias and discrimination.

In the face of challenges presented by limited or inactive markets, USPAP could provide more guidance to ensure appraisers produce credible reports. USPAP mandates that appraisers develop a thorough understanding of applicable appraisal methods and techniques, maintain competence in their assignments, and continuously enhance their skills. Appraisers are also required to communicate their findings clearly and support their conclusions with adequate analysis, however, USPAP stops short of offering detailed guidance specific to limited or inactive markets where the lack of comparable sales or limited market activity makes it difficult to produce accurate valuations. In these situations, it seems that appraisers must rely heavily on their judgment which, without more, could lead to inconsistencies and potential inaccuracies as the Tate-Austin case illustrates. More robust, market-specific standards could help appraisers navigate these unique challenges which would not only enhance the reliability of appraisal reports in low-data environments but could also help prevent unintentional bias or oversights that bring forth allegations of discrimination.

In addition to that, the ASB of The Appraisal Foundation should develop specialized training programs that emphasize advanced market analysis techniques and alternative valuation methods. This training would equip appraisers to navigate the complexities of sparse data and minimize the potential for bias in their assessments. Such initiatives are essential to improve the accuracy and fairness of property valuations in challenging market conditions, ultimately enhancing trust in the appraisal process.

Reconsiderations of Value: Processes and Procedures Could be Enhanced

Current reconsideration of value ("ROV") processes may be limited in scope and could be expanded to effectively address consumer concerns regarding appraisal discrimination, ensuring equitable treatment for all borrowers in the lending process. The ROV process is a mechanism in lending that allows borrowers to challenge the conclusions of an appraisal, potentially leading to a change in property value. This process is available to loan applicants who believe their initial appraisal was inaccurate due to various factors such as discrimination, clerical errors, or improper comparable selections. The ROV process helps ensure fairness in valuation, which is crucial for borrowers seeking favorable financing terms and maintaining market stability.

The ROV request occurs after an appraisal is completed, enabling borrowers to provide additional information that could support a different value conclusion. New guidelines provided by the Federal Housing Finance Agency ("FHFA") and the Department of Housing and Urban

Development ("HUD") require the disclosure of the ROV process at both the loan application and upon delivery of the appraisal report. The ROV process also intersects with Veteran Affairs ("VA") loans, which allow additional contest options for borrowers facing low valuations. In contrast, conventional loans are not required to provide preliminary valuation communications, placing the ROV process as the primary appeal route for these borrowers. Lenders must have a process for borrowers to submit information regarding discrepancies in comparable sales, the subject property, or market conditions that were not adequately considered in the appraisal.

The new guidelines specify that the ROV process must be provided at no cost to the borrower, and communication on the process and its results should be in writing, provided prior to the loan closing. This Task Force suggests studying the VA Tidewater process further to develop similar mechanisms that address low valuations and potential racial disparities in appraisal practices.

Lastly, as alternative valuation methods gain traction, such as automated valuation models ("AVM"), VA Tidewater, and broader use of the cost approach, lenders are now required to accommodate requests for reconsideration of results from these non-traditional assessments, ensuring borrowers can contest inaccuracies in the alternative valuation models. A general recommendation is that any alternative valuation method used should fall under the ROV process to ensure borrowers can contest inaccuracies. The ROV process serves as a critical tool for borrowers to challenge appraisal biases, but it should be expanded. Further recommendations emphasize the need for additional review processes addressing concerns beyond mere factual errors, reinforcing the importance of equity in home valuation.

Barriers to Entry Center on a Lack of Supervisory Appraisers

The appraisal profession faces significant barriers to entry that impede access and diversity within the field. The homogeneity of the appraisal workforce - predominantly white and male - underscores the need for diversity. As identified in the federal interagency Property Appraisal Valuation Equity ("PAVE") taskforce report of 2021, these barriers include stringent education and experience requirements set by the AQB, a lack of certified appraisers available to mentor trainees, and limited exposure to real estate appraising as a career. The current AQB standards impose tiered educational and experiential qualifications across four classifications, creating a convoluted pathway to licensure that is unique compared to other professions like mortgage brokers and home inspectors.

Recently, Illinois amended its appraiser Rules in recognition that some of its standards exceeded certain AQB requirements, further complicating the entry process. In accordance with Federal guidelines and the PAVE report, allowable trainee experience was expanded to include alternative programs approved by the AQB and supervisory requirements were reduced. (68 IAC 1455) (eff. Sept. 24, 2024). However, other limitations may still exist. For instance, the absence of a Licensed Residential Appraiser credential in Illinois restricts entry opportunities for those without formal higher education, narrowing the pool of applicants.

Moreover, the shortage of certified residential appraisers willing to mentor trainees exacerbates the situation. Historically, mentorship has relied heavily on familial or close community connections, which disadvantages minority groups who often lack access to such networks. The racial wealth gap significantly impacts the ability of minorities to pursue the necessary education for certification, further compounding the lack of representation in the appraisal field. Currently, property appraisers and assessors are predominantly white, with minorities accounting for a mere fraction of the workforce, which limits early exposure to the profession.

To mitigate these challenges, it is essential to implement supportive measures such as financial incentives for supervisory appraisers and enhanced funding for trainee roles. Additionally, state licensing boards should collaborate with minority-focused initiatives to create outreach campaigns that promote visibility and engagement in the appraisal profession within underrepresented communities.

The introduction of practical appraisal experience programs, such as the Practical Application of Real Estate Appraisal ("PAREA") program, represents a crucial step in overcoming mentorship barriers. Future adjustments to AQB requirements—such as reducing qualifying education and experience hours—would facilitate a more accessible pathway to certification. Allowing licensed appraisers to mentor trainees would also broaden the mentorship base, fostering diversity and improving retention in the appraisal industry. By addressing these barriers, Illinois can cultivate a more inclusive and equitable appraisal profession ultimately benefiting both consumers and a broader real estate market.

Studies Confirm Racial Disparities Exist, but More Data Access is Needed

The literature on racial disparities in real estate valuation reveals significant and persistent biases against Black and Hispanic borrowers. Early studies, such as LaCour-Little and Green (1998), highlighted that Black loan applicants in Massachusetts experienced lower appraised values compared to their white counterparts, building on earlier findings by Munnell et al. (1996) regarding higher mortgage denial rates for Black borrowers.

Recent research by Perry, Rothwell, and Harshbarger (2018) found that homes in Black-majority neighborhoods are undervalued by approximately 22% to 23% compared to homes in White-majority neighborhoods. Freddie Mac's briefings (2021, 2022) confirmed that appraisals for homes in Latino and Black neighborhoods were notably lower than those in white neighborhoods, with 15.4% of Latino neighborhood appraisals falling below contract prices versus 12.5% in Black neighborhoods compared to only 7.4% in White neighborhoods. Jean and Blustein (2021) echoed these findings, showing that Black borrowers were denied loans due to low appraisals at twice the rate of white borrowers.

Additionally, a study by Williamson and Palim (2022) on refinance applications indicated that appraisals for Black-owned homes were typically lower than those for White-owned homes, resulting in substantial financial losses in home equity for minority homeowners.

Similarly, ongoing research by Ambrose et al. (2021) suggested that Black-owned homes were undervalued by up to 4% compared to comparable White-owned homes during the pre-Dodd Frank Act era, indicating systemic issues rather than isolated cases of bias.

Current analyses, including those by Howell (2023a, 2023b), have identified trends showing that homes in White neighborhoods appreciated at twice the rate of those in minority-majority neighborhoods during the housing pandemic, further widening the racial gap in home values.

Research methodologies employed to examine these disparities have varied, with some using fair housing tests and others relying on statistical analyses of large data sets. Notably, traditional audit methods face challenges in the appraisal industry due to the relationship between lenders and appraisers. Studies have indicated that statistical discrimination, rather than overt bias, may largely explain the disparities, as race may be used as a proxy for property value in situations where market data is insufficient.

Despite these insights, limitations exist due to restricted data access and privacy concerns, hindering comprehensive analysis across the entire mortgage market. While agencies like Fannie Mae and Freddie Mac possess valuable data, gaps remain concerning subprime and FHA loans, which are more relevant to minority borrowers. Furthermore, the recent release of the Uniform Appraisal Dataset by the Federal Housing Finance Agency ("FHFA"), while promising, lacks essential details that researchers require to fully understand the underlying causes of these racial disparities in real estate valuation.

Addressing Causes of Disparities in Real Estate Valuation

Disparities in homeownership and economic outcomes by race highlight structural biases in the U.S. housing market, including the appraisal industry. These biases, exacerbated by complex governance, lack of consumer awareness, and opaque enforcement mechanisms, contribute to racial inequities in home valuations. The homeownership gap between Black and White families is stark, with median wealth among White families vastly exceeding that of Black and Latino families. Homes in majority-Black neighborhoods are consistently undervalued, damaging both individual wealth and Illinois' housing economy.

The appraisal industry, regulated by a triad of federal, state, and private entities, has been slow to address these inequities. Historically racist housing policies like redlining and blockbusting laid the groundwork for undervaluing Black-owned properties. The Dodd-Frank Act of 2010, which aimed to prevent appraiser-lender collusion, inadvertently exacerbated the industry's challenges, reducing appraiser fees, lowering quality, and shrinking the appraiser pool.

The homogeneity of the appraisal workforce, predominantly White and male, underscores the need for diversity, with barriers like the trainee requirement and degree qualifications limiting entry for underrepresented groups.

Consumers also face challenges in navigating the appraisal process, often unaware of their rights or how to dispute an appraisal. Government oversight remains fragmented, with enforcement mechanisms unclear and difficult to access. Improving accountability and transparency in the appraisal industry is crucial to addressing these consumer challenges.

To address these disparities, industry leaders can focus on diversifying the workforce, reducing structural barriers, and increasing consumer awareness. Programs like the Appraisal Diversity Initiative and Illinois' outreach efforts with the "How to" Series aim to bring more underrepresented individuals into the field. The state should also adopt alternative pathways like PAREA for appraiser certification and incentivize supervising appraisers. Additionally, community-based Appraisal Management Companies could promote geographic competence and mitigate bias in minority neighborhoods.

Education requirements should be revisited, with community colleges offering pre-approved coursework to expand access to the profession. Finally, Illinois should fund a Diversity Appraisal Scholarship Program to support minority entrants into the appraisal industry, similar to the existing real estate diversity scholarships. Consumer education should also be enhanced to empower individuals with better knowledge of the appraisal process and their rights within it.

References made in the Executive Findings are included within the full report below

POSITIVE DEVELOPMENTS IN COMBATTING APPRAISAL DISCRIMINATION

NOVEMBER 15, 2023
Illinois Department of Financial and Professional Regulation ("IDFPR") Department of Real Estate ("DRE") presents the first in a series of "How to" workshops focusing on "How to Become an Appraiser" in efforts to reach, educate, and recruit diverse candidates.

JANUARY 1, 2024
The new edition of the Uniform Standards of Professional Appraisal Practice ("USPAP") goes into effect and includes an updated Ethics Rules with a new Non-Discrimination section and new advisory opinions.

FEBRUARY 13, 2024
The fourth Appraisal Subcommittee public hearing occurs focusing on deficiencies surrounding The Appraisal Foundation ("TAF").

FEBRUARY 14, 2024
The 2024 Federal Housing Finance Agency ("FHFA") Valuation Modernization Summit takes place with consumer advocate groups, regulators, lenders, appraisers, technology providers and other interested parties attending.

FEBRUARY 21, 2024
TAF launches its second Appraisal Profession Demographic Study to shape the Foundation's diversity-related activities.

APRIL 9, 2024
The Consumer Financial Protection Bureau ("CFPB") issues a comment to the Illinois Joint Committee on Administrative Rules ("JCAR") on Illinois's proposed Community Reinvestment Act ("CRA") rules in support of changes to our CRA rules which includes language that it would be a violation of Equal Credit Opportunity Act ("ECOA") and the Federal Housing Administration ("FHA") for a lender to rely on a discriminatory appraisal to deny loan applications when the financial institution knew or should have known of the discrimination, and confirms that under the Truth in Lending Act ("TILA") lenders can request additional property information, or multiple valuations to ensure compliance with civil rights laws, and ECOA to avoid relying on inaccurate or unlawful appraisals and it would not be a violation of appraiser independence.

APRIL 12, 2024
White House announces "appraisal gap" closed by 40% since the Property Appraisal Valuation Equity ("PAVE") Task Force launch.

MAY 1, 2024
Illinois Community Reinvestment Act rules adopted.

JUNE 2024
The Appraiser Qualifications Board ("AQB") produces a concept paper assessing college degree requirements within the Real Property Appraiser Qualifications Criteria.

JULY 11, 2024
The U.S. Court of Appeals for the Seventh Circuit reverses a district court's decision and rules that the CFPB has broad authority to discourage discrimination to combat redlining.

JULY 11, 2024
The U.S. Department of Housing and Urban Development ("HUD") announces settlement with TAF.

JULY 16, 2024
Illinois Real Estate Valuation Task Force issues letter to AQB challenging necessity of college degree requirement **(APPENDIX A)**.

JULY 17, 2024
HUD's first appraisal discrimination charge is filed against an appraiser, Appraisal Management Company ("AMC") and lender.

JULY 17, 2024
Agencies approve final rule to implement quality control ("QC") standards for automated valuations models ("AVM"). All six federal agencies – Office of the Comptroller of the Currency "OCC"), CFPB, Federal Deposit Insurance Corporation ("FDIC"), National Credit Union Association ("NCUA"), Federal Reserve Board ("FRB"), and FHFA approve the final rule on QC standards for AVMs used by mortgage originators and secondary market issuers to value residential real estate collateral securing mortgage loans.

JULY 18, 2024
CFPB, FRB, FDIC, OCC, and NCUA issue guidance on reconsiderations of value ("ROV") regarding appraisal discrimination.

SEPTEMBER 24, 2024
IDFPR adopts the Practical Application of Real Estate Appraisal ("PAREA") program in its Real Estate Appraiser Licensing Rules (68 IAC 1455).

SEPTEMBER 26, 2024
The FHFA published its 2024 second quarter data for the Uniform Appraisal Dataset ("UAD") Aggregate Statistics and introduced new condominium data as part of the UAD Aggregate Statistics

SEPTEMBER 30, 2024
TAF announces Pathways to Success Scholarship for the Appraisal Diversity Initiative ("ADI")

OCTOBER 10, 2024
Justice Department secures $6.5 million from Citadel Federal Credit Union in redlining settlement

OCTOBER 31, 2024
Government Sponsored Enterprises ("GSEs") and FHA extended the effective date for ROV requirements to this date

TASK FORCE RECOMMENDATIONS

The legacy of redlining and discriminatory housing policies in Illinois has left an enduring impact on property values, access to housing, and community development throughout the state—not only in Chicago but in cities across the entire state. These historic policies have created lasting barriers to fair housing and homeownership for families of color, reinforcing racial and economic segregation. According to one study, Peoria, for example, ranks among the most segregated metropolitan areas in the U.S. with the sixth-highest level of segregation measured between Blacks and Whites, and Danville ranked 12th nationally. (Vock, 2021). Springfield, Kankakee, and Rockford showed clear divides between neighborhoods based on race and income, affecting home values and community investment. (Vock, 2021)

These disparities have translated into a biased landscape within the real estate appraisal industry, where communities of color often see their property values consistently undervalued. Recognizing the role that appraisals play in perpetuating these inequities, our Task Force presents the following policy recommendations to create a fairer appraisal system. These recommendations seek to advance appraisal standards, improve accountability and training, and support equitable property valuation to help dismantle the barriers that have long restricted access to housing and economic opportunity for all Illinois residents.

1. Enhance the Current Appraisal Regulatory Framework:

1.1 **Align Regulations:** IDFPR should ensure that its state-level Regulations align with best practices and federal guidelines. This alignment is essential for minimizing confusion stemming from reducing the confusion that often arises from differing state and federal standards.

1.2 **Board Diversity:** Establish consistently diverse and inclusive representation on IDFPR's state's appraisal board. This commitment is vital for creating a regulatory process that is responsive to the needs of all stakeholders, thereby enhancing accountability and fostering public trust.

1.3 **Empower Consumers Through Transparency:** Promote transparency in the state's appraisal processes and empower consumers by actively promoting IDFPR's existing public database (License Lookup Tool) to help consumers make informed decisions when selecting an appraiser, fostering greater confidence in the appraisal process.

2. Improve Appraisal Standards, Methods, and Guidance:

2.1 **Enhance Data Collection and Access:** Make real-time sales data more available by creating a complete database with recent sales from both busy and quieter markets. Explore data-sharing agreements with listing services and government agencies.

2.2 **Use Technology for Comparables Matching:** Explore the use of automated valuation models, artificial intelligence, and machine learning to simplify and improve how comparable sales are chose and adjusted, taking into account local market trends and neighborhood details. These tools can also spot any unusual or inconsistent data in the chosen comparables, making valuations more accurate. However, it is essential to first clean up existing data to avoid relying on information that may have bias or errors built into it.

3. Strengthen Appraisal Practices in Limited or Inactive Markets:

3.1 **Specialized Training for Appraisers:** the Appraisal Standards Board ("ASB") should mandate advanced training focused on appraisals in limited or inactive markets, covering techniques like market analysis, alternative valuation methods, and addressing risks specific to such environments.

3.2 **Improved Guidance:** Strengthen and clarify Uniform Standards of Professional Appraisal Practice ("USPAP") guidance on appraisals in markets with limited data, ensuring appraisers have clear protocols to follow for conducting thorough analyses and addressing challenges posed by sparse market information.

3.3 Continuing Education for Loan Officers: provide continuing education courses on how to effectively read and interpret an appraisal report, and understand comparable sales in limited or inactive markets, and manage reconsideration of value requests.

4. Optimize Processes and Procedures for Reconsideration of Value

4.1 **Set Service Goals for ROV Requests:** Establish service goals related to the review and resolution of ROV requests, including expected timelines for appraisal revisions.

4.2 **Consider Tidewater Process for Veteran Affairs ("VA") Loans:** Study the applicability of the VA's Tidewater process or similar methods for addressing low valuations, particularly in historically redlined areas.

4.3 **Allow Reconsideration of Non-Traditional Valuations:** Create methods for borrowers to request reconsideration of results from non-traditional and alternative valuation methods, addressing potential inaccuracies in data used for collateral assessments.

5. Eliminate Barrers to Entry into the Appraisal Profession:

5.1 **Revise Education and Experience Requirements:** Reduce Appraiser Qualifications Board ("AQB") qualifying education hours for certified residential appraisers from 200 to 180 hours and for certified general appraisers from 300 to 270 hours. Decrease the required experience hours from 1,500 to 1,000 for certified residential appraisers and from 3,000 to 2,500 for certified general appraisers. Implement a restructuring of educational requirements to incorporate more practical appraisal experience.

5.2 **Expand Licensing Options:** Explore the introduction of a Licensed Residential Appraiser credential in Illinois to create pathways into the profession without requiring formal higher education.

5.3 **Enhance Mentorship Opportunities:** Encourage more certified appraisers to take on supervisory roles by reducing restrictions on who can mentor. Develop incentives such as grants or continuing education credits for supervisory appraisers to compensate for time spent training and to increase trainee pay.

5.4 **Promote Diversity and Inclusion:** Partner with minority-focused initiatives to raise awareness about appraisal careers, leveraging media campaigns and outreach at college and high school events. Provide funding or grants to non-profit organizations for community education and mentoring initiatives aimed at increasing minority representation in the profession.

5.5 **Improve Communication and Outreach:** Increase public engagement through additional press releases and events related to the Illinois Department of Financial and Professional Regulation's ("IDFPR") "How to" series to raise awareness and participation in appraisal training. Collaborate with local organizations, such as the Chicago Urban League and the Chicago Community Trust, to enhance outreach and support for aspiring appraisers.

5.6 **Adopt Practicum Models:** Support the development of other State practicum options in addition to PAREA to provide trainees with practical appraisal experience outside of a structured classroom setting.

6. Leverage Data and Research Findings to Enhance Valuation Equity:

6.1 **Increase Access to Detailed Data:** To fully understand racial disparities in real estate valuations, researchers need access to high-quality, comprehensive data, including details about the property, location, loan specifics, and participants. Agencies should support the release of datasets like the Federal Housing Finance Agency's ("FHFA") Uniform Appraisal Dataset ("UAD") with more detailed information.

6.2 **Standardize and Enhance Fair Housing Audits:** Implement fair housing tests and audits more frequently to detect racial disparities in real estate appraisals. Though challenging in the appraisal industry, these audits can be crucial for identifying discrimination.

6.3 **Address Statistical Discrimination:** Training and awareness programs should be implemented to reduce unconscious bias, especially regarding the use of race as a proxy in valuations. Appraisers should be discouraged from relying on race or demographic characteristics when making valuation decisions.

6.4 **Refine Appraisal Methods in Low-Transaction Areas:** Since allegations of racial bias could be more likely in suburban or stagnant markets where fewer comparable sales exist, appraisal methodologies could be improved for such areas, for example with alternative comparison tools introduced for appraising unique or infrequently sold properties.

6.5 **Expand the Scope of Research Beyond Government Sponsored Enterprises ("GSE") Backed Mortgages:** Research should be expanded to include non-qualified mortgages, Fair Housing Administration ("FHA") loans, and other loan products that minority borrowers more commonly use. Collaborating with private data providers may enhance the understanding of racial disparities across the broader mortgage market.

6.6 **Focus on Refinancing Bias:** Agencies should examine disparities in the refinancing process where Black and Hispanic borrowers often face undervaluation, leading to limited access to home equity and lower appraisals compared to White borrowers. Identifying and addressing these inequities can improve equity access for minority homeowners.

6.7 **Promote Transparency in Appraisal Practices:** Encourage transparency in appraisal practices by regularly publishing appraisal-related data, ensuring that racial and ethnic disparities are tracked and addressed. Agencies should establish clear benchmarks and guidelines for equitable appraisals.

6.8 **Leverage Automated Valuation Model ("AVM") Benchmarks:** AVMs can serve as benchmarks to detect appraisal bias. Agencies should promote using AVMs to cross-check manual appraisals and identify significant deviations that could suggest racial bias.

7. Mitigate Factors Contributing to Disparities in Real Estate Valuation

7.1 **Implement Trainings:** IDFPR encourages appraisers to begin taking the 2026 Fair Housing training requirements as soon as practicable.

7.2 **Diversify the Industry:** IDFPR should continue to expand outreach efforts to promote the appraisal industry among underrepresented populations. This includes increasing the number of scholarships available through the IDFPR's "How to" Series and developing partnerships with community organizations to host workshops and informational sessions about entering the appraisal field.

7.3 **Address Structural Barriers:** IDFPR has implemented PAREA as an alternative to traditional experience requirements in its recent rule changes to offer the new AQB approved program in Illinois. However, if PAREA is not an available option for all trainees, and to help fill the supervision gap, IDFPR should actively recruit lapsed or retired appraisers to become licensed as supervising appraisers and offer incentives, such as financial rewards or reduced fees, to encourage experienced appraisers to take on supervision roles.

7.4 **Challenge Education Requirements:** IDFPR should collaborate with community colleges to create clear, streamlined educational pathways for prospective appraisers. This partnership should include the development of pre-approved coursework that meets certification requirements and supports diverse applicants in navigating the education process.

7.5 **Create Community-Based Appraisal Management Companies ("AMC"):** The Illinois General Assembly should fund the establishment of community-based AMCs that prioritize geographic and racial diversity in their appraiser networks. These AMCs should be required to hire appraisers with local knowledge and competency in diverse neighborhoods, thus addressing potential biases in the appraisal process.

7.6 **Fund Diversity Scholarships:** The Illinois General Assembly should allocate funds for a Diversity Appraisal Scholarship Program to support racial minority residents pursuing education in appraisal careers. This program should provide financial assistance for tuition and related costs to help increase representation in the field.

7.7 **Enhance Consumer Education:** IDFPR should develop and distribute educational materials for consumers that explain the appraisal process, highlight potential biases, and provide resources for selecting appraisers. This initiative could include community workshops and online resources aimed at increasing public awareness and understanding of appraisals. The legacy of redlining and discriminatory housing policies in Illinois has left an enduring impact on property values, access to housing, and community development throughout the state—not only in Chicago but in cities across the entire state. These historic policies have created lasting barriers to fair housing and homeownership for families of color, reinforcing racial and economic segregation. According to one study, Peoria, for example, ranks among the most segregated metropolitan areas in the U.S. with the sixth-highest level of segregation measured between Blacks and Whites, and Danville ranked 12th nationally. (Vock, 2021). Springfield, Kankakee, and Rockford showed clear divides between neighborhoods based on race and income, affecting home values and community investment. (Vock, 2021)

Notes:
Vock, D. C. (2021, April 26). "Segregated in the Heartland: an investigative series". Governing. https://www.governing.com/archive/gov-segregation-series.html

HISTORICAL CONTEXT OF REAL ESTATE VALUATION

The devaluation of real estate and the systematic denial of loans to communities of color are deeply rooted in historical and socio-economic injustices. These issues have been particularly pronounced in Chicago and across Illinois, where discriminatory practices in housing and lending have left lasting scars. This chapter explores the historical context, legislative reforms, and contemporary evaluations of these disparities, using specific studies and statistical evidence to highlight the ongoing challenges. The Illinois Real Estate Valuation Task Force, created under the Real Estate Valuation Task Force Act (20 ILCS 4113) under Public Act 102-934, aims to address these disparities and develop recommendations for change.

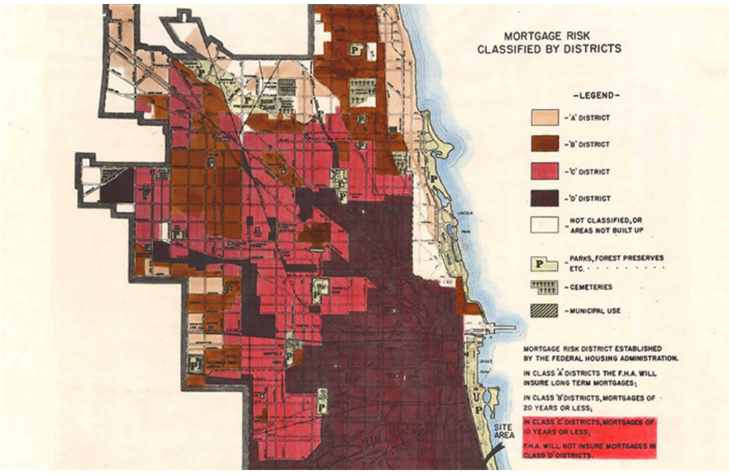
The Great Depression and the Housing Crisis

The Great Depression (1929-1939) led to widespread economic hardship across the United States, with particularly severe impacts on Black communities. In Chicago, Black households faced disproportionately high rates of unemployment and foreclosure. By 1933, the unemployment rate among Blacks in Chicago was estimated at over 50%, compared to around 25% for the general population (Spear, 1967). This economic instability exacerbated existing racial disparities in housing, as many Black families were unable to maintain homeownership, leading to increased foreclosures and displacement. The proposed solution to alleviate the surge in foreclosure across the nation and stimulate the economy was to create the Home Owners' Loan Corporation ("HOLC") and the Federal Housing Administration ("FHA") through the National Housing Act of 1934. While the HOLC's purpose was to purchase and refinance existing mortgages from banks that were failing during the Great Depression, the FHA's purpose was to encourage lenders to provide 25-year (and eventually 30-year) amortizing mortgages with low down payment requirements by offering federal insurance on mortgage default losses. Together, the HOLC and FHA popularized the standard fixed rate mortgage that is known today, when previously the mortgages often had a 5-year term, no amortization or automatic home equity creating mechanism, and high down payment (e.g., 50%) requirements. However, as further explained in the next section, the FHA did not benefit all Americans.

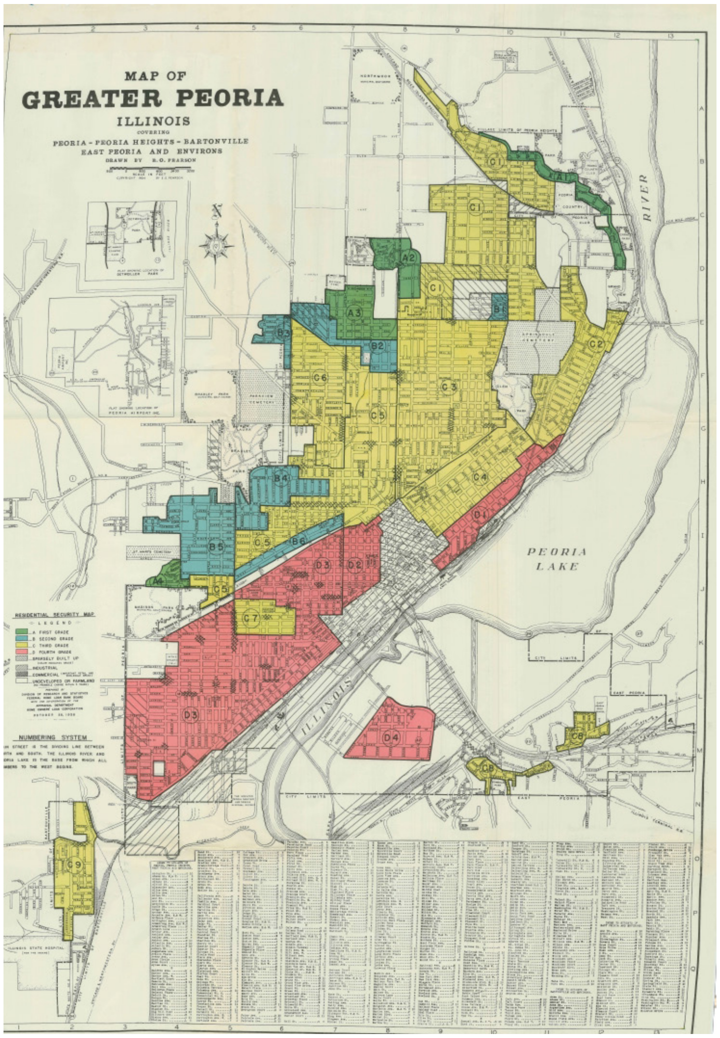
The 1934 National Housing Act, FHA, and Redlining

The National Housing Act of 1934 created the Home Owners' Loan Corporation ("HOLC") and the Federal Housing Administration ("FHA") to stabilize the housing market and encourage homeownership. However, the FHA's and HOLC's lending risk management practices institutionalized racial discrimination through redlining. Both institutions separately created maps that graded neighborhoods based on perceived lending risk, often assigning lower grades to areas with high proportions of Black residents.

