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**STRENGTHENING OVERSIGHT AND EQUITY IN THE  
APPRAISAL PROCESS**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
ONE HUNDRED SEVENTEENTH CONGRESS  
SECOND SESSION  
ON  
EXAMINING STRENGTHENING OVERSIGHT AND EQUITY IN THE  
APPRAISAL PROCESS

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## **STRENGTHENING OVERSIGHT AND EQUITY IN THE APPRAISAL PROCESS**

**THURSDAY, MARCH 24, 2022**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

### **OPENING STATEMENT OF CHAIRMAN SHERROD BROWN**

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order. Welcome to our two witnesses. Thank you for joining us. Thank you for your public service.

Today's hearing is in a hybrid format. I appreciate the witnesses being here in person. Members have the option, as you know.

A home is so much more than four walls and a roof. It is the refuge you return to after a long, hard day at work and it is what keeps you safe at night. It is where you make memories with your children, watching them take their first steps, taking first day of school pictures. For a middle-class family, a home is their single biggest source of wealth, more than bank savings or retirement accounts. For those who aspire to the middle class, home ownership is seen as often the way to get there.

It is not just physical security. It is economic security. Families count on the value of their home as they think about sending their kids to college or about how they will afford retirement, and how much your home is worth matters.

For decades, from the Black codes to Jim Crow, this country locked Black Americans out of one opportunity after another—the opportunity to vote, the opportunity to get an equal education, the opportunity to have the basic dignity of being able to pick your seat on a bus or a train.

In 1933, when America was a very segregated country, by law in many places, the Federal Government created the Homeowners Loan Corporation, HOLC, essentially setting up what would become the 30-year mortgage so that more families could own their homes. Soon after, Federal policy followed the lead of local communities, locking in discrimination and locking out Black families. With redlining maps, our Government cutoff mortgage access and, with that, access to affordable home ownership in neighborhoods where Black and Brown families lived.

For more than 30 years, from 1934 to 1968—the Federal Government endorsed the idea that homes in neighborhoods were worth less because of the race of the people who lived there.

The Fair Housing Act was passed to change that, and slowly began to. In 1968, we affirmed that no one—no one—should be denied housing or discriminated against based on the color of their skin or where they were born. In case it was not clear, the courts and then Congress made it clear that using race to determine a home's value would finally be illegal discrimination.

But just because it is illegal does not mean it does not happen. Look at home values across neighborhoods today. It is obvious that redlining of the past has not been undone. I know that in my own neighborhood. Talk to Black families who have had their home appraised, listen to the stories they tell you. Discrimination is still happening.

Look what happened to the Parkers, an African American family in Loveland, Ohio, a Cincinnati suburb. Just last year, after their appraisal came in far lower than they or their realtor expected, the Parkers took down their family photos, took them off the wall, had a White friend meet a new appraiser. Their home was suddenly worth \$92,000 more, 20 percent more, than the appraisal when it looked like a Black family lived there. That is about as clear-cut an example of how this discrimination works as you can find. And it was last year. When a Black family owns a home it is worth one price. When a White family owns a home it is very likely worth a different price, in this case 20 percent higher price.

Ms. Parker said, in an interview, she had to tell her 6-year-old daughter—you can picture this little Black girl walking around with her parents as her mom and dad took down family pictures, took them off the wall. She told her 6-year-old daughter, “Sometimes because of the color of our skin we get treated differently.” That is something no parent should have to say, no child should have to hear.

It happens all the time. When Andre Perry of Brookings looked at home values he found that homes in majority-Black neighborhoods were worth 23 percent less than homes in neighborhoods with few Black residents, even when they had access to the same quality of schools, same access to business, same rates of crime—23 percent. That means 23 percent less for college tuition, 23 percent less for retirement, 23 percent less to put a down payment on the next home, 23 percent less to pass on to your children and your grandchildren.

Appraisals determine the value of your home based on how much your neighbors' homes sold for, so the devaluation of a home today means that homes down the street will sell for less. That, in turn, means the next home that gets appraised will come in lower, and on and on it goes, for years and years, for decades and decades, for generations.

The cycle continues unless we end it. That is the reason for this hearing, and the Fudge Report.

Last year the Administration took the first step in announcing an initiative, headed by Secretary Fudge, to address bias in home appraisals. She formed an interagency task force, led by Melody Taylor, who has joined us today, that released an action plan to

tackle this problem. The task force plan focuses on actions that Federal agencies can take today: strengthen oversight of fair lending laws, identify and address systemic issues in the appraisal process, grow and diversify the appraiser workforce, give consumers tools to report bias that they see or that is aimed at them.

Today we will hear from Ms. Taylor and from Jim Park, the head of the Federal organization that oversees the appraisal regulatory process about what Federal agencies will do to put this plan into action. We will also hear what we can do to help them do their work.

This is not theoretical. This is an issue that has real consequences for the millions of families that we serve in Montana and Pennsylvania and Ohio. I look forward to hearing what we can do to make sure millions of Americans like Ms. Parker never have to settle for less.

Ranking Member Toomey.

#### **OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY**

Senator TOOMEY. Thank you, Mr. Chairman. Almost a year ago we held a hearing on discrimination in housing, and I will say again today what I said then: racial discrimination is a real and sad part of our Nation's history. It is a fact. Sadly, it is also a fact that Government policies have contributed to this discrimination. In my view, history shows us that when it comes to housing in America, including housing discrimination, Government is often has been the problem not the solution.

First, we should ask ourselves why the Government is micro-managing the appraisal process. As long as taxpayers are not on the hook for the risk-taking and subject to existing consumer protection and anti-discrimination laws, each private sector market participant should be free to develop its own approach to underwriting its loans, and that flexibility should permit significant discretion to experiment with new technologies like automated valuation models or other alternatives to full appraisals of loan collateral. For example, when there are numerous bids for a home the best appraisal is probably the market itself.

But unfortunately that is not the system we have today. Instead, taxpayers stand behind more than two-thirds of our mortgage loans and Federal appraisal regulation extends even to much of the small, remaining portion that is not backed by the Government. Government intervention begets more Government intervention. And here we are today, with my colleagues advocating a, quote, "action plan," that will layer yet more regulation on top of an already byzantine and antiquated set of appraisal regulations.

Thankfully, there are laws against discrimination for real estate transactions, including appraisals. As a result, most institutions have long since abandoned explicit racial discrimination. Even the President's nominee for HUD's Office of Policy Development and Research has publicly acknowledged that. Has the appraisal industry somehow avoided this law?

Well, this Administration seems to believe that despite the progress we have made to eliminate discrimination in housing, the appraisal industry remains systemically racist. Yesterday, the Administration's task force on Property Appraisal and Valuation

Equity, or PAVE, released a report alleging systemic racial bias in home appraisals. This comes as a bit of a surprise.

The report recommends an action plan to address this alleged systemic racism before the Government has sufficiently established that a systemic problem exists in the first place. In fact, the report admits that, quote, “the exact number of instances of valuation bias is difficult to assess,” end quote. And one of the report’s recommended actions is to establish metrics to identify appraisal bias. Well, that certainly calls into question whether the authors have enough data to know whether their conclusion is correct.

Of course, we should not ignore incidents of appraisals that appear to be attributable to race, and this happens. There have been news reports of home being appraised for more when Black owners had White people stand in for them, as the Chairman has relayed an anecdote to that effect. And FHFA reviewed millions of appraisals and found some instances where the appraiser included direct references to race or another protected class. These things are not right.

But as bad as these anecdotes are, do they prove that there are systemic problems, and should the Government upend the appraisal regime, and in the process impose significantly higher costs on people buying homes, without confirmation that there is a systemic problem here?

See, it is not at all clear that we have a systemic problem of appraisers undervaluing homes based on a borrower’s race. The PAVE task force relied primarily upon two studies that have questionable analyses, that failed to control for other factors, other than race, that once considered may explain disparities. Other studies disclosed their limitations and note that the results are not conclusive evidence of racial bias. Even Fannie Mae’s study, the one relied upon by the task force, found, and I quote, “The differences observed in undervaluation between White and Black borrowers were similar in rate and not meaningfully different,” end quote. That is from Fannie Mae.

In another recent academic study, which the PAVE report fails to cite, found racial appraisal bias in mortgage refinance transactions to be either uncommon or to have relatively minor effect on valuations. Yet we are still holding a hearing today to address what we are told is a systemic problem of racial bias in home appraisals.

So I am concerned that the PAVE report devotes only half a page to a discussion of the risks of over-valuing homes. Instead, the report recommends studying the use of alternatives to the sale comparison approach of appraisals and the use of range of value estimates instead of a single value estimate for appraisals.

But rather than increasing the accuracy of appraisals, these suggestions increase the risk of over-valuation, and that risk is exacerbated for rural properties, which already can be challenging to appraise. I do not think we should be doing anything to make appraisals of rural housing more difficult, nor should we adopt recommendations that, in general, could undermine confidence in appraisals and ultimately reduce the availability of credit for all borrowers. The overvaluation of homes harms taxpayers on the hook for underwater mortgages, and it also harms borrowers, in

many cases minority borrowers, who have been sold over-valued homes. I hope we reject any changes that end up increasing the risk of over-valuation.

As I have said before, one of the lessons we should learn and apply is that when it comes to housing in America, Government has often been the problem, not the solution.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey. I will introduce today's witnesses.

Melody Taylor is the Executive Director of the Property Appraisal and Valuation Equity—PAVE—interagency task force, which Senator Toomey and I mentioned. She serves as the Regional Director for the Mid-Atlantic Office of Fair Housing and Equal Opportunity at HUD. Ms. Taylor's work includes 20 years of experience in fair housing.

Ms. Taylor, welcome to the Committee.

Mr. Jim Park is the Executive Director of the Appraisal Subcommittee, a Member of the PAVE interagency task force. He has over 23 years of appraisal and mortgage banking experience, including serving as the Director of Research and Technical Issues at the Appraisal Foundation. He is also a certified general appraiser in Virginia.

Mr. Park, welcome to the Committee.

Ms. Taylor, please begin.

**STATEMENT OF MELODY TAYLOR, EXECUTIVE DIRECTOR, PROPERTY APPRAISAL AND VALUATION EQUITY INTER-AGENCY TASK FORCE, AND REGIONAL DIRECTOR, OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY, REGION III, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Ms. TAYLOR. Thank you, Chairman Brown, and good morning. Chairman Brown, Ranking Member Toomey, and other Members, I am extremely honored to have been invited to address the Committee on Banking, Housing, and Urban Affairs. As stated, appointed by Secretary Marcia Fudge in July 2021, I serve as the Executive Director of the Property Appraisal and Valuation Equity task force and as the Regional Director for the Office of Fair Housing and Equal Opportunity.

My contributions and commitment to fair housing and civil rights spans over 20 years, as a career civil servant, with HUD and with the Department of Justice. I have also had the privilege of working with local government and leading fair housing groups here in the Nation's capital, focusing on insurance and lending discrimination issues.

Each day in America, the value of our neighbors' homes determines whether they can use cash for refinancing their homes to send their children to college, start a business, access credit on reasonable terms, and ultimately whether their children and their offspring will benefit from the transfer of multigenerational wealth that can occur through home ownership. This is the American dream.

Sadly, accounts of appraisal bias have captured national headlines in recent months. Yesterday, during the launch of the Action Plan, we heard from the Austins, a Black couple in Marin City,

California. In early 2020, they decided to refinance and take advantage of low interest rates to finish the remodel on their home. An appraiser was needed to validate this transaction, but came back woefully under market. The value was at \$995,000. Weeks later, after they whitewashed their home, they asked a friend to come in and pose as the homeowner, and this was within weeks, the appraisal came back at \$1.48 million, more than 50 percent higher.

Research has shown that their experiences are not one-offs. Rather, they are part of a reoccurring pattern of racial bias. Further validated by a Freddie Mac study published in September 2021, which found that appraisals for home purchases in majority-Black and majority-Latino neighborhoods were roughly twice as likely to result in a value below the actual contract price, compared to appraisals in predominantly White neighborhoods.

Similarly, Fannie Mae examined refinance transactions, and found that White-owned homes are more likely than Black-owned homes to be appraised at values that exceed algorithmic prediction.

As noted in the PAVE Action Plan, the compounding effects of undervaluations over time has the effect of lowering wealth among homeowners, thereby contributing to the expansive wealth gap.

For this reason and more, on June 1st, President Biden announced the creation of the interagency task force on Property Appraisal and Valuation Equity. Cochaired by HUD Secretary Marcia Fudge and White House Domestic Policy Advisor Ambassador Susan Rice, the task force was directed to accomplish two things: evaluate the cause, extent, and consequences of racial and ethnic appraisal bias; and establish a set of actions to root out bias in the valuation of residential property.

Immediately the task force convened 13 Cabinet-level and independent agencies and White House offices as members committed to creating meaningful, comprehensive administrative and policy actions.

