

Strengthening Oversight and Equity in the Appraisal Process
Senate Committee on Banking, Housing, and Urban Affairs
March 24, 2022

Opening Statements

Chairman Brown (D-OH) stated that a home is so much more than four walls and a roof saying that a home is a safe haven and where you watch your children grow up. He said that owning a home is economic safety and emphasized that the worth of your home matters. Brown reflected that as a country, we have excluded African Americans from voting, living in certain areas, etc. He continued that from 1934-1968, the federal government endorsed the idea that some communities were worth less if it was a minority neighborhood. Brown referred to the Fair Housing Act which remedied this from a legal standpoint but explained that redlining of the past is still occurring. He stated that when a black family owns a home it is worth one price and when a white family owns a home it is worth 20% more. Brown stated that appraisals are based on how much your neighbors' house sells for and referred to the newly announced PAVE Task Force which will focus on actions that federal agencies can take today regarding equity in the appraisal process. He said this is an issue that has real consequences and looked forward to hearing what can be done so families do not have to settle for less.

Ranking Member Toomey (R-PA) remarked that racial discrimination is a real and sad part of our nation's history and said that government has usually been the problem, not the solution. He questioned why the federal government is involved in the appraisal process and thought this should be left to the private sector. Toomey continued that the PAVE action plan will only add more government burdens and said that there is already laws that ban racial discrimination. He said that the appraisal industry, according to the Biden Administration, remains systemically racist and was surprised by the report released by the PAVE Task Force. Toomey questioned if the Task Force has enough data to make conclusions in the report. He questioned if the government should upend the appraisal regime without confirmation that there is a systemic problem and said that the PAVE Task Force only relied on two studies. Toomey said that he did not think that we should be doing anything to make rural homes even more difficult to appraise and hoped that any changes that would risk over evaluation would be rejected.

Witness Testimony

Melody Taylor, *Executive Director, Property Appraisal and Valuation Equity Interagency Task Force and Regional Director, Office of Fair Housing and Equity Opportunity, Region III, Department of Housing and Urban Development*, said that homeownership is the primary way American families build wealth and pass it on to the next generation, so the value of one's home in the refinance process determines whether one can use the home's equity to reach financial goals. Taylor went on to point to examples of appraisal bias and how these were not

‘one-off’ experiences. She then explained the work of the PAVE Task Force and summarized the comprehensive actions provided by the PAVE report’s Action Plan.

James Park, *Executive Director, Appraisal Subcommittee of the Federal Financial Institutions Examination Council*, said he had the honor of participating on the PAVE Task Force. He went on to explain how appraisals and appraisers play a vital role in the multi-trillion-dollar financial services market by providing key risk management tools that protect financial institutions and consumers. Park noted that a number of accounts of appraisal bias have raised concerns about appraisals and lending practices. He highlighted the history of the appraisal regulatory system and pointed to the issues of inadequate accountability in our current governance structure, a shortage of appraisers, and a lack of diversity in the appraisal profession. Park closed by advocating for an improved governance structure that would advance equity by ensuring greater fairness and transparency in the appraisal standards and appraiser qualifications setting process.

Member Questions

Chairman Brown (D-OH) stated that one biased appraisal can have pervasive effects on an entire neighborhood and asked Taylor to walk through this process. Taylor referred to the PAVE report where it discusses how an undervaluation of a refinance transaction, for example, can create disinvestment and economic instability in a neighborhood and related this to past redlining. She added that when one does not have their home appraised appropriately it is a loss for the family and the community. Brown referred to the Equal Credit Opportunity Act and the Fair Housing Act which targets discrimination and asked why these laws have not been enough. Taylor answered that while the laws are on the books, the homeownership gap is wider today than 1968 and believed that individuals do not know that they have been discriminated against due to lack of education. Taylor added that the PAVE report calls for an education campaign on appraisal bias. Brown was struck by the persistence of redlining. He turned to Park on the section of the report suggesting that input from all stakeholders be considered and asked him to expand on this and if this would improve oversight and regulation of the industry. Park replied that the appraisal industry right now lacks appropriate governance and said that we need more oversight and accountability so that all facets of society have an opportunity to comment and voice their concerns for standards and qualification setters.

