



IDFPR

Illinois Department of Financial and Professional Regulation

Division of Real Estate

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Governor

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Secretary

LAURIE MURPHY
Director

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

Date: April 17th, 2024

Call to Order: 11:10 a.m. –Gabriela Nicolau

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

Board Member(s) Present: Adrienne Suits Bailey, Jeffery Baker, Paul D. Brown, Jamie Cumbie, Deborah Fears, Dan Hofacker, Steven Monroy, Tito Quinones, Anthony E. Simpkins, Ashia Walker, Cassandra Halm.

Board Member(s) Absent: Leader Marcus Evans, Javier Gumucio, and Ericka Johnson

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

Guest(s) Present: Chris Posey- IDFPR Appraisal Board Member, Gideon Blustien, Lutalo McGee- Chicago Association Realtors, Brian Weaver, Kevin Jackson- Chicago Rehab Network, Doug Anderson

Topic	Discussion	Action
Call to Order	With no Chair or Vice Chair Present, General counsel Gabriela Nicolau opened the meeting. (The VC arrived later)	The meeting was called to order at 11:10 am by Gabriela Nicolau
Roll Call	<p>Speaker of the House: Leader Marcus Evans- Absent</p> <p>Minority Leader of the House: Dan Hofacker- Present</p> <p>Minority Leader of the Senate: Jeffrey Baker- Present</p> <p>Director of the Department of Commerce and Economic Opportunity or Designee: Tito G. Quinones - Present</p> <p>Director of Department of Human Rights or Designee: Steven Monroy - Present</p> <p>Director of Department of Revenue or Designee: Adrienne Suits Bailey - Present</p> <p>Executive Director of the Illinois Housing Development or Designee: Javier Gumucio - Absent</p> <p>Representative of Statewide Banking Association Representing banks of all asset size: Ashia Walker - Present</p> <p>Representative of Statewide Banking Association exclusively representing banks with assets below \$20,000,000,000: Jamie Cumbie - Present</p> <p>Representative of a Statewide Association representing Credit Unions: Deborah Fears - Present</p> <p>Representative of an Agency, Organization, or Association advocating for Fair Housing: Anthony E. Simpkins - Present</p> <p>Representative of an Agency, Organization, or Association for Consumer Protection: Cassandra Halm - Present</p> <p>Representative of a Statewide Appraisal Organization: Paul D. Brown - Present</p> <p>Secretary of Department of Financial and Professional Regulation or Designee: Ericka D. Johnson- Absent</p>	Members Leader Marcus Evans, Ericka Johnson, and Javier Gumucio were absent
Approval of Minutes	Vice Chair Simpkins went over the last meeting's minutes and asked task force if they had any questions, comments or changes. VC Simpkins then said hearing none, all in favor say aye and any opposed say nay. Hearing none, minutes were adopted	Dan Hofacker motioned for the approval of minutes. Adrienne Suits Bailey made the second motion

Topic	Discussion	Action
<p>Report Drafting: Reconsideration of Value</p>	<p>Miss Nicolau told the task force that today's meeting would be going over Reconsideration of Value (ROV) and task force member Paul D. Brown would be presenting</p> <p>Mr. Brown introduced himself and said he had some documents to share with the task force.</p> <p>Mr. Brown told the task force that he would be sharing the ROV process through the lens of the appraiser. That the forms he is sharing are ones that appraisers see and fill out. Mr. Brown then shared a form from Veterans Affairs. Mr. Brown explained that most ROV's use sales comparables for homes. Even so, most forms today highlight the sale of the home</p> <p>Miss Nicolau asked if Mr. Brown could give background on ROVs.</p> <p>Mr. Brown said that a ROV is a reconsideration of value. Once an appraisal report is submitted, if a discrepancy is flagged with the appraised value vs. what the client thought the home was appraised for, a ROV can be pursued.</p> <p>Mr. Brown then went over the Veterans Affairs document and discussed the VA's guidelines. Mr. Brown pointed out how the VA form provided guidelines of the ROV process, which allows a person to submit a narrative of the shortcomings in the home and then provide a rebuttal to the information the appraiser provided.</p> <p>Mr. Brown explained that he has not seen many ROV requests but usually they happen due to square footage and measurement standards. That in a secondary market, an appraisal requires NC measuring standards which can differ significantly than what is displayed on a property record card or MLS. Mr. Brown then gave an example of a 2 story home and how the assessment standards require the square footage of a home to be calculated by 1.5 square footage.</p> <p>Miss Nicolau asked what NC standards are.</p> <p>Mr. Brown said that NC standards are how a home is to be measured because it provides consistency in the calculation of the homes VA.</p>	

