Appraisal Subcommittee (ASC)
Hearing on Appraisal Bias in the Residential Real Estate Market

Opening Remarks:
MARCIA L. FUDGE, Secretary,
U.S. Department of Housing and Urban Development (HUD)
JAMES PARK, Executive Director, ASC

Panel Witnesses:
DR. JUNIA HOWELL, Visiting Assistant Professor of Sociology, University of Illinois Chicago
PAUL AUSTIN and **TENISHA TATE-AUSTIN,** homeowners from Marin, California
MICHAEL FRATANTONI, Senior Vice President, Research and Technology, and
Chief Economist, Mortgage Bankers Association (MBA)
CRAIG STEINLEY, President of the Appraisal Institute (AI)

ASC Agency Member Representatives:
ROHIT CHOPRA, Director, Consumer Financial Protection Bureau (CFPB)
JULIA GORDON, Assistant Secretary for Housing, and Federal Housing Commissioner, HUD
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SUZANNE WILLIAMS, Deputy Associate Director, Supervision and Regulation Division,
Board of Governors, Federal Reserve System (FRS)
ENICE THOMAS, Deputy Comptroller for Credit Risk Policy,
Office of the Comptroller of the Currency (OCC)

Moderated by **ZIXTA MARTINEZ**, Chair of ASC and Deputy Director, CFPB

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ASC CHAIR ZIXTA MARTINEZ (CFPB): Good morning. Thank you for joining the Appraisal Subcommittee's hearing on Appraisal Bias in the Residential Real Estate Market. This hearing is being recorded and live streamed at ConsumerFinance.gov/events.

My name is Zixta Martinez. I serve as Chair of the board of the Appraisal Subcommittee, or ASC. I also serve as the Deputy Director for the Consumer Financial Protection Bureau, the CFPB.

Today's hearing presents an opportunity to learn more about appraisal bias and get that information to the public. Here's what you can expect. ASC Executive Director Jim Park will frame the discussion by providing a short presentation about the ASC and its authorities.

Following his presentation, we will hear from a panel of witnesses who represent different sides of the home appraisal transaction, homeowner, lender, appraiser, and an academic who has conducted statistical analysis of available data on appraisal bias. The witnesses will share their perspectives on appraisal bias, its scope, root causes, and impacts on consumers and the marketplace more broadly.

After opening statements from our witnesses, representatives of each of the seven agencies comprising the ASC board will pose questions to the witness panel.

To kick off today's hearing, we are honored to have the Secretary of the U.S. Department of Housing and Urban Development, the Honorable Marsha L. Fudge. Secretary Fudge's career has been dedicated to helping families and communities across the nation. Before serving as the 18th Secretary at HUD, Secretary Fudge served as the Director of Budget and Finance in Ohio's Cuyahoga County Prosecutor's Office, two terms as the Mayor of Warrensville Heights in Ohio, and then as U.S. House of Representatives for Ohio's 11th Congressional District from 2008 to 2021. Throughout her service, Secretary Fudge earned a reputation of tackling the unique challenges confronting low-income families, seniors, and communities across the country. The Secretary co-chairs the Interagency Task Force on Property Appraisal and Valuation Equity, or PAVE, along with Ambassador Susan Rice, the President's Domestic Policy Advisor. The ASC and the individual Federal agencies represented on the ASC board are also members of PAVE.

I'm extremely pleased and honored to invite Secretary Fudge to the podium.

[Applause.]

SEC. MARCIA L. FUDGE (HUD): Good morning. You're supposed to respond. Good morning.

ATTENDEES: Good morning.

SEC. MARCIA L. FUDGE (HUD): Thank you very much.

It's a pleasure to be here. I want to thank Deputy Director Martinez. I'm certainly happy to be here, and I want to thank all of the members of the Appraisal Subcommittee, including Vice Chair Bobbi Borland, a dedicated public servant and a member of our team at HUD.

It's a pleasure to join so many of my HUD colleagues, including FHA Commissioner Julia Gordon, who will ask questions of our witnesses later, and several other public servants who are committed to collaborating with our partners across government and industry to address this very important issue.

Mr. James Park, I thank you so very much for your leadership and your partnership on the Appraisal Task Force. Your expertise, your passion, and your commitment have made this a lot easier for us to move this process forward. I want to thank you for making a difference. We appreciate it.

Since day one, the Biden-Harris administration has worked to root out bias in the appraisal system. The work is critical to our efforts to advance equity, racial equity in particular, in all that we do. And it is deeply important to me, both as Secretary of HUD and as a Black woman. I know firsthand what it is like to be told that your home is worth less than the house down the street because of the color of your skin. It is heartbreaking to hear the stories from Black and brown homeowners across the country who feel forced to remove family mementos and photos in hopes of receiving a fair and accurate valuation. I do not intend to do that, and I do not intend for anybody else to have to do it.

The impact that discrimination has on a person cannot be overstated. The Fair Housing Act of 1968 was signed into law 55 years ago to put an end to the ugly practices of perpetuating housing segregation and knowingly excluding Black people and all those who have been pushed to the sidelines of our society for far too long.

Owning a home should provide a clear and direct path to the American dream. Instead, the current system continues to signal to people that look like me that this country does not see us as deserving of equitable treatment.

As an administration, we knew we had a responsibility to address this issue thoughtfully. That's why on June 1st, 2021, 100 years after the Tulsa Race Massacre, President Joe Biden and Vice President Kamala Harris established the Interagency Task Force on Property Appraisal and Valuation Equity, better known as PAVE. The task force, which is led by me and Ambassador Susan Rice, is the first-of-its-kind initiative to root out racial discrimination in the appraisal and home-buying process. It has brought together a robust team of Cabinet-level and independent agencies to speak with one voice and exact change under existing authorities so families of all backgrounds in all neighborhoods can have a better chance to build a generation of wealth.

Less than a year after the task force was established, we delivered to the President an action plan that constitutes the most wide-ranging set of reforms ever to advance racial equity in the home appraisal process, and we didn't stop there. Every day, in earnest, we are delivering results together to empower consumers, make the appraisal industry more accountable, cultivate a well-trained and diverse appraiser workforce, and make sure technology does not perpetuate bias.

At HUD, we have made $28 million available to fund testing, education, and outreach efforts to communities on appraisal bias. Next week, we will host the first webinar in a three-part series to train housing counselors, appraisers, and fair housing professionals on how to identify bias and protect homes. We know how to identify it because we see it every day. Further, we are working to give people seeking FHA financing an avenue for recourse if they believe that their appraisal may have been skewed by racial bias.

We also have a platform that all of you can make comments on. It's our FHA's Drafting Table Platform. So please do take the opportunity to do it. This is a major step.

And I'm going to just say a couple of things that are not on my script, because I live this every day. I live in a Black community by choice. Director Thompson, you know that. By choice. But I want for my children in my schools to get the same kind of schools people get in the neighborhood next to me. You do that by property taxes, even though I think it's unconstitutional that we fund schools by property taxes, but we do. I want to have the same police protection, the same fire protection, but you can't do it if my house is valued at $50,000 less than the house next to me. Two doors from me, there's a neighborhood that is all white next to my all-Black neighborhood. My house is bigger. My lot is bigger. My house is nicer. But that house is valued at more than mine. This is not the America that we should be living in, in the year 2023. It is a travesty. It is outrageous, and as people of goodwill, we must change it. I am hopeful that all of the people who need to be at the table, whether it be the subcommittee, the foundation, come and do what is right for the American people.

I hope you have a very robust and productive discussion today, and I'm going to go back to work. Thank you all so much.

[Applause.]

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you, Secretary Fudge.

There are many aspects and considerations that attach to appraisal bias, and today's hearing is not meant to be exhaustive. In fact, some crucial voices are not represented here today. Based on the information we gather, the ASC may hold additional hearings on targeted topics related to appraisal bias. To help gather more information, the ASC is taking written comments from the public through February 8, 2023. You can submit a comment by emailing AppraisalBiasHearing at ASC.gov.

It's now my pleasure to introduce the ASC representatives. They are Rohit Chopra, Director of the CFPB; Julia Gordon, Assistant Secretary for Housing and the Federal Housing Administration Commissioner at the U.S. Department of Housing and Urban Development; Sandra Thompson, Director of the Federal Housing Finance Agency; JeanMarie Komyathy, Deputy Director, Office of Credit Union Resources and Expansion at the National Credit Union Administration; Luke Brown, Associate Director for the Supervision Policy Branch within the Division of Depositor and Consumer Protection at the Federal Deposit Insurance Corporation; Suzanne Williams, Deputy Associate Director, Division of Supervision and Regulation at the Board of Governors of the Federal Reserve System; and Enice Thomas, Deputy Comptroller for Credit Risk at the Office of the Comptroller of the Currency.

Next, I'm pleased to introduce the ASC's Executive Director, Jim Park, who will provide remarks about the ASC's mission and authorities. Jim has served as Executive Director since 2009. Jim, you have the podium.

[Applause.]

JAMES PARK (ASC): Good morning, everyone. I'm Jim Park. I'm the Executive Director of the Appraisal Subcommittee, and I've had the privilege—as Chair Martinez just mentioned, I've had this privilege since March of 2009. I'm also a certified general appraiser in the Commonwealth of Virginia. This morning, I'm going to give a brief overview of the ASC's role in the appraisal regulatory system and recent ASC initiatives to address appraisal bias. First, I want to thank

Secretary Fudge for her very kind words. They are really greatly appreciated.

The appraisal regulatory system in this country is truly unique. You'll find nothing like it within any industry in the United States or abroad. The system has been in place since 1989 when Congress determined that the appraisers play a vital role in the financial system and needed to be regulated. The appraisal regulatory system consists of three main participants: the private sector, the states, and the Federal Government. The most unusual aspect of the system is the nature of the authority afforded to the private sector. The Appraisal Foundation is a nonprofit organization that was given the extraordinary authority over the appraisal industry, which directly affects states, financial markets, and consumers. That authority is related to developing and issuing standards and ethics that appraisers must follow when developing and reporting real property appraisals and the minimum qualifications needed to become a state licensed or certified appraiser. The states are required to have appraiser regulatory programs that apply the foundation standards and qualifications as the baseline in their regulation of appraisers. States can exceed the foundation's requirements but not fall short of them. The states handle the administration of appraiser credentials, including disciplining appraisers who fail to comply with Appraisal Foundation and state requirements.

The ASC is an important part of the Federal Government piece of the puzzle. The ASC is an independent executive branch Federal agency with a seven-member board made up of the Federal agencies you see seated before you today. The ASC's role is focused on oversight and support of the appraisal regulatory system.