Ranking Member Toomey (R-PA) was sympathetic to the appraisal qualifications creating barriers to entry and was interested in making this more accessible to more people. He said it was unclear that there is enough substantive data to conclude that there is systematic racism in the appraisal process, despite some anecdotes about appraisal bias. Toomey said that the report was based on Fannie and Freddie studies and said that GSEs are in the business of buying and selling mortgage-backed securities and asked if the Task Force looked at independent academic studies that reached different conclusions from the GSEs. Taylor replied that the Task Force looked at

numerous outside studies, including an FHFA study. Toomey pointed to the data that the GSEs relied on and did not think the data was public. He asked who could release the data. Taylor agreed that it was not public and said that releasing it is one of the objectives of the action plan. Toomey thought FHFA has the authority to release the data and said it should be to allow for further review. He turned to undervaluation between white and black borrowers and how Fannie concluded that there is no evidence of systematic differences in undervaluations. He noted the overvaluation of white owned homes in black neighborhoods but said that the report does not include that the Fannie observation concludes that overvaluation may occur due to things other than race, like gentrification. Toomey asked how the PAVE Task Force came to the conclusion of systemic bias in appraisals when the two studies they looked at contradict each other with respect to undervaluations. Taylor shared that a number of studies based on this topic over the years have pointed to inequity in the appraisal process and knew that the subjectivity of the appraisal process is based on their opinion of value. Toomey said that the data presented does not support the conclusion despite the anecdotal appraisal bias. He thought that the reforms would raise the cost of homeownership.

Sen. Menendez (D-NJ) knew that there are some who will never see bias in anything and presume that our systems are effective, which he wished was the case. He referred to the Freddie Mac study on appraisal bias which found that a large portion of appraisers are generating statistically significant gaps and asked if appraisers have to go through any bias training. Taylor replied that there is currently not a requirement for appraisers to attend fair housing or bias training and while some states require this, it is not a requirement for certification. Menendez understood that some appraisals are skewed because of the lack of diversity in the industry. He asked what legal recourse victims of discriminatory appraisals have. Taylor replied that under the Fair Housing Act, those who have been discriminated against can file a complaint through HUD. Menendez asked how long it takes to process a complaint. Taylor said that under statute, it is 100 days. Menendez was unaware of a home closing that lasts 100 days and thought that this is a challenge to the individual. He has also seen that if appraisal bias costs minorities thousands of dollars, these communities are also getting hit with higher taxes like SALT. Menendez asked if this is something HUD has observed. Taylor replied that the action plan speaks to tax assessment and that tax assessments are usually locally controlled, so it is something that the report was unable to address at this time. Menendez asked if housing counseling would help someone navigate these challenges. Taylor replied yes and that in the action plan, appraisal bias training will be part of HUD's housing counseling operations.

Sen. Tester (D-MT) talked about the challenges of appraisal delays in rural areas of Montana and discussed the challenges veterans run into when trying to buy a home with a VA loan. He believed that representatives of the VA should be added to the appraisal process. Tester asked if Park's work could be improved through the knowledge and perspective of VA and USDA representatives. Park replied that adding that USDA and VA to the appraisal subcommittee is a

great idea and shared that his father is a veteran. He continued that the VA has a unique relationship with their appraisers and really understands what is going on in the appraisal market and occupation. Park emphasized the need for more appraisers in rural areas. Tester asked what more can be done to address shortage issues. Park responded that we need to take a look at the qualification requirements and said that one of the biggest barriers of entry is the experience requirement which means one has to find a supervisor which can be nearly impossible. He added that finding a supervisor is even more difficult in rural areas. Taylor talked about increasing the training opportunities for appraisers and potentially eliminating the experience requirement and suggested a written test instead so appraisers can be onboarded more efficiently. Tester thought that the delay on appraisals is a big issue and addressed Toomey saying that he begged to differ that government is not the solution. He agreed with Toomey on the need for transparency on the information showing the existence of systemic racism and thought it would be helpful to have that information for further determinations.

Sen. Smith (D-MN) came down on the side of data transparency and came back to Taylor asking if there is sufficient evidence of systemic disparities to figure out what to do about it. Taylor believed that there is sufficient evidence and recognized that data needs to be available and accessible. She noted that the PAVE action plan talks about wanting to get the data out and the Task Force will work on this. Smith questioned what we do to eliminate the bias saying that the Fair Housing Act bans discrimination on the basis of race but clearly, the problem has not been solved. She discussed the dramatic disparities she sees in Minnesota and asked for comments on solutions to address the bias. Park replied that part of the issue is unconscious bias on the part of appraisers saying that with almost all appraisers being white, we need to work to remove as much of the unconscious bias as possible and advocated for more training and education. He thought it was important for appraisers to learn more about the issues of minority communities. Taylor added that there are 28,000+ calls a year to the Fair Housing Alliance and Fair Housing Initiative of people reporting discrimination and emphasized ensuring that the appraisal industry understands the Fair Housing Act and equal credit Opportunity Act.

