# Addressing the Persistent Misvaluation and Undervaluation of Property Owned by Minorities

**Submitted by the Task Force on**

**Property Appraisal and Valuation Equity**

November 20, 2024

# Executive Summary

## The Challenge: Systemic Bias in the Valuation of Residential Properties

Throughout the nation's history, structures and systems of racial bias and inequities have long contributed to the widening wealth gap for Black and other minority families. Distrust in the homeownership system, including the residential property appraisal process, is ever present.

## Our Approach: Task Force Solutions for Valuation Equity

In response to these challenges, the Maryland General Assembly passed legislation creating the Task Force on Property Appraisal and Valuation Equity. Over nine months, the Task Force developed and analyzed comprehensive solutions to ensure fair property valuation practices across the state.

The recommendations detailed in this report are intended to address the following:

- help ensure that governmental oversight and industry standards and practices further valuation equity;
- increase training of appraisers to combat valuation bias;
- remove barriers to entry into the appraisal profession by minorities;
- consider ways to assist in the development of a model for a meaningful reconsideration of value process;
- reduce or eliminate bias related to automated valuation models and alternative property valuation methods; and
- identify legislative or other policy recommendations to reduce bias in valuations, through enforcement, compliance, or other methods.

## Conclusion

The Task Force's work offers a comprehensive path to moving towards greater equity in property valuations throughout Maryland. Implementing these recommendations will not only correct long-standing systemic inequities, but also create a more equitable system, ensuring that minority-owned properties are fairly valued.

# Background

As mandated by the passage of HB1097 during the 2022 legislative session, the Maryland Department of Housing and Community Development established the Task Force on Property Appraisal and Valuation Equity (referred hereafter as the "Task Force") in October 2023.

The Task Force was charged to address the persistent misvaluation and undervaluation of property owned by minorities.

The Task Force met monthly from October 2023 until June 2024, with a final meeting on November 19, 2024.

The Task Force studied strategies and actions related to the following:

- help ensure that governmental oversight and industry standards and practices further valuation equity;
- increase training of appraisers to combat valuation bias;
- remove barriers to entry into the appraisal profession by minorities;
- consider ways to assist in the development of a model for a meaningful reconsideration of value process;
- reduce or eliminate bias related to automated valuation models and alternative property valuation methods; and
- identify legislative or other policy recommendations to reduce bias in valuations, through enforcement, compliance, or other methods.

The Task Force established five subcommittees, each focused on one of the first five items listed above. Each subcommittee was tasked with identifying legislative or other policy recommendations related to its respective focus.

This document serves as the Task Force's report on findings and recommendations to address the persistent misvaluation and undervaluation of residential property in Maryland owned by minorities.

This report was submitted to the Governor, and in accordance with § 2–1257 of the State Government Article, the General Assembly, on November 20, 2024.

Authorization for the Task Force ends December 31, 2024 (Chapter 654, Acts of 2022; Chapter 301, Acts of 2024).

# Task Force Members

| Description | Name | Organization | Position |
|---|---|---|---|
| The Secretary of Housing and Community Development, or the Secretary's designee | Greg Hare | Department of Housing and Community Development | Assistant Secretary, Community Development Administration |
| The Secretary of Labor, or the Secretary's designee | Todd Blackistone | Department of Labor | Executive Director for the Commission of Real Estate Appraisers, Appraisal Management Companies, and Home Inspectors |
| The Director of Assessments and Taxation | Michael Higgs | State Department of Assessments and Taxation | Director |
| Representative of the Consumer Protection Division of the Office of the Attorney General | Karen Valentine | Office of the Attorney General | Principal Counsel, Consumer Protection Division, Home Builders Registration Unit |
| Representative from the field of alternative dispute resolution | Arnold Sampson, Jr. | Self-Employed | Certified Dispute Mediator/Arbitrator |
| Representative of an association of appraisers | Barry Colen | Colen & Associates | Owner |

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| Representative of an association of appraisers | Dominic Corson | Corson Residential Appraisers | Owner |
| Representative from the banking industry | Ramon Looby | MD Bankers Association | President and CEO |
| Representative from the banking industry | John Lewis | Harbor Bank | President and CEO |
| Maryland Association of Counties (MACo) Representative | Mike Detmer | Dorchester County Council | Vice President |
| MD Building Industry Association (MBIA) Representative | Lori Graf | MD Building Industry Association | CEO |
| Maryland Municipal League (MML) Representative | Angelica Bailey Thupari | Maryland Municipal League | Director of Government Affairs |
| Maryland Association of Realtors (MAR) Representative | Wanda Rogers | Realty Transaction Services, LLC | Realtor |
| General Public Representative | Rashawn Ray | University of Maryland | Professor of Sociology |
| General Public Representative | Arden Lyles | Retired | Retired |
| General Public Representative | Melanie Gamble | Maryland Realtors | Executive Committee Member |

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|---|---|---|---|
| General Public Representative | Jacqulyn Priestly | Oak Hill Strategies | Principal |
| General Public Representative | Bree Jones | Parity | Founder and CEO |
| General Public Representative | Claudia Wilson Randall | Community Development Network of MD | Executive Director |
| General Public Representative | Vernada Williams | EXIT First Realty | Broker/Owner |
| General Public Representative | Michael Cassell | MD Chapter of National Society of Appraisers | Former President |

# Governmental Oversight and Industry Standards and Practices

**Task Force Directive:** “Help ensure that governmental oversight and industry standards and practices further valuation equity.”