In terms of oversight, the ASC has considerable authority over the state programs. We conduct regular compliance reviews of the state programs to determine their level of compliance with Appraisal Foundation and other Federal requirements. If a state is found to be out of compliance, the ASC has the enforcement authority to ensure they return to compliance. However, the ASC's oversight authority over the foundation is limited to monitoring and reviewing their work. The ASC has no enforcement authority as it relates to the foundation or its boards.

The ASC also provides support to the regulatory system. We provide this support in the form of Federal grants, which are available to the states and to the Appraisal Foundation. My staff and I also spend a lot of time coordinating with the states, the foundation, and other industry stakeholders to ensure they are informed on the ASC's requirements for compliance with Federal law and regulation and encouraging everyone in the regulatory system to work together to advance the needs of stakeholders, including consumers.

The ASC also houses the national registries of appraisers and appraisal management companies. The ASC operates a hotline online and by phone to provide referrals regarding complaints about noncompliance with the uniform standards set by the foundation's appraisal standards board and appraiser-independent standards from homebuyers, lenders, appraisers, and others to the appropriate regulator. Although currently, the hotline only provides general information about where to file a discrimination or bias complaint, we are developing a strategy to expand the hotline to provide referrals for potential victims of appraisal bias or discrimination at both state and Federal levels.

So why is the ASC holding this hearing? Well, as the Federal agency charged with oversight of the appraisal regulatory system, we have been increasingly concerned about the accounts of appraisal bias that have circulated in the national media over the past several years as well as recent studies on the topic. The agency is also very concerned about the lack of diversity among appraisers and the excessive barriers to entry that likely deter entry into the profession, particularly for people of color.

So what is the ASC doing to address these concerns? The ASC has made these issues a cornerstone of its work. We are using the authority we have at our disposal to correct and highlight appraisal bias and the lack of diversity in the profession. Since 2019, we have held two roundtables to obtain input from various experts in the appraisal, mortgage lending, regulatory, fair housing, and civil rights industries. We were fortunate enough to have Secretary Fudge open one of those roundtables.

We also commissioned a report by a consortium of fair housing and appraisal legal experts, led by the National Fair Housing Alliance, to study the appraisal standards and appraisal qualifications to ensure that neither the standards or qualifications systematize bias and that both consistently support or promote fairness, equity, objectivity, and diversity in both appraisals and the training and credentialing of appraisers. That comprehensive study, which is available on our website, was issued just over a year ago, and it resulted in some troubling conclusions and thoughtful recommendations as well. I encourage everyone to read it.

The ASC has also been a leader in the Biden administration's Property Appraisal and Valuation Equity Task Force, or PAVE. PAVE is led by Secretary Fudge and Ambassador Susan Rice, Director of the White House Domestic Policy Council, and includes 13 Federal agencies and departments. It is an all-of-government approach to address appraisal bias, appraiser diversity, and ultimately reduce barriers to homeownership for people of color by ensuring that everyone has equitable access to the value in their homes and the intergenerational wealth home equity builds.

In response to the PAVE action plan, the ASC recently sent a letter to the State Appraisal Regulatory Programs urging them to address unnecessary barriers to entry and collaborate where possible to address them. We appreciate that states have the legal authority to establish qualifications exceeding the AQB minimum requirements, but we are encouraging the states to have an appropriate rationale in doing so.

The ASC has also been involved in the OCC's Project REACh, which promotes financial inclusion through greater access to credit and capital. REACh brings together leaders from the banking industry, national civil rights organizations, business, and technology to reduce specific barriers that prevent full, equal, and fair participation in the nation's economy. The ASC is also using, for the very first time, hearings to highlight and amplify problems with appraisal bias and the need to diversify the profession.

In closing, I want to thank Secretary Fudge, ASC Chair Martinez, and all of the ASC members for their attention and leadership on this topic. While it won't be easy—and nothing worthwhile ever is—working together, I'm hopeful we'll find solutions to these longstanding problems.

I also want to thank the witnesses for participating in this hearing. In different ways, all of you or your organizations are in key positions to foster change and contribute to making appraisals free of bias and changing the appraisal industry so that appraisal professionals better reflect the communities they serve. The MBA and Appraisal Institute are key players in the mortgage lending industry. Dr. Howell, your research provides the empirical data needed to shine a light on the problem—and the Austins, through your willingness to come forward and share such a personal and painful experience. No one should have to hide who they are to obtain a credible appraisal that is independent, non-biased, and performed in a competent manner.

Thank you, and I look forward to today's discussion.

[Applause.]

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you, Jim. Clearly, the ASC has the ability to make market impacts.

We will now move to the witness portion of the hearing. Witnesses will have approximately five minutes to share their thoughts on what appraisal bias is, its causes, and its impacts. Joining us as witnesses today are Dr. Junia Howell, Visiting Assistant Professor of Sociology at the University of Illinois Chicago; Paul Austin and Tenisha Tate-Austin, homeowners from Marin, California; Michael Fratantoni, Senior Vice President of Research and Technology and Chief Economist at the Mortgage Bankers Association; and Craig Steinley, President of the Appraisal Institute.

We'll begin with Dr. Howell. Dr. Howell?

DR. JUNIA HOWELL (UIC): Thank you. Good morning, representatives of the sub—Appraisal Committee and Drs. Park and Martinez. Thank you for this opportunity to testify in front of you today.

A decade ago, my collaborator, Dr. Elizabeth Korver-Glenn, and I began researching appraisers. Like most people, we had grown up being taught that a property's worth was based on its location. Communities with well-constructed homes that were larger, with ample school resources, and lots of retail establishments should be worth more. Yet as we began to investigate the industry itself, we noticed that something was significantly off. At the time, we were living in Houston, where there are several highly sought-after Black and Latinx middle-class neighborhoods, and even though their properties are really comparable to lots in white communities, we noticed they were repeatedly valued considerably lower, even when they were for sale and buyers had already offered higher prices.

So this began what has now become a decades-long investigation that has produced three distinct empirical studies. Our first study looked explicitly at Houston's real estate market. We started by interviewing and observing over 100 industry professionals, and we noticed that their racialized assumptions influenced how much they were appraising properties. But that's not how they understood the process themselves. They thought that their method—namely, the sales comparison approach—was giving them the most accurate estimation of the real estate demand in various communities.

So to test that assertion, we used nearly one million records of single-family houses from across the county that Houston is located in, and we noticed first that homes in white communities were valued at 800 percent more than communities of color. Now, granted, like appraisers and others have repeatedly pointed out, there are many reasons, many historical and contemporary racist policies from our urban planning to our employment practices, that have concentrated Black and Latinx communities in neighborhoods with higher poverty, lower-quality housing, less school resources, and higher crime.

Yet, with the power of statistical models, we could eliminate those differences and compare apples to apples. So we were able to compare homes that were very comparable and communities that were very comparable, even including real estate demand, and we found holding all of that constant, homes in white neighborhoods were still appraised 250 percent more than homes in communities of color.

So clearly, what appraisers understood their method to be doing wasn't what was actually happening. But granted, at the time we were just looking at Houston. So we wondered, is this a national problem, and was it changing over time?

So this led us to our second study, which examined homes across all U.S. major metropolitan areas, looking from 1980 to 2015. And once again, we found that homes in white neighborhoods were valued on average across our country a quarter of a million dollars more than homes in communities of color that were identical and comparable communities. More troubling, this was not explained by historical redlining, and the problem was getting worse over time, exacerbating the inequalities.

This past fall, when FHFA released the aggregated form, the uniform appraisal data set, we completed our third study, bringing our data and research up to date as well as using data from appraisers themselves. Once again, we are able to demonstrate that across the country, homes in white communities are appraised considerably higher than homes that are comparable in comparable neighborhoods of color. Even more disturbing, the inequality that we observed in our previous studies was increasing, exacerbating to unprecedented levels during the pandemic.

Clearly, there are multiple issues here. So what's behind what's going on? Well, we can generally put these factors into two buckets. One bucket is the discretionary decisions of appraisers when they actually go to do an appraisal. So that's everything from evaluating the features of the house, selecting comps, making adjustments to those comps, selecting the opinion of value. And what we've found is both how appraisers are trained to identify an ideal buyer and their own racialized assumptions influence that process.

But to be honest, that is only a small part of the broader inequality we see. Most of the inequality is due to the second bucket, which is the appraisal method. It's helpful to understand that the appraisal methods we currently use were elevated in the 1930s and the 1940s and promoted by academics and real estate professionals who were intentionally trying to create a method that would appraise homes in white communities more than communities of color.

Although there are multiple, obviously, fair housing legislation and court cases that have explicitly outlawed the use of race as a formal justification for home values, we see that the initial designers' intents have continued because nothing has been changed or challenged about the method itself. Combined with the increasing financialization of the housing market, white homes are continuing to be appraised at higher values than communities of color.

This clearly has multiple detrimental impacts on people's real lives. For one, we have a growing racial wealth gap, in large part due to our appraisal gap. So to illustrate this, take for example two families who both bought a house in 1980. They bought very identical houses in identical neighborhoods, but one was in a white neighborhood and one was in a community of color. On average, based on our statistical models, we can estimate that the white family saw their home appraise—sorry—appreciate $275,000 more than the family living in the community of color. Now, that's despite all the same kind of investment and their communities remaining comparable. $275,000 different in wealth is equivalent to sending three kids to college all the way through, starting four businesses, having nine years of retirement expenses paid, and 10 significant medical procedures or hospital stays.

And the impacts don't stop there. The increasing impacts of this inequality has disconnected the housing market from the supply of demand of housing, leading to increasingly unstable markets and an increasing affordable housing crisis.

So what can we do about this enormous inequality? Well, I would argue we need to do two things. One is to change our actual appraising methods. That includes standardizing the process to decrease discretion within the appraiser's decisionary processes and also change the method we're using in and of itself.

But second, before we can change those processes and have an effective method, we need to address the inequality that we have deliberately created as a community and particularly through government agencies and support, and that requires investigating and providing programs and resources that give reparations to those who have been most significantly hurt by this inequality. Because if we all want to pursue a life, liberty, and pursuit of happiness, we need to have an equitable system moving forward.

Thank you again for this opportunity to testify, and I look forward to your questions.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you, Dr. Howell.

[Applause.]

ASC CHAIR ZIXTA MARTINEZ (CFPB): Next, we have Paul Austin and Tenisha Tate-Austin, homeowners of Marin, California. You have the floor.

TENISHA TATE-AUSTIN (Homeowner): Thank you, and thank you for having us. I'm going to speak on our behalf today.

Owning a home is the American dream. For most, it's the ability to create generational wealth. For some others of us, it is the ability to utilize the equity in one's home for capital.