It is important to know we did not take this journey alone. Utilizing a holistic approach, we engaged and sought input from realtors, appraisers, philanthropists, academics, civil rights leaders, and people impacted by bias, to identify solutions to bring about change with a sense of immediacy.

The product is a blueprint describing the history and impact of persistent misvaluations, early progress wins already made toward transforming the industry, and 21 concrete actions and commitments to advance equity in the home-buying process.

Member agencies will take the following actions: make the appraisal industry more accountable; empower consumers; prevent algorithmic bias in home valuations; cultivate an appraiser profession that is well trained and looks like the communities it serves; leverage Federal data and expertise to inform policy, practice, and research on appraisal bias.

In conclusion, Chairman Brown, Ranking Member Toomey, and other Members, I thank you for the opportunity to share this with you and the public, Federal and independent agencies taking a whole-of-Government approach to address a longstanding wealth gap issue in a way that will create legacies for future generations. We look forward to the partnership and opportunities to further amplify the success of this task force.

Chairman BROWN. Thank you, Ms. Taylor.  
Mr. Park, welcome.

**STATEMENT OF JAMES R. PARK, EXECUTIVE DIRECTOR, APPRAISAL SUBCOMMITTEE OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

Mr. PARK. Good morning Chairman Brown, Ranking Member Toomey, and Members of the Committee. I am honored to address the Committee on Banking, Housing, and Urban Affairs on the important work of the Property Appraisal and Valuation Equity task force which was set up by President Biden with Secretary Fudge and Ambassador Rice leading a first-of-its-kind interagency initiative to address inequity in home appraisals. I have had the distinct honor, as the Executive Director of the Appraisal Subcommittee, of participating on the PAVE task force.

For millions of Americans, building intergenerational wealth has meant one thing: home ownership. Appraisals and appraisers play a vital role in the multitrillion-dollar financial services market by providing key risk management tools that protect financial institutions and consumers. Numerous public accounts of appraisal bias, coupled with a lack of appraiser diversity and recent studies, raise serious concerns about appraisals and lending practices, and appraisal governance, shining a light on an industry that needs reform to promote equity.

As background, our current appraisal regulatory system was established in 1989. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act, or FIRREA, established this unique appraisal regulatory system consisting of the State appraiser regulatory programs, the Appraisal Foundation, a private nonprofit, and the Appraisal Subcommittee, or ASC, as the Federal oversight body.

In short, the Foundation issues the appraisal standards and appraiser qualifications, the States are required by law to implement those requirements, and the ASC enforces that implementation by the States. The ASC also houses the National Registry of appraisers and appraisal management companies.

In addition to the PAVE task force initiative, in January 2022, the ASC released its independent study that focused on the foundation's appraisal standards and appraiser qualification criteria. The goal of this study was to ensure these standards and qualifications do not facilitate or systematize racial or ethnic bias. The PAVE Action Plan and the independent report commissioned by the ASC identify serious shortcomings and opportunities for reform.

Some of the pressing challenges with our current system I would like to highlight today include inadequate accountability in our current governance structure, a shortage of appraisers, and finally, a lack of diversity in the appraisal profession.

On governance, the PAVE Report notes that "the existing governance structure needs to be fundamentally reassessed to meaningfully advance equity in the industry." Per Title XI of FIRREA, the ASC is required to "monitor and review" the foundation. However, the agency has neither the enforcement authority nor an effective mechanism for holding the foundation accountable.

The appraisal profession also faces other challenges. Since 2009, the number of credentials on the ASC's national registry has declined by nearly 25 percent. Furthermore, the real property appraiser occupation is among the least diverse in the country. An extensive and typically unpaid "trainee" model, along with burdensome education and experience requirements, present barriers to entry that disproportionately impact people of color and rural residents. Trainees are often unable to find a supervisor, as qualified appraisers are often unwilling to take on the responsibility and liability of training them or may have reservations about training their own future competition, resulting in a shortage of appraisers, particularly in rural markets. This has driven up service times and appraisal fees to unacceptable levels, causing loans to be delayed or even lost. Appraiser qualification requirements should absolutely have the appropriate rigor but not pose unreasonable barriers to enter the profession.

These longstanding, unaddressed issues have serious implications for everyday Americans. An improved governance structure would advance equity by ensuring greater fairness and transparency in the appraisal standards and appraiser qualifications setting process. It would also advance a more stable and reliable appraisal industry to serve financial services and consumers alike.

The ASC stands ready to be part of the solutions to the challenges to bring about meaningful long-term change that will only come from partnerships with other stakeholders, including lenders, the GSEs, regulators, and legislators.

Thank you Chairman Brown and Ranking Member Toomey and Members of the Committee. I appreciate the opportunity to appear before you today and I am happy to take your questions.

Chairman BROWN. Thank you very much, Mr. Park.

Ms. Taylor, one biased appraisal does not just hurt the individual or the family selling their home. It can have, as you point out, a pervasive effect on an entire neighborhood. Walk through, if you would, how one appraisal can have an impact, a significant impact, on a whole community. Walk through that process please.

Ms. TAYLOR. Thank you, Chairman Brown. In the PAVE report we speak to the compounding effect of undervaluation in a community. With regards to a homeowner, for example, if one were to refinance their home, for example, the undervaluation of a refinance transaction could have the potential to not just impact that individual but the entire community, thus creating disinvestment in the community, economic instability. It has the similar effect of the redlining history that we know that this country has created.

And so, therefore, when one does not have the opportunity to have their property appraised accurately and fairly there is a loss of wealth to that home and the compounding interest to other homes in the community.

Chairman BROWN. And the future for that family.

Ms. TAYLOR. Yes, sir.

Chairman BROWN. So why is that? The Secretary of HUD, after the Fair Housing bill of 1968, was the father of our colleague, Mitt Romney. He went in with good intentions. The President, maybe not so much, but nonetheless we passed that in 1968, the Equal Credit Opportunity Act, which banned discrimination and access to

credit in 1974. As Senator Toomey said, these laws are explicit. They prohibit discrimination in appraisals. They make using a discriminatory appraisal to make or refuse a mortgage loan is illegal.

So why haven't these laws not been enough to prevent this discrimination from happening, still today?

Ms. TAYLOR. Thank you, sir. Discrimination is not a science, and although the laws are on the books, the home ownership gap is even more expansive today and it is wider today.

Chairman BROWN. Than '68, than 1968?

Ms. TAYLOR. Than 1968. Yes, Chairman Brown. I believe strongly, and again, the PAVE report points to the fact that individuals do not know that they have been discriminated against. There is a lack of awareness. There is a lack of access to information relating to discrimination. Discrimination happens when a transaction happens.

You described, in your statement, imagine someone who has saved up, they are in the process, they have to remove things from the home. It is a transactional experience, and it requires that individuals be able to understand where in the process that discrimination occurs.

And so, again, as a part of the PAVE Action Plan, we highlight and note that we need to increase awareness through a public awareness campaign, in our housing counseling programs, to increase awareness there and train housing counselors to provide education to consumers on appraisal bias.

Chairman BROWN. Thank you. And think about the persistence of this. In 1933, HOLC passed, and 1934 is when the Federal Government essentially followed local lead in establishing these ABCD neighborhoods, if you will, locking in redlining, a little more softly to immigrants but especially to African Americans. Thirty-plus years, 1934 to 1968, redlining was legal. And in that period, 98 percent of FHA loans—98 percent of FHA loans; I spoke on this on the floor yesterday—went to White homeowners.

Then you think, what you just outlined from 1968 to today, how persistent and pervasive this is. So thank you for clarifying that.

My other question, Mr. Park, I have a question for you. The PAVE task force committed to work with Congress to allow more groups, beyond the appraisal industry, to comment and influence rulemaking procedures. Could you expand on this part of the Action Plan, Mr. Park, discuss whether this would improve existing regulations and oversight of the appraisal industry?

Mr. PARK. Thank you, Chairman Brown. Yes, the appraisal industry right now is lacking appropriate governance. We need more accountability and transparency in the standards and qualifications setters. They should be subject to an APA rulemaking process so that all facets of society, whether it be minorities, rural property owners, all have an opportunity to comment and have their opinions voiced, and their concerns voiced, to the standards and qualifications setters, so we have a fair and equitable system for everyone.

Chairman BROWN. Thank you. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Let me start by saying, Mr. Park, I am sympathetic to the idea that appraisal qualification requirements can create unnecessary barriers to entry and

have the effect of protecting the existing guild, and I am open to a conversation about how we make it more accessible to more people.

I am concerned that while there is no question there are a number of terrible anecdotes of racial bias in appraisals, it is not clear to me that there is enough actual substantive data to come to the conclusion that we have systemic racism in the appraisal process.

The PAVE task force acknowledges in its report that, quote, “valuation bias is difficult to assess,” end quote. The report also recommends establishing metrics to identify bias. It does seem strange to suggest widespread or systemic disparities when the Government has not yet measured or studied the scope of the problem, or maybe even decide what metrics would indicate that there is a systemic problem.

The report does, however, reference and base its recommendations primarily on two preliminary studies by Fannie and Freddie, which, by the way, in some important respects, come to contradictory conclusion.

So I want to ask a little bit about the research upon which the PAVE report seems to heavily rely. Ms. Taylor, first of all, I am sure you have acknowledged, GSEs are primarily in the business of buying mortgages and selling mortgage-backed securities and not primarily academics. Right?

Ms. TAYLOR. Yes, Senator.

Senator TOOMEY. OK. Did the task force look at independent academic research that reached different conclusions than the two GSE studies?

Ms. TAYLOR. Thank you for that question. Yes, we did. There were a number of studies that we evaluated, and I would just like to reiterate the FHFA study that evaluated millions of appraisals and the freeform text data that was used there. And we saw, in that particular study, where appraisers documented the context of a neighborhood—

Senator TOOMEY. Yeah, I saw that. These are anecdotes, though, and it looks like most of the conclusions and most of the references in the report refer back to these two studies.

Let me ask you this. The data that the GSEs relied on for their studies, is that publicly available data? I do not think it is.

Ms. TAYLOR. It is not.

Senator TOOMEY. It is not. Who could release that data? It could be anonymized. I am not suggesting that it have identifying information, but who has the authority to release that?

Ms. TAYLOR. Right now that is one of the objectives of the PAVE Action Plan data, based on, even the industry, you know, came back to us to recommend that we make data publicly available.

Senator TOOMEY. Yeah. So I think FHFA has the authority to do that. It could release this data, and then you could do what peer review of academic research normally does, is allow lots of people to evaluate the same data so that they can come to the right conclusions. And yet that is not possible when the data is not available.

Let me also ask you about this. On the issue of undervaluations, Fannie’s study of mortgage refinances found, and I quote, “the differences observed in undervaluation between White and Black

borrowers were similar in rate and not meaningfully different.” So Fannie concludes that undervaluations do not have any evidence of systemic differences, much less systemic bias.

Now that is for undervaluations. In Fannie’s research they found overvaluations of White-owned homes were more likely to occur in majority-Black neighborhoods than overvaluation of Black-owned homes, and you mentioned that in the report, this observation. But the report does not include, I do not think, another observation that the Fannie research comes to, which is, and I quote, “the difference in frequency of overvaluations along race may well be due to factors other than racial bias in appraisals, such as gentrification,” and there is a clear logic for why gentrification could create a dynamic where you would have this.

So I guess the question is, how do you come to a conclusion that there is systemic bias in appraisals when the two primary sources that you used—first of all, two seems like a pretty low number of studies, and they contradict each other with respect to undervaluation?

Ms. TAYLOR. Thank you for that, Ranking Member Toomey. A couple of things I would like to just share. So there have been a number of studies released over the last several years on this topic, and our assessment of all available literature, including from academics, Government entities, nonprofits, point to consistent evidence of inequity in home appraisals with Black and Latino homeowners more likely to experience misvaluation, even after accounting for other factors.

What we know is that the subjectivity and the discretion of the appraisal process and the vast discretion given to appraisers is providing their opinion of value, and it does create a space for other forms of bias.

Senator TOOMEY. Well, you have restated your conclusion. My point is that the data you have presented does not meaningfully support that conclusion, in my view. There is no doubt there are terrible anecdotes of racial bias in appraisals, but if we are going to upend an industry and have the consequence of raising the cost of home ownership for Americans—let us not kid ourselves; these reforms would increase the cost of the appraisal process and that means homeowners, home buyers, would have to pay that—if we are going to do that, I think it should be based on reliable data. The reports, there were just two. The data is proprietary, so it cannot be evaluated by independent academics. In important respects they contradict each other. And appraisals are an important component of the whole home-buying exercise.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

Senator Menendez, from New Jersey, is recognized.

Senator MENENDEZ. Thank you, Mr. Chairman, and thank you for holding this hearing.

Look, I know that there are some who will never see bias in anything and just presume that our systems work, you know, color-blind, efficiently, effectively, and without consequences for certain communities, and I wish that was the case. But that is simply not the case.