## Overview

For many homebuyers and homeowners in Maryland and across the country, homeownership presents a place to live and a pathway for building generational wealth. Conversely, many minority homebuyers start on a path to homeownership with a lack of trust in the system based on past experiences and current obstacles rooted in years of systemic equity.

In this section, the Task Force offers recommendations to develop a framework that establishes four processes to help mitigate appraisal bias, as well as address the impetus for their creation and post-implementation outcomes to advance valuation equity.

## Recommendations Summary

Recommended approaches include the following:

1. Implement a procedure for reconsideration of value similar to the Tidewater Initiative, developed by the U.S. Department of Veterans Affairs;
2. Require a third-party review process in coordination with the state licensing board;
3. Require timely reporting on sales of new construction through the Multiple Listing Service (MLS) or a comparable mechanism;
4. Require appraisers to consider both the sale comparison (market) approach and the cost approach in the final consideration of value; and
5. Require notification to homeowners of rights to present researched value data.

## Recommendations

### 1. Reconsideration of Value (ROV)

Since 2003, the U.S. Department of Veterans Affairs (VA) appraisal procedure has included a two-step process, known as the Tidewater Initiative,[1] to qualify homebuyers in instances where a residential property appraisal is lower than the agreed-upon sales price. This unique set of protocols used by the VA was initially tested in the early 2000s and was last updated in 2017.

The Initiative was designed to allow lenders or other invested parties to submit relevant data before an appraisal is complete to ensure the appraised value is accurate and market-reflective. In the event that the appraised value appears to be lower than the agreed-upon price for the subject property, the appraiser is required to contact the requester of the appraisal for additional information.[2]

**The Task Force recommends the implementation of a similar reconsideration of value mechanism across the state of Maryland.** Further, it recommends the state develop, modify, create, and change necessary processes and systems to:

1. **Implement a Request for Determination of Reasonable Value form.** In addition to the appraiser information, the forms and system should capture Point of Contact (POC) information (realtor, loan officer/originator, etc.) per transaction.
2. **Require appraisers to contact the POC for additional information to support the subject property's value** and enter notes into a shared system (to be determined) as verification that the reconsideration process has been initiated.
3. **Within five (5) days of the appraiser's request, require the POC to provide additional information** in a specified format on closed or pending sales with contract addendums attached, including any additional information on the similarities or differences between the subject property and the sale or pending sales.
4. After the appraiser receives the additional information, they must **complete the report indicating the appraisal was completed** using the state's "Reconsideration" process.

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[1] (No date) VA Tidewater and reconsideration of value for low VA appraisals. Available at: https://www.veteransunited.com/realestate/how-to-challenge-a-low-va-appraisal-value-the-reconsideration-of-value/ (Accessed: 01 March 2024).

[2] Circular 26-17-18 - veterans benefits administration - va.gov (2017) Circular 26-17-18 Veterans Benefits Administration. Available at: https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_17_18.pdf (Accessed: 01 March 2024).

The Task Force believes the reconsideration process will require all of a transaction's POCs to collaborate with an appraiser to resolve an issue of undervaluing a property before an appraisal process is completed. The Committee views this process as building checks and balances to mitigate discrepancies in anticipated valuations.

*Note:* Fannie Mae (FNMA) and Freddie Mac (FMCC) have created an ROV process beginning in August 2024. The State is working with them in implementing this process in Maryland.

### 2. Requirements for Reporting Sales of New Construction

A critical component to ensuring the reconsideration of the value process is viable is a requirement that builders and developers of all newly constructed residential properties enter "comps" (comparable sales) into a publicly accessible system, such as the Multiple Listings Service (MLS), within 30 days following the closing of escrow following MLS rules and regulations for reporting sales.[3]

The Task Force believes that timely reporting of new construction sales will increase transparency in sales prices and help provide sufficient comps in neighborhoods that would otherwise have insufficient sales data to determine an appropriate opinion of value.

