

**Testimony of
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**Devalued, Denied, and
Disrespected: How Home
Appraisal Bias and
Discrimination Are Hurting
Homeowners and Communities
of Color**

**U.S. House of Representatives
Committee on Financial Services**

March 29, 2022



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INTRODUCTION

Madam Chair and members of the Committee, The Appraisal Foundation greatly appreciates the opportunity to appear before you today to offer our perspective on the regulation of real estate appraisers and combatting bias and discrimination in the profession.

There are many misconceptions about the Foundation and let me begin by stating that the Foundation is not:

- a government agency or regulatory body;
- created by Congress;
- an appraisal trade association.

Rather, the Foundation:

- is a non-profit 501(c)(3) educational organization;
- was founded by eight national appraisal organizations 35 years ago;
- sets standards of excellence, promotes education and upholds the public trust;
- serves as an umbrella organization comprised of approximately 100 organizations and government agencies with an interest in valuation (Attachment 1);
- was created to foster professionalism in appraising;
- strives for excellence, consistency, unity and trust in the valuation profession.

We provide private sector expertise in the real property appraiser regulatory system. The Foundation was given specific authority by Congress in 1989 (Title XI of FIRREA) regarding the real property appraiser regulatory system. The Foundation does not have any regulatory authority, but it provides tools for the regulatory community. Specifically:

- individuals seeking to become a trainee appraiser, supervisory appraiser, state-licensed or certified appraiser must meet the minimum qualification requirements established by the Foundation's Appraiser Qualifications Board (AQB);
- all states and territories must use licensing and certification examinations either issued or endorsed by the Foundation's AQB; and
- all state licensed and certified real estate appraisers must adhere to the *Uniform Standards of Professional Appraisal Practice* (standards of conduct) written by the Foundation's Appraisal Standards Board.

On behalf of the Foundation, as a fair, impartial, and objective resource on valuation-related issues, thank you for the opportunity to address the specific topics on which you are seeking our perspective.

OVERVIEW

The Uniform Standards of Professional Appraisal Practice, which lays out the professional standards appraisers must follow, has prohibited appraisers from acting with bias or discriminating against protected classes since Day One. This has been a cornerstone of the appraisal profession for over three decades, and even a single allegation of bias or discrimination is deeply concerning and undermines the public's trust in the appraisal profession.

The allegations of bias and discrimination we have seen in the press make it clear that more must be done to protect the public's trust in the appraisal profession. Even before these press reports were beginning to emerge, The Appraisal Foundation was taking action to address concerns of bias, discrimination and a lack of diversity in the appraisal profession.

We have undertaken a number of initiatives aimed at combatting bias and discrimination and promoting diversity, equity and inclusion in the profession.

The process through which The Appraisal Foundation's boards adopt standards and qualifications closely mirrors federal rulemaking. All changes are publicly exposed for a comment period, and boards will often go through multiple drafts of proposed changes before making them final. All meetings regarding these changes are held publicly with an opportunity for anyone to provide verbal or written comments. Boards adopt changes in a public vote, and all 55 jurisdictions are given ample notice, often as long as ten months to even two or three years before changes become effective. These changes are also always reviewed by a regulatory attorney. Upon receiving congressional authority, Standards 1-4, those covering real property appraisals, were published in the Federal Register.

As an additional measure, we have now retained the noted civil rights and fair housing firm Relman-Colfax. They will review any and all proposed changes to the standards and qualifications going forward to ensure that the public's trust is protected.

The Appraisal Standards Board is also currently undertaking a comprehensive review of the Ethics Rule. Bias and discrimination against protected classes have always been prohibited by our standards. But we want to ensure that is crystal clear to everyone. Following concerns raised by federal regulators, the standards board decided to undertake this review in conjunction with these regulators to ensure that the language of the Ethics Rule is in line with its intent.

This is just a small part of The Appraisal Foundation's broader efforts to promote public trust in the appraisal profession, combat bias and discrimination, and promote diversity equity and inclusion. Our boards look forward to continuing this work in conjunction with federal regulators and stakeholders, as we have for the last 33 years.

