



# Restorative Competitive Value

A Potential Solution  
to  
Systemic Appraisal Bias

**Northern California Chapter  
2023 Spring Conference**

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# Abstract

As the national economy gradually rebounded from the 2008/2009 Great Financial Crisis, neighborhoods did not recover uniformly. Many residents living in struggling neighborhoods already simmering from decades of disparate outcomes wanted to see progress in their lives. As the recovery gained steam after 2016, this frustration boiled into the open, and gained prominence in public consciousness.

Appraisals are a key factor in finance and highly visible to borrowers, whether residential or commercial. A home is a core measure of personal security and success. Its value strikes close to the sense of well-being.

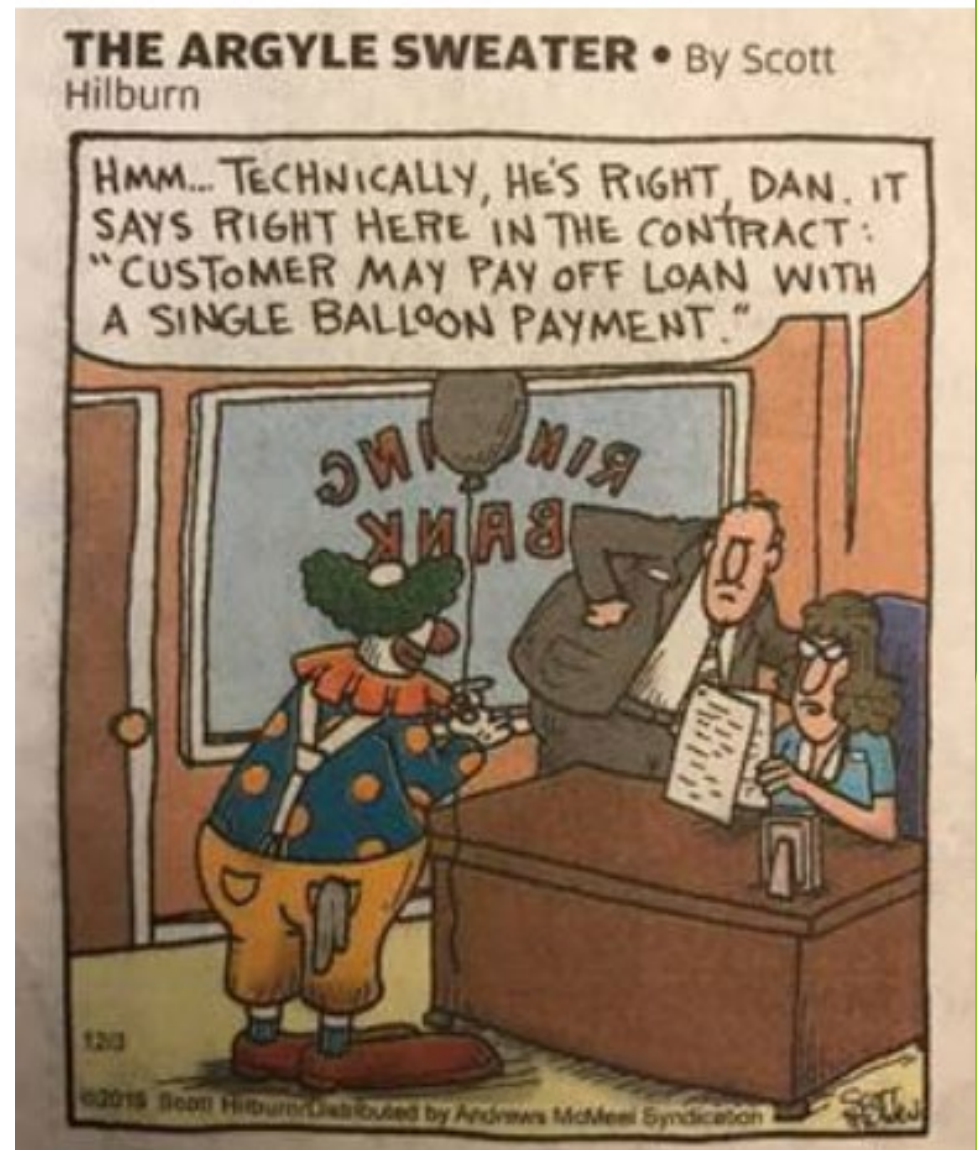
One widely publicized consumer frustration is with appraising for purchases and refinance. There have been widely publicized "gaps" between appraised values and sales prices, or appraised values versus consumer refinance expectations.

Recently published data from the FHFA and Freddie Mac underscores that a persistent disparity exists, but doesn't directly point a finger. We are now in a deep confidence crisis for residential appraisers, many of whom vigorously debate whether bias even exists or refute how widespread it may be.

Numerous solutions have been proposed to address these issues, and almost all dethrone the appraisal performed by a professional. The seminar author assisted With Action LLC in a grant-winning award from the Brookings-Ashoka Collaborative Innovation Challenge - one of 10 winners out of a field of 54 proposals.

The best known feature of the With Action proposal is the concept of "Restorative Competitive Value," which is a technique to augment the traditional appraisal process done for most home finance.

# How We Got to Now - The Industrialized Home Finance System



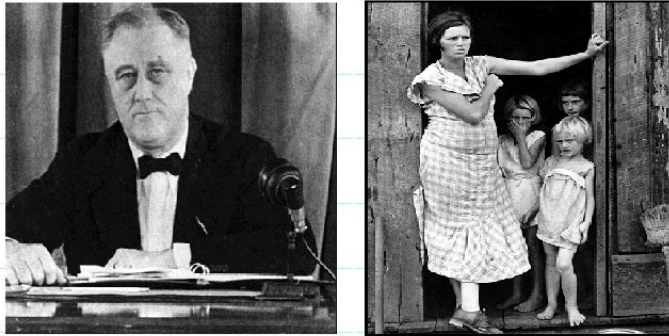
# How We Got to Now - Always Evolving

- ▶ **America Pre 1900 - Banking systems began in earnest in 1780s**
  - ▶ Expand as the nation expanded. National currency post -Civil War remained varied regionally
  - ▶ Extremely migratory population, despite the popular cultural idea of settled populations.
  - ▶ Alexis de Tocqueville in 1835 - “An American will build a house and sell it before the roof is on.”
- ▶ **Early 20<sup>th</sup> C**
  - ▶ 40%-50% down was common
  - ▶ Interest only, often variable,
  - ▶ Renegotiations every than 10 years.
  - ▶ Homeowners had to renegotiate loans regularly at loan renewals



# The Great Depression

## THE NEW DEAL



## Relief

*for those suffering*

- ▶ New home construction declined 95% (in the GFC of 2008 it was only 75%)
- ▶ Home values declined 50%.
- ▶ Chain reaction liquidity crisis
  - ▶ Runs on the Banks and Savings & Loans.

- ▶ Bank liquidity crisis hits the homeowners at loan renewals
  - ▶ “We need our money back.”
  - ▶ Massive foreclosures = up to 25% of all housing and one-third of all banks.

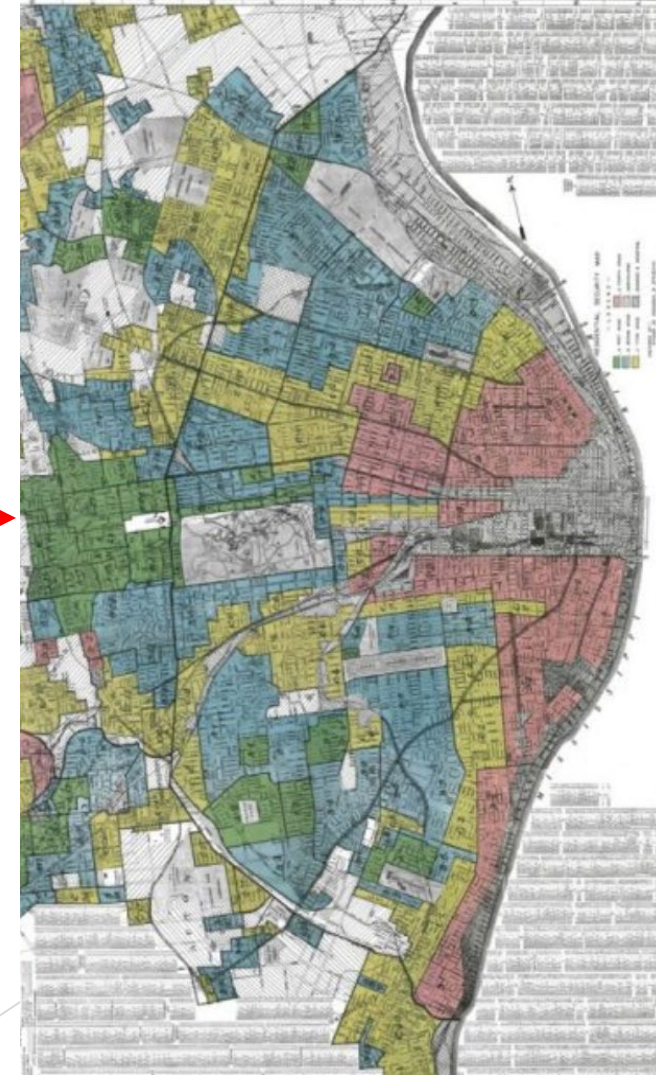




# New Ideas in Housing Finance



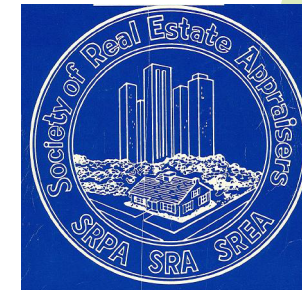
- ▶ National Housing Act 1934 & Home-Owners Loan Corporation
  - ▶ Institutionalize & Standardized the amortizing mortgage
  - ▶ Affected one million loans.
  - ▶ Also created security maps - the origins of discriminatory lending -- **redlining**.
- ▶ FHA -- created 1934 -- counteracts mortgage crisis  
Insures mortgages, 95% LTVs, creates the amortizing loan, loan commitments & developer approvals.
- ▶ FNMA -- inception 1938 -- creates a marketplace to buy FHA debt.