### 3. Third-Party Review Process

The Task Force recommends the state implement a third-party review process to afford homebuyers, homeowners, realtors, financial institutions, and other interested parties a pathway to appeal the appraised value of the subject property in the event the information provided to the appraiser through the "reconsideration" process does not result in an increase in value that meets or exceeds the agreed upon sales price or value for the purposes of determining home equity.[2]

Specifically, the Task Force recommends the state designate a neutral, third-party entity, such as the Maryland Department of Labor's Division of Occupational and Professional Licensing, Department of Assessments and Taxation or another state department, to create a business unit with at least one licensed appraiser responsible for preparing, reviewing, reporting, submitting, and adjusting completed residential appraisals when necessary.

The licensed appraiser reviewer should be required to complete an assessment of the initial appraisal's timeliness and completeness, including adjustments or reasons for not making adjustments during the reconsideration process. If the reviewer

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[3] *Knowledge community*. Available at: https://support.mlslistings.com/s/article/Rules-Regs-10-Reporting-Status-Changes-and-Other-Information-to-the-MLS (Accessed: 01 March 2024).

agrees with the market conclusions, they must document their determination on the appraisal certification.

However, if any parts of the appraisal are unclear, the reviewer may contact the appraiser via written correspondence for additional information or an explanation within ten (10) calendar days.[4] If the appraiser's response fails to resolve the reviewer's concerns, the reviewer will draft a correspondence challenging the conclusions from the appraisal and suggest an alternate appraised value.

All correspondences drafted for this purpose must:

1. Be signed by either the division director, assistant secretary, deputy secretary, secretary, or designee;
2. Clearly state the reasons the appraised value is being challenged;
3. List the appraiser's options; and
4. Provide a firm deadline for the appraiser to respond.[4]

Even if the appraisal reviewer does not agree with every detail of the appraisal report, they may substantiate the appraisal if the reviewer concludes that the market facts reasonably support the suggested appraised value presented in the appraisal.[4] If the reviewer concludes that the explanation or revised appraisal report findings are still inconsistent or are otherwise unacceptable, the reviewer must inform the appraiser that the appraisal must be redone and resubmitted. The reviewer may also modify or amend the report in any manner supported under the Maryland Code, Business Occupations and Professions Article, § 16-5B-11.[5]

## 4. Sales Comparison and Cost Approach Appraisal Requirements

The Task Force also recommends that appraisals completed for newly constructed properties with a cost to build equivalent to approximately $250,000 (adjusted periodically as determined by the state) or more must consider both the cost approach and sales comparison as an indication of value.[6]

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[4] Chapter Nine Rent Comparability Studies - HUD (2016) Rent Comparability Studies. Available at: https://www.hud.gov/sites/documents/Chapter_Nine_2-20-16.pdf (Accessed: 01 March 2024).

[5] *2015 Maryland code: Business occupations and professions: Title 16 - Real Estate appraisers, appraisal management companies, and home inspectors. :: Subtitle 5B - real estate appraisal management companies :: § 16-5B-11 - compliance with appraisal independence and impartiality standards* (no date) *Justia Law*. Available at: https://law.justia.com/codes/maryland/2015/article-gbo/title-16/subtitle-5b/section-16-5b-11 (Accessed: 01 March 2024).

[6] *The three approaches to value*. Available at: https://pickensassessor.org/wp-content/uploads/sites/26/2018/07/Appraisal-Process.pdf (Accessed: 01 March 2024).

### 5. Notify Homeowners of Rights to Present Researched Value Data

The Task Force recommends requiring appraisers or appraisal management companies, upon scheduling appraisals, to notify homeowners of their right to present researched value data prior to, during or after an appraisal takes place. Such data can include comparable sales, cost approach information. As such, it is the recommendation of the Task Force that all residential appraisers licensed within the state of Maryland have training on this homeowner right.

### 6. Require Valuation Acceptance Vendors to Provide a Written Statement

The Task Force recommends the State of Maryland to require valuation acceptance vendors who waive an appraisal report , such as Fannie Mae and Freddie Mac, to provide a written statement to the lender and homeowner (as noted below) that they have considered all of the non-discrimination areas discussed in USPAP in order to provide a non-biased valuation.

## Summary

The Task Force understands the state's unique position and is aware that the Financial Institutions Reform Recovery and Enforcement Act has given the Appraisal Foundation’s tremendous authority over approximately 80,000 appraisers nationwide as well as state licensing boards which are required to implement the Foundation's standards. Therefore, it is critical that the state address the rule-making processes and guidelines set forth to make meaningful changes to industry standards.

The Task Force believes including the recommendations for the reconsideration of value processes to help build routes to homeownership and its use as a tool to increase generational wealth, recommendations to implement third-party review processes to combat appraisal bias that serves as barriers to wealth for many Maryland families and communities, and practical reporting requirements and methodologies for appraising newly constructed residential properties across the state will advance the work to shorten the appraisal gap and its impact on all Marylanders.