Freddie Mac published a study last year on the topic of appraisal bias, and one of the key findings of that study was that appraisal gaps in minority census tracts is not being driven by a limited number of bad actors but rather that, quote, “a large portion of appraisers are generating statistically significant gaps.”

Ms. Taylor, can you give a brief overview on the standards for housing appraisers, particularly whether they are required to go under any kind of bias training?

Ms. TAYLOR. Thank you for that question, Senator. Currently there is not a requirement for appraisers to attend fair housing or bias training. Although there are several States that do require it, it is not a requirement for certification.

Senator MENENDEZ. Well that appraisal workforce is a shrinking field, with more than 12 percent decline in appraiser credentials since 2011. At the same time, that workforce is becoming less and less representative of the population. A survey from the Appraisal Foundation found that 68 percent of appraisers are male, 92 percent are non-Hispanic Whites, and 2 in 3 are 55 years or older. So I understand maybe why some of the appraisals are skewed, not because I said it but because Freddie Mac said it. I do not think Freddie Mac is a flaming liberal organization.

When a homeowner receives a discriminatory appeal they suffer tangible financial injury. Consumers should not have to bear this cost, and in many circumstances they are unable to bear it. Brookings estimates that the appraisal gap can cause homeowners in majority-Black neighborhoods an average of \$48,000. What legal recourse do victims of discriminatory appraisals have?

Ms. TAYLOR. Thank you for that question, Senator. Under the Fair Housing Act, individuals who have been discriminated against are able to file a complaint through Housing and Urban Development Office of Fair Housing and Equal Opportunity, either the Department of Justice, if there is believed to be a pattern of practice in that area, and under the Equal Credit Opportunity Act if one would believe that they have been violated under that particular purview.

Senator MENENDEZ. So they could file a complaint. How long does a complaint normally take to get processed? Do we have any idea?

Ms. TAYLOR. Well by statute we have 100 days, under the Fair Housing Act, to investigate a complaint of discrimination.

Senator MENENDEZ. So 100 days probably puts them outside of the time in which they are trying to buy that home, because having done real estate transactions when I was a lawyer I do not know of too many transactions that will allow you to wait 100 days for a closing. And so it basically puts the individual in the challenge. So he or she loses out on one home because of an unfair appraisal. OK, so they file a complaint. Now they go to buy another home and maybe they suffer the same set of circumstances. So it is a never-ending challenge for that person.

And I have also seen that, as if appraisal bias that routinely costs Black and Latino homeowners tens of thousands of dollars was not bad enough, these communities are also getting hit with inflated tax bills. Research indicates that Black-owned homes are consistently assessed at higher values relative to their share price

than White homes, and that, combined with the prior Administration's changes to the State and local property tax deduction, minority families are being hit with higher tax bills on undervalued homes.

Is this something that your department has observed, and if so, what can be done at a Federal level to deal with it?

Ms. TAYLOR. Thank you for that question. We, in the PAVE Action Plan, speak to tax assessments, but we have also acknowledged and determined that it is a complex set of circumstances that differed from the scope in which we were evaluating home buying discrimination in the appraisal process and refinance processes. Tax assessments are often a very local initiative and controlled by local political processes, and therefore it was something we were unable to, in the narrow scope of time of this particular report, were able to address and identify. But we do have that purpose for future—

Senator MENENDEZ. Well, I hope you will pursue that. The final question, if I can, Mr. Chairman, in all of this, would housing counseling help someone navigate these challenges?

Ms. TAYLOR. Thank you for that, and absolutely, sir. You will see, in the PAVE Action Plan, that we have identified that appraisal bias training will be a part of HUD's housing counseling operations.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez.

Senator Tester, of Montana, is recognized.

Senator TESTER. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for having this hearing, and I want to thank both Ms. Taylor and Mr. Park for the testimony that you have given today. I very much appreciate it.

I come from Montana. In my State we have had challenges around appraisal delays, a problem in a lot of rural areas in our country. And that fact that Mr. Park brought up, that there are too few appraisers, and then you combine that with how far they have to travel it becomes a problem.

And as Chairman of the Veterans' Affairs Committee, I also heard about the challenges that our Nation's veterans run into in Montana and all across the country, when they try to buy a home using a VA loan. And one step that I have advocated to help make sure these challenges are getting addressed is adding representatives from the VA and USDA's Rural Housing Service to the Appraisal Committee. In addition to FHA and VA, USDA has direct knowledge of the appraisal process and how it can impact the homebuying process.

Mr. Park, how could ASC and your work there be improved by the knowledge and perspective of VA and USDA representatives, or is that something that would not be an improvement?

Mr. PARK. Thank you for that question, Senator Tester. In my opinion, adding the Veterans Administration and USDA Rural Housing Development to the Appraisal Subcommittee is a great idea. My father was a veteran, of World War II, Korea, and Vietnam. After retiring from the Air Force he set up an appraisal company. He did VA appraisals. I cut my teeth doing VA appraisals.

The VA has a very unique relationship with their appraisers. The VA is the client of the appraiser, and that is unusual for the Federal Government. So they really understand what is going on in the appraisal market, in the appraisal profession. Adding USDA Rural Housing Development would give the subcommittee more perspective on the needs and concerns of rural communities. And we need more of that. We hear lots of complaints about shortages of appraisers in these rural communities.

Senator TESTER. Thank you for that. This is for both of you, and it deals with the shortage of appraiser issue and the barriers it creates for prospective home buyers as it applies to rural America, and may apply to urban America too. But what more could we do to address those shortage issues? What should we be doing?

I will leave it at that. I am not going to give you anywhere to go. You guys tell me where you want to go. And it is for both of you, so go ahead, Mr. Park, and then Ms. Taylor.

Mr. PARK. Thank you for that question. Well first I think we need to take a real hard look at the qualification requirements to become an appraiser. Right now one of the biggest barriers to entry to becoming an appraiser is the experience requirement. In order to gain the necessary experience you have to find a supervisor, and a lot of appraisers, as I mentioned in my testimony, do not want to be a supervisor. Unless you have a family member—I am a perfect example—or a friend or somebody who is willing to take on that liability to train somebody, it can be almost impossible.

Both in my job now, and previous jobs, I frequently have received calls from trainees who have gone through the education and gone through much of the process, and they cannot find a supervisor for years. It is even more difficult in rural markets because of the distances and the limited number of appraisers in these markets.

Senator TESTER. OK. Ms. Taylor.

Ms. TAYLOR. Thank you for that question. I would just add to my colleague's statement or testimony increasing the training opportunities for appraisers. We believe that a well-trained organization should look like the communities that they serve, so we want to make sure that appraisers are well trained. The Action Plan also speaks very specifically to reaching out to the Appraisal Foundation, their Qualifications Board, and requesting consideration to reduce or eliminate the Appraisal Qualifications Board experience requirements, but also to develop a comprehensive exam as an alternative path to credentialing, which will allow for a bit more expediency in that process and perhaps would increase the opportunity for appraisers to be onboarded in a more efficient way.

Senator TESTER. I appreciate that. Look, not only the liability question that you brought up, Mr. Park, but also the fact that we are asking people to train people who are going to be in competition with them does not make a lot of sense, quite honestly. And so the delay issue on appraisals is a big, big issue, and I think we need to really work on this to try to get this solved.

I just wanted to address Senator Toomey, just for a second. At the end of his comments he said, "In housing, Government is never the solution." I beg to differ. Thirty-year fixed-rate mortgages have been pretty successful to get people in.

But I also want to agree with something Senator Toomey said, and that is that I do not know why we do not have more transparency on the information. I think it would help. I am talking about the information that determines whether or not there is systemic racism or not. I think having access to that information would very much help us to be able to make some determinations. I think that is always helpful.

With that I want to thank you guys.

Chairman BROWN. Fifty percent is not bad. Fifty percent is not bad. He liked one thing you said and did not like the other.

Senator TOOMEY. I will take that every time.

Chairman BROWN. Thank you. Senator Smith, from Minnesota, is recognized from her office.

Senator SMITH. Thank you, Chair Brown, and thanks the Committee and our testifiers. I too would like to come down on the side of data transparency, so I think that that is good. I also just want to come back to Ms. Taylor briefly just to clarify. I mean, do you believe that there is sufficient evidence of systemic disparities in the research that you have seen to—I mean, that it is important that we look into this and figure out what to do about it?

Ms. TAYLOR. Thank you for that question, Senator. We do believe that there is sufficient evidence, although we also recognize and acknowledge repeatedly that we have heard that data needs to be available and accessible, and that we actually agree. In the PAVE Action Plan we note that we want to get data to researchers, we want to get data to the industry and others, akin to the Home Mortgage Disclosure Act data, which has been extremely impactful in helping industry and enforcement agencies understand where discrimination is occurring and the frequency of it.

So we acknowledge that that is something that should happen, and the PAVE task force, beyond this report, will be working on creating that opportunity as well. Thank you.

Senator SMITH. Thank you. That is good. I strongly support that and I look forward to doing everything I can to contribute to getting that done.

I think, you know, Chair Brown was getting at this in his opening questions. The question we are all grappling with is what do we do to eliminate the bias that it seems that we see here? The Fair Housing Act of 1968 already bans discrimination on the basis of race, and obviously yet we still have not solved this problem. I mean, we can see it so dramatically in the disparities and the wealth gap and home ownership gap that I see in my own home State of Minnesota, in Minneapolis. Dramatic disparities between Black families and White families.

So a recent *New York Times* article suggested that remote or desktop appraisals of homes could be a way to reduce discrimination. Some of my colleagues have highlighted other ideas for how to reduce this bias, increasing diversity in the appraiser workforce, for example, training.

I would like to just ask Ms. Taylor and Mr. Park, could you just comment on some of these solutions, and if there are other things that you think that we need to look at to address this bias?

Mr. PARK. Thank you for that question, Senator Smith. Part of the issue that we have to grapple with here is likely implicit or

unconscious bias on the part of appraisers. The fact that almost all appraisers, frankly, are White means that there may be some unconscious bias that creeps into appraisal reports. There is a lot of discretion in how appraisers make their adjustments, how they choose comparable sales, and how they ultimately reconcile to the final value conclusion. So we need to find ways to remove as much of that discretion as possible.

We also need training. Appraisers, the last few years, have been a real education for myself, as an appraiser. It has been a real gut check. Appraisers are not aware, for the most part, about their requirements relative to the Fair Housing Act. Appraisers are not required to take courses on the Fair Housing Act or fair lending.

So it is important that appraisers be educated and gain a further understanding of these issues in minority communities.

Senator SMITH. Thank you. Ms. Taylor.

Ms. TAYLOR. The only thing I could add to my colleague's statement is that you mentioned that the Fair Housing Act exists and that individuals are still being discriminated against. And just having been a practitioner over the years, and the notion that we are talking about evidence and whether discrimination exists or not, you know, I have seen, although the numbers may suggest that discrimination is not on the rise, what we see with our partners, with the National Fair Housing Alliance, and in our Fair Housing Initiatives program is that they receive over 28,000 calls a year or more, where people believe that they have been discriminated against.

And I would just add that awareness is critical to helping individuals know or understand. Helping them understand their rights and to ensure that the appraisal industry understands its obligations under the Fair Housing Act and Equal Credit Opportunity Act I believe will bring out some transformative change.

Senator SMITH. Thank you very much. Thanks, Mr. Chair.

Chairman BROWN. Thank you, Senator Smith.

Senator Van Hollen, from Maryland, is recognized.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank both of you, and thank you for the report that you did.

I am just going to pick up really quickly on Senator Smith's question and your response about appraisal education and complaints by individuals who feel that their house has not been fairly appraised, because the Maryland Commission of Real Estate Appraisers said it receive about five complaints per month, which is not a huge number. And one of the issues that came up there is that consumers and homeowners who may feel that they have been discriminated against do not know the process for complaints, and if there was an obvious and open process that that would also have an accountability feature in the system.

Can you talk about how we can better improve consumers' understanding of what their rights to appeal an appraisal might be, or complain if they think they have been a victim of discrimination? Either of you.

Ms. Taylor.

Ms. TAYLOR. So I will start first. Part of the PAVE Action Plan and something that we produced as recently as yesterday, we launched a new website, and that website provides for places where

an individual within whatever State that they live in, they are able to understand or gain access to information regarding how to potentially appeal in that State. But under the discrimination or Fair Housing Act and Equal Credit Opportunity Act, we have created links to that website to allow for greater access to information as well.

And I firmly believe, and we do not do a deep dive in the report on this, is that it is a grassroots effort. It is something that we, as an agency, as a task force, and the 13 members that aligned and harmonized on the work that is needed in this area, we have a great opportunity to work with organizations, nonprofits, academics, philanthropists, in fact, to be about the business of educating the public and getting them information. It is definitely a process that, as we discovered during this task force, you know, getting to information and who to go to and how to file with the various degrees and levels of complexity is difficult, and it is something that we have addressed and we plan to create an opportunity to better serve the consumer.