# Professionals Respond



- ▶ Systematized demand for real estate appraisals.
  - ▶ American Institute of Real Estate Appraisers
  - ▶ American Society of Appraisers
  - ▶ Society of Real Estate Appraisers





# Setting the Stage for Modernism

- ▶ The Collapse & Demand Pressure
  - ▶ Minimal new homes 1930 to 1946.  
95% decline new housing production.  
Few new homes or suburbs.
  - ▶ Meanwhile, population increased  $\pm 15\%$   
(123million to  $\pm 141$ million)  
Lots of new families, lots of children = lots of NEED.
  - ▶ Where do they go?
  - ▶ Existing housing = wearing out & overcrowded.



# Model Homes for the Millions

- ▶ 1930 - Better Homes for America -  
7000 chapters of builders, banks, manufacturers
- ▶ Lobbies for government aid to homebuilders
- ▶ War mobilization -  
policy shift away from public worker housing



# Post War - Industrial Housing Production

- ▶ Housing Boom & Model Homes for the Millions -
  - ▶ Extreme housing shortage for expanded & expected population boom.
  - ▶ Industrial scaling learned from WW2 manufacturers.
  - ▶ 9 million moved to suburbs by 1954 (Forbes). Despite vacant land in cities, the scattered sites did not suit mass production's need for efficiency.
- ▶ Lending decisions
  - ▶ Local lenders with intimate knowledge of local conditions and housing quality.
  - ▶ The weekend loan committee.  
And let's not forget the SRAs!
- ▶ Homeownership soars from 44% to 64% by 1980.



# The Man with the Plan

- ▶ Gregory Opelka, MAI SREA SRA - Appraisal Committee #17-PRA
- ▶ “The Green Hornet” - US League of Savings & Loan Associations
- ▶ First nationalized form for residential appraisals
- ▶ He also assisted with the URAR
- ▶ Helped a new securitized system from the 1960s .... and beyond.



# Appraisers & Industrialized Finance

- ▶ New Urban Ideal - millions of homogenous homes.
- ▶ Appraisers as the data collectors and commenters.
- ▶ Providing the values to underpin LTV.
- ▶ Rapid form-filled consistency. A blessing?





# Storm Clouds -1970s

- ▶ The Great Inflation - beginning late 1960s
  - ▶ Mismatch in savings & loan Interest rate - funds begin drying up
  - ▶ Stagflation in the 1970s
- ▶ Double Whammy -
  - ▶ 50-mile lending limit
  - ▶ Regulation Q's limits on interest rates
- ▶ Securitization
  - ▶ Fannie, Freddie & Ginnie - providing liquidity



# Storm Clouds -1980s



- ▶ New Ideas in “Securitization”
  - ▶ Salomon Brothers & Lewis Ranieri - from mail room to Vice-Chair
  - ▶ Creates the “private label MBS”
- ▶ Created competitors to Fannie, Freddie & Ginnie -
  - ▶ Suddenly they aren’t the only game in town
- ▶ Created reliance on bond rating agencies
- ▶ Opened a flood of new money sources into finance

# Storm Clouds - 1990s



- ▶ The 1990s - Engineered Finance
  - ▶ Bond ratings & tranches - vast liquidity from international sources
- ▶ The Loss of Seasoned Local Knowledge & Judgment
  - ▶ Underwriting becomes less local and more national / international
  - ▶ **The people with the money know little about borrowers / collateral**

**For appraisers ...  
URAR & Computer-Aided Mass Production Appraising**

# Fast Forward to the 21<sup>st</sup> Century

## The Need to Feel Economic Progress

- ▶ Real wages (post inflation adj) are flat since the 1980s
- ▶ How can people buy the new things? (always costing more and more)
- ▶ Feeding the need.
  - ▶ Borrow the prosperity
  - ▶ “Safe as Houses” = “Houses as Bank Accounts”

## The Result - Stagnation & Debt

- ▶ Not Suburbia - SUB-PRIMIA
- ▶ Ever diminishing risk controls
- ▶ Mortgage Fraud

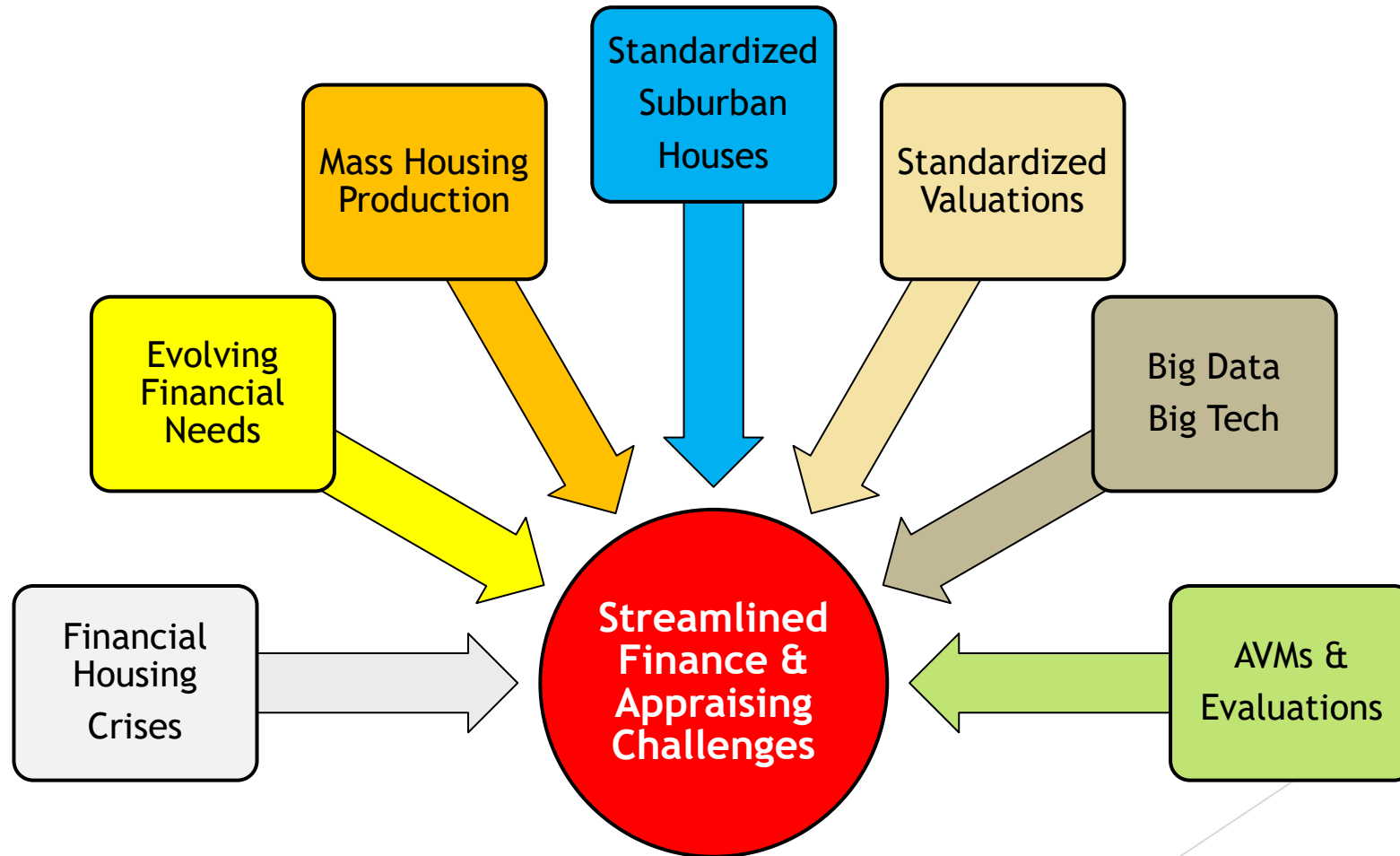


# Streamlined Industrial Finance - The “Now” We Got To....

- ▶ Rise of the AMC ... and their power to control appraisers
- ▶ Stagnation of Residential Certifications/Licenses
- ▶ Data Aggregation -- UAD and UCDP -
- ▶ Automation, Machine Learning, AVMs
- ▶ Uneven housing wealth creation in communities - Black Communities
- ▶ Complaints of Appraisal Bias - “White Washing”
- ▶ Federal & State Regulatory Response
- ▶ **“VALUE ACCEPTANCE” replaces APPRAISAL WAIVER**