# Reconsideration of Value Process

**Task Force Directive:** "Assist in the Development of a Model for a Meaningful Reconsideration of Value Process."

## Overview

A key tool in the effort to correctly value real estate lies in the Reconsideration of Value (ROV) process. This section outlines current policies, ROV proposals, and challenges, as well as goals and recommendations.

Recommendations include the following:

1. Further adoption of the Tidewater Initiative;
2. Create standards for ROV; and
3. Provide borrowers with a list of rights.

### Current Reconsideration of Value Policies for Home Purchases

The following are current ROV policies in place for home purchases:

- **U.S. Department of Veterans Affairs – Tidewater Initiative:** The Tidewater Initiative is a process of ROV used by the U.S. Department of Veterans Affairs (VA) for loans they issue to individuals for home purchases. During the appraisal process, if the appraiser finds the estimated home value will likely not be at or above the contract price, the appraiser notifies the lender of the discrepancy. The lender then additionally notifies the other parties involved in the transaction, including the buyers and agents. The parties then have 48 hours to respond with any information about the subject property as well as additional comparable sales. The lender will provide the new information to the appraiser for reconsideration.
- **Federal Housing Administration (FHA):** In a FHA loan, reconsideration of value occurs after the appraisal is submitted.
- **Conventional Loans:** Reconsideration of value occurs after the appraisal is submitted. Each lender has its own policies and procedures on how to resolve grievances brought forth by the borrower. Some lenders have a screening process while others depend on Desktop Underwriter to address any possible red flags. If the appraisal is found to be deficient, a second appraisal, at the lender's expense, will be ordered.

- **Refinancing and Home Equity Lines of Credit (HELOC):** The current policies for refinancing and Home Equity Lines of Credit (HELOC) are the same as the FHA and Conventional protocol. ROV occurs after the appraisal is delivered.

### Current Proposals for Reconsideration of Value

Governmental agencies, appraisal organizations, the Appraisal Foundation and the National Association of Realtors have been seeking solutions to the inconsistencies of ROV in the lending industry. On September 19, 2023, they issued a combined letter to the Comptroller of the Currency, FDIC, Federal Reserve, National Credit Union Administration, and the Consumer Financial Protection Bureau, encouraging the adoption of the Tidewater Initiative for lending transactions where the home's value may be lower than the contract price for HUD and conventional loans. They discouraged the Tidewater Initiative style process for refinancing and HELOC.

Additionally, appraisal organizations are encouraging stakeholders to develop a uniform process and potential form appraisers and lenders can use to address an ROV.

### Challenges with Reconsideration of Value for Refinancing and HELOC

The process is more difficult for homeowners looking to refinance or apply for a home equity line of credit (HELOC). Due to HVCC (Home Valuation Code of Conduct) AND Dodd-Frank federal laws established after the financial crisis of 2008, there are appraiser independence considerations. A lender can no longer reveal the loan amount or the owner's estimate of value to the appraiser. This is considered to be undue influence on the appraiser by the lender preventing the appraiser from performing an unbiased review.

The Ethics Provision of the Uniform Standards of Professional Appraisal Practice (USPAP) prohibits an appraiser from performing an appraisal with a predetermined value established by the client.

Every real estate appraisal now contains the following statement:

> *"My engagement in this assignment was not contingent upon developing or reporting predetermined results."*

Further, Advisory Opinion #11 of USPAP states:

> "An appraiser must not agree to perform an assignment, or have a compensation arrangement for an assignment, that is contingent on any of the following:

1. the reporting of a predetermined result (e.g. opinion of value);
2. a direction in assignment results that favors the cause of the client;
3. the amount of a value opinion
4. the attainment of a stipulated result (e.g., that the loan closes or taxes are reduced); or
5. the occurrence of a subsequent event directly related to the appraiser's opinion and specific to the assignment's purpose."

Statement #18 of Certification and Limiting Conditions, required to be in every appraisal, states:

> *"My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application)."*

In addition, Fannie Mae (FNMA) has its own Appraiser Independence Requirements (AIR).

**Appraiser Independence Requirements**

Appraiser Independence Requirements (AIR) set forth standards to safeguard the independence, objectivity, and impartiality of appraisers and other Independent Parties throughout the valuation process for one to four unit residential properties. For purposes of these Appraiser Independence Requirements, the term "Independent Party" refers to the appraiser, appraisal company, appraisal management company, any entity or person related to the appraiser, appraisal company, or appraisal management company, or any other party that is part of the appraisal process. Compliance with the following Appraiser Independence Requirements is the responsibility of the Seller:

