

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

March 24, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: March 29, 2022, Full Committee Hearing entitled, “Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color”

The full Committee will hold a hearing entitled, “Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color” on Tuesday, March 29, 2022, at 10 a.m. ET in Rayburn House Office Building in room 2128 and meeting platform Cisco WebEx. There will be one panel with the following witnesses:

- **Pledger M. Bishop, III**, President, Appraisal Institute
- **David S. Bunton**, President, The Appraisal Foundation
- **Dean Kelker**, Senior Vice President and Chief Risk Officer, SingleSource Property Solutions, on behalf of the Real Estate Valuation Advocacy Association
- **Lisa Rice**, President and CEO, National Fair Housing Alliance
- **Tobias J. Peter**, Assistant Director, AEI Housing Center

Background

Home valuations are a critical part of the mortgage lending process and the overall safety and soundness of the housing market. While there are various methods of home valuation, including evaluations, desktop appraisals, hybrids, and automated valuation models, full appraisals have traditionally been the most comprehensive and commonly used valuation methodology in the US. Appraisals are intended to provide a professional, objective estimate of a home’s market value that prospective homebuyers, lenders, mortgage insurers, investors, and governmental entities rely on to ensure that a mortgage does not exceed the value of the home, which serves as the loan’s collateral. Appraisals also serve as a consumer protection to ensure homebuyers pay a fair and reasonable amount for their home and homeowners receive the value their home is worth. However, in recent years, there has been greater awareness of how appraisals do not always protect or benefit everyone equally, particularly Black people and other people of color.¹

Both overt and covert, intentional and unintentional home appraisal discrimination based on race, color, sex, religion, national origin, familial status, disability, and age is illegal in the US under the Fair Housing Act of 1968, the Equal Credit Opportunity Act of 1974, the Civil Rights Act of 1866, and various state and local laws. However, there is a growing body of evidence that people and communities of color are systemically disadvantaged by the appraisal process compared to White people and communities.² Bias and discrimination in appraisals can result in perpetuating historic disinvestment in communities of

¹ The Brookings Institute, [The Devaluation of Assets in Black Neighborhoods: The Case of Residential Property](#), (Nov. 27, 2018); See also Center for American Progress, [Racial Disparities in Home Appreciation](#) (Jul. 15, 2019); See also Freddie Mac, [Racial and Ethnic Valuation Gaps in Home Purchase Appraisals](#) (Sep. 2021).

² See *infra* discussion in section on evidence of racial home devaluation.

color, lowering home values for homeowners of color, locking people of color out of homeownership opportunities, and contributing to the widening of the racial and ethnic wealth and homeownership gaps.³

Homeownership remains one of the single greatest sources of wealth for the average household in the US. In 2019, homeowner wealth increased, outpacing that of renters by more than 40 times.⁴ As home prices increased by nearly 18% during the pandemic alone,⁵ collective homeowner equity rose by more than 29% to \$3.2 trillion from 2020 to 2021.⁶ However, even some of the most affluent communities have not benefitted equally from the home appreciation boom, namely those that are predominately Black,⁷ and not every family has experienced equal access to quality and stable homeownership.⁸ Currently, the White homeownership rate is 74.1%, compared to 44.2% for Black families and 48.4% for Latinx families.⁹ White families held 10 times more wealth than Black families and 7 times more than Latinx families in 2016¹⁰ with one study finding that homeownership accounted for 27% of the Black-White wealth gap.¹¹ While various factors such as a lack of intergenerational wealth transfers and lending discrimination have limited economic access for families of color, evidence also shows that bias and discrimination in the home valuation process also serves as a barrier to homeownership and wealth-building opportunities.

Appraisers: Industry Diversity and Alternative Methodologies

Although not comprehensively collected across the field, available data show that the appraisal industry lacks demographic diversity that is fully representative of the communities and consumers appraisers serve. The Appraisal Foundation conducted a survey of 4,714 appraiser respondents in 2021 that showed two-thirds of professionals are age 55 or older, and just 20% are age 45-55, and 10% are age 35-44.¹² Statistics on the racial, ethnic, and gender diversity in the appraisal industry suggest that the industry also does not reflect the demographics of the United States.¹³ The US Bureau of Labor Statistics (BLS) shows that of the roughly 80,000 appraisers in the US, 97.7% identify as White, 4.3% as Latinx, 1.1% as Black, and 1% as Asian, while 69.6% of appraisers are male and 30.4% are female.¹⁴

A growing appraiser shortage, a desire to eliminate bias, and attempts to increase efficiency and decrease costs of home valuations has led to a shift away from using independent appraisers and toward automated alternatives. Because technological advances in the industry, such as desktop appraisals and automated valuation models (AVMs), use raw data inputs and algorithmic models to determine the collateral worth of a mortgage, and do not require the physical presence of appraisers at a consumers home—theoretically reducing the chances for face-to-face interaction, implicit biases, and discrimination—such technological advances are seen as a potential solution to inequity in home valuations.¹⁵ In fact, the Federal Housing Finance Agency (FHFA) recently announced that Fannie Mae and Freddie Mac (“the Enterprises”) would begin allowing for the permanent use of desktop appraisals in

³ *The Brookings Institute, supra note 1; See also* Crain’s Chicago Business, [We need to hack appraisal-based lending](#) (Feb. 11, 2022).