SPECIFIC TOPICS OF DISCUSSION REQUESTED BY THE COMMITTEE

The Appraisal Regulatory System

The appraisal regulatory system is unique. Under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Congress authorized The Appraisal Foundation to write and maintain the standards and qualifications for real estate appraisals. These standards and qualifications are adopted by states and carry the force of law. The Appraisal Subcommittee is empowered to provide oversight for states and monitor and review The Appraisal Foundation.

Given its role developing standards and qualifications that will become state law, The Appraisal Foundation takes its responsibility as a standard setter seriously. Its boards follow a rulemaking process that closely mirrors federal rulemaking. All changes are exposed for public comment on multiple occasions before any changes are adopted in a public meeting. States and stakeholders often have at least ten months and sometimes as long as three years notice before any of these changes go into effect. From open meetings with public input, to review of thousands of comment letters, the ASB and AQB seriously consider every comment and suggestion.

The Appraisal Foundation does not have regulatory authority but provides the tools for regulators. Currently, the Appraisal Subcommittee conducts biennial reviews of a state's compliance with the Foundation's qualification criteria but does not determine if the appraisal standards are being applied correctly and consistently across the states. The standards can be as strong and clear as possible, but if the federal regulator authorized to make certain Title XI of FIRREA is being properly implemented does not check for proper application of the standards, then instances of bias and discrimination may be going unchecked.

The Appraisal Subcommittee's commissioned National Fair Housing Alliance study of appraisal standards and appraiser qualification criteria calls into question the actions of Congress in creating the current appraiser regulatory system. In addition, draft legislation publicly noticed for this hearing proposes to decimate the current system by removing functions of the private sector and the state appraiser regulatory bodies to an expanded Appraisal Subcommittee under a new agency name. Both appear to be based on limited or mistaken information and the Foundation encourages the authors to work with us and the broader valuation community to develop solutions that will not be damaging to consumers, to users of appraisal services, and to the public trust in valuation.

Recommendations:

- The Appraisal Subcommittee should determine if a state is applying appraisal standards correctly and consistently as part of their biennial review.

- The National Fair Housing Alliance, federal regulators, and others with an interest in valuation should collaborate with the Foundation and its 100+ affiliates in developing solutions to overcome issues of bias or discrimination in appraisals.
- Congress should retain and build upon the current appraiser regulatory system that is based on mutual respect and collaboration rather than decimate it.

Data on Bias and Discrimination Complaints

Even one allegation of bias and discrimination in an appraisal is one too many. Currently, there is no way for anyone to know or to track the number of complaints that have been received alleging bias or discrimination in the United States or how those complaints are adjudicated.

This lack of data derives from a couple of issues. The first being that there is no central point for consumers to submit appraisal complaints. The Appraisal Subcommittee is congressionally authorized to track appraisal complaints received by its national hotline but has not done so. This hotline operates as a referral service but does not intake any data on the consumers who call in.

This creates a data gap. The hotline might refer a consumer to a state appraiser board, civil rights commission or the U.S. Department of Housing and Urban Development, but it does not register the complaint or follow up to see how it was adjudicated.

The Appraisal Foundation believes that this data is critical to understanding the full scope of the issues facing the appraisal profession. It will also give the profession an initial benchmark to begin measuring progress as efforts to combat bias and discrimination continue.

Being able to track an appraisal complaint from start to finish also provides a unique learning opportunity for appraisers to learn to identify bias and avoid it in their appraisal practice. This data could be a powerful teaching tool in addition to a way to measure progress in eliminating bias from the profession.

Recommendation:

- The Appraisal Subcommittee should act on its congressional authorization to track appraisal complaints received by its national hotline, including how those complaints are resolved and share that data with regulators and stakeholders.

Promoting Diversity in the Appraisal Profession

As has been recognized in the PAVE action plan and in our own demographic research, the appraisal profession is predominantly white, male and over age 55. This is not reflective of the United States we live in today, and The Appraisal Foundation has been committed to promoting diversity in the appraisal profession.

The Appraiser Qualifications Board (AQB) takes seriously its efforts to establish appraiser qualification criteria to be the minimum needed for those doing appraisals to

be qualified and have the necessary understanding to perform appraisal assignments. These Criteria are reviewed periodically against the findings of occupational analysis to make certain they meet the baseline.