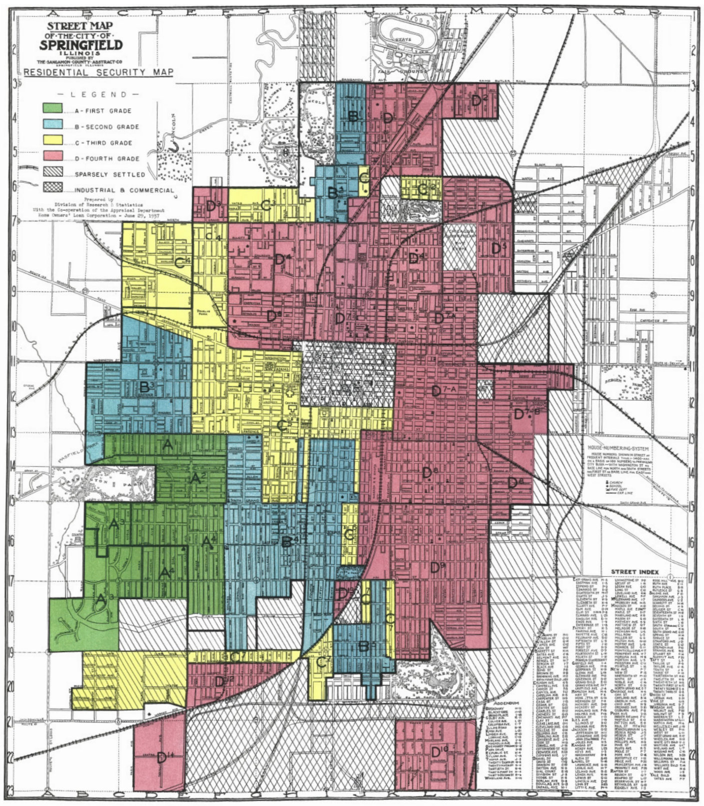
A study by a team of researchers at the Federal Reserve Bank of Chicago, found that home prices in areas with the worst grades consequently grew at a substantially lower rate than home prices in areas with slightly better grades (Aaronson et al., 2021). The Mapping Inequality project by the University of Richmond shows that in Illinois redlining HOLC maps were not only created for Chicago but also for smaller cities like Aurora, Joliet, Springfield, Peoria, Rockford, East St. Louis, and Decatur (Mapping Inequality, n.d.). The HOLC/FHA redlining maps discouraged mortgage lending in poorly graded areas having a disparate impact on African Americans' ability to purchase homes, accumulate wealth, and move to areas with better opportunities.



Chicago Housing Authority's 1938 copy of the Federal Housing Administration's Neighborhood Ratings of Chicago, IL (Image via University of Chicago Map Collections)



From the National Archives, City Survey Files, 1935-1940



From the National Archives, City Survey Files, 1935-1940

Contract Buying and Block Busting

In response to redlining, many Black families in Chicago turned to contract buying, a predatory form of home buying that involved purchasing homes on installment plans without the protections of a traditional mortgage.

A study by Satter (2009) found that in Chicago between 1940 and 1970, an estimated 75-95% of homes sold to Blacks were through contract sales. These agreements often had inflated prices and harsh terms, with sellers retaining the title until all payments were made. The lack of legal ownership meant that families could be evicted without recourse, perpetuating cycles of debt and property loss.

Exploitative Contract Selling

01

As Blacks move into traditionally white neighborhoods, homeowners fear their home value will decrease.

02

Investors capitalize on those fears and buy the home for less than its value.

03

Knowing Blacks are often denied mortgages for being "high risk," the investor sells the home to desperate Blacks at a highly inflated price.

04

The buyers are often "house poor," depleting their resources to pay the mortgage. The investor (who knows the building is in serious disrepair) schedules a building inspector who cites the homeowner for violations.

05

Not being able to afford the repairs, the homeowners are evicted and the investor repeats the predatory lending cycle to a new desperate Black family looking to buy a house.

Contract sellers frequently employed "blockbusting" techniques, scaring white homeowners into selling their properties at a discount by asserting that Black families were moving into the neighborhood and property values would decline. These sellers would then sell the same properties to Black families at inflated prices, often double the purchase price. Under these contracts, Black buyers accumulated no equity, faced eviction if payments were late, and those who did successfully purchase the property were more likely to be foreclosed. In a recent working paper, Hartley and Rose (2023) examine blockbusting practices that occurred in Edmondson Village in Baltimore, Maryland during the 1950s and 1960s. They found that blockbuster middlemen would sell properties at an average markup of 55%, which became notoriously known as "the Black tax", and those who bought the blockbusted properties experience a 17% foreclosure rate (Hartley et al., 2023). This practice not only served as a barrier to Black homeownership and wealth accumulation but also extracted wealth from the Black population, enriching the predatory contract sellers.

Civil Rights Movement and Fair Housing Laws

The Civil Rights Movement led to significant legal reforms, including the Fair Housing Act of 1968, which aimed to eliminate discrimination in housing. Despite these efforts, disparities persisted. In Chicago, segregation remained entrenched, and Black families continued to face barriers to homeownership and fair lending. The Act's enforcement was often weak, and discriminatory practices, such as steering and blockbusting, continued to prevent African Americans from accessing housing in predominantly white neighborhoods (Massey & Denton, 1993).

Fair Lending Laws and the Community Reinvestment Act

The Equal Credit Opportunity Act of 1974 and the Home Mortgage Disclosure Act ("HMDA") of 1975 sought to eliminate discrimination in credit and mortgage lending. The Community Reinvestment Act ("CRA") of 1977 required financial institutions to meet the credit needs of all communities, including low- and moderate-income neighborhoods. Despite these laws, studies show that disparities in lending persisted. For example, a 1992 study found that Black and Latino applicants in Chicago were more than twice as likely to be denied a mortgage loan as their white counterparts, even after controlling for income and other factors (Munnell et al., 1996). In a more recent set of studies, Ambrose et al. (2021) report that the average cost of mortgage credit for Black and Hispanic borrowers is $500 to $1,500 greater than that of white borrowers, while Bartlett, Stanton, and Wallace (2022) show evidence that algorithmic underwriting and Fintech lending practices have perpetuated racial disparities costing minority borrowers over $450 million yearly.

Dodd-Frank Act and Financial Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted to address systemic financial system risks and protect consumers from predatory practices. The Act established the Consumer Financial Protection Bureau ("CFPB") to enforce fair lending laws. Despite these measures, racial disparities in lending persist. For example, data from the CFPB's 2019 report showed that Black and Hispanic borrowers continued to face higher denial rates for conventional home purchase loans compared to white borrowers, with denial rates of 19.8% and 13.6%, respectively, compared to 7.9% for white borrowers (CFPB, 2019).

PAVE Task Force

The Property Appraisal and Valuation Equity ("PAVE") Task Force, established in 2021, addresses racial and ethnic bias in home appraisals. PAVE is a significant interagency federal initiative led by the Biden Administration to combat racial bias in the appraisal industry and address the wealth gap linked to property values in communities of color. Studies referenced by a PAVE report have shown that homes in predominantly Black neighborhoods are frequently appraised at lower values than similar homes in predominantly white neighborhoods. A Brookings Institution study found for example, that, on average, homes in majority Black neighborhoods in Chicago were undervalued by 23% compared to homes in neighborhoods with few or no Black residents, amounting to an average loss of $48,000 per home (Perry, Rothwell, & Harshbarger, 2018). The PAVE Task Force's initiatives aim to rectify these disparities by promoting more equitable appraisal practices.

The Illinois Real Estate Valuation Task Force

The Real Estate Valuation Task Force Act (20 ILCS 4113) was created pursuant to Public Act 102-934 to directly address discrimination in the valuation of real estate and underwriting of loans in racially diverse or ethnic communities. The Task Force is tasked with identifying racial disparities in real estate valuation used for underwriting loans and the causes of these disparities. Specifically, it is charged with conducting an analysis of appraisal standards, methods, and guidance and alternative evaluations such as automated valuation models, procedures for reconsiderations of value by consumers, and guidance related to collateral underwriting challenges, such as energy-efficient housing and limited or inactive markets. The Task Force is also responsible for evaluating barriers to entry into the appraisal profession and causes of disparities in real estate valuation.

Notes:

Ambrose, B. W., Conklin, J. N., & Lopez, L. A. (2021)." Does borrower and broker race affect the cost of mortgage credit?". The Review of Financial Studies, 34(2), 790-826.

Aaronson, Daniel, Daniel Hartley, and Bhashkar Mazumder. "The effects of the 1930s HOLC 'redlining maps.'" American Economic Journal: Economic Policy 13.4 (2021): 355-392.

Bartlett, R., Morse, A., Stanton, R., & Wallace, N. (2022). "Consumer-lending discrimination in the FinTech era". Journal of Financial Economics, 143(1), 30-56.

CFPB. (2019). "Mortgage Market Activity and Trends". Retrieved from https://files.consumerfinance.gov/f/documents/cfpb_2019-mortgage-market-activity-trends_report.pdf

Fannie Mae. (2020). "Disparities in Home Appraisals by Neighborhood Racial Composition". Retrieved from https://www.fanniemae.com/research-and-insights/perspectives/disparities-home-appraisals-neighborhood-racial-composition

Hartley, D., & Rose, J. (2023). "Blockbusting and the challenges faced by Black families in building wealth through housing in the postwar United States". (No. WP 2023-02). Working Paper.

Mapping inequality. (n.d.). https://dsl.richmond.edu/panorama/redlining/data/IL-Chicago

Massey, D. S., & Denton, N. A. (1993). "American Apartheid: Segregation and the Making of the Underclass". Harvard University Press.

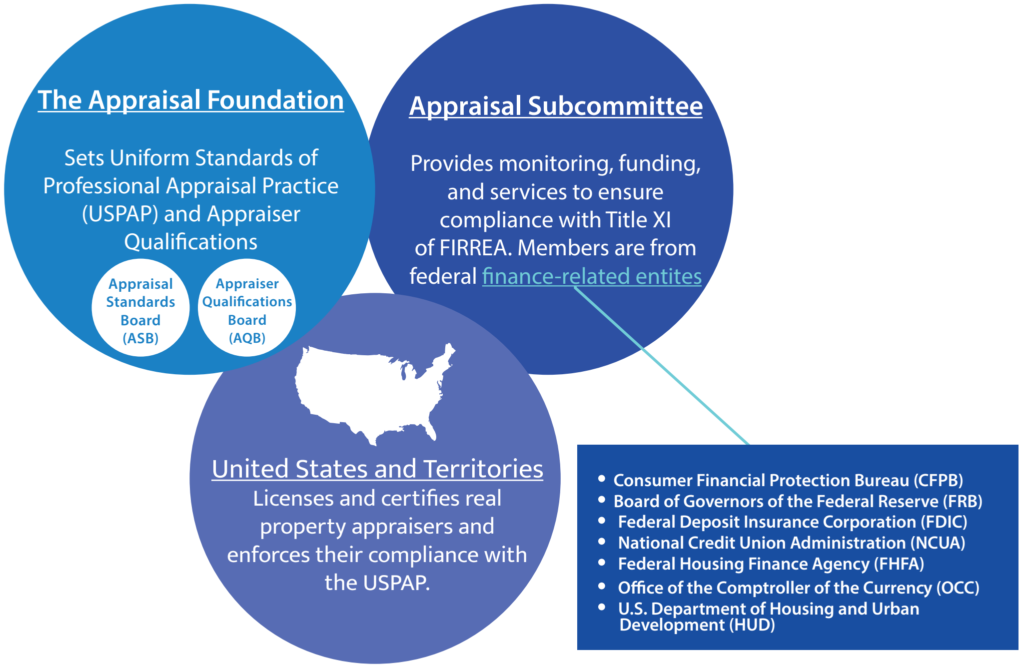
Munnell, A. H., Tootell, G. M. B., Browne, L. E., & McEneaney, J. (1996). "Mortgage Lending in Boston: Interpreting HMDA Data". American Economic Review, 86(1), 25-53.

Perry, A. M., Rothwell, J., & Harshbarger, D. (2018). "The devaluation of assets in Black neighborhoods". Brookings Institution. Retrieved from https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/

Satter, B. (2009). "Family Properties: Race, Real Estate, and the Exploitation of Black Urban America". Metropolitan Books.

Spear, A. H. (1967). "Black Chicago: The Making of a Negro Ghetto, 1890-1920". University of Chicago Press.

CURRENT APPRAISAL REGULATORY STRUCTURE



The regulatory structure for appraisers can be broken down into three main parts: federal oversight through The Appraisal Subcommittee (”ASC”), private oversight through The Appraisal Foundation (“TAF”), and state oversight through the individual states and territories. Each of these components plays a separate and crucial role in ensuring the accuracy, integrity, and adherence to standards in real estate appraisals. The current structure, however, faces significant criticism due to its fragmented framework and issues with transparency, accountability, and effectiveness in addressing bias and inequities.

Federal Oversight

1. Federal Financial Institutions Examination Council

The Federal Financial Institutions Examination Council (“FFIEC”) plays a crucial role in overseeing the appraisal process for real estate transactions involving federally regulated financial institutions. The FFIEC is an interagency body that includes representatives from several federal regulatory agencies, including the Federal Reserve, the Office of the Comptroller of the Currency (“OCC”), the Federal Deposit Insurance Corporation (“FDIC”), the National Credit Union Administration (“NCUA”), and the Consumer Financial Protection Bureau (“CFPB”). Here’s how federal oversight takes place via the FFIEC for appraisals:

- **Uniform Standards and Guidelines:** The FFIEC issues uniform standards and guidelines for appraisals to ensure consistency and reliability in the valuation of real estate. These standards are designed to ensure that appraisals are conducted in a manner that is independent, objective, and free from conflicts of interest.
- **Regulatory Framework:** The FFIEC provides a regulatory framework that financial institutions must follow when conducting appraisals. This includes compliance with the Uniform Standards of Professional Appraisal Practice (“USPAP”), which are the generally accepted standards for professional appraisal practice in the United States.

- **Interagency Appraisal and Evaluation Guidelines:**
The FFIEC issues the Interagency Appraisal and Evaluation Guidelines, which provide detailed instructions on how financial institutions should conduct appraisals and evaluations. These guidelines cover various aspects of the appraisal process, including selecting appraisers, reviewing appraisals, and ensuring the independence of the appraisal process.

- **Examination and Supervision:**
Federal regulatory agencies that are part of the FFIEC conduct regular examinations of financial institutions to ensure compliance with appraisal regulations and guidelines. During these examinations, regulators review the institution's appraisal policies, procedures, and practices to ensure they meet the required standards.

- **Training and Resources:**
The FFIEC provides training and resources to financial institutions and their staff to help them understand and comply with appraisal regulations. This includes workshops, seminars, and online resources that cover various aspects of the appraisal process.

- **Enforcement Actions:**
If a financial institution is found to be in violation of appraisal regulations, the FFIEC member agencies have the authority to take enforcement actions. These actions can include fines, penalties, and other corrective measures to ensure compliance.

- **Coordination with State Appraisal Boards:**
The FFIEC works in coordination with state appraisal boards to ensure that appraisers are properly licensed and adhere to professional standards. This collaboration helps maintain the integrity and quality of the appraisal process.

2. Appraisal Subcommittee

Whereas the FFEIC maintains its focus on practices of financial institutions, the ASC has a narrower focus on the practices of the real estate appraisal industry. The ASC was established in 1989 pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA"). (FFEIC Annual Report (2024).) The ASC is an independent, seven-member, subcommittee of the FFEIC that operates within the broader framework of the FFEIC. (FFEIC Annual Report (2024).) The ASC Board is made up of appointees of the heads of the five FFEIC regulatory agencies in addition to the U.S. Department of Housing and Urban Development ("HUD") and the Federal Housing Finance Agency ("FHFA"). (FFEIC Annual Report (2024).)

The functions of the ASC include:

- Monitoring requirements established by the states for licensing of individuals qualified to perform appraisals in connection with federally related transactions
- Monitoring requirements established by the states for the registration and supervision of appraisal management companies
- Monitoring requirements established by Federal financial institution regulatory agencies regarding appraisal standards for federally related transactions under their jurisdictions.
- Monitoring requirements established by Federal financial institution regulatory agencies regarding determinations as to which federally related transactions require a state certified or a state licensed appraiser.
- Maintaining a national registry of state certified and licensed appraisers eligible to perform appraisals in federally related transactions.
- Transmitting an annual report to Congress each year that describes how each function assigned to the ASC has been carried out during the preceding year and which includes details of all ASC activities including its audit results of all state appraiser regulatory agencies.

- Maintaining a national registry of appraisal management companies that are either registered with and under the supervision of a state appraiser certifying and licensing agency or are operating subsidiaries of a Federally regulated financial institution.
- Monitoring and reviewing the practices, procedures, activities, and organizational structure of the Appraisal Foundation. (12 U.S.C. § 3322)

Private Oversight

TAF is a non-profit organization that was established in 1987 in response to the crisis in the savings and loan industry after nine leading professional organizations in the United States and Canada joined together the year prior to form a committee on the USPAP. (The Appraisal Foundation) Their goal was to advance the quality and integrity of the appraisal profession. In 1989 Congress enacted the FIRREA which authorized TAF as the source of both appraisal qualifications and appraisal standards. (12 U.S.C. § 3331) TAF is composed of sponsor organizations, corporations, government agencies, and advisory councils; over one hundred organizations are affiliated with TAF. (The Appraisal Foundation)

The cornerstone of TAF's regulatory function is USPAP. The USPAP standards are developed and maintained by the Appraisal Standards Board ("ASB") of TAF. USPAP sets forth the ethical and performance guidelines that appraisers must follow, covering all aspects of the appraisal process including development, reporting, and review. (USPAP, 2024) Compliance with USPAP ensures that appraisers perform their duties with impartiality, objectivity, and independence, thereby maintaining the credibility of their valuations.

Another crucial component of TAF is the Appraiser Qualifications Board ("AQB"). The AQB establishes the minimum education, experience, and examination requirements for real estate appraisers. (Criteria, 2022) These qualifications must be met for an appraiser to become licensed or certified at the state level. The AQB periodically updates these requirements to reflect changes in the industry and to ensure that appraisers possess the necessary skills and knowledge to perform their duties effectively

State Oversight

The state regulatory structure for appraisers in Illinois is overseen by the Illinois Department of Financial and Professional Regulation ("IDFPR"). Illinois and the other states and territories can impose standards and qualifications for appraisers in their jurisdiction that meet or exceed ASB or AQB requirements but cannot go below those requirements. Based on those standards, IDFPR sets licensure requirements for associate real estate trainee appraisers, certified residential real estate appraisers, certified general real estate appraisers, and appraisal management companies, including specific education courses, supervised experience, and a comprehensive examination. It also mandates continuing education to keep appraisers updated on industry standards and practices. Additionally, IDFPR has the authority to investigate complaints against licensed appraisers and those accused of unlicensed practice. IDFPR can impose disciplinary actions such as issuing a fine, license suspension, or revocation. (225 ILCS 458)

Criticisms of the Current Structure

The current regulatory system is not perfect. It is characterized by fragmented and disjointed tripartite oversight. This fragmented appraisal regulatory structure creates unnecessary confusion and can result in inconsistencies that complicate compliance. While the ASC oversees state appraiser licensing agencies, and TAF oversees appraisal standards, the responsibility for licensing and disciplining appraisers falls on the individual state agencies, creating a patchwork of regulatory practices. This lack of a unified system complicates efforts to ensure uniformity in appraisal oversight, particularly with regard to how states enforce complaints. Additionally, the lack of a unified regulatory system, such as the one used by the Nationwide Mortgage Licensing System, ("NMLS") for mortgage professionals, may result in an administrative burden on appraisers who must navigate varying state-by-state licensing processes.

TAF is surrounded by issues related to its lack of accountability and transparency. In a letter after a hearing on addressing appraisal bias on February 13, 2024, Director Rohit Chopra of the Consumer Financial Protection Bureau ("CFPB") expressed a number of criticisms that align with common concerns about the organization. (Submission of CFPB Director Rohit Chopra to the Appraisal Subcommittee Regarding Oversight of the Appraisal Foundation | Consumer Financial Protection Bureau, 2024). Chopra noted that self-regulated TAF while acting essentially as a lawmaking body, is neither accountable to the public nor subject to competitive market forces. The key issues raised in the CFPB comment letter are:

Weak Conflict of Interest Policies: TAF's conflict of interest guidelines are considerably less stringent than those for federal employees, allowing for potential conflicts that could affect regulatory impartiality. For example, board members may have ties to vendors regulated by TAF, which raises questions about TAF's objectivity in decision making.

Insular Governance Structure: TAF's governance model has historically favored financial contributors, who can significantly influence board appointments. The "pay-to-play" system as the Director refers to it, creates a perception that the interests of sponsors (or "partners") takes precedence over public accountability undermining TAF's credibility in serving the public interest.

Lack of Transparency: TAF's decision-making processes, particularly regarding the exclusion of ASC staff from board deliberations in closed session, raises concerns. This lack of transparency, combined with TAF's inconsistent explanations for such practices, hampers oversight and raises doubts about TAF's commitment to accountability.

Recommendations

While the individual states do not have the authority to completely restructure the current appraisal regulatory framework, Illinois can take steps to improve the system. IDFPR can ensure that its state-level regulations align with best practices and align with federal guidelines, reducing the confusion that often arises from differing state and federal standards. Another important step is to ensure that there is consistently diverse and inclusive representation on the state's appraisal board at IDFPR. This inclusivity ensures that the regulatory process is responsive to the needs of all parties, enhancing both accountability and the public trust. Illinois can also promote transparency in its appraisal processes and empower consumers by actively promoting its existing public database (IDFPR's License Lookup Tool) which lists licensed appraisers along with any disciplinary records. Making this information easily accessible and well-known can help consumers make informed decisions when selecting an appraiser, fostering greater confidence in the appraisal process.

Notes:

The Appraisal Foundation. (n.d.). "About the Appraisal Foundation". https://www.appraisalfoundation.org/imis/TAF/About_Us/TAF/About_Us.aspx?hkey=52dedd0a-de2f-4e2d-9efb-51ec94884a91

(2024, March 21). FFEIC Annual Report 2023 [Review of FFEIC Annual Report 2023]. https://www.ffiec.gov/PDF/annrpt23.pdf

FIRREA (1989), Public Law 101-73, Section 1101 et seq. (12 U.S.C. 3331) (2024).

Functions of Appraisal Subcommittee (1989), 12U.S.C § 3322 https://uscode.house.gov/view.xhtml?req=(title:12%20section:3332%20edition:prelim)#codification-note

Professions, Occupations, and Business Operations (225 ILCS 458) Real Estate Appraiser Licensing Act of 2002 (2002).

The Real Property Appraiser Qualification Criteria and Interpretations of the Criteria (2022 ed.). The Appraisal Foundation.

Submission of CFPB Director Rohit Chopra to the Appraisal Subcommittee regarding Oversight of the Appraisal Foundation | Consumer Financial Protection Bureau. (2024, March 18). Consumer Financial Protection Bureau. https://www.consumerfinance.gov/about-us/newsroom/submission-of-cfpb-director-rohit-chopra-to-the-appraisal-subcommittee-regarding-oversight-of-the-appraisal-foundation

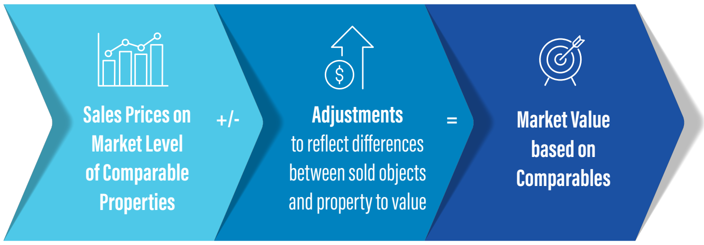
Uniform Standards of Professional Appraisal Practice (USPAP) (2024 ed.). The Appraisal Foundation.

VALUATION METHODS, GUIDANCE, AND STANDARDS

The three primary valuation methods for residential appraisals are as follows:

Sales Comparison Approach

The sales comparison approach -or market approach - is directly rooted in the real estate market. The value of the subject property is equal to the sales prices of comparable properties plus or minus any adjustments. The sales comparison approach compares a piece of property to other properties with similar characteristics, including location and neighborhood attributes, that have been sold recently. The sales comparison approach takes into account the affect that individual features have on the overall property value, meaning that the total value of the property is a sum of the values of all of its features.



Sales Comparison Approach

Critiques of the Sales Comparison Approach

The sales comparison approach, which is the most common method for valuing residential real estate, and is very valuable in real estate appraisals, faces several challenges.

One significant issue surrounding the sales comparison approach is the availability of comparable sales data, which can be particularly problematic in less active markets or for unique properties. Additionally, market variability can make it difficult to ensure that selected comparables accurately reflect current conditions.

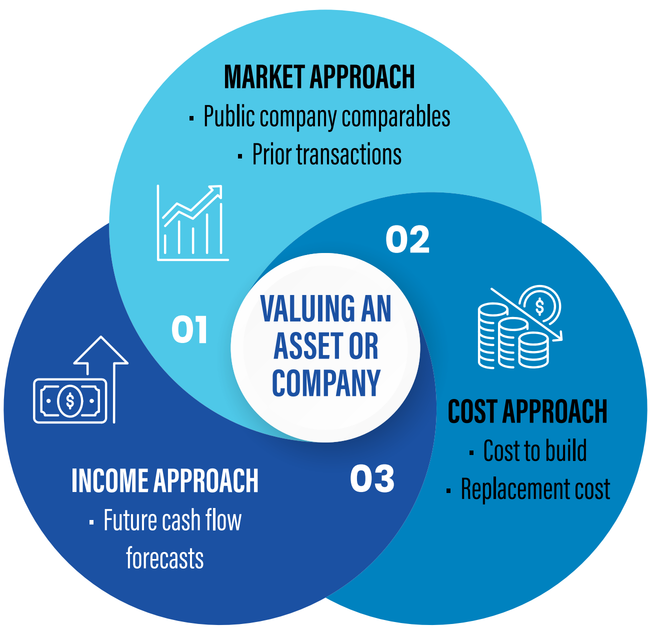
Differences between properties, such as size, condition, and location, complicate comparisons and require subjective adjustments, which can lead to inconsistencies in valuations. Subjectivity in the face of the current discourse on bias is a difficult place for appraisers to find themselves. Moreover, sales data may become outdated quickly, especially in fast-moving markets.

Location plays a crucial role as well, with varying proximity to amenities and developments impacting property values. External factors like economic changes and zoning laws can further complicate matters. Finally, the motivations behind sales, from buyers and sellers, can influence final sale prices, adding another layer of complexity to the valuation process. This highlights the need for thorough research and careful analysis when utilizing this approach.

Cost Approach

In the cost approach to value, the cost to acquire the land plus the cost of the improvements minus any accrued depreciation equals value. Depreciation is a loss in value from any cause, and can take the form of physical deterioration, functional obsolescence, or economic obsolescence. The underlying premise of the cost approach is that "a potential user of real estate won't, or shouldn't, pay more for a property than it would cost to build an equivalent." This is known as the principle of substitution. Often times professionals will rely on cost manuals to determine construction cost.

Three Approaches to Value



Critiques of the Cost Approach

The cost approach, used to value assets based on replacement or reproduction costs minus depreciation, faces several key challenges. Estimating replacement costs is difficult, particularly for unique properties like custom builds or historic homes where using modern materials complicates accurate assessment. Additionally, calculating depreciation is complex: physical depreciation varies based on maintenance and environmental factors, while functional obsolescence depends on subjective evaluations of technological relevance. Economic obsolescence, impacted by market conditions such as zoning changes or economic downturns, is also unpredictable, making it challenging to capture an accurate, current valuation using the cost approach.

Unlike the sales comparison approach or the income approach, the cost approach doesn't necessarily reflect what buyers and sellers in the market are willing to pay. The cost approach is often less relevant for older properties or unique assets, as these may sell for a value much different than their replacement cost due to factors not captured in the cost approach, such as market preferences. Additionally, the cost approach requires land value. In real estate, estimating the value of the land separately from the structures can be challenging, especially when there are few comparable land sales in the area. This can lead to inaccuracies in the overall valuation.

