

February 8, 2023

Jim Park
Executive Director
Appraisal Subcommittee
1325 G Street Suite 500, NW
Washington, DC 20005
appraisalbiashearing@asc.gov

Dear Executive Director Park:

The National Community Reinvestment Coalition appreciates the opportunity to submit written comments to the Federal Financial Institutions Examination Council's Appraisal Subcommittee.

We thank the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (FFIEC) for hosting a hearing on appraisal bias on January 24th.

The National Community Reinvestment Coalition (NCRC) and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business. NCRC was formed in 1990 by national, regional and local organizations to increase the flow of private capital into traditionally underserved communities. NCRC has grown into an association of more than 600 community-based organizations that promote access to basic banking services, affordable housing, entrepreneurship, job creation and vibrant communities for America's working families.

Appraisal bias has garnered significant media attention due to incidents of egregious discrimination.¹ Appraisal bias robs Black and Brown people of wealth and is particularly pernicious since homeownership is the primary driver of wealth for most Americans, and closing the homeownership gap is key to closing the racial wealth gap.²

¹ Debra Kamin, "Home Appraised with a Black Owner: \$472,000. With a White Owner: \$750,000," *The New York Times*, August 18, 2022, <https://www.nytimes.com/2022/08/18/realestate/housing-discrimination-maryland.html>; Troy McMullen, "For Black Homeowners, a Common Conundrum with Appraisals," *The Washington Post*, January 21, 2021, https://www.washingtonpost.com/realestate/for-black-homeowners-a-common-conundrum-with-appraisals/2021/01/20/80fbfb50-543c-11eb-a817-e5e7f8a406d6_story.html; and Lauren Hepler, "A Black Couple 'Erased Themselves' from Their Home to See if The Appraised Value Would Go Up. It did—by nearly \$500,000," *San Francisco Chronicle*, December 3, 2021, <https://www.sfchronicle.com/bayarea/article/Black-Marin-City-couple-sues-appraiser-for-16672840.php>.

² Laurie S. Goodman and Christopher Mayer, "Homeownership and the American Dream," *Journal of Economic Perspectives*, 32, no. 1 (Winter 2018): 32, https://www.urban.org/sites/default/files/publication/96221/homeownership_and_the_american_dream_0.pdf and "Table 5. Mean Value of Assets for Households, by Type of Owned and Selected Characteristics: 2019," U.S. Census Bureau, Survey of Income and Program Participation, 2020, <https://www.census.gov/data/tables/2019/demo/wealth/wealth-asset-ownership.html>. Under "Wealth and Asset Ownership," click on the Microsoft Excel spreadsheet, "Wealth and Asset Ownership for Households, by Type of Asset and Selected Characteristics: 2019 [<1.0 MB]" and download it. The referenced data is from Table 5.

I. Our Research Revealed Biased Home Appraisals in the Greater Baltimore Area

NCRC released a report in October 2022 on discriminatory home appraisals in the Greater Baltimore Area called, “Faulty Foundations: Mystery-Shopper Testing in Home Appraisals Exposes Racial Bias Undermining Black Wealth.”³ (Attached as Appendix to this letter.) NCRC recruited Black/White interracial couples for 7 fair housing tests to examine whether there was a difference in homes’ valuation when White partners were present for home appraisals compared to Black partners.⁴ In each test, an appraisal was performed twice—once with the White partner and once with the Black partner—for a total of 14 tests.⁵ Our report found that White homeowners generally received higher valuations than Black homeowners.⁶ One interracial couple’s home was appraised at \$46,000 higher when the White partner was present compared to the Black partner.⁷ Furthermore, there was also a difference in the way that appraisers treated Black and White homeowners.⁸ Black homeowners generally received unprofessional treatment from appraisers.⁹ One appraiser took 11 weeks to complete a report for a Black homeowner while another appraiser failed to complete an appraisal for a Black homeowner altogether.¹⁰ By contrast, White homeowners did not experience such mistreatment.¹¹