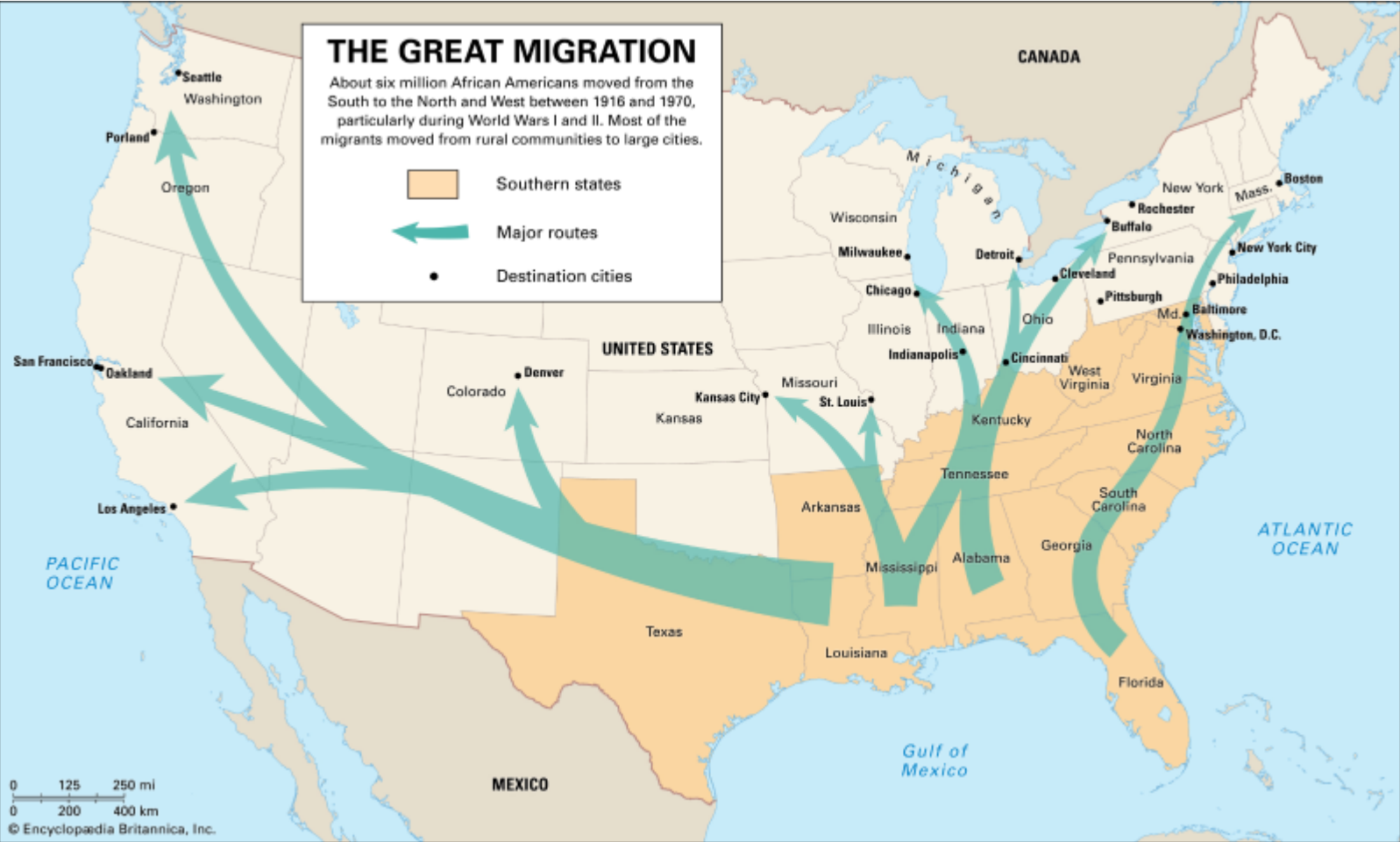
# Summary - Evolution from Crises & Shocks & Pressure



# **SETTING THE STAGE**

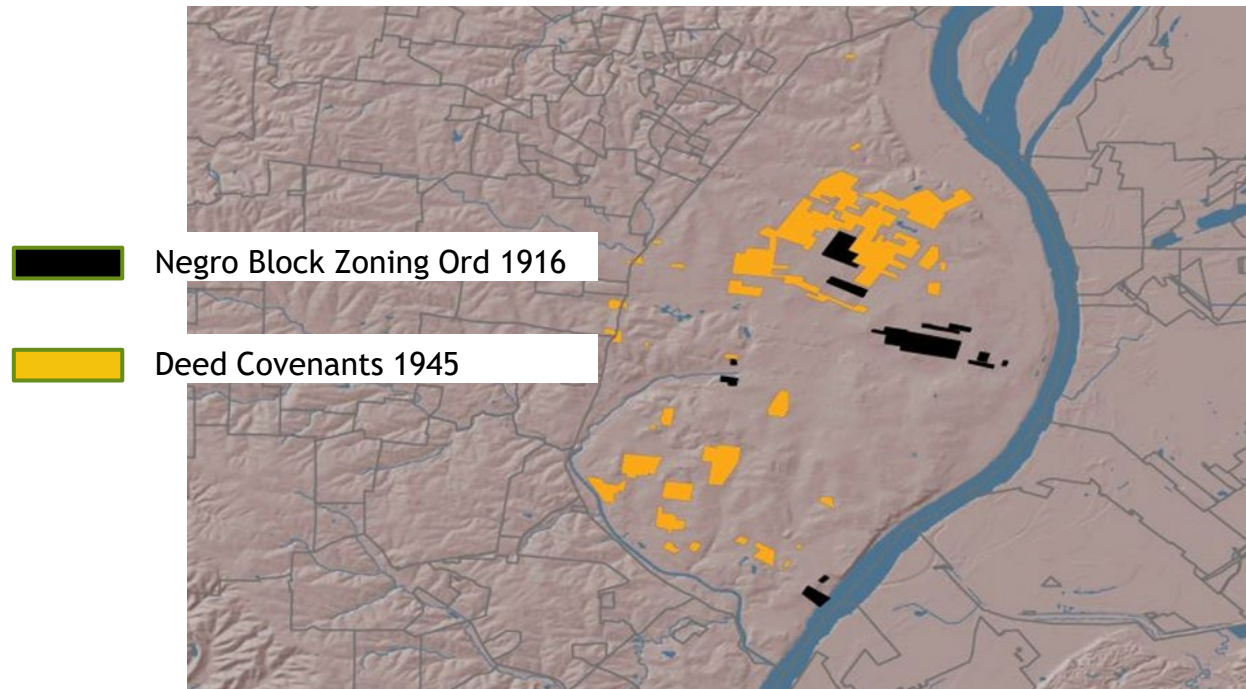
## People Yearning to Breathe Free

# 6 Million Person Migration 1910-1970



# Structural Bias & Un-Fair Housing - a Tangled & Disgraceful Legacy

- ▶ Real estate deed covenants excluding ownership/rent by race
- ▶ Concentrated the poor into over-crowded districts
- ▶ Federal policies excluded middle class minorities



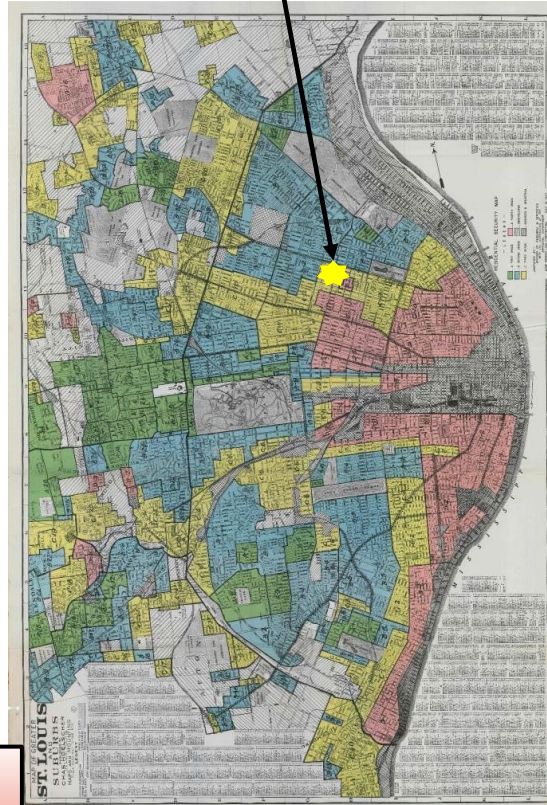


# Restricting Finance by Race & Ethnicity

## Shelly House & Redlining



Shelly House



Across the Street from Shelly House - now gone

Chain reaction when the money leaves

- ▶ Buyers can't buy, sellers can't sell
- ▶ Collapse of activity
- ▶ Collapse of prices
- ▶ Collapse of maintenance
- ▶ Collapse of tax base
- ▶ Collapse of services & schools
- ▶ Buyer-avoidance becomes ingrained
- ▶ Once vibrant markets atrophy
- ▶ The tide has gone out = stranded
- ▶ Collapse of Community

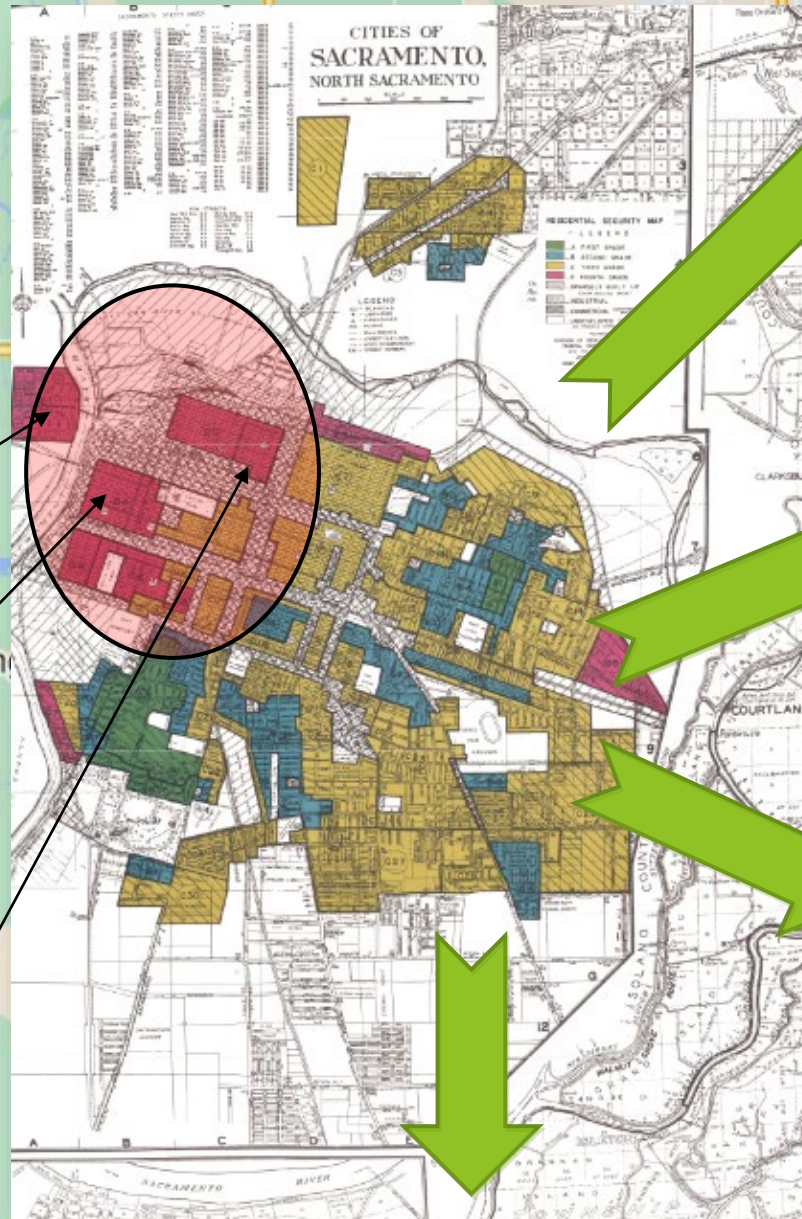


# A California Perspective Sacramento

The particular hazard is "racial"; 30% of the populace is foreign, including Orientals, Mexicans and low-class Italians.