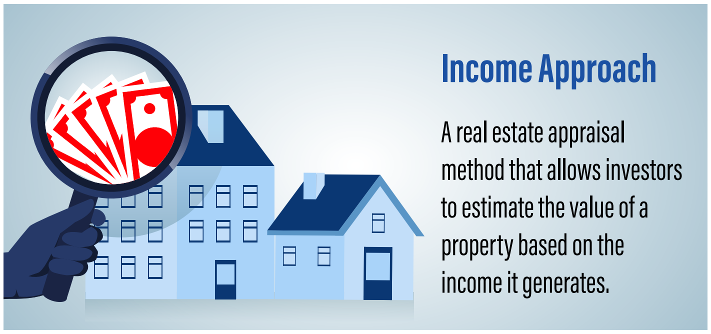
Land Value
Cost New
Depreciation

Valuation

Cost Approach

Income Approach

The income approach quantifies the present worth of future benefits associated with ownership of the real estate asset. The income approach comes in two different forms: net income approach and gross income approach. Net income is what is left over after vacancy and collection loss and allowable expenses have been subtracted from the potential gross income. The net income is divided by a capitalization rate (the investor's desired rate of return) for an estimate of value. In the gross income approach, the income is multiplied by a factor in order to arrive at the value. The net income approach is typically seen on larger commercial occupancies like office buildings, retail, apartments and hotels /motels. The gross income approach is typically seen on income producing residential properties.



Income Approach

Critiques of the Income Approach

The appraisal income approach poses several challenges when applied to residential properties, primarily because residential real estate is often not purely income-driven. Unlike commercial or rental properties with consistent cash flow, residential properties tend to fluctuate in value based on market demand, location appeal, and broader economic factors rather than purely on income potential.

One major challenge is the difficulty in predicting rental income accurately, especially since residential rents can vary significantly based on neighborhood changes, tenant turnover, and local economic conditions. Vacancy rates also tend to be less predictable in residential properties compared to commercial spaces, as the residential market can be more sensitive to shifts in job markets and housing policies. Estimating stable income becomes challenging in neighborhoods with high tenant turnover or properties in areas undergoing rapid demographic or economic changes.

Moreover, finding an appropriate capitalization rate for residential properties can be complex. Cap rates are often derived from market data, which is more readily available and consistent in the commercial sector than in the residential rental market. Small changes in cap rates significantly affect the final valuation, making this approach sensitive to assumptions. Additionally, since residential properties are often influenced by factors unrelated to income, like school district quality, community amenities, and aesthetic appeal, the income approach may overlook aspects that drive residential demand and price appreciation.

Lastly, residential properties frequently serve as primary residences, so prospective buyers may not prioritize potential rental income. Instead, they focus more on factors like lifestyle fit and long-term appreciation, making the income approach less aligned with buyer intentions and market dynamics. This makes it difficult for the income approach to capture the full value of residential properties, especially those in areas with a mix of owner-occupied and rental units.

Recommendation

Since the sales comparison approach is the most widely used method in residential appraisal, our recommendations focus on enhancing this approach. To improve accuracy in property valuations, we recommend expanding access to real-time sales data and explore leveraging artificial intelligence with automated valuation models to streamline the appraisal process. By creating a comprehensive database with recent sales from both active and inactive markets – including data sharing agreements with multiple listing services and government entities – appraisers can work with more precise, up-to-date information. Artificial intelligence and machine learning can help automate the selection and adjustment of comparable sales, taking into account local trends and neighborhood specifics, while also flagging any outliers or inconsistencies to refine valuations. However, it is essential to first cleanse existing data to avoid carrying forward any discriminatory patterns that are already baked into current data. (i.e., garbage in, garbage out).

Appraisal Standards and Guidance

Appraisal standards establish requirements for appraisers for the development and reporting of their analyses, opinions and conclusions. Standards help promote and maintain trust in the valuation profession.

Uniform Standards of Professional Appraisal Practice ("USPAP") is a set of national Standards that is applicable for most appraisals in the United States. USPAP is developed by the Appraisal Standards Board ("ASB") of The Appraisal Foundation ("TAF").

- Standards 1 and 2 establish requirements for the development and reporting of a real property appraisal.
- Standards 3 and 4 establish requirements for the development and reporting of an appraisal review.
- Standards 5 and 6 establish requirements for the development and reporting of mass appraisals.
- Standards 7 and 8 establish requirements for the development and reporting of personal property appraisals.
- Standards 9 and 10 establish requirements for the development and reporting of business or intangible asset appraisals.

USPAP also includes:

- DEFINITIONS which establish the application of certain terminology in USPAP.
- ETHICS RULE which sets forth the requirements for integrity, impartiality, objectivity, independent judgment, and ethical conduct.
- RECORD KEEPING RULE which establishes the workfile requirements for appraisal and appraisal review assignments.
- COMPETENCY RULE which presents pre-assignment and assignment conditions for knowledge and experience.
- SCOPE OF WORK RULE which presents obligations related to problem identification, research, and analyses.
- JURISDICTIONAL EXCEPTION RULE which preserves the balance of USPAP if a portion is contrary to law or public policy of a jurisdiction.

The ASB issues Advisory Opinions which are a form of guidance to illustrate the applicability of USPAP in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems. Advisory Opinions are not part of USPAP.

USPAP Preamble:

- An appraiser must act competently and in a manner that is independent, impartial, and objective.
- An appraiser must comply with the ETHICS RULE in all aspects of appraisal practice.
- An appraiser must maintain the data, information and analysis necessary to support his or her opinions for appraisal and appraisal review assignments in accordance with the RECORD KEEPING RULE.
- An appraiser must comply with the COMPETENCY RULE and the JURISDICTIONAL EXCEPTION RULE for all assignments.

- When an appraiser provides an opinion of value in an assignment, the appraiser must also comply with the SCOPE OF WORK RULE, the RECORD KEEPING RULE, the applicable development and reporting Standards and applicable Statements (there are currently no active Statements).
- When an appraiser provides an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment, the appraiser must also comply with the SCOPE OF WORK RULE, the RECORD KEEPING RULE, applicable portions of STANDARDS 3 and 4, and applicable Statements (there are currently no active Statements).
- When preparing an appraisal or appraisal review that is a component of a larger assignment with additional opinions, conclusions, or recommendations, the appraisal or appraisal review component must comply with the applicable development and reporting Standards and applicable Statements (there are currently no active Statements), and the remaining component of the assignment must comply with the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

USPAP Nondiscrimination Section

USPAP had typically been updated on a two-year cycle up until the 2020-2021 edition when that edition was extended until the end of 2023. The recent 2024 edition of USPAP includes several notable updates. The largest of these updates can be seen in the expanded Ethics Rule section. This newly updated section is a significant improvement from the 2020-21 edition of USPAP which lacked clarity regarding appraisers' legal obligation to practice in their field without bias or discrimination. This critical revision, among many others, seeks to address the shortcomings present in the former document and provide comprehensive guidance on the ethical responsibilities of appraisers.

The previous edition of USPAP presented an aspirational call for appraisers to uphold a high standard of duty but offered limited concrete guidance on what constituted proper appraisal ethics. The first sentence in the preamble section of the 2020-21 USPAP states, "The purpose of the USPAP is to promote and maintain a high level of trust in appraisal practice by establishing requirements for appraisers." (USPAP, 2020, p.1) The preamble then goes on to say that "The Appraisal Standards Board promulgates USPAP for both appraisers and users of appraisal services. The appraiser's responsibility is to protect the overall public trust, and it is the importance of the role of the appraiser that places ethical obligations on those who serve in this capacity." (USPAP, 2020, p. 1). The Ethics Rule section on page 7, was divided into 3 parts: Conduct, Management, and Confidentiality- all of which made up only three pages of the whole 2020-21 USPAP edition.

Under Conduct, one of the first obligations that an appraiser was told to comply with vaguely stated that they must "not perform an assignment with bias." (USPAP, 2020, p. 7). However, this obligation begged the question: what does it mean to not perform an appraisal with bias? Nowhere in the remainder of the document was the definition of bias found or a description of what it encapsulated. Although there is a common definition and understanding of the word bias, how is the general public and more specifically, users of appraisal services supposed to know what types of biases appraisers are not supposed to act with unless it was specifically outlined?

This lack of clarification left room for ambiguity and misunderstanding. This ambiguity posed a significant challenge in upholding the public trust and potentially undermined the mission of USPAP, which aims to maintain integrity in the appraisal profession. The lack of specificity in defining biases not only served to hinder appraisers in fulfilling their responsibilities but it also impacted users of appraisal services, potentially influencing crucial decisions such as property valuations and investments as we saw news stories begin to highlight during the pandemic real estate boom.

The lack of specificity in the Ethics Rule section of the 2020-21 USPAP edition is exactly what the new 2024 version of USPAP addressed.

By refining the language, the new Nondiscrimination section goes beyond simply telling appraisers that they must not perform an assignment with bias, it explicitly communicates what this means.

The new section emphasizes compliance with many federal antidiscrimination laws like the Fair Housing Act, the Equal Credit Opportunity Act ("ECOA"), and the Civil Rights Act of 1866. (USPAP, 2024).

The section also outlines specific prohibitions for appraisers regardless of whether or not any antidiscrimination law applies. (USPAP, 2024, p. 8). For example, appraisers are not allowed to base their opinion of value on any of the actual or perceived protected characteristics under the Fair Housing Act, ECOA, and Civil Rights Act of 1866 such as: race, color, religion, national origin, sex, marital status, age, and others. (USPAP, 2024, p. 8). Appraisers are also not allowed to rely upon other characteristics as a pretext to conceal the use of or reliance upon the aforementioned characteristics and others. (USPAP, 2024, p. 8). Additionally, appraisers are required to be knowledgeable about antidiscrimination laws and regulations, regardless of their appraisal discipline. (USPAP, 2024, p. 8). Furthermore, appraisers are not allowed to base their opinions of value on the premise that the homogeneity of the people in a geographic area is relevant for their appraisal. By incorporating these laws into the Nondiscrimination section, appraisers are clearly and explicitly made aware of their ethical and legal obligations in relation to discrimination.

Lastly, to further cement the ways appraisers are expected to act when performing assignments, the Conduct section – which is immediately under the Nondiscrimination section- lays out specifically how appraisers must conduct themselves in their field of practice. (USPAP, 2024, p. 9). By having each task begin with the word must, USPAP signals to appraisers the mandatory nature of the tasks. These tasks state that an appraiser must not: 1) Perform an assignment with bias 2) must not advocate the cause or interest of any party or issue 3) must not agree to perform an assignment that includes the reporting of predetermined opinions and conclusions 4) must not misrepresent their role when providing valuation services that are outside appraisal practice 5) must not communicate assignment results with the intent to mislead or defraud 6) must not communicate a report or assignment results known by the appraiser to be misleading or fraudulent 7) must not knowingly permit an employee or other person to communicate a report or assignment results that are misleading or fraudulent. (USPAP, 2024, p. 9).

Ultimately, in the updated 2024 USPAP edition, the Nondiscrimination and subsequently, the Conduct section appears to focus on ensuring that appraisers are aware of local, state, and federal antidiscrimination laws and regulations and their obligation to abide by them when preforming, and in creating their appraisals.

Summary of Advisory Opinion 39

The purpose behind the advisory opinions is to demonstrate the applicability of USPAP in specific situations by presenting hypothetical questions that the appraisal foundation answers for appraisers. Here, much like the revamped 2024 USPAP Ethics Rule section which emphasizes and urges appraisers' compliance with federal antidiscrimination laws, Advisory Opinions 39 and 40 also reiterate and explicitly define guidelines for non-discriminatory appraisal practice by emphasizing the importance of the same three key federal anti-discrimination laws, including: The Fair Housing Act, ECOA, and the Civil Rights Act of 1866. (USPAP, 2024).

Advisory Opinion ("AO") 39 seeks to address how federal antidiscrimination laws affect appraisal practice, so naturally this section reiterates that all appraisers are required to be knowledgeable about and fully comply with all laws applicable to the appraiser including anti-discrimination laws at the local, state, and federal levels. (USPAP, 2024, p. 118). It also details how federal anti-discrimination laws are relevant to appraisal practice and how the Nondiscrimination section of the 2024 USPAP document introduces and provides additional guidance on the concepts of disparate impact and disparate treatment. (USPAP, 2024, p. 118). AO 39 describes in detail each of the antidiscrimination laws and how knowledge of these laws can impact appraisal practice. The Fair Housing Act is a key component of the antidiscrimination framework of the U.S. legal system that prohibits housing discrimination during activities such as renting, buying, and obtaining mortgages. (USPAP, 2024, p. 118). Here, AO 39 also explains that disparate treatment occurs when an appraiser – although he or she may not be motivated by malice or prejudice- intentionally treats a person differently from others, either in whole or in part, because of a protected characteristic. (USPAP, 2024, p. 119). They distinguish this definition from disparate impact and explain that disparate impact involves neutral policies or practices that do not on their face reference or rely upon protected characteristics, but still have an effect that is disproportionately averse to individuals with a particular protected characteristic. (USPAP, 2024, p. 119).

Advisory Opinion 39 explains the ECOA and The Civil Rights Act of 1866. The ECOA prohibits discrimination by creditors in any aspect of a credit transaction based on various factors, including race, color, religion, sex, marital status, age, and more. (USPAP, 2024, p. 120). Lastly, The Civil Rights Act of 1866 guarantees the right to make and enforce contracts and the right to inherit, purchase, lease, sell, hold, and convey real and personal property without disparate treatment based on race, ethnicity, national origin, or religion. (USPAP, 2024, p. 120). Sections 1981 and 1982 of the Act apply to appraisers regardless of their discipline, and these sections have implications for how appraisers choose to accept or refuse assignments, treat clients, and determine the scope of work for assignments appraisers choose to perform. (USPAP, 2024, p. 120).

This advisory opinion explicitly communicates to appraisers that compliance with antidiscrimination laws is essential to ensure fair and ethical appraisal practices while maintaining ethical standards. Moreover, the opinion repeatedly states that appraisers must not base opinions of value on personal characteristics such as race, ethnicity, gender, or disability, except in specific circumstances which are outlined later in the opinion. Overall, this section aims to ensure that appraisers understand and comply with antidiscrimination laws in order to prevent discrimination in housing, credit transactions, and property rights, ensuring equal access to housing and credit opportunities for all individuals.

Summary of Advisory Opinion 40

The issue that AO 40 seeks to address is whether appraisers can use or rely on demographic data when developing or reporting the value of residential real property. AO 40 provides details to appraisers on the requirements of applicable anti-discrimination laws in the context of residential property appraisals while providing further guidance on violations related to using federally protected classes, demographics, and location data in appraisal reporting. (The Appraisal Foundation, 2024, p. 127). The antidiscrimination laws discussed in this section remains the same as the ones discussed in AO 39 and the Nondiscrimination section. These laws and ethical standards prohibit appraisers from using or relying on data related to protected characteristics when developing residential real property value opinions. (USPAP, 2024, p. 127). Additionally, AO 40 establishes that in order to ensure credibility when developing residential real property value opinions, appraisers must consider relevant property characteristics for the appraisal's intended use, including location and physical, legal, and economic attributes. Appraisers must then communicate appraisal findings accurately without bias and without misleading information. (USPAP, 2024, p. 127).

This section also states that although appraisers have many sources of data like general population trends or demographic information to pull from when developing an opinion of value for residential real property, that information cannot be used to develop and/or report their opinion of value. (USPAP, 2024, p. 129). Additionally, AO 40 highlights location as important information and a relevant characteristic for appraisers when they develop their opinions for value. It notes that location- as important as it can be in determining the value of a piece of property- does not pertain to the protected characteristics of any person or group of persons who may be associated with the property or appraisal. (USPAP, 2024, p. 129). In continuing, AO 40 explicitly states, "Demographic data related to race, ethnicity, and national origin of a subject property's neighborhood is never necessary for credible assignment results when developing or reporting an opinion of value for residential real property." (USPAP, 2024, p. 129). AO 40 makes this clarification of what can and cannot be used for appraisal valuation to ensure that appraisers do not use or rely on information that can be associated with any of the protected characteristics within the discussed antidiscrimination laws when developing an opinion of value.

Further in AO 40 lies the "Pretext and Use of Code Words" section which explains to readers that an appraiser violates USPAP's prohibition on pretext when the appraiser refers to something other than a protected characteristic to conceal their use of or reliance upon a protected characteristic. (USPAP, 2024, p. 130). This referral to other terms or language that some appraisers use is what this section describes as "code words". (USPAP, 2024, p. 130). Code words can include words or phrases, and to determine if a word or phrase demonstrates evidence of disparate treatment, one must examine the context in which the language is used. (USPAP, 2024, p. 130). The section further explains that code words can be used in the appraisal valuation context, and when used in an appraisal report, theycan show that an appraiser has engaged in disparate treatment, and pretextually referred to a nonprotected characteristic as a way to conceal the appraiser's use of or reliance upon a protected characteristic. (USPAP, 2024, p. 130).

Overall, AO 40 delves into the complexities of anti-discrimination laws as they apply to residential property appraisals. The guidance provided in this opinion aims to ensure the accuracy of appraisal findings that are devoid of bias and misleading information in order to maintain integrity within the appraisal profession. Overall, this opinion offers comprehensive guidance to appraisers on maintaining ethical standards and compliance with anti-discrimination laws in the appraisal process.

The adjustments made to the 2024 edition of USPAP serve as a crucial step towards ensuring clarity and integrity within appraisal services. By specifically targeting vague and unspecified language, and replacing them with language found in antidiscrimination laws, the new 2024 edition of USPAP creates a strong foundation that allows appraisers to effectively align themselves with the principles of fairness and equity and conduct appraisals in a fair and unbiased manner, free from any form of discrimination. Furthermore, these adjustments and changes equip appraisers with clear guidance on recognizing and addressing potential ethical dilemmas while reducing bias. By focusing on maintaining integrity in appraisers and the appraisal process, these updates reinforce the role of appraisers as impartial professionals committed to serving their clients best interest and maintaining ethical standards, thereby strengthening trust in the appraisal process and enhancing consumer confidence.

Notes:

The Appraisal Foundation. (2020). Uniform Standards of Professional Appraisal Practice (USPAP) 2020-2021 Edition

The Appraisal Foundation. (2024). Uniform Standards of Professional Appraisal Practice (USPAP) 2024 Edition

Fannie Mae. Fannie Mae Selling Guide - B4-1.2 https://selling-guide.fanniemae.com/sel/b4-1.2-01/appraisal-report-forms-and-exhibits

APPRAISER LIABILITY FOR DISCRIMINATION: FAIR HOUSING ACT, ILLINOIS HUMAN RIGHTS ACT, REAL ESTATE APPRAISER LICENSING ACT, LOCAL ORDINANCES

Illinoisans are protected from discrimination in real estate appraisals at the federal, State, and local levels. Home appraisals fall within the scope of fair housing laws that apply throughout Illinois – the federal Fair Housing Act and the Illinois Human Rights Act ("IHRA") – or within the scope of local ordinances. Appraiser licenses may also be disciplined under the Illinois Real Estate Appraiser Licensing Act.

Fair Housing Act

At the federal level, the Fair Housing Act (codified at 42 U.S.C. 3601 et seq.) was passed in 1968 to prohibit discrimination in residential housing based on certain protected factors. Currently, the Fair Housing Act prohibits discrimination based on race, color, national origin, religion, sex, disability, and familial status. The law was amended in 1988 to explicitly include the appraising of residential real property as a covered real estate-related transaction. (42 U.S.C. 3605(b)(2)).

Section 805 of the Fair Housing Act prohibits appraisers from discriminating against any person in making an appraisal available or in the terms or conditions of the appraisal based on protected factors. (42 U.S.C. 3605(a)). Also, Section 818 of the Fair Housing Act prohibits anyone (including appraisers) from coercing, intimidating, threatening, or interfering with a person's fair housing rights – for example retaliating against a person for raising fair housing concerns or filing a complaint. (42 U.S.C. 3617).

Violations of the Fair Housing Act can be enforced by the U.S. Department of Housing and Urban Development ("HUD"), by the U.S. Department of Justice, or by private lawsuits. An aggrieved party may file a complaint with HUD within one year of the last act of discrimination or file a lawsuit in federal court within two years of the last act of discrimination. Complaints filed with HUD are often referred to certified state or local authorities (such as the Illinois Department of Human Rights ("IDHR")) for enforcement under substantially equivalent laws.

Illinois Human Rights Act

At the state level, the IHRA (codified at 775 ILCS 5/1-101 et seq.) was passed in 1979 and prohibits discrimination in real estate transactions, financial credit, public accommodations, and employment. Currently, the IHRA prohibits discrimination in real estate transactions based on race, color, religion, national origin, ancestry, age, sex, marital status, order of protection status, disability, sexual orientation, pregnancy, reproductive health decisions, military status, unfavorable discharge from military service, familial status, arrest record, source of income, and immigration status. The law explicitly includes the appraising of residential real property as a covered real estate transaction. (775 ILCS 5/3-101(B)).

Section 3-102 of the IHRA prohibits appraisers from discriminating against any person in making an appraisal available, in the terms or conditions of the appraisal, in refusing to receive or failing to transmit a bona fide offer, in negotiating an appraisal, and in making discriminatory statements based on a protected class. (775 ILCS 5/3-102). Section 3-105.1 of the IHRA prohibits anyone (including appraisers) from coercing, intimidating, threatening, or interfering with a person's fair housing rights. (775 ILCS 5/3-105.1). Section 6-101.5 of the IHRA explicitly prohibits retaliating against a person for raising fair housing concerns or filing a complaint. (775 ILCS 5/6-101.5).

Violations of the IHRA are enforceable by the IDHR, by the Illinois Attorney General, or by private lawsuits. An aggrieved party may file a charge with IDHR within one year of the last act of discrimination or file a lawsuit in state court within two years of the last act of discrimination. For discrimination charges filed with IDHR, an investigation is conducted and where IDHR determines there is substantial evidence of a violation, IDHR will file a complaint at the Illinois Human Rights Commission ("IHRC"), prosecute the complaint before an IHRC administrative law judge, and seek appropriate relief.

Appraisers who are found liable for discrimination under either the Fair Housing Act or the IHRA may be ordered to pay substantial costs, including payment for actual damages suffered by the complainant (including emotional damages), punitive damages (in circuit courts), civil penalties up to $75,000, attorney fees, and injunctive relief.

Real Estate Appraiser Licensing Act of 2002

Complaints may also be filed against an appraiser's license under the Real Estate Appraiser Licensing Act of 2002, regulated by the Illinois Department of Financial and Professional Regulation ("IDFPR"). (225 ILCS 458/1-1 et seq.). Consumers can bring complaints if they think a valuation of property in an appraisal report was based on discrimination of a protected class as listed in the IHRA. (225 ILCS 458/15-10(a)(12)). Further, if any court in a civil or criminal proceeding, or other administrative agency has found an appraiser guilty of discrimination, the Department must take disciplinary action. (225 ILCS 458/15-11). That disciplinary action may include license suspension or revocation, or the imposition of an administrative fine of up to $25,000 per violation.

Fair Housing Ordinances

At the local level, several Illinois local units of governments maintain their own fair housing ordinances, which may provide for additional protected classes, procedures, and remedies. For example, the County of Cook and the City of Chicago maintain their own fair housing ordinances, the Cook County Human Rights Ordinance, and the Chicago Fair Housing Ordinance, respectively.

Notes:

Chicago Fair Housing Ordinance. (n.d.). Retrieved from https://www.justice.gov/crt/fair-housing-act-1

Cook County Human Rights Ordinance. (n.d.). Retrieved from https://www.justice.gov/crt/fair-housing-act-1

Fair Housing Act, 42 U.S.C. 3601 et seq. (1968). Retrieved from https://uscode.house.gov/view.xhtml?path=/prelim@title42/chapter45&edition=prelim

Illinois Human Rights Act, 775 ILCS 5/1-101 et seq. (1979). Retrieved from https://www.ilga.gov/legislation/ilcs/ilcs4.asp?ActID=2266&SeqStart=100000&SeqEnd=600000

Real Estate Appraiser Licensing Act of 2002, 225 ILCS 458/1-1 et seq. (2002). Retrieved from https://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=1368

CHALLENGES IN LIMITED OR INACTIVE MARKETS

What the market looks like at any point in time can affect valuation. In a limited or inactive market, the lack of recent comparable sales can make it difficult for an appraiser to accurately assess the value of a property. Without comparable properties that accurately reflect the current market conditions, this can result in appraisals that do not adequately account for the unique characteristics of a property or prevailing market trends, potentially leading to allegations of bias or discrimination in the valuation process.

Illustrated: Paul and Tenisha Tate-Austin Lawsuit

The Paul Austin and Tenisha Tate-Austin lawsuit (APPENDIX B), one of the early and most visible cases involving allegations of appraisal bias, is an appropriate illustration of how limited or inactive market activity could lead to claims of discrimination in the appraisal process. In their lawsuit, the Tate-Austins, a Black married couple, alleged racial discrimination in the appraisal of their home, arguing that their property was significantly undervalued compared to neighboring homes.

The Tate-Austins bought their home in the state of California in 2016 for $550,000 and spent a significant amount of money on a complete remodel (Austin, p.11). They increased the home's square footage, invested in several upgrades, and started work on an accessory dwelling unit (Austin, p.11). The house was located near major streets and had convenient access to the well-known Golden Gate Bridge, shopping, and public transportation (Austin, p.11).

According to their lawsuit, the couple first began making improvements to the home between 2016 and 2018 (Austin, p.12). In 2018 they refinanced their mortgage and the appraisal value came back at $864,000 (Austin, p.12). The Tate-Austins continued with major home renovations and improvements and applied to refinance their mortgage again in 2019. This appraisal came back at $1.45 million (Austin, p.12). The following year, in January 2020, the Tate-Austins sought to take advantage of historically low 2% interest rates during the COVID-19 pandemic to obtain funding to complete their accessory dwelling unit and a basement conversion (Austin, p.12). However, that appraisal report valued the home at $995,000; almost half a million dollars less than the prior appraisal (Austin, p.13). Approximately three weeks later in February 2020, with nothing substantive being changed about the structure of the home, an appraisal completed by a different appraiser reflected an increase in the value of the property by 49%, almost half a million dollars higher, at $1.48 million (Austin, p.19).

The only thing that changed between appraisals was that the Tate-Austins "white-washed" their home removing from their home all photographs of their family, artwork, or anything that could indicate their race, and they had a White friend greet the appraiser as if she was the homeowner (Austin, p.19).

The lawsuit argues that the January 2020 opinion of value was improperly derived, based on the appraiser's failure to properly respond to limited or inactive market activity (Austin, p.13). The appraiser reviewed five years of home sales data where not one year had more than four sales (Austin, p.13). The appraiser selected five property sales and one sale listing as comparable sales, three of which were sales in the subject property neighborhood which had been experiencing restricted, or sluggish, market activity (Austin, p.14). With regard to the February 2020 appraisal, that appraiser used eight properties as comparable sales (Austin, p.19). Of the eight, two were located in the subject property neighborhood and the other six were located in a neighboring community (Austin, p.19). All eight of those comparable sales had been available to the appraiser who performed the January appraisal, and none of the same comparable sales were used in either appraisal report (Austin, p.20).

In examining this scenario where limited or inactive market activity forms the backdrop, the use of two different approaches to value the same property resulting in such a significant disparity in valuation, raises the question of whether appraisers have adequate guidance for navigating limited or inactive markets.

Does Sufficient Guidance Exist for Appraisers When Developing a Report in Limited or Inactive Markets?

Debatable. While the Uniform Standards of Professional Appraisal Practice ("USPAP") do clearly instruct appraisers on the foundational requirements for developing a real property appraisal that will address the challenges associated with any market conditions, USPAP does not directly advise an appraiser on the specific topic of limited or inactive markets. In accordance with USPAP, appraisers are required to produce a credible and competent report, continually be aware of and correctly apply recognized appraisal methods and techniques, not commit a substantial error of commission or omission that significantly affects the outcome of the report, and clearly set forth their findings in a way that is not misleading. Bringing all these fundamental elements together, one could argue that some guidance can be inferred. However, appraisers should not be left to piece together such critical direction on their own. At the statewide level, the Real Estate Appraiser Licensing Act of 2002, which governs appraiser licensing and education in Illinois, also does not reach the subject of limited or inactive markets; only requiring that all Illinois-licensed appraisers comply with the standards of USPAP (225 ILCS 458/1).

Below we detail what the indirect USPAP guidance is relative to limited or inactive markets then make recommendations to address gaps.

Appraisers Must Produce a Credible Report Regardless of Challenging Scenarios

Appraisers are required to adhere to high standards in their practice by following the guidelines set by USPAP. USPAP defines "credible" as "worthy of belief" (USPAP, 2024, p.4). This concept is especially important in limited or inactive markets, where valuing properties can be challenging due to sparse or unreliable market data. The definition of credibility under USPAP sets a high bar, ensuring that appraisers' reports are not only reliable but also objective and well-supported.

Credibility is crucial because it ensures that the intended user can trust the report's objectivity and thoroughness. It is important to understand that an "appraisal" is the process of developing an "opinion of value" rather than arriving at an absolute figure (USPAP, 2024, p.3). This distinction highlights that the appraisal process is based on professional judgment and experience, informed by available data. Therefore, clear and transparent communication of findings is essential especially where relevant data is not readily available. Even when comparable sales and market activity are scarce, as in the Tate-Austin case, an appraiser's responsibility to produce a credible report remains. These challenges require even greater diligence in analysis, as we will explore further below.

Even so, this concept of credibility in USPAP does not directly address the substantial difficulties appraiser face when confronted with minimal or outdated sales data. Without specific methods or additional guidance tailored to these conditions, appraisers may struggle to establish a "worthy of belief" report due to an absence of recent or relevant data points as was alleged in the Tate-Austin discrimination case.

