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

Opening Remarks:
**JULIA GORDON**, Assistant Secretary for Housing and Federal Housing Commissioner,
U.S. Department of Housing and Urban Development (HUD)

Panel Witnesses:
**SHARON WHITAKER,** Vice President, Commercial Real Estate and Mortgage Finance,
American Bankers Association (ABA)
**DEAN KELKER**, Member, Board of Directors, Real Estate Valuation Advocacy Association (REVAA)
**DANNY WILEY,** Senior Director, Collateral Risk Policy, Freddie Mac
**LYLE RADKE**, Senior Director, Collateral Policy, Fannie Mae
**ROBINSON WILSON,** Appraiser, President, National Society of Real Estate Appraisers (NSREA)

ASC Agency Member Representatives:
**JULIA GORDON**, Assistant Secretary for Housing and the Federal Housing Commissioner, HUD
**ROHIT CHOPRA,** Director, Consumer Financial Protection Bureau (CFPB)
**JAMES WYLIE**, Associate Director, Fair Lending, Federal Housing Finance Agency (FHFA)
**LUKE BROWN,** Vice Chair, ASC, and Associate Director, Supervisory Policy Branch, Division of Depositor and Consumer Protection, Federal Deposit Insurance Corporation (FDIC)
**SUZANNE WILLIAMS**, Deputy Associate Director, Division of the Supervision and Regulation, Board of Governors, Federal Reserve System (FRS)
**JEANMARIE MATTINGLY**, Deputy Director, Office of Credit Union Resources and Expansion, National Credit Union Administration (NCUA)
**ENICE THOMAS,** Deputy Comptroller for Credit Risk, Office of the Comptroller of the Currency (OCC)

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

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10 a.m. to 1 p.m. EST

HUD Headquarters in Washington, D.C.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Good morning. Thank you for joining the Appraisal Subcommittee's third hearing on appraisal bias in the residential real estate market. Today's hearing is being hosted by the U.S. Department of Housing and Urban Development, or HUD, at their headquarters in Washington, D.C., and it's being live-streamed via webcast.

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

Today's hearing will build on information the ASC gathered at two previous hearings held earlier this year. Our hearing today will focus on how a residential appraisal is developed and reviewed, the process for reconsideration of value, or ROV, and the development of rural appraisals, including Tribal lands. We will hold one additional hearing related to appraisal bias on February 13, 2024. Please anticipate additional information.

As with previous hearings, the ASC is accepting written comments from the public about the topics discussed today through November 15. You can submit a comment by emailing ASChearing@ASC.gov.

Here's what you can expect at today's hearing. Julia Gordon, HUD's representative on the ASC board, will provide opening remarks. Following her remarks, we will hear from a panel of five witnesses. After opening statements from our witnesses, representatives of each of the seven ASC member agency representatives will pose questions to our witnesses.

Now to kick off today's hearing, we are very pleased to have Julia Gordon, Assistant Secretary for Housing and Federal Housing Commissioner at HUD. She's responsible for the Federal Housing Administration's single-family, multifamily, and health care mortgage insurance programs, and for HUD's multifamily-assisted housing portfolio, the administration of HUD's housing counseling program, and the development and oversight of Federal standards for the design and construction of manufactured homes.

Prior to joining HUD, Assistant Secretary Gordon was most recently the president of the National Community Stabilization Trust, where she launched multiple new initiatives supporting neighborhood stabilization and affordable housing. From 2012 through 2015, Assistant Secretary Gordon was a senior leader at the Center for American Progress, where she worked to address access to affordable homeownership and rental housing and safe financial products and services.

I'm very pleased to invite Assistant Secretary Gordon to the podium.

[Applause.]

**ASC MEMBER JULIA GORDON (HUD):** Thank you so much, Zixta, and good morning, everybody. Thank you to those of you who are here with us in person and to anybody who is watching from afar. We deeply appreciate your interest in this topic.

And as you know, we're here to talk about appraisals. They're a technical part of the housing finance system that helps us appropriately assess collateral risk in mortgage transactions, and if there were nothing else there, for that reason alone, it would be critical that appraisals be accurate and unbiased.

But we all know that appraisals play more than just a technical role. They're essentially the financial expression of how we value any given property in any given neighborhood, and for way too long, the numbers in the appraisals told a story that most people would never actually say using words, which is that often we value Black and brown neighborhoods less than we value white ones.

Valuing communities differently based on race has been part of the housing finance system for a long time, and that's why modernizing our appraisal system and flushing out the systemic bias is critical to addressing our nation's growing racial wealth gap.

All of the Federal agencies here today play a key role in shaping the appraisal system, and all of them—and I believe all of our panelists as well—share a strong desire to improve it. As regulators of financial institutions or participants in the mortgage market, we want to make sure collateral is accurately valued. And as advocates for homeowners, we want to give them the confidence that the housing finance system can operate free of racial bias.

So for all of these reasons, HUD is so excited to host this third hearing of the FFIEC's Appraisal Subcommittee here in the historic Weaver Building. That's the building you just came into, which is celebrating its 55th anniversary today. Now, had you been here last week for the actual party, you would have heard a full marching band booming down the halls. Probably good they're gone at this point. The building is named after Robert Weaver, the first Black HUD Secretary, and over a half century later, this building still serves as an emblem of promise. And it's filled with people who work diligently every day to make people's lives better.

So with respect to the appraisal issue specifically, HUD is honored to lead the interagency task force on property appraisal and valuation equity, better known as PAVE, because appraisals, of course, are critical to HUD's work. They underpin both the FHA mortgage insurance program and Ginnie Mae securitization, and of course, they matter deeply for our fair housing enforcement efforts, for our housing council, for our counseling programs, and for all of our efforts to ensure fair and equitable treatment in the housing market.

So over the past few years, HUD along with its fellow agencies has worked hard to build a better system and root out systemic bias. We've reached a historic agreement to share appraisal data with federal partners and with the public, enabling appraisers, consumers, researchers, anyone who wants to investigate trends in appraisals in their area and nationwide and help the industry to improve quality and compliance.

We are also working with FHFA and Fannie Mae and Freddie Mac to develop consistent standards across the market for reconsideration of value processes, so that borrowers who suspect that they may have experienced appraisal bias know exactly what their options are and who to talk to about it.

I am personally very honored to have had the opportunity to participate in both the first two hearings and this hearing. These hearings have provided an incredible learning opportunity for all of us, enabling us to hear from appraisers, homeowner advocates, regulators, folks from trade associations, and many others with expertise in the system. And I'm really looking forward to today's hearing. What I'm hoping is that today's testimony and discussion will further our thoughts and insights to help us modernize our appraisal system, to help ensure that the housing finance system rests on accurate and unbiased data, and to advance fairness and equity in our nation's housing markets. Thank you so much.

[Applause.]

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you, Assistant Secretary Gordon.

I will now introduce our witnesses. Joining us today are Sharon Whitaker, Vice President for Commercial Real Estate and Mortgage Finance at the American Bankers Association; Dean Kelker, Member of the Board of Directors for the Real Estate Valuation Advocacy Association; Danny Wiley, Senior Director of Collateral Risk Policy with Freddie Mac; Lyle Radke, Senior Director of Collateral Policy with Fannie Mae; and Robinson Wilson, an appraiser who is president of the National Society of Real Estate Appraisers.

Thank you for being here today. Each of you will have approximately five minutes to provide your statements, and we will begin with Ms. Whitaker. Ms. Whitaker, the floor is yours.

**SHARON WHITAKER (ABA):** Thank you so much, and good morning, everyone. Thank you for those opening comments. They show true leadership, and we really do appreciate it.

I'm really happy to be sitting here for the opportunity to speak to each of you on behalf of ABA and our members on the important topic of how lenders use appraisals. Banks are committed to fairly serving individuals, families, businesses, and their communities, and oppose discrimination in any aspect of the lending process, including appraisals. ABA members have been discussing features of bank policies and procedures that promote the accuracy of an appraisal and support the ability of all residential borrowers to request a reconsideration of value.

ABA has an appraisal working group for bank members, which meets monthly to discuss appraisal-related topics, and these include peer discussions on how to identify and address appraisal bias. At these meetings, members also share how they implement the processes that include communication to borrowers about the ROV process.

Most of all—most—excuse me—if not all, banks have preestablished complaint monitoring systems with formal procedures for receiving informal and formal consumer complaints. Members report that complaints that include any allegation of appraisal bias are identified and escalated within the complaint monitoring process. So these complaints can be addressed by bank staff with appropriate training, and so the complaints are clearly logged, tracked, and responded to. This escalation process promotes consistent processes, and it's available for bank regulators to review.

In 2022, a year before the agency's proposed guidance on ROVs, with member input, ABA developed and published a staff analysis to help members identify and mitigate fair lending risk in the appraisal process. The staff analysis outlines possible approaches banks can consider when updating appraisal policies, procedures that help identify and address possible bias within the appraisal process.

Our members also report and appreciate the 2023 interagency proposed guidance on reconsiderations of value that includes useful examples that lenders can consider as they develop their policies. Banks are actively trying to ensure that evidence of appraisal bias is detected in the appraisal review. Many banks have instituted searches for problematic words and phrases in the appraisal report, and we recommend that the 13 Federal agencies on the PAVE task force, as well as Fannie Mae and Freddie Mac, jointly design an online tool that consolidates words and phrases that may indicate bias. This would be a useful tool for all lenders originating mortgage loans, along with identifying potentially biased statements in the appraisal report. Banks are exploring methods to identify factors that should trigger a second review based on low appraisal value. However, the success of these efforts is unclear to date.

ABA believes that appraisers and their state regulators are in the best position to limit bias. Under the current system for regulating appraisers and appraisals, state licensing bodies are the principal entities responsible for protecting against appraisal bias by requiring fair lending training, investigating appraisers accused of bias, and taking the opportunity and disciplinary actions when warranted. Banks are not well positioned to detect bias, except in cases where an appraiser includes biased remarks in an appraisal's narrative section. As noted above, banks are committed to fairness and equal treatment of consumers, and they are interested in exploring workable means to identify potential bias. These efforts, however, do not mean that it's appropriate to impose legal responsibility for hidden bias on banks.

ABA believes that the sales comparison approach reflects market value in transactions involving residential real estate. Using the sales comparison approach to determine current market value appropriately supports the proper capital allowances used in calculating future expected losses in the portfolio. We caution that a change to the standard and appraisal methodology for residential properties would increase risk and could impact safety and soundness standards of future capital requirements for loans. There is a potential for systemic risk if there is pressure to inflate the value of real estate appraisals.

And with 13 seconds, I thank you for the opportunity to speak.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you for your testimony this morning. Next is Mr. Kelker.

**DEAN KELKER (REVAA):** Good morning. Thank you for the privilege of sharing the perspective of appraisal management companies with you today. My name is Dean Kelker. I'm Senior Vice President and Chief Risk Officer at Single Source Property Solutions. I'm here today representing the Real Estate Valuation Advocacy Association, known as REVAA.

REVAA is a collaborative of AMCs offering residential appraisal and valuation services to national, regional, and local lenders. AMCs are regulated in every state except Hawaii and the U.S. territories in accordance with Federal and state legal and regulatory requirements.

AMCs are third-party agents typically working with mortgage lenders and servicers to facilitate the residential appraisal process in accordance with federal appraisal independence requirements. As business entities, AMCs must comply with applicable Federal and state fair housing, antidiscrimination, and consumer protection laws in their hiring operations and all internal and external business practices. As a third-party service provider to lenders, our clients direct the work of AMCs based on contractual guidelines.

In addition, AMCs must also comply with the same state and federal fair housing, antidiscrimination, and consumer protection requirements when managing an assignment on behalf of their lender clients.