Senator VAN HOLLEN. Thank you. I think to the extent that we can create more of a sort of transparent process, an informed process on that, that would be helpful.

So Ms. Taylor, I do want to follow up a little bit on Senator Tester's questions with respect to the workforce and diversifying the workforce. I understand he asked about the suggestion that you may want to consider changing the supervisory requirements. Because as we know, sometimes having a supervisor in a structured quality program can be a good thing, if you can find one, but they can also be barriers to entry. And I gather your conclusion is in the area of appraisal, supervisors have been primarily a barrier to entry and an obstacle to greater diversification of the workforce. Is that correct?

Ms. TAYLOR. Yes, sir.

Senator VAN HOLLEN. And are there other measures we can take to open up the doors of opportunity more to the appraisal profession? Can we work with community college, HBCUs, 4-year institutions, whatever it may be? Are there ways that we can increase the pathways to this kind of position so that we can increase the diversification of the workforce?

Ms. TAYLOR. Absolutely, and in each one of your responses those were things that we explored as recommendations and commitments in the Action Plan. But I defer to my colleague here because he has done a little bit of work here as well.

Senator VAN HOLLEN. Thank you. Mr. Park.

Mr. PARK. Thank you for that question, Senator. The Appraisal Subcommittee, right now, recognizing the shortage of appraisers and the lack of new appraisers coming into the system, has a Federal grant program, and we are currently working with two States that have shortages of appraisers, South Dakota and Mississippi. In South Dakota, a grant has been provided for them to work with South Dakota State University to bring in more appraisers, to provide that training, to provide that supervisor, to provide the education so that when the appraiser comes out of the university they are ready to go to work. This is also an opportunity to provide these opportunities to Native Americans as well.

In Mississippi, they are focusing on diversity, and they are currently, right now, setting up a system where they will provide this training to aspiring appraisers, and it is my understanding that about 50 percent of the applicants at this point are African American.

One reason this is a good program is just because you are a certified appraiser does not mean you are qualified to supervise somebody, to train somebody. And if you are somebody who has implicit bias or does not understand the nuances of these issues, you are going to transfer that lack of knowledge to the people that you train. So we need a better system for bringing people into the profession, definitely.

Senator VAN HOLLEN. Thank you. I look forward to working with you on that.

Chairman BROWN. Senator Warren, from Massachusetts, is recognized.

Senator WARREN. Thank you, Mr. Chairman.

So appraisals are powerful important. For example, they determine how much a lender will offer in financing a mortgage and that, in turn, affects the price that a seller can get. If homes are accurately appraised then the process works like it should, but Black and Hispanic homeowners have consistently faced discrimination in the appraisal process.

According to a recent study, homes in majority-Black neighborhoods are valued 23 percent lower than homes with similar characteristics in White-majority neighborhoods, resulting in more than \$150 billion in lost wealth for Black families. Because home ownership is the number one way that middle-class families build wealth, the disparities in home valuation help perpetuate the racial wealth gap.

Research shows that the persistent undervaluation of Black- and Hispanic-owned homes is due, in part, to unconscious bias among appraisers. So it is not surprising that automated valuation models, AVMs, computer programs that use data to estimate home values, have been held up as an alternative. The argument goes that by taking the human element out of the appraisal process we can eliminate bias and discrimination, which sounds terrific.

But the reality of these algorithms is a whole lot more complicated. Ms. Taylor, you lead the Biden administration's interagency task force to root out racial discrimination in the appraisal process. Have AVMs produced the unbiased, error-free valuations that home lenders and homeowners were counting on?

Ms. TAYLOR. Thank you for that question, Senator Warren. We looked at the Urban Institute's study, which found that AVMs in majority-Black neighborhoods produced larger errors relative to the underlying sales price than AVMs in majority-White neighborhoods, potentially contributing to the wide housing wealth gap between Black and White homeowners.

Additionally, we believe that while AVMs have the potential, if properly used, to reduce human bias and improve consistency in decisionmaking, however, just like human biased appraisals, they are not immune from the risk of discrimination. A phrase that oftentimes many people use, you know, bad data in equals bad

outcomes, and we believe that we have to ensure that AVMs are responsible, or the models are responsibly created.

Senator WARREN. So I want to underscore the point you are making, because I think it is a very good point. The key issue is that AVMs are only as good as the data they use and the algorithms that interpret those data. And too often these algorithms are just a black box with little visibility into the data and the modeling that are going on inside. And if the underlying data itself reflect past racial discrimination, AVMs may end up compounding disparities in valuation rather than reducing them.

So let me just ask you a couple of pieces about this so we can disaggregate this a little bit. Ms. Taylor, majority-Black neighborhoods tend to have a higher share of distressed home sales than majority-White neighborhoods. Is that fact likely to contribute to AVMs systematically undervaluing Black-owned homes?

Ms. TAYLOR. Yes, ma'am.

Senator WARREN. Majority-Black neighborhoods also have lower household incomes, on average. So, Ms. Taylor, is that likely to contribute to AVMs undervaluing Black-owned homes?

Ms. TAYLOR. Yes, ma'am.

Senator WARREN. And what about if neighborhoods are gentrifying? Is that likely to contribute to the undervaluing of Black-owned homes?

Ms. TAYLOR. Yes, ma'am.

Senator WARREN. OK. Thank you. You know, we have pulled apart some of the pieces. The way I see this is that closing the racial wealth gap means that we need to confront decades of racist Federal housing policies like redlining that helped create it in the first place. And part of this means ensuring that the legacies of racial discrimination are not coded into the algorithms that have direct and real impact on families' wealth. Without the proper guardrails and oversight, AVMs may reinforce racial disparities in the appraisal process and actually worsen the racial wealth gap.

That is why I was very glad to see the CFPB take a step toward issuing rules on combating algorithmic bias in AVMs. Regulators should follow their lead and take the necessary steps to make sure that AVMs are not putting home ownership and wealth-building even further out of reach for families of color.

Thank you very much for your work. Thank you for being here today. And thank you, Mr. Chairman, for having this hearing.

Chairman BROWN. Thank you, Senator Warren.

Senator Cortez Masto, from Nevada, is with us from her office.

Senator CORTEZ MASTO. Thank you, Mr. Chairman, and thank you to the Ranking Member for having this hearing.

Let me follow up on Senator Warren's comments and questioning, and let me pose this first to Ms. Taylor and then to Mr. Park. With respect to AVMs, are there limits to the types of housing where AVMs may not be well suited? I am just curious.

Ms. TAYLOR. I will state that in the task force's effort to understand AVMs and unpackage it more, what we did determine is that in rural markets it is not the best use of technology because of how properties and comparative sale values happen. But I will defer to my colleague to further provide clarity there.

Senator CORTEZ MASTO. Thank you.

Mr. PARK. Thank you for that question, Senator. AVMs are extremely data-dependent, and they need large volumes of data to work effectively, and you just do not have that in rural markets. AVMs also tend to work best in areas where the housing stock is homogenous. AVMs make a lot of assumptions about the quality of construction, the condition, and so forth, of the properties. So when you have urban areas or rural areas where the housing stock is varied, AVMs tend to break down and not be as reliable.

Senator CORTEZ MASTO. Thank you. I appreciate that. And let me add to the conversation on manufactured homes. We know that more than 20 million Americans live in manufactured homes. Many of them are home buyers that are Latinos, Native Americans, and the elderly. We want to improve the valuation for this important housing stock.

Let me ask you, what is the plan for improving appraisals for the resale of manufactured homes? Mr. Park, if you could touch on that.

Mr. PARK. The PAVE task force report does not specifically talk about manufactured homes but the improvements—

Senator CORTEZ MASTO. And that is why I am concerned. There is a whole market out there of manufactured homes that we should also be pulling into the housing market to put a roof over people's heads and give them opportunity to own a home, and it is not even included in this.

So with your experience and background, can you touch on this a little bit. The valuing of manufactured homes—is it an important product that we should be considering here as we look at incorporating all housing types, particularly those for buyers who want to own a home?

Mr. PARK. Thank you, Senator. It is somewhat implicit that when you are talking about rural communities you are also including manufactured homes and the issues associated with manufactured homes. Again, having enough appraisers in a community, having appraisers who are properly educated and know how to appraise manufactured homes, I have appraised quite a few manufactured homes myself and they pose a very difficult appraisal problem, a lot of times, so you really have to know what you are doing.

They may not be the most expensive properties in the neighborhood but the difficulty in completing an appraisal assignment is not really related to how expensive or what the value of the property is. It is more related to the specific issues within the appraisal assignment. And manufactured homes certainly are an important part of the rural market, and as we move forward finding solutions to making sure that the manufactured home industry and consumers, more importantly, are part of that discussion.

Senator CORTEZ MASTO. Yeah. I appreciate that. Thank you. And I agree on the data transparency. I think it is so important.

As I was listening to you earlier when you were talking, responding to some of my colleagues' questions, and I really appreciate your comments about appraisers needing awareness and training, removal of certain discretion to address what we see happening in communities where there is disparity.

Let me ask you this, as somebody who works in the industry. How easy is it going to be to get somebody who has been working

in this industry for a long time, a more sophisticated appraiser, to learn new skills or be willing to recognize the challenges that are faced now with some of the disparity that has come out in this report, and being willing to get this training or learn about the Fair Housing Act and Lending Act? What incentives, or what can we be doing, at a Federal level, to help those appraisers get the training or the support that they need to learn and become aware?

Mr. PARK. Well, there is a challenge in training people who have been in the industry for 30 years and have been doing appraisals one particular way. I think that we need to focus on training for them, of course, but we also need to focus on bringing more appraisers, younger appraisers into the profession, and more diverse appraisers into the profession, particularly in these rural markets. We really have a lack of new expertise coming into the appraisal profession, and I think with having younger people coming in we are going to have more people who appreciate these issues.

Senator CORTEZ MASTO. Thank you. I know my time is up. Thank you again for the panel discussion today.

Chairman BROWN. Thank you, Senator Cortez Masto.

Thank you to the witnesses. Senator Toomey will do a short close and I will do a short close. Thanks so much for this hearing today.

Senator TOOMEY. Thank you, Mr. Chairman. Yes, I also want to thank the witnesses. Listen, we have heard and we know that there are terrible anecdotes of racial bias in appraisals. The question that we have to determine is whether this is a systemic problem that requires significant reforms.

In my opinion, the conclusions that the PAVE task force has come to is not supported by data that they have shown us. It is not to say that the data does not exist, but I do not see it in their report. And their conclusion relies very heavily on two studies. The two studies themselves have serious shortcomings. First of all, they are preliminary. Second, in important respects they disagree with each other, in terms of conclusions. They use proprietary data which are not available to the public, cannot be scrutinized. The reports themselves acknowledge that confounding factors other than racial bias could explain disparities that appear in the data.

So for these and other reasons I think we should proceed cautiously before we decided to upend an industry in a way that will result in higher costs for homeowners.

Thanks, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey. I appreciate the Ranking Member's call for more study of appraisals. I agree the PAVE task force agreed. Thank you for that. We benefit always from more data and I look forward to working with the Administration and the Ranking Member and Senator Tester, who also chimed in, and any colleagues who want to help improve—and Senator Smith mentioned it—want to help improve the data we have.

But we see problems, as the two witnesses pointed out. So while on the process today we need to tackle those problems.

I want to thank the Members of the task force for the work that you all did on this report. We know you saw a lot more than just two studies and that they consulted countless members of the lending and appraisal industry, regulators, civil rights, consumer groups.

I want to applaud the appraisal industry for the steps it has already taken. It has already identified to grow and diversify its workforce. We need to do much, much more to grow the number of appraisers around the country, rural areas especially but other areas too, and to make sure the appraiser profession is open to everyone, as Ms. Taylor said a number of times, that it looks like the communities whom it serves.

Thank you for being here. For Senators who wish to submit questions, they are due 1 week from today, Tuesday, March 31. To Mr. Park and Ms. Taylor, you have 45 days to respond to any of those questions. Thank you again.

With that, the hearing is adjourned. Thank you.

[Whereupon, at 12:12 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

**PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN**

A home is so much more than four walls and a roof.

It's the refuge you return to after a long, hard day at work. It's what keeps you safe at night. It's where you make memories with your children—watching them take their first steps, taking first-day-of school pictures.

And for middle-class families, a home is their single biggest source of wealth—more than bank savings or retirement accounts. And for those who aspire to the middle class, home ownership is often the way to get there.

It's not just their physical security, it's their economic security. Families count on the value of their home as they think about sending their kids to college or about how they'll afford retirement.

How much your home is worth matters.

For decades, from the Black Codes to Jim Crow, this country locked Black Americans out of one opportunity after the other—the opportunity to vote, the opportunity to get an equal education, the opportunity to have the basic dignity of being able to pick your seat on a bus or a train.