Appraisers Must Have a Competent Knowledge Base

According to the "Competency Rule," appraisers must have the necessary knowledge and experience to perform an assignment competently (USPAP, 2024, p.13). Before accepting any assignment, an appraiser needs to assess whether they can complete it with the required level of competence (USPAP, 2024, p.13). Competency might involve understanding a specific market or geographic area or using a particular analytical method (USPAP, 2024, p.13). If an appraiser lacks the necessary expertise, they must disclose this and take steps to acquire the needed competence before completing the assignment (USPAP, 2024, p.13). For example, in cases where geographic competency is essential, an appraiser unfamiliar with the relevant market must gain the necessary understanding to produce credible results for the specific property type and market (USPAP, 2024, p.13). In limited or inactive markets, failing to meet competency standards can lead to unsupported and potentially misleading value conclusions in the report. Additionally, USPAP advises appraisers to follow Standard Rule 1.6 diligently. This rule outlines the reconciliation process, where the appraiser critically evaluates the data available. Reconciliation is especially important in situations where current, high-quality data is scarce.

USPAP's emphasis on competence, however, while important, falls short in cases where geographic knowledge alone may not suffice due to a fundamental lack of relevant comparables and market trends in the area. Full compliance with USPAP competency rules may be insufficient to guarantee accurate value conclusions in limited or inactive markets. Without more targeted measures or supplemental guidance, appraisers remain at an overall disadvantage, potentially misrepresenting value in underserved markets, which heightens the risk of the perpetuation of racial or economic disparities.

Appraisers Must Continuously Develop Their Skills

Even in limited or inactive markets where data may be scarce, once an appraiser has the necessary competency, they must adhere to USPAP standards by thoroughly researching and analyzing the available information. According to USPAP Standard 1.1, an appraiser is required to "be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal" (USPAP, 2024, p.18). This means that appraisers should continually update their skills, review and refine their methods, and develop new techniques to address emerging challenges (USPAP, 2024, p.18). USPAP warns that it's not enough for appraisers to "simply maintain" the knowledge and skills they acquired when first licensed; they must actively improve and adapt (USPAP, 2024, p.18). Additionally, appraisers must avoid significant errors of omission or commission and ensure their work is not done carelessly or negligently (USPAP, 2024, p.18). By following these guidelines, appraisers can provide accurate valuations, even in challenging market conditions with restricted data availability.

Simply maintaining or expanding one's skills, though, may be inadequate for appraisers working in areas with sparse sales data. The lack of targeted skill development in the area of limited or inactive markets may leave appraisers ill-prepared to generate reliable valuations in data-poor markets. USPAP's guidance on skill development while essential, falls short as it lacks specificity for challenging conditions like those seen in the Tate-Austin case. In such settings, an appraiser's fundamental skills may need to include alternative valuation techniques and a deeper understanding of how to navigate data scarcity – items not explicitly outlined by USPAP yet.

Appraisers Must Communicate a Clear Report

Standard Rule 2.2 focuses on the reporting requirements for property appraisals, specifically what content is required in a report. It highlights the need for clear, accurate, and non-misleading communication of all relevant information, analyses, opinions, and conclusions (USPAP, 2024, p.22). The Tate-Austin lawsuit alleged that the appraiser's observation that the subject property had a "distinct marketability which differ[ed] from the surrounding areas," was not supported, and there was no statistically significant or legitimate basis to come to that conclusion (Austin, p.14) . The lawsuit also alleged that there was no analysis of recent market trends and that the selected comparable sales, chosen despite an obviously limited market, were unsound and that improper adjustments were also made. In sum the arguments the Tate-Austin family made centered on a lack of adherence to the recognized methods and techniques of appraising, and deviation from USPAP. Standard Rule 2.2. speaks of the requirement to, "provide sufficient information to indicate that the appraiser complied with the requirements of [real property appraisal development]." (USPAP, 2024, p.22). In order to do this an appraiser is to:

- Summarize the appraisal methods and techniques used
- State the reasons for excluding the sales comparison, cost, or income approaches if not developed
- State the results of analyzing subject sales
- State the value opinion and conclusions
- Summarize the information
- In markets with limited or inactive data, following this standard is even more crucial to ensure the credibility of the appraisal report.
- Still, while USPAP mandates proper and clear communication of a report it does not require additional clarity or disclosure practices to account for limited data. To ensure reporting that is sufficiently, and actually clear, appraisers should be equipped with further guidance to explain the limitations of data more thoroughly and substantively. Without this guidance, there is a risk of continued accusations of bias, especially if appraisers fail to adequately explain how the scarcity of data impacts their conclusions.

Appraisers Must Conduct a Thorough Analysis

Standard Rule 1.3 also plays a key role in accurate communications (USPAP, 2024, p.20). When developing a market value opinion, an appraiser must conduct a thorough market analysis. This includes identifying and analyzing factors that affect property use and value, such as:

- Existing land use regulations,
- Potential changes to those regulations,
- Economic supply and demand,
- The physical adaptability of the property, and
- Trends in the market area.

This comprehensive analysis ensures that the appraisal reflects the true market conditions, even when available data is scarce. The Tate-Austin lawsuit took issue with the appraiser's market analysis. The lawsuit alleged that the market analysis only addressed trends before the 2007 recession and ended in 2008 containing no recent trends and that it inappropriately addressed trends for the entire Bay Area, not just trends for the area of the subject property. The Tate-Austins alleged that the use of dated market trends deviated from USPAP standards and was influenced by race. Without adhering to USPAP in the development of a full picture of recent market trends, allegations of bias and discrimination are bound to arise.

Nonetheless, though USPAP guidance on analyzing market trends is valuable it does not overcome obstacles like those seen in the Tate-Austin case. Without specific direction for how to proceed in data-limited environments, we may continue to see further lawsuits alleging a failure to produce valuations that reflect true property value that potentially perpetuate systemic inequalities.

Appraisers Must Determine the Best Approach to Value

When faced with an assignment in a limited or inactive market, USPAP does not require an appraiser to utilize one approach to value over another. USPAP requires the appraiser to exercise professional judgment and determine which approach or combination of approaches is most appropriate for an assignment. The appraiser must collect, verify, and analyze "all information" necessary. (USPAP, 2024, p.20) The key is to arrive at a well-supported, and credible, conclusion which reflects the property's market value.

The sales comparison approach is widely and commonly used in real estate appraisal to estimate the value of a property by making a comparison of it to similar properties that have recently sold in the same area. The thought is that a rational buyer will not pay more for a property than the cost of purchasing a property with similar characteristics and function. Its use is required or encouraged by the U.S. Department of Housing and Urban Development ("HUD"), Veteran Affairs ("VA"), the U.S. Department of Agriculture ("USDA"), Freddie Mac and Fannie Mae (PAVE, 2022). The reason the sales comparison approach is so widely used is that it directly reflects market conditions and behaviors and may provide a realistic estimate of value based on actual transactions, and it's a very straightforward approach that is conceptually understandable to many. However, there are drawbacks to the sales comparison approach as the Tate-Austin case illustrates. Use of the sales comparison approach requires a sufficient number of recent comparable sales. In a limited or inactive market where data availability may be scarce, this approach may be inadequate.

Although USPAP allows for professional judgment in choosing the most relevant approach, the issue remains that appraisers working in sparse markets often lack sufficient comparables for the sales comparison method. USPAP guidance should include criteria that prioritizes or suggests alternative valuation methods more appropriate to these contexts.

In summary, USPAP does not appear to provide explicit guidance regarding limited or inactive markets, but rather USPAP focuses on broader standards.

The complexity of applying these principles in sparse markets, as illustrated by the Tate-Austin lawsuit, demonstrates how a lack of recent comparable sales can lead to inconsistencies in valuation and even allegations of bias.

Recent Updates

Just before the Task Force finalized this report at the end of 2024, two government-sponsored entities ("GSE") Freddie Mac and Fannie Mae released updated guidance on market area analysis requirements which should impact this conversation. While USPAP sets the overarching standards for the ethical and professional principles appraisers must adhere to in developing and producing appraisal reports, the GSEs have their own guidelines that must align with USPAP but often include additional detail. These recent updates, which will apply to appraisals for loan applications dated on or after February 4, 2025, are designed to promote consistency and transparency in the appraisal process.

The Task Force intends to continue exploring these developments and their implications in a future report, however, here is a summary of what the updated GSE guidance includes.

- Standardized definitions of "neighborhood" and "market area."
- Updated guidance on selection of comparable sales.
- Minimum time frame from which the overall market trend must be derived (12 months).
- Identifying that the overall market trend may be different from the adjustments applied to individual comparable sales.
- Inclusion of an illustration of the methodology used to determine specific comparable sale time adjustments for changes in market conditions.
- Requirement that the appraiser must report the market analysis that supports both the indicated overall market trend and market derived time adjustments for changes in market conditions. (Fannie Mae, 2024).

Recommendations

As outlined above, in markets characterized by limited activity and infrequent transactions, accurate property valuation becomes a significant challenge. To improve valuation accuracy, it is vital that the Appraisal Standards Board ("ASB") of The Appraisal Foundation ("TAF") create and mandate specialized training for appraisers in the area of limited or inactive markets. Training should cover advanced techniques in market analysis, alternative methods for determining value such as expanding the search radius for comparable properties, looking to similar markets outside of the immediate area, or incorporating alternative data sets such as public records, or tax assessments, exploration of broadening the use of the cost approach in these scenarios, and understanding the risks to the client, intended user, and the neighborhood, associated with these types of assignments. Appraisers could benefit from having a solid foundation in using non-traditional data points that a specialized training could offer.

In tandem with appraiser training, a mortgage loan officer's diligence in reviewing appraisals, ability to effectively communicate with the appraiser (consistent with independent appraiser judgment), and managing the loan approval process are essential for mitigating risks and ensuring a well-supported lending decision. After an appraisal report is submitted, the mortgage loan officer will review the report for accuracy. The loan officer will examine the market conditions section, reviewing the appraiser's comments on supply and demand, listing times, and market trends. They scrutinize the selected comparable sales to ensure they are the best possible matches to the subject property. They check the adjustments made by the appraiser for differences between the comparable sales and the subject property, how adjustments were made for property features, conditions, and locations that require more subjective judgment in limited markets. Communication with the appraiser is also crucial; the loan officer may need to seek clarification or additional justifications for adjustments to ensure the appraisal accurately reflects the market conditions and property value. If necessary, they may request additional data or a reconsideration of value if the initial appraisal seems significantly out of line with market expectations.

Given, then, the complexity and importance of understanding appraisal reports we recommend that mortgage loan officers have access to specialized training as part of their continuing education requirements. This training should cover how to read an appraisal report thoroughly and how to understand and determine the validity of comparable sales. Training should also include how to handle reconsideration of value requests and proper appraisal escalation procedures for questionable appraisals. Finally, to better address issues arising from limited or inactive market activity, we recommend initiating research to identify specific geographic areas within Illinois where such conditions prevail. By analyzing recent property sales and market data, we can pinpoint neighborhoods or regions with reduced market engagement. Identifying these "pockets of inactivity" will help us understand the unique market barriers residents in these areas face, whether due to socioeconomic factors, regulatory issues, or other challenges. Additionally, this research can illuminate the broader economic impact of low market activity on property values, tax bases, and community development. Once these areas are identified, the Task Force can explore additional recommendations that might include zoning policy recommendations, revisiting lending policies, providing education to potential buyers and sellers or encouraging investment opportunities that might stimulate demand and thereby increase property values.

Notes:

Tenisha Tate-Austin, Paul Austin, and Fair Housing Advocates of Northern California v. Janette C. Miller, Miller and Perotti Real Estate Appraisals, Inc., AMC Links LLC; U.S. District Court for the Northern District of California; filed December 2, 2021.

Real Estate Appraiser Licensing Act of 2002, 225 ILCS 458/1 et.seq. (2002)

The Appraisal Foundation. (2024). Uniform Standards of Professional Appraisal Practice (USPAP) 2024 Edition

PAVE: Interagency Task force on Property Appraisal and Valuation Equity. (2022, March). “Action Plan to Advance Property Appraisal and Valuation Equity”. Pave.Hud.Gov. https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf

Fannie Mae. (2024, Nov 6). “Selling Guide Announcement (SEL-2024-07)”. https://singlefamily.fanniemae.com/media/40811/display

RECONSIDERATIONS OF VALUE: PROCESSES AND PROCEDURES

The reconsideration of value ("ROV") process is used in lending to challenge the conclusions of an appraisal, potentially resulting in a change in value (FHFA, 2024). This option is available to borrowers (loan applicants) who believe the resulting value of their first appraisal was incorrect, whether due to overt discrimination, clerical errors, comp selection, or a variety of other factors (Fed. Reg. 2024, p.26). An ROV challenges the accuracy of a market value estimate used by lenders to make informed decisions for a loan origination, with potential impact to loan terms. (PAVE, 2022, p.24). An ROV can happen in either a purchase or refinance transaction. (Fed. Reg. 2024, p.27). The ROV allows a consumer to address potential errors or omissions in the appraisal, or the data used in the appraisal analysis, such as comparable sales, subject property or market characteristics. (FHA INFO, 2024). An ROV may be initiated either by the financial institution after its own internal processes result in requiring a second look at the valuation or by the consumer through a complaint that reaches a representative in the loan process. (Fed. Reg. 2024, p.31).

The ROV process is important because it promotes fairness of valuation results,which may impact the decisions of parties to a transaction.

Accurate appraisals are important to the borrower who seeks appropriate financing terms, and to consider in their home buying decision. Accuracy of appraisals is also important because inflated or understated property values could impact market stability. (Fed. Reg. 2024, p.27). Currently, USPAP does not address or provide for uniform ROV standards, leaving financial institutions to each provide guidance as to their loan process. (PAVE, 2022, p.24). Only recently, as of May 2024, did the Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency of the Treasury, issue guidance on how financial institutions, including credit unions, may adopt policies related to ROV's. (Fed. Reg. 2024, p.1).

However, these are merely guidelines and not legal requirements. (Fed. Reg. 2024, pp.1-2). Nonetheless, the Federal Housing Finance Agency in collaboration with Fannie Mae and Freddie Mac published ROV policies in response to the interagency and PAVE report's recommendations. (FHFA, 2024; PAVE, 2022, p.24). Also, the U.S. Department of Housing and Urban Development ("HUD") published specific requirements for borrower-initiated ROVs. (HUD Mortgagee Letter, 2024). These policies apply to those loans that are processed by Fannie Mae, Freddie Mac, those covered by other Federal Home Loan Banks, and HUD.

As of now, the ROV request takes place after the appraisal is complete. It is intended to provide the appraiser with additional information that would potentially support a different value conclusion. Information may include additional recent sales, questions about the market analysis, or corrections to factual errors. The ROV serves the purpose of being a method to challenge the conclusions of an appraisal while still providing for independence in the valuation process. . (Fed. Reg. 2024, pp. 31-32). The following recommendations will incorporate both the guidelines proposed by the federal interagency report of the financial regulatory bodies and the specific policies incorporated by both FHFA and HUD.

Recommendations

After the appraisal is received and reviewed by the lender, an ROV process must be available to borrowers who question reliability or credibility of the appraisal. Please note that the ROV process is generally only available for borrowers looking to purchase a home, and not homeowners looking to sell their home. The ROV only provides an appeal process to a homeowner when they are refinancing their loan. The homeowner (seller) has no ability to request an ROV, however new requirements implemented by FHFA and HUD require the seller to forward the appraisal report to the appropriate regulatory body if there is a discovery of material deficiencies, inappropriate appraisal practice, or evidence of discrimination. In essence, the seller must have an avenue for identifying and remedying any issues with the appraisal. (Freddie Mac, 2024; HUD Mortgagee Letter, 2024, p.4).

Along with reporting requirements, ROVs now may be made available for sellers in sales transactions as well, particularly if the seller notes bias or discrimination in the appraisal process. We recommend that sellers have the right to see the value determination from an appraisal and request a reconsideration of value if bias or discrimination may be present.

Borrowers should be advised of the ROV process in mortgage disclosure documents and on a cover letter with the appraisal, which is delivered to the borrower after the appraisal is received, reviewed and accepted by the lender. The new policies provided by the FHFA and HUD require that there is disclosure of the ROV process at the loan application and upon delivery of the appraisal report. (HUD Webinar, 2024, p.1). The ROV process will provide borrowers with an opportunity to submit alternative comparables, information regarding any discrepancies in the subject property description, or market conditions believed not adequately considered in the appraisal. (Fed. Reg. 2024, pp.31-32). The lender provides the borrower with instructions and education to assist in completing and submitting an ROV, and expectations regarding the ROV process. (HUD Webinar, 2024, p.1). Borrowers should provide the ROV request information directly to the lender, where a process will be in place to review the ROV request. Currently, the guidelines state that information in response to a ROV is sent to the underwriter who then requests additional information or clarification from the appraiser who conducted the initial appraisal report. (HUD Webinar, 2024, p.2).

ROVs must be completed in compliance with valuation provider independence requirements (HUD Mortgagee Letter, 2024, p.4). We recommend that ROV requests should be handled separately and by a different team than the original collateral review, to increase objectivity of the ROV review. The ROV review will determine whether the information in the ROV request supports a revision request to the appraiser. Results of an ROV submitted to the appraiser may include a revised value conclusion, revisions to the appraisal analysis, or no revisions deemed necessary. (HUD Webinar, 2024, p.3). If the appraiser's response does not fully address the ROV concerns, or the appraisal is observed to have a potential weakness that remains unsolved after an ROV review, an additional appraisal may be completed. (HUD Mortgagee Letter, 2024, p.4). Lenders are now required to have a process to document approval of any additional appraisal if there is a material deficiency. (HUD Mortgagee Letter, 2024, pp.3-4).

The ROV process is designed to review and correct errors in the valuation process. This Task Force recommends an additional review process, on top of ROV, that address borrower concerns related to appraiser conduct or professionalism, including potential discrimination or bias or consumer lending complaints unrelated to the appraisal. Right now, some of the training is geared towards identification of discrimination or bias by the underwriter. (HUD Webinar, p.6; HUD Mortgagee Letter, 2024, p.4). These processes should be made clear by the lender to the borrower in the homebuying process. Guidelines currently allow for the ROV process to include allegations of discrimination and for the seller to report violations of antidiscrimination laws, however borrowers should also be educated and included on reporting discrimination to regulatory bodies in addition to the ROV process. (Fed. Reg. 2024, pp.32-33).

Details of the ROV results are to be communicated to the borrower including a copy of any revised or additional appraisal after review and acceptance by the lender. (Fed. Reg., 2024, p.34). The ROV decision should include adequate detailed commentary regarding the ROV results, providing any steps needed to assist the borrower in moving forward with the loan process. The new guidelines appear to only require that communication on the process and its results be in writing, with updates and results provided prior to the loan closing. (HUD Webinar, pp.5, 8).

There should be no deterrence to a borrower request for an ROV, as such there is no associated cost to the borrower for an ROV submission among recent changes. (HUD Webinar, p.8; HUD Mortgagee Letter, 2024, p.5). If additional questions remain after an appraiser response to an ROV, the lender may determine that the appraiser should receive an additional revision request to respond to those new questions, or if an additional valuation may be ordered with adequate documentation to maintain valuation independence. (HUD Mortgagee Letter, 2024, p.7). There should be no fee to the borrower associated with any appraisal revision or second appraisal that results from the ROV process.

Lenders should establish service goals related to completing review of ROV requests, including expectations for timelines associated with appraisal revisions. The overall time required to complete an ROV will depend upon the steps required, such as whether an appraisal revision or a second appraisal is supported, and the review steps required to complete the process.

ROV Process for Appraisal Providers

The lender should provide all appraisers with the service expectations and procedures. Requirements should include the expectation that revisions to appraisals may be requested by the lender to address ROV requests made by borrower and in accordance with safeguards for appraiser independence. (HUD Mortgagee Letter, 2024, p.4). The manner of communication to the valuation provider and expectations for revision response timelines should be included, and provider performance should be monitored against expectations. Requirements should include a strict adherence to Fair Lending and the importance of maintaining Appraiser and Property Data Collector Independence, including expectations of the lender and methods to report any potential violations. New guidelines do require that standards for the appraisal review and ROV process are included in the quality control plan. (HUD Mortgagee Letter, 2024, p.6). Any communications regarding the ROV process, including any requested revisions, must be provided directly by the lender to the valuation provider.

Impact and Applicability of VA's Tidewater Process

Veteran's Affairs ("VA") loans have an additional option for borrowers to contest a low valuation that can impact the ROV process. In VA loans, the VA appraiser may (but is not required to) contact the lender if the appraiser determines the preliminary valuation result does not meet the contract price for the purchase transaction. (Fed. Reg. 2024, p.14). The appraiser may request that the lender's Staff Appraisal Reviewer ("SAR") provide any market sale data that the lender thinks may be relevant to the appraisal of the subject. The lender then requests this information from the buyer, or a real estate agent or builder (interested third parties), providing that data back to the appraiser for the appraiser to consider when determining the final Notice of Value ("NOV") result. The process allows two business days for a response to the appraiser. The appraiser then is required to consider the market data provided and whether or not it was utilized in the final valuation. VA loans also provide for an ROV afterwards if the market data still does not result in the valuation meeting or exceeding the contract price. . (Fed. Reg. 2024, p.14).

Conversely, for conventional loans, the appraiser does not request market sale information from the lender or provide a preliminary valuation result when the value will not meet the contract price for the purchase transaction, prior to delivering the final appraisal result. The ROV process provides the borrower with the opportunity to request an ROV after appraisal delivery. The ROV must be initiated directly by the borrower, not a third-party agent, builder or other person than the loan applicant, who can provide such information to the lender in the VA Tidewater process.

The Tidewater process has been studied by many local, state, and national parties looking to address racial disparities in home valuations. This Task Force recommends further consideration of the Tidewater process or other flags for correcting low valuations in the appraisal process, particularly in communities that were formerly redlined or are experiencing changing market conditions.

Impact / Applicability of the ROV Process to Non-Traditional and Alternative Valuation Methods

Non-traditional means of collateral assessments and alternative valuation methods include Automated Valuation Models ("AVM"), inspections for condition without development of a value, and evaluations, where an AVM is combined with property condition information to determine if collateral supports a loan origination. (Fed. Reg., Proposed Rule, 2023). With development of technology, these alternative methods have grown and are anticipated to continue to expand in use as alternatives to traditional appraisals for more efficient and less costly means of collateral assessment for loan origination.

Lenders should have methods for borrowers to request reconsideration of the results of non-traditional means of collateral assessments and alternative valuation methods, to allow consumers to address potential errors or omissions in the data used to determine collateral support for a lending decision and related loan terms. Property data collection methods used to determine collateral information such as the size of a home, condition of the improvements, or type of dwelling may require reconsideration of results when there is borrower concern about the accuracy of information used by the lender in the collateral decision. A proposed federal rule attempts to address some of this by requiring that quality control standards are implemented when lenders use AVM models, including protection against manipulation of data, avoiding conflicts of interest, and requiring random sample testing. (Fed. Reg. Proposed Rule, 2023).

AVM valuations may be based on information taken from public records or other data sources that the borrower considers to be inaccurate, or market information considered by the AVM may be questionable compared with information the borrower provides regarding the residential marketplace. These issues could be exacerbated in markets with less real estate activity, as there will be fewer current data points and updated records from the transfer of property. (PAVE, 2022, p.41).

An ROV process is important to promote fairness of the valuation results of alternative valuation methods, which may impact loan decisions. Accurate property inspections and AVMs are important to the borrower, who seeks appropriate financing terms, or to consider in their home buying decision. (Fed. Reg. Proposed Rule, 2023).

In conclusion, the ROV process provides a direct process to appeal possible appraisal bias and other potential mistakes in the valuation process for homebuyers. This Task Force recommends the expansion of ROV processes across all public and private lenders and further study to ensure that process is as comprehensive and uniform as possible.

Notes:

Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, & Office of the Comptroller of the Currency. (2023). "Interagency guidance on reconsiderations of value of residential real estate valuations". Federal Register. https://files.consumerfinance.gov/f/documents/cfpb_interagency-guidance-on-reconsiderations-of-value_2024-07.pdf

Federal Housing Administration. (2024). "FHA Announces Technology Updates and Webinar for its Appraisal Review and Reconsideration of Value Policy". In FHA Info [Report]. https://www.hud.gov/sites/dfiles/SFH/documents/SFH_FHA_INFO_2024-43.pdf

Federal Housing Finance Agency. "FHFA announces enterprise Reconsideration of Value Policies". (2024, May 7). FHFA.gov. https://www.fhfa.gov/news/news-release/fhfa-announces-enterprise-reconsideration-of-value-policies

US Department of Housing and Urban Development (HUD). (2024). "FHA Appraisal Review and Reconsideration of Value (ROV) Updates Webinar Questions and Answers". Single Family Handbook 4000.1, 1–10. https://www.hud.gov/sites/dfiles/SFH/documents/Q_and_As_FHA_Appraisal_Review_ROV_10_08_24.pdf

PAVE: Interagency Task force on Property Appraisal and Valuation Equity. (2022, March). "Action Plan to Advance Property Appraisal and Valuation Equity". Pave.Hud.Gov. https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf

Freddie Mac Single-Family, Seller/Servicer Guide, Bulletin 2024-6 (2024, May 1), https://guide.freddiemac.com/app/guide/bulletin/2024-6

U.S. Department of Housing and Urban Development (HUD) Mortgagee Letter, 2024-07 (2024, May 1), https://www.hud.gov/sites/dfiles/OCHCO/documents/2024-07hsgml.pdf?utm_medium=email&utm_source=govdelivery

A Proposed Rule by the Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, & the Federal Housing Finance Agency. "Quality Control Standards for Automated Valuation Models". (6/1/2023). Federal Register. https://www.federalregister.gov/documents/2023/06/21/2023-12187/quality-control-standards-for-automated-valuation-models

EVALUATION OF BARRIERS TO ENTRY IN THE APPRAISAL PROFESSION

What Are the Barriers?

As highlighted in the Property Appraisal Valuation Equity Task Force ("PAVE") report of 2021, some barriers to entry in the appraisal profession include minimum Appraisal Qualifications Board ("AQB") education and experience requirements, a disproportionate number of certified appraisers willing or able to mentor trainees, and the lack of exposure to real estate appraising as a profession (PAVE, 2021).

The current stringent AQB minimum requirements include increasing tiers of experience and education requirements for four different classifications – Real Estate Trainee Appraiser, Licensed Residential Appraiser, Certified Residential Appraiser and Certified General Appraiser. Illinois does not currently offer a Licensed Residential Appraiser credential. The tiered minimum requirements for licensure range from 75-300 hours of qualifying education and 1,000-3,000 hours of qualifying experience. An additional barrier is created by the ability of states to codify increased requirements over AQB minimum requirements. Embedded in the qualifying education for certification is a formal education requirement. A Certified General Appraiser must obtain a four-year college degree. To become a Certified Residential Appraiser, this requires completion one of six options which

Professional Requirements for Licensure

Profession	Basic Requirements	Pre-License Education	Licensure Exam	Sponsorship Requirement	Continuing Education
Real Estate Appraisal Trainee Appraiser	Minimum Age: 18 Minimum Education: High School Diploma or GED	75 Classroom hours of qualifying Education in subjects related to Real Estate Appraisal Complete the Supervisor-Trainee Course	N/A	Must have an Approved Certified Supervisor	Ongoing Continuing Education for each Renewal after
Real Estate Appraisal Certified Residential Appraiser	Minimum Age: 18 College Level Education (any one of these six) Bachelor's degree in ANY field, OR Associate degree in Business Administration, Accounting, Finance, Economics, or Real Estate, OR Completion of 30 hours of relevant coursework, OR Completion of 30 hours of CLEP, OR A combination of both, OR No formal Education if previously a Licensed Residential Appraiser for 5 years	200 total hours of Qualifying Education Complete a minimum 1,500 hours of appraisal work over the course of no less than 12 months as an Appraisal Trainee	Pass State and National Examination	May become Self-Sponsored or Sponsored by a Sponsoring Broker	Ongoing Continuing Education for each Renewal after
Real Estate Appraisal Certified General Appraiser	Minimum Age: 18 College Level Education Hold a bachelor's degree or higher from an accredited college or university	300 total hours of Qualifying Education Complete a minimum 3,000 hours of appraisal work over the course of no less than 18 months	Pass National Examination	N/A	Ongoing Continuing Education for each Renewal after

idfpr.illinois.gov

involve obtaining a four-year college degree or a combination of college level courses approved by the AQB. The varying levels of licensure, with relative restrictions and college level requirements, are unique to the appraisal industry and do not appear in other related industry professional licensure roles such as mortgage brokers, real estate brokers and home inspectors.

In response to the PAVE report and new AQB guidelines, Illinois updated its appraiser rules to accept AQB allowable experience including PAREA and diversifying the experience options for trainees.

Under the traditional supervisory model, barriers could also be removed by allowing Field and Desk reviews, increasing allowed hours per assignments and allowing trainees to work with multiple available supervisors without formal association. Increasing the allowable hours and removing restriction on supervisors to take additional training would expedite the time commitment for both the trainee and supervisor, thereby potentially attracting more willing candidates to the process A barrier to entry would also be removed by granting an Illinois State licensed residential credential. The licensed credential provides an opportunity to enter the field without formal higher education, which widens the pool of applicants able to pursue entry into the field. We believe that it would be beneficial for Illinois to revisit the efficacy of the overlays above the AQB.

The shortage of certified residential appraisers willing or able to become a supervisory appraiser to mentor an unrelated trainee is an additional barrier (National Fair Housing Alliance, 2022). The historic entry into the profession and common apprenticeship relationship has existed between family members or known parties. However, the overall racial wealth gap and related ability of minorities to afford college has a direct impact on the lack of minority certified appraisers. As licensed appraisers are not eligible to function as a supervisory appraiser, the need falls to the overwhelming dissimilar population of certified appraisers to take on the task to mentor others into the profession who are not from within their community.