⁴ Federal Reserve, [Changes in US Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances](#) (Sep. 2020). The Federal Reserve defines home wealth as “the value of a home minus home-secured debt”.

⁵ FHFA, [US House Prices Rise 17.5 Percent over the Last Year; Up 3.3 Percent from the Third Quarter](#) (Feb. 22, 2022).

⁶ CoreLogic, [Homeowner Equity Insights](#) (Mar. 10, 2022).

⁷ The Washington Post, [Home values soared during the pandemic, except for these Black families](#) (Mar. 21, 2022).

⁸ US House Financial Services Committee, [Hearing Memorandum: A Review of the State of and Barriers to Minority Homeownership](#) (May 3, 2019).

⁹ US Census Bureau, [Homeownership Rates by Race and Ethnicity of Householder, Annual Statistics: 2021](#) (2021).

¹⁰ Pew Research, [How wealth inequality has changed in the US since the Great Recession, by race, ethnicity and income](#) (Nov. 1, 2017).

¹¹ Institute on Assets and Social Policy, [The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide](#) (Feb. 2013).

¹² Appraisal Foundation, [Diversity Survey Results Handout](#) (Apr. 2021).

¹³ According to the US Census Bureau’s latest American Community Survey 5-year data, the US population is 50.8% female, 60.1% White (not Latinx), 13.4% Black, and 18.5% Latinx, with the majority of the population under age 44.

¹⁴ US Bureau of Labor Statistics, [Labor Force Statistics from the Current Population Survey](#) (2021).

¹⁵ New York Times, [Remote Appraisals of Homes Could Reduce Racial Bias](#) (Mar. 21, 2022).

2022¹⁶—extending the use of pandemic-related appraisal flexibilities.¹⁷ Yet, it is unclear whether and to what extent the trend away from individual appraisals reduces fair lending risks and mis-valuation evenly across communities.¹⁸ Most recently, the Consumer Financial Protection Bureau (CFPB) released an outline proposal for AVM-related interagency rulemaking under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).¹⁹ In its outline, the CFPB proposes the inclusion of a non-discrimination review factor (“the fifth factor”) to account for fair lending risks in the use of AVM technologies. Under Dodd-Frank, AVMs are not allowed to substitute or be the sole basis for an appraisal when an appraisal is required. With the expansion of transactions that are not required to obtain a traditional appraisal, there are growing concerns about the accuracy of AVMs and other appraisal technologies as standalone valuations that eliminate bias.²⁰

Appraisals: Evidence of Racial Home Devaluation

There have been several studies that have found evidence of racial and ethnic home devaluation in the appraisal process.²¹ A 2018 study by the Brookings Institute found that in the average metropolitan area, homes in neighborhoods where the share of the population is 50% Black are valued at roughly half the price as homes in neighborhoods with no Black residents.²² Further, the study found that differences in home and neighborhood quality do not fully explain the disparities in property values.²³ Specifically, the study found that “homes of similar quality in neighborhoods with similar amenities are worth 23 percent less in majority black neighborhoods, compared to those with very few or no black residents” and “across all majority black neighborhoods, owner-occupied homes are undervalued by \$48,000 per home on average, amounting to \$156 billion in cumulative losses.”²⁴

Another study published by Freddie Mac in 2021 analyzed what share of appraisers produced a significant Black-White and Latinx-White appraisal gap where homes in Black and Latinx census tracts are valued below the contract price compared to those in White census tracts.²⁵ In both Black-White and Latinx-White tract comparisons, the research concluded that “a large portion of appraisers who performed enough appraisals in [Black,] Latino and White tracts exhibit statistically significant [Black and] Latino versus White gaps.” To further explain the gap, researchers controlled for neighborhood and property characteristics as well as comparable sale (“comps”) factors, such as distance, reconciliation, variance, and purchaser overpayment. After controlling for these various factors, the study found that the appraisal gap remained significant.

In a recent study that looked at individual appraisals in refinance transactions between 2019 and 2020 and compared them against two separate in-house automated valuation models (AVMs), Fannie Mae found that White homes in both majority-White and majority-Black neighborhoods were overvalued

¹⁶ FHFA, [FHFA Announces Two Measures Advancing Housing Sustainability and Affordability](#) (Oct. 18, 2021).

