

Appraisal Standards and Appraiser Criteria Report

Talking Points

Background

- The [Appraisal Subcommittee](#) (ASC) of the [Federal Financial Institutions Examination Council](#) commissioned the [National Fair Housing Alliance](#) to conduct a comprehensive and independent review to examine whether the Uniform Standards of Professional Appraisal Practices (“Appraisal Standards”) and Appraiser Qualifications Criteria (“Appraiser Criteria”) encourage or systemize bias and that both consistently support or promote fairness, equity, objectivity and diversity in both appraisals and the training and credentialing of appraisers. The process was managed by the [Council on Licensure, Enforcement and Regulation](#).
- The comprehensive and independent review was conducted by experts at the National Fair Housing Alliance, Dane Law LLC, and the Christensen Law Firm.
- This groundbreaking report examines standards for the appraisal industry as well as qualifications criteria for appraisers. It details structural components of the modern-day appraisal industry that restrict meaningful industry oversight and manifest systemic bias in appraisal valuation, including issues with the governance of the appraisal industry, gaps in fair housing requirements and training, barriers to entry into the profession, and deficient compliance oversight in administering the valuation process.
- Appraisal property valuation is a vital component of the country’s real estate market, and ultimately household wealth. Appraisers have the power to determine the value of a person’s most important financial asset, which can hold the key to determining whether a family can purchase a permanent home rather than rent, access credit on reasonable terms, or build wealth for their children and generations to come.
- Until recently, the appraisal industry has escaped the type of regulation and scrutiny faced by other participants in the mortgage market, such as lenders and insurance companies. This analysis led by the National Fair Housing Alliance finds that the appraisal industry has operated in a relatively closed, self-regulated framework and systems in the industry can work to perpetuate inequalities.

Instances of Discrimination

- Across the country, there are numerous documented instances of appraisal discrimination -- most significantly affecting Black families. Recent news stories highlight anecdotal evidence on an individual basis:
 - A Black couple in Marin City, California seeking to refinance received an initial appraisal of \$995,000. Suspecting that the valuation of their home was unjustifiably low, they asked a White friend to pose as the homeowner and then received an appraisal of \$1,482,500, which was almost \$500,000 more than the appraisal conducted just weeks earlier. The homeowner said, “There are implications to our ability to create

generational wealth or passing things on if our houses appraise for 50 percent less than its value.” [\[Insider\]](#)

- A mixed-race couple in Denver, Colorado scheduled an appraisal in connection with a home equity loan. When the Black husband greeted the appraiser, the home was valued at \$405,000 based on comparison to homes selected by the appraiser in a Black neighborhood in a different location. When the White wife greeted the second appraiser, the home was valued at \$550,000, which was an increase of \$145,000. The wife stated, “Race obviously played a role in how we were treated. But what’s deflating is that this experience put a dollar figure on it.” [\[Philadelphia Inquirer\]](#)

A Systemic Problem

- While the many individual stories have captured national headlines, the analyses of systemic bias are even more stunning and disturbing. Recent studies contain the following findings:
 - Researchers at Freddie Mac analyzed millions of appraisals submitted for purchase transactions and found racial disparities in the percentage of properties that received an appraisal value lower than the contract price the (“appraisal gap”), despite controlling for other factors. Specifically, the research showed that an appraisal gap is more likely to occur in Black or Latino census tracts than White census tracts.
 - For example, Freddie Mac’s researchers [reported](#) that 12.5% of the properties in Black census tracts received an appraisal value lower than the contract price, as compared to 7.4% of the properties in White census tracts— meaning there was a nationwide racial “appraisal gap” of 5.2%.
 - Homes in majority Black neighborhoods were valued 23% less than properties in mostly White neighborhoods, even after controlling for home features and neighborhood amenities, as found by a 2018 Brookings Institution [study](#) of homeowner estimates and Zillow data.
 - Neighborhood racial composition was an even stronger determinant of a home’s value in 2015 than it was in 1980, according to a 2020 [academic study](#) of homeowners’ estimates from 1980 to 2015.
 - The Federal Housing Finance Agency [recently found](#) that thousands of appraisal reports contained race-related and other inappropriate information including identifying the racial composition of neighborhoods and areas that serve “Jewish Households” as well as describing areas as having an “Asian influence.”
 - The appraisal profession does not reflect the racial composition of the U.S. According to the [U.S. Bureau of Labor Statistics](#), about 96.5% of property appraisers are White and about 70% are men.

Identifying a Path Forward - Recommendations

Questions About the Governance of the Appraisal Industry

- Due to the important role appraisals play in the residential housing market and consumers' financial situations, the Appraisal Foundation's legal authority should be considered for further review.
- The Appraisal Foundation should take steps to enhance inclusiveness and ensure the voices of civil rights and consumer advocates are included in a meaningful way on their board of trustees and in their rulemaking procedures.

Gaps in Fair Housing Requirements and Training

- The Appraisal Standards Board should revise the Uniform Standards of Professional Appraisal Practice ("Appraisal Standards") to clearly state that discrimination in appraisals is prohibited.
- Fair housing training ought to be required for every appraiser to obtain, and maintain, their credentials.
- The Appraisal Foundation should work with civil rights experts to develop comprehensive fair housing training in the required initial and continuing education courses. The fair housing training module in the current 2022-2023 USPAP Standards continuing education course should be revised immediately to ensure the training is comprehensive and accurate.
- The Appraisal Foundation should work closely with the U.S. Department of Housing and Urban Development, the U.S. Department of Justice, the Federal Housing Finance Agency, and other regulators and enforcement agencies to develop, improve, and implement fair housing training.