Compounding the access to willing supervisors is the reluctance of some potential supervisory appraisers able to take on the role due to the inherent nature of the supervisory appraiser to trainee relationship, which dictates a significant time commitment needed to satisfy the required experience hours. The time needed to train will typically reduce the amount of time the supervisor can be productive. Supervisory appraisers must effectively reduce their income, take classes in some cases and increase their liability by mentoring a trainee. Even when willing, this is often not feasible for some appraisers. An equally difficult aspect is the lack of adequately paid trainee roles which significantly reduces access for many to pursue the process of apprenticeship. Given the one to two years needed for licensure, most adults are not in the position to be underemployed while pursuing a career that requires full time commitment. A proposed solution is to implement incentives and support for supervisory appraisers (i.e.: grants, CE credits, etc.) to support increased pay to trainees and supplement any loss of income as a result of the time used to train.

Assessing Whether Barriers Disproportionately Affect Minorities

The lack of social and professional connections in the appraisal industry within communities of color exacerbates the disparate access to mentors as discussed above (HUD, 2024).

According to the Bureau of Labor Statistics' 2023 date, the property appraisers and assessors' occupation was 94.7% White and 0.6% Black, ranking as the least racially diverse of 800 occupations surveyed.

Appraisal Institute, 2023). Due to the fractional representation of minority appraisers, minorities are not exposed early enough to the prospect of entering the profession when there may still be the opportunity to pursue it at the student or trade level.

The homeownership and wealth gap in minority communities is a mitigating factor as it is paramount for many to provide opportunities for college affordability (NCRC, 2023). Based on data from Forbes.com, Black households had 23.5% of wealth and Latino household has 19.2% of wealth of that of White households (Forbes, 2024). The disparate ability for minorities to obtain a college degree or classes needed for the certified level of licensure creates a barrier that affects minorities disproportionately from both entry and retention in the appraisal industry. Since many lenders and appraisal management companies require a certified residential appraiser, this reduces the amount of opportunities for those only able to obtain the licensed level credential.

Recommendations

We recommend that the Illinois Department of Financial and Professional Regulation, ("IDFPR"), as the State's licensing body, partner with minority-based initiatives to promote campaigns using all forms of media engaging minority appraisers to promote visual representation in minority communities. In addition to colleges, campaigns should be made to high school college fairs, job placement programs, etc. Consider providing funding or grants for more non-profit organizations to do community outreach and education on the appraisal industry and provide ongoing support via scholarships or mentoring through these initiatives.

IDFPR's Division of Real Estate's ("DRE") "How to" Series launched on November 15, 2023. The "How to" Series is geared toward educating individuals across Illinois about the process of becoming an appraiser with the goal of bringing new entrants into the field from diverse backgrounds and rural communities. Subsequent events were held on January 18, 2024, and July 25, 2024. There was one press release dated November 28, 2023, announcing 34 recipients of the Appraisal Diversity Initiative ("ADI") scholarship. We suggest that IDFPR continue to hold additional press releases for the initiative and continue to hold additional in-person and virtual opportunities to engage the public.

Additional resources could be to enter into a partnership with include the Chicago Urban League's Workforce Development Center Program and Chicago Community Trust's Bridges to Brighter Futures program.

Proposed Solutions to Overcome Entry Barriers

The introduction of Practical Application of Real Estate Appraisal ("PAREA") and other state practicum options are steps to overcome the barrier as it relates to mentorship. Practicum courses are a model that allows the trainee to get practical appraisal experience where the trainee will complete an appraisal assignment for the course provider in a classroom setting, and not used for any business purpose. Illinois recently adopted the PAREA program as an alternative to the traditional supervisory model. (68 IAC 1455). The adoption of PAREA and other state practicums is a step to overcome entry, however, some additional steps to overcome the barriers may include the following AQB changes:

- Reduce AQB qualifying education hours from 200 hours to 180 hours for certified residential – dropping 20 hours subject matter electives and 300 hours to 270 hours for certified general, dropping 30 hours subject matter electives.
- Restructure required education to provide more practical appraisal experience
- Reduce AQB experience hours needed to become certified residential from 1500 to 1000 and from 3,000 to 2500 to become certified general.

State	Exceed AQB?
Alabama	Yes
Alaska	No
Arizona	Yes
Arkansas	Yes
California	Yes
Colorado	No
Connecticut	Yes
Delaware	No
District of Columbia	Yes
Florida	Yes
Georgia	Yes
Guam	Yes
Hawaii	Yes
Idaho	Yes
Illinois	No
Indiana	Yes
Iowa	Yes
Kansas	Yes
Kentucky	Yes
Louisiana	Yes
Maine	Yes
Maryland	No
Massachussetts	Yes
Michigan	Yes
Minnesota	Yes
Mississippi	Yes
Missouri	Yes
Montana	No

State	Exceed AQB?
Nebraska	Yes
Nevada	Yes
New Hampshire	Yes
New Jersey	Yes
New Mexico	Yes
New York	Yes
North Carolina	Yes
North Dakota	Yes
Northern Mariana Islands	Yes
Ohio	Yes
Oklahoma	No
Oregon	Yes
Pennsylvania	Yes
Rhode Island	Yes
South Carolina	Yes
South Dakota	Yes
Tennessee	Yes
Texas	No
Utah	Yes
Vermont	Yes
Virginia	Yes
Virgin Islands	Yes
Washington	Yes
West Virginia	Yes
Wisconsin	Yes
Wyoming	Yes

As of publication only 8 of 54 States/Territories do not exceed AQB Requirements. 87% exceed AQB Requirements.

Notes:

Appraisal Institute. (2023). “2023 AI fact sheet”. https://www.appraisalinstitute.org/getmedia/bf70e869-945f-4fab-851c-44204f971224/2023_ai_fact_sheet

Forbes. (2024, February 1). “Racial wealth inequality stays high in strong economy”.

https://www.forbes.com/sites/christianweller/2024/02/01/racial-wealth-inequality-stays-high-in-strong-economy/

National Center for Education Statistics. (n.d.). “Fast facts”. https://nces.ed.gov/fastfacts/display.asp?id=72

National Community Reinvestment Coalition. (2023, February 22). “The racial wealth divide and Black homeownership: New data show small gains, deep fragility”. https://ncrc.org/the-racial-wealth-divide-and-black-homeownership-new-data-show-small-gains-deep-fragility/

National Fair Housing Alliance, et al. (2022). “Analysis of appraisal standards”. National Fair Housing Alliance. https://nationalfairhousing.org/wp-content/uploads/2022/03/PartiII_section5_NFHA-et-al_Analaysis-of-Appraisal-Stndards.pdf

PAVE: Interagency Task Force on Property Appraisal and Valuation Equity. (2022, March). “Action plan to advance property appraisal and valuation equity”. Pave.Hud.Gov. https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf

U.S. Department of Housing and Urban Development. (2024). Press release No . 24-176. https://www.hud.gov/press/press_releases_media_advisories/hud_no_24_176

RACIAL DISPARITIES IN REAL ESTATE VALUATION: RESEARCH FINDINGS

Summary of Prominent Research Studies on Racial Disparities in Real Estate Valuation

The literature on appraisal racial bias is ongoing and in progress. One of the earliest studies on the subject is by LaCour-Little and Green (1998) who demonstrated that Black loan applicants in the 1990s received low appraised values more frequently than white loan applicants in a set of purchase transactions in Massachusetts. This study built on the seminal work by Munnell, Browne, McEneaney, and Tootsell (1996), which showed that mortgage application denial rates in Massachusetts tended to be higher for Black borrowers than similarly qualified white borrowers.

More recently, the Brookings study by Perry, Rothwell, and Harshbarger (2018) reported that across the United States homes in Black-majority neighborhoods are about 22% to 23% below the value of homes in white-majority neighborhoods, once accounting for differences in the property's neighborhood and quality. This report was referenced in a testimony submitted to the U.S. House of Representatives Committee on Financial Services Subcommittee on Housing, Community Development, and Insurance, during a session titled, "What's Your Home Worth? A Review of the Appraisal Industry." Although the Brookings study does not directly examine value estimates given by appraisers, it was influential in drawing renewed attention to appraisal racial bias.

Subsequently, Freddie Mac provided a couple of short research briefings (Freddie Mac, 2021, 2022) on appraisals for single-family, one-unit home purchases from 2015 to 2020. Their briefing focused on the occurrence of appraised values falling below the contract price during purchase mortgage loan applications because below-contract-price appraisals commonly result in loan denial. At the neighborhood level, they found that appraisals fell below the contract price in 15.4% of purchase mortgage applications for homes in Latino neighborhoods (census tracts where 50% or more of the population identified as Hispanic) and 12.5% in Black neighborhoods (census tracts where 50% or more of the population identified as non-Hispanic Black). By contrast, only 7.4% of purchase mortgage applications for homes in white neighborhoods experienced below-contract-price appraisals, highlighting a significant racial gap. Similar results were found when focusing on the race of the applicants.

In a study commissioned by the Illinois Realtors, Jean and Blustein (2021) examined loan application records registered in the Home Mortgage Disclosure Act ("HMDA") public data from 2007 to 2020 and found that the denial rate due to collateral (i.e., a low appraisal) is much higher for Black and Hispanic borrowers than White borrowers.

Specifically, they found that applications by Black borrowers are twice as likely (8.7% vs. 3.5%) to be denied because of an undervalued property compared to those by white borrowers, confirming the findings by Freddie Mac (2021, 2022) and LaCour-Little and Green (1998).

On behalf of Fannie Mae, Williamson and Palim (2022) examined 1.8 million refinance applications from 2019 to 2020, recorded in Fannie Mae's Desktop Underwriter system. In a mortgage refinance transaction, undervaluation can either cause loan denial or limit access to home equity. The Fannie Mae study reported that the median appraisal for Black owned homes is 0.25% to 0.58% below estimates provided by Automatic Valuation Models ("AVM"), whereas for white owned homes, appraisals exceed AVM estimates by 0.43% to 1.84%, translating to a reduction in equity for Black and Hispanic homeowners by about $2,669 to $4,527 when compared to white borrowers refinancing their homes.

In a similar study that is in progress, Ambrose, Conklin, Coulson, Diop, and Lopez (2021) tested for racial disparities in appraisals used for valuing homes in refinance mortgages issued nationwide between 2000 and 2007 by New Century Financial Corporation, a major subprime lender that is now defunct. The study focused on valuations by over 61,000 unique appraisers, approximately 40% of whom are still active in today's 2024 market. They found evidence that Black owned homes were undervalued by an amount up to 4% (or nearly $9,100) when compared to similar white owned homes during the pre-Dodd Frank Act era. Furthermore, they show that the racial gap in appraisal valuations is not merely caused by a few "bad apples" and not exclusively driven by white appraisers alone. Lastly, Howell (2023a, 2023b) analyzes the release of aggregated appraisal data by the Federal Housing Finance Agency ("FHFA") promoted by the U.S. Department of Housing and Urban Development's ("HUD") Property Appraisal and Valuation Equity ("PAVE") Task Force. She reports that during the housing pandemic, homes in White neighborhoods appreciated twice as fast as homes in minority-majority neighborhoods, leading to a widening racial gap in home values.

Identification of Disparities at the Borrower and Community Level

Governments and researchers traditionally use fair housing tests (i.e., audits) to test for racial discrimination (Zhao, Ondrich, and Yinger, 2006). This method involves recruiting actors, known as auditors, to interact with real estate agents, lenders, or landlords. Fair housing enforcers or researchers then analyze the systematic differences in interactions between different auditors with the same individuals. For example, using this framework, Zhao, Ondrich, and Yinger (2003) found that the real estate brokers showed different houses to Black buyers than those shown to white buyers, providing powerful evidence of discriminatory treatment from a legal perspective. Audits can also be done electronically through correspondence. Hanson, Hawley, Martin, and Liu (2016), for example, show that mortgage brokers are less likely to respond to fictitious emails inquiring about loan applications when the sender has a common Black name compared to a common non-Hispanic White name. Carrying out an audit experiment within the appraisal industry is much more challenging, as lenders and not borrowers are the entities that typically contract appraisers to perform valuations. For this reason, social scientists rely on big data and statistical methods to test for racial disparities. Ambrose, Conklin, Coulson, Diop, and Lopez (2021) are the only known academics to have conducted a pair-audit style test within the space of mortgage appraisals, leveraging data on the appraisers themselves. The authors linked the appraised value of each residence to a benchmark value, which was determined using data on the borrower, mortgage, property, and AVM estimates. The authors proceeded to test for anomalous variation in the treatment of borrowers by the same appraiser that could be attributed to the race of the borrower, using a hedonic statistical approach. Williamson and Palim (2022) demonstrated a similar approach using AVM estimates as benchmarks for refinance appraisals when information on the appraiser is not available. By contrast, Freddie Mac (2021, 2022) focused on the racial gap in the valuation of properties for purchase mortgages relative to the contract prices at the individual and neighborhood level. Meanwhile, LaCour-Little and Green (1998) and Jean and Blustein (2021) relied on mortgage denial rates attributed to low collateral valuations in HMDA records to detect racial disparities. However, it is important to note that undervaluation in purchase appraisals may have some benefits, as it can trigger renegotiation for a lower purchase price, result in lower property taxes, protect borrowers from overpaying, and help mitigate mortgage fraud. Lastly, Perry, Rothwell, and Harshbarger (2018) and Howell and Korver-Glenn (2021) attempted to identify racial differences from community survey data provided by homeowners.

Key Points, Correlations, and Causations Drawn

The research demonstrates the following key points:

Appraisal valuations are more likely to fall below the purchase price for Black and Hispanic borrowers than White borrowers when purchasing (or refinancing) a home.

Appraisal valuations are more likely to fall below value of a house for Black and Hispanic borrowers than white borrowers when refinancing a home.

Black and Hispanic borrowers are more likely to be denied credit in mortgage loan applications due to low appraisal valuations.

What are some causes of racial disparities? In economics, there is the concept of statistical discrimination (Arrow, 1971; Phelps, 1972) and taste-based discrimination (Becker, 1957). Statistical discrimination occurs when an individual uses information about the client to infer information that is not available but critical for decision making. For example, in the mortgage industry, a lender may stereotype that borrowers of a protected class are more likely to default on a mortgage and act on that information when deciding whether to approve a loan. However, if the lender can accurately determine the borrower's likelihood of default, then reliance on inappropriate signals of creditworthiness becomes unnecessary. In the context of mortgage appraisals, race could be used as a proxy for the economic depreciation or physical deterioration of the property when there is a lack of critical information necessary to make accurate valuations. In this setting, unconscious bias may play a role in statistical discrimination.

Taste-based discrimination would involve deliberate and malicious undervaluation driven by bigotry. As Ambrose et al. (2021) report that racial disparities against minorities do not diminish when the appraiser shares the same race as the borrower, bigotry is unlikely the root cause of racial disparities in valuations. Racial appraisal bias is more likely attributed to statistical discrimination. This suggests that appraisers might unintentionally rely on the borrower's race or other demographic characteristics about the borrower when market conditions provide insufficient information for accurate valuations. This issue is particularly concerning in areas where home sales are infrequent and appraisers have fewer comparable housing transactions to draw many data points for confident estimates, such as in suburban neighborhoods, compared to downtown locations. Additionally, it could be more prevalent during a stagnant market as opposed to a booming one when homes are frequently transacting. Bias may also enter valuations when the property is unique and challenging to value using the sales-comparison approach.

Limits of the Research Completed to Date

The limitations on the research in this area stem from restricted access to data and privacy concerns. Ambrose et al. (2021) use mortgage refinance applications issued between 2000 and 2007 by New Century Financial. These data are relevant for several reasons: (1) they focus on subprime loans, which were predominately acquired by minority borrowers; (2) many of the appraisers in this sample are still active in today's market; and (3) these data represent the most comprehensive publicly available information on mortgages. Specifically, the New Century data provides details about intermediaries, property location, and mortgage specifics. Nonetheless, a drawback is that the data remains the most representative of the pre-Dodd Frank Act lending era. Researchers at Fannie Mae and Freddie Mac have access to more current data due to their role in the mortgage securitization industry. However, their data do not encompass the entire mortgage market and may underrepresent relevant loan products, such as subprime loans and the Federal Housing Administration ("FHA") loans, which are more commonly obtained by minority borrowers. These products offer lower down payment requirements and less stringent underwriting criteria. Notably, modern subprime loans are known as non-qualified mortgages, which account for mortgages that are not sold to Government Sponsored Enterprises ("GSE") (i.e., Fannie Mae and Freddie Mac) and mortgages that are not insured by the federal government (e.g., FHA, Veterans Affairs ("VA"), U.S. Department of Agriculture ("USDA")). In particular, non-qualified mortgages are securitized in non-agency private-label residential mortgage-backed securities or held in the portfolios of lending institutions including credit unions, depository institutions, and transitional banks.

HMDA data are comprehensive and inclusive of the entire U.S. mortgage market, but the public version of the data lack information on the intermediaries, including the appraisers involved with arraigning the loans, making it impossible to employ a pair-audit style analysis to detect racial disparities. Private large data providers such as Black Knight and CoreLogic provide mortgage records that have more details about the loans than are available in the HMDA records, but do not provide critical HMDA fields such as the race and ethnicity of borrowers, making it more challenging to study racial differences. On Oct. 24, 2022, influenced by the PAVE Task Force, the FHFA released the Uniform Appraisal Dataset ("UAD") Appraisal-Level Public Use File, which reflects appraisal data maintained by Fannie Mae and Freddie Mac. These data are aggregated and available for a 5% sample at the property level. However, as noted by the American Enterprise Institute ("AEI"), the UAD lacks crucial information and is incomplete. For researchers to fully understand disparities and the underlying causes driving those disparities, they require high-quality, detailed information about the property, location, loan, and participants.

Notes:

Ambrose, Brent W., James N. Conklin, and Luis A. Lopez. 2021. "Does Borrower and Broker Race Affect the Cost of Mortgage Credit?" The Review of Financial Studies 34 (2): 790–826. https://doi.org/10.1093/rfs/hhaa087

Arrow, K. 1971. "The theory of discrimination". Discussion Paper, Princeton University.

Becker, G. S. 1957. "The economics of discrimination". Chicago: University of Chicago Press.

Freddie Mac. 2021. "Racial and Ethnic Valuation Gaps in Home Purchase Appraisals." Freddie Mac Economic & Housing

Research Note. https://www.freddiemac.com/fmac-resources/research/pdf/202109-Note-Appraisal-Gap.pdf

Freddie Mac. 2022. "Racial & Ethnic Valuation Gaps in Home Purchase Appraisals—A Modeling Approach." Freddie Mac

Economic & Housing Research Note. https://www.freddiemac.com/research/pdf/202205-Note-Appraisals-09.pdf

Hanson, A., Hawley, Z., Martin, H., & Liu, B. (2016). "Discrimination in mortgage lending: Evidence from a correspondence experiment. Journal of Urban Economics", 92, 48-65.

Howell, J., & Korver-Glenn, E. (2021). "The increasing effect of neighborhood racial composition on housing values, 1980–2015". Social Problems, 68(4), 1051-1071.

Jean, Marshall and Gideon Blustein. 2021. "Color and Collateral: How Race Impacts Home Valuation in Illinois." Illinois

Realtors. https://www.illinoisrealtors.org/wp-content/uploads/2021/10/8.5x11_ColorAndCollateralStudy_2021.pdf

LaCour-Little, M. and R.K. Green. 1998. "Are Minorities or Minority Neighborhoods More Likely to Get Low Appraisals?"

The Journal of Real Estate Finance and Economics 16: 301–315. https://doi.org/10.1023/A:1007727716513

Munnell, Alicia H., Geoffrey M. B. Tootell, Lynn E. Browne, and James McEneaney. 1996. "Mortgage Lending in Boston:

Interpreting HMDA Data," The American Economic Review 86 (1): 25–53. http://www.jstor.org/stable/2118254

Ondrich, Jan, Stephen Ross, and John Yinger. 2003. "Now You See It, Now You Don't: Why Do Real Estate Agents Withhold Available Houses from Black Customers?" The Review of Economics and Statistics 85 (4): 854–873. https://doi.org/10.1162/003465303772815772

Perry, Andre, Jonathan Rothwell, and David Harshbarger. 2018. "The Devaluation of Assets in Black Neighborhoods: The case of residential property." Metropolitan Policy Program at Brookings. https://www.brookings.edu/wp-content/

uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf

Phelps, E. S. 1972. The statistical theory of racism and sexism. American Economic Review 62:659–61.

Pinto, Edward J. and Tobias Peter. 2021. "How Common is Appraiser Racial Bias? An Update." American Enterprise

Institute. https://www.aei.org/research-products/report/how-common-is-appraiser-racial-bias-an-update/

Williamson, J. and M. Palim. 2022. "Appraising the Appraisal: A closer look at divergent appraisal values for Black and white borrowers refinancing their home." Fannie Mae Working Paper. https://www.fanniemae.com/media/42541/display

Zhao, Bo, Jan Ondrich, and John Yinger. 2006. "Why Do Real Estate Brokers Continue to Discriminate? Evidence from the 2000 Housing Discrimination Study," Journal of Urban Economics 59 (3): 394-419. https://doi.org/10.1016/j.jue.2005.12.001

ADDRESSING CAUSES OF DISPARITIES IN REAL ESTATE VALUATION

Homeownership and other economic indicators show stark disparities when analyzed by race. These disparate outcomes point to historic and structural biases that have compounded over generations. Dismantling these complex, embedded problems can seem overwhelming, but as Archbishop Desmond Tutu said: "There is only one way to eat an elephant: a bite at a time." The Real Estate Valuation Task Force is taking a bite at dismantling biases in the appraisal industry, which, in of itself, is extremely complex.

There is no single cause of bias in the appraisal industry but analysis suggests the causes can be attributed to its overly complex system of governance, a lack of consumer awareness and the industry's opaque enforcement mechanisms.

The Homeownership Gap

Overt discrimination, together with conscious and unconscious bias has caused a massive redistribution of wealth in the United States (Perry, Rothwell, and Harshbarger, 2018). The median white family holds eight times the wealth of the typical Black family and five times the wealth of the typical Latino family (PAVE, Interagency Task Force on Property Appraisal and Valuation Equity ("PAVE"), 2022). The homeownership gap between Blacks and Whites is 30 points, with 44 percent of Blacks owning a home and 74 percent of Whites (PAVE, Interagency Task Force on Property Appraisal and Valuation Equity, 2022.). On average, homes in majority-Black neighborhoods are valued at less than half of those in neighborhoods with few or no Black residents (PAVE, Interagency Task Force on Property Appraisal and Valuation Equity, 2022).

The undervaluing of Black-owned property is a manmade situation that hurts some Illinois neighborhoods directly and Illinois' housing economy overall. Putting an end to racially biased appraisals can be an economic shot in the arm for Illinois by providing market-based value into neighborhoods that have been disinvested for decades. Solving this problem will put real housing equity into the pockets of families who have strived for the American Dream. Finally, those involved in the institutional side of home valuation such as lenders, appraisers, real estate professionals, care deeply about de-risking their industries from discriminatory behavior that are costly and damages the reputations of all practitioners.

There is well documented evidence of racist housing policies that created an environment conducive to undervaluing Black homes. Policies such as redlining, racial covenants and blockbusting have received well-deserved and much needed attention from scholars, policymakers and industry practitioners. But it was not until recently that growing attention has been paid to racial bias in the real estate appraisal industry and its impact on wealth disparities.

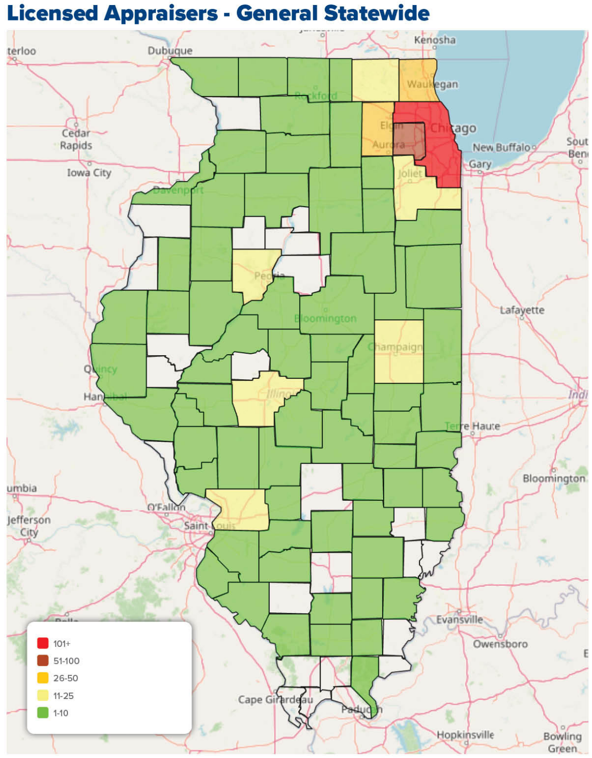
Regulatory Framework of the Appraisal Industry

As outlined earlier in this report, the home appraisal industry is regulated by a triad that includes the federal government, state and territorial governments, and The Appraisal Foundation ("TAF") (The Appraisal Foundation, 2021). From their website, TAF's (2021), "boards are responsible for setting congressionally authorized standards and qualifications for real estate appraisers." TAF is monitored and reviewed by a federal governmental body, called the Appraisal Subcommittee which is made up of representatives from seven federal agencies (The Appraisal Foundation, 2021). States are tasked with authorizing and enforcing the professional and qualification standards set by the Appraisal Foundation boards (The Appraisal Foundation, 2021). The system promotes a high-level of accountability and standards but is also overly complex and can create an environment susceptible to conscious and unconscious racial bias. With so many government agencies at the table, accountability is vastly distributed. Prior to the National Media, advocacy groups and eventually the White House taking action, the industry appeared reluctant to change.

Impact of Dodd-Frank on the Appraisal Industry

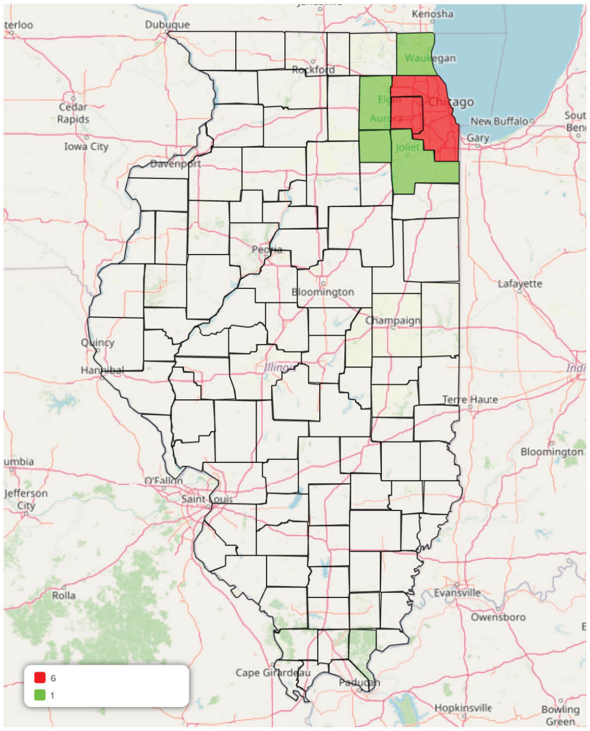
A sweeping change occurred in the appraisal industry as a reaction to the housing bubble of the early 2000s; well-meaning regulatory changes that placed middlemen between appraisers and lenders led to pay cuts for appraisers and a hollowing out of the industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, known colloquially as Dodd-Frank incorporated regulations that were piloted in New York State known as the Home Valuation Code of Conduct (Blake & Kromrei, 2021). In the runup to the housing crash, lenders and appraisers were accused of colluding to inflate home values and the Dodd-Frank Act sought to curb this behavior by creating a buffer between lender and appraiser (Blake & Kromrei, 2021). Appraisal Management Companies ("AMCs") were enlisted to serve as distributors of appraisal assignments for lenders with the assignments often going to the lowest bidders (Blake & Kromrei, 2021). Appraisal fees were cut, quality dropped, and a noteworthy number of appraisers left the industry (Blake & Kromrei, 2021).