1. An appraiser must be, at a minimum, licensed or certified by the State in which the property to be appraised is located.
2. No person is allowed to influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or any other manner including, but not limited to:
    a. Withholding or threatening to withhold timely full or partial payment to an Independent Party;

b. Withholding or threatening to withhold future business from, or demoting or terminating or threatening to demote or terminate an Independent Party;
c. Expressly or impliedly promising future business, promotions, or increased compensation to an Independent Party;
d. Conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached by, or on a preliminary value estimate requested from, an Independent Party;
e. Requesting from or providing to an Independent Party comparable sales prior to engaging the Independent Party to perform an appraisal assignment;
f. Requesting from or providing to an Independent Party an anticipated, estimated, encouraged, or desired value or value range for a property except that a copy of the sales contract for purchase transactions may be provided to an Independent Party that has been engaged to complete an appraisal assignment;
g. Providing to an Independent Party a proposed or targeted loan amount except that a copy of the sales contract for purchase transactions may be provided to an Independent Party that has been engaged to complete an appraisal assignment;
h. Providing stock or other financial or non-financial benefits to an Independent Party, or any entity or person related to the Independent Party;
i. Establishing a list of approved Independent Parties or adding an Independent Party to an exclusionary list of disapproved Independent Parties designated to perform appraisal assignments for a specific Loan Originator, loan officer, or Mortgage Broker;
j. Permitting Loan Originators, loan officers, or Mortgage Brokers to select from a list of Independent Parties;
k. Directing an Independent Party to perform an appraisal assignment using a specific scope of work that is contrary to what the Independent Party has determined is necessary to produce credible results; or
l. Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality, or violates compliance with any law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).[7]

[7] *Fannie Mae Appraiser Independence Requirements.* Available at: https://singlefamily.fanniemae.com/originating-underwriting/appraiser-and-property-data-collector-independence-requirements

### Goals For Reconsideration of Value

Ultimately, the Task Force has identified the following goals for ROV:

1. The ROV process should have a screening process by the lender for bias or any deficiencies in the appraisal.
2. The borrower needs to have a reliable process for addressing grievances with the appraisal.
3. The borrower needs to be aware of their rights under Fair Housing and other federal and state laws.
4. The appraiser should have a uniform standard for responding to ROVs

## Recommendations

1. **Further Adoption of the Tidewater Initiative**

   The Task Force encourages the adoption of the Tidewater Initiative for FHA and Conventional loans for home sales.

2. **Create Standards for ROV**

   The Task Force encourages stakeholders to the lending and appraisal process to create a standard for ROV with sales contract transactions and refinancing/HELOC.

   Additionally, the Task Force encourages the federal government to adopt standards for ROV for refinancing whereby the borrower has an opportunity to make their case based on information omitted in the original appraisal.

   It is further recommended that the federal government adopt uniform standards and universal ROV form for appraisers to use in response to any ROV request by the lender and borrower.

3. **Provide Borrowers with List of Rights**

   The Task Force encourages the federal government to provide a document at the time of loan application with a list of borrower's rights as it relates to the appraisal process. The document should refer to Fair Credit laws already in existence, especially relating to the borrower having a right to receive a copy of the appraisal.

   Moreover, the borrower should be made aware that they may be able to interact with the appraiser and that they may be able to provide information to the appraiser regarding the real estate such as features, improvements and upgrades as well as any comparable sales data they believe should be considered. If the borrower-selected comparable sales are not used in the appraisal report, the appraiser should provide an explanation as to why they were not used.

The borrower, if finding the appraisal to be deficient in factual accuracy as well as comparable sale selection, also has the right to appeal to the lender for a reconsideration of value.

# Removing Barriers to Entry

**Task Force Directive:** “Provide Recommendation to Help Remove Barriers to Entry into the Appraisal Profession by Minorities.”

## Overview

At present, the real estate appraisal profession lacks racial and gender diversity and representation. Current data reveals roughly 68% of real estate appraisers are males and 77% are caucasian.[8] In this section, the Task Force provides a review and recommendations to improve equity within the entry pathway to the profession for other genders and persons of color.

Recommendations include the following:

1. Support of Practical Applications of Real Estate Appraisal (PAREA);
2. Eliminate the college degree requirement;
3. Explore grant funding opportunities; and
4. Improve data tracking.

### Current Entry Pathways to the Real Estate Appraisal Profession

The Financial Institutions Relief and Recovery Act of 1989 (FIRREA) established the process for entry into the real estate appraisal profession. It replaced the previous apprentice system with a new supervisory system.

To be licensed as a real estate appraiser, current, law requires:

1. a minimum of 150-300 hours of appraisal course work depending on level of appraiser license;
2. a minimum of 1,000 of appraisal experience to be reviewed and signed by a supervisory appraiser (mid- and upper-level appraiser license/certifications require 1500 and 3000 experience hours respectively); and
3. successful passing of the established national examination for the profession.