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	<p>Mr. Brown said that NC standards will differ greatly in a home where there is an open foyer because an appraiser doesn't consider it a living area and it will often be included in the second floor. For NC standards to be met, the ceiling of the room must be 7 feet high and meeting these standards can change the square footage of the home. Mr. Brown then stated that GLA means gross living area. Mr. Brown then pointed out how there can be some confusion with GLA when it comes to bi level and split level homes. Even so, appraisal standards are low grade when appraising a home if the ceiling height of a room is below 7 feet high.</p> <p>VC Simpkins asked if basement apartments or duplex's count.</p> <p>Mr. Brown said he would let Chris Posey speak to that as he is an appraiser.</p> <p>Mr. Posey said that GLA is the square footage of the home above grade and below grade. Usually, a basement is treated as a second line item and is below grade. From an appraisal standpoint, basements are not included. Even so, with a bungalow, the ceiling height is not the same because the highest point in the home must measure at a minimum of 7 feet. If the highest point of the home is not 7 feet, an appraiser cannot include the footage of the attic. If a home's attic is 7 feet, at least 50% of the attic is to be 7 feet. To add to that, width also needs to be included. An attic must be both 7 feet high and 5 feet across on both sides. The appraiser would be able to include in the GLA the finished attic if these standards are met. Mr. Posey then discussed basements and how it's not uncommon for basements to be finished but certain criteria needs to be met for the basement to be considered in the square footage. That the basement must be 7 feet high or the rooms in the basement will be considered below grade.</p> <p>VC Simpkins asked if that would impact the valuation of the property.</p> <p>Mr. Posey said that it's not a yes or a no but from an appraisal standpoint, it depends. Mr. Posey went back to the attic example and said that the attic would not be considered in the square footage if it does not meet standards but would be included in the appraisal report as below grade if the rooms are finished.</p> <p>VC Simpkins asked when making adjustments, are appraisers adjusting down due when the basement and attic are not included? Are there adjustments anywhere else since the finished attic or basement rooms are not added in the value of the home?</p> <p>Mr. Posey said that the appraiser is still indicating on the report the finished areas, but they are considered below grade. Even so, market reaction would also be considered because the chances are the appraiser is looking at similar bungalows that have the same height.</p>	