Since purchasing our home in 2016, we've had several appraisals. This is largely due to the fact that our home is our only access to a lump sum of cash. We should also mention that we are both college educated with over $90,000 in debt between the two of us. Student debt.

PAUL AUSTIN (Homeowner): Student loan, yes. Student loan.

[Laughter.]

TENISHA TATE-AUSTIN (Homeowner): In January of 2020, we decided to refinance our home to take advantage of low interest rates and to finish remodeling our home. Interest rates were significantly low at the time, in like the 2 percent category, and we had white friends that had successfully refinanced at that rate. We needed an appraisal of our home to refinance. We had an appraisal done on January 29th of 2020. We were hopeful after the appraisal and then were shocked when we received a valuation of $995,000, so under a million dollars. I know that sounds like a lot of money, but in the Bay Area, it's not really.

We then requested a second appraisal and asked a friend who was a white woman to be me and meet the appraiser. Our friend Jan brought over a family photo. We took down our family photos and replaced artwork so there was no trace of us in our own home, a term often referred to as "whitewashing." We tried to make the home seem like it belonged to Jan. When the appraiser came, Jan was there alone—[indicating air quotes]—working from home at our dining table. She had the deck doors open, which highlighted our amazing view of the Bay and the possibility of indoor and outdoor entertaining. She answered the appraiser's questions about countertops, floors, et cetera., throughout the house. Jan called me at work after the appraisal left to tell me that it was done. She asked me to keep her posted on the results.

A couple weeks later, we received the second appraisal report. This time, the appraisal value came in at $1,482,500. This was nearly 50 percent higher, a difference of $487,500, just five weeks later.

Our community is small enough for us to keep track of trends and sales. In fact, we typically go on a tour of the homes that are on sale. Prior to our home appraisal in 2020, I had been closely monitoring home sales in Marin City, so we knew what the comps were. When the comps were not included, ignored, in fact, in the first appraisal, we immediately had concerns. The comps from Marin City that were included were not comparable in square footage, size of house or type, and many were old listings. The appraiser did not look at properties that were most similar in the nearby areas that have had higher appraisals—sorry—the appraiser did not look at properties that were more similar in the nearby areas that had higher populations of white residents. This suggests that the appraiser was hyper-focused on comparing our home to certain types of home that were not favorable to our evaluation.

Additionally, the appraiser used language in her report that was alarming. For example, the report states, quote, Appraiser is aware that there are comparables from outside of the neighborhood, sales from over a year ago, as well as larger-than-typical adjustments made. However, this could not be avoided. The subject is located in a neighborhood known as Marin City, which has distinct marketability, which differs from the surrounding areas. The difference in price per square footage after consideration for flaws due to limited data was conservatively made at 25 percent. This explanation for the need to make a larger-than-typical adjustment due to the fact that our home was in Marin City, which has distinct marketability—[indicating air quotes]—which differs from the surrounding areas, was extremely concerning.

Lastly, the location of our home contributed to the undervaluation of it. This is in line with the historical devaluation of homes in Marin City, the suppression of opportunity for African Americans to buy outside of Marin City for generations, starting after World War II, and the negative narrative spewed about Marin City despite the amazing views, lot sizes, and access to the Golden Gate Bridge. Marin County has a history of racism and discrimination throughout multiple systems. This issue is more than just one bad actor. It is systemic and requires a systemic solution.

Once I read the appraisal report, red flags went up immediately. I didn't quite understand the appeals process, but I contacted our broker and requested another appraisal. Thankfully, our broker agreed that an ROV was appropriate. I think the consumer should be informed that they are able to request an ROV, despite the approval of the lender/broker.

After our story went viral and lawyers began contacting us, we learned that HUD had a process. Unfortunately, we were passed a statute of limitations to participate in the HUD process. Thankfully, our lawyer and the nonprofit organization that helped us in our lawsuit are well experienced in this issue and were able to advise us on next steps. Given our experience, I would assume that there are plenty of people that don't know what to do if they find themselves victims of appraisal bias and discrimination in our country.

The impact of devaluing a home in our country is powerful. It can set back entire communities. The difference that we experienced in our two appraisals was significant. It's the ability to pay for college. It's financial freedom. It's the foundation for generational wealth. It's the difference in the amount of interest rates you pay over the life of the loan—30 years. That's a lot of money.

This experience continues to have an emotional toll on our family. Throughout the process, we have experienced a rage of emotions. Initially, we were relieved that we got the value that we knew that we deserved. Then I felt guilty that someone stood in for me. That guilt later transitioned into outrage that we had to have someone stand in for us to get a fair evaluation.

There's also the heartbreak of explaining this ordeal to our children. "Mom, why do we have to take things out of my room, my most personal items?" Imagine having that conversation with your child. It's humiliating.

The house is the house. How can the person occupying the house impact the value of the home? Ultimately, the appraisal process is also assigning a value to us. What is the value of the owner? We continue to be disappointed in this process and with our experience.

Lastly, we believe that the whole process is too arbitrary and too dependent on the opinion of one person. There needs to be more oversight on the appraisers to get the information correct or more than one appraiser who conducts the analysis of value. There needs to be a streamlined—there needs to be a streamlined and explained process for evaluating the home that doesn't introduce bias.

The two appraisers who inspected our house, one before we whitewashed it and one after, came up with entirely different comps and a difference in value of a half a million dollars. This should not be possible. This suggests that the process is too subjective.

We also believe that lenders should be required to tell consumers that they have the right to request an ROV if they're unhappy with the appraisal. Additionally, every time someone gets an appraisal, there should be an explanation, both verbally and written, about the options that the consumer has, so, for example, to file a claim with HUD or to file a lawsuit, et cetera. Consumer education is key in as many mediums or platforms as possible, so at libraries, through lenders, on social media, and through the traditional media. Thank you for your time.

[Applause.]

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you, Paul Austin. Thank you, Tenisha Tate-Austin. No one should have to go through what you went through.

Next, we have joining us remotely, Mr. Fratantoni. You have the floor.

MICHAEL FRATANTONI (MBA): Thank you, Director Martinez. Thank you for this opportunity to present MBA's thoughts on this important topic. Thank you for the flexibility to be able to address you from San Diego today, where we're holding a conference.

In my remarks today, I'm going to focus on four issues related to this discussion: first, how MBA has responded to recent reports about appraisal bias; second, operational aspects of appraisals within the mortgage process; third, the role of AVMs in addressing appraisal bias; and finally, our views on potential changes to the appraiser regulatory structure.

MBA's advocacy and support for expanding and diversifying the appraiser workforce, such as through programs like PAREA, predate the recent media and policy focus on appraisal bias. Moreover, in the past decade, MBA has demonstrated its commitment to fair valuation and revitalization of distressed communities through its advocacy to address the appraisal gap problem for neighborhoods in transition and spur reinvestment through the MBA-supported Neighborhood Homes Investment Act.

Following the increased focus on appraisal bias, MBA closely studied research from a wide variety of industry, academic, and other researchers on this topic, and continues to advise its members on published reports regarding appraisal bias. There's clearly a need to continue efforts to track the performance of appraisers over time.

MBA applauds the efforts of the PAVE Task Force and others to bring more data to bear on these questions and encourages appraisal policy reform within the government loan programs. To that end, MBA participated in focus groups organized to support drafting of the PAVE action plan. MBA residential policy committees continue to work to provide detailed suggestions to agencies, investors, and guarantors on policy changes that could expand and diversify the appraiser workforce, streamline appraisal processes, and reduce bias.

Accurate valuations of homes are essential to risk management within the mortgage industry. Mortgage lenders evaluate borrower eligibility based on an assessment of both credit risk and collateral risk. So understanding the market value of the collateral is essential to making and pricing a mortgage. As emphasized in fiducia and regulatory requirements, a property valuation conducted by a third party whose payment is not determined by the successful completion of a property sale or loan origination is an important safeguard for the system.

The implementation of the Home Value Code of Conduct, or the HVCC, further insulated appraisers. This approach has worked well in terms of preventing overvaluation of properties. However, there was not until recently the same level of concern with respect to undervaluations. The concerns with respect to appraisal bias highlight symmetric risks that were not previously addressed in prior appraisal reforms.

Industry leaders agree that adoption of technologies and hybrid strategies for valuation could alleviate stress on the appraiser workforce and reduce individual appraiser bias. Access to valuation data will be key in fostering the development of new technologies available to appraisers and mortgage lenders.

In the decade since the launch of the Uniform Mortgage Data Program, the enterprises have invested tremendous resources in the collection and analysis of loan-level data, and lenders have invested similarly to comply with these new demands from the enterprises. The creation of the Uniform Collateral Data Portal and the UAD are important achievements by FHFA and the enterprises. Much of the improved collateral data has not been made publicly available and remains accessible only to FHFA and the enterprises. The limits on access to this collateral data are especially noteworthy as many industry participants, along with standard-setting bodies like MISMO, have contributed to the collection and development of this higher-quality data.

Broader availability of these data hold the potential to improve risk management approaches, enhance forecasting tools, and better determine how valuations differ across geographies and various borrower demographic factors. These expanded capabilities should be made available broadly to any interested stakeholders, including public- and private-sector researchers.

Increased use of new technologies and more robust data sources, including wider industry adoption of AVMs, also can help combat bias in the appraisal process. AVMs are currently used to support valuations, aid quality assurance review and originations, and assist as valuation assessments during post-origination processes. The real estate industry also has been moving towards greater use of digital mortgages, which enable faster processing times and produce cost savings to consumers and investors. Use of additional data and models like AVMs are paramount to the successful implementation of these new technologies.

The use of AVMs may not eliminate all elements of bias in valuations, but it could improve upon the current system by potentially reducing conscious and unconscious human bias, which would be a welcome step forward as regulators and industry leaders continue to work to address systemic bias in the long term.

MBA understands the concern regarding entrenched patterns of undervaluation and the perpetuation of valuation disparities with any new technology or process, though this consideration reflects the need for proper safeguards as new technologies or processes advance, not a rejection of these technologies or processes.

Finally, with respect to the current regulatory structure, MBA supports increasing appraiser accountability while maintaining appraiser independence. MBA would support having state regulators strengthen their oversight roles by holding appraisers accountable for the quality of the property valuations and any findings of bias. Moreover, MBA would support efforts to bring more independent oversight for appraisers.

Finally, MBA applauds these VA's recent efforts to augment their oversight of appraisers but would highlight that some additional work is done, and MBA stands ready to help VA improve that proposed process.

Thank you again for the opportunity to share our views on this important topic.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you, Mr. Fratantoni.

Next we have Mr. Steinley. Mr. Steinle?