AMCs are an important partner allowing for banks, non-banks, and credit unions of all sizes to be scalable, compliant, and competitive in the marketplace for mortgages, refinancings, and home equity lines of credit. The mortgage industry has come far since the Dodd-Frank Act was enacted. REVAA believes that the systems and structures that have been put in place across the country have made a positive impact in helping to protect the safety and soundness of the financial system.

Despite progress in some areas, the interagency task force on Property Appraisal and Valuation Equity, PAVE, identified troubling concerns regarding appraisal bias, discrimination, and a lack of diversity in the appraisal industry. REVAA and its member companies unequivocally condemn individuals who are biased or discriminate in the appraisal process. We have actively participated in the work of the PAVE task force, the Appraisal Subcommittee, Federal and state regulators, and many others in our industry in the examination of these issues, the identification of solutions, and the implementation of the PAVE task force recommendations.

AMCs have taken a hard look inward to examine their policies and procedures, and they have worked with their lender clients to comply with state and Federal requirements. The industry and other stakeholders continue to engage in constructive dialogue about the future that include preventing and eliminating appraisal bias, removing obstacles to increase appraiser diversity and recruitment, appraiser training, reconsideration of value, modernization, and the adoption of new technologies, and the sharing of important residential appraisal data.

REVAA commends the tremendous efforts underway by our entire industry to implement the many public policy recommendations of the PAVE task force. While progress has been made, our work focus as an industry has only just begun, and the final results of our work have not yet been achieved. REVAA members are committed to keeping a sense of urgency high and to continue to forge ahead together to ensure a credible, unbiased, and diverse appraisal industry.

Thank you for the opportunity to briefly share our perspective. I'm happy to answer any questions.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you for your testimony this morning. Mr. Radke, you are next.

**LYLE RADKE (Fannie Mae):** Members of the Appraisal Subcommittee, thank you for the opportunity to speak today on behalf of Fannie Mae about our real estate appraisal policies and how we address appraisal bias.

Fannie Mae's mission is to facilitate equitable and sustainable access to homeownership and to quality, affordable rental housing. Because our position is in the secondary market, our influence over the appraisal process is indirect. We set appraisal standards that approved lenders must follow for their loans to be eligible for purchase by Fannie Mae. We believe every borrower has the right to an unbiased appraisal. We are deeply troubled by cases of appraisal bias, and we've acted aggressively to combat it.

In 2020, we launched a six-pillar plan to proactively address appraisal bias. Our six pillars are research, monitoring and quality control, the appraiser diversity initiative, also known as ADI, industry engagement or education, appraisal process innovation, and technology enhancement. My comments today are focused on two particular pillars, the technology and the quality control, but be assured, we're working diligently in all six areas.

Our plan builds on actions we've taken since the 2008 housing crisis to improve how we monitor compliance with our appraisal policies. The first step in this journey was the creation of the Uniform Appraisal Dataset, or UAD, in 2010. It was a collaborative effort by Fannie Mae, Freddie Mac, and FHFA, the Federal Housing Finance Authority. It has enabled us to receive appraisal reports in machine-readable format since 2011.

With digitized appraisals, our next step was to create an appraisal quality control platform called Collateral Underwriter, or CU, for our quality control team. Beginning in 2015, we made CU available to lenders so they would also have access to the same information and analytics as our appraisal team that we use in our appraisal QC process. We continue to develop CU with new data and technologies, such as geographic information systems, image recognition, and machine learning techniques. In 2022, we added an undervaluation risk flag in CU for easy identification of appraisals with elevated risk of undervaluation.

Technology will play an increasing role in the future of appraising. Recently, we've seen the emergence of intuitive mobile apps that use smartphone capabilities like geolocation, digital photography, and lidar to automatically measure the square footage of homes and to objectively describe them. Such technologies reduce the chances of human error and remove bias from the process.

Earlier this year, together with Freddie Mac and FHFA, we published an updated UAD specification. It's designed to reduce the potential for appraisal bias by requiring appraisers to use standardized enumerated data elements in place of the many free-form narrative comments that are common in today's appraisal reports. Having better appraisal data in the future will fuel a virtuous cycle, enabling us to further improve risk management processes that rely on digital appraisal data.

In 2021, we introduced a groundbreaking appraisal text scanning review process. With it, we scanned the commentary sections of millions of appraisal reports for prohibited and subjective terms, including references to race, ethnicity, or religion. We then sent letters to every appraiser that we found who had multiple findings, multiple occurrences, reminding them that such language may be evidence of a nonobjective evaluation process or of discriminatory bias. We repeated this text scanning process again in 2022, and the results were encouraging. 78.6 percent of the appraisers who had received a letter in 2021 had no new text findings in 2022 or after they received their letter. The total number of appraisers with findings declined from 3,193 to 1,557, so about cut it in half, and the overall rate of appraisal reports with findings decreased from 0.15 percent to 0.11 percent.

We continue to enhance the technology that supports this appraisal text scanning review process, so we're hoping to get better and more accurate in the future. This is another illustration of how technology has the potential to improve valuation accuracy, reduce discretion in the valuation process, prevent human error, and better detect misvaluation. Appraisals are an essential part of Fannie Mae's business model and necessary to successfully execute our mission. Our commitment to fighting against appraisal bias is aligned with the interests of borrowers. We both benefit from accurate, transparent, reproducible appraisals.

Thank you again for the opportunity to testify, and I look forward to answering any questions you might have.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you. Mr. Wiley?

**DANNY WILEY (Freddie Mac):** Thank you. I appreciate the opportunity to be here today. I'm Danny Wiley. I'm a Senior Director in Collateral Risk Policy at Freddie Mac. I'm also a state-certified residential real estate appraiser with over 40 years of experience, including 25 years out in the field doing what appraisers do every day.

Freddie Mac has been asked to address four topics today, first being our role and responsibility in addressing appraisal bias. Congress created Freddie Mac to support the housing finance system by purchasing and guaranteeing home mortgages in the secondary market, and consistent with that secondary market role, we set requirements for the mortgages that we purchase from lenders, and those requirements include things related to appraisals and appraisal reports. In our selling guide, we specifically identify unacceptable appraisal practices for mortgages sold to us. These unacceptable practices include considering race, color, religion, sexual orientation and other similar characteristics of occupants, using terminology that can indicate underlying bias about the racial or ethnic composition of the neighborhood, or considering the age or location of a dwelling or the surrounding neighborhood in a manner that has a discriminatory effect.

Lenders represent and warrant to us that the appraisals they submit in support of their loans are fully compliant with these requirements. Evidence of unacceptable practices in an appraisal would be considered a breach of these representations and warranties, and in such cases, lenders are subject to mortgage repurchase or other remedies.

But beyond setting our own appraisal requirements, we work together with other industry stakeholders to promote appraisal quality. We're leading a work stream right now with OCC

Project REACh regarding reconsideration of value. We also provide input to The Appraisal Foundation's Appraisal Standards Board and Appraiser Qualifications Board to establish and improve standard practices, qualifications, and education requirements. And along with Fannie Mae, we work with the Appraisal Institute in the Appraiser Diversity Initiative.

The second issue we're asked to address is how our tools can help identify deficiencies and/or a pattern of bias. Freddie Mac's Loan Collateral Advisor is our automated tool that assesses appraisal reports to identify quality trends and issues. We recently enhanced it to better detect undervaluation, and we've also added, like Fannie Mae, text detection capabilities to identify potentially discriminatory language in appraisal reports. This information is fed back to the lenders who submit the reports to us, and they, in turn, feed it to the appraisers, creating a feedback loop that helps the appraisers improve their work.

We also have an Appraiser Quality Monitoring, or AQM, framework with a dedicated team to identify, assess, monitor, and mitigate risks that we see in appraisal reports, such as potential undervaluation of a property. We leverage the results from our automated review tool to identify trends related to quality and fairness concerns. We use that in our AQM process and in our general messaging.

The third issue we were asked to address is the results of our appraisal gap research. In 2018, we began examining data on home purchase transactions and compared the results of the appraisal to the contracted sales price. In 2021, we published a research paper in which we found a higher percentage of appraised values in Black and Latino census tracts were lower than the sales prices when compared to white census tracts. In 2022, we published a follow-up research note that used a modeling approach. Our results indicated that even after controlling for important factors that affect home values and appraisal practices, the outcomes still differed. Our ongoing research contributes to a national conversation about the cause and frequency of this noted appraisal gap. In the meantime, we use our AQM framework to help address potential bias, and we are developing alternative valuations methods that are less dependent on individual judgments.

Lastly, we were asked to address the goals of the Uniform Appraisal Dataset Redesign Project that Mr. Radke just mentioned. We have worked together with our friends at Fannie Mae, and we have announced an updated Uniform Appraisal Dataset. When fully implemented, this dataset will bring more transparency to appraisal reports for all property types. This increased objectivity and transparency will help facilitate better analysis of reports and improve our overall risk management capability.

Freddie Mac is committed to working with the appraisal industry, lenders, and other stakeholders to help improve the appraisal process and ensure that it's fundamentally fair for all borrowers. I look forward to your questions.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you, Mr. Wiley. Mr. Wilson, you have the floor.

**ROBINSON WILSON (NSREA):** Distinguished members of the Appraisal Subcommittee, thank you all for the invitation to testify here today at the Appraisal Subcommittee third public hearing on appraisal bias. It is my hope that my testimony will assist the Appraisal Subcommittee to better understand the challenges and complexities involved in the development and reporting of appraisals that are credible, accurate, and unbiased. I'm here today as a witness acting as an appraiser on the testimony. Consequently, my opinions and conclusions are subject to laws and regulation.

My name is Robinson Wilson. I'm the Chief Appraiser Risk Compliance Partner for RSDS LLC. RSDS covers real estate markets in more than 25 states and in over 45 metropolitan areas in the United States. RSDS was created to help solve a 30-plus-year problem in appraisal profession barrier to entry. The current system has created a labor shortage, lacks diversity and inclusion. The industry is trying to solve the problem with technology, appraiser waivers, bifurcated product. The RSDS solution is to aggressively hire and train the next generation of appraisers.

Also, I'm the current president of National Society of Real Estate Appraisers, NSREA. NSREA is the nation's largest and oldest professional association of Black real estate appraisers organized in the state of California in 1956 to meet the needs of African American appraisers who had appraisal businesses and resided mostly in the cities.

As an educator, I have taught in several states across the country: Texas, Oklahoma, Arkansas, Tennessee, Utah, Indiana, Louisiana, Georgia, New Jersey, and Florida. I still teach and now as a faculty adjunct at Dallas College.

I intend at this hearing to give my insight when addressing your questions or concern on standard of appraisal, rules of practice, and the appraisal process. This is important as the Appraisal Subcommittee explores the challenges faced by appraisers. Given the limitation of time for open statement, before I conclude, let me say for the record that I have submitted a written testimony about eight pages that provide my perspective on four issues: issue number one, barriers to entry that new appraisers and particularly women and people of color face; issue number two, reconsideration of value; issue number three, how client conditions that are specific to a given lender may or may not have appraisal bias implications; issue number four, some of the challenges appraisers face in the appraisal of rural properties.

In conclusion, on behalf of the appraisers, I thank the Appraisal Subcommittee for this opportunity to testify before it, for its leadership on this topic of appraisal bias, and I hope there will be significant or critical appraisal reform coming out of these hearings that dismantle longstanding barriers to equity, build diversity and competent appraisers that ensure public trust in the financial system. Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Thank you, Mr. Wilson, and indeed, thank you to all the panelists who are here with us this morning.

It's now my pleasure to introduce the ASC member agency representatives. They are Julia

Gordon, who we heard from earlier, the Assistant Secretary for Housing and the Federal Housing Administration Commissioner at HUD; Rohit Chopra, Director of the Consumer Financial Protection Bureau; James Wylie, Associate Director for Fair Lending of the Federal Housing Finance Agency; Luke Brown, Associate Director for the Supervisory Policy Branch, Division of Depositor and Consumer Protection at the Federal Deposit Insurance Corporation and Vice Chairperson of the ASC; Suzanne Williams, Deputy Associate Director, Division of the Supervision and Regulation at the Board of Governors of the Federal Reserve System; JeanMarie Mattingly, Deputy Director, Office of Credit Union Resources and Expansion at the National Credit Union Administration; and Enice Thomas, Deputy Comptroller for Credit Risk at the Office of the Comptroller of the Currency.