Sen. Van Hollen (D-MD) talked about appraisal education and complaints by individuals saying that the Maryland Commission of Real Estate Appraisers says it receives about five complaints per month. He thought bias was more pervasive than this and asked Taylor to talk about improving consumer understanding of their rights to appeal an appraisal if they think they are a victim of bias. Taylor replied that part of the action plan is a website that provides a feature where individuals can look up places in their areas where they can appeal an appraisal. Van Hollen thought that to the extent the process can be transparent, that would be helpful. He turned to diversifying the appraisal workforce and agreed that the experience part of the appraisal process can be an obstacle. Van Hollen asked about other measures to further open up the appraisal profession to increase diversity. Taylor said yes, pointing to recommendations in the report, and then deferred to Park. Park recognized the lack of diversity and talked about a federal

grant program on appraisers in South Dakota and Mississippi. He talked about the program at South Dakota State University to bring in more appraisers and how it's an opportunity to open up the appraiser profession to Native Americans. He continued that the Mississippi grant program is focused on diversity and opening up the profession to more African Americans.

Sen. Warren (D-MA) remarked that appraisals are incredibly important and said that the disparities in homeownership help perpetuate the wealth gap. She was not surprised that AVMs and computer programs that estimate home values have been held up as an alternative due to bias. Warren said that the reality of the algorithms is complicated and asked if AVMs have produced unbiased valuations that homeowners are counting on. Taylor said they looked at the Urban Institute's study on AVMs and believed that while AVMs have potential, just like human bias, AVMs are not immune as discriminatory data can produce bad outcomes. Warren underscored her point saying that AVMs are only as good as the data put in and too often, these algorithms have little visibility into the data and modeling going on inside. She stated that majority black neighborhoods tend to have more distressed home sales than majority white neighborhoods and asked if that fact is likely to contribute to AVMs systematically undervaluing black-owned homes. Taylor replied yes. Warren noted that these neighborhoods are also lower income and often gentrified and asked if this would contribute to undervaluation. Taylor said yes. Warren said that we need to confront decades of racist federal housing policies and ensure that the legacies of racial discrimination are not coded into the algorithms. She believed that there should be proper oversight and guardrails for AVMs and was glad to see the CFPB take a step toward issuing rules on combating algorithmic bias in AVMs, saying that other agencies should follow the CFPB's lead.

Sen. Cortez Masto (D-NV) followed up on Warren's comments and asked if there are limits to the types of housing where AVMs might be as well suited. Taylor stated that in the Task Force's effort to understand AVMs, they determined that it is not the best use of technology in rural areas but deferred further to Park. Park replied that AVMs are extremely data dependent and need large volumes of data to work effectively which is not available in rural markets. He continued that AVMs work best where the housing stock is homogenous, so when you have urban or rural areas where the housing stock varies, AVMs tend to be less reliable. Cortez Masto turned to manufactured homes saying that the elderly and minorities are usually the biggest buyers of manufactured homes and asked about the appraisal process here. Park replied that the PAVE report does not look at manufactured homes. Cortez Masto was concerned about this and asked if the valuing of manufactured homes should be an important product they should be considering here. Park replied that it is somewhat implicit that when you are talking about rural areas, you are talking about manufactured homes and the issues around manufactured homes. He added that having appraisers who are knowledgeable about manufactured homes is necessary and manufactured homes prove to be difficult in the appraisal process. Park noted that they should find solutions on this going forward and that the manufactured home industry and consumers

should be a part of this discussion. Cortez Masto emphasized data transparency and asked how easy it will be to get someone who is working in the appraisal industry for a long time to recognize the disparity challenges and be willing to get training on this. She asked how the federal government can help these appraisers. Park replied that it is a challenge to train those who have been appraising for a long time and said that we need to focus on bringing more appraisers into the profession, particularly in the rural markets, along with training seasoned appraisers.

Toomey heard the terrible anecdotes about bias in the appraisal process and questioned whether or not this is a systemic problem. He believed that the conclusions by the report are not proven from the data the Task Force relied on. Toomey thought that we should proceed cautiously here before we go forward.

Brown said that we always benefit with more data and looked forward to working with Toomey and other members on data. He thanked the members of the Task Force who worked on the PAVE report and applauded the appraisal business for the work it has already done to increase diversity but said that there is more work to be done.