CRAIG STEINLEY (AI): Thank you. Good morning. Thank you for the opportunity to testify at today's public hearing on appraisal bias. On behalf of the largest professional association of real estate appraisers, the Appraisal Institute, I welcome the opportunity to discuss this important issue and share the impactful actions already taken by the profession. In addition, I will highlight three suggestions for the agencies and the broader ecosystem, including the regulatory and enforcement communities and the real estate and mortgage finance sectors.

First, the member agencies of the appraisal subcommittee have key roles to play in addressing valuation bias and fair housing, in managing loan guarantee programs as well as providing supervision and oversight. The agencies have appropriately identified the reconsideration of value or the reconsideration of appraisal results as requiring additional guidance and consideration.

All of the attention to date has been on post-appraisal delivery appeals when it should instead be focused on opportunities to address any deficiencies prior to completion of the appraisal. The member agencies have an opportunity to replicate a pro-consumer protocol that has been used effectively for many years in supporting veterans in the U.S. Department of VA through their Tidewater Initiative. The Tidewater protocol is a formal process for stakeholders to provide relevant information to the appraiser. This type of interaction was once commonplace in the appraisal profession, but in time, it has waned due to appraisal independence concerns. This is an opportunity to establish a pro-consumer benefit that virtually all stakeholders support.

We believe the agencies should undertake a process similar to that used to develop the interagency appraisal and evaluation guidelines, only focus on the reconsideration of value process. This should start with installing a Tidewater-like protocol throughout the agencies. Once this is established, they could turn to post appraisal appeal processes. The policies and procedures should apply to the banking regulator agencies, the loan guarantee agencies, and the GSEs. Appraiser independence must be respected, but guidance should provide a clear way to communicate relevant additional information that may not have been initially available to the appraiser. Following a well-defined reconsideration process should be a precondition for policies regarding the ordering of a second appraisal.

Secondly, since 2019, the Appraisal Institute has helped lead the Appraiser Diversity Initiative, or ADI, an industry collaboration between Fannie Mae, Freddie Mac, the National Urban League, and the Appraisal Institute. It promotes the appraisal profession to diverse communities.

In addition to the seed financial support from the Appraisal Institute's Education and Relief Foundation, ADI has secured additional financial and in-kind support that has provided already over 400 comprehensive education scholarships to diverse, aspiring appraisers. This includes a $3 million commitment from Chase Bank, which helped to bolster the ADI program and provide career-assessed assistance to ADI scholarship winners. We continue to receive strong sponsorship interest from the appraisal and mortgage finance communities as evidenced by an announcement just this week from Flagstar Bank of a $1 million contribution to the ADI program.

We encourage the subcommittee to engage in grant-making activity of appraiser diversity efforts, such as ADI and the Practical Applications of Real Estate Appraisal, or PAREA. This is a technology-based alternative to gain the required appraisal experience without the need for a supervisor, and it will help to open the door to the next generation of appraisers. I believe this to be a real game changer.

Finally, the appraisal profession is moving to enhance education requirements on valuation bias and fair housing. The Appraisal Institute supports additional laws that would require appraisers to take qualifying and continuing education specific to valuation bias and anti-discrimination. We are working hard to equip appraisers with the most rigorous bias and fair housing training of any profession that's subject to those laws.

Further standardization is needed at the state level to ensure that complaints alleging appraisal bias are investigated and adjudicated in a fair and equitable manner. As an example, the Texas Appraiser Licensing and Certification Board recently entered into an agreement with the Texas Workforce Commission, which is the state agency charged with administering and enforcing fair housing and civil rights law. Each agency performs functions that are part of their core expertise in collaboration to adjudicate the matter.

Looking ahead, as the agencies develop guidance for regulated financial institutions, we cannot emphasize enough the importance of strong collateral valuation policies that encourage the hiring of qualified and professionally designated appraisers, such as those who have earned the Appraisal Institute designations. We also emphasize the need for creating and maintaining strong appraisal review functions. The two together can mitigate many appraisal quality concerns for the betterment of all parties.

Thank you to the subcommittee for hosting this forum, and I look forward to your questions.

ASC CHAIR ZIXTA MARTINEZ (CFPB): hank you, Mr. Steinley.

[Applause.]

ASC CHAIR ZIXTA MARTINEZ (CFPB): Next, we'll turn to the question portion of the hearing. Each ASC representative has 10 minutes to ask questions, and we will begin with Assistant Secretary Gordon. Do you have questions?

ASC MEMBER JULIA GORDON (HUD): Thank you so much for inviting me to participate in this very important hearing today. I want to thank the Appraisal Subcommittee, of course, the CFPB, especially for hosting. I want to thank Secretary Fudge not only for her inspiring leadership that

I get to experience every day at the office but for making this issue such an important part of our agenda and her vision for HUD under her leadership. And most especially, I want to thank the witnesses. I have spent much more time in my career on your side of the table than on this side of the table, and I know that you spend a lot of time in preparation, and that it's very nerve-wracking to be here, but it's unbelievably important for us. And I'm very, very grateful.

As Secretary Fudge said earlier, HUD is deeply committed to taking whatever actions we can to eradicate bias from our appraisal system. To advance this work, FHA recently released a draft version of a reconsideration of value policy that's currently posted on our website for comment, and I encourage everybody to take a look at it. I've already heard and seen people who have suggestions. Please write them to us. We will take them into account as we finalize the policy. The policy is intended to create a clear path for FHA mortgage applicants to request that the appraised value of their property be reconsidered if they suspect bias, discrimination, or another material deficiency in the appraisal, and while that has always been possible under our system, this is the first time we're establishing such clear procedures for it.

We also plan to help educate homebuyers about the ability to request a reconsideration of value by adding disclosure language to the homebuyer's copy of the statement of appraised value. I know from the work I have done in this field for many years before coming to HUD—I was at the National Community Stabilization Trust where we worked on homes in a number of undervalued and underinvested communities around the entire country. We know that appraisal bias can lead to a cycle of disinvestment and decline in communities. We know that this type of bias can help perpetuate a residential segregation pattern that is linked not just with home values, but with disparate outcomes in virtually every important area, whether it's health, education, environmental, public safety, et cetera. And getting to the bottom of this is—this is not just one little thing we might work on. This is really core to everything that we care about with respect to homeownership and the contribution that it can make both to families, individuals, and to communities.

So I'm going to start just by asking you a couple of yes/no questions, and raise your hand if the answer is yes. Please raise your hand if you believe that all appraisers have a responsibility to understand the history of racist policies and practices that underpin our current patterns of residential segregation.

[Show of hands.]

ASC MEMBER JULIA GORDON (HUD): Please raise your hand if you believe appraisal bias contributes to the wealth gap between Black and white homeowners.

[Show of hands.]

ASC MEMBER JULIA GORDON (HUD): Please raise your hand if you believe that increasing the demographic diversity of the appraisal industry would help minimize the likelihood of appraisal bias.

[Laughter and show of hands.]

ASC MEMBER JULIA GORDON (HUD): Thank you.

And, Dr. Howell, I did hear your testimony, and there are many other things we have to do too, but I have watched over the years as so many parts of the homeownership industry have diversified, and it has made a significant difference. And the appraisal industry is behind a lot of other components of this industry.

So, Dr. Howell, just to start with a question for you, in your written testimony and your oral testimony today, you highlighted how one of the ways that you research this issue was looking at FHFA's aggregated appraisal data, and as part of the PAVE initiative, FHA has committed to sharing its appraisal data with FHFA and other government agencies so we can create a much more robust data set that way. And I know that the collection of data in this way has profound implications for the development of policies and processes.

I've been doing research and policy development for years, for example, using HMDA data, and so I'd like you to just discuss briefly the importance of public access to appraisal data on government-backed loans for your research and for larger efforts to eliminate appraisal bias.

DR. JUNIA HOWELL (UIC): Thank you, Assistant Gordon, for that question, and to clarify from the laughter, it's not that I think diversifying would hurt the industry, right? So that's my—I think it is an important step, and as you say, appraisers are far behind the other pieces of the industry. I just think there are other things we need to simultaneously do to move them forward. And part of that, as you said, can be led through making sure there is more public access to that data.

So as you insinuated—and I've written more in my written testimony than I said today in my oral testimony—one critical piece of having the data that came out this fall from the FHFA was being able to use appraisers' own reports. So while we had used, in our qualitative interviews and observations, market data from appraisers and we have never had a critique about the accuracy of that data, there was the concern that we were using proxies for the actual quantitative numbers because there was no public available other numbers.

We had done a lot of tests to make sure that our proxies were accurate, and when we got the actual numbers, they were. So that enabled us to be able to speak more broadly about this, but more access would enable more nuanced understandings and more precise policies that could affect the actual implication of solutions.

ASC MEMBER JULIA GORDON (HUD): Thank you so much.

Mrs. Tate-Austin and Mr. Tate [sic], first, thank you so much for your willingness to speak up and share your story with the world. You did such an excellent job of not just telling us the facts of what happened but how it affected you and your family. And, you know, as a parent myself, I cannot imagine having to explain that to my child, and for that reason alone, we all need to remain really, really focused on what we're doing here today.

I am grateful that you were able to pursue the effort to seek a second appraisal, and as we work on our policies at FHA to, you know, improve the ability of home buyers to weigh in on the process, do you have suggestions for us on particular resources we should be offering or particular ways we should be communicating and publicizing this information out there?

TENISHA TATE-AUSTIN (Homeowner): So I like the idea of having a disclaimer in the appraisal, like in the report. I think it just needs to be a visible sort of process or an explanation for options that the consumer has, because we were not aware that we had any recourse. So perhaps it is the lender's responsibility as well. Maybe it needs to be heard multiple times, just like reiterated that if you have an issue or concern, you can address it in these ways. It would be my recommendation.

ASC MEMBER JULIA GORDON (HUD): Thank you so much.

Dr. Fratantoni, we have—you know, as we just heard, we've heard how appraisal bias negatively affected the Austin family. You mentioned in your testimony that accurate valuation of collateral is also important to mortgage lenders from a business perspective. In your view, how does appraisal bias impact the mortgage market more generally, and in particular, does it help perpetuate racial homeownership and wealth gaps?

MICHAEL FRATANTONI (MBA): So I mentioned that we've done a careful review of all of the really intensive studies that have been done in this space, and I guess I would categorize them in two buckets. One is a question of are individual appraisers valuing properties differently based upon the racial characteristics of the homeowners, and then a second group of studies look at are different parts of a metro area, for example, being valued differently based upon historical impacts of redlining, segregation, sort of ongoing difficulties? So those two questions need to be addressed differently, I think.

And with respect to the first, the issues around increasing the diversity of the appraisal workforce, some of the checks that can be put in the process with respect to where the value is compared to an alternative valuation approach— and again, that sort of symmetric approach for an under- and an overvaluation.