Each of the ASC representatives will have 10 minutes to ask questions of the witnesses. Then we will take a 10-minute break, and the representatives will have 8 minutes to ask questions during a second round. And we'll get started with Assistant Secretary Gordon. Assistant Gordon, the floor is yours.

**ASC MEMBER JULIA GORDON (HUD):** Thank you so much, Zixta, and I want to thank all the witnesses for being here. I was, in particular, impressed by the quality of the written testimony that came in today, some of which was some of the most thorough and complete that I had seen during this process, and as someone who has written a lot of testimony myself, I really appreciate that.

I'm going to jump right in, because I already said my throat-clearing stuff earlier, to a topic that I think about a lot and that we at HUD have a strong interest in, which is the difficulty of getting competent appraisals in rural and in particular in Tribal areas.

We've heard a number of suggestions. We read a lot in the testimony about this question. We've heard using the cost approach rather than the sales approach in situations where there are insufficient comps, and we've heard about hybrid approaches using technology where maybe you would have real-time video inspections while someone else is working with an appraiser who's not on-site. Lots of technology things going on. I know that Fannie Mae particularly talked a lot about technology in their testimony.

So I would just be interested in hearing from—I probably can't get through all of you in the remaining eight minutes, but I want to start with Fannie and then Freddie to talk about how you think we can best address what is a very, very serious problem in these areas. Thank you.

**LYLE RADKE (Fannie Mae):** Thanks, Julia. I think there's two important things to think about in terms of appraising in Native American areas, and the first is a fundamental appraisal problem, which is the bundle of rights. An appraisal is not just as simple as "Hey, here's a house. How much is it worth?" There's a bundle of rights that goes with that house. An example of how that works for our audience is my own house. I live in a homeowner's association, and they have restrictive covenants that tell me certain things about how I have to maintain and colors and such, and that kind of thing restricts my ability to use my property how I want to. So that's a restriction on the total bundle of rights.

When you're talking about Native American trust lands, there are some really unique aspects to that bundle of rights associated with that property, and so in order to value it, you have to find information that represents—as an appraiser, information that represents how the marketplace reacts to that bundle of rights. That's just the beginning, though. There's a whole bunch of other challenges downstream from that in terms of can you even find market data, because transactions on Tribal lands don't necessarily work the same as in, let's say, a metropolitan area where you have an MLS and kind of a free flow of participants and information. So those things are really challenging for appraisers.

What we've done at Fannie Mae is we have a special program where we will allow a cost approach appraisal. So that eliminates the need for an appraiser to identify comparables. It doesn't necessarily solve all the problems, though. The appraiser has to make assumptions about land value or not and about depreciation that they would normally extract from the marketplace and they're probably not able to do so in some of these scenarios. So that's a challenge in terms of identifying the right value.

But I will say this. Your challenge is a little bigger than ours because you have a lot more loan activity on Tribal lands, and our footprint in terms of loans is very small. So we don't really see the appraisal as being a barrier. There's really something else happening in terms of credit and eligibility before we ever get to the appraisal process for the GSE or Fannie Mae perspective.

**ASC MEMBER JULIA GORDON (HUD):** Thanks. Mr. Wiley?

**DANNY WILEY (Freddie Mac):** Thank you. Excellent question. I think it's a really important and very difficult area.

To get to the point, because I know you want to hear from the others, I'd say two things I would highlight from a Freddie Mac perspective is we recognize the challenge of rural, and that's why each year we host a rural housing symposium here in D.C. where we discuss and try to address and see what progress we can make in that area.

With regard to Native American lands, I'm happy to say that we recently partnered with our friends at the Appraisal Institute, and we will be soon—as I understand it, very soon—releasing a new appraisal course to provide the appraisers better education on how to conduct appraisals on such properties. And it goes into great detail on all the complications that Mr. Radke touched on with regard to the way the land is handled in those reservation lands. I think that will be a benefit both to lenders and appraisers because it can help produce a higher number of appraisers who know how to do it, and that will facilitate the lenders trying to pursue those kinds of loans.

**ASC MEMBER JULIA GORDON (HUD):** Thank you so much. I am going to open it up to any of the other witnesses, if you have things to add, particularly about Tribal lands or about rural issues generally. Mr. Kelker?

**DEAN KELKER (REVAA):** Yes. I can speak to the issue of rural appraisals. One of the issues that the industry has struggled with is just the diminishing number of appraisers in general throughout the entire country. I think out in the rural areas where the coverage was thinner to start with, that's been felt probably harder than it was in the metropolitan areas. I know the industry—our industry—has worked very hard to recruit people and encourage, in some cases, for people to move into rural areas to work simply because, particularly in the current environment where there is very little work available, that's a good area to have an opportunity to increase your individual businesses.

With respect to Tribal lands, very few of our clients really have come to us asking for services in those areas, and because of many of the issues that Lyle and Danny mentioned, we haven't had much demand and therefore very little experience.

**ASC MEMBER JULIA GORDON (HUD):** Thank you. Anyone else?

**SHARON WHITAKER (ABA):** Thank you. I'll add that really so many of our membership is, you know, nationally diverse, and the rural area really is a significant challenge for our members to get appraisals and get an appraiser to take an assignment. And very often those appraisals take such an extraordinarily long amount of time to receive back, that, you know, it's frustrating, you know, trying to meet the needs of the community and get an appraiser to accept an assignment.

So, you know, being able to bring more appraisers in who will do the work, whether it's via hybrid where they may not have to drive across a very large state to try to get to the assignment, definitely is a struggle. Very few comps at times, you know, being able to expand and find a property that would meet it by all means. We really do need the diversity of a background, you know, and more appraisers in this area.

**ASC MEMBER JULIA GORDON (HUD):** And let me just follow up in the last minute remaining. Can someone—maybe Mr. Radke—talk a little bit more about hybrid appraisal technology?

**LYLE RADKE (Fannie Mae):** I think to define the hybrid, it's a type of appraisal where instead of sending the appraiser out to inspect the property personally, you would have somebody else go out to the house and inspect that property and then take that information or report, if you will, and give that to the appraiser. So this allows the appraiser to stay at home, work from their desk, and in a rural application, that can be really useful in expanding the capacity of appraisers. So if you have a limited number of appraisers working in a rural area, they may need to drive a lot. They may be covering a large area, and if you can eliminate all that drive time and all that field work for the appraiser, then they can take on more work and do more appraisals. So that's kind of the idea.

**ASC MEMBER JULIA GORDON (HUD):** And have you successfully used this approach in rural areas?

**LYLE RADKE (Fannie Mae):** Yes. The challenge that we're having is actually you kind of transfer the problem of how do you find an inspector, right? But the standards for an inspector are different, and so that it expands the pool of potential people to do that.

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

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** All right. Next we have Deputy Associate Director Williams. You have 10 minutes.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Good morning, everyone. Picking up on the prior comments and questions, senior leadership at the Federal Reserve has also heard in some recent meetings with Tribal groups that the availability of appraisers with expertise in appraising land in Native American Tribal communities is an issue that may drive up borrowing costs and extend closing times in the areas. In addition to some of the—in addition, we understand that less than 1 percent of property appraisers nationwide are Native American.

So we've heard about some possible solutions or improvements that could be made in this area. Some additional ideas that have been proposed or suggested include expanded waiver options for mortgage loans, leveraging Tribal colleges and universities in their coursework to expand in the appraisal industry. I believe REVAA in their testimony talked about the potential impact of PAREA and the availability of appraisers and also any changes or enhancements to the HUD 184 loan program that, as you know, is designed to facilitate homeownership in Native communities. And finally, another, I guess, challenge and also potential solution or improvement that has been brought to our attention is purchases in the secondary market.

So if you could all, from your own perspective, address the challenges, other things that we just talked about, for both appraisers and lenders, and then are they the same or different as issues or solutions as those facing rural areas more generally? So I guess we could just—I would like to hear from everyone, so maybe start with Sharon.

**SHARON WHITAKER (ABA):** Yeah. And I really appreciate you bringing this up, and I think that this is definitely a challenge.

I will tell you, unfortunately, I did not get feedback from my membership specifically on tribal lending and the challenges of appraisals. More of our working group apparently tends to be in rural areas, so I respectfully don't have a lot to add to that. My apologies.

**DEAN KELKER (REVAA):** To your point regarding the low number of people that are qualified to perform appraisals on Tribal land, I think lowering some of the barriers to entry in appraisals, such as PAREA, would certainly help.

Again, from our perspective, we have had, as an industry sector, very little demand from our clients to do that type of work. Should that demand start to increase, we would certainly support anything that would lower the barriers to entry into the business.

**LYLE RADKE (Fannie Mae):** The Department of Interior has a large panel of appraisers who are qualified to and experienced in appraising on Tribal lands, and we recently worked with them to promote an appraiser diversity initiative session specifically to Native American communities. For that session, it was a virtual session, so anybody in the country could sign up, and what we observed is a little over 10 percent of the registered participants were from Native ZIP codes or ZIP codes in Native communities. So we think the ADI is a really good opportunity where we can offer scholarships to aspiring appraisers in Native American communities.

There's lots of educational opportunities out there, a lot of things online that the aspiring appraisers can take. And several people mentioned PAREA is a great way for them to start to get some professional experience. So we're prepared to provide scholarship money to assist that, and we've been doing our best to reach that community through ADI.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Wasn't there something—I think it was in your testimony that you also talked about expanding sort of cross-cutting work with the Department of the Interior on certain appraisal in terms of their—like you said, that they have the group of appraisers within the agency?

**LYLE RADKE (Fannie Mae):** They do, and I can't speak for the agency, of course, but I think that there might be opportunities for them to—with their appraisers, to mentor or to supervise new Native American appraisers if we get candidates who are successful at getting through that initial process.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you.

**DANNY WILEY (Freddie Mac):** As I mentioned in my previous response, I think the biggest step we've taken is the development of a seven-hour seminar designed to address all the unique challenges presented by an appraisal on Native lands.

The appraisers on the panel would tell you we don't really appraise properties. We appraise the rights to properties, and the rights are very different on Native American lands, right? So that, of course, focuses on a refresher on the ideas of leasehold interest and split interest and all the other unique property interests that are unique in Tribal lands.

So it's our hope that by producing good quality education like that and partnering with an established—the Appraisal Institute is pretty much the clear leader in education—that we'll present that opportunity to have more good education out there.

There was the mention of using waivers and models, and I understand why that would be a thought. But the challenge there is that the waiver is based on a value algorithm as well, and it has the same challenges. Most of those are not designed to address leasehold properties, and they work best when there's a plethora of data. And so the properties on the Native American lands, they tend to have nonstandard property rights and a dearth of data.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you.

**ROBINSON WILSON (NSREA):** I don't have much to add to what has been discussed. Tribal land is very unique, as has been said, and it's something that somebody has to dedicate their time to doing. And as has been mentioned, it requires special education to enter into this area of appraisal because of the issue of sovereignty, trust issues, customary laws, et cetera.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you. So a follow-up question. In Fannie Mae's testimony, you mentioned a recent ADI outreach and a recent change in focus or additional focus on outreach on Tribal land, including a reference to one that I think just took place a week or so ago. Could you just talk about what the results of that—and if there's more similar outreach events planned?

**LYLE RADKE (Fannie Mae):** So I'll answer the first question—or the last question first. Yes, we're planning more outreach events. ADI has kind of a regular cadence. We attempt to do 10 to 12 events annually.