II. Home Appraisals Systematically Deprive Black Neighborhoods of Wealth

A study from The Brookings Institute found that homes in Black neighborhoods are significantly undervalued.¹² The report found that when the characteristics of the homes and neighborhoods are the same, homes in the majority-Black neighborhoods are still valued 23% lower than homes with few or no Black residents.¹³ Individual homes in Black neighborhoods were devalued at \$48,000 per home.¹⁴ This amounts to \$156 billion in losses for majority-Black neighborhoods.¹⁵ Less wealth for Black homeowners means less money to use towards college tuition, starting businesses, and for other needs.¹⁶

III. The Appraisal Industry Lacks Oversight in Key Areas

³ Jake Lilien, “Faulty Foundations: Mystery-Shopper Testing in Home Appraisals Exposes Racial Bias Undermining Black Wealth,” National Community Reinvestment Coalition, October 2022, <https://ncrc.org/wp-content/uploads/2022/10/Faulty-Foundations-Mystery-Shopper-Testing-In-Home-Appraisals-v5.pdf>.

⁴ Ibid., 5.

⁵ Ibid., 5, 9, and 11.

⁶ Ibid., 4.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Andre Perry, Jonathan Rothwell, and David Harshbarger, “The Devaluation of Assets in Black Neighborhoods: The Case of Residential Property,” The Brookings Institution, November 2018, https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf?mod=article_inline.

¹³ Ibid., 3 and 15.

¹⁴ Ibid., 3, 15, and 19.

¹⁵ Ibid.

¹⁶ Ibid., 3 and 19.

As mentioned in the report, “Identifying Bias and Barriers Promoting Equity: An Analysis of the USPAP Standards and Appraiser Qualifications Criteria,” generously sponsored by the FFIEC’s Appraisal Subcommittee, there are several areas where the appraisal industry can improve.¹⁷ One of the most glaring areas where The Appraisal Foundation, the appraisal industry’s governing body, can improve is the composition of its Board of Trustees.¹⁸ Currently, The Appraisal Foundation’s bylaws state that appraisers must contribute a majority of its Board of Trustees.¹⁹ If appraisers oversee other appraisers, there is no true oversight.

Another area where the appraisal industry should improve is the use of the sales comparison approach during appraisals. While seemingly race-neutral, appraisers have broad discretion when determining which homes to use to compare to the appraised home.²⁰ When placed in the context of historical discrimination, homes in communities of color have been historically undervalued.²¹ Under the current sales comparison approach, appraisers typically compare homes within “the same undervalued neighborhood of color” even if there are homes with similar values in white neighborhoods.²²

An additional sphere where the appraisal industry should improve is in its fair housing training. Before last year, appraisers were not required to take any fair housing courses.²³ While it is promising that there is now a required fair housing course for appraisers to receive their licenses, it is concerning that there is no requirement for continued fair housing training.²⁴ Even more troubling is that appraisers are not required to learn the basics of the state and local fair housing laws in their jurisdictions.²⁵ If appraisers don’t receive fair housing training or have knowledge of fair housing laws, they are likely to engage in a cycle of appraisal discrimination and devalue Black-owned homes.

I. The ASC’s Hearing Underscored How Appraiser Subjectivity Causes the Devaluation of Homes in Black and Brown Neighborhoods

The witness testimony during the Appraisal Subcommittee’s hearing highlighted the discriminatory practices that devalue homes owned by Black people and other people of color. During her testimony, Dr. Junia Howell described how appraisers’ practices function to devalue homes in Black neighborhoods and neighborhoods of color. In one study, she and her colleagues found that appraisers’ assessments of neighborhoods’ racial composition in Houston, Texas

¹⁷ Christensen Law Firm, Dane Law, and the National Fair Housing Alliance, “Identifying Bias and Barriers Promoting Equity: An Analysis of the USPAP Standards and Appraiser Qualifications Criteria,” January 2022, https://nationalfairhousing.org/wp-content/uploads/2022/02/2022-01-28-NFHA-et-al_Analysis-of-Appraisal-Standards-and-Appraiser-Criteria_FINAL.pdf.