As an example, in 2018 the AQB cut the experience hours in half for those seeking to become licensed or certified residential appraisers finding that the expanded education and technology available to aspiring appraisers were sufficient to warrant a lower experience requirement. That same year, the AQB reduced the college education requirements for licensed and certified residential appraisers – and developed a pathway from licensed or certified that requires no college education.

The AQB has also looked for more innovative ways to provide aspiring appraisers a path into the profession. After the passage of Dodd-Frank, it became much more difficult for aspiring appraisers to find a supervisor. To fill this growing need, the AQB has developed the Practical Applications of Real Estate Appraisal (PAREA). This alternative pathway for an aspiring appraiser to meet their experience requirements is a simulated training that allows participants to fulfill their experience hours in their home and includes interaction with experienced appraisers who are provided to the participant through the program.

There are currently eight PAREA programs in development, and we expect to see at least two publicly available to aspiring appraisers by the end of 2022. The arrival of this highly anticipated program will open up the profession to a whole new generation.

The AQB is responsible for setting the minimum qualification criteria for appraisers, but states and federal agencies can, and do, go beyond these minimum requirements in determining whether or not they consider an appraiser to be qualified.

For example, the Federal Housing Administration (FHA) will not accept licensed appraisers, the lowest credential level which does not require a college degree, following the passage of the Housing and Economic Recovery Act of 2008. This has caused the number of licensed appraisers in the United States to plunge from over 30,000 to under 8,000 in less than 15 years.

Licensed appraisers are permitted to appraise any residence under one million dollars, which makes them qualified to conduct FHA appraisals. Legislation should be considered to rescind the requirement for an appraiser to be certified rather than licensed to complete this work. Likewise, federal agencies should examine their requirements for appraisers and harmonize them with the AQB minimum criteria.

Recommendations:

- Federal agencies should harmonize their appraiser qualifications regulations to mirror Appraiser Qualifications Board minimums.
- Congress should pass legislation allowing licensed appraisers to perform FHA appraisals.
- States should accept the Practical Applications of Real Estate Appraisal for

100% of an aspiring appraiser's required experience hours.

Combatting Bias and Discrimination in the Appraisal Profession

There is no place for bias or discrimination in the appraisal profession. The Appraisal Foundation has been working tirelessly to root out any bias or discrimination in the profession.

Since the day the Uniform Standards of Professional Appraisal Practice were first adopted over thirty years ago, bias in an appraisal has been prohibited. But it is clear that more needs to be done to protect the public trust.

The Appraisal Foundation's efforts to combat bias and discrimination include:

- A comprehensive review of the Ethics Rule in the Uniform Standards of Professional Appraisal Practice (USPAP) to ensure it is clear that bias and discrimination are prohibited.
- Retaining the prominent fair housing firm Relman Colfax to review current standards, qualifications and courses as well as any future proposed changes to the standards and qualifications through a fair housing lens.
- Including bias as it relates to USPAP as a central component of required continuing education for all appraisers.
- Providing public notice, exposure drafts and opportunities for public participation for work products of the Appraisal Standards Board and Appraiser Qualifications Board.
- Publishing final Standards and *Qualification Criteria* at least 30 days prior to the effective date.
- Developing an alternative pathway for an appraiser to gain experience hours without a supervisory appraiser. The first modules adhering to this pathway, called the Practical Application of Real Estate Appraisal (PAREA), are expected to be available in the first half of this year.
- Monitoring the demographics of the profession and making that data publicly available.
- Reducing barriers to entry to the appraisal profession by creating a pathway from a licensed credential to certified residential credential without a college degree.

It is heartening that the PAVE Task Force echoes The Appraisal Foundation's commitment for clear guidance to appraisers and education for consumers. The Foundation looks forward to starting a dialogue with the Task Force on possible paths for collaboration to continue to advance these shared goals.

Recommendation:

- The PAVE Task Force should engage with The Appraisal Foundation to provide input on standards and qualifications and explore avenues for collaboration to combat bias and discrimination.

Promoting Diversity at the Foundation

The Appraisal Foundation's work to promote diversity, equity and inclusion has not just focused on the appraisal profession itself, and while Foundation staff demographics are 92% female and 50% Black or African American, the Foundation has also been working to increase the diversity of its boards and stakeholders.