¹⁷ Freddie Mac, Bulletin 2020-11: Selling Guidance Related to COVID-19 (Apr. 14, 2020); See also Fannie Mae, [Lender Letter \(LL-2021-04\)](#) (Dec. 10, 2021).

¹⁸ *Supra* note 15

¹⁹ Consumer Financial Protection Bureau, [Small Business Advisory Review Panel for Automated Valuation Model \(AVM\) Rulemaking: Outline Of Proposals And Alternatives Under Consideration](#) (Feb. 23, 2022)

²⁰ Urban Institute, [Why Automated Home Valuation Technology Errors Disproportionately Affect Majority-Black Neighborhoods](#) (Mar. 5, 2021); See also William E. Garber, Testimony before the Subcommittee on Housing and Insurance, House Committee on Financial Services, Nov. 16, 2016.

²¹ Junia Howell and Elizabeth Korver-Glenn, [Neighborhoods, Race, and the Twenty-first-century Housing Appraisal Industry](#) (2018); Junia Howell and Elizabeth Korver-Glenn, [The Increasing Effect of Neighborhood Racial Composition on Housing Values, 1980–2015](#) (Sep. 4, 2020); Elizabeth Korver-Glenn, [Race Brokers: Housing Markets and Segregation in 21st Century Urban America](#) (2021).

²² The Brookings Institute, *supra* note 1.

²³ *Id.*

²⁴ *Id.*

²⁵ Freddie Mac, [Racial and Ethnic Valuation Gaps in Home Purchase Appraisals](#) (Sep. 2021).

compared against both AVMs while Black homes in each neighborhood type were devalued.²⁶ Indeed, the Federal Housing Finance Agency (FHFA) conducted a key word search for millions of appraisals for transactions backed by Fannie Mae and Freddie Mac and found that individual appraisers included overt references to race, ethnicity, and other prohibited bases under federal fair lending laws in their appraisal reports.²⁷ FHFA’s research also highlighted the discretion appraisers have in the valuation process, which can introduce fair lending risk, especially when “applied unequally to favor or disfavor neighborhoods based on race or other prohibited bases.”

Industry Regulation

The oversight and regulation of the appraisal industry is complex and dispersed. The current governing and regulatory framework for the appraisal industry relies heavily on states to take on the primary responsibility for direct regulation and oversight. The federal government and private sector play varied roles in monitoring the industry and providing uniformity in standards for appraisals across the nation. The federal financial institutions regulatory agencies—defined as the Board of Governors of the Federal Reserve System (Fed), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA)—set federal requirements for appraisals performed in conjunction with federally-related transactions (FRTs) that use federally backed, insured, or guaranteed financing. FRTs are real estate-related financial transactions that the federal financial institutions regulatory agencies regulate, for which an appraisal is required.²⁸ On the other hand, loans backed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Department of Agriculture (USDA), Fannie Mae, and Freddie Mac are not considered FRTs for the purposes of appraisal requirements according to the regulations promulgated by the federal financial institutions regulatory agencies. Instead, FHA, VA, USDA, Fannie, and Freddie establish their own standards for appraisals performed in conjunction with the mortgages that they back.

The Appraisal Subcommittee. The Appraisal Subcommittee (ASC) was created pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI of FIRREA or Title XI). The ASC monitors, supports, and oversees both private and state entities with respect to appraisals. The ASC is a Subcommittee of the Federal Financial Institutions Examination Council (FFIEC). The ASC is solely funded by a registry fee charged to appraisers and appraisal management companies (AMCs),²⁹ and is comprised of seven members from the Fed, FDIC, OCC, NCUA, CFPB, FHFA, and the Department of Housing and Urban Development (HUD). The ASC’s responsibilities include monitoring state compliance with federal requirements, maintaining a national registry of state-licensed and certified appraisers and appraisal management companies (AMCs), and maintaining a national appraisal complaint hotline. The ASC also monitors and reviews the Appraisal Foundation (TAF), a private, non-profit corporation, including two of its boards, the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB), which serve as the congressionally authorized source of appraiser qualifications and appraisal standards. Title XI authorizes the ASC to make grant to the AQB and ASB to help defray costs for Title XI-related work. While TAF has historically accepted funding through federal ASC grants, TAF rejected Fiscal Year 2021 funds.³⁰ The majority of TAF’s funding is generated by proceeds from the sale of the appraisal standards known as the *Uniform Standards of Professional Appraisal Practice* (USPAP).³¹ TAF is not subject to fiscal audits or other federal grants oversight in the years when federal funds are not accepted. Frequent changes to USPAP require states to amend their laws and regulations,

²⁶ Fannie Mae, [Appraising the Appraisal](#) (Feb. 2022).