Heterogeneity, age and obsolescence of improvements, and predominance of subversive racial elements are the area's chief hazards. Rated "low red" grade.

Population is very mixed. Italians predominate but with a sprinkling of Mexicans, Negroes, and Orientals. The subversive character of population constitutes the area's principal hazard.





# Active & Inactive Markets = Lending Deserts

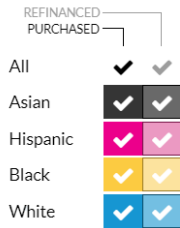
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2007

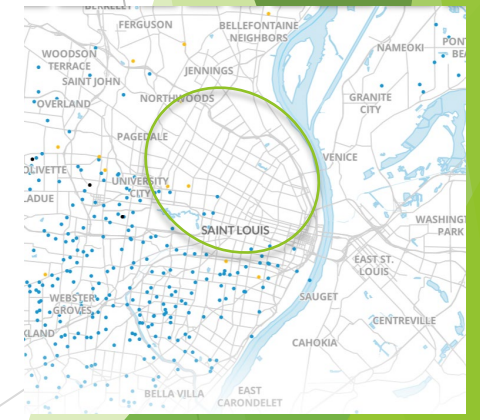
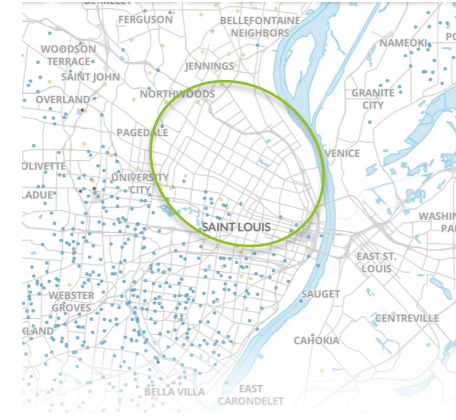
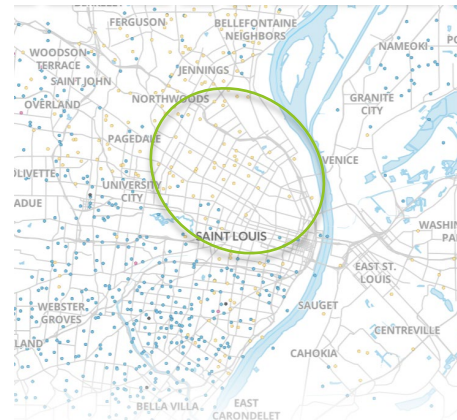
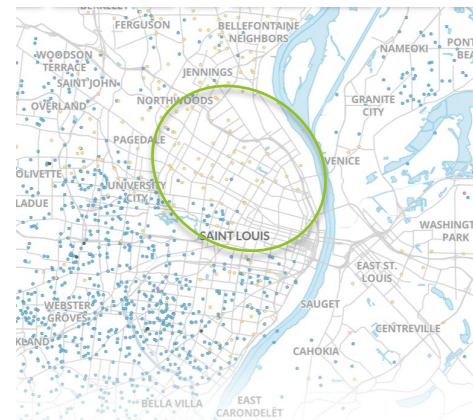
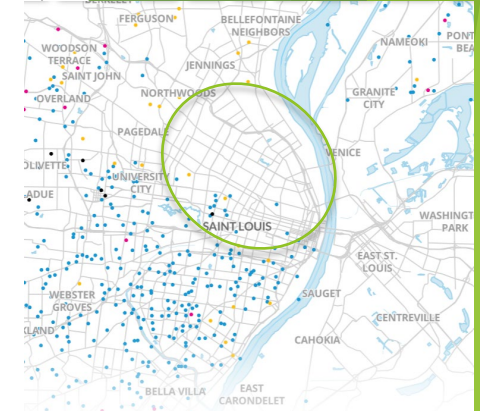
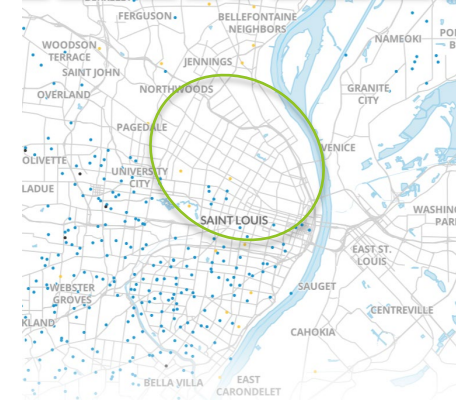
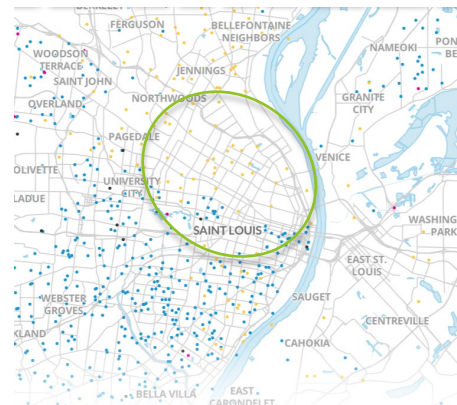
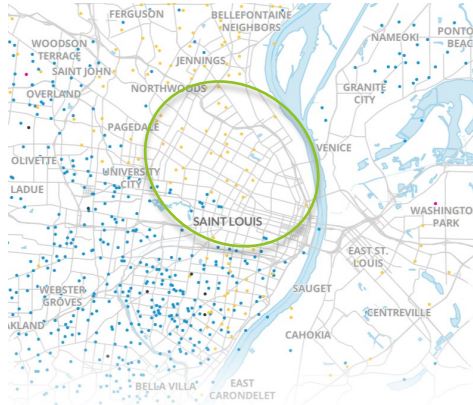
2013

2019

Purchase Loans



Refinance Loans



National Coverage Data @ <https://apps.urban.org/features/mortgages-by-race/>

# Economic Architecture

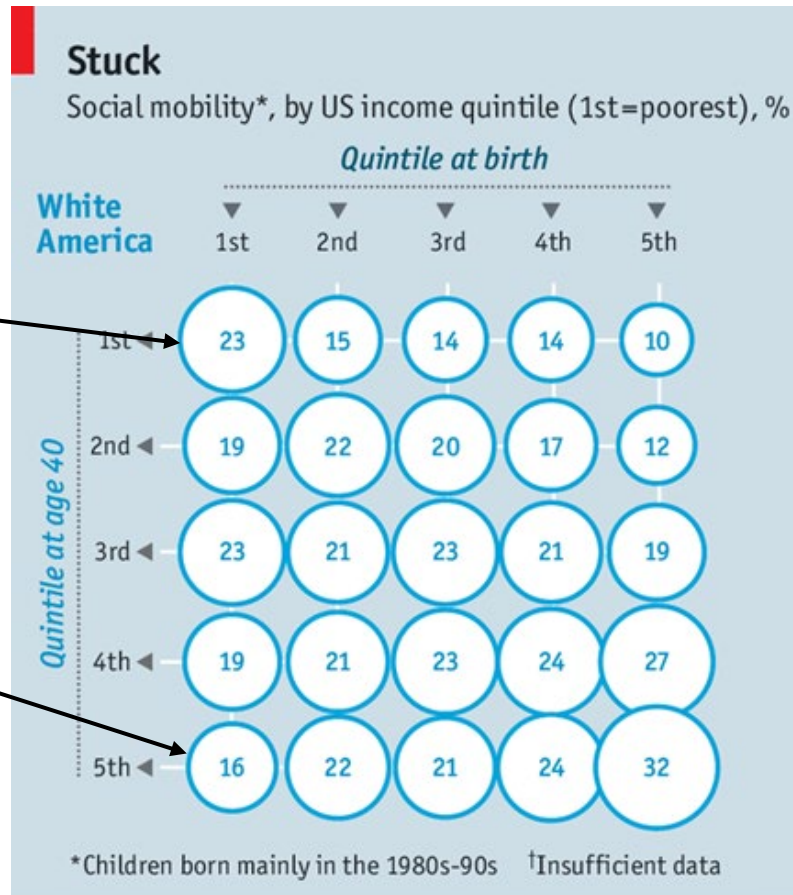
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## For All?

It's All About Wealth Creation  
with  
**MORE EQUAL ACCESS**

# BREAKING THE INEQUALITY TRIFECTA

**No Capital Access = Crushed Mobility in Income / Wealth / Opportunity**



Poorest 20% ±1 in 4 will stay poor

1 in 6 will get to top 20% by age 40

51% likely to stay in bottom  
White Americans born in 1980s through the 1990s. US income by quintile at birth (top scale) and achieved by age 40 (left scale).

White American starting in the poorest 20% have a 75% chance to improve; 1-in 6 may get to top 20% by age 40. Only 23% remain stuck in the bottom by age 40.