And to the first question, what we know is that 11 percent of the people who registered to participate in that were from ZIP codes in Native communities. We don't know for sure if any of them were struck by the bug and whether they're going to apply for scholarships or not. So we're still waiting to see. The scholarship application period is still open. So we're waiting to see what we get from that.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you. And then a final question. As I think is clear for this type of lending, often the cost approach is the only approach that there's data to support the valuation and the limits of the sales approach. So there was a reference to the cost approach only addendum to the URAR, and it's a question whether that addendum, the data from that addendum on the cost approach, was included in the recent data set that was made available publicly that has been referenced under the PAVE process.

**LYLE RADKE (Fannie Mae):** So the data disclosure was done by FHFA. I'm not quite sure what all was included. If I had to offer a guess, I'd say probably not. These appraisals don't really comply with the UAD, and so they can't really come into our normal portal, which is, I believe, the data that was being shared.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** All right. Next is Deputy Director Mattingly.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Good morning, and thank you again for your testimony, both written and oral.

As Julia said, your written testimony was very comprehensive and dealt into a lot of issues that we're looking at, as well as a lot of information about what has been done through work on the PAVE task force and other actions that have been taken as the industry as a whole is looking at the issues in appraisals.

So I'm going to take it in a little bit different direction and out of the rural and Tribal lands. Several of your testimonies, particularly Fannie and Freddie, indicated that you're doing a lot to monitor and assess appraisal reports that you're reviewing, that you're looking at gap analysis, that you're looking at language. Can you talk a little bit about what that monitoring and assessment is showing and what conclusions you're drawing from your analysis? And I'll open it up to either Mr. Wiley or Mr. Radke.

**DANNY WILEY (Freddie Mac):** Yes, we have a dedicated team that is focused entirely on appraisal quality monitoring. We have lots of work streams that are active with that group. We are carefully analyzing the results of our text detection. Currently, we see—as of the stats I looked at last week, at the current run rate, we see problematic words in about one-third of 1 percent of appraisal reports, words that come January 26, we will automatically reject. So, on the one hand, it's disappointing that we have that number at all. But on the other hand, that's pretty astounding that we're really not seeing issues with well over 98, 99 percent of the appraisal reports.

The other thing that we're doing that I would say is critical for us is we're following up on our research notes, and in our research notes, we identified the individual appraisers who had done enough work in both kinds of census tracts for us to derive mathematically meaningful results.

I will say—I think Sharon mentioned—it's tough for a lender. It's tough for anyone to look at a single appraisal report and determine—or to make a judgment of bias. We try to do it by looking at all the reports we have from an appraiser and comparing all of their work in one area with all of their work in other kinds of areas and doing that on a very math-based, data-based approach.

Currently, we're working in that process. We're doing it one appraiser at a time. It is intensive, as you might imagine, because we literally have to pull 30 or 40 appraisal reports in one kind of area versus another kind of area. We do mathematical analysis, and then we do individual deep dives. It takes us well over a week of work time to do one of these reviews. So we're early on in that process. We're not really prepared to share any results because they're too preliminary at this point, and we don't want any early trend to come out that might not be indicative of our final results. But the team is working diligently on that, and we're trying to get through every one of those appraisers where we have enough work to do the statistically relevant comparison.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you.

**LYLE RADKE (Fannie Mae):** So in relation to the text scanning exercise that I mentioned in my testimony, one thing that we've learned is that this is really hard to do, and there are a lot of false positives. So if you use just strictly text mining or automated approaches, you get a lot of false positives. I'll give you one example. Let's say you're looking for the word "Indian." Well, every appraisal in the state of Indiana has the word "Indian" in it, right? So you have to figure out a way to differentiate between usage that's appropriate versus usage that's not appropriate. And the human language is really a complex topic.

We're working with a team that has a whole language processing model, and we're trying to teach the computer how to differentiate between really discriminatory language versus appropriate language. So that's one of the things that we're working on.

Another thing that we are looking at, our initial rounds really focused on the words that are explicitly prohibited in the selling guide in our policy. But there are a lot of what you might call "proxy language" where people say things where they don't use necessarily a really explicit term, but they're kind of hinting at the same idea, right? And so teaching the machine to look for that is also very challenging, but we're trying to expand the list of things that we're watching for. So there's a lot of work going on in terms of training that model and using people to review the assessment or the results and give feedback, and we're making good progress. We like what we're accomplishing, but it's just really challenging, labor-intensive work.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you. The other area that really struck me is the work that's being done on hybrid methods or alternative methods for developing appraisal to take the bias out of it, using technology, you know, using some of the new tools and things that have come up because we are in the new digital age. And I'll open this up to anybody that's on the panel. Do we believe technology can replace the human element in developing appraisals, and is that going to be the answer to removing bias from the appraisals?

[Pause.]

[Laughter.]

**DEAN KELKER (REVAA)**: I'll start. I don't think technology can eliminate the human intervention in the process. I think what we are seeing currently today with the increase in technology and particularly the availability of data is that technology is a great assistance to the process. But because there are certain subjective elements to the valuation process, until we probably evolve to a much higher level of artificial intelligence, people will need to be involved. Just dealing with terminology, we can all do searches for objectionable words, but oftentimes it really depends on the context of how the word is used. "Homogeneous." When it's used in the context of the people in the neighborhood, it's a biased term. If it's used in the context of construction style, it's pretty harmless. So those types of judgments generally get down to a particular individual having to look and make a decision.

Again, the technology is making it easier to root out bias and get more balanced valuations, but we're not at the point of getting rid of the humans.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you.

**ROBINSON WILSON (NSREA):** I don't think technology solves the problem of bias at all, because technology itself is also developed by human beings. So I don't think technology is the answer at all. So that's the short answer, because if you look at AVM, which is automated valuation model, that some people want to defer to, bias can be also built into that as well in the data collected. So technology, I don't think is the answer.

I think proper training, sound judgment over time from experience is what will alleviate bias. Bias cannot be completely wiped out.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you.

**DANNY WILEY (Freddie Mac):** I like your answer, Dean.

I think we can use technology to really help us. I think we can add transparency to the current process. I don't think we would get to the point of totally eliminating the human appraiser, but there are definitely things we could do. We could require supporting data in our appraisal reports, which we don't today. But the new UAD, the Uniform Appraisal Dataset, is a step toward facilitating that in the future, and if we have—and we've done some experimenting with appraisals where we get the supporting data file transmitted to us, and it gives us tremendous insight then into the reasoning of that appraiser rather than just looking at the written result. So I think technology has a role to play, but that role is not the elimination of the human appraiser for all assignments.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Next, we have Associate Director Wylie.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you very much. Good morning, and I want to thank Secretary Fudge, Commissioner Gordon, and HUD for hosting today's important meeting. I'd also like to thank all of today's witnesses for being here.*

I'm particularly pleased that Fannie and Freddie, two of FHFA's regulated entities, have joined us this morning. Both enterprises have made great strides in addressing appraisal bias over the past few years, and we know that their work is only beginning.

We know the appraisal industry is one of the least diverse industries, and having a more diverse appraisal industry will help but is not enough on its own. At FHFA, we want all homeowners in all neighborhoods to have the confidence that they can rely on accurate, fair, data-driven appraisals, not valuation that's rooted in bias, inaccuracy, or misvaluation.

At FHFA, we continue to focus on addressing appraisal bias and enhancing broader appraisal policies to promote safety and soundness. Just a few weeks ago, we announced that we are releasing data at the appraisal level for the first time. The new UAD public use file contains appraisal-level records rather than aggregate statistics, which we began releasing a year ago. And I'm pleased to report, to the question earlier, cost approach data is included in that where it is available.

So this data, we believe, will allow stakeholders to continue to shine a light on this issue and help everyone get to root causes and solutions. We know that there are also other challenges facing consumers when it comes to property valuation, including appraisal availability and challenges in rural areas and in Tribal lands. It's important that we address these challenges as well. Accurate valuations and sound appraisal processes are not just fair lending issues. We view these as safety and soundness issues as well. They can either promote or impair public confidence in the housing finance system, so it's important that we all get them right.

This is very much a top priority for us here at FHFA, and we plan to continue our efforts to implement policies and support fair and accurate valuations for all.

I'd now like to turn to some questions, and I want to start on the topic of appraisal bias and responsibility. Ms. Whitaker, in your written testimony, you mentioned several things that the ABA had noted in its staff analysis recommending its members do to address this. One of the things you noted was using HMDA data to assess this issue. Now that FHFA has made more appraisal data public and banks, of course, have their own appraisal data that they can look at, would you recommend that your members use those resources as well in addition to HMDA?

**SHARON WHITAKER (ABA):** Thank you for that question. We've reached out to our members once that data came forward, and we have heard back from several of our members that, you know, as they begin to assess that data that just recently came out, I think that, you know, especially challenging perhaps for some of the smaller institutions to do it. So on the really compliance monitoring end for those smaller institutions that we heard feedback from, using the HMDA data to be able to look at any counteroffers or, you know, anything that's gone through that may have appraised short in that, you know, second line of—you know, that second line of defense post-closing, that that is proving to be something that can begin to be monitored and look at, you know, any patterns and so forth that come forward.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Mr. Kelker, what do you think AMCs can do in terms of data monitoring and monitoring for bias?

**DEAN KELKER (REVAA):** From the AMC perspective, as I previously mentioned, the greater availability of valuation data from various sources allows us to look at individual appraisal reports beyond just that report to see if it actually matches up with competing data in the same area.

One of the things that I would say most AMCs do, particularly with purchases, if the appraised value is coming in less than the contract price, it usually causes that appraisal to be further reviewed to make sure that it is an accurate representation of the property. Again, I think through the use of multiple data sources, we can cross-reference what we're seeing from the field.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Ms. Whitaker, I want to turn back to you. One of the things that you mentioned in your oral testimony—you know, you noted all the things that the ABA and banks are doing, but you noted you thought it was inappropriate to place liability for banks on sort of the appraisal bias issue. I wonder if we could drill down on that a little bit, and specifically, I'm thinking about the connection between appraisal bias and redlining. Banks and other lenders are, of course, sort of users of appraisals. That provides some input and influence into their transaction. Once the bank or the lender takes the appraisal, what they do with it, if they were to use it in a discriminatory way, what would you think about that in terms of responsibility for a bank's conduct?

**SHARON WHITAKER (ABA):** Thank you. I might ask you to repeat the back end of that question because I'm not sure I followed it entirely.

**ASC MEMBER JAMES WYLIE (FHFA):** Yeah. So sort of once a bank or a lender would take the appraisal and how they use that, do you think there's opportunities for bias, though, that banks should be mindful of in using an appraisal once they have it in their lending decision?

**SHARON WHITAKER (ABA):** You know, our members are working on ways to find it. I think that the point I was trying to make is the availability of comps, the availability to look at, you know, an appraiser's broad use of work that Danny referred to. You know, perhaps they're only seeing, you know, a small section of it, and searching for the additional comparables as far as that goes in the appraisal review area is what is extraordinarily challenging to find that, you know, underlying bias that may be there. That was the point I think I was trying to make. Thank you.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. A couple of points I'd like to drill down on from the law. The appraiser independence requirements in the laws have been mentioned. Ms. Whitaker, kind of following up on this point on responsibility, in that appraiser independence statute, it does note that a mortgage lender who has reasonable basis to believe an appraiser is failing to comply with the uniform standards of professional appraisal practice is violating applicable laws. Whereas otherwise engaging in unethical or unprofessional conduct shall refer the matter. And it also mentions an appraisal management company in that statute. Would you like to comment on that, and then, Mr. Kelker, would you like to comment as well on AMC's role under this provision?

**SHARON WHITAKER (ABA):** No, I agree with you. I mean, as you're doing your appraisal review, you have to make sure that the standard is there and you as a lending institution are accepting that appraisal. I could probably almost quote you the page it's on in the appraisal evaluation, December 20, 2010, and I think that that's an important distinction.