²⁷ FHFA, [Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary](#) (Dec. 14, 2021).

²⁸ 12 U.S.C. 3350 (4).

²⁹ The ASC is also in the beginning stages of implementing a new fee on AMCs.

³⁰ Appraisal Subcommittee, [Annual Report](#) (2020).

³¹ *Id.*

which can be burdensome, and requires appraisers, AMCs, federal regulators, the secondary financial markets and consumers to adapt their policies and practices to comply with USPAP.³²

Appraisal Management Companies. Following the 2008 financial crisis and subsequent foreclosure crisis, Dodd-Frank made it unlawful to: influence an appraiser in the pricing of a transaction; mischaracterize the appraised value of the property; withhold or threaten to withhold timely payment for an appraisal report or services rendered when the report or services are provided for in accordance with the contract between the parties; or have any direct or indirect financial or other interest in the property being appraised if you are an appraiser or appraisal management company (AMC). Today, AMCs are expected to serve as a firewall of independence between lenders and appraisers. AMCs manage the appraisal process for banks, including various quality controls related to the safety, soundness, and fairness of independent appraisals. Additionally, some AMCs rely on bank fair lending requirements for appraisal quality control as well as varying state-level requirements, and there is little federal oversight of AMCs.

Administrative Action

PAVE Task Force. In June 2021, President Biden announced an interagency initiative, known as the PAVE Task Force, to address inequity in home appraisals, similar to an interagency task force proposed in H.R. 2553, the “Real Estate Valuation Fairness Act of 2021” passed by the Financial Services Committee in April 2021.³³ The PAVE Task Force is made up of 13 agency members and is co-chaired by the Secretary of HUD Marcia Fudge and White House Domestic Policy Advisor Susan Rice. The PAVE Task Force released its first report on March 23, 2022, which includes recommendations for agency actions to advance valuation equity along with various legislative recommendations included in the “Ending Appraisal Discrimination Act of 2021,” such as: “modernizing the governance structure charged with setting and enforcing the standards and qualifications criteria.”³⁴

Appraisal Subcommittee Commissioned Report. In January 2022, the National Fair Housing Alliance released a report commissioned by the Appraisal Subcommittee, which conducts an independent review of the Uniform Standards of Professional Appraisal Practice (“USPAP Standards” or “Appraisal Standards”) and the Real Property Appraiser Qualification Criteria (“Appraiser Criteria”).³⁵ The goal of the review was to “ensure that the USPAP Standards and the Appraiser Criteria do not encourage or systematize bias, and that the standards and criteria consistently support or promote fairness, equity, objectivity, and diversity in both appraisals and the training and credentialing of appraisers.” Various recommendations in the report are included in the “Ending Appraisal Discrimination Act of 2021.”

DOJ Statement of Interest. In 2020, an independent appraiser and an appraisal management company were sued for appraisal discrimination under the Fair Housing Act of 1968 for allegedly devaluing a couple’s home by \$500,000 based on the couple’s race in their attempt to refinance their home.³⁶ The defendants in the case rebutted the claim by arguing that residential appraisals are not covered by the Fair Housing Act and that there was insufficient evidence of discrimination. On February 14, 2022, the Department of Justice (DOJ) weighed in on the case by filing a Statement of Interest highlighting its shared enforcement authority over the Fair Housing Act with HUD and confirming the inclusion of appraisal transactions under that authority.³⁷

³² GAO, *Opportunities to Enhance Oversight of the Real Estate Appraisal Industry* (May 2003).

³³ White House, *Remarks by President Biden Commemorating the 100th Anniversary of the Tulsa Race Massacre* (Jun. 2, 2021).

³⁴ PAVE Task Force, *Action Plan to Advance Property Appraisal and Valuation Equity Closing the Racial Wealth Gap by Addressing Misvaluations for Families and Communities of Color* (Mar. 23, 2022).

³⁵ National Fair Housing Alliance, *Identifying Bias and Barriers: Promoting Equity* (Jan. 2022).

³⁶ Yahoo News, *Black California couple’s home appraisal discrimination lawsuit gets support from DOJ* (Feb. 20, 2022).

³⁷ Department of Justice, *Statement of Interest* (Feb. 14, 2022).

Appendix: Legislative Proposal

- **H.R. __**, the “**Fair Appraisal and Inequity Reform Act of 2022**,” (Waters) is a bill that would establish a new Federal Appraisal Regulatory Agency, a streamlined federal process for reporting appraisal discrimination and appraiser misconduct complaints, require annual reporting of such complaints to Congress, enhance statutory penalties for appraisal discrimination, among other critical actions to address ongoing systemic and overt discrimination in the home valuation industry.