In 1933 the Federal Government created the Home Owners' Loan Corporation, essentially setting up what would become the 30-year mortgage to help more families own their own home.

Soon after, Federal policy followed the lead of local communities, locking in discrimination and locking out Black families.

With redlining maps our Government cut off mortgage access—and with it, access to affordable home ownership—in neighborhoods where Black and brown families lived.

For more than 30 years—from 1934 to 1968—the Federal Government endorsed the idea that homes and neighborhoods were worth less because of the race of the people who lived there.

The Fair Housing Act began to change that.

In 1968, we affirmed that no one—no one—should be denied housing or discriminated against based on the color of their skin or where they were born.

In case it wasn't clear, the courts and then Congress made it clear that using race to determine a home's value would, finally, be illegal discrimination.

But just because it's illegal, doesn't mean it doesn't happen.

Look at home values across neighborhoods today. It's obvious that the redlining of the past hasn't been undone.

And talk to Black families who have had their home appraised. Listen to the stories they can tell you. It's obvious that discrimination is still happening.

Look what happened to the Parkers, a Black family in Loveland, Ohio.

Just last year, after their appraisal came in far lower than they or their realtor expected, the Parkers took down all their family photos and had a White friend meet a new appraiser.

Their home was suddenly worth \$92,000 more—that's almost 20 percent.

That's about as clear-cut an example of how this discrimination works as you could find. And it's happening today.

When a Black family owns the home, it's worth one price.

But when a White family owns the home, it's worth a different—20 percent higher—price.

Ms. Parker said in an interview that she had to tell her six-year old daughter, "Sometimes because of the color of our skin, we get treated differently."

That's something no parent should ever have to say.

Yet it happens all the time.

When Andre Perry of the Brookings Institution looked at home values, he found that homes in majority-Black neighborhoods were worth 23 percent less than homes in neighborhoods with few Black residents, even when they had access to the same quality schools, same access to businesses, and same rates of crime.

Twenty-three percent.

That means 23 percent less for college tuition, 23 percent less for retirement, 23 percent less to put into a down payment on the next home, and 23 percent less to pass on to your children and grandchildren.

Appraisals determine the value of your home based on how much your neighbors' homes sold for. So the devaluation of a home today means that homes down the street will sell for less. That in turn means the next home that gets appraised will come in lower. And on and on it goes, for years and years—for decades, for generations.

And the cycle will continue, unless we end it.

Last year, the Biden-Harris administration took the first step when it announced an initiative headed by HUD Secretary Marcia Fudge to address bias in home appraisals.

Secretary Fudge formed an interagency task force led by Melody Taylor that, just yesterday, released an Action Plan to tackle this problem.

The Task Force's plan focuses on actions that Federal agencies can take today:

- strengthen oversight of fair lending laws,
- identify and address systemic issues in the appraisal process,
- grow and diversify the appraiser workforce, and
- give consumers tools to report bias.

Today, we'll hear from Ms. Taylor and from Jim Park, the head of the Federal organization that oversees the appraisal regulatory process, about what Federal agencies will do to put this plan into action.

And we'll also hear what we can do to help them do their work.

This isn't a theoretical issue. This is an issue that has real consequences for the families we serve.

I look forward to hearing what we can do to make sure millions of Americans, like Ms. Parker, never have to settle for less.

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#### **PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY**

Mr. Chairman, thank you.

Almost a year ago, we held a hearing on discrimination in housing. Let me repeat what I said then: racial discrimination is a real and sad part of our Nation's history. It's a fact.

Sadly, it's also a fact that Government policies contributed to this discrimination. In my view, history shows us that when it comes to housing in America, including housing discrimination, Government has been the problem, not the solution.

Today we're talking about appraisals. First we should ask ourselves why the Government is micromanaging the appraisal process.

As long as taxpayers are not on the hook for its risk taking, and subject to existing consumer protection and anti-discrimination laws, each private sector market participant should be free to develop its own approach to underwriting its loans.

That flexibility should permit significant discretion to experiment with new technologies like automated valuation models or other alternatives to full appraisals of loan collateral. For example, when there are numerous bids for a home the best appraisal is the market itself.

But, unfortunately, that's not the system we have today. Instead, taxpayers stand behind more than two-thirds of our mortgage loans, and Federal appraisal regulation extends even to much of the small remaining portion that is not backed by the Government.

Government intervention begets more Government intervention. And here we are today with Democrats advocating an "action plan" that will layer yet more regulation on top of an already Byzantine and antiquated set of appraisal regulations.

Thankfully, there are laws against discrimination for real estate transactions, including appraisals. As a result, most institutions have long since abandoned explicit racial discrimination.

Even the President's nominee for HUD's office of policy development and research has publicly acknowledged that. Has the appraisal industry somehow avoided the law?

This Administration seems to believe that despite the progress we've made to eliminate discrimination in housing, the appraisal industry remains systemically racist. Yesterday, the Administration's task force on Property Appraisal and Valuation Equity, or PAVE, released a report alleging systemic racial bias in home appraisals.

This comes as a bit of a surprise. The report recommends an "action plan" to address alleged systemic racism before the Government has sufficiently established that a problem exists in the first place.

In fact, the report admits that "the exact number of instances of valuation bias is difficult to assess." And one of the report's recommended actions is to establish metrics to identify appraisal bias. Well, that certainly calls into question whether the authors have enough information to know whether their conclusion is correct.

Of course, we should not ignore incidents of appraisals that appear to be attributable to race. There have been news reports of some homes being appraised for more when Black homeowners had White people stand in for them. And FHFA

reviewed millions of appraisals and found some instances where the appraiser included references to race or another protected class.

As bad as these anecdotes are, do they confirm systemic problems? Should the Government upend the appraisal regime, and impose significantly higher costs on people buying homes, without such confirmation?

It isn't at all clear that we have a systemic problem of appraisers undervaluing homes based on a borrower's race. The PAVE task force primarily relied upon two studies that have questionable analyses that fail to control for factors other than race that, once considered, may explain disparities.

Other studies disclose their limitations and note that their results are not conclusive evidence of racial bias. Even Fannie Mae's study relied on by the task force found that "the differences observed in undervaluation between White and Black borrowers were similar in rate and not meaningfully different."

And another recent academic study, which the PAVE report fails to cite, found racial appraisal bias in mortgage refinance transactions to be either uncommon or have a relatively minor effect on valuations. Yet we are still holding a hearing today to address what we are told is a systemic problem of racial bias in home appraisals.

I am concerned that the PAVE report devotes only half a page to a discussion of the risks of overvaluing homes. Instead, the report recommends studying the use of alternatives to the sales comparison approach of appraisal, and the use of range-of-value estimates instead of single value estimates for appraisals.

Rather than increasing the accuracy of appraisals, these suggestions increase the risk of overvaluation. That risk is exacerbated for rural properties, which already can be challenging to appraise.

We shouldn't do anything to make appraisals of rural housing more difficult. Nor should we adopt recommendations that, in general, could undermine confidence in appraisals, and ultimately, reduce the availability of credit for all borrowers.

The overvaluation of homes harms taxpayers on the hook for underwater mortgages. And it also harms borrowers—in many cases, minority borrowers—who have been sold overvalued homes. I hope we reject any changes that end up increasing the risk of overvaluation.

As I've said before, the lesson we need to learn and apply is: When it comes to housing in America, Government is the problem, not the solution.

### **PREPARED STATEMENT OF MELODY TAYLOR**

EXECUTIVE DIRECTOR, PROPERTY APPRAISAL AND VALUATION EQUITY INTERAGENCY TASK FORCE, AND REGIONAL DIRECTOR, OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY, REGION III, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

MARCH 24, 2022

#### **Introduction**

Chairman Brown, Ranking Member Toomey, and other Members, I am extremely honored to have been invited to address the Committee on Banking, Housing, and Urban Affairs.

Appointed by Secretary Marcia Fudge in July 2021, I serve as the Executive Director of the Property Valuation Task Force, and as the Regional Director for the Office of Fair Housing and Equal Opportunity with over 20 years of fair housing experience. Again, I am honored to be here today.

Home ownership is the primary way American families build wealth and pass it on to the next generation. The value of one's home in the refinance process determines whether they can use the home's equity to send their children to college, whether they can start a business by accessing credit on reasonable terms, and ultimately whether their children benefit from the transfer of intergenerational wealth. This is the American dream.

Sadly, accounts of appraisal bias have captured national headlines in recent months. For instance, a Black couple in Marin City, California received an appraisal far lower than anticipated, even after making substantial home improvements. When they asked a White friend to stand in for them during a second appraisal, the home was valued roughly half a million dollars more than it was just weeks prior.

A Black woman in Indianapolis did not reveal her race on a refinancing application, removed all family photos, only communicated by email, and asked a White friend to pose as her brother during the appraisal. Her appraisal more than doubled from her first two appraisals. Imagine for just a moment that sinking feeling that you might experience knowing that "erasing" yourself might be the difference between your child receiving an education—or not.

Research has shown that their experiences are not one-offs. Rather, they are part of a pattern of racial bias. A Freddie Mac study published in September 2021, found that appraisals for home purchases in majority-Black and majority-Latino neighborhoods were roughly twice as likely to result in a value below the actual contract price compared to appraisals in predominantly White neighborhoods. Recent research by Fannie Mae examining refinance transactions found that overvaluations of White-owned homes were more likely to occur in majority-Black neighborhoods. These scenarios tend to be contributing factors to the wealth gap in communities of color.

### **Advancing Racial Equity and Support for Underserved Communities**

For this reason and more, on June 1, 2021—the centennial of the Tulsa Race Massacre—President Biden announced the creation of the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). Cochaired by HUD Secretary Marcia Fudge and White House Domestic Policy Advisor Ambassador Susan Rice, the Task Force was directed to accomplish two things: (1) evaluate the causes, extent, and consequences of racial and ethnic appraisal bias; and (2) establish a set of actions to root out racial and ethnic bias in the valuation of residential property. Secretary Fudge and Ambassador Rice asked me to serve as the Executive Director of the Task Force, and this has been one of the great honors of my 20-year career in fair housing.

### **Background of the Action Plan**

The Task Force convened 13 cabinet level and independent agencies and White House offices as members charged with harmonizing regulatory action, aligning compliance and enforcement activities, and developing standards and guidance which are now detailed in the recently published PAVE Action Plan. We did not take this journey alone. In listening sessions and one-on-one meetings, we met with and sought input from Realtors, appraisers, philanthropy, academia, civil rights leaders, and Americans with lived experiences of racial bias to identify solutions that will bring positive immediate impact to the people we all serve.

The product is a blueprint describing the history and impact of persistent misvaluations, early progress that the Task Force has already made toward transforming the industry, 21 concrete actions, and future PAVE agency commitments to ensure equitable access to opportunity through home ownership.

### **Overview of the Actions**

The Action Plan provides comprehensive actions around the following:

1. ***Enhancing oversight and accountability:*** The Action Plan lays out steps to enhance oversight and accountability of the appraisal industry, which has long operated in a relatively closed and self-regulated framework and has not been effective at addressing deep-rooted inequities.
2. ***Empowering consumers:*** The Action Plan provides for increased consumer awareness of the reconsideration of value process and concrete commitments, from housing counseling to the issuance of policy guidance, to improve that process.
3. ***Preventing algorithmic bias in home valuations:*** The Action Plan seeks to reduce automated valuation models' (AVMs) reliance upon biased data that could replicate past discrimination, including through the intended inclusion of a nondiscrimination quality control standard in the future proposed rule on AVMs.
4. ***Cultivating an appraiser profession that is well-trained and diverse:*** The Action Plan lays out a series of steps to remove unnecessary barriers that may make it more difficult for underrepresented groups to access the profession, and to strengthen training of existing appraisers. For example, the Action Plan outlines training requirements in the area of appraisal anti-bias, fair housing, and fair lending for all appraisers who conduct appraisals for Federal programs, and the Task Force will work with the appraisal industry to require such trainings for all appraisers.
5. ***Coordinating enforcement to keep industry accountable:*** The Action Plan includes steps to improve coordination and collaboration between enforcement agencies to better identify discrimination in appraisals, including by aligning investigative protocols with respect to allegations of racial and ethnic bias in the valuation process.
6. ***Leveraging Federal data and expertise to inform policy, practice, and research on appraisal bias:*** The Action Plan identifies instances where potentially useful datasets exist that have not been shared between agencies for

research, compliance, and enforcement. The plan provides a strategy to foster the aggregation of data to better study, understand and address appraisal bias.

### Conclusion

In conclusion, I thank you for your interest in this issue and the solutions that Federal agencies, industry, and others have collaboratively created. Our immediate and long-term actions will unleash opportunity for children and families in every neighborhood and corner of our Nation. We look forward to expanding and amplifying these successes in partnership with you. Again, thank you.