I think that the process of ROV will be very helpful to be able to go back to an appraiser, but when it comes to bias, I think that that's more of an escalated process.

**DEAN KELKER (REVAA):** With respect to AMCs, if we detect something wrong with an appraisal that violates USPAP, per se, or is biased, obviously biased, that appraiser and that report would be forwarded to the state regulatory body for review and any action that they felt appropriate.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. I'd like to drill down on a couple of specific examples and some of the public complaints on appraisal bias on this question. One is one of the Department of Justice's Combating Redlining Initiative redlining complaints. It noted in there, one of the facts is a loan officer sent an email discussing a comparable property that was used in an appraisal, and the loan officer stated, "This comp street is like a ghetto, and he knows it. And if he doesn't, that's even worse."

Ms. Whitaker, this complaint was with regard to a non-bank, but just, you know, for the lenders, would you agree that this is the sort of inappropriate behavior that lenders should be concerned about from within their own institution?

**SHARON WHITAKER (ABA):** I do look at the entirety of the actions and so forth of how you interact with the community as a whole as being extraordinarily important, that bias has absolutely no place for that, and our members strongly agree with that.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. And just one more. This one was a public-private complaint that was filed, and in this one, the plaintiff noted that their loan officer had communicated to the plaintiff that that loan officer had three to five additional clients who had appraisals that were undervalued due to discrimination. Also noted that that loan officer's colleagues were having similar issues with the bank appraisal review department in getting action on those, and that that loan officer felt the bank had not taken action, understanding that this is just a complaint. But are these the type of issues that you believe ROV guidance and compliance by banks could solve?

**SHARON WHITAKER (ABA):** If I understood your question correctly, they were saying that the appraisal review area did not address it adequately?

**ASC MEMBER JAMES WYLIE (FHFA):** Yeah. The plaintiff noted that their loan officer had noted that there had been three to five other complaints about a specific appraiser. This seems like a situation in which it should have been addressed. Would you agree?

**SHARON WHITAKER (ABA):** It should be tracked. It should be looked at, and by all means, that should go up through the complaint process.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you very much.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Vice Chair Brown?

**ASC VICE CHAIR LUKE BROWN (FDIC):** Good morning, everybody. Panelists, thank you for joining us today for today's hearing. It's helpful to have this conversation.

I'd like to direct my initial questions to Ms. Whitaker and Mr. Kelker. Ms. Whitaker, in your testimony, you stated that the ABA believes that appraisers and their state regulators are in the best position to limit bias. It goes on to say that banks are not well positioned to detect bias, except in cases when an appraiser includes bias in remarks and appraisal narrative reports.

Ms. Whitaker, it's my understanding that all applicable nondiscrimination laws, including FHA and ECOA, apply to lenders, including when they're originating loans. Do you agree with that?

**SHARON WHITAKER (ABA):** We do believe that everyone within the banking institution and all of the third parties need to be held accountable for it, correct.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you. And then within the context of originating loans and engaging appraisers, a lender has a relationship with appraisers as those loans are being valued and originated. Is that not correct?

**SHARON WHITAKER (ABA):** Defining the direct person—

**ASC VICE CHAIR LUKE BROWN (FDIC):** There is a relationship —

**SHARON WHITAKER (ABA):** —in contacting from their appraiser board.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Well, a loan is being originated through a lender, and they work with an appraiser to originate that loan, to have it evaluated. Is that not correct?

**SHARON WHITAKER (ABA):** That's correct, or they would go through an AMC.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Okay. So I want to note that this past summer, the federal banking agencies issued third-party guidance, and I want to quote from that guidance. And that guidance provides a framework from which institutions can gain information about how they work with third parties and how they avoid risk in those relationships. The third-party guidance says, and I quote, "A banking organization's use of third parties does not diminish its responsibility to meet the requirements to the same extent as if its activities were performed by the banking organization in-house." I'll say that again: "A banking organization's use of a third party does not diminish its responsibility to meet the requirements to the same extent as if those activities were performed by the banking organization in-house." And, of course, that includes applicable laws.

So based on this information that I just walked through, could you explain how your testimony squares with this interagency guidance as well as with the law?

**SHARON WHITAKER (ABA):** As we look at where a bank is positioned to be able to review the appraisal itself—let me back up and say that within our staff analysis, we do talk about, you know, many of our members looking at annual training for, you know, third-party members, whether they're appraisers or whether it's an AMC or whoever they're engaging with. Many of our members are requiring or considering requiring that training is done for those third-party members.

When you look at the scope of the appraisal itself, which I referred to earlier, as far as knowing what other comps may be available, I think that there is a limited amount of response—a limited amount of ability for an institution to be able to go search for a comp that's outside of the scope of who they're hiring. So if bias is discovered, it really should go to the state—the folks that regulate the appraisers or the appraisal itself, if that helps to clarify it.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Sure. So that absolutely makes sense that essentially the information can go to a state regulator, which would look at it and come to some conclusions. However, the bank is in the relationship with the appraiser. The bank is reaching out to an appraiser and asking them to value a property. And the bank, you would expect, is expecting to follow the law and ensure that the appraiser is following the law as well as USPAP. So I just want to confirm that this testimony is not indicating that the banks generally feel that they're not obligated to ensure that when loans originated through their process, those loans in the process is consistent with the nondiscrimination laws, that that responsibility for compliance with the laws does not get transferred to a state.

**SHARON WHITAKER (ABA):** I did not mean to indicate that, if that's how it read, so my apologies.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you very much.

Mr. Kelker, what are your thoughts on this line of questioning?

**DEAN KELKER (REVAA):** My thought is that, as a third-party provider to a regulated institution, it's our expectation that we must meet all of the requirements with respect to bias, antidiscrimination, all those regulatory needs that our client institutions have to face. With respect to the regulated institutions, we have what generally amounts to annual audits where they review our processes, how we approve appraisers, how we handle reconsideration of value. So I would say that our client base takes that third-party obligation very seriously, just based on what we're required to do, so that I assume that they can pass their audits.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you, sir. I appreciate that very much.

I'm going to move into a little bit of a different direction here. I'd like to talk a little bit about consumer complaints, and this line of questioning is directed at Mr. Kelker, Ms. Whitaker, and Mr. Wilson. So I think we all know that identifying appraisal bias or discrimination can be complex and challenging. In many cases, it can be useful to hear directly from consumers about whether they believe they have been treated unfairly or discriminated against or whether evaluation could perhaps be inaccurate. From the perspective of the entities that you're representing in this hearing, do your organizations typically use consumer inquiries and complaints—not just complaints, information received from consumers to identify bias and discrimination? Yes or no? If yes, how often in your capacities have you actually seen that? How often do you see a situation where a consumer raises an issue and then action is actually taken to change the bottom line of evaluation? So whoever wants to go first would be helpful.

**DEAN KELKER (REVAA):** I can start. Most of the complaints or evaluation complaints or allegations of bias don't come to us directly from the consumer. Generally, they go—they start with their lender, and the lender communicates that to us. Occasionally, a consumer will come to us directly, but in large part, AMCs, as an institution, are kind of invisible to the consumer.

If that complaint does come from the lender and if it comes—starts out as just a reconsideration of value, that would go through the normal reconsideration of value process.

If the complaint surfaces as a bias complaint initially, generally, that's a more specialized process, and a far deeper review of the appraisal report to determine, first, is it possible that bias did happen, and if it did, how are we going to correct it?

I would say in terms of frequency, not very frequent. That's been my experience. It happens occasionally. Reconsideration of values generally tend to happen during a period when there's a high level of refinance activity going on.

**ASC VICE CHAIR LUKE BROWN (FDIC):** My time is skipping away here. Mr. Wilson and Ms. Whitaker, please?

**ROBINSON WILSON (NSREA):** In terms of National Society of Real Estate Appraisers, we are a professional association. So we don't engage in—we just educate our members, their mentors.

**ASC VICE CHAIR LUKE BROWN (FDIC):** So I'm asking—so I'm seeing you as a representative of appraisers that actually engage in evaluations of properties. So can you give that perspective as an appraiser? I know your organization doesn't actually do this.

**ROBINSON WILSON (NSREA):** Can you rephrase the question?

**ASC VICE CHAIR LUKE BROWN (FDIC):** I'm wondering, you know, to what extent are consumer complaints and inquiries actually used. Have you seen that in your practice?

**ROBINSON WILSON (NSREA):** No. Yeah, we don't deal with consumer directly.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Okay. Ms. Whitaker, please.

**SHARON WHITAKER (ABA):** Yeah, our members are engaged in the reconsideration of value process or regarding appraisal bias as well. The feedback that I've received from our membership is sometimes the value goes up, sometimes the value decreases, and sometimes it remains the same.

As far as the percentage goes, I'm afraid that I would have to go back to our members for additional data on that.

**ASC VICE CHAIR LUKE BROWN (FDIC):** All right. Thank you. Appreciate the time.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Deputy Comptroller Thomas.

**ASC MEMBER ENICE THOMAS (OCC):** All right. Thank you all for joining us today on such an important issue. I also want to give a thanks to Freddie and ABA for participants in our Project REACh initiative at the OCC, where we're bringing financial institutions, regulatory agencies, trade associations, and civic groups together to try to tackle some of the things and issues that are out there in homeownership space. So I definitely appreciate you all for doing that.

I want to piggyback a little bit on Luke's question regarding complaints for Mr. Wiley and Mr. Radke. Does your enterprise have processes in place for reporting appraisal bias issues, complaints to, say, state licensing agencies or regulatory agencies? And then if so, what is the significance of those reports, such as like the number, the count, the frequencies, any type of common themes that you all are seeing?

**LYLE RADKE (Fannie Mae):** So we don't generally get information from lenders on what's happening in the primary market in terms of their interaction with appraisers or consumers. So then it—our view of potential bias cases is really self-generated, and of course, we're looking at appraisal quality through our QC processes. This text recognition process that I mentioned to you earlier has been one of those mechanisms by which we've identified some really inappropriate language candidates. And yes, we have processes where to refer those to state boards, state appraiser boards for investigation.

Was there anything else that you'd like to know about that?

**ASC MEMBER ENICE THOMAS (OCC):** Well, are there any type of common themes, or is the volume heavy that you all do see that you report to different state agencies?

**LYLE RADKE (Fannie Mae):** Most of what we see is in the subjective language space, meaning it's not really explicit. The cases of really explicit racial or protected class language are very unusual, and so the frequency of that is pretty low.

**ASC MEMBER ENICE THOMAS (OCC):** Mr. Wiley?

**DANNY WILEY (Freddie Mac):** As I mentioned earlier, we do have an appraiser quality monitoring team that is fully dedicated to this task in lots of different work streams. The team will conduct their work in one of the work streams, and for us, they will bring the results to our

Appraiser Quality Monitoring committee, our AQM committee, and once they present the findings, there is a formal vote. Usually, the appraiser has had some opportunity to respond to our initial finding before that vote takes place, but not always. Depends on what we find.

But then once—the committee that votes has the authority to take action, and that action does include reporting to state appraiser boards, and we do that when we deem appropriate.

**ASC MEMBER ENICE THOMAS (OCC):** Thank you. I'm going to switch gears just a little bit and talk—go on the subject of the appraisal waiver programs that both, Mr. Wiley and Mr. Radke, your organizations have. So has Fannie and Freddie evaluated or assessed the potential for bias, fair lending, and fair housing impacts absent devaluation through your respective appraisal waiver programs?

**LYLE RADKE (Fannie Mae):** Yeah. Absolutely, yes. All of our policies and all of our models go through fair lending review and are also subject to examination by our conservator. At Fannie Mae, we've got multiple layers of defense or risk management that all of these processes need to be able to pass, and fair lending is an important consideration in that.

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

**DANNY WILEY (Freddie Mac):** Ditto. I would say we—you know, our waiver programs for us are based on a combination of models, an AVM and a condition model. For both of those, we have extensive fair lending testing, fair lending monitoring, and extensive governance review, very similar to what Lyle said.