[8] 2023 U.S. Valuation Profession Fact Sheet. Available at: https://www.appraisalinstitute.org/the-appraisal-profession/what-is-an-appraiser-pdf-library/2023-valuation-profession-fact-sheet

### Strengths of the Current Entry Pathway

The current supervisory system for training and entering the real estate profession nurtures a trainee appraiser as they experience new and often challenging assignments. It also provides a strong support system for a new appraiser.

### Challenges with the Current Entry Pathway

While there is strength in the current system, it also presents some significant challenges to individuals wanting to enter the profession.

- **Cost of Education:** The supervisorial system requires the completion of150 to 300 hours of appraisal course work. This costs thousands of dollars to the individual entering the profession
- **Finding a supervisor:** After gaining the necessary educational requirements, the trainee is then required to find a supervisor who is willing to train them as a new appraiser. The overwhelming majority of appraisers are sole proprietors and have no employees. They have no financial incentive to spend the time and effort to train individuals looking to enter the profession. When real estate listings are high, appraisers do not have time available to train new appraisers. When the market and listings are low, appraisers are faced with a shortage of work. In this scenario, they are hesitant to train new appraisers who could potentially become future competition for work.This makes it difficult for the trainee to gain the 1,000 hours of experience required before they are able to take the national exam.
- **Lack of Awareness:** While all real estate purchases require an appraisal, few are aware of the real estate appraisal profession. Most of those who are aware of the profession are already involved in the real estate business in some capacity or have a friend or family member who is an appraiser.

## Recommendations

1. **Leverage the Practical Applications of Real Estate Appraisal (PAREA) Program**

   As an alternative to the traditional supervisor/trainee model, the State of Maryland has recently adopted the Practical Applications of Real Estate Appraisal (PAREA) program for aspiring real estate appraisers. As supervising appraisers have become difficult to find, PAREA provides another pathway for aspiring appraisers to fulfill their experience requirements by taking advantage of innovative technology.

PAREA is designed to offer practical experience in a virtual environment combining appraisal theory and methodology in real-world simulations. It involves a self-paced, mostly online course, with computer simulations that offer remote mentors for assistance.

The Appraiser Qualifications Board created PAREA as an alternative to the traditional supervisor/trainee model for gaining appraisal experience. To meet the experience requirements for the Licensed Residential and the Certified Residential credential level, a participant can now choose between PAREA or the supervisor/trainee model.

The first PAREA program is being sponsored by the Appraisal Institute. Other private real estate education vendors will soon be entering the PAREA market. This will be a slow process, however, as startup costs are not financially feasible for smaller vendors. It has cost the Appraisal Institute several million dollars to develop the PAREA program. Moreover, the current system, as it is just starting, has a limited capacity of approximately 600 trainees per year.

**2. Eliminate the College Degree Requirement**

In recent years, the Appraisal Foundation has reduced or eliminated the college degree requirement for trainee and licensed appraisers. However, it is still a requirement for certified general appraisers. The State of Maryland has eliminated the college degree requirement for all levels of appraiser licensure with the exception of the highest level, Certified General Appraiser. Licensed and Certified Residential Appraisers no longer require a college degree in Maryland. The Task Force recommends that the college degree requirement be removed for all levels of appraiser licensure.

**3. Offer Grant Funding**

The appraisal industry is waiting to hear from the Appraisal Subcommittee regarding grants that may be available to help pay the cost of the PAREA course. Professional organizations such as the Appraisal Institute and American Society of Appraisers also have grant money for interested minority appraisers. The Task Force recommends that the State of Maryland issue grant funds or otherwise assist with the costs associated with PAREA to members of underrepresented groups.

**4. Improve Data Tracking**

No licensing body in the Maryland Department of Labor (DLLR) currently tracks race or gender of members of the appraisal profession. As such, it is difficult to determine the gender and racial diversity within the profession and the impact of actions taken to increase diversity. It is recommended to update procedures to consistently track this data.

# Appraiser Training

**Task Force Directive:** "Provide Recommendation to Increase Training of Appraisers to Combat Valuation Bias."

## Overview

As explained in the previous section, proper training as well as a lack of racial diversity among real estate appraisers hinders the overall accuracy of real estate appraisals. This section provides an overview of past and present training processes as well as future goals and recommendations to overcome this challenge.

Recommendations include:

1. Additions to the Valuation Bias and Fair Housing Laws course;
2. Notification of homeowners regarding their rights to present researched value data;
3. Requirement of valuation acceptance vendors to provide a written statement; and
4. Promotion and support of the PAREA program.

### Past Training

Uniform Standards of Professional Appraisal Practice (USPAP) was developed with the express purpose of promoting and maintaining a high level of public trust in professional appraisal practice. The development of uniform standards enhanced the role of the appraiser in society and reinforced the appraiser's obligations to act in a manner that promotes public trust and confidence in appraisal services.

Rules in place cover ethics, record keeping, competency, scope of work and jurisdictional exception rule.