¹⁸ Ibid., 40-41.

¹⁹ Ibid.

²⁰ Ibid., 21.

²¹ Ibid., 22.

²² Ibid.

²³ Ibid., 56.

²⁴ Ibid., 56-57.

²⁵ Ibid., 56.

influenced how they “selected comparable sales and evaluated the properties’ characteristics.”²⁶ When appraisers were unable to find recent sales comparisons (or comps), they selected comps from neighborhoods with similar racial demographics even if they differed in other demographics such as socioeconomic status, amenities, and location.²⁷ Even more disturbing was their finding that White appraisers often relied on “race-based explanations, including derogatory stereotypes, to justify their assessments.”²⁸ Appraisers’ harmful actions were reflected in local tax assessments; homes in white communities were **valued at \$250,000 more than similar homes in communities of color.**²⁹

Teneisha Tate-Austin and Paul Austin’s testimony about the devaluation of their Marin City, California home specifically reveals how appraiser subjectivity manifests as appraisal bias. After their first appraisal came back at only \$995,000, Ms. Tate had questions about the appraiser’s report.³⁰ She discovered that the appraiser did not use comps from recent home sales, and the comps that the appraiser used “were not comparable in square footage, size of house or type, and many were old listings.”³¹ The Austins were familiar with home sales in Marin City, and they knew that it was inappropriate for the appraiser to use comps from old instead of current listings.³² When they had a White friend stand in for a second appraisal, the Austins’ home was valued at \$1,482,500--almost a 50% increase in their property’s valuation.³³ The difference between the two appraisals is significant because it strongly suggests and corroborates Dr. Howell’s claim that proper appraisal methods and objectivity--instead of subjectivity--were used when the appraiser thought that the homeowner was White.

II. NCRC Recommends the Following Measures to Address Appraisal Bias

1. Additional Funding for Fair Housing Testing

- a. As stated in NCRC’s report on appraisal bias, “Faulty Foundations,” NCRC recommends additional funding for fair housing testing. Further testing would identify and curb appraisal discrimination.³⁴ While we thank Congress and HUD for providing \$28 million to fair housing organizations to fight housing

²⁶ Junia Howell, Ph.D., “Color Coded: The Growing Racial Inequality in Home Appraisals,” Written Testimony Submitted to the Appraisal Subcommittee (ASC) Public Hearing on Appraisal Bias, January 24, 2023, 3, https://files.consumerfinance.gov/f/documents/cfpb_appraisal-hearing_junia-howell-testimony_2023-01-24.pdf.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid., 5.

³⁰ Paul Austin and Teneisha Tate-Austin, Homeowners from Marin California, Written Testimony Submitted to the Appraisal Subcommittee (ASC) Public Hearing on Appraisal Bias, January 24, 1, 2023, https://files.consumerfinance.gov/f/documents/cfpb_appraisal-hearing_paul-austin-and-teneisha-tate-austin-testimony_2023-01-24.pdf.

³¹ Ibid., 1.

³² Ibid.

³³ Ibid.

³⁴ Lilien, “Faulty Foundations,” National Community Reinvestment Coalition, 18.

discrimination in 2022, there is still a significant remaining need.³⁵ Only \$15 million is devoted to fair housing testing and only another \$500,000 is dedicated to fair housing testing training.³⁶ Therefore, more funding is needed to root out appraisal bias and other forms of discrimination in the housing market.