The second question of—and this certainly gets to what the Austin Tates [sic] were talking about—different parts of a metro area being valued very differently, I think that really gets to bigger-picture policy questions beyond just the mortgage finance system.

ASC MEMBER JULIA GORDON (HUD): Thank you so much. My time is up. I really appreciate everybody being here today.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Director Thompson?

ASC MEMBER SANDRA THOMPSON (FHFA): Sure. Good morning, everyone, and thank you for the opportunity to be here. I'd like to thank Director Chopra and the CFPB for hosting today's hearing as well as the panelists and witnesses for sharing their perspectives on this very important issue.

Addressing appraisal bias is something that we've prioritized at FHFA because we've all heard the anecdotes, and we've read too many stories from courageous homeowners like the Austins. And we now have the data and research to show that these are not rare occurrences, but the fact of the matter is there are persistent gaps in communities of color.

Just last October, FHFA published a new appraisal data set that's available on our website. We believe that providing public access to a broad set of data points using over 47 million appraisal records collected over the past decade could help identify trends in home valuation and could help detect some of the root causes of appraisal bias.

Our own research at FHFA using this data shows that communities of color consistently face higher rates of undervaluation. Indeed, the proportion of properties that are undervalued in high-minority census tracts is 74 percent greater than the proportion in non-minority tracts. In minority tracts, the comparable proportion of undervaluation is 43 percent greater than in non-minority tracts.

FHFA has also begun sharing its extensive appraisal data with HUD, CFPB, and the Department of Justice to ensure that we can hold bad actors accountable for biased appraisals. We're also pursuing initiatives that address current appraiser qualification requirements through the PAVE Appraisal Bias Task Force, which is led by HUD Secretary Fudge and Ambassador Rice.

Since 2018, Fannie Mae and Freddie Mac have partnered to advance the Appraiser Diversity Initiative, which seeks to attract new entrants and foster diversity in the appraisal profession through outreach, scholarships, and mentorships. I believe we heard earlier that to date, this program has awarded more than 400 scholarships to diverse individuals and gained 17 sponsors. While we've made some strides in this endeavor, we still have a long way to go, and we should all commit to action when it comes to this issue.

Our role, whether we're working in or with the Federal Government or industry, is to ensure that the housing market works for everyone, and everyone means all, not some. Guaranteeing an efficient and equitable valuation that eliminates appraisal bias is one important way to achieve that objective. This is why events such as today's hearing are so critical. It shows a coming together of stakeholders to address this very significant issue.

I appreciate everyone for being here today to share ideas on how we can implement effective solutions to address appraisal bias, and I do want everyone to understand that from FHFA's perspective, the issue is not higher values. It's fair values, and we want to make sure that that takes place across the board.

I did want to highlight something that Mrs. Tate-Austin said, and it was something that we at FHFA in our review of some of the language that's on the millions of appraisals that we have, we did find some concerning language that was similar to what you referenced. Now, we had one appraiser describe a neighborhood as "working-class Black." Another described a neighborhood of immigrants as "one spicy neighborhood." Several appraisers recorded the demographics of the neighborhood on the appraisal, with one noting an area had a "Black race population above state average." I mean, these are the things that we really need to bring to the forefront. These are real issues. This is a real issue for so many people across this country, and again, we want to make sure that everyone has the same access to equity and housing, in particular, because it is the biggest contributor to wealth for many families across America.

So my first—actually, I just want to start by acknowledging the Austins for being here today. It takes a lot of courage to come across the country and to be so public about this very important issue. We really appreciate your willingness to share your experience. It is not the most pleasant experience, but we really do value and appreciate your time, and thank you.

I did want to ask Dr. Howell—I have a list of questions here—and also to Mike Fratantoni from the MBA. FHFA has released data. We're trying to release more data, and I heard two issues come up; one, more or increased access, and two—I guess my question to you would be, are there other data elements? Based on the data that we have published, are there additional data elements that we can share with the public to be helpful in this issue?

DR. JUNIA HOWELL (UIC): Thank you for that question and all your work at FHFA to make this data public in the first place.

I would generally say there's kind of two different areas to answer that question, and maybe to give a little context for those who are less familiar with the data, so the data is coming in as individual reports from individual properties. And that information has direct information on, for example, the exact comp that was pulled and how those adjustments were made. Some have wanted that level of information public, both for accountability on how those decisions are being made and to increase the kind of public—or database of properties that appraisers and others could pull from.

However, there's a second kind of category is other variables that can still be released with the current approach, which is not releasing individual-level data but releasing aggregated data. And I've been in contact with various members on your team outlining multiple different variables that we could add to that, that would increase our understanding, so everything from, to use the comp example again, the mean distance that comps were pulled from, from the property that was not released in the first release, to specific things about both the comps and the properties that were not released, like even just how many bedrooms and bathrooms in square footage, more of that could be released. And it wouldn't violate any current standards of how the privacy is being dealt with but would increase our understanding of what's actually going on.

ASC MEMBER SANDRA THOMPSON (FHFA): Great. Thank you. Mike, any observations on additional data?

MICHAEL FRATANTONI (MBA): Yeah. Well, thanks, Director Thompson. And first, I would just completely agree with you that one of the major steps we need to take here is just to remove subjectivity from the process and move to more database objective metrics and really move to a place where you can flag an undervaluation and flag an overvaluation based upon a rich core of data that everyone has access to.

And our request is really just to, again, sort of open the curtains on more of the data that the enterprises have had access to historically to allow lenders and mortgage insurers, the appraisers themselves, and the appraisal management companies access that same level of rich data, so that, as Mr. Steinley was saying, that they're not surprised by being told that their evaluation is far off the mark, either above or below. They have the same kind of checks built into their processes, and it's not an after-the-fact correction that needs to be made. Thank you.

ASC MEMBER SANDRA THOMPSON (FHFA): Great. Thanks. And I did want to acknowledge the reference to the consumer or borrower awareness of the reconsideration of value because that is something that many people don't know about in the appraisal process, and I commend you for bringing it up and you guys for doing your rule writing.

Just had a couple questions for you, Mr. Steinley. I noticed in your written testimony that you were not necessarily in favor of—I guess my question would be a little different. How can the sales comparison approach become more equitable from your perspective? I was going to ask a different question, but I think that was more appropriate.

CRAIG STEINLEY (AI): Thank you. Appraisers are tasked with finding the market value of a property, the most likely sale price that will occur when a knowledgeable buyer and a knowledgeable seller interact in the marketplace, both operating in their best interests and not under duress. And the sales comparison approach has been rooted in economic theory for a long time. It's accepted by the administrative branch of our government, the judicial branch of our government. The sales comparison approach has worldwide economic acceptance, and we believe at the Appraisal Institute that a lot of the instances that we're reading about are best corrected with the use of a well-trained and highly qualified appraiser that is geographically competent in the area that they serve.

I am a practitioner. I don't regard my values as subjective as long as I support the information and the adjustments I'm making with actual data from the market. I don't make the market, but I read the market. And for me, trying to determine what the market value of a property is, without looking at sales nearby, would be very difficult.

Now, there are other values that appraisers can provide to a lender in a transaction. An appraiser could certainly be asked to provide a restorative market value, a concept we've seen talked about in the press and through the—Dr. Perry's research as well as the Brookings

Institute Challenge Grant where we ask ourselves, what would the value be if it wasn't locationally anchored to its current spot? And that gets around some of the issues that have arisen. That's not the same as market value, but it is a value that a competent and trained appraiser could provide.

And then through fiscal and policy direction of the agencies, that difference between market value and some restorative market value based on what it might have been if not for historical events, that difference, that gap could be helped with the efforts of you all. And that's something that OCC's Operation REACh is looking at. We really commend them for that work.

ASC MEMBER SANDRA THOMPSON (FHFA): How would that address the situation that the Austins experienced, like same house but different values? The only thing that changed was the residents—or the occupants, I should say, for the valuation. How would that approach impact that particular situation or the one that Secretary Fudge mentioned in her opening remarks? She lives two doors down, and she says her house is better, which I'm sure it is.

CRAIG STEINLEY (AI): Right.

[Laughter.]

ASC MEMBER SANDRA THOMPSON (FHFA): But just on those types of issues, I raise that because I'd really like you to respond to that question. But I also wanted to know—you know, we believe in appraiser independence. I mean, that is just highly valued. How do you address these types of issues and still maintain appraiser independence without the inference that we're looking for higher values? And again, I think I mentioned it's not higher values, it's a fair process. It's fair, fairness in the valuation, unbiased valuations. So just trying to take the recommendation that you've just mentioned and apply it to these issues that are before us today.

CRAIG STEINLEY (AI): Well, thank you again for the question. I can't tell you how difficult it is to hear the story of the Tate-Austins when we hear of even one family that has had to go through really the dehumanizing effect of what they describe. It's extremely difficult because it's antithetical to what appraisers stand for. Appraisers by definition are competent individuals who are independent, impartial, and objective, and bias is something that precludes the ability to be independent, impartial, or objective. So they're completely opposite each other.

I don't know the specifics of the case, but what I can say for sure is that we believe that continued education, which we are stressing with the supporting the Appraisal Foundation as it is bringing forth additional requirements for fair housing and for anti-discrimination training can help interrupt that unconscious bias that may be present in some individuals.

I truly believe that if we allow the profession to diversify—and as you know, we're making great strides with PAREA—

ASC CHAIR ZIXTA MARTINEZ (CFPB): Mr. Steinley, we're out of time.

CRAIG STEINLEY (AI): Okay. Thank you.

ASC CHAIR ZIXTA MARTINEZ (CFPB): So we're going to move on to the next questioner.

CRAIG STEINLEY (AI): Thank you. Thank you for the questions.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Deputy Director Komyathy.

ASC MEMBER JEANMARIE KOMYATHY (NCUA): Thank you so much, and thank you to all of our witnesses today. It has been interesting to read your testimony, to hear from you, and I appreciate the time that you have given us.

Mr. Steinley, I do have a quick question for you that will kind of follow up on some of what has already been addressed. I was struck when Ms. Tate-Austin said it should be about the value of the house and not the people that are living in it. It's the value of the structure. You've offered an idea that would be similar to the Tidewater plan where the appraiser would have an ability, I believe, to get some input before they make their final decision, so that instead of needing a reconsideration of value after the appraisal is issued, there could be more, I suppose, interaction prior to the appraisal being issued. What type of information or how will that information remain about the structure and not about the people who are in it or the lifestyle that they have? Because it is about the structure. Do you have any thoughts on that?

CRAIG STEINLEY (AI): Yes, I do. Thank you. Appraisers do appraise property. They don't appraise owners. There's certainly no doubt about that.

