



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: June 26th, 2024

Call to Order: 11:04 a.m. –Ericka Johnson

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

Board Member(s) Present: Jeffery Baker, Paul D. Brown, Deborah Fears, Javier Gumucio, Dan Hofacker, Steven Monroy, Tito Quinones, Anthony E. Simpkins, Ashia Walker, Cassandra Halm and Ericka Johnson.

Board Member(s) Absent: Leader Marcus Evans, Adrienne Suits Bailey, and Jamie Cumbie

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

Guest(s) Present: Cassandra Sneed- Chicago Housing Trust, Falon Young- Chicago Housing Authority, Jim Blaydes, Sofia Papoutsis, Scott DiBiasio, Brian Weaver, Daniele Stanly- NHS Chicago

Topic	Discussion	Action
Call to Order	With no Chair or Vice Chair Present, Deputy Secretary Ericka Johnson opened the meeting. (The VC arrived later)	The meeting was called to order at 11:04 am by Ericka Johnson
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 - Absent</p> <p>Executive Director of the Illinois Housing Development or Designee: Javier Gumucio - Present</p> <p>Representative of Statewide Banking Association Representing banks of all asset size: Ashia Walker - Present</p> <p>Representative of Statewide Banking Association exclusively representing banks with assets below \$20,000,000,000: Jamie Cumbie - Absent</p> <p>Representative of a Statewide Association representing Credit Unions: Deborah Fears - Present</p> <p>Representative of an Agency, Organization, or Association advocating for Fair Housing: Anthony E. Simpkins - Present</p> <p>Representative of an Agency, Organization, or Association for Consumer Protection: Cassandra Halm - Present</p> <p>Representative of a Statewide Appraisal Organization: Paul D. Brown - Present</p> <p>Secretary of Department of Financial and Professional Regulation or Designee: Ericka D. Johnson- Present</p>	Members Leader Marcus Evans, Adrienne Suits Bailey and Jamie Cumbie
Approval of Minutes	Ericka Johnson went over last meeting's minutes and asked the task force if they had any questions, comments or changes. Miss Johnson also reminded everyone that Dr. Rosenblatt's presentation was attached to the minutes. Hearing none, minutes were adopted.	Dan Hofacker motioned for the approval of minutes. Paul D. Brown made the second motion

Topic	Discussion	Action
<p>Report Drafting: Discussion and Presentation</p>	<p>Miss Johnson introduced the presenter for the day, Dr. Luis Lopez. Miss Johnson asked Dr. Lopez to introduce himself</p> <p>Dr. Lopez said good morning and thanked everyone for their time then shared his screen with the presentation 'Talk on Appraisal Racial Bias'.</p> <p>Miss Johnson told the task force that it was discussed as a group that disparities in communities at the borrower level and getting loans needed to be included in the report due to the GA. Therefore, it was agreed different studies that address that topic needed to be included in the presentations and that Dr. Lopez will share the research he conducted.</p> <p>Dr. Lopez introduced himself and said that he is an assistant professor at the University of Illinois Chicago and has a PH.D. in business Administration from the Pennsylvania State University. Dr. Lopez shared some of his peer reviewed research that has been published on topics of paycheck protection and discrimination. Dr. Lopez then informed the task force that he will be presenting his research, in collaboration with others, on appraisal and racial bias. Dr. Lopez informed the group that the research he would be presenting today, 'Do Appraiser and Borrower Race Affect Mortgage Collateral Valuation?', is currently undergoing peer-review. and has been discussed with institutions such as Zillow, Freddie Mac and others. Dr. Lopez went on to say that he has work history as a broker and currently works with HUD.</p> <p>Dr. Lopez started his presentation by asking 'Why Focus on Appraisals?'. That appraisals are important tot he home buying process and helps people know what the worth/value of the property and in default, lets the lender know how much they will be able to recover. Even so, 1930's saw the arrival of the modern mortgage industry and the standardization of using race to determine the appreciation of a property. This practice became forbidden by the Fair Housing act of 1968, the Equal Credit Opportunity Act of 1974 and the Community Reinvestment Act of 1977.</p> <p>However, the media continues to report racial bias in appraisals. Dr. Lopez mentioned how in 2020, a Florida couple was trying to refinance their home. The couple got two appraisals and one came in 40% lower then the other. As more people shared their stories on appraisals, people started talking more about the discrepancies between appraisals.</p> <p>Dr. Lopez goes on to discuss why this matters. That Black and Hispanic families have been shown to have less wealth when compared to White families. That there are disparities in income and education between the groups, as well as documented evidence of disparities in the home buyer process. For example, the same home shown to a Black family and White family, will have higher rates for the Black family, then the white.</p>	