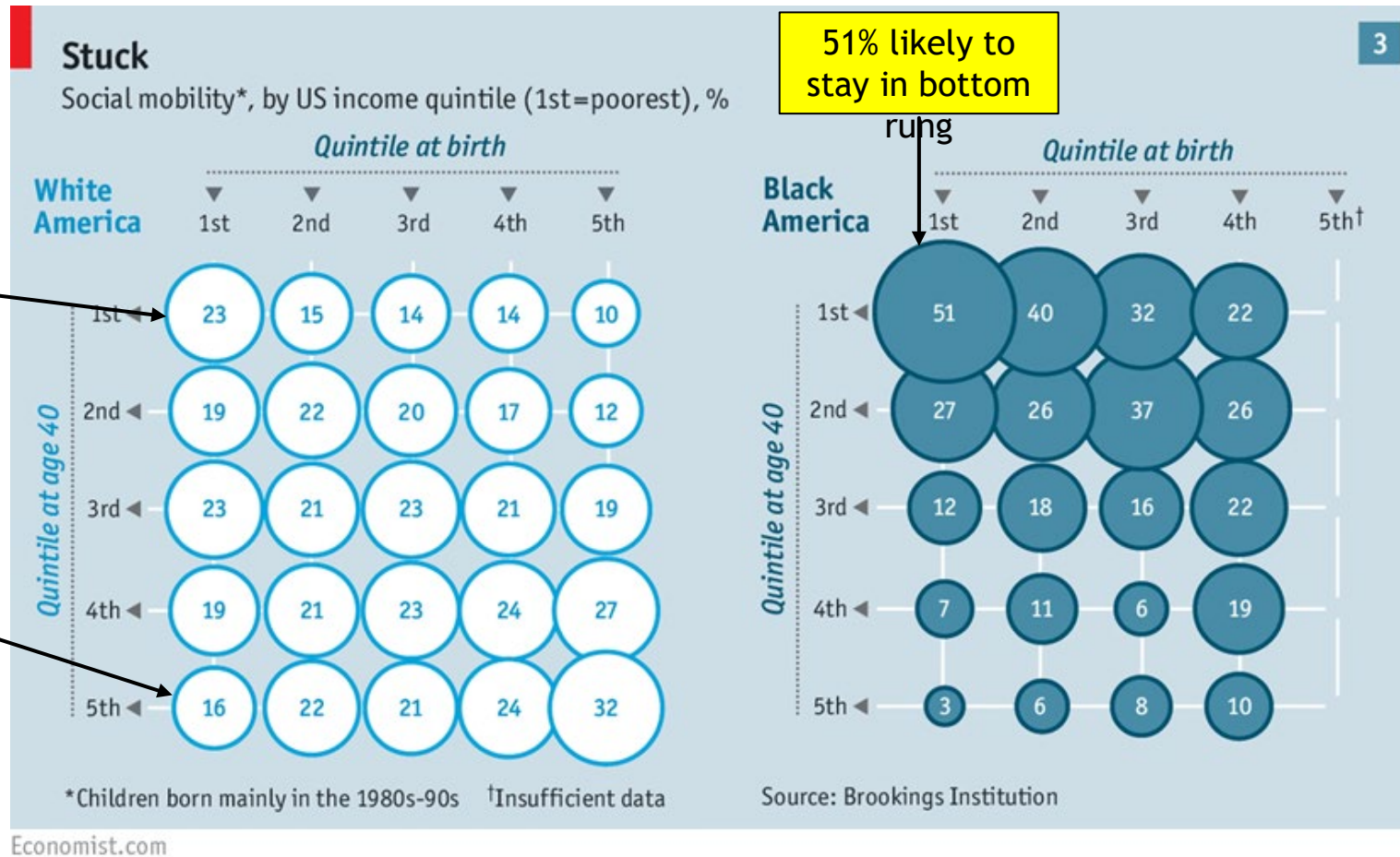
But what does it look like for Black America?

Economist.com



# BREAKING THE INEQUALITY TRIFECTA

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This chart illustrates the economic mobility of White Americans born in 1980s through the 1990s. US income by quintile at birth (top scale) and achieved by age 40 (left scale).

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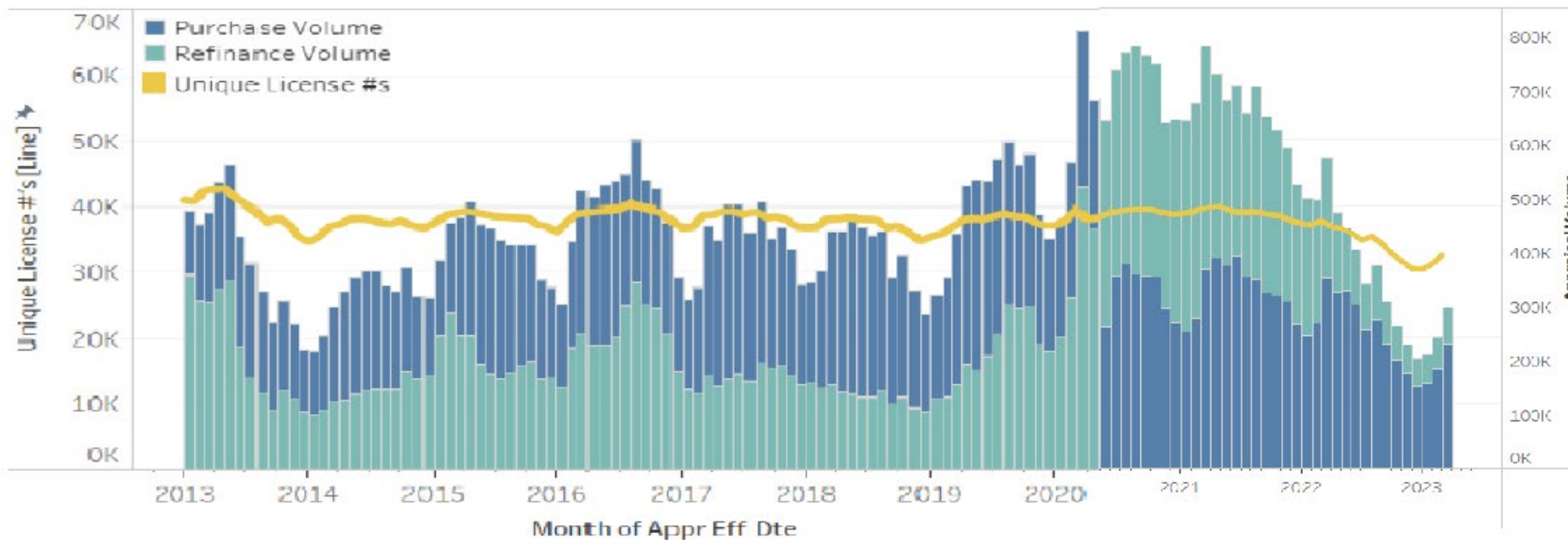
But what does it look like for Black America?



## The Exposed Appraiser? - Threats on the Horizon

# Automation Replacing Appraisers

- ▶ The volume of appraisers has been flat to declining over 10 years
- ▶ Until 2022, the volume of appraisers was MASSIVE
- ▶ This is what drove the “appraisal waiver” phenomena
- ▶ Using the very data appraisers submitted through the UAD & UCDP

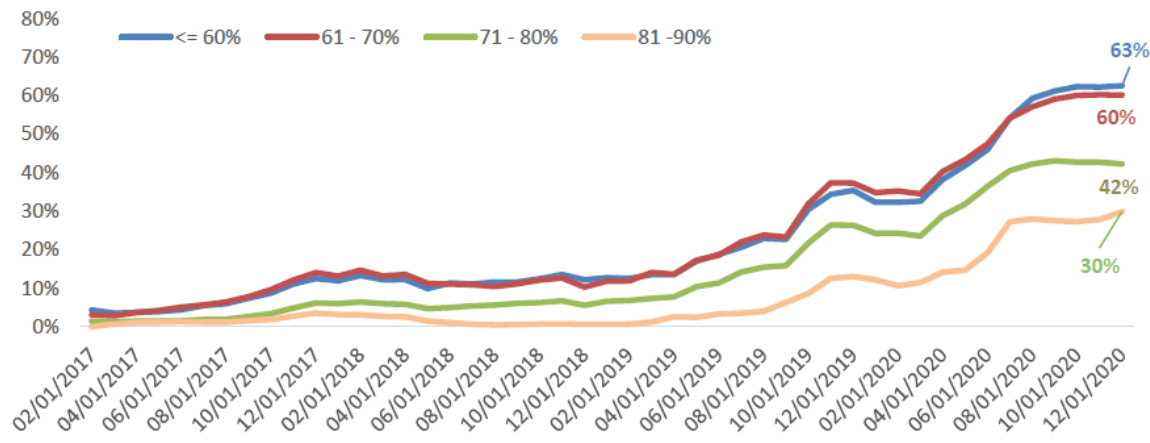




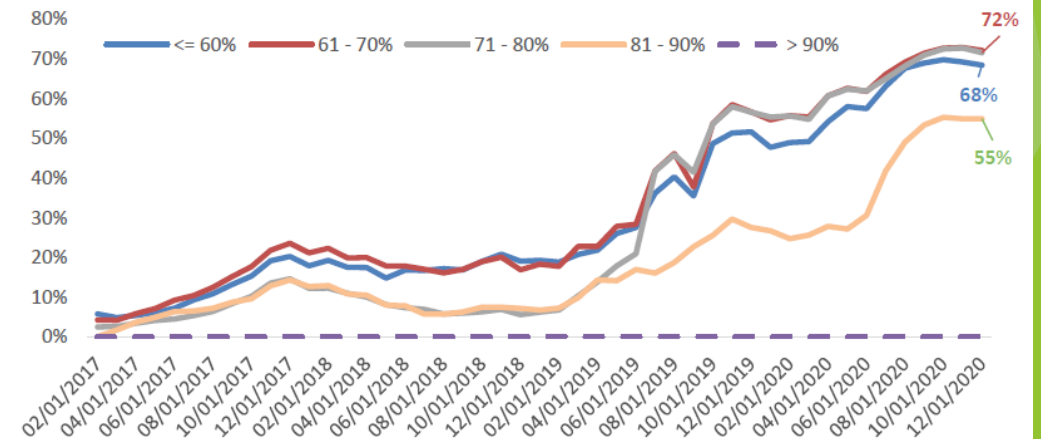
# Waivers Replacing Appraisals

- ▶ Massive growth in waivers since mid-2019 - both purchase and refi
- ▶ In March 2023 the waiver was an optional “choice” despite heavily used
- ▶ In March 2023, the waiver is now converted to “value acceptance”
- ▶ Value acceptance is now the default option, in lieu of appraisal
- ▶ 2<sup>nd</sup> option is PDC, 3<sup>rd</sup> is Hybrid, and LAST is URAR 1004 appraisal.