2. Require Fair Housing Training to Receive and Renew Appraisal Licenses

- a. Fair housing training should be mandatory to receive an appraisal license and to renew an appraisal license.³⁷ Fair housing training would clarify that the Fair Housing Act applies to appraisal activities.³⁸ Such training would also clarify that the Fair Housing Act holds appraisers accountable for discrimination.³⁹
- b. We appreciate The Appraisal Institute's support for additional laws to require appraisers take courses on valuation bias and anti-discrimination to receive and renew their licenses.⁴⁰

3. Create a More Meaningful Reconsideration of Value Process

- a. Many homeowners who believe that their homes have been undervalued find the current appraisal reconsideration process to be unhelpful because many appraisers are unwilling to justify their valuations.⁴¹ If a homeowner provides evidence of a valuation that that may have had flaws during the reconsideration process, and an appraiser refuses to change their valuation, an appraiser should be required to justify why their valuation is still the same.⁴²

4. Industry Standards to Hold Appraisers Accountable

- a. Standards should be put in place to ensure that appraisers comply with state, local and federal fair housing laws.⁴³ One example where this can be applied is in the selection of sales comparison homes or comps.⁴⁴ Congress should aid federal agencies like the Appraisal Subcommittee in issuing such standards and providing oversight.⁴⁵

5. Require Government-Sponsored Enterprises and Appraisal Companies to Release Appraisal Datasets

³⁵ U.S. Department of Housing and Urban Development, "HUD Makes More Than \$28 Million Available to Fight Housing Discrimination," September 30, 2022, https://www.hud.gov/press/press_releases_media_advisories/HUD_No_22_195.

³⁶ Ibid.

³⁷ Lilien, "Faulty Foundations," National Community Reinvestment Coalition, 18.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ CFPB Live, "Appraisal Subcommittee Hearing on Appraisal Bias," YouTube, <https://www.youtube.com/watch?v=QW8ADw9vOSc>, 55:12-55:46.

⁴¹ Lilien, "Faulty Foundations," National Community Reinvestment Coalition, 18.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Ibid.

- a. The Home Mortgage Disclosure Act (HMDA) provides the government and the public with valuable data about mortgage lending.⁴⁶ It does so by requiring some financial institutions to report their applicants' and borrowers' demographics, and the pricing of their loans.⁴⁷ To provide more transparency about home appraisals, appraisal companies should be required to report on the demographics of their clients, and the values they assigned to the clients' homes.⁴⁸
- b. In the meantime, government-sponsored enterprises should release their data on home valuations and races of the homeowners.⁴⁹ In recent years, Fannie Mae and Freddie Mac have collected this data, but not all of it has been publicly released.⁵⁰ The Federal Housing Finance Agency (FHFA) should direct Fannie Mae and Freddie Mac to release more of their data on appraisal values and homeowners' racial demographics.⁵¹

6. Incentivize the Appraisal Industry to Diversify

- a. Currently, qualifications to become an appraiser bar many people of color from becoming appraisers. As a result, the appraisal industry is about 85% white and about 77% male.⁵² The Appraiser Qualifications Board establishes appraiser qualifications criteria.⁵³ A Bachelor's degree, several hundred hours of training and education and thousands of hours of experience (including training under a supervisor) are required to become a Certified General Appraiser.⁵⁴ NCRC recommends that the appraisal industry consider whether these credentials have impeded the appraisal profession's diversity and encourage the Appraisal Subcommittee to further investigate whether this is the case.

Thank you for your consideration of our recommendations on this important issue. Please contact Nichole Nelson, Senior Policy Advisor, at nnelson@ncrc.org with any questions.

Sincerely,
Jesse van Tol
National Community Reinvestment Coalition

⁴⁶ Ibid., 17.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Appraisal Institute, "U.S. Valuation Profession Fact Sheet Q1 2019," 2, <https://www.appraisalinstitute.org/file.aspx?DocumentId=2342>.

⁵³ Interagency Task Force on Property Appraisal and Valuation Equity, "Action Plan to Advance Property Appraisal and Valuation Equity: Closing the Racial Wealth Gap by Addressing Mis-valuations for Families and Communities of Color," March 2022, 30, <https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf>.

⁵⁴ Ibid. "Table 1: AQB-Established Appraiser Qualification Requirements."