### PREPARED STATEMENT OF JAMES R. PARK

EXECUTIVE DIRECTOR, APPRAISAL SUBCOMMITTEE OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

MARCH 24, 2022

Chairman Brown, Ranking Member Toomey, and Members of the Committee, I am honored to address the Committee on Banking, Housing, and Urban Affairs on the important work of the Property Appraisal and Valuation Equity Task Force which was set up by President Biden with Secretary Fudge and Ambassador Rice leading a first-of-its-kind interagency initiative to address inequity in home appraisals. I have had the distinct honor, as the Executive Director of the ASC, of participating on the PAVE Task Force.

For millions of Americans, building intergenerational wealth has meant one thing: home ownership. Appraisals and appraisers play a vital role in the multitrillion-dollar financial services market by providing key risk management tools that protect financial institutions and consumers. Numerous public accounts of appraisal bias, coupled with a lack of appraiser diversity and recent studies, raise serious concerns about appraisals and lending practices, and appraisal governance—shining a light on an industry that needs reform to promote equity.

As background, our current appraisal regulatory system was established in 1989. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) established this unique appraisal regulatory system consisting of the State appraiser regulatory programs, the Appraisal Foundation (Foundation), a private nonprofit, and the Appraisal Subcommittee, or ASC, as the Federal oversight body. In short:

- the Foundation issues the appraisal standards and appraiser qualifications;
- the States are required by Federal law to implement those requirements; and
- the ASC enforces that implementation by the States.

The ASC also houses the National Registries of appraisers and appraisal management companies.

In addition to the PAVE Task Force initiative, in January 2022, the ASC released its independent study that focused on the Foundation’s appraisal standards and appraiser qualification criteria. The goal of this study was to ensure these standards or qualifications do not facilitate or systematize racial or ethnic bias. The PAVE Action Plan and the independent report commissioned by the ASC identify serious shortcomings and opportunities for reform.

Some of the pressing challenges with our current system I would like to highlight today include:

- inadequate accountability in our current governance structure;
- a shortage of appraisers; and finally,
- a lack of diversity in the appraisal profession.

On governance, the PAVE Report notes that “the existing governance structure needs to be fundamentally reassessed to meaningfully advance equity in the industry.” Per Title XI of FIRREA, the ASC is required to “monitor and review” the Foundation; however, the agency has neither the enforcement authority, nor an effective mechanism, for holding the Foundation accountable.

The appraisal profession also faces other challenges. Since 2009, the number of credentials on the ASC’s Appraiser Registry has declined by nearly 25 percent. Furthermore, the real property appraiser occupation is among the least diverse in the country. An extensive and typically unpaid “trainee” model, along with burdensome education and experience requirements, present barriers to entry that disproportionately impact people of color and rural residents. Trainees are often unable to find a supervisor, as qualified appraisers are often unwilling to take on the responsibility and liability of training them or may have reservations about training their own

future competition, resulting in a shortage of appraisers, particularly in rural markets. This has driven up service times and appraisal fees to unacceptable levels causing loans to be delayed or even lost. Appraiser qualification requirements should have the appropriate rigor but not pose unreasonable barriers to enter the profession.

These longstanding, unaddressed issues have serious implications for everyday Americans. An improved governance structure would advance equity by ensuring greater fairness and transparency in the appraisal standards and appraiser qualifications setting process. It would also advance a more stable and reliable appraisal industry to serve financial services and consumers alike. The ASC stands ready to be part of the solutions to the challenges to bring about meaningful long-term change that will only come from partnerships with other stakeholders, including lenders, GSEs, regulators and legislators.

Thank you Chairman Brown and Ranking Member Toomey and Members of the Committee. I appreciate the opportunity to appear before you today and I am happy to take your questions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED  
FROM MELODY TAYLOR**

**Q.1.** The Property Appraisal and Valuation Equity (PAVE) Action Plan discusses appraisal bias generally, but it is unclear which of those proposals address unconscious bias in particular. Which of the actions recommended in the PAVE report would counteract unconscious bias?

**A.1.** The PAVE Action Plan identifies concrete actions and areas of focus that agencies have committed to take to eliminate bias, including unconscious bias, and advance equity in home appraisals.

One area of focus that addresses unconscious bias is *Building a well-trained, accessible, and diverse appraiser workforce*, which includes requiring “appraisal anti-bias, fair housing, and fair lending training for all appraisers who conduct appraisals for Federal programs and work with the appraisal industry to require such trainings for all appraisers.” Additionally, the Action Plan highlights a commitment from the Office of Fair Housing and Equal Opportunity’s Fair Housing Initiative Program, which will provide funding opportunities to allow qualified fair housing organizations to conduct education and outreach pertaining to appraisal bias and discrimination.

Moreover, under the theme of *Strengthening guardrails against unlawful discrimination in all stages of residential valuation*, the Action Plan provides that “Agencies participating in AVM rule-making commit to address potential bias by including a non-discrimination quality control standard in the proposed rule.” While AVMs have the potential, if properly used, to reduce human bias and improve consistency in decision making, these systems are not immune from the risk of discrimination.

**Q.2.** The PAVE Action Plan notes that The Appraisal Foundation has developed a virtual training program titled, “Practical Applications of Real Estate Appraisal” (PAREA), which could provide an alternative to the traditional in-person supervisor-trainee model. Could such a program supplement or substitute for training under a supervisor in the field? How could such a training program reduce bias in the appraisal process?

**A.2.** The Appraisal Foundation’s Practical Applications of Real Estate Appraisal (PAREA) could provide an alternative to the traditional supervisor-trainee model. PAREA was adopted by The Appraisal Foundation, through its Appraiser Qualifications Board (AQB), on October 16, 2020, and became effective, January 1, 2021. The Appraisal Foundation designed PAREA to allow individuals to gain appraisal experience in simulated, virtual, and augmented environments. PAREA was designed to meet or exceed the current appraisal training methodology and although it eliminates the current requirement for prospective appraisers to find a supervisor in the field it requires participants to have mentors so that “participants interact with qualified, competent, and experienced apprais-

ers at key designated touchstones throughout the process to ensure proper comprehension for all of the training.”<sup>1</sup>

In explaining why it created PAREA, The Appraisal Foundation acknowledged that appraiser trainees experienced numerous, well-documented difficulties in finding qualified supervisory appraisers and these difficulties presented a significant challenge to entry into the appraisal profession. By providing an alternative model for gaining appraisal experience, PAREA has promise to open doors to the appraisal profession to individuals who have historically been excluded from it. Nevertheless, there are open questions about PAREA’s viability as a solution to eliminate the barriers to entry into the profession.

To date, PAREA has not been implemented, nor has The Appraisal Foundation published definitive timelines for consumer use. States have the authority to adopt the use of PAREA; however, in many cases it may require rule making and or statutory changes. Moreover, the capacity or other key details of the PAREA program have not been defined and there will be a cost to participate in the program, which could act as a barrier. As such, should PAREA ever be fully implemented, there is no assurance persons of color would have the ability to access the program in a timely manner. Additionally, entry into PAREA, as with many educational programs, will be cost-based (estimated \$2,000–\$5,000), which may present an additional barrier to entry.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS  
FROM MELODY TAYLOR**

**Q.1.** Various studies on this topic cite news stories of alleged racial bias in appraisals. While allegations of any unlawful action or bias should always be investigated and, if need be, sent to the courts, can you provide to me the specific number of convictions of appraisers who have been found to be discriminatory in their work?

**A.1.** HUD’s Office of Fair Housing and Equal Opportunity investigates complaints of alleged discrimination in all phases of real estate related transactions, including appraisals. However, HUD’s enforcement of the Fair Housing Act is limited to civil enforcement, so its investigations have not and cannot result in criminal convictions for discriminatory appraisals.

Although the number of filed complaints with HUD on appraisal bias has risen over recent years, the extent of the problem could be far larger, and we caution that these statistics are not an indicator of prevalence, and that more research on this issue is needed. There are also numerous other avenues for an individual to file a complaint of bias, for example through the Appraisal Subcommittee Hotline, Consumer Financial Protection Bureau, State appraiser regulatory agencies, and State and local agencies that enforce housing laws.

As the PAVE Action Plan details, many consumers are unfamiliar or unaware of many channels available to them. We believe that more consumer education, and in turn, more data is needed

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<sup>1</sup>Second Exposure Draft of Practical Applications of Real Estate Appraisal (PAREA), 7 <https://appraisalfoundation.sharefile.com/share/view/sff895f953c7b4708b21824107574259b>.

to understand the full extent of inequity in home appraisals across this country. What is clear is that racial bias in home appraisals exists, and HUD is focused on rectifying that bias. Recently, HUD approved a conciliation agreement between a complainant and JPMorgan Chase where the complainant alleged discrimination in the appraisal process based on the complainant's race in violation of subsection 804(a) and Section 805 of Title VIII of the Civil Rights Act of 1968, as amended.

The terms of the agreement included relief for the complainant in the amount of \$50,000, and relief in the public interest with all JPM Chase's Home Lending Advisors and Client Care Specialists nationwide receiving mandatory training on the Reconsideration of Value (ROV) process and fair lending issues related to appraisals (including how to handle complaints of discrimination in the appraisal process and the process for customer to submit a ROV request).

HUD looks forward to working with Congress and appraisal industry stakeholders to ensure that we all live up to the ideal that was cemented into law decades ago through the Fair Housing Act—that all people have equal opportunity in the pursuit of housing and access to generational wealth that owning a home affords, regardless of their race or other protected class.

**Q.2.** Some policymakers and special interest groups are currently advocating that the education requirements for becoming an appraiser be dramatically reduced. Do you believe this will help more competent appraisers enter into the profession or could this have further compounding effects?

**A.2.** Currently, no degree programs fully satisfy the Appraisal Qualification Board's education requirements for certification—even postsecondary degrees. There is limited support that a college degree makes appraisers more ethical, accurate or credible. Alternatively, if evidence is developed supporting a college degree requirement, the PAVE Action Plan recommends automatically qualifying relevant real estate programs from accredited Institutions of Higher Education as fulfilling the credentialing requirements to sit for an exam which will expand access and pathways to the profession.

Additionally, industry stakeholders did provide commentary that the current supply of appraisers is not adequate to cover the demand for residential appraisals, and that this is negatively impacting the home buying experience for communities across the country, including rural areas. The PAVE Action Plan details how the Task Force will work to lower barriers to entry in the appraiser workforce, to include proposing changes to the AQB criteria and engagement with State appraisal regulatory agencies to identify leading practices that could be scaled nationally to advance equity in the appraiser workforce. In particular, the Action Plan committed to developing a legislative proposal that modernizes the governance structure of the appraisal industry by expanding greater authorities to the Appraisal Subcommittee (ASC) which, if adopted, would give the ASC greater oversight in the issuance of appraisal standards and qualification criteria.

PAVE is also seeking reforms to the appraisal industry's governance structure to increase public participation in the assessment of appraiser qualification criteria and expand pathways into the profession. In so doing, PAVE aims to ensure that appraiser criteria further the public interest without creating needless barriers to entry that makes appraisers less representative of the populations they serve and less available where they are needed

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**RESPONSE TO WRITTEN QUESTION OF SENATOR REED  
FROM JAMES R. PARK**

**Q.1.** How does the Appraisal Subcommittee currently exercise its existing oversight powers over The Appraisal Foundation to address racial bias in the appraisal process? Are there existing powers the Appraisal Subcommittee that could be used more effectively to reduce bias in appraisals?

**A.1.** The ASC has very limited oversight powers over the Appraisal Foundation (Foundation), a private nonprofit. The ASC is limited to monitoring and reviewing the Foundation but lacks the enforcement and rulemaking authority necessary to provide effective oversight. Therefore, the agency's ability to directly reduce or impact bias in appraisals through the Foundation is limited as well. Until 2020, the Foundation accepted an annual grant from the ASC which provided the ASC a degree of Foundation oversight. However, since 2020, the Foundation has stopped accepting ASC grants further limiting the ASC's ability to influence Foundation actions. The ASC has offered the Foundation approximately \$2.75 million in Federal grants over the past three years which were declined over concerns that accepting Federal funds for the work to develop USPAP changes could compromise over 80 percent of their annual revenue. The ASC's 2022 Notice of Funding Availability to the Foundation made it clear that in addition to funding for the standards and qualifications setting boards, funds could also be used for diversity, equity and inclusion projects such as diversifying the appraisal industry and the Foundation Boards.

The ASC has been actively working within our authority to identify the root causes and solutions to bias in appraisals and the lack of diversity in the industry. The agency hosted two public (virtual) roundtables on bias and diversity problems with over 700 attendees. The ASC also commissioned an independent report on the appraisal standards and appraiser qualifications to ensure that neither set of requirements systematize or encourage bias in appraisals or the credentialing of appraisers. The study pointed out several problems with the standards and qualifications setting process and the standards and qualifications themselves. The report also included recommendations for addressing the problems. Increased oversight and enforcement authority over the standards and qualifications setters to ensure a fair and equitable process would greatly enhance the ASC's ability effectuate changes in appraisal practice and appraiser education. The ASC staff and ASC member agencies also made significant contributions to the PAVE Task Force.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS  
FROM JAMES R. PARK**

**Q.1.** Various studies on this topic cite news stories of alleged racial bias in appraisals. While allegations of any unlawful action or bias should always be investigated and, if need be, sent to the courts, can you provide to me the specific number of convictions of appraisers who have been found to be discriminatory in their work?