Licensed Appraisers - General Statewide



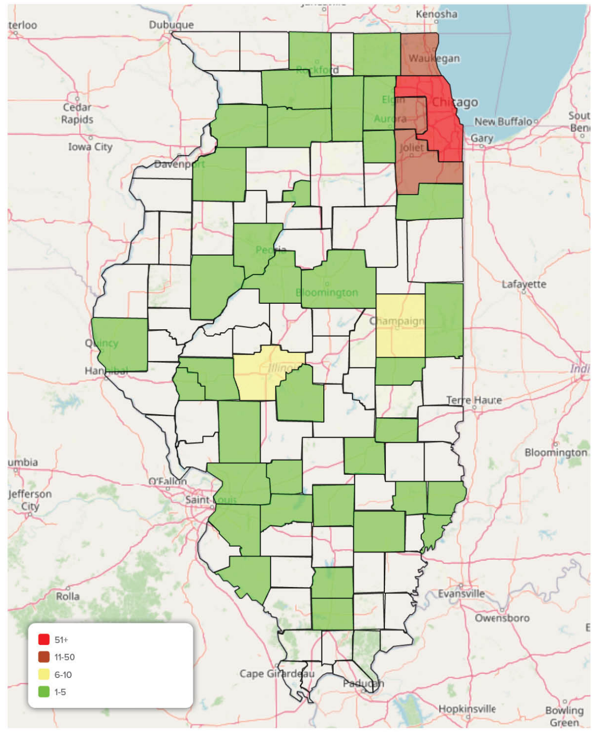
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisal Management Company Statewide



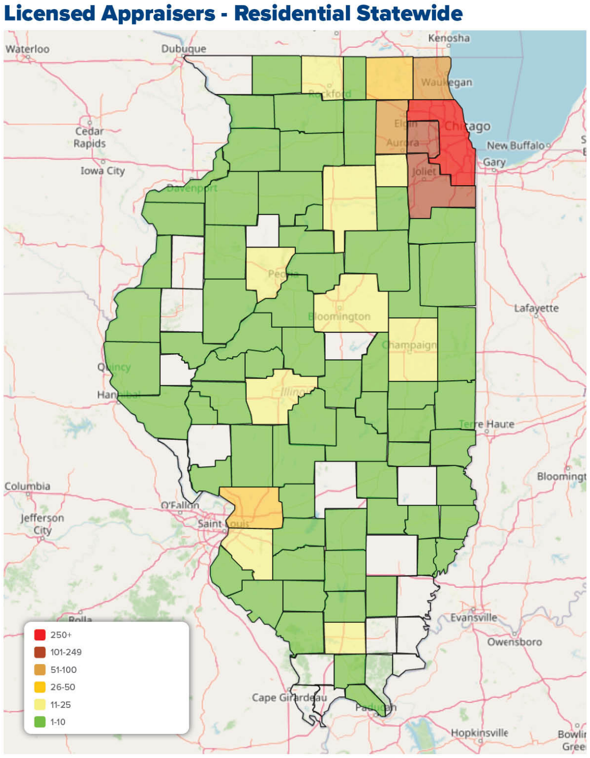
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisers - Associate Trainee Statewide



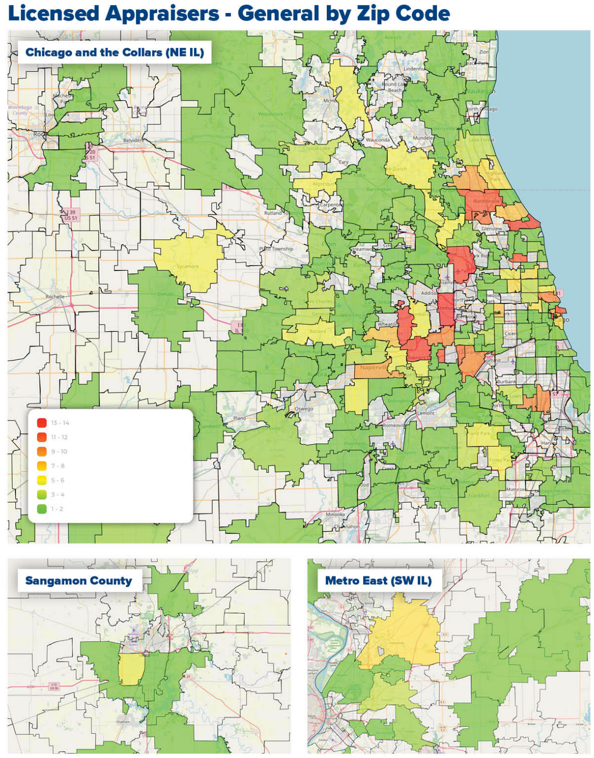
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisers - Residential Statewide



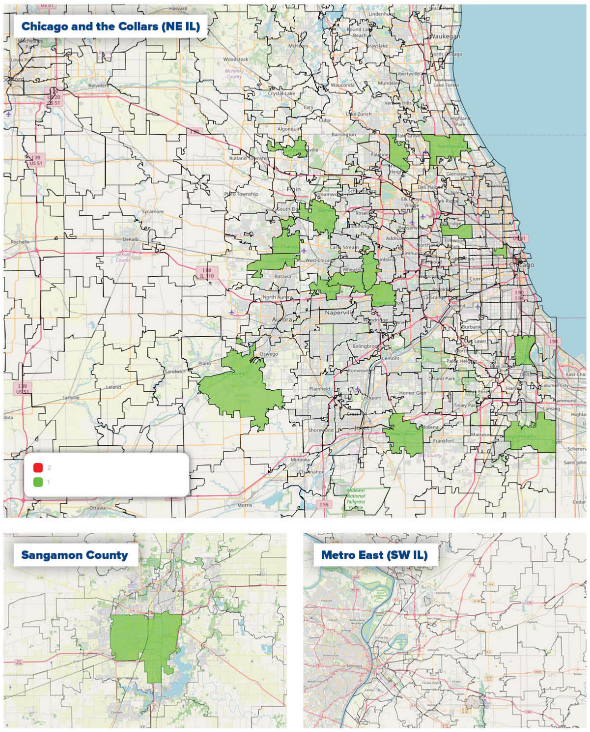
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisers - General by Zip Code



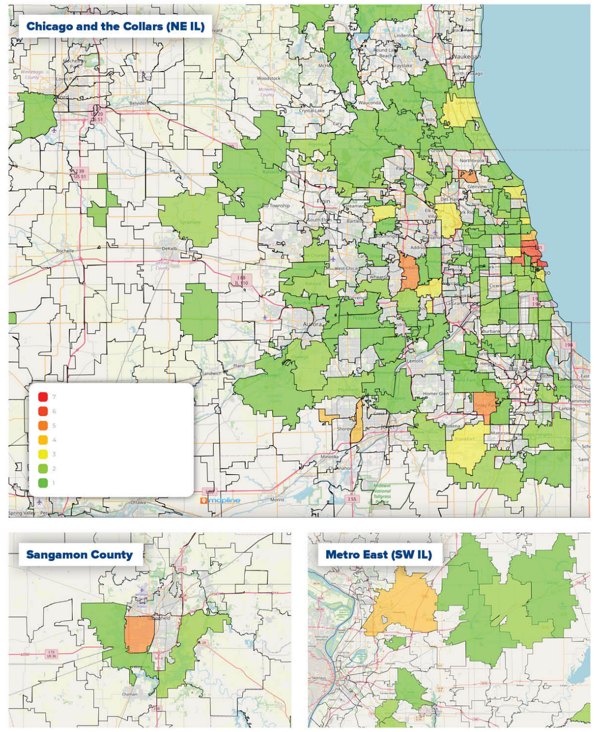
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisal Management Company by Zip Code



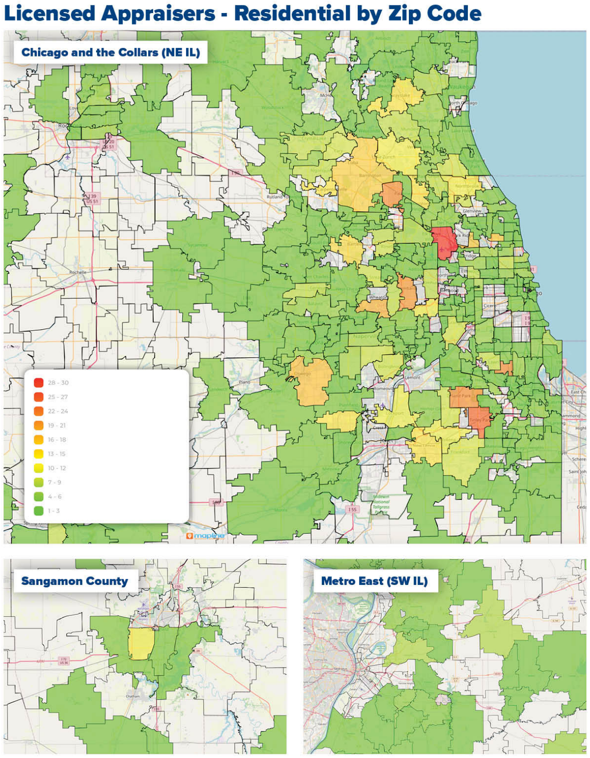
NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisers - Associate Trainee by Zip Code



NOTE: No color indicates a zero value. Data current as of July 2024

Licensed Appraisers - Residential by Zip Code



NOTE: No color indicates a zero value. Data current as of July 2024

The drop in active appraisers since the passage of Dodd-Frank has put the industry's homogeneity in the spotlight. Data USA, which references U.S. Census Bureau's American Community Survey, estimates that 82.9% of property appraisers and assessors were White in 2022, 8.56% were Hispanic and 5.85% Black.

According to TAF's (2024) demographic survey, the appraisal industry is 90% white, 68% Male, and 70% are aged 55 and older. Those numbers are trending more diverse over the last few years and TAF (2024) has a goal of making the demographics of the industry match those of the U.S. Census. Another industry characteristic is that many appraisal companies are multigenerational (Blake & Kromrei, 2021). This is not on its surface a negative attribute but is worth examining to understand why this is and how it further complicates the industry's diversity goals. One potential cause of this trend is the apprenticeship requirement to achieve an appraisal certification.

In a hyper-competitive industry, certified appraisers may have little incentive to train their future competition. Bachelor's degree requirements can also serve as a barrier. More alternatives are being considered, but it is hard to make the case that a recent college graduate should take an unpaid apprenticeship in an industry that is short on supervisory appraisers willing to take them on.

Consumer Challenges in the Appraisal Process

Many consumers, whether they're buying, selling, or refinancing, do not know the details of the appraisal process or the impact it can have on their finances. Fewer still have a grasp of what to do if they disagree with the opinion of value contained in the appraisal. As outlined in a previous section of this report, many lenders allow for a reconsideration of value ("ROV") process, but this process is at the discretion of the lender and is limited to the lender forwarding questions to the appraiser who performed the appraisal (Ficklin, Griffith & Lambert, 2022). Consumers have no way of knowing if the reconsideration of value process works, because as of now the government may not track data concerning ROVs.

Oversight and Enforcement of Appraisal Standards

When a consumer suspects, or has identified a Bonafide problem with an appraiser, government oversight and enforcement can be confusing. The first points of contact are often the consumers' lender or real estate broker. Rightfully, lenders are often concerned about violating Dodd-Frank and may feel limited in their ability to advocate lest they be accused of influencing the appraiser and violating appraiser independence requirements. If a home-seller is represented by a real estate broker they may be able to provide some guidance depending on their level of expertise. If the suspected violation is discriminatory in nature, the consumer may be referred to a fair housing agency at the local, state, or federal level (Andreano, Jr., 2024). If the suspected violation is a professional standards violation, the consumer should be directed to the state's appraisal regulatory Agency. In Illinois, this is the Illinois Department of Financial and Professional Regulation ("IDFPR"). The Appraisal Subcommittee ("ASC"), at the federal level, has a hotline and referral network as well (The Appraisal Subcommittee, n.d.). It is not clear that there is a mechanism for information sharing among the agencies. Of course, it must be remembered that as important as it is to rectify the underlying discrimination, the consumer is often most concerned with finding the easiest path toward completing the transaction first.

In summary, the home appraisal industry is extremely complex, with many structural issues that are contributing to problems such as discouraging growth and diversity, disempowering consumers and potentially enabling bias. That said, Appraisal, Real Estate and Home Lending industry leaders are committed to eliminating racial bias. The next section will discuss potential solutions.

Recommendations:

Diversify the Industry

According to TAF's (2024) demographic survey, the appraisal industry is not reflective of the racial diversity of the communities in which they work. The Appraisal Diversity Initiative ("ADI") is a joint effort of the Urban League, Fannie Mae, Freddie Mac, and the Appraisal Institute to recruit and assist new entrants from underrepresented populations into the appraisal industry (Appraisal Institute, 2024). In Illinois, similar work has also already begun. In 2023, the IDFPR launched an ambitious outreach program that created the "How to" Series of workshops focused on demystifying the path to becoming an appraiser. In 2023, in partnership with ADI, IDFPR awarded 34 scholarships to students starting their journey toward becoming an appraiser (Illinois Department of Financial and Professional Regulation, 2023).

Address Structural Barriers

Besides a lack of diversity, there are additional structural barriers to becoming an appraiser that should be addressed. A common complaint among prospective appraisers is the near impossible challenge of finding a supervising appraiser for them to train under. To deconstruct this challenge, Illinois joined most other states in adopting Practical Application of Real Estate Appraisal ("PAREA") as an alternative way for appraisers to satisfy the experience requirements necessary to become licensed (The Appraisal Foundation, 2021; 68 IAC 1455, eff. 9.24.24). Additionally, IDFPR should reach out to lapsed or retired licensees and create an on-ramp for them to become re-licensed for the sole purpose of serving as a supervising appraiser. Illinois might also consider incentivizing existing appraisers to serve as supervising appraisers. Potential incentives could include temporarily waiving any fees associated with licensing, identifying scholarships needed for Continuing Education or asking the General Assembly for funding to pay a stipend to Supervising Appraisers.

Challenge Education Requirements

As of the time of the Task Force's work on this report, certified residential real estate appraisers must achieve either a bachelor's degree in any field, an associate degree in limited fields of study, or 30 hours of courses or 30 hours of college level exams in specific fields of study related to math, business, and economics (Appraisal Foundation, 2021). Certified general real estate appraisers are required to hold a bachelor's degree (Appraisal Foundation, 2021). On July 16, 2022, the Task Force sent a letter signed by our members to the Appraisal Qualifications Board ("AQB") challenging the college degree requirements (APPENDIX A). Absent any forthcoming changes by the AQB, IDFPR should reach out to community colleges to design pathways to appraisal that include pre-approved coursework. This could help frontload the pipeline of appraisers and clear up some of the confusion over education requirements.

Geographic Competency and Community-Based AMCs

One of the impacts of a lack of diversity in the appraisal industry is that appraisers may accept assignments in diverse neighborhoods where they have little to no experience. This can contribute to unconscious bias.

According to the 2024 Uniform Standards of Professional Appraisal Practice ("USPAP") the Competency Rule requires an appraiser who lacks the knowledge and experience to complete an assignment competently to either disclose the lack of knowledge and take all steps necessary to appropriately complete the assignment competently and document the steps taken. To achieve greater geographic competency among additional appraisers in underrepresented geographies, the General Assembly could fund a pilot to create community-based AMCs. Private AMCs receive and distribute appraisal assignments from lenders with assignments often going to the lowest bidder (Blake & Kromrei, 2021).

If the General Assembly authorized funding for or worked with community partners such as philanthropic foundations to create a community-based AMC that prioritizes racial and geographic diversity, the AMC could fill some gaps in the market. For example, ensuring that their appraisers have geographic competency in racially diverse neighborhoods. An additional benefit is that a community-based AMC should require their appraisers to serve as Supervising Appraisers. Lenders would be incentivized to utilize the community-based AMC as risk mitigation against accusations of low quality or biased appraisals.

Fund Diversity Scholarships

Finally, the Illinois General Assembly should fund a Diversity Appraisal Scholarship Program, like the Diversity Real Estate Scholarship Program. IDFPR partners with the Illinois Real Estate Educational Foundation ("ILREEF") to administer the Illinois Diversity Real Estate Scholarship Program which awards 60 scholarships each year to qualified residents of Illinois. Eligible applicants are racial minority residents of Illinois pursuing courses of study that will prepare them for careers relating to real estate or enhance the skills and knowledge that they currently use as real estate professionals. This template could be successfully applied to the appraisal industry particularly because of the existing education requirements.

Consumer Awareness

Enhance Consumer Education

The best way to stop racist or biased behavior is to address it before it starts. Multiple organizations including Neighborhood Housing Services, Illinois REALTORS®, and IDFPR have worked to educate consumers about the appraisal process and their rights.

These efforts should continue, and the Illinois Department of Human Rights ("IDHR") should create a formal body or funding mechanism to further bolster these and other fair housing efforts.

Capturing consumers and key actors in the appraisal process when they are a captive audience could have an impact. When consumers are subject to a home appraisal as part of a real estate or financial transaction such as refinancing a mortgage, IDFPR should consider requiring a disclosure statement administered by the lender. The notice could include language explaining the appraisal process, the consumer's fair housing rights and remedies, and the lender's process for how a consumer can dispute the result of the appraisal (an ROV). An additional or alternative delivery system for this type of information could be mandatory language in the appraisal report delivered to the consumer.

ROV Process

Lenders in Illinois might be asked (or required) to publish their ROV process along with metrics about how many ROVs were requested and the outcomes of those requests. Another option would be to standardize the ROV process in Illinois to ensure all lenders are following the same rules when it comes to consumers who have concerns with their appraisal. To ensure that frivolous ROVs aren't encouraged, certain criteria may need to exist for an ROV to be filed, for example, the ROV cannot be because the borrower simply disagrees with the opinion of value. In 2024 federal guidelines were issued by federal agencies to suggest standard practices for lenders (Andreano Jr., 2024).

Better Data

Finally, lenders or appraisers could benefit from more complete housing data at the micro and macro levels. Illinois' General Assembly should encourage or require lenders or appraisers to request a "property improvement form" from the consumer APPENDIX C). This would ensure that property upgrades that aren't immediately visible to the appraiser (ex: upgraded insulation or electrical wiring) would be considered in the opinion of value provided by the appraiser. Lenders should also consider providing home refinance data as a source of information that appraisers can use to identify neighborhood comparable properties that can supplement the recent sales data appraisers draw from the multiple listing service.

Consumer Protection

When someone is the victim of racial bias there are real costs. As demonstrated by numerous news reports and recent court judgments, the direct financial costs to a family can be in the hundreds of thousands of dollars in lost equity. The systemic costs resulting from decades of racial bias in housing are vast. Today, the median white family holds eight times the wealth of the typical Black family and five times the wealth of the typical Latino family. Much of this is due to homeownership and home value (Perry, Rothwell, and Harshbarger, 2018). Protecting victims of racial bias is critical.

Improve Enforcement

One of the confusing aspects of racial bias in appraisals is how a consumer can report it and if all the appropriate agencies are made aware. In Illinois, a fair housing complaint can be directed to a local fair housing agency, IDHR, or the U.S. Department of Housing and Urban Development ("HUD") to investigate. It is critical that a consumer complaint is not lost in the system. However, it is unclear if the complaints or results of these investigations are shared between each of the appropriate enforcement agencies. For example, if there is a finding of a fair housing violation by IDHR or HUD, it should be shared with IDFPR so they can investigate for a violation of its own regulations.

Similarly, if IDFPR receives a complaint of or suspects a fair housing violation, they should have a process for sharing the information with IDHR and HUD.

Fair Housing Testing

Fair housing testing has served as an effective means for preventing discrimination in the real estate industry. Administered by local fair housing agencies, this regulated process has helped to ensure that real estate brokers are conscious of their words and actions, and it has helped identify and root out bad actors. The General Assembly and Governor should dedicate fair housing funds to create an appraisal specific fair housing testing system. Similarly, the General Assembly should create an Appraisal Relief Fund which could help offset the costs borne by consumers who have been the victim of racially biased appraisals.

This list is not exhaustive, but it is ambitious and worth pursuing. It is our hope that the state encourages the important work of the Real Estate Valuation Task Force to focus on implementation after receiving this report.

Notes:

Andreano Jr., R.J. (2024, July 19). “Federal agencies finalize reconsideration of value guidance”. ConsumerFinanceMonitor.com. https://www.consumerfinancemonitor.com/2024/07/19/federal-agencies-finalize-reconsideration-of-value-guidance/

Appraisal Institute. (2024). The appraisal diversity initiative. AppraisalInstitute.org. https://www.appraisalinstitute.org/advocacy/appraiser-diversity-initiative

Blake, M., & Kromrei, G. (2021, June 28). “The appraisal industry’s hidden hand”. HousingWire.com. https://www.housingwire.com/articles/the-appraisal-industrys-hidden-hand/

Department of Justice. (n.d.). The Equal Credit Opportunity Act. Civil Rights Division of the U.S. Department of Justice. https://www.justice.gov/crt/equal-credit-opportunity-act-3

Ficklin, P.A., Griffith, M., & Lambert, T. (2022, October 6). “Mortgage borrowers can challenge inaccurate appraisals through the reconsideration of value process”. ConsumerFinance.gov. https://www.consumerfinance.gov/about-us/blog/mortgage-borrowers-can-challenge-inaccurate-appraisals-through-the-reconsideration-of-value-process/

Illinois Department of Financial and Professional Regulation. (2023, November 28). “IDFPR highlights recipients of first-of-their-kind scholarships for aspiring real estate appraisers in Illinois”. IDFPR.Illinois.Gov. https://idfpr.illinois.gov/news/2023/2023-aspiring-real-estate-appraisers-scholarship-recipients.html

Illinois Department of Human Rights. (n.d.). Fair housing division. Dhr.illinois.gov. https://dhr.illinois.gov/filing-a-charge/housing.html

PAVE: Interagency Task Force on Property Appraisal and Valuation Equity. (2022, March). “Action plan to advance property appraisal and valuation equity”. Pave.Hud.Gov. https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf

Perry, A., Rothwell, J., & Harshbarger, D. (2018, November 27). “The devaluation of assets in Black neighborhoods”. Brookings.edu. https://www.brookings.edu/articles/devaluation-of-assets-in-black-neighborhoods/

The Appraisal Foundation. (2021a). Practical applications of real estate appraisal (PAREA). AppraisalFoundation.org. https://appraisalfoundation.org/imis/TAF/Standards/Qualification_Criteria/PAREA/TAF/PAREA.aspx?hkey=8ffa3a9c-5eb6-4fb9-b6cc-3329d313f4b5

The Appraisal Foundation. (2021b). The appraiser regulatory system in the United States. AppraisalFoundation.org. https://www.appraisalfoundation.org/imis/TAF/About_Us/Appraiser_Regulatory_System/TAF/Regulatory_Structure.aspx?hkey=c41ed3d7-9a16-4e0c-932e-e8375083b587

The Appraisal Foundation. (2024a). 2024 demographic survey of the appraisal profession. AppraisalFoundation.org. https://appraisalfoundation.sharefile.com/share/view/saf3f4d9dfebc4f57aa88c268ee557ed5

The Appraisal Foundation. (2024b). Uniform standards of professional appraisal practice (USPAP) 2024 edition. AppraisalFoundation.org. https://www.appraisalfoundation.org/imis/TAF/Standards/Appraisal_Standards/Uniform_Standards_of_Professional_Appraisal_Practice/TAF/USPAP.aspx?hkey=a6420a67-dbfa-41b3-9878-fac35923d2af

The Appraisal Subcommittee. (n.d.). Appraisal complaint national hotline. https://refermyappraisalcomplaint.asc.gov/

United States Department of Housing and Urban Development. (n.d.). “Fair housing and equal opportunity”. Housing and Urban Development. https://www.hud.gov/program_offices/fair_housing_equal_opp

CONCLUSION

Our Task Force presents policy recommendations to address inequities in Illinois's appraisal system and foster fair, more inclusive, practices across the real estate industry. First, strengthening Illinois's appraisal program is critical, with steps to align state regulations with best practices and federal guidelines, increase transparency, and ensure diverse representation on state boards. Improved appraisal standards, methods, and guidance are also essential. We recommend expanding access to real-time sales data, exploring advanced technology to enhance comparables matching, and mandating specialized training for appraisers in limited or inactive markets.

To improve appraisal reliability, we propose expanding the reconsideration of value process to non-traditional valuations. Expanding access to the profession is another key focus, with proposed adjustments to education and experience requirements, the expansion of the Supervisor-Trainee Program, and an emphasis on recruiting diverse appraisers. We also stress the need for data and research to advance valuation equity, recommending support for fair housing audits and investigations into disparities in refinancing processes.

Further, our recommendations address structural barriers to entry in the appraisal profession, emphasizing partnerships with community colleges, scholarships, and support for practicum-based training models. Lastly, we advocate for establishing community-based appraisal management companies and increasing consumer education to improve trust and understanding of appraisal processes. Together, these actions aim to dismantle long-standing barriers to equitable housing access, helping create a fairer and more representative appraisal industry for all Illinois residents.

This report represents only an initial examination of the complex issues surrounding the roots of appraisal disparities and housing inequities in Illinois. Consistent with our opening findings that the roots of racial discrimination in appraisal are deeply systemic, reflecting broader structural issues rather than the action of any single individual or group, the Task Force is committed to continuing deeper analyses on key topics such as collateral underwriting standards and challenges, the use of automated valuation methods and the role of emerging technologies in addressing systemic barriers. Our work will focus on creating actionable solutions to better serve both the appraisal industry and the residents of Illinois. These efforts will build on the foundational recommendations presented here.

APPENDIX A

Illinois Real Estate Valuation Task Force

Chairperson:
Asst. Maj. Leader Representative Marcus Evans

Vice Chairperson:
Anthony E. Simpkins, President/CEO of Neighborhood Housing Services of Chicago

Members:
Adrianne Suits Bailey, Manager of the Property Tax Division, Illinois Department of Revenue

Jeffrey Baker, CEO, Illinois Realtors

Paul D. Brown, Real Estate Appraiser, Senior Instructor, Eastern Illinois University

Jamie Cumbie, Vice President of Lending at MidAmerica National Bank

Deborah Fears, President/CEO of the Chicago Post Office Employees Credit Union

Javier Gumucio, Director of Homeownership Department, Illinois Housing Development Authority

Cassandra Halm, Deputy Bureau Chief of the Consumer Fraud Bureau, Illinois Attorney General's Office

Dan Hofacker, Managing Director at JPMorgan Chase

Ericka Johnson, Deputy Secretary, Illinois Department of Financial and Professional Regulation

Steven Monroy, Director of Fair Housing, Illinois Department of Human Rights

Tito G. Quinones, Deputy Director, Office of Legislative Affairs, Illinois Department of Commerce and Economic Opportunity

Ashia Walker, Community Development Senior Financial Analyst, CIBC Bank USA

July 16, 2024

Appraisal Qualifications Board
The Appraisal Foundation
1155 15th Street NW, Suite 1111
Washington, DC 20005

Dear Members of the Appraisal Qualifications Board,

As members of the Illinois Real Estate Valuation Task Force ("Task Force"), we express our gratitude for the opportunity to offer feedback to the Appraisal Qualifications Board ("AQB") regarding the *Real Property Appraiser Qualifications Criteria ("Criteria")*. Our Task Force is writing to express our views on the current college degree requirements within the *Criteria* for becoming a certified residential or certified general appraiser. We firmly believe that the appraisal industry stands to gain more by removing this requirement than from keeping it in place. Below are several reasons why we think this change is necessary:

Public Trust and Industry Standards

It is critical for licensed professionals to maintain the public trust. While some may opine that a college degree is fundamental to obtaining that public trust, this current requirement is not necessary. For example, no other license-based role in a real estate transaction requires a college degree for state certification. Roles such as mortgage brokers, real estate brokers, and home inspectors do not have this requirement, yet they maintain high standards and public trust. Requiring a college degree places appraisers in a unique position that may not necessarily correlate with improved public trust or professional standards.

Barriers to Entry and Workforce Diversity

Current appraiser demographics show a disproportionate representation of certain groups[1], and the college degree requirement may act as a barrier to entry. Reducing or eliminating this requirement makes the appraisal profession more accessible to a diverse range of individuals. This inclusivity would not only bring varied perspectives and lived experiences into the industry but would also reflect the diversity of the communities that appraisers serve, ultimately enhancing the quality and relevance of appraisals.

Economic Considerations and Workforce Shortage

The financial burden of obtaining a college degree can be substantial, deterring many potential candidates from pursuing a career in appraisal. The process of obtaining an advanced degree can be lengthy and expensive. This is particularly problematic in the context of the much discussed shortage of qualified appraisers. According to a 2023 publication by the Appraisal Institute which utilized statistics derived from the Appraisal Subcommittee National Registry database, over 66% of appraisers are over 50 years old.[2] Appraisers are aging out of the workforce. Reducing educational barriers can help attract more candidates, thus addressing the workforce shortage and promoting an industry that can meet future demands.

555 West Monroe Street, 5th Floor Chicago, Illinois 60661 · (888) 473-4858 · TTY (866) 325-4949
320 West Washington Street, 3rd Floor Springfield, Illinois 62786 · (888) 473-4858 · TTY (866) 325-4949

Liza Cristol-Deman (SBN 190516)
BRANCART & BRANCART
Post Office Box 686
Pescadero, CA 94060
Tel: (650) 879-0141
Fax: (650) 879-1103
lcristoldeman@brancart.com

Julia Howard-Gibbon (SBN 321789)
FAIR HOUSING ADVOCATES OF
NORTHERN CALIFORNIA
1314 Lincoln Ave., Suite A
San Rafael, CA 94901
Tel: (415) 483-7516
Fax: (415) 457-6382
julia@fairhousingnorcal.org

Attorneys for Plaintiffs

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

TENISHA TATE-AUSTIN; PAUL AUSTIN; and FAIR HOUSING ADVOCATES OF NORTHERN CALIFORNIA, Plaintiffs, v. JANETTE C. MILLER; MILLER AND PEROTTI REAL ESTATE APPRAISALS, INC., AMC LINKS LLC; Defendants.	Case No. **COMPLAINT FOR INJUNCTIVE, DECLARATORY, AND MONETARY RELIEF; JURY TRIAL DEMAND**

INTRODUCTION

1. Plaintiffs Tenisha Tate-Austin and Paul Austin, an African American couple, invested in the American dream. In December 2016, they purchased a house in Marin County, California and moved into their house with their minor children. After spending thousands of dollars on renovations that increased the square footage of the house and upgraded many features, and beginning renovations on an accessory dwelling unit, the Austins sought to refinance their

mortgage in 2020. Defendant Janette Miller, a licensed real estate appraiser, was hired through defendant AMC Links LLC to inspect the Austins' house and prepare an appraisal report. Miller concluded that the current market value of the Austins' house was $995,000.