In summer 2021, the Foundation hired Aubrey Blanche, a diversity consultant, to review the processes for selecting board members for the Foundation's management board and its two technical boards. Ms. Blanche's analysis revealed that the Foundation was following best practice for both its trustee nominating and board nominating cycles, but she recommended improvements to these systems.

These recommendations included a rubric scoring system as well as a blind scoring process that the Board of Trustees is now implementing. This process is still ongoing, but after the first round of application review, the Board is pleased to be considering its most diverse pool of candidates ever.

To measure the impact of these efforts, the Foundation surveyed our current boards for baseline demographic data. This data reveals gender and racial diversity at 40% female and 9% Black, African American, or American Indian with 3% preferring not to answer. These insights show there is room for growth.

The Appraisal Foundation is continuing to consider recommendations put forth by both the National Fair Housing Alliance's study of appraisal standards and appraiser qualifications and the PAVE task force.

Two recommendations the Board of Trustees is strongly considering are to enhance the participation of consumer advocates and civil rights organizations in the Foundation's rulemaking process.

The first of these recommendations is the establishment of an advisory council consisting of consumer advocates and civil rights organizations. Currently the Foundation has two advisory councils, the Industry Advisory Council and The Appraisal Foundation Advisory Council, consisting of industry partners and non-profit organizations respectively. Each of these councils provides guidance to the technical boards by offering comments on any proposed changes to the standards and qualifications and has the ability to appoint one trustee to serve on the Board of Trustees. This newly created council would have those same rights.

The Board of Trustees is also considering adding a public member to each of the two technical boards, the Appraisal Standards Board and Appraiser Qualifications Board. The Board of Trustees has a seat reserved for a consumer advocate and has, at times had more than one consumer advocate on the board, but this has not extended to the technical boards. These boards have historically required members be subject matter experts in the appraisal standards or appraiser qualifications. The National Fair Housing

Alliance study demonstrated the wisdom of having public members present throughout the development of proposed changes.

The Appraisal Foundation prides itself on being an open, transparent organization. The Foundation's boards will continue to seek ways to increase its accessibility to the public through partnership with regulators and stakeholders. The Foundation is well-respected as the umbrella for all with an interest in valuation, and we encourage the NFHA, the PAVE task force federal regulators, and all with an interest in valuation who have not yet done so to join with us and the broad array of stakeholders across the country working collaboratively to uphold the public trust.

Recommendations:

- The Foundation will begin tracking its board demographics and set goals for all three of its boards to maintain a more diverse membership.
- The Foundation will review its application and interview process for all three boards on an ongoing basis to ensure that the process is fair and equitable.
- The Foundation will establish an Advisory Council consisting of consumer advocates and civil rights organizations to provide input on all future changes to the standards and qualifications.
- The Foundation's Board of Trustees will explore adding a public seat to each of the Foundation's technical boards to ensure that the consumer perspective is always represented in any proposed changes to standards and qualifications.

Benefits and Limitations of Automated Valuation Models (AVMs)

Appraisers always welcome more and better data. Credible AVM data helps appraisers produce meaningful and robust analysis of the subject property, but not all AVM outputs are reliable. It is widely known that AVMs are very good at dealing with homogenous properties but are not able to provide accurate and reliable conclusions when a market is diverse or transitioning. AVMs can play a role in reducing bias only by having to adhere to regulatory standards and by operating in a transparent and testable manner. Additionally, it is paramount that users of AVMs, including lenders and consumers, understand what the model's output means and have a way to challenge the AVM output.

The Appraisal Foundation Industry Advisory Council has been studying the foundational requirements for AVM standards over the last 18 months. The IAC AVM Task Force comprised of industry leaders, academicians, algorithmic modelers, and analysts is nearing completion of a comprehensive report on the topic. The report will be shared with the federal banking regulatory agencies charged in Dodd Frank to develop AVM standards.

Recommendations:

- The Appraisal Foundation will share the report of the IAC AVM Task Force with the federal banking regulatory agencies to inform and aid them in their work.
- Federal banking regulatory agencies should develop AVM standards as set forth in Dodd Frank in consultation with the Appraisal Standards Board and ASC staff.