Barriers to Entry to the Appraisal Profession

- The Appraiser Qualifications Board should work with civil rights experts and other stakeholders to analyze barriers to entry to the appraisal profession and identify disparate impacts on potential appraisers of color.
- Given the deep racial and gender disparities in the industry, consideration should be given to amending the appraiser qualification requirements, including the Supervisory Appraiser criteria, to ensure women and people of color can gain the training and practical experience needed to become certified and/or licensed appraisers.
- The Appraisal Foundation should continue and expand outreach to women and individuals of color, ensure the demographics of those entering the profession are transparent, and provide new professionals with the tools they need to be prepared for the future with respect to the use of new technologies in the field.

Compliance and Enforcement

- The report identified a need for additional data to help reform the appraisal industry. Government entities, Fannie Mae and Freddie Mac, along with others in the industry should work collaboratively to release appraisal data sets to help reduce bias and develop better compliance and monitoring systems.
- Government Sponsored Enterprises (GSEs), lenders, appraisers, civil rights, and consumer advocates should use data science tools to develop more robust compliance management systems to prevent and remedy fair housing violations in appraisals.
- The Appraisal Standards Board should consider amending USPAP Standards to require appraisers to identify mortgage borrowers as “intended users” of appraisals.
- The Appraisal Foundation, government entities, GSEs, and lenders should develop standards and guidance for appraisers regarding the Reconsideration of Value process to provide for fairness, transparency, and accountability.

Author Bios

Maureen Yap -

As Senior Counsel, Maureen Yap helps lead NFHA’s Public Policy and Enforcement efforts related to fair lending, financial technology, mortgage policy, and housing finance reform. Ms. Yap, who has been in the fair housing and fair lending field since 1995, previously worked on a range of civil rights and consumer protection issues at the Federal Reserve Board, including leading the Board’s Fair Lending Enforcement Section and founding the Unfair and Deceptive Acts or Practices (UDAP) Section. She was also an Associate at the law firms of Relman Colfax PLLC and Buckley LLP.

Peter Christensen -

Peter Christensen is an attorney and has been a member of the California bar since 1993. His law practice is focused on real estate valuation matters. His clients are primarily appraisal firms, management companies and valuation technology providers, as well as businesses that use appraisal services such as lenders and institutional investors. Mr. Christensen is the author of *Risk Management for Real Estate Appraisers and Appraisal Firms*, published by the Appraisal Institute.

Prior to his current legal practice, Mr. Christensen was the general counsel of the largest insurance administrator for professional liability insurance to real appraisers and valuation firms in the U.S. He earlier practiced law with the firms Latham & Watkins LLP and Irell & Manella LLP in California. Mr. Christensen earned both his B.S. in business administration and his law degree at the University of California at Berkeley.

Stephen M. Dane -

Stephen M. Dane is a nationally recognized civil rights lawyer, particularly in the areas of fair housing, fair lending, and insurance discrimination. Mr. Dane was lead counsel for the plaintiffs in the class action litigation Toledo Fair Housing Center v. Nationwide Mutual Insurance Co. (\$5.35 million settlement) and was co-counsel for the plaintiffs in HOME of Richmond v. Nationwide Mutual Insurance Co. (\$100.5 million

jury verdict). He has been lead counsel in precedent-setting cases involving appraisal bias issues. Mr. Dane is the author of many articles and book chapters in the field of fair housing, most recently Fair Housing Policy Under the Trump Administration, Human Rights Magazine, Vol. 44, No. 3 (Dec. 6, 2019). Mr. Dane is listed in *The Best Lawyers in America* in the field of Civil Rights. He is also the former editor of the Civil Rights Insider, the award-winning quarterly eNewsletter of the Federal Bar Association's Civil Rights Law Section.

Morgan Williams -

Morgan Williams is responsible for leading NFHA's strategic and tactical legal initiatives and affairs. Mr. Williams leads NFHA's efforts to pursue pioneering litigation under the federal Fair Housing Act, often utilizing testing-based evidence and working in partnership with NFHA's network of local fair housing centers. He coordinates NFHA's actions to file amicus briefs to promote sound fair housing jurisprudence. Mr. Williams also provides training and technical support to local fair housing centers across the country on investigation and enforcement strategies, as well as training to housing providers and servicers on a range of complicated and emerging topics. In addition, he assists with NFHA's federal public policy advocacy, in coordination with legislative offices and federal agencies, and helps local advocates address state and local legislative matters.

Lisa Rice -

Lisa Rice is the President and CEO of the National Fair Housing Alliance (NFHA), the trade association for over 200 member organizations throughout the country and the nation's only national civil rights agency solely dedicated to eliminating all forms of housing discrimination. Ms. Rice has over 35 years of experience in enforcing the nation's fair housing laws and has worked to establish precedents in the areas of appraisal bias, algorithmic fairness, lending and insurance redlining, and real estate issues. Ms. Rice is a published author and serves on the Board of Directors for the Leadership Conference on Civil and Human Rights, Center for Responsible Lending, and FinRegLab's, as well as the JPMorgan Chase Consumer Advisory Council, Mortgage Bankers Association's Consumer Advisory Council, Freddie Mac Affordable Housing Advisory Council, Quicken Loans Advisory Forum, Bipartisan Policy Center's Housing Advisory Council, and The Turner Center Advisory Council at Berkeley University.

Scott Chang -

Scott Chang is Senior Counsel at the National Fair Housing Alliance (NFHA) and helps lead the organization's fair housing and lending compliance, training, enforcement, and policy efforts. Prior to joining NFHA in September, Mr. Chang was Litigation Director at the Housing Rights Center of Los Angeles, California. He also previously served as Counsel at Relman Colfax LLC in Washington, D.C., and as an attorney at Brancart & Brancart, a law firm specializing in fair housing issues. Even before starting his new role at NFHA, Mr. Chang worked for years with the organization on projects and cases involving, among other issues, real estate sales discrimination.