2. In preparing her report and estimating the value of the Austins' house, plaintiffs contend that Miller took into account the Austins' race – Black – and the current and historical racial demographics of the house's location in the unincorporated area known as Marin City. Within days, a different appraiser inspected the Austins' house. But this time, the Austins' erased any evidence of their racial identities inside their house, even asking a white friend to pose as the homeowner during the inspection. This different appraiser arrived at a value of $1,482,500 – nearly half a million dollars higher than Miller's estimated value.

3. Race was a motivating factor in Miller's unreasonably low valuation of the Austins' house, in violation of the Fair Housing Act and related federal and state laws. Accordingly, the Austins seek monetary, declaratory, and injunctive relief.

4. Fair Housing Advocates of Northern California (FHANC) is a non-profit corporation headquartered in Marin County. FHANC alleges that it was injured when it diverted its scarce resources to investigating defendants' discriminatory housing practices, and that those practices frustrated its mission. FHANC seeks equitable relief only in this action.

JURISDICTION, VENUE, AND INTRADISTRICT ASSIGNMENT

5. Jurisdiction is conferred upon this Court pursuant to 28 U.S.C. section 1331 in that the claims alleged herein arise under the laws of the United States. This Court has supplemental jurisdiction pursuant to 28 U.S.C. section 1367 to hear and determine plaintiffs' state law claims because those claims are related to plaintiffs' federal law claims and arise out of a common nucleus of related facts. Plaintiffs' state law claims are related to plaintiffs' federal law claims such that they form part of the same case or controversy under Article III of the United States Constitution.

6. Venue in the Northern District of California and intradistrict assignment to either the San Francisco or Oakland division are proper because the subject property is located in, and events giving rise to plaintiffs' claims occurred in, Marin County, California.

PARTIES

7. Plaintiff Tenisha Tate-Austin is an adult resident of Marin County, California and a citizen of the United States. She is African American, or Black. Together with her husband, Paul Austin, Tenisha Tate-Austin holds title to the dwelling and real property located at 20 Pacheco Street in Sausalito, California ("Pacheco Street House"). Ms. Tate-Austin resides in the Pacheco Street House with her husband and their two minor children. Although the mailing address for the Pacheco Street House is Sausalito, the house is located in an unincorporated part of Marin County known as Marin City, located just outside the incorporated boundaries of Sausalito.

8. Plaintiff Paul Austin is an adult resident of Marin County, California and a citizen of the United States. He is African American, or Black. He is co-owner and resident of the Pacheco Street House with his wife, Tenisha Tate-Austin.

9. Plaintiff Fair Housing Advocates of Northern California (FHANC) is a non-profit corporation dedicated to promoting equal housing opportunity in Marin, Solano, and Sonoma Counties through community education, government advocacy, and counseling. The organization works to eliminate discrimination in housing in all forms, such that all persons can access housing without regard to their race, color, religion, gender, sexual orientation, national origin, familial status, marital status, disability, ancestry, age, source of income, or other characteristics protected by federal, state, and local laws. Fair Housing Advocates of Northern California's office is located in San Rafael. It is an "aggrieved person" under the Fair Housing Act, 42 U.S.C. § 3602, and Government Code § 12927, subd. (g).

10. Defendant Janette C. Miller is a real estate appraiser licensed by the California Bureau of Real Estate Appraisers. Miller is white. Miller is an officer and owner of Miller and

Perotti Real Estate Appraisers, Inc.

11. Defendant Miller and Perotti Real Estate Appraisals, Inc. is a California corporation with a primary address in San Rafael, California.

12. Defendant AMC Links, LLC, is an LLC registered in Utah that does business in California. AMC Links LLC is an appraisal management company licensed by the California Bureau of Real Estate Appraisers.

13. Each defendant was, in doing the things complained of, the agent of its co-defendants herein and acting within the scope of said agency and/or representation, and each defendant is liable for the discriminatory housing practices alleged herein under the Fair Housing Act and the California Fair Employment and Housing Act, 24 C.F.R. § 100.7 and Government Code § 12955.6, and are jointly and severally responsible and liable to plaintiff for the damages alleged.

FACTS

A. Racial Demographics in Marin County and Marin City

14. Marin City is an unincorporated community located in Marin County, situated between the cities of Sausalito to the south and Mill Valley to the north. Properties located in Marin City have a Sausalito mailing address. Marin City and the City of Sausalito share the same school district.

15. According to the U.S. Census, as of July 2019, Marin County's population was 85.3% white, 2.8% Black, 6.6% Asian, and 16.3% Latino.[1] The County's Black residents are overwhelmingly concentrated in two census tracts, one of which is located in Marin City.[2]

16. Housing was first developed in Marin City in the early 1940s to house workers

---

[1] https://www.census.gov/quickfacts/marincountycalifornia
[2] https://data.census.gov/cedsci/table?t=Black%20or%20African%20American&g=0500000US06041%241400000&tid=DECENNIALPL2020.P1&hidePreview=true

migrating to the area to work in the Sausalito shipyards for the war effort.[3] Many of these workers were African Americans who came from the South as part of the Great Migration, but whites and Asians also lived in Marin City and worked at the shipyards. As a result of the war effort and employment in the shipyards in the 1940s, Marin City became a diverse, racially-integrated community.[4]

17. Following World War II, shipbuilding jobs largely disappeared. Many workers found themselves unemployed. Many white residents moved away in search of better employment opportunities, aided by Federal Housing Administration guaranteed bank loans that were designed to move white residents to all-white neighborhoods that would remain all-white through the use of racially-restrictive covenants.[5] Many African American residents were unable to move to other towns and neighborhoods in the area due to housing discrimination, racially-restrictive covenants, redlining, denial of access to government-backed financing, and other forms of discrimination.[6]

18. In the years following the war, African Americans became the largest demographic group in Marin City. Since the 1980s and 1990s, the census tract that encompasses Marin City has become more racially diverse, but African Americans still accounted for approximately 35.95% of the population as of 2019.[7]

19. By contrast, the population of the City of Sausalito (excluding unincorporated areas like Marin City) is 92.2% white as of 2019. African Americans comprise only 0.9% of Sausalito's population.[8]

B. The Appraisal Process

---

[3] *See* www.marincitygov.org; County of Marin, Analysis of Impediments to Fair Housing Choice (January 2020), (hereafter, "Analysis of Impediments" 33-34, available at https://www.marincounty.org/-/media/files/departments/cd/housing/fair-housing/2020-ai/2020aienglishvfinal.pdf?la=en

[4] Analysis of Impediments at 34.

[5] Analysis of Impediments at 34.

[6] *Id.*

[7] https://www.towncharts.com/California/Demographics/Marin-City-CDP-CA-Demographics-data.html

[8] https://www.towncharts.com/California/Demographics/Marin-City-CDP-CA-Demographics-data.html

20. Obtaining a real estate appraisal is a necessary step on the path to obtaining a mortgage or refinancing the mortgage of a house in the United States. Mortgage lenders require appraisals – defined by the Uniform Standards of Professional Appraisal Practice as professional, reasoned, credible assessments of a property's value as of a given date – before approving loans. With few exceptions, home buyers cannot obtain a mortgage, and homeowners cannot refinance a mortgage, without submitting to an appraisal. Because the vast majority of home sales in the United States require mortgage financing, the vast majority of home sales require the use of a professional appraiser to generate an appraisal report of value.

21. Every state requires appraisers to obtain a professional license. In California, appraisers are licensed by the state Bureau of Real Estate Appraisers ("BREA"), which is a subdivision within the California Department of Consumer Affairs. Various federal regulators and entities oversee BREA and other state licensing boards.

22. Through the 1970s, textbooks used to educate and train appraisers contained explicit instructions that (1) housing appraisals must start with an appraisal of the neighborhood, and (2) racially segregated, white neighborhoods were "desirable" neighborhoods. Houses located in predominantly white areas were assumed to be of the highest and best value, while houses located in predominantly non-white areas, or areas of diverse races, were assumed to be undesirable and of lower value. For example, the influential textbook written by Frederick Babcock in 1924 states that "the habits, character, the race . . . of the people are the ultimate factors of real estate value."[9] Babcock went on to become a founding member of the American Institute of Real Estate Appraisers ("AIREA") and a head of underwriting for the Federal Housing Administration.[10]

---

[9] Frederick Babcock, Appraisal of Real Estate 71 (1924).
[10] Gene Slater, Freedom to Discriminate 97 (2021).

23. Twenty-five years after Babcock's textbook was published, the same principles of race-based valuation appeared in revised versions of Babcock's textbook and all the leading publications guiding the appraisal industry. For example, textbook author George Schmutz wrote in 1951, "Perhaps the most important condition in the neighborhood is congruity; *i.e.*, the similarity of structures…and the similarity of the people as regards, race, color, income-earning level, and social position."[11] Schmutz adds that one aspect of a neighborhood's "appeal" that should be evaluated by the appraiser is "the relationship between families in the neighborhood having similar educations, abilities, mode of living, and racial characteristics."[12] Schmutz asserts that property values decline with "the presence of people of dissimilar cultures."[13]

24. These race-based valuation standards in appraisal textbooks remained iron-clad until the United States Department of Justice sued the American Institute of Real Estate Appraisers and related defendants in 1976 under the Fair Housing Act. (*United States v. The American Inst. Of Real Estate Appraisers of the Nat'l Assn of Realtors, et al.*, Case No. 76-C-1448, N.D. Ill.) The case was settled when AIREA[14] agreed to revise its courses, ethical standards, and textbook, *The Appraisal of Real Estate*, to reflect policies against race-based valuation standards.

25. But the damage was already done. Property in Black neighborhoods and racially diverse neighborhoods reflect these low valuations that appraisers were trained to make. Most appraisers continue to evaluate a house's value by comparing it to houses in similar, proximate neighborhoods that have sold in the recent past ("comps"). The continued use of the sales comparison approach recycles home values that were initially determined using explicitly race-based criteria, and compounds the effects of decades of undervaluation of homes in non-white

[11] George L. Schmutz, The Appraisal Process 168 (1951)
[12] *Id.* at 174
[13] *Id.* at 175
[14] AIREA and another professional appraisal organization, the Society of Real Estate Appraisers, merged in 1991 to become the Appraisal Institute.

areas. Likewise, some appraisers, including defendants, have continued to use race-based criteria in assessing property value, including limiting comparisons to houses within areas of similar racial demographics and valuing predominantly white areas more highly than other areas. Redlining, disinvestment, and lower property tax revenue compounded the effects of lower appraised values in such neighborhoods.

26. In September 2021, the Federal Home Loan Mortgage Corporation ("Freddie Mac") released the results of a five-year study based on more than 12 million appraisals.[15] The study found that "Appraisers' opinions of value are more likely to fall below the contract price in Black and Latino census tracts, and the extent of the gap increases as the percentage of Black or Latino people in the tract increases."[16] These differences remained constant even when other characteristics of the property and neighborhood were equal.

27. The Freddie Mac study also concluded that the race of mortgage applicants affects appraisal value. Black and Latino applicants were more likely than white applicants to receive an appraisal value lower than the contract price.[17]

28. The Freddie Mac study also evaluated the selection of comps for housing appraisals located in a Black or Latino census tract. The study concluded that appraisers chose comps located substantially closer to the subject property if it was located in a Black or Latino census tract than if it was located in a white census tract.[18] This conclusion suggests that appraisers continue to view neighborhoods, and thus relevant comps, based on racial demographics.

C. Appraisal Management Companies

---

[15] Racial and Ethnic Valuation Gaps in Home Purchase Appraisals, September 20, 2021, available at http://www.freddiemac.com/research/insight/20210920_home_appraisals.page (last visited Nov. 17, 2021)
[16] *Id.* at § 1.
[17] *Id.* at § 2.
[18] *Id.* at § 4.

29. Following industry reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act, mortgage lenders and brokers could no longer employ or contract with an appraiser directly to appraise property for mortgage lending. *See* 15 U.S.C. § 1639e. Instead, lenders and brokers contract with independent appraisal management companies to obtain an appraisal. Appraisal management companies (AMCs) are business entities that serve as intermediaries between lenders and appraisers. AMCs contract with lenders or other entities to provide appraisal services. AMCs then contract with licensed and certified appraisers to perform appraisal assignments. AMCs are licensed and regulated in California by the Bureau of Real Estate Appraisers. Cal. Bus. & Prof. Code §§ 11302 (m); 11314 *et seq.*

30. An AMC is required by law to review the work of all employee appraisers and independent contractor appraisers with whom it contracts to ensure that appraisal services are performed in accordance with the Uniform Standards of Professional Appraisal Practice. 12 U.S.C. § 3353(a); Cal. Bus. & Prof. Code § 11345.3 (b).

D. The Effect of Using Sales Comparisons in Marin City

31. Appraising a house located in Marin City, such as the Pacheco Street House, using comparisons of other property sales located exclusively or primarily in Marin City results in a skewed and race-based valuation of the property. Marin City has a long history of undervaluation based on stereotypes, redlining, discriminatory appraisal standards, and actual or perceived racial demographics. Choosing to use comps located in Marin City means that the valuation is dictated by these past sale prices, which were the direct product of racial discrimination. The use of such comps perpetuates the effects of discriminatory appraisal practices.

32. Marin City also has a very small number of property sales every year. Relying exclusively or primarily on Marin City sales as comps is statistically unsound, because there are not enough to constitute a useful data set. The sample size of annual sales is too small to be reliable. Using Marin City sales as the primary source of comps is evidence of racial bias – *i.e.,* that the

appraiser believes that Marin City's demographics make it so much less "desirable" than surrounding areas that property in those areas cannot be used as comps.

33. A competent, unbiased appraisal must look to additional areas outside of Marin City for relevant comps.

E. USPAP Standards

34. The Appraisal Foundation is a professional organization established in the wake of the savings and loan crisis of the 1980s. Congress authorized the Appraisal Foundation as the source of appraisal standards and qualifications pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) in 1989. *See* 12 U.S.C. §§ 3339, 3345.

35. Under this Congressional authority, the Appraisal Foundation publishes the Uniform Standards of Professional Appraisal Practice (USPAP).[19] USPAP provides ethical and performance requirements for professional appraisers, and provides AMCs, borrowers, and lenders with a gauge by which to measure the quality of an appraiser's analysis and reliability of their conclusions. Federal and state law require all real estate appraisals to conform to USPAP standards. *See* 12 C.F.R. § 323.4 (a).

36. USPAP contains rules and standards for appraisers, including rules of ethics. One of the components of USPAP's Ethics Rule provides that an appraiser "must not perform an assignment with bias." Another component of USPAP's Ethics Rule provides that an appraiser "must not use or rely on unsupported conclusions relating to characteristics such as race, color…or that homogeneity of such characteristics is necessary to maximize value."

37. USPAP Standards Rule 1-1 states that: "In developing a real property appraisal, an appraiser must: (a) be aware of, understand, and correctly employ those recognized methods and

[19] https://www.appraisalfoundation.org/imis/TAF/Standards/TAF/Standards_Qualifications.aspx?hkey=f95f32ad-67dc-439a-b82b-6bf3ea89fa44 (last visited Nov. 17, 2021)

techniques that are necessary to produce a credible appraisal; (b) not commit a substantial error or omission or commission that significantly affects an appraisal; and (c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affects the credibility of those results."

F. The Pacheco Street House

38. On or about December 19, 2016, Tenisha Tate-Austin and Paul Austin purchased the Pacheco Street House for $550,000, and have owned and occupied the house ever since.

39. The Pacheco Street House is located near major streets, Highway 101, easy access to the Golden Gate Bridge, shopping, and public transit. It is walking distance from desirable hiking trails. Many rooms in the house, as well as the deck, have views of the San Francisco Bay and surrounding hills.

40. In connection with the purchase and financing of the Pacheco Street House in 2016, the Austins' mortgage lender obtained an appraisal. The appraisal estimated the market value of house to be $575,500. The appraisal report obtained by the Austins' lender, dated December 3, 2016, indicated that the Pacheco Street House had 1,248 square feet of gross living area, including four bedrooms and two bathrooms. The report also noted that there had been "no updates in the prior 15 years." The estimated value of the house per square foot, according to the appraisal, was $441.

41. Between 2016 and 2018, the Austins completely remodeled the Pacheco Street House using licensed contractors. They upgraded the kitchen and bathrooms with high quality appliances and fixtures. They had the hardwood floors refinished, painted the interior, and replaced many windows. They also redesigned the interior, removing a wall to create one larger, more functional primary bedroom. One of the small bathrooms was enlarged to create the primary bathroom.

42. The Pacheco Street House was appraised again in May 2018, when the Austins refinanced their mortgage. The estimated value of the house per square foot, according to the appraisal, had risen to $672. The appraisal report obtained by the Austins' lender, dated May 14, 2018, indicated the market value of the house to be $864,000.

43. Following that refinance, the Austins hired contractors to add a new foundation and retaining wall to replace open space under the house. This created an additional 270 square feet of living space on the ground level, comprised of a den and half-bathroom. In the upstairs area, the Austins added a deck and a gas fireplace. They extended their main living area upstairs by 8 feet.

44. They also obtained permits and began the construction of a separate, accessory dwelling unit (ADU) on the property equipped with a kitchen and bathroom, containing approximately 450 square feet of living space which could be used for rental income, a home office, or other purpose that would enhance the value of the property. The ADU has a separate entrance and views of the Bay.

45. In or about March 2019, the Austins applied to refinance their mortgage again. They obtained a new appraisal report for the Pacheco Street House. The estimated value of the house per square foot, according to the appraisal, had nearly doubled, to $1,162. The appraisal report dated March 6, 2019, indicated the market value of the house to be $1,450,000.

46. In early 2020, the Austins sought to refinance their mortgage again to take advantage of historically low interest rates and obtain additional funding to complete the basement conversion and ADU. They contacted their mortgage broker, who retained the services of AMC Links, LLC, in order to obtain an appraisal and begin the process of refinancing.

G. The Inspection and Appraisal Report by Defendants

47. AMC Links, LLC, contracted with Janette C. Miller of Miller and Perotti Real Estate Appraisers, Inc. to conduct an appraisal of the Pacheco Street House. Miller visited the house to conduct the appraisal on or about January 29, 2020.

48. Janette Miller knew that the owners of the Pacheco Street House were African American when she conducted the appraisal inspection on January 29, 2020.

49. Paul Austin, who is African American, was present in the Pacheco Street House when Janette Miller arrived to conduct the appraisal inspection, and introduced himself by name.

50. The Pacheco Street House displays family photos of the Austins and their minor children, all of whom are African American. The Austins also have art that is African-themed displayed in the Pacheco Street house.

51. Miller walked around the house and exterior areas on the property. The Austins' family photos depicting African Americans, and the Austins' African-themed art, were conspicuous during Miller's inspection of the Pacheco Street House.

52. Race was a motivating factor in Miller's unreasonably low valuation of the Austins' house, in violation of the Fair Housing Act and related federal and state laws. There are at least five indicia of racial bias in the Miller Appraisal: (1) unreasonably and inexplicably low market value ascribed to the Pacheco Street House; (2) unsupportable adjustments to value made based solely on the Pacheco Street House's location in Marin City; (3) the selection of properties as "comparable" based on racial demographics; (4) comments regarding the "distinct marketability" of Marin City; and (5) the race or perceived race of the homeowners.

53. Miller and AMC Links, Inc. issued an appraisal report for the Pacheco Street House dated February 12, 2020 ("Miller Appraisal"). Miller concluded that the market value of the Pacheco Street House was $995,000.

54. The Miller Appraisal opines that the price of single-family homes in Marin City is between $270,000 to $1,800,000, with a "predominate value" of $720,000. Miller states that this opinion is based on five years of home sales, where no one year had more than four sales. This opinion is fundamentally flawed because of the small number of home sales per year and the number of years of home sales evaluated. Using such a small sample size results in a huge margin

of error. In fact, the relatively small number of sales in Marin City suggests a marketplace where owners do not move often. As a result, extrapolating the value of the Pacheco Street House from sales in Marin City is inherently flawed and statistically unsound. It also evidences an approach to appraisal value that is based on the racial demographics of Marin City, or the race of the residents of the Pacheco Street House, or both.

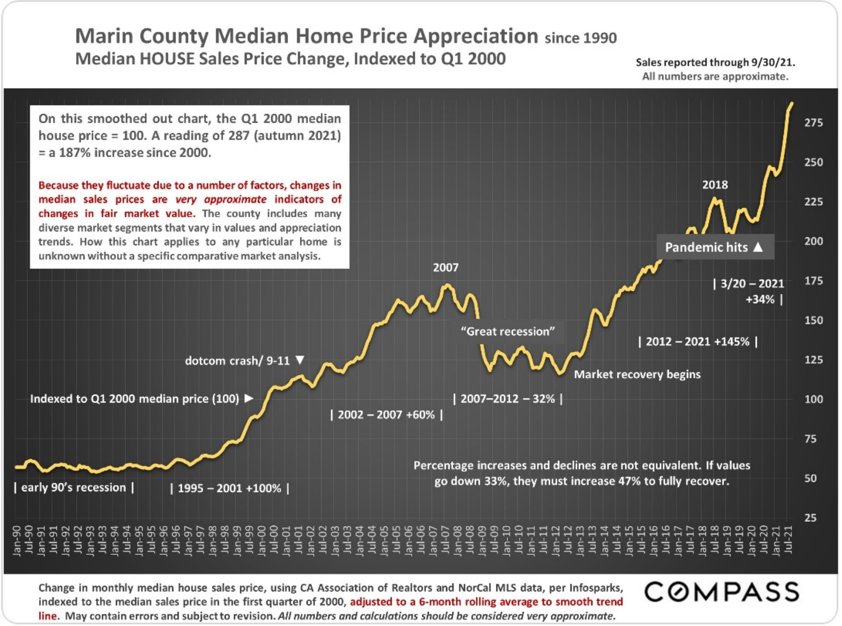
55. Miller states in her report that Marin City has a “distinct marketability which differs from the surrounding areas.” Based on the racial demographics and history of Marin City, this phrase is coded based on race. Embedded in this statement are Miller’s assumptions that Marin City is predominantly non-white; that white homebuyers would not be willing to consider purchasing a house located in Marin City; and, thus, Marin City is not comparable in marketability to surrounding areas. Each assumption is based on race. Marin City has such a small number of home sales from year to year that there is not a statistically significant and legitimate basis on which to conclude that it has a “distinct marketability.” As the Miller report itself notes, there were only three sales of single-family homes in Marin City in the previous year and three the year before, likely because of the stability of homeownership within the area.

56. Miller’s market analysis of Marin City speaks only to market trends before the 2007 recession and ends at 2008, with no analysis of recent trends. Additionally, it speaks to market trends that were true for the entire Bay Area at the time, not just those unique to Marin City. For example, Miller writes:

> “Area experienced escalating residential values from 2003 to 2005. During 2005 and 2006 values experienced a readjustment with longer days on market and stable or decreasing values in some neighborhoods. In 2007, values within much of the area began to increase again with days on market remaining less than 2 months. During 2008, however, many communities in the Bay Area began to feel the effects of tightening credit and deteriorating economic conditions. Though these communities

appear to have been the last to be affected by the housing crisis which began in 2005, there were then declining home values in many, but not all communities in the Bay Area."

57. Her use of such dated market trends deviates from professional standards and presaged her erroneously low appraised value of the Pacheco Street House. Marin City, like other communities that are predominantly non-white in the United States, experienced foreclosures during the Great Recession at a higher rate than predominantly white communities. The relatively higher rate of foreclosures in non-white communities is directly linked to the history of redlining, segregation, discrimination, and lack of access to credit in such communities. Accordingly, considering "market trends" from 2008 disproportionately and inappropriately devalues property in Marin City, because more than ten years have passed and the market value for single-family housing in the area has rebounded entirely as shown on the Table below:[20]



[20] https://www.bayareamarketreports.com/trend/marin-county-real-estate-market-report

58. By contrast, in the same market analysis, Miller notes increasing home values in Sausalito since 2014 – an entirely different period of time than she reviewed in her market analysis of Marin City. She writes, "values [in the City of Sausalito] have increased since 2014 with a recent stabilization of values as evidenced by MLS year-end data for all residential properties sold."

59. Miller selected five property sales and one sale listing as comps in analyzing the value of the Pacheco Street House. Despite the paucity of recent sales in Marin City, three of the six comps selected by Miller were in Marin City. Two of those three properties were not comparable to the Pacheco Street House in any way except for their location in Marin City. One was a bank-owned property that sold in foreclosure a full two years before. One was an attached dwelling that was contained within a planned unit development.

60. Pursuant to professional standards and practice, Miller should have selected comps outside of Marin City with features that were more closely analogous to the Pacheco Street House, but failed to do so because the racial demographics of surrounding areas were different – *i.e.*, whiter -- than Marin City's. Sausalito and Mill Valley, for example, are adjacent areas that have hundreds of single-family home sales every year, with many properties that would have presented appropriate comparisons for the Miller Report. Many would have proven more comparable than the comps selected by Miller if race had not been a consideration.

61. Miller selected only three comps from outside of Marin City – one in Sausalito and two in Mill Valley. When evaluating the value of these three comps outside of Marin City, Miller made "adjustments" to value based on, according to her, the differences in relative price per square foot between properties in Marin City on the one hand, and Sausalito and Mill Valley on the other. Miller opined that she looked at several years of data and determined that houses in Marin City were worth "conservatively" 25% less per square foot than those in "surrounding areas." This adjustment was both statistically unsound and based on the racial demographics of Marin City. There are not enough property sales in Marin City to assert that there is any statistical average

"price per square foot" for houses in Marin City as compared with Mill Valley or Sausalito. In addition, price per square foot varies based on many factors, including quality of construction and amenities.

62. Miller then made downward adjustments beyond the 25% reduction described above. Miller further reduced the value of the Pacheco Street house, opining that it was worth nearly 28% less per square foot than the price per square foot of the allegedly comparable properties in Sausalito and Mill Valley. These unfounded adjustments resulted in Miller attributing a lower value to the Pacheco Street House than credible or reasonable. They can be explained only by race-based bias.

63. The Miller Appraisal includes the following "Appraiser's Certification," reprinted below in pertinent part, and signed by Janette Miller:

> The Appraiser certifies and agrees that:
>
> 3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of the Appraisal Foundation and that were in place at the time this appraisal report was prepared.
>
> ***
>
> 7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.
>
> ***
>
> 16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.
>
> ***
>
> 23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

64. The Miller Report demonstrates that Miller deviated from recognized methods and techniques of real estate appraisal and did not follow USPAP. Miller did not sufficiently research and analyze the available data, and rendered her services in a careless and negligent manner, resulting in a flawed and discriminatory analysis.

65. Race was a motivating factor in Miller's unreasonably low valuation of the Austins' house, in violation of the Fair Housing Act and related federal and state laws. Miller's valuation was influenced by the race of the Austins, or the racial demographics of Marin City, or both, when she undervalued the Pacheco Street House.

66. In the alternative, or in addition, the methods of valuation used by Miller had a disparate impact on African American homeowners or home purchasers based on their race.

67. AMC Links failed to review the Miller Report to ensure that the work was performed in accordance with USPAP standards and was not influenced by race. In the alternative, AMC Links carelessly and incompetently reviewed the Miller Report and failed to detect its breaches of USPAP and other professional norms.

68. The Austins were shocked by the Miller Report and the appraised value of the Pacheco Street House. The Austins' mortgage broker informed them that they could not obtain refinancing at favorable terms because of the unreasonably low value ascribed to the Pacheco Street House by Miller. The Austins, through their broker, contacted AMC Links and requested a second appraisal by a different appraiser.

H. The Second 2020 Inspection of the Pacheco Street House

69. In February 2020, a different appraiser contacted the Austins and made an appointment to conduct an inspection. Before that inspection took place, the Austins asked Jan, a friend who is white, to be present during the inspection and greet the appraiser as if she was the homeowner. Jan agreed.

70. Before the inspection, the Austins "white-washed" their house. They packed away their family photos, which depicted the house's occupants as an African American family. They also removed and stored any art that was African or African American themed and stored it where it would not be visible. Jan placed some of her own family photos, depicting her white family, around the Pacheco Street House before the inspection.

71. An appraiser from a different company came to the Pacheco Street House to conduct the inspection on February 15, 2020. Jan answered the door when the appraiser arrived, and sat in the dining area while the appraiser conducted the inspection. Neither Paul Austin nor Tenisha Tate-Austin was present during the inspection.

72. On March 8, 2020, the second appraiser issued a report estimating the value of the Pacheco Street House at $1,482,500 ("March 2020 Appraisal"). She estimated that the Pacheco Street House was worth $877 per square foot.

73. According to the March 2020 Appraisal, the total estimated value of the Pacheco Street House is 49% higher, or $487,500 higher, than the appraised value assigned in the Miller Appraisal, issued just three weeks before.

74. The value per square foot of the Pacheco Street House, according to the March 2020 Appraisal, was $877. This is an increase of $295 per square foot, or 50.6%, from the Miller Appraisal.

75. In the three weeks between the Miller Appraisal and the March 2020 Appraisal, nothing about the Pacheco Street House or the local real estate market changed in any material way. The only things that had changed were the appraiser and the perceived race of the Pacheco Street House's owners.

76. In the March 2020 Appraisal, the appraiser selected eight properties as comps. Two properties were located in Marin City, and the other six were located close by in Sausalito. All eight

properties were available to use as comps when Miller prepared her appraisal report three weeks earlier. None of the same comps were used in the two reports.

77. Although the Austins refinanced their mortgage based on the March 2020 appraisal, they were not able to refinance on the favorable terms that had been available one month before.