**ASC MEMBER ENICE THOMAS (OCC):** Okay. Thank you. So a follow-up question for Ms. Whitaker, Mr. Kelker, and Mr. Wilson. You know, what are your views on the GSE's appraisal waiver program relative to the ability to assess bias and discrimination in housing finance?

**SHARON WHITAKER (ABA):** I'll go first. The appraisal waiver is useful in many situations, and we have been told repeatedly by FHFA and the GSEs that they do go through testing for it as well. I think that you bring up an interesting point to think about and looking at the impact as well.

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

**DEAN KELKER (REVAA):** Our view is positive from the perspective of bias, simply because you've taken a human interaction out of the process, properties being valued based on the data, as opposed to somebody's impression or perception of the neighborhood, the property, the ownership.

**ASC MEMBER ENICE THOMAS (OCC):** Mr. Wilson?

**ROBINSON WILSON (NSREA):** So can you repeat the question? Because I'm not—

**ASC MEMBER ENICE THOMAS (OCC):** Yes. So what are your views on the GSE's appraisal waiver programs relative to the ability to assess bias and discrimination in housing finance?

**ROBINSON WILSON (NSREA):** I'm positive about the waiver program, but again, I don't think it solves all the—I don't think it solves the problem of bias. It's a short-term remedy.

**ASC MEMBER ENICE THOMAS (OCC):** Okay. Do you care to elaborate a little bit more on your thoughts behind that?

**ROBINSON WILSON (NSREA):** Not really.

**ASC MEMBER ENICE THOMAS (OCC):** Okay, that's fair.

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 all for being here. I also want to thank Commissioner Gordon for hosting us today. You know, this is part of a series of hearings we are looking at to explore multiple facets of the appraisal marketplace.

In our previous hearings, we talked also a lot about the barriers to entry for new appraisers to enter the profession, the role in appraisal bias, but also when it comes to meeting the demands and needs in underserved areas, including rural.

One of the pieces of information that is high on a lot of our minds is obviously the changes in the market structure that took place in 2011, with changes to laws when it comes to appraiser independence, and after that time, of course, there was a lot of change, including the rise of appraisal management companies as a much bigger part of the market.

So I really wanted to start first with the appraisers. I know, Danny, you mentioned you have long been an appraiser.

Mr. Wilson, I wonder if you could just share for all of us in your words the observations you had about the changes about the role of the appraiser versus the appraisal management company after the enactment of the appraiser independence reforms.

**ROBINSON WILSON (NSREA):** From my perspective—and most appraisers were on call with this—appraisers would rather have a direct relationship with the client instead of having an intermediary in between. So I think most appraisers will—if we were to go back and redo it, would rather not have the AMC as an intermediary, if you want me to be perfectly honest with you. So I think that has created an additional—not barrier to say, but an additional—I guess you could call it an additional layer that the appraiser has to deal with in submitting their product, their assignment, their result appraisal. So—go ahead.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And is it fair to say the share of appraisals conducted by appraisers through an appraisal management company as opposed to having a direct relationship has dramatically increased?

**ROBINSON WILSON (NSREA):** Correct.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Mr. Wiley, do you want to add anything?

**DANNY WILEY (Freddie Mac):** I would add, first of all, that there's probably some people in the audience online who are cringing because about 2011 was when I sold my practice and went to work for an AMC, and they're probably offended that you referred to me as an appraiser because I'm a turncoat to them.

[Laughter.]

**DANNY WILEY (Freddie Mac):** Yes, the AMCs did go—I mean, I lived all the buildup to 2011, and that was about when I sold my private practice. Prior to that, very rare, I'd say the AMC business—and I'm estimating on this when it was about 10 percent at the time. I would say AMC business now, the last time I looked at the numbers, is about 60 percent of the reports that we see submitted.

**ASC MEMBER ROHIT CHOPRA (CFPB):** I've heard even in some estimates even higher than that. And I guess one of the questions I have is, do you have a sense of the percentage of the fee for an appraiser—for an appraisal that the AMC takes?

**DANNY WILEY (Freddie Mac):** No, sir.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Mr. Kelker, do you have data about the average amount of take for the AMC of each appraisal, and has that number gone up over time?

**DEAN KELKER (REVAA):** I don't know if it's gone up, and the industry really doesn't report that kind of information, so it's not consolidated anywhere. But I would say it varies in a lot of cases depending on market conditions.

Back when we had a lot of refinance activity a couple of years ago, the AMC margin declined because the appraiser fee—appraisers' fees went up, and some of that increase was not passed through to our client base.

But in terms of a margin, it depends on the product, depends on the geography, but I would say it's anywhere from 20 to 35 percent.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Okay. And do you think that there is any place that that data would exist? Because obviously, we have talked a lot about entry barriers from The Appraisal Foundation, from all sorts of places, but one thing we haven't talked much about is pay. And to the extent to which that appraisers are having a more difficult time seeing that they can make a good living, obviously, that would deter the entrance of new appraisers.

We've also seen quite a bit of consolidation of appraisal management companies.

**DEAN KELKER (REVAA):** Right.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Many of them have gone on buying sprees. There's been private equity roll-ups of them. And many appraisers report that that is another way in which they are being squeezed. So to me, this is an empirical question. What is the way in which we can understand the percentage that appraisal management companies are taking from the work of the appraiser? And really, is that amount fairly split between the two based on the value that they're respectively adding? So I think—where can we get this data?

**DEAN KELKER (REVAA):** Probably, it would require surveying the industry.

But if we go back pre-2011, prior to the increase in share for the AMCs, if you look at appraisal fees, even at direct engagement, there were fluctuations that were caused simply, again, by market conditions. When things are slow and there's not much work, fees tend to drop. When things are busy and everyone needs an appraiser, fees go up. So the entry point of AMCs coming into the marketplace is somewhat coincidental to the fee issue.

The other thing is lending has changed. I worked for a lender for a number of years, and when I started, they processed at 26 locations. When I left, they processed at two. The technology that was required to consolidate all that was probably beyond the ability of individual appraisers to individually do. So, as an AMC, we were able to do the technology evolution to get to that kind of consolidation and then make it available to the appraisers that we used. So there are a number of factors beyond just what cut the AMC is taking out of the gross fee.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Well, you say it's market conditions and coincidence, but I think we should be able to understand this.

And, Mr. Wilson, I guess I'd ask you—and I know, Mr. Wiley, you've said "I've self-identified as a turncoat in some ways," but what would you respond to this? Is it fair to say that the amount of fees that the AMCs or intermediaries are taking has actually evolved over time, and do you feel it's been justified?

**DANNY WILEY (Freddie Mac):** I think that depends entirely on the AMC and their policies and procedures.

At the AMC where I worked previously, we had a simple way to set fees. We asked the appraiser, "What's your fee?" and we paid them the fees that were established by the local fees in their market. And then we added what we had to add to make profit for us. But I know that not everyone takes that approach.

**ASC MEMBER ROHIT CHOPRA (CFPB):** That's correct.

**DANNY WILEY (Freddie Mac):** Right.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And, Mr. Wilson, any comments on this?

**ROBINSON WILSON (NSREA):** Yeah. Just to be fair to all sides, the AMCs included, the appraisers—I think under the law, the appraisers are required to pay customary and reasonable fees. So the appraiser should be negotiating what's customary in their local market.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And some of that is going to be subject to a number of factors, but I think as we think about entry barriers, we should also really seek to understand how much an appraiser will be able to make and the extent to which that that might create additional shortages, particularly in areas that have not been well served.

And there is no question that the role of appraisal management companies in the past 15 years has grown substantially, and we should make sure we fully understand that. Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** That concludes the first round of questions. We'll now take a 10-minute break, and we'll start the second round of questions at noon. Thank you.

[Break taken.]

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** So the second round of questions in this round, each ASC representative has eight minutes to ask questions, and as with the first round, we will start with Assistant Secretary Gordon.

**ASC MEMBER JULIA GORDON (HUD):** Thank you so much. Welcome back, everybody.

So something I think about a lot is we're doing a lot of great work right now to try to eradicate bias from the process. I'm very impressed with so many of the efforts people are making, but at the same time, what we're doing rests entirely on decades and decades and decades of biased appraisals. And I think about this especially in the technology context as we move more toward using technology, rely on AVM, rely on fantastic programs such as Collateral Underwriter and the like, which is, you know, how are we not replicating bias in our AVMs and other IT efforts? And maybe sort of a sub part of that question is, what are we doing technologically to try to correct for that and to try to undo some of the harm we've done in the past?

So I'm just going to pick on Mr. Radke first for this.

**LYLE RADKE (Fannie Mae):** Well, this is actually a topic I like to talk about, so no worries.

In regards to Collateral Underwriter, which is the piece that I know best, the first thing that we thought about was design, right? So you want to consume as much objective information, factual information as you can, and there are pieces of the appraisal process, pieces of the appraisal data, which are interpretive. And so what you're trying to do is reduce your dependency on the interpretive aspects and rely more on the factual aspects. An example would be, let's say, the size of your house. Your house is a size, right? That size is a fact. It can be known. And if you use that size in your algorithm, then you're avoiding bias because you're just relying on something that's very factual.

On the other hand, in the UAD, we struggled in the first round with how to represent the condition of the property, and the solution that we came up with is a condition rating. It's an all-property condition rating. Well, that requires some interpretation on the part of the appraiser, right? What if the kitchen is updated, but the bathrooms are not? How do you slot that?

So relying on the subjective pieces is where you worry about perpetuating that bias, right? And one other aspect is there are variables which you might consider to be proxies and variables which you should avoid, and so we work with our fair lending team on trying to avoid any proxy variables in the algorithm.

And then the last piece, which I think we talked a little bit about earlier, is it goes through—the results go through a rigorous fair lending test. So we're trying to eliminate any disparate impacts in the model. You're trying to produce a model that—where you can show the outcomes are statistically neutral to the—relative to the marketplace, right?

So all of this works together. It's something where you just have to be thoughtful, vigilant, continue to look for new ways to reduce the amount of subjectivity in the dataset and increase your reliance on objective data.

**ASC MEMBER JULIA GORDON (HUD):** And just to push on sort of correcting for past bias, you know, we have sort of locked in some value variation from neighborhood to neighborhood that likely started as a result of residential segregation patterns. Is there any effort to sort of affirmatively undo that?

**LYLE RADKE (Fannie Mae):** Well, I think the market is very dynamic in the sense that it can sort out or find opportunities. So if a particular neighborhood offers equal utility at a lower price, then that's going to attract new entrants into that marketplace. So some of this is a little bit self-correcting over time.

But what the appraiser is doing is actually something very different. They're looking at—they're trying to read what has already happened, which means they don't really have an influence on the transaction, so to speak. They're just observing the transaction that already happened in terms of like the comparable sales, that backward-looking piece.

So I think this is a bigger problem than the appraisal problem, right? We have to look at the utility of those properties, and the utility includes the surrounding area. What are the community amenities, so to speak? And what is the economic circumstances? Are people economically prepared for homeownership and purchasing property? And I think it's that bigger picture that needs to be addressed in order to unwind those past effects.

**ASC MEMBER JULIA GORDON (HUD):** And, Mr. Wiley, anything to add? I saw you nodding along.

**DANNY WILEY (Freddie Mac):** Well, I would agree with Mr. Radke that sort of equalization or adjustment of values is not the role of the appraiser. We want the appraiser to give us an objective professional opinion of what we could currently sell that property for today if the circumstances are unfortunate enough for us to have to take that home back. We're looking for the appraiser to do that using, again, transparent analysis objective data.

The fact is, different homes in different neighborhoods often sell—even though they're similar, sell at different prices, and that's true throughout all communities that I'm aware of. I know I live in Nashville, and my home in Nashville is not priced at the same level it would be if it were near my office here in Tysons, right? So different locations seek different price points. It's not the role of the appraiser to equalize that.