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	<p>Mr. Brown asked if Mr. Posey wanted to talk about difference in location.</p> <p>Miss Nicolau asked if the task force could stick to the topic of ROV as the task force doesn't have much time.</p> <p>Mr. Brown said that that often, what is being asked for and square footage relates to below and above grades because appraisers look at sales with similar GLA, and want comparable sales around 1400 feet. Even so, to address VC Simpkins point, adjustments can impact the selection of sales. On a ROV form, the subject is the property and then is given other suggested sales comparables. The comparables may have been viewed and discarded by the appraiser and in a ROV, comparables are what is often asked for. In an ROV, the appraiser is being asked to reconsider and adjust the comparable sales.</p> <p>Miss Nicolau asked if an ROV always goes to the same appraiser or a different one.</p> <p>Mr. Brown said that an ROV always goes back to the original appraiser first, but a bank may get a new appraiser at their discretion, however the process won't be an ROV but a new assignment.</p> <p>VC Simpkins asked, from a layman's standpoint, wouldn't it be problematic for the ROV report to go back to the appraiser who did the original report because the report is going to the same person who had the bias or made the mistake? Wouldn't it be better for a third party to review?</p> <p>Mr. Brown said maybe because another appraiser would have to go out to the property and physically measure the property again, if the new appraiser doesn't want to rely on the original report.</p> <p>Jamie Cumbie then said that people have to keep in mind that when ordering a new appraiser, there is a risk of an appraisal being done with the goal of getting a higher valuation on the property .</p> <p>Mr. Brown said that for FHA, the original appraiser sticks with the property for 4 months.</p> <p>VC Simpkins discussed the cost of a second appraiser and that for Fannie Mae, it appears to be higher.</p> <p>Mr. Brown said that was something to focus on and an ROV addressing a bias issue is different from a measuring dispute. Mr. Brown thinks that if a concern with an appraiser was due to footage, then there would not be an issue with bias.</p> <p>VC Simpkins told Mr. Brown that he thinks he is right and that the task force has been tasked with looking at racial disparities. With appraisers, there are areas where there is discretion that includes adjustments between comparables, subject property and narrative which is often where bias can live.</p>	

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	<p>Mr. Posey said he would have to disagree with VC Simpkins because an appraiser's job is to be the neutral party throughout a transaction. The appraiser has to look at the market and then inspect a property. Mr. Posey then stated that he was getting heated because an appraiser selects comparables that are applicable and provides support to the client as well as not being able to say if a value comes in low. Mr. Posey said he was very disappointed and has to get off the call.</p> <p>Mr. Brown followed up and said that if the appropriate comparables are not selected, then that would be an area of concern.</p> <p>VC Simpkins asked if the task force had any questions and then apologized for Mr. Posey getting upset. He understands Mr. Posey wanting to defend an appraiser's integrity. That appraisers are in a large industry and some appraisers do come back with significant differences on their reports. The task force is meant to try and level the playing field. Mr. Simpkins then asked if Mr. Brown could talk about how the PAVE task force looked at ROV from state to state and bank to bank and found that there is no standard process.</p> <p>Mr. Brown gave full disclosure that he has not seen many ROV's due to appraisers quality of work, such as having to explain the sales comparables they chose. Also that here isn't a standardized form or process. An appraisers report goes to the lender and then underwriting. Afterwards, the report and value goes to the client and a real estate transaction is conducted by the Realtor. If there are items of concerns, it is addressed in written form and the lender decides if reconsideration goes back to the appraiser. Even so, in some cases, the lender does not review the items of concerns and will submit those concerns right to the appraiser. While some lenders will tell an appraiser that there is a particular item that needs to be addressed but not others.</p> <p>VC Simpkins stated that some lenders have a guarantee that they review the appraiser reports while other lenders don't.</p> <p>Dan Hofacker said that on the national level there are some working groups for regulations. That FHFA and the GSEs while be coming out with some expectations for the ROV process in the middle of the year and that there is a work stream that has 3 sub work stream groups. Even so, regulations require a lender to not order or obtain another appraiser and a best practice from OCC Project Reach will be available in May and is currently going through review.</p> <p>VC Simpkins said that it would be good to have a set of best practices to look at and focus on the lender process and if it's comprehensive enough or if others need to be included. VC Simpkins then asked if the process is comprehensive enough?</p>	