**Appraisal Waiver: Acquisitions by LTV**  
(Fannie Mae and Freddie Mac)



**Appraisal Waiver: Non-Cashout Refi Acquisitions by LTV**  
(Fannie Mae and Freddie Mac)



# APPRAISAL BIAS - PAVE

- ▶ New appraisal oversight agency?  
Restructure existing?
- ▶ Appraisal data standardize to limit bias -  
are you under- or over-appraising more than others?
- ▶ Pressure by mortgage lenders on appraisers.
- ▶ Data sharing between agencies -  
*but what about sharing to appraisers?*
- ▶ Alternative Methods - AVMs?  
*“robo-redlining” “algorithmic bias” (Chopra)*
- ▶ Academics -- Cost Approach?  
*(no credit for land value)*
- ▶ **Legal authority - “Action Plan is limited ... to actions that can be undertaken by federal agencies using existing authorities.” (see p. 9)**
- ▶ **i.e. Forget going for bigger fish - divided Congress**
- ▶ **Are appraisers an easier target?**



# The “Neighborhood of Fear?”

## Structural Issues with Mortgages

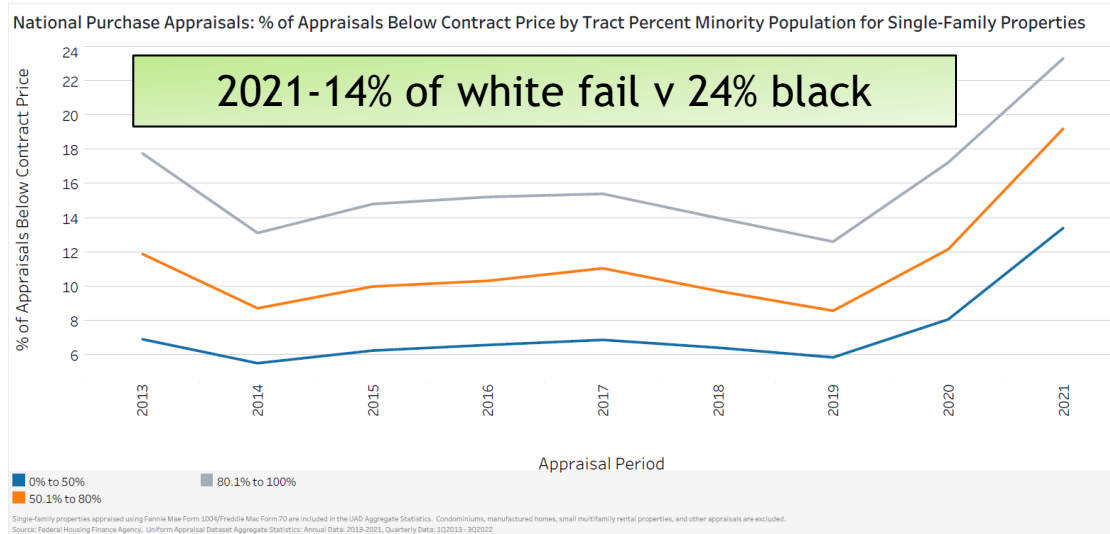
- ▶ FNMA/FHA cover 82% of the \$11+T mortgage market
- ▶ FHA/VA cover 17%
- ▶ Vague Appraisal Rules
- ▶ Nobody defines “Neighborhood”
- ▶ FNMA rules require appraisers to justify selecting sales outside the “neighborhood”
- ▶ Appraisers reluctant expand neighborhood boundaries to cite physically similar higher \$ sales

## Structural Issues for Appraisers

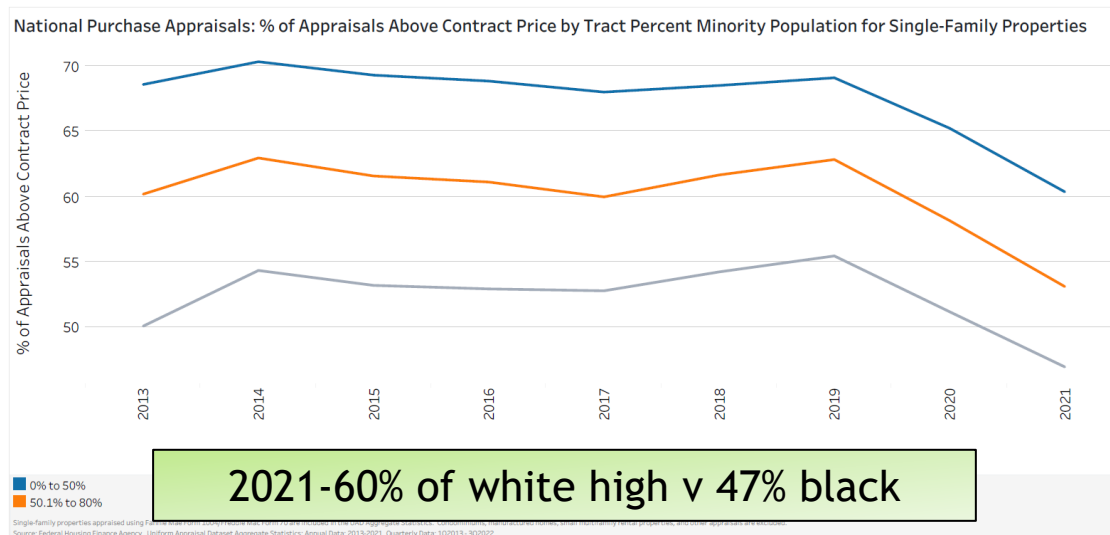
- ▶ AMC’s are middlemen
- ▶ AMC’s eat 50% or more of total borrower’s fees for appraisals.
- ▶ Appraisers get 50% or less of total fees paid by borrower.
- ▶ Even less \$ for trainees
- ▶ AMC “quality control” is often a checklist mentality
- ▶ Each AMC quality control interprets “neighborhood” sales its own way



# FHFA Dataset - Why the Disparity in Gaps?



Appraisal **values < PP** more frequent as areas become **more “minority\*”**



Appraisal **values > PP** more frequent as areas become **more “white\*”**

\* Census definitions per FHFA

# REPORT OF INTEREST - Freddie Mac

## Freddie Mac 2021 Study - Racial & Ethnic Valuation Gaps

- ▶ 12,752,779 appraisals from 2015-2020
- ▶ Examined same appraisers working regularly in multiple communities -- both White areas Black areas, Latino areas.
- ▶ Average distance from subject to comparable sale
  - ▶ White neighborhoods = 1.40 miles
  - ▶ Black neighborhoods = 0.73 miles
  - ▶ Latino neighborhoods = 0.82 miles

**HALF AS FAR TO FIND “COMPS”**

**Does using sales only within damaged markets recycle historic economic damage?  
(that study is ongoing)**



# Are Appraiser Choosing to be Biased?

- ▶ Appraisal value and distance disparities point to issues
- ▶ Can millions of appraisals be deliberately biased?
- ▶ Can millions be acting with unconscious bias?
- ▶ Is it possible that appraisers are acting in fear?

Afraid of What?



**Forensic Review?**

**USPAP Violation?**

# USPAP - Assignment Conditions - BOK

- ▶ What does USPAP-Compliant mean?
  - ▶ Development? Reporting?
- ▶ Standard 1 contains guidelines for appraisal development.
- ▶ Standard 2 contains guidelines for appraisal reporting.
- ▶ Since USPAP doesn't address methods & techniques –
  - ▶ Who does?
- ▶ What is a Body of Knowledge?

# Tradition ... TRADITION!!!

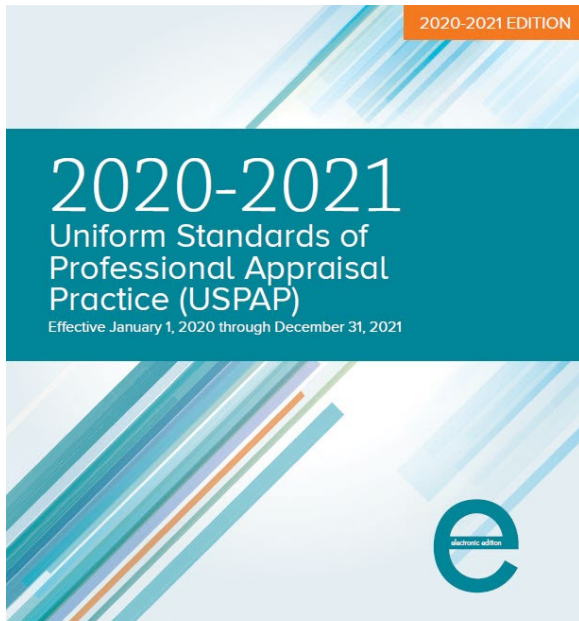
## ▶ The Body of Knowledge

- ▶ Represents the commonly accepted methods & techniques
- ▶ But the “body” contains general principles, few case-by-case applications

## ▶ Customs & TRADITION!

- ▶ You grow in skill by taking guiding principles and applying them to the real world.
- ▶ It gets down to what your boss taught you - case-by-case each day
- ▶ “Credible” value opinions = “worthy of belief”  
a definition that ties to the legal profession’s definition of “credible.”

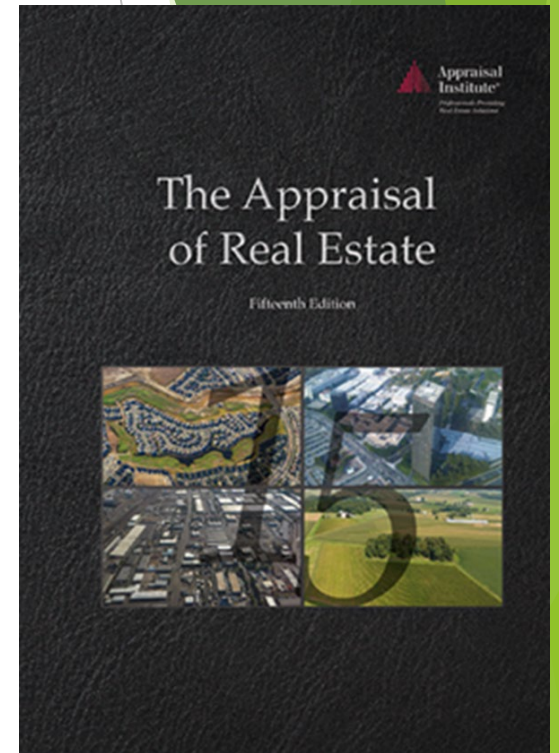
# Standards Connected to Methods



PLUS  
Guidance from the Appraisal Standards Board  
+ USPAP ADVISORY OPINIONS  
+ USPAP FREQUENTLY ASKED QUESTIONS (FAQ)



**Interconnected -**  
one provides the requirement and  
the other provides the solution



# Navigating the Assignment Condition

## ▶ Part of the Appraisal Process -

- ▶ Step #1 -- Identification of the Problem - the DNA of execution issues

## ▶ Are They Shackles?

- ▶ Once accepted they become binding - Full Force of USPAP
- ▶ Rejecting them is frequently economically self-defeating

## ▶ Are They Freedom?

- ▶ Can you define appropriate Assignment Conditions to meet special cases?
- ▶ Can adjusted Assignment Conditions offer greater degrees of freedom?
- ▶ Can you avoid being misleading, or labeled as “misleading”?
- ▶ Can you remain “Credible?”