But having said that, we can use community investment, and we can use education, and we can use training. And we have a large group at Freddie Mac who's focused on efforts like this, and I can bring you follow-up information if needed to support those communities, to help get them at a level that's different than where they are today.

**ASC MEMBER JULIA GORDON (HUD):** Thank you. Mr. Wilson, anything to add on the possibility of sort of replicating or locking in bias through technology or other means?

**ROBINSON WILSON (NSREA):** No, because AVM is not my area of specialty. That's a completely different way of doing valuation. But in general, there's still going to be—I'm thinking about the statement—It's going to be funny, but diverge in, diverge out [phonetic]. So that's pretty much what you get with AVM. The data that you collect is what's going to be the basis for the decision-making. So if the data is not purified, you're going to get the same bias that you're trying to avoid by using AVM.

**ASC MEMBER JULIA GORDON (HUD):** Thank you. My time is just about up. Thanks.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Deputy Associate Director Williams.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Hello again. I'd like to also pick up on the sort of technology and data analytics part of the discussion. So, as we've all talked about, we all have an interest in having accurate valuation of properties and accuracy in appraisals.

So I had a couple questions, sort of follow up to some of the discussion before. So for both Fannie and Freddie, you've talked about some of the reviews you've done to identify both over-and undervalued properties, and I was wondering, have you—or do you have any plans to take that analysis and sort of cross-cut it against some of your other reviews, like for subjective language, to see if there's any sort of correlation or connections there?

**DANNY WILEY (Freddie Mac):** I can tell you with absolute 100 percent certainty, that's part of our AQM procedure manual—our appraiser quality monitoring. Sorry, it's an acronym. Yes, that is absolutely one of the things we do, is to study both of those things individually, but then look and see if there's any correlation between the two.

**LYLE RADKE (Fannie Mae):** Yes. Similar to Freddie, we are looking at correlations, and we're continuing to develop our processes there.

One thing that we—I think apart from the question of the correlation, I still think that regardless of what correlation you do or don't find, that the exercise of causing the appraiser to think about the words that they use is really helpful, or you could say it a different way. Our words that we use to express ourselves are a reflection of our thought process, and so when we say to an appraiser, "Don't use that word," it's going to force them to say, "Well, what am I going to do instead?" which now impacts their thought process. And we think that challenge to the thought process is really important.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** And then, again, with actually both the over- and the undervaluation searches and results, I know you said that that can trigger either a communication to an appraiser or some other trigger for further action. Are there any other results or outcomes? So for example, if there's a flagged overvaluation, that might be something that's very relevant to the bank that originated that loan, same with undervaluation. So are there—other than triggering potentially some sort of, you know, action against the appraiser and then possible referral to a state agency, are there any other outcomes or possible outcomes of those reviews, or is that something that's still being developed?

**LYLE RADKE (Fannie Mae):** We have—similar to Freddie, we have a post-acquisition quality control team that looks at both a random sample and a targeted sample of all the loans that we receive, and when those—or that we acquire. And when those loans are based on appraisal, then the appraisal is reviewed by that team. And that appraisal review will ask this question about undervaluation, overvaluation, and then it goes with an additional layer of looking at the mechanics of what caused the defect, what was the defective issue within the appraisal.

For significant defects—and those are the ones that really affect either our charter eligibility or our financial position—then we communicate those significant defects to the lender, and that can result in a repurchase request or a repurchase alternative, depending on the situation.

If those defects are less significant—in other words, they don't impact our eligibility box or our pricing—then we do notify the lender anyway, but we call it a "finding," and so there's no consequence. It's just an FYI.

So all of those things happen before we start to engage appraisers. We engage the lender first.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** And so if in your research or in your searches, you had identified problems with the appraisal product, would—say the bank that had engaged that appraiser, would they ultimately know about that and may choose to, you know, change the arrangement or something?

**LYLE RADKE (Fannie Mae):** Yeah, it's a great— a great question. We have a tiered scale. So with some kinds of issues that are maybe QC issues that are of less serious consequence, we work with appraisers first and try to educate them. For the things where the lender's interest and the appraiser's interest and the family interest all coincide, so the more severe bucket, then all three parties are finding out through the process.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you. So again, with data analytics in this area, we obviously, for the first time ever, have access to more data on the market and the cost and the sales and all of that than we ever did before, again, as a result of the PAVE work. So I'm interested to hear from all of you about thoughts of future work of data analytics, utilizing this new set of information, that would be useful for all of us or just for your party to bring more transparency in the appraisal process and identify any problematic issues in the appraisals.

So I'll start with you, Mr. Wilson.

**ROBINSON WILSON (NSREA):** I'm not sure I followed the question about future data analytics.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Mm-hmm. Future uses of—or analysis of the data about home sales and the other information that's now available publicly as a result of the PAVE work, on the cost approach and other information that's now available.

**ROBINSON WILSON (NSREA):** I don't have any idea.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Okay. I mean, we talked about the over and undervaluation, I think, and text searches for keywords, and so if there's other methods or areas of inquiry that would be useful, that was my question. I can move on to Mr. Wiley.

**ROBINSON WILSON (NSREA):** Yeah, I'll pass on—I'm not following it.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Okay.

**DANNY WILEY (Freddie Mac):** Okay. We have a working group. It's the group that developed and published our initial research notes. We continue to meet as a group, and we continue to discuss what's new and innovative that we can look at with the data. We are anxious to get through our study of the individual appraisers that we're doing with our appraiser quality monitoring team right now, and we also have some other research underway that I anticipate we will be able to comment on in the future, but not right now. But it's something we're constantly working on.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you. Mr. Radke?

**LYLE RADKE (Fannie Mae):** In four seconds, I think the biggest area of uncertainty in the valuation, whether it's appraising or modeling, is in the adjustment rates, and so looking at the differences between adjustment rates and how those relate to the data, I think that's a really fruitful area for investigation.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** I'm out of time, but maybe—Ms. Whitaker?

**SHARON WHITAKER (ABA):** I can give a really quick answer, if you don't mind. I will say that the release of the data from the GSEs is extraordinarily useful, and I look forward to more of it, because I think the more that we have as an industry, if the release of that data helps us to be able to use that as a tool. So I'm really appreciating both what Danny and Lyle have presented that they're working on.

**ASC MEMBER SUZANNE WILLIAMS (FRS):** Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Deputy Director Mattingly.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Thank you. So I'm going to, again, go kind of into a whole different direction, and as I did at the first hearing, maybe throw a monkey wrench into the whole industry.

And I'm going to direct this question to Ms. Whitaker and Mr. Kelker. In our current environment, a homeowner decides to sell their house. Another individual chooses to buy that house. They go to a lender to get a loan to afford that—or to fund that house, and the lender goes to an appraiser to get a valuation. The lender makes their decision based on the valuation that the appraiser has, and the deal is concluded, hopefully successfully, if the buyer has the funds to support the sales price. Is that the right place for the appraisal to come in, and is the lender the right consumer of the appraisal? Or should the appraisal be done potentially by the seller so that they know what value to put on the house when they sell it or by the buyer so they know what to pay for it? Is our current system working, or should it be done differently? And I'll really open that up to you two, but I'll let anybody who wants to chime in.

**SHARON WHITAKER (ABA):** I'm happy to start to respond to that question. What comes to mind when you start talking about that to me, having lived through the last crisis, is the appraiser independence and the use of the appraisal and the addressing of the appraisal to the lender, really to address the proper capital allowance for future losses that are used as far as that goes. I think that that is the basis for safety and soundness in the Dodd-Frank Act and other acts that have come before that, that really have—you know, FIRREA and USPAP—that really have really set that standard.

Most—I think that answers your question as far as a lender's perspective and the proper allowance of capital and safety and soundness.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Okay.

**ROBINSON WILSON (NSREA):** I can—

**DEAN KELKER (REVAA):** I—

**ROBINSON WILSON (NSREA):** Go ahead.

**DEAN KELKER (REVAA):** Go ahead.

**ROBINSON WILSON (NSREA):** The situation that you described, I think the borrower is the one that is asking for money from the bank. So the bank, to make—to ensure that the collateral is what the borrowing amount is, so the lender should be the one ordering the appraisal because they're the one doing the loan, not the seller. So I think the present system is fine the way it's structured because the lender— in other words, what you described, the buyer sees it how they like. They're not paying cash for it. They want to get money to go to the bank, and they ask the bank, say, we want $100,000 or whatever. And the bank doesn't know what the collateral is or wants to see a collateral to support that money, and they do an evaluation to measure the collateral, to measure risk, to assess the property that collateralizes the loan. So the structure, the way they have it now, I think is fine.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** So in both cases, you see the value as the collateral value rather than the market value, and I guess my question is, should the appraised value be the actual market value and what the seller would be willing to accept, irrespective of what the bank will lend?

**ROBINSON WILSON (NSREA):** The collateral is assessed in the market value. The collateral can also be assessed in investment value, can be assessed in tax value, can be assessed in different valuation. But the bank wants to know what the market value is. As Danny indicated earlier, if they get the property, they want to be able to sell the property and recover the loan amount on that property.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Okay. Anybody else?

**DEAN KELKER (REVAA):** I would agree that the appraisal should be owned by the lender. The lender is assuming the risk of the transaction. The appraised value is solving for the market value. If the seller wants to know what they should sell the house for, they could either get their own appraisal, they could get a market analysis from a real estate agent.

And I would say most sellers nowadays, because of the easy availability of data, have a pretty good idea of what the market is in any particular area that they're interested in.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Okay, thank you. Moving on to another question—and this somewhat comes from the testimony from Mr. Wiley, but I'll put it out there for everyone as well. You had indicated in your testimony that you're supporting ADI and others in the ways they're trying to attract new people into the industry, and we've talked quite a bit today about barriers to entry and the need for more people in the industry. At our last hearing, we talked somewhat about the training and experience requirements to become an appraiser, and that's not really the focus of what we've talked about today. But in looking at the different methods we're using, the different technology we're using, are the training and experience requirements still needed at the level that they're at with the other tools we have to develop the judgment needed for appraisals, or is there something else that could be a hybrid between the training and experience and the technology tools that we have?

**DANNY WILEY (Freddie Mac):** I greatly appreciate your insights, as they align perfectly with my own views.

[Laughter.]

**DANNY WILEY (Freddie Mac):** I was really scared, honestly, when PAREA first came out. I was scared that I would be disappointed, and then I saw a live demo of it, and I was like, "Wow!"

But as somebody who ran a firm for over 25 years, my thought was not that I would cede everything to PAREA, but I thought as a firm owner, I could get the optimal training by combining what PAREA did with my own training. So I do think that the sort of combination there—I think there is value to having experienced appraisers like Lyle and Robbie and others participate in that direct training.

But then there's also a huge value to having this controlled environment where we make sure that we're getting—all good appraisers are not good trainers, right?

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Mm-hmm.

**DANNY WILEY (Freddie Mac):** So I think that some blend of that is perfect. And as far as what the AQB does or the states do with specific requirements, I don't know. I'd love to see some proposals along that line, but that's not for me to say.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** So you see the value in the technology tools there and in the other ways that are enhancing the training and experience?

**DANNY WILEY (Freddie Mac):** Absolutely. I think it's really no different than what we see in valuation in general is taking that technology and using it to enhance the process is not necessarily 100 percent replace it. I think an appraiser trained partially through PAREA and partially through the human would—to me, if I was—if I still owned the firm, that's the way I would do it.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Okay. Anybody else, thoughts on that? Mr. Wilson?