I heard Mrs. Tate-Austin describe the fact that she really didn't know what her remedies were when she felt the weight of the circumstances she described. That's why we're advocating for the member agencies, almost in like a 2023 moonshot project, to take on this reconsideration of value across the agencies. We are appreciative of the VA taking steps to do that and the FHA with their recent announcement, but you see we have a little bit of disparity in terms of if you're not having FHA or VA financing, do you have the same reconsideration of value process?

I'm a practitioner. When someone has an issue with an appraisal, I want to hear from them about that, but there's no standardized way right now across all of the lenders, the secondary market, et cetera, to provide that input. So the Tidewater Initiative allows interaction up front. I'm a VA appraiser. It's a beautiful process where we provide the lender with an early look before we're finished at the appraisal, and if there's additional information that needs to be provided, we're provided that. There's also a post-appraisal appeal process, then, where homeowners have the opportunity to object to things that they see. No homeowner like the Tate-Austins should go into the home-borrowing arena without knowing there's a reconsideration of value or a reconsideration of the appraisal results process that both looks before the appraisal is turned in and then after it is.

ASC MEMBER JEANMARIE KOMYATHY (NCUA): Thank you. The other information that I was struck with was when Dr. Howell talked about her research and her initial steps of research that we all go into the appraisal process thinking, the value of your house is based on where it's located, what it's around, what the comparables are, how it fits into the neighborhood. But then I've also heard comment and testimony that the sales comparison method is not necessarily the fairest method or when you can pick which comparables you use that may not come to a fair and equitable appraisal.

So, Mr. Fratantoni, I'd like to pose this question to you. What if we didn't use the sales comparison approach to value? If it was no longer considered reliable or the government agencies and entities no longer use that as the basis for what we're lending on, what do you think the impact would be on the mortgage market, the mortgage lending, and the wealth that we're seeing in this country? What kind of an impact do you think changing the approach we use would have predominantly in the mortgage market?

MICHAEL FRATANTONI (MBA): Well, you know, that would be an extraordinarily significant change. As you know, the three typical approaches are the sales comparison approach, the cost approach, what it would cost to rebuild the property from scratch, and then an income approach more typically used in the commercial space of how much income is that property going to produce and then use a cap rate to turn that into a value.

In the residential housing space, the sales comparison approach is by far the most widely used, and I think the effort in our mind really is making sure it's being done with high-quality data, being done without a real subjective use of which properties to include as comparisons, and again move to the most objective data-centered approach that we can. If you look at AVMs, that's essentially what they're doing as well. They're essentially conducting an automated version of a sales comparison approach using many more properties, not just limiting it to a handful that are close to the subject property.

So I don't know that it would make sense to move away from the sales comparison approach, given the challenges, but there are certainly ways to improve it and to reduce the potential for any bias entering the process.

ASC MEMBER JEANMARIE KOMYATHY (NCUA): Thank you. I have one last question, and this is for Dr. Howell. Based on the research that you've done and the work that you've done, do you believe that the standards that we're using to do appraisals today are perpetuating the bias, or do you think we are moving away from that and moving to where the historical bias in the homeownership process is no longer prevalent?

DR. JUNIA HOWELL (UIC): I believe we're perpetuating and making it worse. To clarify something that I've heard kind of summarized back to me and other witnesses here today, often this is very common in the U.S. We like to believe, no matter what point in history that we are, that racial inequality is behind us. If you study the time period after the Civil War, this was the discourse happening. If you study the time period in the '60s and '70s, this was the discourse happening. It is still the discourse happening. It's a lot easier to believe the problems are behind us.

But what I was trying to discuss this morning and what I've clearly outlined, particularly in our 2021 social problems piece, is that we explicitly model how the direct influence of past historical practices, particularly those in the real estate market, are influencing contemporary values. And yes, there is a role. I wouldn't be a sociologist who didn't study history and all these things if I ignored that, and the empirical data proves that that's a role.

But all of our comparable estimates that I was sharing earlier are holding that constant. So this kind of discourse slip that we make in our language of insinuating that it's because of past processes is not empirically bearing out in the data. We are contemporarily making this problem worse, and I would argue, as I said earlier, a huge piece of this is a sales comparison approach.

ASC MEMBER JEANMARIE KOMYATHY (NCUA): Thank you. And I'll yield my time.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Associate Director Brown.

ASC MEMBER LUKE BROWN (FDIC): Thank you, Chair Martinez. I would like to join in thanking our witnesses today for joining us to participate in this important hearing and help us focus on the challenges facing people of color.

I particularly want to thank the Austins as well for joining us. I mentioned a few minutes ago to them that I had read about their situation in the paper last year, and I just remember shaking my head. I think it's truly generous for you to join us here and share your story and help contribute to solving the problem. Really impressed with what you all have done, with what you faced, and can't imagine how frustrating that was. I also mentioned to the Austins that I remember seeing the photographs, and what a beautiful area to be tainted by these kinds of issues is really concerning and frustrating. So thank you again for joining us and helping the Appraisal Subcommittee explore ways to prevent and eliminate bias.

Let me turn to my questions. If I may, Mr. Steinley, I'd like to start with you. From your bio, I understand that you own an appraisal company in South Dakota. Is that true?

CRAIG STEINLEY (AI): Yes.

ASC MEMBER LUKE BROWN (FDIC): It's really helpful to hear a perspective. I know you described yourself as a practitioner. Can you walk us through briefly the steps that an individual must take to become an appraiser?

CRAIG STEINLEY (AI): Thank you. Yes, I am a practicing appraiser. I have trained four individuals into the practice. They are all female. I still get to work with them. I long ago quit saying they work for me because everybody knows better. They're certainly better appraisers than I am, and in order to become practitioners, they had to undergo a series of education, a qualifying education. They had to gather their experience from working on appraisals with me as their supervisor. They had to sit for the national exam, and of course, in order to qualify for the level of licensing that they wanted, two of the four had to have a college degree to begin with.

It's been a rewarding experience, and I think the process helps to train them in the way in which appraisers ideally are supposed to operate.

ASC MEMBER LUKE BROWN (FDIC): Are there barriers to entering into the industry that you think needs to be addressed?

CRAIG STEINLEY (AI): Yes, and we've been—as the Appraisal Institute, we've been advancing and amplifying efforts for several years. I mentioned, as was mentioned in the PAVE report, the action plan, the Appraiser Diversity Initiative, which was also mentioned by Director Brown. I am extremely pleased. I've met many of the scholarship winners who because of their location, because of the nature of not having a supervisor in the area where they work, they have suddenly been granted access to the profession.

I live in a rural state. There are a number of areas where appraisers are not practicing, so there's no one there to train you in the traditional supervisor trainee model. We have a lot of Tribal land, and again, individuals who want to appraise on Tribal land, they don't have anyone that can supervise them. So through the Appraiser Diversity Initiative, which is scholarshipping the education and materials to those individuals, and PAREA, which allows them to gain their experience component in an automated, simulated, and virtual way, kind of like the—

ASC MEMBER LUKE BROWN (FDIC): Mr. Steinley, I'm sorry to break in here. That's helpful. I've read your testimony, but it would really be helpful for, I think, the ASC to understand better what the appraisal barriers are specifically. I know you talked about rural areas, and that's understandable, but could you walk through some of the very specific barriers? I really think would be helpful for us to understand that better.

CRAIG STEINLEY (AI): Thank you. And that is the barrier I was getting to. The barrier is the one model that the qualifications allowed for an appraiser to enter the profession was the traditional supervisor trainee model. And some time ago, we began to have discussions with the Appraisal Foundation about allowing an alternative to that one way into the profession, the experience model.

And that's where PAREA comes in, and that's what I was leading to, sir, was the availability of PREA to take at scale several hundred people at once and provide them their experience and open the doorway to the profession. PAREA will be up and running not later than September of this year. We're very excited about the way in which the pre- interest in PAREA. We know we're going to have lots of people, and many of them could use the resources of the subcommittee to help them take advantage of the PAREA, particularly the AI PAREA that we'll be launching.

ASC MEMBER LUKE BROWN (FDIC): Thank you. That's very helpful. Could you talk a little bit about what role the states play in the process?

CRAIG STEINLEY (AI): In the process of appraiser entry into the profession?

ASC MEMBER LUKE BROWN (FDIC): Yes.

CRAIG STEINLEY (AI): So state regulators are involved in judging whether the individual has met the qualifications that are established nationally by the Appraisal Foundation through its qualifications board. So the state will judge whether they have the proper qualifying education, whether they have the proper experience, whether they have the needed degree, if necessary, and supervise their taking of the national exam.

The state will also judge the work that they are providing, the appraisal reports, to make sure that they comply with the ethical and practitioner standards known as the Uniform Standards of Professional Appraisal Practice. That's the state role is to make sure that the Federal requirements are met by each individual.

ASC MEMBER LUKE BROWN (FDIC): Thank you. Do you have any suggestions in terms of how the states can be more helpful in the process in terms of improving entry into the industry?

CRAIG STEINLEY (AI): Well, we have been fortunate. We originally had just a handful of states that were going to welcome PAREA with open arms, but at this point, we're nearing 40 of the states that are going to accept PAREA for their experience component. Again, that does not require a supervisor. It is a mentored program with real estate appraisal professionals, but it's not the same as a full traditional supervisor. So the states that have not yet accepted PAREA, we would ask them, and we would ask your help in making sure that they will do that. PAREA is that game changer that I mentioned in my oral testimony.

ASC MEMBER LUKE BROWN (FDIC): Are there any costs associated with entering into the industry to become an appraiser?

CRAIG STEINLEY (AI): There's costs of qualifying education to meet that. There's the cost of—

ASC MEMBER LUKE BROWN (FDIC): What's the average cost?

CRAIG STEINLEY (AI): Rough numbers, I would say about $2,000 in costs.

ASC MEMBER LUKE BROWN (FDIC): Do you know what the basis of that number is, the $2,000?

CRAIG STEINLEY (AI): The courses are priced according to what—the length of the courses, what the market will bear, and there is some disparity among different providers as to where they price their offerings.

But qualifying education is the first expense. There's an expense to take the national exam, and there's certainly an expense involved in the experience component, whether it be a traditional supervisor appraiser relationship or through PAREA.

ASC MEMBER LUKE BROWN (FDIC): Thank you very much. I'm not sure how I'm doing on time here, but one other question before I—

ASC CHAIR ZIXTA MARTINEZ (CFPB): Two more minutes.

ASC MEMBER LUKE BROWN (FDIC): Two more minutes, okay.

One more. You know, hearing the story from the Austins, obviously consumer complaints are incredibly important. Have you thought about the state process and their focus on complaints and how complaints can be addressed, followed up on, if an issue is identified by a consumer?

