



Fair Lending Protections: Appraisal Discrimination

Fair Housing Advocates of Northern California

FAIR LENDING PROTECTIONS IN THE APPRAISAL PROCESS

FAIR LENDING

Fair housing laws protect people from discrimination when renting or buying a home, getting a mortgage, or engaging in other housing-related activities. Fair lending guarantees the same lending opportunities for everyone. The Fair Housing Act (FHA) prohibits real estate professionals, lenders, and appraisers from considering your race, color, national origin, religion, sex/gender, familial status, or disability during a real estate transaction.

APPRAISAL DISCRIMINATION

Fair housing laws prohibit discrimination in the appraisal process based on race, national origin, and other protected classes. Home appraisal discrimination often happens when a home is undervalued because of the owner's race, ethnicity, religion, or other protected class status. This type of discrimination is much more likely to occur in Black and Latinx communities than in white neighborhoods.

The Homeownership Gap

There are wide disparities between Black and white wealth and homeownership rates. These disparities are due in part to redlining, reverse redlining, the 2008 foreclosure crisis, and disparities related to Covid-19. The gap in the homeownership rates between Black and white families in the U.S. is larger today than when the Fair Housing Act (FHA) was passed in 1968. Although gains in Black homeownership rates were made in the past 3 decades after the FHA, those gains were wiped out following the economic crash of 2008; Black communities were hit harder and the recovery was slower because of ongoing inequities and discrimination. Due to segregation and historical redlining, predominantly Black or Latinx neighborhoods are often valued lower than comparable properties in white communities. Andre Perry's research at the Brookings Institute shows that Black neighborhoods are devalued by 23%, with an estimated \$156 billion lost in equity to Black communities.

Appraisal Bias

An appraiser works independently and is supposed to be an impartial professional in a mortgage transaction. The role of the appraiser is to observe the property, analyze the data, and report their findings to the lending company to determine the fair market value of the property. However, the appraisal process is not objective, with significant room for subjective decisions by the appraiser, including how to choose comparable properties and make adjustments in value as a basis of the assessment. According to an Appraisal Institute demographic study in 2019, the profession is almost 80% male and 85% white. Therefore, there is a greater likelihood of unconscious and conscious biases.

Fair Housing Advocates of Northern California

Tel: (415) 457-5025

TDD: (800) 735-2922



1314 Lincoln Avenue, Suite A
San Rafael, CA 94901



www.fairhousingnorcal.org
fhanc@fairhousingnorcal.org

Wheelchair accessible
Se habla español

Our Mission

To ensure equal housing opportunity
and educate the community on the
value of diversity in our neighborhoods.

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FAIR LENDING PROTECTIONS IN THE APPRAISAL PROCESS

The Appraisal Process

For the typical home purchase transaction, the lender usually orders the appraisal to assist in the lender's decision to provide funds for a mortgage. The "clients" for lending appraisals are actually the lenders, not the borrowers, though their valuations impact borrowers, purchasers, and sellers. In California, lenders engage appraisers for appraisal assignments through appraisal management companies (AMCs), both for home purchases and home refinancing.

Borrowers' Rights

While the lender is technically the owner of the appraisal, a home buyer still has certain rights. When a borrower has an issue with an appraisal valuation, the borrower can request a Reconsideration of Value (ROV) which is submitted to the lender. However, an ROV is not a formal legal process, and the information submitted with the request is usually forwarded to the appraiser for reconsideration. The process often results in little or no change, and borrowers are often left feeling that little has been resolved, making this process not the best avenue for a discrimination complaint.

Measures to Prevent Appraisal Discrimination

- Verify that your appraiser knows the area. If you have concerns, contact your lender.
- Make sure you provide the appraiser with a list of any relevant home improvements.
- Make sure you get a copy of the appraisal report and review it carefully.
- Check the section on your report that outlines comparable properties to make sure the properties listed are similar to yours, are close to yours geographically, and are relatively recent sales – or that adjustments for differences look fair.

How to Dispute a Low Appraisal

- Contact Fair Housing Advocates of Northern California.
- Request a Reconsideration of Value (ROV) from your lender, and let the lender know if you think the low valuation is due to discrimination.
- Get a second appraisal.
- File a complaint with the State Appraiser Licensing Board (though the Board only disciplines appraisers and AMCs but they don't "correct" values or award compensation).
- File a lawsuit for damages. (The most common legal claim against appraisers is for professional negligence.) For a discrimination case, retain an attorney who specializes in fair housing issues and understands the appraisal process.
- For cases of discrimination, file an administrative complaint with HUD's Office of Fair Housing & Equal Opportunity or the California Civil Rights Division.

WHAT TO DO IF YOU SUSPECT LENDING DISCRIMINATION OR PREDATORY LENDING:

Contact Fair Housing Advocates of Northern California:

www.fairhousingnorcal.org
(415) 457-5025
TDD: (800) 735-2922

Contact HUD National Discrimination Hotline:

www.hud.gov
(800) 669-9777
TTY: (800) 877-8339

Submit a complaint with the Consumer Financial Protection Bureau (CFPB):

www.consumerfinance.gov/complaint
(855) 411-CFPB (2372)