CONCLUSION

The Appraisal Foundation is committed to fostering an appraisal profession that maintains public trust and is reflective of the population of the United States. This goal is only attainable with the collaborative engagement of all stakeholders as Congress intended when it created the current model which has been fostered over the following three decades since FIRREA was enacted. The Foundation shares the concerns and goals of the Biden Administration's PAVE Task Force and hopes to partner with the task force to continue advancing their shared goals.

The Appraisal Foundation appreciates the opportunity to share our perspectives with you today and we urge this Committee and all members of Congress to continue to use the Foundation as a resource on valuation-related matters.



Authorized by Congress as the Source of Appraisal Standards and Appraiser Qualifications

The Appraisal Foundation Advisory Council:

ORGANIZATIONS OF APPRAISERS

American Society of Appraisers *
American Society of Farm Managers and Rural Appraisers *
Appraisers Association of America *
Association of Independent Mortgage Experts
Association of Machinery and Equipment Appraisers
Association of Texas Appraisers
Canadian National Association of Real Estate Appraisers
Columbia Society of Real Estate Appraisers
Equipment Appraisers Association of North America
Illinois Coalition of Appraiser Professionals
Instituto de Evaluadores de Puerto Rico *
International Association of Assessing Officers *
International Right of Way Association *
International Society of Appraisers *
Maryland Association of Appraisers
Massachusetts Board of Real Estate Appraisers *
Midwest Appraisers Association
National Association of Appraisers
National Society of Real Estate Appraisers
North Carolina Professional Appraisers Coalition *
North Carolina Real Estate Appraiser Association
Ohio Coalition of Appraiser Professionals
Real Estate Valuation Advocacy Association
Royal Institution of Chartered Surveyors *
South Carolina Professional Appraisers Coalition *
Virginia Coalition of Appraiser Professionals
West Virginia Council of Appraiser Professionals

USERS OF APPRAISALS

American Bankers Association
American Institute of Certified Public Accountants
Conference of State Bank Supervisors
Counselors of Real Estate

Farm Credit Council *
Federal Agricultural Mortgage Corporation
Institute for Professionals in Taxation
Mortgage Bankers Association
National Association of Federal Credit Unions
National Association of Home Builders
National Association of Jewelry Appraisers
National Association of Mortgage Brokers
National Association of Realtors *
National Auctioneers Association
National Council of Real Estate Investment Fiduciaries
Relocation Appraisers & Consultants
Worldwide ERC

GOVERNMENT AGENCIES AND ORGANIZATIONS

Association of Appraiser Regulatory Officials
Fannie Mae
Federal Highway Administration
Federal Transit Administration
Freddie Mac
General Services Administration
Internal Revenue Services
US Department of Agriculture, Farm Service Agency
US Department of Agriculture, Forest Service
US Department of Agriculture, Natural Resources Conservation Service
US Department of Agriculture, Rural Development
US Department of Energy, Bonneville Power Administration
US Department of Housing and Urban Development
US Department of Justice
US Department of the Army
US Department of the Interior, the Office of Valuation Services
US Department of the Navy
US Department of Veteran Affairs

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The Appraisal Foundation Industry Advisory Council:

FOR-PROFIT ORGANIZATIONS

Allstate Appraisal
Amrock
AppraiserVendor.com
AVMetrics
Bank of America
BBG, Inc.
CBRE
Clarocity Corporation
Class Valuation
Clearcapital.com, Inc.
CoreLogic|FNC, Inc.
Cushman & Wakefield
Genworth Mortgage Insurance Corporation
Green Street Advisors
HouseCanary
J2C Valuation Services
JLL Valuation & Advisory, LLC
JPMorgan Chase
Lightbox
LPA
LW Hospitality Advisors
Morgan Stanley Mortgage Capital
National Valuation Consultants
Newmark Knight Frank Valuation & Advisory
Opteon Appraisal
PCV Murcor Real Estate Services
PNC Bank
Property Sciences Group
Prudential Financial
Servicelink
Solidifi, Inc.
TrUnion Appraisal Services

Umpqua Bank
United States Appraisals
Valbridge Property Advisors
Veros Real Estate Solutions
Weichert Workforce Mobility
Wells Fargo Bank
Zillow Group