CRAIG STEINLEY (AI): Well, two things. The first thing is, as I mentioned, the reconsideration of value process. Consumers need to understand that. It needs to be made more uniform. Some agencies, some lenders don't even have an ROV process. So that's the first thing that should be done.

On the state side, as I mentioned in my oral testimony, states are not used—state appraiser regulators are not used to adjudicating complaints involving fair housing or implicit bias, and so we've been asking states, working with them, to make sure they have adequate expertise to handle that part of a complaint and make sure that is adjudicated fairly and equitably so that appraisers who need additional training, need additional help in the areas of discrimination, anti-discrimination and fair housing, get that and receive that as soon as they can.

ASC MEMBER LUKE BROWN (FDIC): Thank you. And I know I am running—

ASC CHAIR ZIXTA MARTINEZ (CFPB): You are out of time. k

ASC MEMBER LUKE BROWN (FDIC): I am out of time.

[Laughter.]

ASC MEMBER LUKE BROWN (FDIC): All right. hank you very much. I appreciate it.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Next, we have Deputy Associate Director Williams.

ASC MEMBER SUZANNE WILLIAMS (FRS): Thank you, Zixta, and thank you for the ASC for holding this hearing and the CFPB for hosting and especially to our witnesses for all your time and travel here and sharing your experiences with us.

I want to touch on a topic that some other folks have already talked about, which is the new

Uniform Appraisal Database and the access to that, you know, huge 47 million records-plus, that data that I think really has an opportunity to be a game changer for some of this work from a variety of perspectives. So we've heard from some perspectives about how this data could be used, but I was interested in hearing from the banking representatives how this data could be used in the review process that's necessary and looking at issues such as, you know, whether the appraised value is fair and accurate and credible, how the new related data set could be used in improvements or a check when the banks review those appraisals.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Is your question to the MBA representative?

ASC MEMBER SUZANNE WILLIAMS (FRS): Yes, yes. Sorry.

MICHAEL FRATANTONI (MBA): Okay. Thank you. I just wanted to be sure about that.

So, you know, as I highlighted in my comments, historically so much of the concern was with respect to overvaluation. So, for Fannie Mae and Freddie Mac, their automated underwriting systems would send a warning flare, would send a message if the submitted value looked out of line compared to what Fannie and Freddie's automated evaluation processes said the property could support in terms of a value.

But until quite recently, they didn't fire a similar message if the property was undervalued compared to what their assessment was, and we think the fact that the enterprises now provide that messaging is really very helpful. It's a heads-up to the lender that perhaps a reconsideration of value is required and certainly a tighter level of quality control around that particular appraisal.

With respect to the data that's been released so far, my understanding is that it's still at a fairly aggregate level. It's not something that could be readily sort of plugged into other automated evaluation models, other tools that could be used to provide some of that quality control check right up front. So I think it's a step in the right direction, but I think more is still needed.

ASC MEMBER SUZANNE WILLIAMS (FRS): Thank you. So similar question for Dr. Howell from your perspective as an academic. I know you've done some work with the initial data. Is there any—and actually in some of the published materials by the FHFA, they actually in some of the footnotes suggest a deeper dive into maybe on a more macro basis, certain data sets and looking at neighborhoods or, you know, something on a more detailed basis than the state level. Can you talk—is there any additional research you're looking at with the existing data or—you also talked about some areas you would like to see some more data being publicly available.

DR. JUNIA HOWELL (UIC): Yeah, there's a couple other things that I'm considering looking at with the existing data, but as I know from FHFA, they're hoping to continue—it's a problem when you talk with your hands, you hit your mics—to continue releasing on a semi-regular basis. And so I'm also interested in seeing both the more variables and the up-to-date, and I think that would be most helpful for what I'm concerned about, which is getting, as Director Thompson said, to a fair evaluation.

And I would say that any time we talk about data—like, data is wonderful, I'm a quantitative methodologist, it's what I do, it's what I live, it's what I breathe. But we all come to data with our biases, and we all can construct models with those same biases. So we can have all the data in the world. Every single appraisal for the last 200 years could be accessed to us, and if we are still using the same assumptions about space and race, we're going to perpetuate the same problem.

So to me, at this point, I'm very, very, very grateful that FHFA has made that data available. I'm excited that HUD is partnering to make FHA available. I think that's all important. But I honestly think, even though I'm a scholar, even though I'm a researcher, that is not the most important thing here, as much as shifting our fundamental understanding about how we think about evaluating property and ensuring that how we use the data and how we use the resources we have are actually going to get us to a fair evaluation moving forward.

ASC MEMBER SUZANNE WILLIAMS (FRS): Thank you. And then, just finally, from a consumer's perspective, the Austins, you talked about the need for additional awareness, that there is this process for being able to reevaluate the appraised value. Is there anything else that you can think of—you know, I think many of us work with data and mortgage information all the time, and even so, I would probably, as a homeowner, be challenged in, you know, taking an initial look at what's currently out there with the FHFA data and being used to support, you know, your own case as far as, you know, over or under value and the accuracy. So do you have any additional thoughts about tools or things that could be developed for consumer use, you know, maybe based on or relying on some of the data that's now for the first time available that would be useful to consumers in, you know, basically supporting the—you know, that initial thought of the—looking at your appraisal and it not coming up with the value that you know based on your knowledge of the market? So, you know, maybe something that would need to be developed or a tool that would be accessible.

TENISHA TATE-AUSTIN (Homeowner): That's pretty challenging on multiple levels. One, because you would have to be privy to the information, and so then how do you get that information? It's just that we live in a small community. Even though we have the information, we still got, you know, a low appraisal. So I would probably need some time to think about that a little bit more, like what the possibility was. Like I mentioned, like, having access to information available for folks and, like, you know, places that they can get it, libraries, et cetera, is one way. But I would need to think about it a little bit more.

I do want to say that after listening to other testimony, as an educator, I think I would also add that I think that maybe we need to look at—go to the drawing board of how appraisers are educated as a way to, you know, move the needle, because, you know, the data is just as good as you put in. So if the data that we put in is perpetuating bias, then we're going to get bad information out of that system. So I'm going to think a little bit more on your first question, but

I think we—I'll think more about that.

ASC MEMBER SUZANNE WILLIAMS (FRS): Yeah. No, I think it's—you know, as certainly come out in this hearing and just with all the other work, it's a complex issue that there's different pieces to the puzzle. So, you know, definitely we would want to know about potential tools or, you know, education or things that—especially consumer focus, that would help, you know, the overall process be fair and accurate and credible. Thank you.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you. Next, we have Deputy Associate Director—sorry—Deputy Comptroller Thomas.

ASC MEMBER ENICE THOMAS (OCC): Yes. Thanks, Chair Martinez.

First, I would like to thank everyone on behalf of our agency, the witnesses, the ASC staff, ASC board members, and the CFPB for hosting or bringing together the first ASC public hearing and on such an important topic here. The subjects of appraisal bias and racial inequity are important topics and ones that we are hearing and seeing occur more frequently within the banking industry and the lending process. Racial and ethnic biases have no place in the appraisal process or the overall lending function.

The OCC, along with bankers and other Federal Governments, have been working on several different initiatives. One was mentioned earlier, the PAVE, and a second one, which is our own internal initiative, which is Project REACh, which stands for Roundtable for Economic Access and Change, to try to address some of the issues within the homeownership area; in particular appraisals and reconsideration of value. Our Project REACh workstream, the homeownership workstream, it's intended to help expand homeownership opportunities for minorities and low- to moderate-income areas to help close the racial gap, racial wealth gap.

As an agency, the OCC is committed to using our supervisory authority to advance racial equity consistent with the mission of our agency and ensuring OCC-regulated institutions provide fair access to financial services and treat customers—or consumers fairly in the process.

So I have a couple of questions, and some of them will piggyback off of some previous questions by my panel members. But the first one is more of a yes/no question. So listening to Austin's story, I do remember your story because I remember December—I think it was around December 21st when it was published in The Washington Post. And I read that story, and it seemed to be a story that was coming up more frequently as we look across the country. But in every witness's opinion, do you feel like appraisal bias has now become a national systemic issue?

DR. JUNIA HOWELL (UIC): I don't think now. I think it has been since European settlers landed on this continent.

[Show of hands.]

ASC MEMBER ENICE THOMAS (OCC): Okay. Thank you.

I want to touch a little bit on—you all brought up the transparency, the Austins, and the reconsideration of value process. I know in many cases, most individuals do not know there is an option to do that. I would like to ask you, do you think regulation should be implemented that will require banks to, one, transparently communicate that there is a reconsideration of value process? Two, to track the information and the results, do you think that regulation should be implemented for that?

PAUL AUSTIN (Homeowner): Yes. Absolutely, it should. And then also, we want to get to a point where accountability is also put in there to help stop biases from showing up. And if it does, you know, the people that are perpetuating these indifferences will be held accountable. So, you know, because right now, they are not being held accountable.

ASC MEMBER ENICE THOMAS (OCC): Okay. Thank you. Mr. Fratantoni, I have a question for you, and it's kind of piggybacking off the AVM statements that you made and some questions around that. When we look at the lending process, AVMs are becoming more frequent and other technology is being introduced into the process more frequently now. But as what was mentioned earlier, how do we—how do we come up with mitigants within use of technology to reduce appraisal bias and inequity? Particularly when you look at the data that is fed into AVMs, it is coming from sales comps, which we are now discussing has some subjectivity to it and may not be what we would call clean data.

MICHAEL FRATANTONI (MBA): It is a really important question. As I said, at this point, AVMs are primarily being used as a quality control mechanism, sort of a reasonableness check. And I said when applications are submitted to the enterprises, there is that flag. Initially, it was just in the case of an overvaluation. Now you are getting an undervaluation flag as well.

I guess from a lender's point of view, the challenge then is sort of what to do when you receive that undervaluation flag, and in many cases, I think sort of the natural thing is just a spur for some additional quality control of were the comps that were chosen appropriate, was the process for the appraisal conducted according to the regulations and good procedure.

But I don't think—I would caution against sort of being overly concerned about a move towards technology, particularly because we are so concerned about the role of conscious and unconscious bias. Certainly, the data can embed past practices, but I think we are moving in a better direction if we are moving towards a more data-centered objective approach.

ASC MEMBER ENICE THOMAS (OCC): Thank you. Dr. Howell, I had one question for you. As we look at the mortgage lending process, are there other individuals within the process that we should be scrutinizing outside of just appraisers?

DR. JUNIA HOWELL (UIC): Thank you for that question. This process is never just one individual, and that is the beauty and the struggle of trying to create change with accountability, right, because we talked about independence for appraisers. We talked about the banking system, the real estate agents, et cetera.