There are ten standards and related rules with the most pertinent three to appraisal being real property development, reporting and review of the same.

### Present Training

USPAP has been updated to include changes to the ethics rule, nondiscrimination section and review of the rule. The nondiscrimination rule has been included in the Ethics Rule. A major prohibition states that when completing a residential real property assignment an appraiser must not develop and/or report an opinion of value in whole or in part on perceived race, ethnicity, color, religion, national origin, sex, sexual orientation, gender, gender identity, gender expression, marital status, familial status, age receipt of public assistance income, or disability of any person(s).

The section now spells out the Fair Housing Act (FHA), the Equal Credit Opportunity Act (ECOA), the Civil Rights Act of 1866, and any other applicable state or local antidiscrimination law. This section requires compliance with these laws (appraiser must have knowledge of related laws and regulations and complete assignment with full compliance) and also sets a baseline for ethical conduct regardless of whether antidiscrimination laws and regulations apply. These rules are intended to promote fairness in valuation with an eye towards minimizing any potential bias that may or may not be present.

### Future Training

A course has been developed that includes valuation bias and fair housing laws. Presently, the course is four hours long. In 2025 it will be expanded into a more thorough seven-hour course to combat valuation bias. It will include additional related bias training to increase cultural sensitivity.

### PAREA and Appraiser Training

As mentioned earlier in this report, there are two pathways to obtain the necessary training to become a real estate appraiser: traditional coursework followed by supervision and training from a licensed real estate appraiser, and the online PAREA course. The PAREA course removes the barrier presented by the lack of willing and available supervisors, but can be cost-prohibitive at $4,425 per student.

## Recommendations

1. **Make Additions to the Valuation Bias and Fair Housing Laws Course**

   The Task Force recommends the State of Maryland, in the to-be-developed 7-hour valuation bias and fair housing laws course, (2025), specifically include:

   - a requirement for cultural sensitivity training;
   - updated USPAP non-discrimination laws; and
   - heightened awareness of bias-related issues (including understanding of conscious and unconscious bias roles in human interactions). USPAP training is required every two years.

2. **Train Appraisers on Homeowners' Rights to Present Researched Value Data:**

   As recommended under the Government Oversight section of this report, the Task Force recommends appraisers or appraisal management companies, upon scheduling appraisals, to notify homeowners of their right to present researched value data prior to, during or after an appraisal takes place. As such, it is the recommendation of the Task Force that all residential appraisers licensed within the state of Maryland have training on this homeowner right.

3. **Train Appraisers on Valuation Acceptance Vendors Written Statement Requirement**

   As recommended under the government oversight section of this report, the Task Force recommends the State of Maryland require valuation acceptance vendors (who waive an appraisal report) – such as Fannie Mae and Freddie Mac – to provide a written statement to the lender and homeowner certifying that they have considered all of the non-discrimination areas discussed in USPAP in order to provide a non-biased valuation. As such, it is the recommendation of the Task Force that all residential appraisers licensed within the state of Maryland have training on this proposed requirement.

   *Note:* Any valuation product must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.

4. **Provide Funding for Populations to Access the PAREA Program**

   To create a pipeline of more racially diverse appraisers, the Task Force additionally requests the state to provide funding to cover the cost of PAREA training for populations currently under-represented in the appraisal industry. This can take place through grants awarded to individuals as well as partnerships with Maryland public colleges and universities. Additionally, the Task Force Recommends the creation of an awareness campaign to promote PAREA as a pathway to complete training without needing a supervisor or apprenticeship.

# Reducing or Eliminating Bias in Automated Valuation Models and Alternative Property Valuation Methods

**Task Force Directive:** Provide Recommendations to Help Reduce or Eliminate Bias Related to Automated Valuation Models and Alternative Property Valuation Methods

## Overview

Automated valuation methods have the potential to be a significant asset to the real estate appraisal industry. That said, if the foundation is flawed, computers can also present biased results.

### Recommendations Summary

This section provides an overview of automated and alternative property valuation methods as well as recommendations to improve transparency and accuracy.

Recommendations include the following:

- Improve Data Transparency
- Increase Documentation Requirements
- Require A Feedback Loop that Includes Appraisers

**Automated Valuation:** Automated Valuation Modeling is a process that utilizes computer software to predict property prices by analyzing a variety of factors including location, property size, historical sales data, property features, and economic conditions. These algorithmic models use linear regression analysis, which is a statistical model that estimates the relationship between a single number from a vector or matrix.

The benefit to automated valuation modeling is that it offers a single-point answer and can detail trending. However, it is flawed in that it uses the same singular approach and assumes that all relationships are linear and have similar monetary and variable considerations.

Appraisals can use up to three approaches to value that are governed by human-based critical thinking. Many available trending analysis tools are available in the current appraisal valuation analysis reporting.