**A.1.** No, because investigations and convictions in these areas would be under the jurisdiction of State or Federal agencies over which the ASC has no authority.

**Q.2.** Some policymakers and special interest groups are currently advocating that the education requirements for becoming an appraiser be dramatically reduced. Do you believe this will help more competent appraisers enter into the profession or could this have further compounding effects?

**A.2.** There are two parts to the education requirements to obtain an appraiser credential:<sup>1</sup> college degree or course requirements and a core curriculum of education on appraisal practice.

The PAVE Task Force and other studies have been focusing on reducing or eliminating the college degree and college course requirements. Other than the need to make Fair Housing Training part of the core curriculum, I am not aware of any requests to change the core curriculum education related to appraisal practice.

The college degree and college course requirements became effective in 2015. I am not aware of any studies or research done before or after implementation that supported the conclusion that having a college degree or college courses leads to someone being a more ethical or competent appraiser. However, there is plenty of research that indicates people of color and rural citizens are less likely to have college degrees or coursework.

Since the college degree and course requirements became effective, the numbers of appraisers entering the profession have dropped and complaints of appraiser shortages are growing. It is also important to keep in mind that the experience requirements, which forces trainee appraisers to find someone willing to supervise them, can serve as a barrier to entering the profession that is equal to or greater than the college degree or course requirements.

**Q.3.** As you know, the Appraisal Subcommittee maintains the Appraisal Complaint National Hotline.

How many Fair Housing Complaints have been processed by the Appraisal Complaint National Hotline?

**A.3.** The original Appraisal Complaint National Hotline did not include referrals of fair housing complaints. Dodd–Frank amended Title XI of FIRREA to authorize complaint referrals only for alleged violations of Uniform Standards of Professional Appraisal Practice (USPAP) and/or appraiser independence. However, as a result of the PAVE recommendations, the ASC will determine ways to highlight the processing of Fair Housing complaints in order to assist and educate consumers.

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<sup>1</sup>These requirements vary depending on whether one is seeking to obtain a Licensed, Certified Residential, Certified General credential.

**Q.4.** How many complaints concerning appraisers and appraisal management companies have been referred to State regulatory agencies?

**A.4.** The Hotline was opened in March 2013. There have been 3,399 referrals against appraisers and 304 against appraisal management companies (AMC) generated over the past 24 months.

The Appraisal Complaint National Hotline refers complainants to appropriate State and/or Federal agencies to handle complaints of alleged violations of the (USPAP) and/or appraisal independence requirements. Intake of complaints are handled based on existing protocols established by the State or Federal agency receiving the complaint. The Hotline does not initiate complaints, act on behalf of complainants, arbitrate complaints, assist in appealing the outcome of complaints, or follow up on complaint referrals previously provided. Therefore, we do not have information regarding the number of referrals that resulted in actual complaints being filed at the State or Federal levels.

**Q.5.** Has the number of complaints received through the hotline increased or decreased over the past 24 months?

**A.5.** From 2020–2021 the number of referrals against appraisers has increased from 579 to 610, or 5 percent, and from 12 to 22, or 83 percent, for AMCs.

**Q.6.** If an increase, does that indicate appraisers are doing a better job and less education and experience should be required?

**A.6.** The number of referrals against appraisers has risen slightly while the number of complaints against AMCs has almost doubled. We do not have enough data to attribute either increase to a specific reason or set of reasons.

## ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

**LETTER SUBMITTED BY NAFCU**

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**National Association of Federally-Insured Credit Unions**

March 23, 2022

The Honorable Sherrod Brown  
Chairman  
Committee on Banking, Housing, and  
Urban Affairs  
United States Senate  
Washington, DC 20510

The Honorable Pat Toomey  
Ranking Member  
Committee on Banking, Housing, and  
Urban Affairs  
United States Senate  
Washington, DC 20510

**Re: Tomorrow's Hearing on "Strengthening Oversight and Equity in the Appraisal Process"**

Dear Chairman Brown and Ranking Member Toomey:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts on issues of importance to credit unions ahead of tomorrow's hearing entitled "Strengthening Oversight and Equity in the Appraisal Process." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products. We would like to thank you for holding this important hearing and the opportunity to provide input on the appraisal process.

NAFCU appreciates the work of the Administration and Congress on this important issue. NAFCU has discussed the issues of appraisal modernization and appraisal bias with the U.S. Department of Housing and Urban Development (HUD) as it embarked upon its Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). NAFCU has also been engaged with the Federal Housing Finance Agency (FHFA) on appraisal-related policies, practices, and processes.

Multiple studies have shown that biases in appraisals exist across the board. Freddie Mac<sup>1</sup> and Fannie Mae<sup>2</sup>, the government-sponsored enterprises (GSEs), have found that appraisal disparities exist for communities and borrowers of color. The Consumer Financial Protection Bureau and other federal regulators, including the FHFA, have also acknowledged that appraisal discrimination plagues the mortgage market.<sup>3</sup> Appraisal reform is essential in order to address this widely recognized issue. The use of technology is a start to addressing appraisal biases. NAFCU has recommended that the FHFA work with the GSEs, other federal regulators, and The Appraisal Foundation to diversify the appraisal industry by expanding participation of people of color in the appraisal industry, updating standards to root out bias more clearly, and providing training for appraisers to understand and identify implicit bias.

<sup>1</sup> *Racial and Ethnic Valuation Gaps in Home Purchase Appraisals* (September 2021).  
<https://www.freddie-mac.com/research/insight/20210920-home-appraisals>.

<sup>2</sup> *Appraising the Appraisal* (February 2022). <https://www.fanniemae.com/media/42541/display>.

<sup>3</sup> *Federal Interagency Comment Letter on Appraisal Discrimination*. (February 4, 2022).  
[https://files.consumerfinance.gov/f/documents/cfpb\\_appraisal-discrimination\\_federal-interagency\\_comment\\_letter\\_2022-02.pdf](https://files.consumerfinance.gov/f/documents/cfpb_appraisal-discrimination_federal-interagency_comment_letter_2022-02.pdf).

The Honorable Sherrod Brown, The Honorable Pat Toomey  
March 23, 2022  
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Property value is a key determinant of borrower credit risk and an important aspect of the mortgage process. An appraisal should be an objective way to assess a home's market value. Appraisals are important to protect all parties involved in the homebuying process, including the lender, borrower, and seller, and appraisers should be objectively assessing a home's market value to ensure that the amount of money requested by the borrower is appropriate. Credit unions routinely confirm the consistency, fairness, and accuracy of appraisals they receive, and NAFCU sees the modernization of the appraisal process as a logical step to support continued innovation of the housing finance system and a way to help mitigate the risk of human error or bias.

There is a need for consistent, reliable technology to simplify the appraisal process, make it more efficient, and reduce bias and discrimination. At the same time, regulatory agencies charged with ensuring the integrity of algorithmic valuation models should take care not to develop rules that will chill innovation or prevent smaller community financial institutions from embracing new technology due to compliance costs. In other contexts, such as lending, artificial intelligence and machine learning models have demonstrated that automated processes can expand access to credit while ensuring compliance with fair lending laws.<sup>4</sup> The same forward thinking should be applied to appraisals.

NAFCU members also report that there is a lack of standardization between appraisers and throughout the appraisal process, the effects of which are carried over to the borrower in terms of overall costs. NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior only appraisals, which can help with flexibility. When alternative processes, aside from traditional appraisals, can be employed, we believe lenders should be allowed the flexibility to use them at their discretion to find the best way to meet the needs of their members. During the pandemic, the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) permitted desktop and exterior only appraisals, but the FHA has since discontinued the flexibility for desktop only appraisals and the VA has discontinued the use of both desktop and exterior only appraisals. NAFCU urges Congress to investigate this decision and require HUD to permanently permit the FHA and VA to accept desktop and exterior only appraisals for all approved mortgages. Likewise, the GSEs should continue to permit desktop only and exterior only appraisals for all mortgages they purchase from lenders.

Credit unions also continue to see significant appraisal challenges in servicing rural areas. NAFCU's member credit unions would like to provide all their products and services, including mortgage loans, to their members in the rural communities they serve. Often, credit unions are the only financial institutions in a rural community, increasing the need for a more streamlined appraisal process so that these communities have easy access to safe, affordable mortgage credit. In rural communities, the appraisal process is less efficient than anywhere else. Moreover, credit unions have been faced with severe difficulties in securing an appraiser to complete traditional appraisals in these rural areas and sometimes even in urban areas. The ability to use desktop appraisals or other alternatives as well as automated valuation models and appraisal waivers in rural areas will decrease the strain placed on NAFCU's member credit unions and their member-borrowers when it comes to financing the purchase of a home through the mortgage loan process.

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<sup>4</sup> CFPB, "An update on credit access and the Bureau's first No-Action Letter," (August 6, 2019), available at <https://www.consumerfinance.gov/about-us/blog/update-credit-access-and-no-action-letter/>.

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NAFCU believes it is important to remove bias in the appraisal process and to strive for enhanced standards and consistency for appraisers. We strongly support efforts to expand the diversity of the appraiser workforce as well, as this can help significantly to reduce bias and discrimination. The use of new technologies, including artificial intelligence and machine learning, can also pave the way for a more fair and transparent appraisal process. Although algorithmic determinations of value may present different challenges, incorporating technologies to assist in the valuation process and serve as a check on the accuracy and consistency of appraisals would likely reduce bias and discrimination.

We thank you for the opportunity to share our thoughts and recommendations and look forward to continuing to work with you on improving the appraisal process. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at [jplevelich@nafcu.org](mailto:jplevelich@nafcu.org).

Sincerely,



Brad Thaler  
Vice President of Legislative Affairs

cc: Members of the U.S. Senate Committee on Banking, Housing and Urban Affairs

## STATEMENT SUBMITTED BY AEI HOUSING CENTER



[Comments on PAVE’s “Action Plan to Advance Property Appraisal and Valuation Equity: Closing the Racial Wealth Gap by Addressing Mis-valuations for Families and Communities of Color”](#)

Edward Pinto - Director, AEI Housing Center (PintoEdward1@gmail.com)

Tobias Peter – Assistant Director, AEI Housing Center (Tobias.Peter@AEI.org)

March 2022

On March 23<sup>rd</sup>, the Interagency Task Force on Property Appraisal and Valuation Equity and, which is composed of thirteen federal agencies and offices, [released its report](#) entitled “Action Plan to Advance Property Appraisal and Valuation Equity: Closing the Racial Wealth Gap by Addressing Mis-valuations for Families and Communities of Color.”

**Commentary on PAVE’s conclusion:**

PAVE concluded that “Homeownership is often hindered by inequities within current home lending and appraisal processes, which research shows disproportionately impact people in communities of color.”

As noted in the Executive Summary, the report largely rests on three studies for its conclusion: (i) a report by the Brookings Institution, (ii) a note by Freddie Mac, and (iii) a blog post by FHFA.<sup>1</sup> In our work, we have issued lengthy critiques that discredit the first two studies (see our [rebuttal to Brookings](#) and [to Freddie Mac](#)) and now take the opportunity to respond to the FHFA study.<sup>2</sup> Here is a summary of our findings:

The Brookings and Freddie Mac studies are not based on rigorous data analysis. Most importantly, they conflate race with socio-economic status (SES), i.e. income, buying power, marriage rates, credit scores, etc. **Race-based gaps found in the Brookings and Freddie Mac studies either entirely or substantially disappear when adjusting for differences in SES.** Furthermore, our analyses show that similar gaps are present in majority White or White-only tracts across different SES levels, raising serious questions regarding a race-based explanation.<sup>3</sup> We also addressed a rebuttal from the Brookings authors to our critique. We found that Perry and Rothwell’s (2021) rebuttal to our critique [supported our claim](#) of omitted variable bias, failed to rebuke our methodology, and never addressed our case studies. We also presented solutions based on our findings. The Freddie Mac study took pains to state that its research was both “exploratory” and “preliminary”. Yet PAVE accepted Freddie Mac’s findings at face value, even

<sup>1</sup> Interagency Task Force on Property Appraisal and Valuation Equity (PAVE), *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 24, 2022, pp. 2-3.

<sup>2</sup> Despite the AEI Housing Center having undertaken a significant body of research on the topic of racial bias in housing finance over a course of years and notwithstanding efforts to engage with PAVE and some of its members, we were unable to engage with PAVE and our work was not mentioned in the report. Yet, PAVE stated that “[o]ver the past 180 days, the Task Force has undertaken a collaborative and comprehensive approach toward identifying actions to address appraisal bias. This approach involved extensive consultation with subject matter experts and leaders across industry, academia, trade and civil rights groups, and government.”

