

Appraisers facing stricter oversight from financial regulators

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Bank regulators are sharpening their tools for identifying and curbing discriminatory practices in the home appraisal industry.

The Federal Reserve Board, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau and the National Credit Union Administration plan to devise new ways to monitor appraisal processes for racial, ethnic and sex-based biases, according to a report published this week by a White House task force aimed at addressing long-running prejudices in appraisals.

The agencies will also scrutinize mortgage lenders to identify patterns of bias, work with other government agencies to enforce new rules and create a shared database of historical appraisals to benefit research and enforcement efforts. They will also take steps to improve the reevaluation process for buyers who feel their properties have been unfairly discounted and design guidance for computer-generated valuations.

Financial regulators have overseen home valuation practices for decades as members of the Federal Financial Institutions Examination Council's appraisal subcommittee. Yet, the new report — written by the Property Assessment and Valuation Equity, or PAVE, task force convened last summer — said their approaches have largely been passive. The various agencies were described as siloed from one another and limited to review roles.

Implementation and enforcement of best practices have largely been left to the Appraisal Foundation, a congressionally authorized, privately run nonprofit that serves as the profession's governing body. After the PAVE report was released Wednesday, CFPB Director Rohit Chopra said his agency and others will exercise their "dormant authority" to apply regulatory scrutiny to the appraisal industry.

"Congress has assigned important responsibilities to the appraisal subcommittee, and it is important to live up to these expectations," Chopra said in a statement. "In particular, we will be closely scrutinizing the work of The Appraisal Foundation, which wields enormous power to set standards and levy fees on the professional appraiser community."

A spokesperson for the foundation said Thursday it had "undertaken a wide range of initiatives" to reduce bias in the profession. The organization welcomed the task force's report as "a new component of this critical, ongoing conversation."

The PAVE task force's action plan laid out a framework for regulators to work with the government-related entities that participate in the mortgage market — such as the Department of Housing and Urban Development, the Department of Veterans Affairs, the Federal Housing Finance Agency and the

U.S. Department of Agriculture — to bring cohesive oversight to an industry that has largely been left to self-regulate.

The moves were welcomed by fair housing advocates and appraisers alike, many of whom are concerned by systemic problems that have plagued the industry for years. Chief among those issues is the fact that nearly 98% of appraisers are white and almost 70% are male, making it one of the least diverse professions in the country, according to the Bureau of Labor Statistics.

Initial findings from PAVE show that homes in majority-minority neighborhoods were more frequently appraised below their contract prices than homes in majority-white neighborhoods. In predominantly Latino and Black areas, 15.4% and 12.5% of homes, respectively, were undervalued. Meanwhile, only 7.4% of homes in mostly white areas were appraised below their sale price. Lower appraised values mean less equity for homeowners, which in turn gives them less cushion in times of hardship and a smaller return upon sale.

Jonathan Miller, a New York-based appraiser, said the makeup of the industry has left it prone to cultural blind spots and made it ill-equipped to remedy a long history of discriminatory practices, which run back to the redlining of the 1930s.

“In many occupations, there is pervasive racism, but the problem is that the appraisal industry is dead last for occupations in terms of diversity,” Miller said. “Whatever is in place right now is not effective. The last thing we need is for the same people to be ‘fixing the problem.’ ”

“This is a refreshing reset in the way our industry is looked at,” he added of the new oversight.

The PAVE report also found instances of appraisers using racially charged language in the narrative portion of their written reports to explain their valuations. It cited one example of a majority-white neighborhood being described as “not particularly diverse ethnically,” and another in which a “predominantly Hispanic” population had “assimilated their cultural heritage” into the area.

Racial disparities in homeownership have grown more pronounced during the pandemic, Fed Gov. Christopher Waller said during a webinar hosted by Rutgers University and Tel Aviv University on U.S. and Israeli housing on Thursday. Though Black homebuyers accounted for 7.3% of home purchase loans in 2020, the highest rate since 2007, homeownership rates for Black and Latino Americans were on the decline by the end of 2021, he said. Waller attributed this reduction to the pandemic’s outside economic impact on minority groups.

“Indeed, research shows that minority homeowners were much more likely to miss mortgage payments and enter mortgage forbearance than white homeowners,” he said. “While federal and private-sector forbearance programs helped many households keep their homes, families experiencing more permanent or severe income losses may have had to sell their homes and exit homeownership.”

The task force called for a peel-back of standards that have made it costly and time-consuming for individuals to enter the appraisal field. Miller said these barriers to entry have put appraisers in short supply, leading to higher costs for consumers and longer closing times.

In response to this, some institutions have sought to do away with appraisers and replace them with algorithm-generated valuations known as automated valuation models, or AVMs, which are rife with

issues of their own: “AVMs are created by human beings and use data points like appraisers use and therefore are vulnerable to bias as well, on top of being much less accurate,” Miller said.

The task force will look to implement standards for the design of such models. Chopra said the CFPB has already begun soliciting input from small businesses to draft a rule about how to govern such algorithms.

The new regulatory initiatives outlined by the PAVE task force were not universally celebrated. Sen. Pat Toomey of Pennsylvania, the ranking Republican on the Senate Banking Committee, criticized the initiative as an unnecessary government intervention, noting that discrimination is already illegal in both the housing and lending industries.

“Government intervention begets more government intervention,” Toomey said during a hearing Thursday on the task force’s findings. “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.”