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	<p>Mr. Mr. Hofacker said that the process is comprehensive enough. That at the starting point, in regards to the VA, there is the Tidewater process, where before an appraisal is submitted, it can be disputed and this doesn't make it a ROV. However, this process is only available for those in the VA. That lenders, law, consumers, and appraisers can take a look at the Tidewater process. Mr. Hofacker said he has talked to various groups such as FHA and the ROV working group who have been looking at the tidewater process. That this is the year of the ROV and the task force can look at best practices for the industry.</p> <p>Even so, there is a debate on if there is a number of ROV's a consumers can ask for because OCC doesn't want lenders to engage in valuation shopping.</p> <p>VC Simpkins asked if there are any other lenders on the task force or in the meeting, when an ROV is triggered, is there a new data set from FHFA, are their red flag valuation outliers and if they affect taking a second look at appraisers.</p> <p>Mr. Hofacker said that they have taken a look at those and there is no direct link. That there were some concerns with undervaluation trends and therefore improvements and greater undervaluation alerts came out. Going back to the appraiser, the appraiser has to justify their chosen comps. Even so, the GSEs have made improvements when it comes to biased words and phrases in order to focus on the home and not the people in the home. Changing biased terms and phrases have helped to push back on the industry.</p> <p>Mr. Brown said that IDFPR's newsletter has a nice write up from Mr. Weaver on the change in terms.</p> <p>Miss Nicolau said thank you Mr. Brown and Mr. Hofacker for presenting and answering questions. Next on the agenda is open discussion.</p>	
Open Discussion	<p>Miss Nicolau asked if anyone had any questions or comments.</p> <p>VC Simpkins asked if there were any brokers in the meeting because he would like to hear their perspective.</p> <p>Lutalo McGee said that brokers have a unique history with ROV. That they have had to go through some ROVs and most feedback heard from other brokers is that they are a waste of time. That some brokers are not equipped to do ROV and the overall sentiment of ROVs is that putting them forward doesn't yield any results. Even so McGee asked a question to Mr. Brown, going to another source during an ROV, might create problems with the GLA? Are there any solutions or alternative methods?</p> <p>Mr. Brown said that was a great question. Most ROVs are disputing facts such as the size and features of the house. The only way to address those facts is to have some other source verify those facts and</p>	

Topic	Discussion	Action
	<p>not the homeowner. When it comes to comparable selections, another appraiser, based on facts, can look at a home and say what are the most appropriate comparable sales. Mr. Brown asked if that answered Mr. McGee's question.</p> <p>Mr. McGee said that it did answer his question and that he has a follow up. Would it be possible for a third party to be trained to go into homes to be the fact gather and report those facts to the appraiser?</p> <p>Mr. Brown said that it would not be the best practice because appraisers are signing their name to a report and saying that the information in the report is right without verifying the data themselves. Mr. Brown said that as an appraiser, he would want to measure and look at the home himself before signing his name to a report because he would be responsible for the data in the report.</p> <p>Mr. McGee thanked Mr. Brown for his answers.</p> <p>Miss Nicolau stated that the task force was moving on to public comments.</p>	
Public Comments	<p>Miss Nicolau asked if there were any public comments</p> <p>Doug Anderson introduced himself as an appraiser and said that the industry teaches people to measure houses for square footage, but it can be hard for some appraisers to grasp how to do that. That there is not much mentoring that happens in the appraisal industry and that's an issue. Another difficult thing for appraisers is the comparable selection and using the right sales comparables. That using sales comparables is a difficult task and usually appraisers leave the industry due to that reason.</p>	
New Business	<p>Miss Nicolau asked if anyone had any public comments before moving on to new business</p> <p>When no one spoke up, VC Simpkins asked if it was known what topic would be discussed at the next meeting? Miss Nicolau said that a professor would be coming to speak with the task force. Tia Davis said that Professor Peter would be at the task force meeting on May 15th.</p> <p>Miss Nicolau then informed the task force that the June meeting would be on the 26th instead of the 19th due to a holiday.</p> <p>VC Simpkins asked if admin would take care of posting that date change? Miss Nicolau said yes and if there was no further business, adjournment.</p>	

Topic	Discussion	Action
Adjournment	The next meeting is scheduled for May 15th, 2024.	There being no further business to discuss, motion made by Dan Hofacker and seconded by Tito Quinones at 12:08pm. Motion carried unanimously