<sup>3</sup> The same critique to the Brookings paper also applies to research by Howell and Korver-Glenn (2021) and a recent Redfin post on the same topic.

though research by Fannie Mae provides a likely, non-race based explanation for the valuation discrepancy found by Freddie Mac. It is worth noting that Fannie Mae's explanation casts a favorable light on the appraisal industry.

This conflation by both Brookings and Freddie Mac is of critical importance. While there is agreement regarding the symptoms observed by PAVE--racial and ethnic differences in the homeownership rate, the financial returns of owning a home, and median wealth levels--ascertaining the causes and workable solutions requires a competition of ideas.<sup>4</sup> PAVE excluded research that was inconvenient or inconsistent with the desired narrative and conclusion.<sup>5</sup>

The [FHFA blog post](#), which we have not addressed until now, stated that in their "review of appraisals, we have observed references to race and ethnicity in the 'Neighborhood Description' and other free-form text fields in the appraisal form." FHFA concluded that the use of such references is evidence of bias as the "racial and ethnic composition of the neighborhood should never be a factor that influences the value of a family's home" and released 16 specific examples.

While we all can agree with FHFA's statement that "racial and ethnic composition of the neighborhood should never be a factor that influences the value of a family's home", the blog post failed to provide any specifics as to the frequency of such occurrences. It only stated:

From millions of appraisals submitted annually, a keyword search resulted in thousands of potential race-related flags. Individual review finds many instances of keywords to be false positives, but the following are [16] examples of references when the appraiser has clearly included race or other protected class references in the appraisal.

Without more information, one is unable to discern whether this is evidence of a few bad apples or systemic behavior. This is made all the more problematic given that there is other evidence showing no systemic appraisal bias. Unfortunately, PAVE ignored that body of research, to wit:

- [AEI Housing Center \(2021\)](#) found that racial bias by appraisers on refinance loans is uncommon and not systemic. To evaluate the existence of bias, the AEI Housing Center assembled a unique dataset with over 240,000 loans for which we knew the race of the borrowers.
- [Ambrose et al. \(2021\)](#) concluded that "contrary to media allegations, our statistical analysis found that racial bias by appraisers on refinance loans is uncommon and not systemic."<sup>6</sup>
- [Fannie Mae \(2022\)](#) concluded that for refinance applications "Black borrowers refinancing their home on average received a slightly lower appraisal value relative to automated valuation

<sup>4</sup> The University of Wisconsin Board of Regents stated this concept best over 125 years ago: "Whatever may be the limitations which trammel inquiry elsewhere, we believe that the great state University of Wisconsin should ever encourage that continual and fearless sifting and winnowing by which alone the truth can be found." <https://news.wisc.edu/sifting-and-winnowing-turns-125/>

<sup>5</sup> This goes back to when President Biden in his January 26, 2021 "Memorandum on Redressing Our Nation's and the Federal Government's History of Discriminatory Housing Practices and Policies" for the Secretary of HUD cited as fact "a persistent undervaluation of properties owned by families of color." Thus, PAVE would need to conform to the President's stated narrative, notwithstanding strong evidence to the contrary. <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/26/memorandum-on-redressing-our-nations-and-the-federal-governments-history-of-discriminatory-housing-practices-and-policies/>

<sup>6</sup> Ambrose, Brent W., James Conklin, N. Edward Coulson, Moussa Diop, and Luis A. Lopez. "Does Appraiser and Borrower Race Affect Valuation?" Available at SSRN 3951587 (2021).

models” and that “the frequency of ‘undervaluation’ did not have a notable racial pattern.”<sup>7</sup> Interestingly, Fannie Mae (2022) also rebuked the methodological approach in Freddie Mac’s research note that was cited by PAVE as one of the three main studies.<sup>8</sup>

Our conclusion is that PAVE has misdiagnosed the problem.<sup>9</sup> PAVE proposed 21 agency actions. It is highly questionable that these will address racial and ethnic differences in the homeownership rate, the financial returns of owning a home, or median wealth levels. In some cases, they may make these differences worse or take the pressure off in finding effective solutions. It also must be noted that HUD and its predecessors have played a major role in perpetuating segregation and racial wealth disparities.<sup>10</sup> This alone should give pause to any objective reader of the PAVE report.

Rather than PAVE’s finding of “inequities within current home lending and appraisal processes, which research shows disproportionately impact people in communities of color,” the real culprit is inequities in SES, which PAVE acknowledges when it states that “[m]uch of the gap in rates of homeownership can be traced to socio-economic factors that differ on average between Black and white homeowners.” While lower SES certainly reflects a legacy of past racism and lingering racial bias, which leaves Blacks at a large income and wealth disadvantage relative to most Whites, PAVE should have addressed this in its

<sup>7</sup> Williamson, Jake and Mark Palim. “Appraising the Appraisal: A closer look at divergent appraisal values for Black and white borrowers refinancing their home.” (2022).

<sup>8</sup> In particular, Fannie Mae wrote that “[w]e chose to study refinance applications, as opposed to home purchase applications, because the appraiser in a refinance transaction typically interacts directly with the homeowner (i.e., the borrower), establishing a pathway for potential bias to influence the appraisal results. The race or ethnicity of the borrower is often disclosed in the loan data, making it possible to directly observe any correlation with value. On the other hand, in a purchase transaction, the appraiser typically does not interact with the buyer (i.e., the borrower) of the property but rather with the seller or the seller’s agent. The availability of racial or ethnic data of sellers and real estate agents is limited, thereby making an analysis of valuation differences by different demographics for purchase transactions limited or incomplete relative to the analysis detailed below using refinance transactions.” (p.3)

<sup>9</sup> At times, PAVE tried to have it both ways. On the topic of undervaluation, which is the main focus in the Freddie Mac analysis because of the negative impact on minority home buyers, the PAVE report stated that a lower appraisal can be beneficial to the buyer but hurtful to the seller as “it limits the seller’s realized home equity gains and therefore impacts the seller’s wealth.” (p.15)

<sup>10</sup> As noted by PAVE, throughout the 20<sup>th</sup> century the “federal...government systematically implemented discriminatory policies that led to housing segregation.” Not mentioned by PAVE was the U.S. Commerce Department’s role in implementing a zoning regime designed to keep Black and ethnic-minorities out of single-family detached neighborhoods (see Chapter 1, [AEI Light Touch Density E-Book](#)), the 1949 Housing Act which resulted in the high-rise public housing and urban renewal programs, both of which worked to the great detriment of Black households and neighborhoods, the 1967 Presidential Task Force on Housing and Urban Development (headed by HUD Secretary Weaver), which proposed a 10-year housing program to eliminate all substandard housing in the U.S. (source: Lyndon Johnson Library), that was enacted in the 1968 Housing and Urban Development Act, the consequences of which led to HUD and FHA destroying many American cities, especially Black neighborhoods ([Cities Destroyed Cash: The FHA Scandal at HUD](#)), the Tax Reform Act of 1986, which created the Low Income Housing Tax Credit, which has perpetuated racial segregation ([Chicago tax credit program mostly produces affordable housing in poor black areas, March 15, 2021](#)), the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, which granted HUD the authority to set affordable housing mandates for Fannie Mae and Freddie Mac, and HUD’s 1995 National Homeownership Strategy: Partners in the American Dream, which led to over 10 million foreclosures and did much to create the wealth disparities Blacks now face. All of these failures may be traced to HUD, or its predecessor agencies responsible for federal housing policy.

policy recommendations. Thus, the PAVE Action Plan, by misdiagnosing the causes of the racial gap, will likely lead to unintended consequences as the Action Plan does not address the root problem.

We agree with PAVE that we ought to support opportunities for income and wealth growth among lower-income households. However, we should address the root cause for lower SES instead of unsubstantiated claims of systemic bias and racism in the housing finance sector.

**Based on an objective diagnosis of symptoms and causes using rigorous data analysis, we propose the following solutions:**

The housing policy solutions are:

- Building generational wealth through sustainable homeownership for low SES households by reducing leverage for aspiring low-income home buyers.
- Increasing supply and reducing income stratification through Light Touch Density.
- Promoting Walkable Oriented Development in existing neighborhoods with a mix of residential and commercial properties.

Other policy solutions, which might be explored, are:<sup>11</sup>

- Encouraging two parents in households with children (single-parent households have been found to be a significant SES factor by a wide range of academic researchers).
- Enacting occupational licensing reforms and allowing small businesses to be run out of one's home (this has been found to be a significant barrier to low SES households).
- More economical childcare by rolling back burdensome government regulations (childcare costs are a significant barrier to gainful employment by low SES households).
- Real school choice for access to quality elementary and secondary education (racial and ethnic minorities would benefit greatly from real school choice).
- Improving access to technical and apprenticeship training (this would open up access by low SES households to these well-paying jobs).
- Encouraging state and local governments to address public investment disparities relating to minority and lower income neighborhoods.

Recognizing the importance of SES factors is key to fashioning appropriate public and private responses. A misdiagnosis that focuses on other factors will not address the root problem and could potentially lead to unintended consequences. We must be mindful that many public policies aimed at addressing racial discrimination have had unintended consequences that have done substantial harm to low-income households generally, and minority households in particular.

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<sup>11</sup> Many thanks to our AEI colleagues Naomi Schaefer Riley and Angela Rachidi for many of these ideas. Please see their thoughtful analysis: <https://reason.com/2021/02/24/fix-family-poverty-with-free-markets-for-once/>.

**LETTER SUBMITTED BY THE APPRAISAL FOUNDATION**

March 24, 2022

**United States Senate  
Committee on Banking, Housing and Urban Affairs**

Dear Mr. Chairman, Ranking Member and Members of the Committee

Thank you for the opportunity to provide a letter of record for the Senate Banking Hearing on March 24, 2022, "Strengthening Oversight and Equity in the Appraisal Process."

The Appraisal Foundation is unique in the appraisal regulatory system. We are a private sector entity which was authorized by Congress after the Savings and Loan Crisis of the 1980's to establish the standards and qualifications for real estate appraisers in the United States. These standards and qualifications are then incorporated into state law, and the federal government plays a role in overseeing the states implementation of these laws.

Because the standards and qualifications developed by the Foundation's two technical boards have the force of law, The Appraisal Foundation has always followed a rulemaking process that mirrors federal rulemaking procedures. 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.

The Appraisal Foundation has been committed to protecting the public trust in the appraisal profession since our founding over thirty years ago. Press reports alleging bias and discrimination over the past two years have been deeply concerning and go against the core principles of the appraisal profession.

Even before these troubling reports emerged, The Appraisal Foundation's boards were taking action to root out bias and discrimination and promote diversity, equity and inclusion within the appraisal profession. These efforts have included:

- 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.

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- 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 product 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 Applications 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.

Given our ongoing efforts in this space, we welcomed the announcement of the Biden Administration's Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). We sent two letters to the Executive Director of the PAVE Task Force, Melody Taylor, requesting the opportunity to share our unique perspective as the congressionally authorized standard setter for the appraisal profession and included recommendations for the task force to consider. We were disappointed that neither letter was acknowledged, and we never had the opportunity to meet with the task force outside of an industry listening session attended by hundreds of appraisal professionals.

Now that the task force has released its action plan, we hope we will have the opportunity to work more directly with them moving forward as our boards review their recommendations.

In addition, we continue to plan to pursue initiatives to uncover and prevent discriminatory practices and better open the profession to underrepresented groups. There are many ideas we look forward to exploring with regulators and our partners. These include:

- Using data at the GSEs, Appraisal Management Companies, large lenders and mortgage brokers to identify instances of possible discrimination to take bad actors out of the appraisal process and correct systemic deficiencies.
- Encouraging the Appraisal Subcommittee to review state enforcement decisions for proper application of USPAP during their compliance reviews.
- Supporting state regulatory bodies by building their knowledge and ability to enforce USPAP compliance by their licensed and certified appraisers.
- Expanding the Appraisal Subcommittee's Complaint Hotline to track and report discrimination complaints through adjudication.
- Broadening support for the Appraiser Diversity Initiative – a collaborative effort we sponsor that is led by Fannie Mae, Freddie Mac, the Appraisal Institute, and the National Urban League – aimed at fostering diversity in the appraisal profession.

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- Expanding the Foundation's Pathway to Success initiative to support the quick development of PAREA and provide scholarships to aspiring appraisers who are veterans, people of color, and those working in underserved, rural areas.
- Using the depth and breadth of the professional appraiser organizations with their education platforms to elevate the profession at large.

Thank you again for the opportunity to comment on this critical issue. We look forward to working with our federal counterparts to protect the public trust in the appraisal profession.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Bunton". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dave Bunton  
President  
The Appraisal Foundation