# The EMPOWERED Appraiser

## Restorative Competitive Value



# Personal Bias or Structural Bias?

## ▶ Consider What We Covered -

- ▶ FHFA data show that Black and Latino areas get more low values v contracts
- ▶ Freddie data suggests that a statistically significant set of matched use different distances depending on the community involved
- ▶ Those appraisals must follow assignment conditions established by the GSEs
- ▶ Those assignment conditions = vague = risk of interpretation bias
- ▶ Those review functions have their own quality control issues

## How About a New Hypothesis!

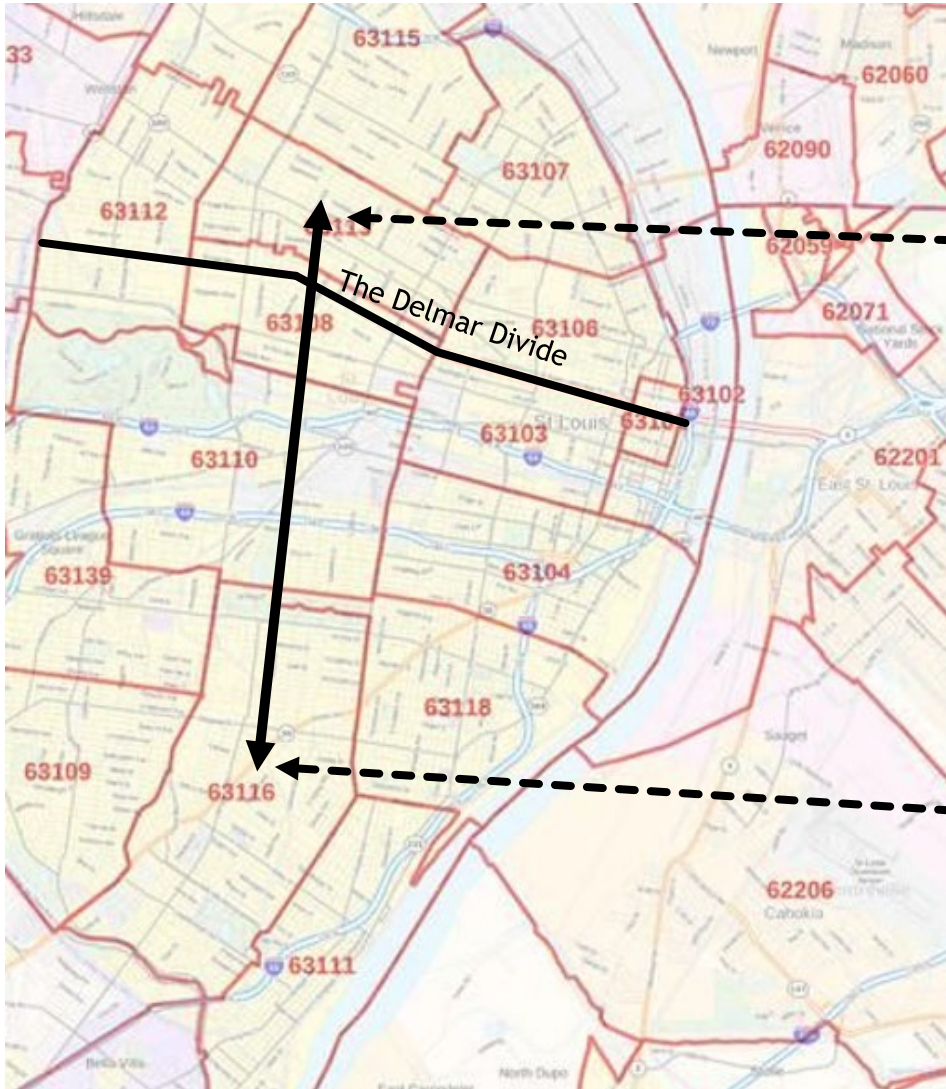


- ▶ Maybe the RULES are Biased - not the Appraiser!
- ▶ Maybe the Assignment Conditions Need to Evolve!
- ▶ Give the appraiser Additional Latitude in Judgement



# Evidence from St. Louis - Active & Inactive Markets

# Inactive Markets = Low Home Prices



## 63113 - Kingsway

Avg Age = 1923  
Avg GLA = 1,795 SF  
Style = 1½ - 2½ Sty  
# Sales 2021 = 43  
Avg \$ = \$72,132

1/10<sup>th</sup> the # activity

<1/3<sup>rd</sup> the \$ price

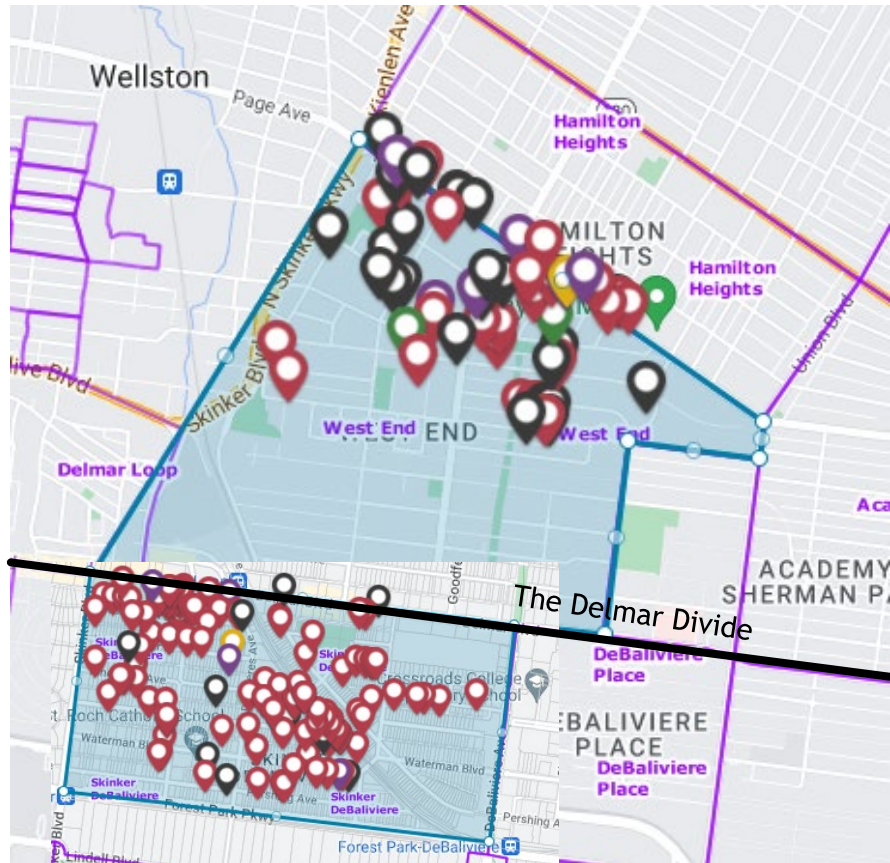
## 63116 - Southampton

Avg Age = 1919  
Avg GLA = 1,801 SF  
Style = 1½ - 2½ Sty  
# Sales 2021 = 416  
Avg \$ = \$252,545

SIMILAR HOUSING?



# Inactive Markets - Another Example



## West End Neighborhood

- ▶ Avg 1924 built w/ 2,018 SF
- ▶ Lots = 2x larger on avg than SDB
- ▶ 13 Sales in 2021 - avg \$111,700
- ▶ 13 Sales in 2022 - avg \$105,100