The thing about—you know, there are many levels of inequality here, right? So even the credit that people can have access to has racial inequality which perpetuates these issues over time, and that's something that has been looked at in various ways. We know that there is still an extraordinary amount of racial bias within the real estate agent's profession and how they steer and use pocket sales and all different components. Again, as I mentioned earlier, my collaborator, Dr. Elizabeth Korver-Glenn, has researched even more than I have on that side of it, and her book, "Race Brokers," covers multiple actors in the real estate agent's industry—excuse me—and how they contribute.

But even when we're looking just at appraisers, it's important to recognize that it's not just the appraiser who comes to a house, but it's also how the real estate agent conducted their own appraisal based on the sales comparison approach to figure out what they're going to list the property with, how the bank responds to that, the AVMs, right? So, yes, it's a multi-pronged process that we need to not focus on one industry, but I do think with this issue, we need to focus on that method and that process and reforming it.

ASC MEMBER ENICE THOMAS (OCC): Thank you. Chair Martinez, I don't have any other questions.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you. Director Chopra?

ASC MEMBER ROHIT CHOPRA (CFPB): Well, thank you, everyone, for being here, and it's terrific to host people here at the CFPB. I really want to thank everyone who's participating in today's hearing. One of the Appraisal Subcommittee's statutory responsibilities is to hold hearings like this, and I'm glad we're doing it.

Let me just start by really getting us aligned, hopefully, on what our objective is. I reflect a lot on how the regulators and the industry both fell short when it came to the financial crisis, and one piece of that was, I think, some of the incentives around overvaluation. And overvaluation can be a real, real big problem. And we're talking today about undervaluation also being a big problem.

So I'll just start with Mr. Fratantoni. Would you agree or disagree that really our loadstar is accuracy?

MICHAEL FRATANTONI (MBA): Yeah, 100 percent agree. As I mentioned in my testimony and some other comments, that you don't want to go too high because that introduces substantial credit risk into the system. You don't want to go too low for all the reasons we talked about here—

ASC MEMBER ROHIT CHOPRA (CFPB): Great.

MICHAEL FRATANTONI (MBA): —just patent unfairness. So completely agree with your comment.

ASC MEMBER ROHIT CHOPRA (CFPB): Great. And any disagreement from anyone in the group that accuracy really should—okay, good.

I also hear a lot that, you know, there's human bias, and, you know, maybe just let's automate it all, and the bias goes away. I think actually there's significant issues we've heard today but also across the board that we can't often take the bias out just by automating everything and relying on an algorithm. Dr. Howell, would you agree or disagree with that?

DR. JUNIA HOWELL (UIC): I would reframe that slightly and say the algorithms that are primarily used are ones that have already been said, are based on a very biased system—

ASC MEMBER ROHIT CHOPRA (CFPB): Right.

DR. JUNIA HOWELL (UIC): —and they are perpetuating it. So I would agree that it is helpful to include both technological tools and human.

ASC MEMBER ROHIT CHOPRA (CFPB): Human.

DR. JUNIA HOWELL (UIC): May I clarify slightly, though, about what I think we're talking about today? I actually disagree that we're only talking about undervaluation. I would agree with what I understood Director Thompson's point to be, that we're talking about fairness. I actually am very careful to try to never say the words "appraisal bias" because that's insinuating that there is a known accurate or fair evaluation, and I think we need to get there. But if we assume that the values in predominantly white neighborhoods are the norm, we're normalizing whiteness. And if we look at the historical perspective, white values are the ones that are considerably over-valuated.

And even if we take the 2008 financial crisis into consideration, more and more research has come out of that, that initially, of course, as we historically do in our community—or in our nation, we pointed to those who are most marginalized as the fault. But as we've looked at it, that's not where the fault was. And it was the over-valuation of white communities. and that is what we're particularly seeing in the pandemic, where the technology and AVMs and other models have skyrocketed. We've also seen this ballooning inequality, and most of it is because of the—

ASC MEMBER ROHIT CHOPRA (CFPB): Over-valuation.

DR. JUNIA HOWELL (UIC): —over-valuation of white communities. And so if we keep saying that it's bias, we're assuming that our system is getting out of neutrality, and it's not.

ASC MEMBER ROHIT CHOPRA (CFPB): Yes.

DR. JUNIA HOWELL (UIC): So until we redefine what an accurate evaluation would be and we take that away from a racialized historical system, we're not going to have a conversation about accuracy.

ASC MEMBER ROHIT CHOPRA (CFPB): Yeah. And I think it's also very hard to just snap a finger and make something neutral. You know, there's so much that is baked into the system, and I raise it mostly because I don't think there's any one thing that's really going to change this. There's a lot of solutions, but I think part of the reason for having this hearing too is also to underscore what is the regulatory structure that we have. What is the system?

And so I want to ask a little bit about—it's been mentioned in some of the testimonies, it's been mentioned here today, the Appraisal Foundation. So let me ask Mr. Steinley, is the Appraisal Foundation something that appraisers and individual appraisers closely follow?

CRAIG STEINLEY (AI): Director Chopra, thank you for hosting in your beautiful building today.

The Appraisal Foundation is followed by appraisers because they control the qualifications and the standards, the ethical standards that appraisers must comport to. So there's a lot of interaction between appraisers and the foundation.

ASC MEMBER ROHIT CHOPRA (CFPB): And the foundation—essentially those standards are not recommendations. They're requirements, and they might set a floor for how rules get implemented across the country. Is that fair?

CRAIG STEINLEY (AI): That's exactly right. The foundation implements the minimums both in the qualifications and the standards, and it's up to the states then to enforce those. Some states go a little higher than the minimums.

ASC MEMBER ROHIT CHOPRA (CFPB): Yep.

CRAIG STEINLEY (AI): But it is the states that do that.

ASC MEMBER ROHIT CHOPRA (CFPB): And do individual appraisers—do they pay fees to the Appraisal Foundation?

CRAIG STEINLEY (AI): They do not. The foundation is not a membership organization of individuals. It's a membership organization of other organizations. We do buy the standards materials from the foundation. So appraisers—

ASC MEMBER ROHIT CHOPRA (CFPB): When you say "we," meaning appraisers?

CRAIG STEINLEY (AI): Appraisers.

ASC MEMBER ROHIT CHOPRA (CFPB): Okay. So appraisers pay fees for those standards, those rules. And let me ask you this. In your testimony, it says that you think the Appraisal Subcommittee should in its oversight role encourage the Appraisal Foundation to do certain things. So is it your view that the regulators here cannot require the foundation to do that? Is that your understanding of the law?

CRAIG STEINLEY (AI): Yeah. I'm not an attorney. I don't know what oversight ability you have. I do know that Director Park often is quoted as saying that he has the ability to monitor what the foundation is doing, but that's where the authority stops at this point, to monitor.

ASC MEMBER ROHIT CHOPRA (CFPB): Right. So the sense is that the foundation has all the kind of rule-writing responsibilities. Those are requirements that go through the entire system.

And I ask about appraisers and the fees. Obviously, we've heard a lot directly from appraisers as well. I wanted to ask—you mentioned—you said it's a membership organization. Does the Appraisal Institute pay the Appraisal Foundation for anything? Sponsorships?

CRAIG STEINLEY (AI): We do. We pay for the right to reproduce the standards, the ethical standards which we provide to our members. I don't have the financial details on that, but we do pay for that.

ASC MEMBER ROHIT CHOPRA (CFPB): And does the Appraisal Institute have any sort of role in the governance of the organization, any role on boards or councils?

CRAIG STEINLEY (AI): Yes, Director Chopra. The Appraisal Institute is a sponsor of the Appraisal Foundation, one of the original sponsors, and as a result of that, we do have a representative on their board of trustees that is selected by the Appraisal Institute or provided by—

ASC MEMBER ROHIT CHOPRA (CFPB): So I understand it, the Appraisal Institute pays the Appraisal Foundation sponsorship and has some sort of board seat. Does the Appraisal Foundation give any funds to the Appraisal Institute?

CRAIG STEINLEY (AI): Well, the Appraisal Foundation with its Pathways to Success grant recently incentivized providers to bring PAREA to the market sooner to open the doors to the appraisal profession.

ASC MEMBER ROHIT CHOPRA (CFPB): So they gave you funds for that purpose?

CRAIG STEINLEY (AI): We were the grant winner in that process of half a million dollars.

ASC MEMBER ROHIT CHOPRA (CFPB): Okay. So just again, appraisers pay the Appraisal Foundation. The Appraisal Institute, which represents appraisers, pays the Appraisal Foundation. We actually have heard complaints from appraisers about some of the fees that they have to pay. I think you're also saying—and I realize you're not a lawyer—that your testimony suggests we have limited abilities. We can recommend things to the Appraisal

Foundation.

I guess I just want to ask others on the panel: Does this arrangement seem weird?

TENISHA TATE-AUSTIN (Homeowner): Yes.

PAUL AUSTIN (Homeowner): Yeah.

DR. JUNIA HOWELL (UIC): I mean, by the definition of being abnormal, as Director Park himself said at the beginning, there is not really a single other regulatory structure like this in the country and maybe even in the world. So by the pure definition of the word "weird," yes.

If you're also insinuating is there a moral problem to it, I would suggest that, yes, there needs to be a different structure that possibly increases some of the accountability. And I know that the National Fair Housing Alliance in their report that was mentioned earlier has looked at this more extensively.

ASC MEMBER ROHIT CHOPRA (CFPB): Mr. Fratantoni?

MICHAEL FRATANTONI (MBA): Yeah. Director Chopra, as I mentioned in my testimony, MBA would support reforms which would lead to more independent oversight of appraisers. So I think that gets to your question.

ASC MEMBER ROHIT CHOPRA (CFPB): Yeah. And I guess I raise it because I think not many people really understand how this Byzantine system works, and I think it is something we really need to think about, about whether it's appropriate for this type of fee structure and for there to be payments, including related to governance. I think that raises just a lot of questions for the subcommittee, I think for the regulators, and potentially for future hearings.

ASC CHAIR ZIXTA MARTINEZ (CFPB): Thank you. And at this point, I'm going to close our hearing, and on behalf of the ASC board, I want to thank ASC staff, ASC member agency staff who helped plan and facilitate the hearing. A special thank-you to Secretary Fudge, all of the ASC representatives here today, and the outstanding witnesses.

As a reminder, we will be accepting comments from the public on the topics discussed today until February 8th, 2023. You can submit a complaint or a comment by emailing AppraisalBiasHearing at ASC.gov. You can find a recording of today's hearing at ConsumerFinance.gov/events.

That concludes today's hearing. Thanks to everyone who came to the CFPB's headquarters or tuned in via live stream. Have a great afternoon.

[End of recorded session.]