I. FHANC's Investigation and Outreach

78. As a result of the discriminatory practices reported by the Austins, FHANC began an investigation into the appraisal industry and appraisal practices in Marin County. That investigation diverted FHANC's resources, including staff time and financial resources, from other investigations and activities. FHANC also spent time and resources working with the media and the local community to counteract the effects of discriminatory appraisal practices by developing new educational resources and educating residents about their fair housing rights, including the right to engage in real estate transactions free from unlawful discrimination.

79. Discriminatory appraisals, including the appraisal that the Austins received from defendants, frustrate FHANC's mission of promoting equal opportunity and equity in housing. Defendants' actions frustrate FHANC's mission by engaging in racialized analyses of home value, perpetuating segregation, depressing home values in Marin City, and depriving residents of color of housing opportunities. FHANC must engage in ongoing educational efforts to counteract the adverse effects of defendants' discriminatory housing practices.

INJURIES

80. As a result of the unlawful housing practices of defendants as alleged herein, plaintiffs Tenisha Tate-Austin and Paul Austin suffered damages, including loss of financing opportunity in connection with their dwelling, economic losses, emotional distress with attendant physical injuries, and violation of their civil rights. In addition, defendants' discriminatory housing practices result in lower property values in Marin City generally, to the detriment of plaintiffs.

81. As a result of the unlawful housing practices of defendants as alleged herein,

plaintiff FHANC has suffered diversion of its scarce resources and frustration of its mission. Accordingly, it is an aggrieved person within the meaning of the Fair Housing Act and California Fair Employment and Housing Act.

82. In doing the acts of which plaintiffs complain, defendants acted recklessly, callously, and willfully, with malice, and with wanton and conscious disregard for fair housing rights. Accordingly, plaintiffs are entitled to punitive damages under the Fair Housing Act and the Civil Rights Act of 1866.

83. There now exists an actual controversy between the parties regarding defendants' duties under federal and state fair housing laws. Accordingly, plaintiffs are entitled to declaratory relief.

84. Unless enjoined, defendants will continue to engage in the unlawful acts and the pattern, practice, or policy of discrimination described above. Plaintiffs have no adequate remedy at law. Plaintiffs are now suffering and will continue to suffer irreparable injury from defendants' acts and their pattern or practice of discrimination unless relief is provided by this Court. Accordingly, plaintiffs are entitled to injunctive relief.

CLAIMS

FIRST CLAIM FOR RELIEF

[Fair Housing Act]

42 U.S.C. § 3601 et seq.

85. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

86. Defendants injured plaintiffs in violation of the federal Fair Housing Act by committing the following discriminatory housing practices:

a. Otherwise making unavailable or denying housing opportunities based on race, in violation of 42 U.S.C. § 3604 (a).

b. For any person or other entity whose business includes engaging in residential real estate-related transactions, including the appraising of residential real properties, to discriminate against any person in making available such a transaction, or in the performance of such services, because of race, in violation of 42 U.S.C. § 3605(a); 24 C.F.R. §§ 100.110(b); 100.135 (a) and (d).

c. Interfering with any person in the exercise or enjoyment of any right granted or protected by the Fair Housing Act, including 42 U.S.C. §§ 3604, 3605, 3606, in violation of 42 U.S.C. § 3617.

d. Making or printing a statement with respect to the sale of a dwelling that indicates preference, limitation, or discrimination based on race, or an intention to make such a preference, limitation or discrimination, in violation of 42 U.S.C. § 3604(c).

87. Accordingly, plaintiffs are aggrieved persons under 42 U.S.C. section 3602, who are entitled to relief. 42 U.S.C. § 3613 (c).

SECOND CLAIM FOR RELIEF

[California Fair Employment and Housing Act]

Cal. Gov't Code §§ 12927, 12955 et seq.

88. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

89. Defendants injured plaintiffs in violation of the California Fair Employment and Housing Act by committing the following discriminatory housing practices:

a. Making, printing or publishing notices or statements with respect to the sale of a housing accommodation that indicates a preference, limitation, or discrimination based on race, in violation of Cal. Gov't Code § 12955(c);

b. For any person subject to the provisions of Section 51 of the Civil Code, as that section applies to housing accommodations, to discriminate against any person on the basis of race, in violation of Cal. Gov't Code § 12955 (d);

c. For any person or other organization or entity whose business involves real estate-related transactions, including the appraising of residential real property, to discriminate against any person in making available a transaction, or in the terms and conditions of a transaction, because of race, in violation of Cal. Gov't Code § 12955 (i);

d. Interfering with any person in the exercise or enjoyment of, or on account of that person having exercised or enjoyed, any right granted or protected by Section 12955; in violation of Cal. Gov't Code § 12955.7;

e. Engaging in practices with respect to residential real estate transactions that have the effect, regardless of intent, of unlawfully discriminating on the basis of race, when such practices are not necessary to the operation of the business, do not effectively carry out the significant business need they are alleged to serve, and feasible alternatives with less discriminatory effects exist, in violation of Cal. Gov't Code § 12955.8.

90. Accordingly, plaintiffs are aggrieved persons within the meaning of FEHA, Government Code § 12927 (g).

THIRD CLAIM FOR RELIEF

[Civil Rights Act of 1866]

42 U.S.C. § 1981

[Plaintiffs Tenisha Tate-Austin and Paul Austin only vs. All Defendants]

90. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

91. In acting as alleged herein, defendants have injured plaintiffs by impairing their right to make and enforce contracts, and to the full and equal benefit of the laws for security of property as is enjoyed by white citizens, in violation of 42 U.S.C. § 1981.

92. Accordingly, plaintiffs are entitled to relief under 42 U.S.C. §§ 1981 and 1988 (a).

FOURTH CLAIM FOR RELIEF

[Civil Rights Act of 1866]

42 U.S.C. § 1982

93. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

94. In acting as alleged herein, defendants have injured plaintiffs by depriving the Austins of the right to purchase, lease, sell, hold, and convey real property, in violation of 42 U.S.C. § 1982.

95. Accordingly, plaintiffs are entitled to relief under 42 U.S.C. §§ 1982 and 1988 (a).

FIFTH CLAIM FOR RELIEF

[Unruh Civil Rights Act]

Cal. Gov't Code § 51 et seq.

[Plaintiffs Tenisha Tate-Austin and Paul Austin only vs. All Defendants]

96. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

97. In acting as alleged herein, defendants have engaged in intentional and arbitrary discrimination in the operation of a business establishment based on plaintiffs' race, or the race of residents in the area where the Pacheco Street House is located, or both.

98. Accordingly, the Austins are entitled to relief pursuant to Civil Code §§ 51-52 *et seq.*

SIXTH CLAIM FOR RELIEF

[Unfair Competition Law]

Cal. Bus. & Prof. Code § 17200 et seq.

99. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

100. In acting as alleged herein, Defendants have engaged in unlawful discrimination in the operation of their businesses, , and therefore have engaged in unlawful acts in violation of the Unfair Competition Law. Plaintiffs suffered injury in fact and lost money as a result of those unlawful acts.

101. In bringing this action for relief, Plaintiffs are acting in the interest of themselves and the general public pursuant to section 17204 of the California Business and Professions Code.

SEVENTH CLAIM FOR RELIEF

[Negligent Misrepresentation]

Cal. Civil Code § 1710

[Plaintiffs Tenisha Tate-Austin and Paul Austin only vs. All Defendants]

102. Plaintiffs reallege and incorporate by reference each paragraph previously alleged in this complaint.

103. Defendants represented to plaintiffs that they were providing an unbiased appraisal of the Pacheco Street House based on all information available and in full compliance with USPAP. Defendants intended for plaintiffs to rely on those representations.

104. Defendants' representations were untrue. Although one or more defendants may have honestly believed that the representations were true, those defendants had no reasonable grounds for believing the representations were true when they made them.

105. Plaintiffs reasonably relied on defendants' representations and were harmed in doing so.

<u>RELIEF</u>

Wherefore, Plaintiffs pray that the Court:

a. Permanently enjoin defendants from engaging in discriminatory housing practices, either directly or through others;

b. Order defendants to take appropriate affirmative actions to ensure that the activities complained of above are not engaged in by them again;

c. Declare that defendants have violated the provisions of applicable federal and state laws;

d. Award compensatory damages, statutory damages, and punitive damages to plaintiffs according to proof;

e. Award costs of suit and reasonable attorneys' fees and expenses; and,

f. Grant all such other relief as the Court deems just.

DEMAND FOR TRIAL BY JURY

Pursuant to Rule 28 of the Federal Rules of Civil Procedure, plaintiffs hereby demand a jury trial.

DATED: December 2, 2021

Respectfully submitted,
BRANCART & BRANCART

/s/ Liza Cristol-Deman
Liza Cristol-Deman
lcristoldeman@brancart.com

FAIR HOUSING ADVOCATES OF NORTHERN CALIFORNIA

/s/ Julia Howard-Gibbon
Julia Howard-Gibbon
julia@fairhousingnorcal.org

Attorneys for Plaintiffs

SAMPLE APPRAISER'S PACKAGE

Note: The Appraiser's Package is information that can be shared with the appraiser prior to appraisal. The goal of the Appraiser's Package is to share facts that will help inform the appraiser about the subject property and contract price. In addition to the below information, additional attachments may include a copy of the sales contract, a comparative market analysis (CMA), a neighborhood market report, and listing sheets for comparable properties. Depending on the subject property, it may also help to include a recent survey, information about multiple offers, blueprints and information about any off-market sales or pocket listings.

SUBJECT PROPERTY INFORMATION

- Complete Property Address (*including County*):
- Legal Description:
- Parcel Identification Number (PIN):
- Tax Year and Real Estate Taxes:
- Neighborhood Name:
- Special Tax Assessments (*if any*):
- HOA Dues Annually or Monthly:

Note: If there are multiple parcels, make sure to include all of the details.

SUBJECT PROPERTY LISTING INFORMATION

- MLS Record #:
- List Date:
- List Price:
- Multiple Offers Received:
- Date/Amount of any price changes:

NEIGHBORHOOD AND MARKET INFORMATION

- Property Values information (*Increasing, Stable, Declining*):
- Price per sq/ft (*High, Low, Average*):
- Demand/Supply information (*Shortage, In Balance, Over Supply*):
- Marketing Time Information (*Under 3 months, 3-6 months, Over 6 months*):
- Neighborhood Boundaries (*Typically the North, South, East and West Street names that define the Subject Neighborhood*):
- Neighborhood Description: (*These vary widely but providing information that the appraiser could potentially consider could help.)*
- Market Conditions: (*This will also vary; some appraisers include a referenced addendum. Here is an example of a non-addendum, brief version: "MLS statistics and local Realtors® note an average market for homes in this area. Property values are stable due to good financing (2.50%-4.50%) and a stable employment market. Typical exposure time is between 3 and 6 months for homes in this area. Financing is readily available from a variety of sources.")*

Note: include neighborhood market analysis or other data as an attachment to support answers.

GLOSSARY

Adjustments: Modifications made by an appraiser when comparing properties to account for differences in features, location, or other factors, which require careful judgment and can introduce bias if not done properly.

Advisory Opinions: Guidance provided by the ASB to clarify how USPAP applies in specific situations or appraisal problems, though they are not legally binding.

Alternative Evaluations: Non-traditional methods of determining a property's value, such as Automated Valuation Models (AVMs), which use algorithms and data to estimate property values.

Appraisal: A professional assessment of the market value of a property, conducted by a licensed appraiser, typically used to determine loan amounts for mortgage purposes.

Appraisal Bias: Occurs when an appraiser's personal prejudices or assumptions, including racial or socioeconomic biases, affect their property valuation, resulting in unfair or inaccurate appraisals.

Appraisal Diversity Initiative (ADI): A collaborative program between the Appraisal Institute, National Urban League, Fannie Mae, and Freddie Mac, aimed at increasing diversity within the appraisal industry by recruiting and supporting individuals from underrepresented populations.

Appraisal Foundation: An organization responsible for establishing standards and qualifications for real estate appraisers in the United States. It governs the Uniform Standards of Professional Appraisal Practice (USPAP).

Appraisal Institute: A professional association that provides guidance, education, and resources for appraisers, particularly on issues such as reconciliation and how to handle challenges in limited markets.

Appraisal Management Companies (AMCs): Third-party organizations that act as intermediaries between lenders and appraisers, managing the appraisal process and distributing assignments to appraisers.

Appraisal Profession: A field focused on assessing the value of properties, including residential and commercial real estate, through various methodologies and standards.

Appraisal Qualifications Board (AQB): A body that establishes minimum education and experience requirements for real estate appraisers at the national level.

Appraisal Revision: The process where an appraiser reviews new or additional information provided through an ROV and determines whether any changes should be made to the original appraisal report, potentially revising the valuation.

Appraisal Standards Board (ASB): A board within the Appraisal Foundation that develops and maintains the USPAP, setting the ethical and performance standards appraisers must follow.

Appraisal Subcommittee (ASC): A federal body established under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) in 1989 to oversee the real estate appraisal industry, focusing on ensuring the qualifications of appraisers and appraisal management companies (AMCs).

Appraisal Undervaluation: The practice of appraising a property at a value lower than its actual market price, often disproportionately affecting homes in minority communities.

Appraiser Qualifications Board (AQB): A board within the Appraisal Foundation that establishes the minimum qualifications for appraisers, including education, experience, and examination requirements.

Associate Real Estate Trainee Appraiser: An entry-level appraiser who works under the supervision of a certified appraiser, meeting certain education and experience requirements as part of the path to becoming certified.

Automated Valuation Model (AVM): A computer-generated model that uses public records and property data to estimate a property's value, often used as a quicker and less costly alternative to a traditional appraisal.

Barriers to Entry: Challenges or obstacles that prevent individuals from entering the appraisal profession, such as stringent educational and experience requirements.

Brookings Institution: A nonprofit public policy organization based in Washington, D.C., that conducts research on various social and economic issues, including housing and wealth inequality.

Capitalization Rate: The rate of return on an investment property used in the income approach to estimate its value.

Certified Appraiser: An appraiser who has met specific education, experience, and examination requirements set by the AQB, allowing them to perform appraisals and provide certified appraisals for clients.

Certified General Appraiser: An appraiser qualified to appraise all types of properties, both residential and commercial, requiring a higher level of education and experience than other classifications.

Certified Residential Appraiser: An appraiser who has completed the necessary education and experience requirements to appraise residential properties independently.

Civil Rights Act of 1866: A federal law that guarantees equal rights under the law and prohibits racial discrimination in property transactions.

Collateral: An asset that a borrower offers to a lender as security for a loan, which can be seized if the loan is not repaid.

Collateral Assessment: An evaluation of a property used as security for a loan to determine if it supports the loan amount requested by the borrower.

Collateral Underwriting Standards: Guidelines and practices used by lenders to assess the value and risk associated with a property being used as collateral for a loan, ensuring that the property supports the mortgage amount.

Comparable Sales (Comps): Recently sold properties similar in location, size, and features to the subject property, used by appraisers to determine the market value of the property being appraised.

Competency Rule: A requirement in USPAP that appraisers must have the necessary knowledge and experience to competently complete an assignment, particularly in challenging market conditions like limited or inactive markets.

Consumer Financial Protection Bureau (CFPB): A U.S. government agency responsible for consumer protection in the financial sector, including monitoring appraisal practices to prevent discriminatory or unfair practices.

Continuing Education (CE): Ongoing training and education required for licensed professionals to maintain their credentials and stay updated on industry changes and practices.

Conventional mortgage: A type of mortgage not insured or guaranteed by the federal government, typically requiring higher credit standards and down payments.

Cost Approach: A valuation method based on the cost to acquire the land and build the property, minus depreciation. It assumes a buyer wouldn't pay more than it would cost to rebuild.

Credibility: In appraisal terms, credibility refers to the trustworthiness of the appraiser's findings, ensuring that their report is well-supported by data and sound analysis, regardless of market conditions.

Depreciation: A loss in value due to wear and tear, outdated features, or external factors like economic changes.

Desk Reviews: An appraisal review conducted by analyzing appraisal reports and supporting documents without physically inspecting the property.

Discriminatory treatment: Different treatment of individuals based on race, ethnicity, or other protected characteristics, resulting in adverse outcomes for certain groups.

Disinvestment: The process of withdrawing investment from a particular area or sector, often leading to economic decline and lack of resources in communities, particularly those historically marginalized.

Dodd-Frank Wall Street Reform and Consumer Protection Act: A comprehensive financial reform law enacted in 2010 in response to the 2008 financial crisis, which includes provisions aimed at improving the appraisal process and preventing conflicts of interest.

Energy-Efficient Housing: Homes that incorporate environmentally friendly technologies and materials, designed to reduce energy consumption, such as solar panels or enhanced insulation. These features can present challenges in traditional valuation methods.

Enforcement Actions: Corrective measures taken by regulatory bodies such as FFIEC member agencies against financial institutions that violate appraisal regulations. These actions can include fines, penalties, or other compliance measures.

Equal Credit Opportunity Act (ECOA): A federal law that prohibits discrimination by lenders in any aspect of credit transaction based on race, color, religion, national origin, sex, marital status, age, or source of income.

Equity: The value of a homeowner's interest in their property, calculated as the current market value minus any outstanding mortgage or loans.

Fair Housing Act: A federal law that prohibits discrimination in housing-related transactions based on race, color, religion, national origin, sex, disability, and familial status.

Fair Lending: The principle that lenders should offer equitable access to credit for all applicants, regardless of race, gender, or other discriminatory factors, ensuring that no discriminatory practices occur during the lending process.

Federal Deposit Insurance Corporation (FDIC): A U.S. federal agency that insures deposits and oversees financial institutions, playing a role in ensuring that those institutions adhere to proper appraisal practices.

Federal Financial Institutions Examination Council (FFIEC): An interagency body composed of representatives from multiple federal agencies (e.g., Federal Reserve, OCC, FDIC, NCUA, CFPB) responsible for issuing uniform standards and guidelines for real estate appraisals involving federally regulated financial institutions.

Federal Home Owners' Loan Corporation (HOLC): A government agency created in 1933 during the Great Depression to refinance home mortgages and prevent foreclosures. It is notorious for its role in redlining and racial discrimination in housing.

Federal Housing Administration (FHA) loans: Government-backed loans designed to help low- to moderate-income borrowers qualify for home financing with lower down payments and credit score requirements.

Federal Housing Administration (FHA): A U.S. government agency created in 1934 that provides mortgage insurance to lenders, allowing more Americans to afford homes. Historically, FHA policies contributed to housing segregation through discriminatory lending practices.

Field Reviews: An appraisal process where a certified appraiser evaluates a property on-site to verify the work of another appraiser, providing an additional layer of quality assurance.

Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA): A U.S. law passed in 1989 in response to the savings and loan crisis, establishing the ASC and setting standards for appraisers and appraisal practices.

Geographic Competency: The knowledge and understanding an appraiser has about the local market, demographics, and property characteristics in a specific area.

Gross Income Approach: A form of the income approach where the value is determined by multiplying the gross income by a specific factor.

Home Mortgage Disclosure Act (HMDA): A federal law requiring lenders to report data on mortgage applications, purchases, and denials, aimed at promoting transparency and identifying discrimination in lending practices.

Homeownership Gap: The difference in homeownership rates between different racial or ethnic groups, often used as a measure of economic inequality.

How to Series: A set of workshops created by the Illinois Department of Financial and Professional Regulation (IDFPR) to educate prospective appraisers on the requirements and process of becoming licensed.

Illinois Department of Financial and Professional Regulation (IDFPR): The regulatory body overseeing the licensure, discipline, and education of real estate appraisers in Illinois, ensuring compliance with federal and state standards.

Illinois Department of Human Rights (IDHR): The state agency responsible for enforcing the Illinois Human Rights Act. It investigates complaints of discrimination and may refer cases to the Illinois Human Rights Commission for further action.

Illinois Human Rights Commission (IHRC): The body that prosecutes complaints of discrimination in Illinois, including in real estate transactions, after investigation by the IDHR.

Illinois Human Rights Act (IHRA): A state law passed in 1979 that prohibits discrimination in various areas, including real estate transactions, based on a broader range of protected factors, such as race, sex, disability, marital status, pregnancy, and military status.

Income Approach: A valuation method that assesses the present value of future income the property will generate. Commonly used for investment properties such as apartments, office buildings, and retail spaces.

Interagency Appraisal and Evaluation Guidelines: Guidelines issued by the FFIEC to financial institutions, detailing how to conduct appraisals and evaluations, including selecting appraisers, reviewing appraisals, and maintaining independence.

Jurisdictional Exception Rule: A USPAP provision that allows parts of the standards to be overridden if they conflict with local laws or public policy.

Licensed Residential Appraiser: A level of licensure that allows appraisers to conduct residential property appraisals. Note that Illinois currently does not offer this credential.

Limited or Inactive Market: A real estate market characterized by low levels of buying and selling activity, making it difficult for appraisers to find recent comparable sales to determine the value of properties accurately.

Loan Origination: The process by which a borrower applies for a new loan, and a lender processes that application to decide whether to approve or deny it.

Market Analysis: A thorough evaluation of factors that impact a property's value, including economic conditions, land use regulations, and market trends, which is essential for appraisers to accurately assess property value.

Market Conditions: The economic factors affecting the supply and demand for properties in a particular area, which can impact property values.

Median appraisal: The middle value in a list of appraisals, which helps to understand the typical appraisal amount in a given market.

National Credit Union Administration (NCUA): An independent federal agency that regulates and supervises federal credit unions, ensuring they comply with appraisal standards for real estate transactions.

Neighborhood composition: The demographic and socioeconomic characteristics of a community, which can influence property values and appraisal outcomes.

Net Income Approach: A form of the income approach where the property's net income (income after deducting expenses) is divided by a capitalization rate to estimate the property's value.

Nondiscrimination Section (USPAP 2024): An updated section of USPAP explicitly outlining appraisers' legal obligations to avoid discrimination and comply with federal antidiscrimination laws.

Notice of Value (NOV): A formal determination of a property's value issued by the VA appraiser during the appraisal process for Veteran's Affairs (VA) loans, which influences the loan amount the VA will guarantee.

Office of the Comptroller of the Currency (OCC): A federal agency that regulates and supervises national banks and federal savings associations, including their appraisal practices.

Opinion of Value: The appraiser's estimate of a property's market value, which is based on professional judgment and analysis of available market data, rather than an exact figure.

PAREA (Practical Applications of Real Estate Appraisal): A proposed model program that allows trainees to gain practical appraisal experience through coursework rather than solely through mentorship.

PAVE (Property Appraisal and Valuation Equity) Interagency Task Force: A federal initiative launched to evaluate and address racial bias in home appraisals and develop recommendations to promote equity in the appraisal process.

Principle of Substitution: An economic theory stating that a buyer will not pay more for a property than it would cost to purchase a comparable property or construct a new one.

Property Data Collector: An individual responsible for gathering physical data about a property (such as size, condition, or amenities), which is used in the valuation process for appraisals or AVMs.

Public Records: Government-maintained documents that provide information on property ownership, sales history, property tax assessments, and other relevant details used in the valuation process.

Qualifying Education: The formal education requirements established by the AQB that appraisers must complete to qualify for licensure or certification.

Real Estate Appraiser Licensing Act of 2002: An Illinois state law regulating appraisers, allowing for complaints against an appraiser's license if they engage in discrimination as defined under the Illinois Human Rights Act.

Real Estate Trainee Appraiser: An entry-level position in the appraisal profession where individuals gain practical experience under the supervision of a certified appraiser.

Reconciliation Process: A critical appraisal step outlined in USPAP where the appraiser evaluates all available data to arrive at a final value conclusion, especially important in markets with scarce data.

Reconsiderations of Value (ROV): A formal request made by consumers or lenders to re-evaluate a property's appraisal, typically due to concerns about inaccuracies or overlooked data in the initial appraisal report.

Record Keeping Rule: A USPAP rule requiring appraisers to maintain a workfile containing the data and analysis supporting their conclusions.

Redlining: A discriminatory practice in which services (like banking, insurance, and access to housing) are withheld from residents of certain areas based on racial or ethnic composition.

Refinance Transaction: A process where a homeowner replaces their existing mortgage with a new one, typically to secure better loan terms or lower interest rates.

Sales Comparison Approach: A commonly used method in real estate appraisal where a property's value is estimated based on the sale prices of comparable properties. It is frequently used but can be limited in inactive markets.

Sales Transaction: The sale of a property where the homeowner (seller) sells their home to a buyer, resulting in a new ownership transfer.

Scope of Work Rule: A USPAP rule detailing the appraiser's responsibility to identify the problem, conduct research, and analyze necessary data for the appraisal.

Section 3-102 of the IHRA: Specifies that appraisers cannot discriminate when providing appraisals or in the terms and conditions of an appraisal based on a person's protected characteristics.

Section 3-105.1 of the IHRA: Prohibits threats, intimidation, or coercion aimed at interfering with an individual's fair housing rights in the appraisal process.

Section 6-101.5 of the IHRA: Specifically bans retaliation against individuals who raise fair housing concerns or file complaints related to housing discrimination.

Section 805 of the FHA: Prohibits discrimination in the appraisal process, ensuring appraisers do not discriminate based on protected factors when conducting or providing appraisals.

Section 818 of the FHA: Protects individuals from being coerced, intimidated, or retaliated against for asserting their fair housing rights, including in matters related to appraisals.

Staff Appraisal Reviewer (SAR): A designated individual within a lending institution who reviews appraisals to ensure they meet the required standards before loan approval.

Statistical discrimination: A form of discrimination where individuals make decisions based on stereotypes or assumptions about a group rather than on the individual's merits.

Subject Property: The property being appraised, either for a purchase or a refinance transaction.

Supervisory Appraiser: A certified appraiser responsible for mentoring and supervising a trainee appraiser, ensuring they gain the necessary experience and skills for licensure.

Survey of Consumer Finances: A triennial survey conducted by the Federal Reserve that collects data on the financial situation of U.S. households, including wealth, income, and debt, to analyze economic conditions.

Systemic Undervaluation: The consistent and institutionalized practice of assessing properties, particularly in minority communities, at lower values than similar properties in majority-white neighborhoods, leading to long-term economic harm.

Taste-based discrimination: Discrimination that occurs when individuals make choices based on personal preferences or biases rather than objective criteria.

Tate-Austin Lawsuit: A high-profile case where Paul Austin and Tenisha Tate-Austin, a Black couple, alleged racial discrimination in the appraisal of their home, which was valued significantly lower when it was evident that they were the owners.

The Appraisal Foundation (TAF): A private, non-profit organization authorized by Congress to develop qualifications for appraisers and establish appraisal standards, primarily through the Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB).

Tidewater Process: A VA-specific procedure that allows an appraiser to contact the lender before issuing a low valuation, giving the lender an opportunity to provide additional information to support a higher value.

Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA): A law that established a regulatory framework for the appraisal industry, requiring states to have regulatory agencies for appraisers and ensuring compliance with federal standards.

Underwriting criteria: The set of guidelines that lenders use to assess a borrower's creditworthiness and the risk associated with a mortgage loan.

Uniform Standards of Professional Appraisal Practice (USPAP): The generally accepted standards for professional real estate appraisals in the U.S., established by the ASB of the Appraisal Foundation. These standards govern the development, reporting, and review of appraisals to ensure impartiality and objectivity.

U.S. Department of Housing and Urban Development (HUD): The federal agency responsible for enforcing the Fair Housing Act. Individuals can file complaints with HUD if they experience housing discrimination.

Valuation: The process of determining the worth or value of a property, which can significantly impact financing and market opportunities for homeowners.

Valuation Independence: The principle that ensures appraisers and valuation providers can complete their work free from undue influence or pressure from borrowers, lenders, or other parties to ensure an unbiased assessment of property value.

Veteran's Affairs (VA) Loan: A mortgage program offered by the U.S. Department of Veterans Affairs that assists veterans, active-duty service members, and eligible surviving spouses in becoming homeowners, offering benefits such as no down payment and flexible qualification standards.

Wealth Gap: The unequal distribution of assets and income among different groups in society, often resulting in significant economic differences based on race, ethnicity, or geography.

ACRONYMS

ADI	Appraisal Diversity Initiative
AIR	Appraisal Independence Requirement
AMC	Appraisal Management Company
AO	Advisory Opinion
AQB	Appraisal Qualifications Board
ASB	Appraisal Standards Board
ASC	Appraisal Subcommittee
AVM	Automated Valuations Model
CFPB	Consumer Financial Protection Bureau
CRA	Community Reinvestment Act
DRE	Department of Real Estate
ECOA	Equal Credit Opportunity Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FRB	Federal Reserve Board
GSE	Government Sponsored Enterprise
HMDA	Home Mortgage Disclosure Act
HOLC	Home Owners' Loan Corporation
HUD	U.S. Department of Housing and Urban Development
IDFPR	Illinois Department of Financial and Professional Regulation
IDHR	Illinois Department of Human Rights
IHRA	Illinois Human Rights Commission
ILREEF	Illinois Real Estate Educational Foundation
JCAR	Joint Committee on Administrative Rules
LTV	Loan to Value
NCUA	National Credit Union Association
NMLS	Nationwide Mortgage Licensing System
NOV	Notice of Value
OCC	Office of the Comptroller of the Currency
PAREA	Practical Application of Real Estate Appraisal
PAVE	Property Appraisal Valuation Equity
QC	Quality Control
ROV	Reconsideration of Value
SAR	Staff Appraisal Reviewer
TAF	The Appraisal Foundation
TILA	Truth in Lending Act
UAD	Uniform Appraisal Dataset
USDA	U.S. Department of Agriculture
USPAP	Uniform Standards of Professional Appraisal Practice
VA	Veteran Affairs