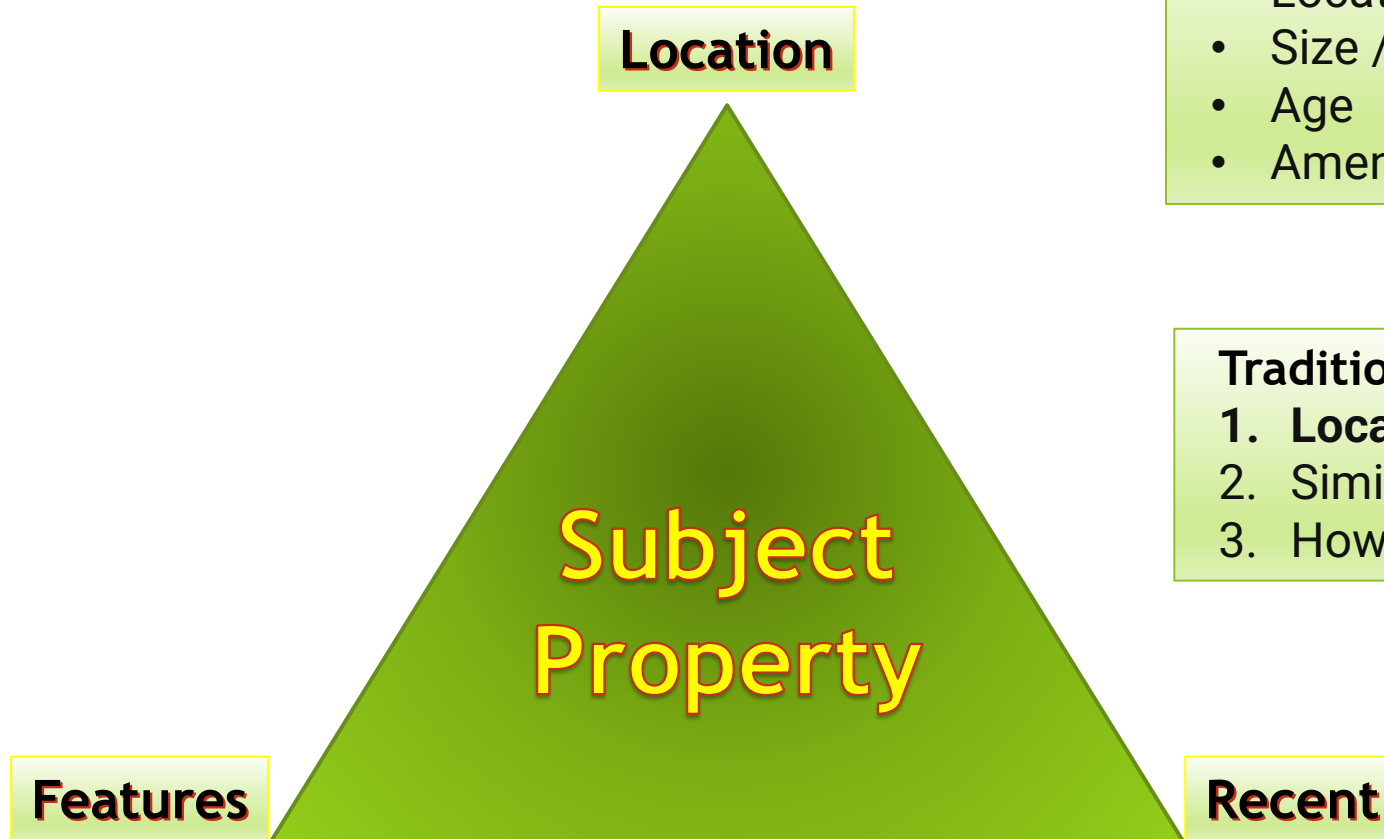
## Skinker DeBaliviere Neighborhood

- ▶ Avg 1908 built w/ 1,919 SF
- ▶ 39 sales in 2021 - avg \$327,900
- ▶ 19 sales in 2022 - avg \$385,300



# Traditional Comparability Triangle

**GSE Criteria = Traditional BOK  
(Does it recycle past market damage?)**



## Traditional Subject Property Method

- Location – highest priority
- Size / Rooms
- Age
- Amenities & Features

## Traditional Comparable Triangulation

1. **Location Location Location**
2. Similarity of Features
3. How Recent a Transaction

# Restorative Competitive Value

## ▶ A little history ...

- ▶ A bank consortium asked how they could find greater success for CRA lending frequently hamstrung by low appraisals.
- ▶ These are loans that will stay on the books of the banks
- ▶ Banks looking for Community Reinvestment Act (CRA) loan products have greater latitude so long as they meet FIRREA, ECOA, FHA etc.

## ▶ The GSEs control their Assignment Conditions

- ▶ But only for the loans that they sell....
- ▶ If a bank doesn't send the loan to GSE, those ACs are can be flexed

## ▶ RCV is an alternative valuation method

- ▶ Understand and measure the degree of upside potential



# RESTORATIVE COMPETITIVE VALUE

**Re-Imagining the  
Comparability Triangle**

## Reframe the Subject Property

- De-Prioritize Location
- Size / Rooms
- Age
- Amenities & Features

**Features**

## Adjust the Comparability Triangle

- **Prioritize Similarity of Features**
- De-Prioritize Location
- Other Areas w/Similar Buildings?
- Any Nearby Older Unicorn Sales?

**Flexible  
Location**

**Older Sales  
Possible**

**EXPAND THE COMPARABILITY TRIANGLE  
Restore Value to Structurally Underserved Areas?**

# Restorative Competitive Value Structure

- ▶ A “Restorative Competitive Value” Definition
  - ▶ Assignment Conditions tailored to RCV, not FNMA Selling Guide
  - ▶ Modified procedures & methods - New “Body of Knowledge”
- ▶ A “2-Value” Solution
  - ▶ “Traditional FIRREA/USPAP” Value (w/assignment conditions)
  - ▶ “Restorative Competitive” Value (w/new assignment conditions)
- ▶ Expanded Comparability Triangle
  - ▶ Sales from appropriate Restorative Market Areas w/methods to pick
  - ▶ Sales within the Subject Market Area but longer look-back
- ▶ Whole Market Analysis
  - ▶ Methods to identify the RCV Market Areas and pick large sales arrays
  - ▶ Methods to determine the sales that go into both grids

**Why??**

**Not Misleading**

# Restorative Competitive Value & Banks

- ▶ Intended for CRA lending ... kept in portfolio

- ▶ Greater flexibility - no repurchase issues



- ▶ What's in it for the Bank?

- ▶ Bank gets 2 values:
  - ▶ “Traditional” Value meeting FIRREA/USPAP (and assignment conditions)
  - ▶ “Restorative Competitive” Value using new assignment conditions

- ▶ The “Dual Value” helps the Bank:

- ▶ Comply with FIRREA regulations
  - ▶ Measure risk to decide how to structure loan
  - ▶ Comply with CRA investment goals & duty to serve





# Restorative Competitive Value & Appraisers

- ▶ What's in it for Appraisers?
  - ▶ “Traditional” Value meeting FIRREA/USPAP (and assignment conditions)
  - ▶ “Restorative Competitive” Value using new assignment conditions
- ▶ The “Dual Value” helps the Appraiser:
  - ▶ Have 2 sets of Assignment Conditions, not a single structure
  - ▶ Comply with USPAP regulations
  - ▶ Methods to identify Restorative Market Areas for the RCV comparables
  - ▶ Display all candidate sales - protects appraisers from charges “comp avoidance”
  - ▶ Methods to determine how to pick sales for both values



# Restorative Competitive Value & Consumers



## ▶ Is This Going to be More Fair??

- ▶ “Fair” is subjective;
- ▶ “Transparent” and “Complete”

# PRICELESS

## ▶ Will I Be Able to Trust the Answer??

- ▶ Whole Market Analysis minimizes “Why didn’t you talk about Sale X I knew about....”
- ▶ There will be descriptions of process of area selection, comp choices, + 2 grid systems
- ▶ If we move analysis to AVMs - you will have to complain to Chat GPT-5
- ▶ If we move to Cost Approach - the plan is to strip away the land value.

## ▶ Will I Get a Higher Value ??

- ▶ FIRREA MV - who knows? Existing system hobbled by flawed rules.
- ▶ RCV - likely higher. RCV sales come from active markets - and thus higher starting point
- ▶ Plus there will be ROV Process - no AMC middleman.



# The St. Louis Restorative Value Study

# Restorative Value Study Progress

- ▶ Brookings - Ashoka Challenge Grant -- Summer 2022
- ▶ Early 2022 - team up with Invest STL for Study
- ▶ Outreach to Shareholders & Stakeholders
- ▶ Formed a Guidance Committee late 2022



- ▶ 2023 - Obtain a detailed data map of STL City
- ▶ Setting up focus groups on “neighborhood”
- ▶ Late - Summer = Activity & Price Correlations
- ▶ Working on RCV Definition Components
- ▶ Refinement of Concepts (ongoing)

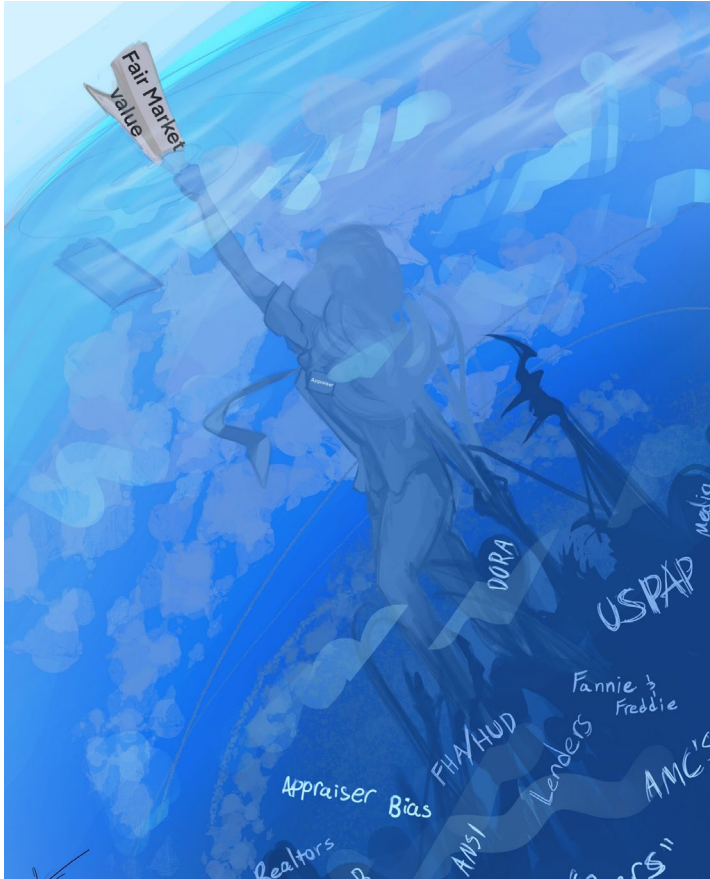
# Looking for the Icebergs in the Darkness

## “We Don’t Know What We Don’t Know”

- ▶ Developing/Educating a Core Appraisal Team - Appraiser “buy in”
- ▶ Post-Mapping Study -- Running the RCV Case Studies on Properties
- ▶ USPAP - ECOA - FHAct - Disparate Treatment & Disparate Impact
- ▶ Reaching out to FRB & Other Regulators for Support
- ▶ Getting Bank Consortium Buy-In
- ▶ Executing the Actual Consortium Funding



# FINAL THOUGHTS



Artwork - Savannah Christensen  
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- ▶ Society is frayed
- ▶ Profession at a pivotal moment
- ▶ Many want to toss the appraiser overboard
- ▶ Technological tools abound
  - but do they have discernment?
- ▶ RCV - an Imagineering Moment
- ▶ Could success at RCV influence GSEs?
- ▶ If RCV works - will people get jealous?
- ▶ “Why do “they” get the special treatment?”



**THANK YOU !!**