**Alternative Property Valuation:** Alternative Property Valuation methods have a primary emphasis on value acceptance (waiver of an appraisal) by accepting an automated valuation model value, hybrid model, desktop appraisal, and a traditional appraisal.

**Multiple Listing Service (MLS):** The real estate industry developed the Multiple Listing Service (MLS) as a way to utilize technology to make real estate transactions more efficient.[9] The MLS is the underlying system used to power real estate listings throughout the United States. This data is used to identify comparable properties in generating real estate appraisals.

**Fannie Mae and Freddie Mac:** Fannie Mae (FNMA) and Freddie Mac (FMCC) were designed to maintain liquidity for government backed loans from the Federal Housing Administration (FHA) and the VA (Veterans Administration). As mentioned earlier in this report, they have created their own ROV and AIR processes, the former of which was recently launched in August 2024 and is presently being rolled out in Maryland.

To provide context, below is a brief history of Fannie Mae and Freddie Mac and their historical use of automated and alternative property valuation methods:

- 1954 – FNMA converted to a mixed-ownership corporation (public and private ownership).
- 1968 – FNMA was allowed to become a private corporation.
- 1970 – FNMA began buying mortgages.
- 1980s – Mortgages were bundled and FNMA began issuing mortgage-backed securities. With investors involved, FNMA gained more liquidity and purchased additional government-backed and conventional mortgages.
- 2008 – In the Financial Meltdown of 2008, FNMA bundled 16.5 million loans that did not require traditional appraisal documentation and experienced a market loss of $2.5 trillion Dollars. As a result, Fannie Mae and Freddie Mac were placed in a government conservatorship under the Federal Housing and Finance Association (FHFA) as a guardrail, with the other guardrail being the real estate appraiser.

## Investigation and Discovery

As part of its directive, the Task Force contacted Fannie Mae, Freddie Mac, the VA, and the State of Maryland Assessor's office in the interest of gathering information around the consideration of the lender interface and the role that MLS data plays a

[9] Multiple Listing Service (MLS): What Is It. Available at: https://www.nar.realtor/mls-online-listings/multiple-listing-service-mls-what-is-it (Accessed: 29 August 2024).

role in the automated valuation process. Fannie Mae did not respond to requests for information.

In the course of this investigation, the Task Force discovered two risk analysis products were being used to evaluate the appraisal reports:

- **Collateral Underwriter (CU) used by FNMA:** Issues flags and messages to signal heightened risk of overvaluation, undervaluation, appraisal quality, property eligibility and compliance issues).
- **VeroScore used by the VA:** "An automated appraisal-scoring tool that provides intelligent and virtually instantaneous analysis of appraisal reports and their associated risk. VeroSCORE includes validations that leverage public record data, appraiser licensing data, Appraisal Subcommittee data, and data from HUD.gov. The results are delivered in a detailed report that organizes this wealth of information in a user-friendly format."[10]

Documentation for both products expressly states that this information is not to be shared with appraisers. An executive from the State Assessor's office indicated that they participated in an active feedback loop that included the lenders, FNMA, and MLS that did not include the appraisers.

Further, FNMA indicated that their use of these models is proprietary, and they "do not have to share any of their parameters with anyone." The self-managed and self-appointed waiver process is not a paper driven process. FNMA indicated they do not have to produce an appraisal report-like document. As a result, the end-user (homeowner) is unable to discern what the end-resultant is 'assigned value'.

- **Automated Valuation Model Use or Value Acceptance (Appraisal Waiver):** Fannie Mae and Freddie Mac have been utilizing multiple automated valuation models (machine valuation) and accessing the 50+ million property appraiser's property valuations (out of 83.6 million total current loans in the US residential real estate market). Prior to the Covid pandemic, they waived appraisals on up to 49% of refinanced loans.

  Presently, they are waiving 16% to 17% of appraisals in addition to using a machine model. As FNMA and FMCC do not perform traditional appraisals, the process is secretive and no public access is available to add input to the valuation waiver process.

[10] VeroSCORE Appraisal Review. Available at: https://www.veros.com/solutions/collateral-risk-management/veroscore (Accessed 29 August 2024.)

## Recommendations

1. **Improve Data Transparency:** The Task Force recommends that parametric data should be released to the public if an Automated Valuation Model is used to justify a valuation waiver in the State of Maryland.

2. **Increase Documentation Requirements:** In the event of an appraisal waiver, the Task Force recommends the State of Maryland require it to be followed by written, detailed documentation with a fixed value.

3. **Require A Feedback Loop that Includes Appraisers:** As evidence points to the exclusion of the licensed and state certified appraiser, the Task Force recommends defining appraisal regulations to require a feedback loop that includes the appraiser. Further, the feedback loop should always include access to the risk analysis information (CU and VeroScore et al.).