Topic	Discussion	Action
	<p>Dr. Lopez goes on to discuss how fees for getting a loan are higher for Blacks when compared to Whites. This has been seen in appraisals, which is a concern. Even so, to help address this issue, the White House put together the Property Appraisal and Valuation Equity (PAVE) task force, with policy recommendations. Dr. Lopez pointed out how it's important for policy to relate back and look at research when making recommendations for policies, even though the research is limited with conflicting results. Dr. Lopez informed the group that he added some studies that people can go and look at that discuss bias and discrimination in the real estate process.</p> <p>Dr. Lopez then discusses how appraisal racial bias has many definitions, such as, (1) difference in equivalent homes in white and black neighborhoods, (2) the racial gap in difference of sales price and appraisals, and (3) racial gap in difference of appraisal and value.</p> <p>When it comes to difference in equivalent homes of white and black neighborhoods, there was a study done by Perry et al. (2018) that compared similar homes in White and Black neighborhoods. The researchers found that homes in Black neighborhoods were 22%-23% undervalued when compared to the White neighborhood. Then, in Howell and Korver-Gleen (2021) study looked at the increasing effect of neighborhood racial composition on housing values from 1980 through 2015. The researchers found neighborhood racial composition determining a home value is greater in 2015 than it was in the 1980's. Therefore, these two studies show that there is evidence of racial disparities in valuations but does not prove discrimination from appraisals.</p> <p>Dr. Lopez goes on to mention how Freddie Mac looked at differences between AVM values and Sales Prices. That Freddie Mac looked at market transactions for properties being purchased and the differences between sales price and appraisals. Dr. Lopez pointed out how if an appraisal comes in below the purchase price, it can cause the house transaction to derail and in some cases make the deal fall through. Even so, Freddie Mac found that in white neighborhoods, 7.4% of appraisals came in below the contract price while in Black/Hispanic neighborhoods, 12.5%-15.4% of homes were appraised below contract value. However, there was only a 2%-3% difference in the contract price and appraisal when the ethnicity of the appraisal was counted for. Overall though, Freddie Mac's study does not establish racial appraisal bias and remains unclear on if there is discrimination towards the home-buyer or seller.</p> <p>Dr. Lopez then discussed Fannie Mae's study, where they looked at the difference between AVM values and appraised value with a focus on mortgage refinances. By focusing on mortgage refinances, the homeowner and buyer are the same. The study found that Black homes are 1000% below property value estimates when compared to White homes. This shows that there is a larger racial bias in Black neighborhoods than in White ones and that White neighborhoods get premium estimates.</p>	

Topic	Discussion	Action
	<p>Even so, Fannie Mae's study had some challenges. Dr. Lopez pointed out how those shortcomings were that the study does not account for who is doing the appraisal and the AVM Fannie Mae uses could be biased itself because it does not include everything that an appraiser looks at when valuating a home.</p> <p>Then, Marshall Jean and Gideon Blustein did a study called Color and Collateral for the IL Realtors, where they looked at appraisal outcomes inferred from the Home Mortgage Disclosure Act (HMDA) from 2007-2020 and collateral rates. It was found that collateral rates were higher for Blacks when compared to other races and that has remained consistent over the last 17 years. This then shows, that there is a greater need for transparency and housing data to be available.</p> <p>Miss Johnson said that she had a question. That so far, major studies that have been done, are saying that there are some flaws to much of the research? For example, Brookens study stated that a lot of the data was self-reported through a survey. Miss Johnson asked what ACS means.</p> <p>Dr. Lopez said that ACS means American Community Survey and the biggest obstacle with research is getting the necessary data when looking at a sensitive topic. That right now, a lot of data shows a home's square footage and number of bed rooms but there is a lot more to a home than those two variables. Even so, HMDA used information on a home's mortgage but not on the quality of the property which leads to obstacles in answering the simple question of "Does the Race of the borrower matter?". Even so, in the Brookens study, it showed that the best way to access property values is through studies. But, the question remains, when additional factors are considered in a home's valuation, will the same disparities be seen as they are now because homes will always have some value. Then, the information in the HMDA study is not conclusive, therefore the authors call for greater transparency and availability of housing appraisal data. So, Dr. Lopez wants to replicate what Jean and Blustein are doing in their study in order to build on the researchers' approaches to better understand housing appraisal's.</p> <p>Miss Johnson said thank you to Dr. Lopez and that the information was helpful.</p> <p>Dr. Lopez asked if there were any additional questions</p> <p>Mr. Brown asked how HMDA data was being used? That in refinancing, the appraiser meets with the homeowner and knows the person's race and with the borrower, the purchase model is used. Therefore, how is the data being used with the appraiser not knowing the race of the seller or the buyer.</p> <p>Dr. Lopez told Mr. Brown that his point was a critique with the Freddie Mac study. That there is a lack of information and multiple individual properties could also be vacant. That the focus in his study is on refinanced homes because a property is occupied and an appraiser is more likely to interact with a homeowner and learn that person's race.</p> <p>Dr. Lopez moved on in his presentation and said that in his research, there are two main questions. (1) Are minority-owned homes valued</p>	

Topic	Discussion	Action
	<p>differently than similar White-owned homes by the same appraiser? Dr. Lopez said answered the question and said that yes, minority owned homes are valued differently with a .6-.41 discount seen in Black owned homes. (2) Does the appraiser race matter? Dr. Lopez said that no, the appraiser race does not matter and racial biases is not a white only problem. That racial biases is not going to go away easily and diversity is not going to solve the problem. Therefore, more needs to be done.</p> <p>Dr. Lopez then discussed the data used in his study. That information on mortgages from 2000-2007 using a data set from New Century which was one of the largest sub-prime lenders before GFC. New Century liquidated and sold their data set to Pen State which represented 61,000 individuals. The appraisers in this data set worked for multiple lenders, not just one and therefore, the information can be generalized. Even so, sub-prime loans were targeted to minority home borrowers and gave access to credit for people of color during 2000. In the Fannie Mae and Freddie Mac studies, only confirming loans were looked at. Even so, there was data on refinance and purchase but they focused on refinance applications.</p> <p>Even so, Dr. Lopez said that the valuation metrics used in his study was appraised value over benchmark value, appraised value over automated valuation model (AVM), and finally appraised value over V(over/under value of minority owned homes). Even so, the AVM estimate is something that is still being used today by Black Knight. However, due to concerns for bias in the AVM, Dr. Lopez study used their own valuation metric to get likely statics for sale of a property.</p> <p>Dr. Lopez discussed how minorities have slightly lower appraised value over AVM. His research looked at the effect of race while factoring in where the property is located, market conditions and the loan. Dr. Lopez study also took into consideration of who appraised the property. It was found that in a refinance loan, Black owners received \$1,344 lower then White Owners.</p> <p>Jim Blaydes asked if it was right to assume bias as the variation between the same house and appraiser is 5-8% difference?</p> <p>Dr. Lopez said that looking at the differences, there is some doubt that it is racially driven which is why his study accounted for the appraiser race. Even so, when estimates pick up value, it comes from a difference in the portfolio of their appraiser.</p> <p>Vice Chair Anthony Simpkins said that he is getting confused and lost. That the Macro data shoes that there is a trend and that the trend is racial. When the trend is moved to appraisers, its a smaller trend but has the same racial trajectory. That Dr. Lopez said that his research was making accommodations for location and it seems to VC Simpkins that location is the key because the trend that is majorly seen in minority neighborhoods is the undervaluation of homes. Even so, the larger trend is based on racial compensation in neighborhoods while at the individual level, if the appraiser is racist then the appraisal will be racist.</p>	

Topic	Discussion	Action
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Topic	Discussion	Action
	<p>accuracy for Blacks. This showed two inferences, (1) race algorithm is likely working, (2) that there is not a big difference in racial compresention over time.</p> <p>When it comes to Appraiser Race, it doesnt matter because in Dr. Lopez research, they did not see any systematic differances. The price gaps do not lessen when the appraiser and borrower share the same race.</p> <p>Gabriela Nicolau said that appraisers tend to use other appraisers work and the data being used is sililar to other reports. Therefore, is that why race wouldn't matter?</p> <p>Dr. Lopez said that he would ask an appraiser that is in the task force meeting. How often do they see another appraisers report?</p> <p>Mr. Weaver said that people will offer and appraisal on a home from 3 to 4 years ago. However, mortgage work has their rules that have to be followed and appraisers have to ignore older reports because they are out of date. Then there are the differnces between homes, farms and commerical. So the data would need to seperate appraisers who do homes and those who do other properties.</p> <p>Jim Blaydes said that he rarely sees prior appraisals and that in the appraiser world, they try not to rely on other's work. Appraisers want to make sure theya re relying on what they have seen themselves and any data that is avaiable to them that they did not see themselves, would be dated. That appraisers can look at other appraisals in order to look at the differences in the properties appraisal and built in variances. Appraisers will tehn take tese variations and look at difference in value. Even so, appraisers are not accused of being bias if the value of the home exceeds the contract price.</p> <p>Dr. Lopez said that he will look at the appraoch Mr. Blaydes discussed in his next set of analysis with his reasearch. Even so, a look inside the data showed that their is a 65% rate of disparities between minorities and Whites. That research shoews that there is a disruption with some appraisers consistently overvaluing minority homes while some consistenly undervalue the home for a varity of reasons and randomness. When it came to Black owned homes, there were undervalused at 4%. This shows that there is a systematic racial bias. However, enforcement is where it becomes challenging.</p> <p>Mr. Brown asked if the GSC data gave Dr. Lopez access to the range. That Fannie Mae and Freddie Mac requirie appraisars to indicate a number of value with a range of comparables. Does Dr. Lopez data provide a look into that.</p> <p>Dr. Lopez</p>	

Topic	Discussion	Action
Progress of Report Drafting		
Open Discussion		
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>	
	<p>The next meeting is scheduled for July 17th, 2024.</p>	<p>There being no further business to discuss, motion made by Dan Hofacker and seconded by Paul D. Brown at 12:28pm. Motion carried unanimously</p>