**ROBINSON WILSON (NSREA):** Yeah. No, I appreciate the question. Right now, we have, what I think you're referring to, the traditional model of training. And we just recently had PAREA, which is less than three months in into the marketplace. But we also need to add another method for those who are willing and able to do it, which is a practicum program. So—and I think that will expedite or knock down some of the barriers as well. So it can't just be the traditional model. It can't just be PAREA. We also need to add practicum for those that have the resources and are willing and able to do that, and so—because we need to open the profession up to bring in more diversity and more newer appraisers. We need younger appraisers as well.

**ASC MEMBER JEANMARIE MATTINGLY (NCUA):** Okay. Thank you.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Associate Director Wylie.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. I want to start with something, Mr. Kelker, from your written testimony. You talked about a potential barrier being lender policies that limit the use of appraisal trainees. I was wondering if you could say a little bit more about that.

**DEAN KELKER (REVAA):** Sure. With respect to AMCs, the appraisers that we approve and select for assignments are generally based on the credit policy and risk management policies of our clients. There are a large number of trainees that are out in the marketplace. There are people that are working through the PAREA program. I think it would be helpful relative to some of the capacity utilization issues we suffered in the last few years to be able to use those folks in certain types of situations that would expand the capacity to perform appraisals and other valuation work.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Mr. Wilson, is this an issue that you've seen as well? Lenders not being willing to use trainees?

**ROBINSON WILSON (NSREA):** Well, let me put it like this. About two years ago, it was worse than it is today. My company, we believe in trainees. We have over 200 appraisers, and we have at least—we've graduated in the last two years, 50 trainees or more. And we have—right now, we have at least 30 trainees. So I've seen a trend where lenders are more flexible today than they are two years ago, and I hope that trend continues.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Mr. Wiley and Mr. Radke, I wonder if you could just help clarify. Are there GSE policies regarding use of trainees and for acceptable GSE appraisals?

**DANNY WILEY (Freddie Mac):** Sure. Thanks for that question. I always appreciate the opportunity to reinforce that we do encourage and promote the use of unlicensed appraisers or appraisal trainees that's addressed in our selling guide. We can't continue to harvest new appraisers or have the profession exist if we don't allow appropriate participation by appraiser trainees.

**LYLE RADKE (Fannie Mae):** Yeah, similar to Danny—or to Freddie, Fannie Mae's policy allows trainees to appraise the property. I think the only real difference is they have to disclose their participation, right? But that's the same for all appraisers. So definitely encourage that. We talk a lot about that when we meet with lenders and AMCs.

One thing that you haven't asked but maybe it would be helpful to offer is we do have ways of measuring quality, relatively speaking, and when we look at appraiser trainee—or appraisals performed by trainees and look at the quality measures, for example, CU scoring, they score essentially identical to appraisals performed by non-trainees.

And we see the same thing in our QC space. When we QC appraisals done by trainees, we actually find lower defect rates on the trainee appraisals. So I think that goes back to the old adage, two heads are better than one. When you have a trainee and a supervisor, that output is a little bit better than when you don't.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Ms. Whitaker, I wonder if you would be willing to jump in on this question. Have your members talked about—or do they have kind of policies around the use of trainees?

**SHARON WHITAKER (ABA):** Thank you for asking. I haven't had recent conversations with our members, but many of our members do allow trainees. I know that there are some that limit the use of it from—and this is dated feedback that I'm referring to my memory banks on, and it has to do—and I don't have it in front of me, but there's specific language that talks about the experience and the trained and knowledge of market. And for those members, that may not allow it, and I can't go more specific than it, that legally that that is an issue that they struggle with. So perhaps addressing what's come out from the interagencies may allow, allow many to look at that further.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you. Following up on the sort of concept of training, but specifically about the idea of appraisal bias training, both for appraisers and for perhaps people in a lending institution that are working with appraisals, I'll open this question up to anyone. But does anyone have thoughts on the sort of current state of training in that regard, and what would be a good place for the industry to go in that way?

**DANNY WILEY (Freddie Mac):** Well, I'll start by noting that we are working together with our friends at Fannie Mae to contract and create some appropriate training, particularly for the appraiser community. I do think there's been a dearth of that recently. It's funny. I said 40 years, right? I think this is my third time around that I'll be having to take some mandatory fair lending training, right? They all come around, and we're sort of at the end of a cycle, right? There was a time where there was a lot of training, and there's not so much recently. And I think some of the training that's out there may not be as complete as it could be, and so that's why we're working together to make sure that we can provide—we're not going to provide the training directly. I want to say that for the record, before everybody has a heart attack. But we do want to provide the base material that we can provide out to education providers so they can, at basically no cost to them, have good solid material to base their presentations on.

**SHARON WHITAKER (ABA):** I'll jump in on the question. Within the ABA staff analysis, that is something that our members have come back to us to relay that they are putting within their agreements and so forth that for appraisers or AMCs, that they are looking for, you know, fair lending, equal credit opportunity and so forth, training. And obviously, banks themselves go through that training annually if you're in the mortgage area, but making sure that their MLOs are very well versed in it as well. I agree that this is certainly a focus today.

**DEAN KELKER (REVAA):** I would say in the AMC space, many of the companies have internal training for the staff that deals with appraisers, the staff that deals with clients or consumers. It's just something that I think we need to have happen with respect to the appraisers.

I know that there are various training modules out there, but I think maybe something needs to be—whether it's centralized or standardized so that there's a standard curriculum that becomes part of the periodic training for appraisers.

**ASC MEMBER JAMES WYLIE (FHFA):** Thank you very much. I'll save the rest of my time.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Vice Chair Brown.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you very much. I've got nine more seconds for the record.

[Laughter.]

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you. I'd like to direct my first question to Mr. Kelker, Ms. Whittaker, and also Mr. Wiley in your capacity as an expert in the appraisal space, with apologies.

Although the Federal banking agencies issued proposed reconsideration of value guidance last summer, I know that there is no national standard in place for how ROV activities should be conducted, but ROV approaches have been around for years and years. So for the purposes of an ROV, what information would typically trigger or spur an ROV that would require contact with an appraiser, a consumer, and potentially adjusting evaluation? And also, who is the decision-maker in such a case? So starting with Mr. Wiley, please.

**DANNY WILEY (Freddie Mac):** So I go back to my AMC days where I ingested ROV requests regularly. What can generate an ROV? A dispute over the characteristics of the property. The most common one is my house was mismeasured. There, the size of my home was not represented correctly. Sometimes there's a mistake there, but sometimes the consumer doesn't understand, for example, that a finished attic or a finished basement might be counted separately. Sometimes it's a dispute about the comparables that were selected, and oftentimes the data that's submitted in ROV—people submit ROVs because they want a higher value mostly, right? So sometimes that data is not exactly picked objectively as well. So there's lots of reasons that that could lead to an ROV, but the number one is usually the consumer is unhappy. They need a higher value to facilitate a loan.

We do agree that there should be some sort of at least framework for standardized approach to the problem. At my past company, we had very clear guidelines. We had a form. We required to say why do you think that there should be reconsideration of value. We need those stated objectively, and if data is presented, we have a limit on how much data could be presented. But we had a framework, and our framework might have been different than another AMC at the time.

So we're working together, as was mentioned earlier, and consulting with our friends at HUD to figure out—and we plan to publish soon our proposed framework for an ROV policy.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you. Ms. Whitaker?

**SHARON WHITAKER (ABA):** Thank you. First of all, ABA has joined the OCC's Project REACh subcommittee on looking at best practices for ROV. Most of our members have an ROV process. As you said, it's been around for a very long time.

**ASC VICE CHAIR LUKE BROWN (FDIC):** I'm sorry. Can you go directly to my question about what would trigger an ROV and what would trigger—

**SHARON WHITAKER (ABA):** Oh, certainly. I was getting there.

**ASC VICE CHAIR LUKE BROWN (FDIC):** I'm sorry. I just have—

**SHARON WHITAKER (ABA):** I guess we have a clock running.

But what we've kind of put forward or what our members have put forward is you have errors, you have omissions. You have perhaps, you know, the house down the road sold for X, and, you know, we feel it's significantly undervalued. And then there's also on appraisal bias itself, whether or not they feel that, you know, there was some type of bias within the process itself. So I think that answers your question.

**ASC VICE CHAIR LUKE BROWN (FDIC):** That does. Thank you very much. And actually, I'm going to jump to a last question. So I only have four minutes left. I was going to ask all the panelists, but whoever wants to answer this question. This is our third hearing. We've got one more to go. It would just be helpful to hear from everyone. What are we not asking today that we should be asking that would get to the heart of the question? And we're going to have to step back in this process. What would you recommend based on your experience that the ASC board do going forward to address these sorts of issues in terms of appraisal bias? What would your specific recommendations for action for us within our authority be? So whoever wants to start.

**DANNY WILEY (Freddie Mac):** Well, I think the first thing to realize is it's a very complex problem, and there's not going to be a single-focus solution. It's going to be a solution where you approach it from different angles. And I think we've talked about some of those angles here recently, but if I were to emphasize one, I would say, how do we get more transparency in the supporting data behind the appraisal process?

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you. Next?

**LYLE RADKE (Fannie Mae):** Yeah, I absolutely agree with Danny. I think the keys that we should be striving for are accuracy, transparency, and repeatability. And there's a little bit of a disconnect, I think, between what business or society needs versus what the appraiser standards require. So if you look at Uniform Standards of Professional Appraisal Practice, it really focuses on ethics and on process, which are very important. We require all of the appraisals that come to us to be compliant with USPAP. So I'm not saying that's not important, but it's not sufficient, which is why we have additional policies to try and pursue this idea of, you know, measurable accuracy and reproducibility. So ways that the regulatory community can kind of rally around this additional standard, I think, would be great.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you very much. Mr. Kelker?

**DEAN KELKER (REVAA):** I would agree that there's no single solution to dealing with the issue. Transparency, increased transparency, I think, is one of the major factors in reducing and eliminating bias in the sense that it becomes far more difficult to commit discrimination and bias if there's a light shining on exactly what's happening in the transaction.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Ms. Whitaker?

**SHARON WHITAKER (ABA):** I will quickly add that I think, holistically, all of us sitting here and those who have testified before need to come together and think of new ideas and new ways to move forward with it.

I appreciate a couple of ideas I have here. I wish I had a single solution to resolve it, but I really do appreciate this process in looking into it.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Great. Mr. Wilson, please.

**ROBINSON WILSON (NSREA):** From my perspective, the issue of bias, I would like to see more emphasis placed on when appraisers are acting as an appraiser, they should not be biased. Not biased outside the scope of acting as an appraiser, and there should be more enforcement. I don't think that enforcement is adequate. In any profession, there's going to be judgment, regardless of what it is. So, to me, I just think that there needs to be more training. There needs to be more enforcement. There needs to be more analysis required from appraisers. The reporting standards should be improved upon.

**ASC VICE CHAIR LUKE BROWN (FDIC):** Thank you. I appreciate everybody.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Deputy Comptroller Thomas.

**ASC MEMBER ENICE THOMAS (OCC):** All right. Thank you. So, Mr. Wilson, I want to ask you a question about a piece of your testimony. You had in your testimony that you're the president of the National Society of Real Estate Appraisers, and it's the largest and oldest professional association of Black real estate appraisers. Could you give a little background on the membership count, the geographic location of this group, and any type of current priorities that you all have for barriers to entry into the profession?

**ROBINSON WILSON (NSREA):** Okay. The background is following '56, because at that time in the country, Blacks were not allowed to join other appraiser groups, so it was formed for that reason. And across the country, our members, just in Black appraisers in the country, in general, were less than—depending on the data you see—the Bureau of Statistics indicate we're less than 2 percent, and The Appraiser Foundation data indicate we're about 4 percent. So if you look at appraiser—the credentialed appraisers is over—depending on when you look at it, let's just say it's over 90,000. But appraisers—the real number of appraisers is about in the 70,000 range.

So the point I'm making is we're not big, less than 1,000 members who are spread out across the country. But there's a deficit in the sense that Census Bureau indicate that Black Americans are about 13.4 percent. Even if you take 4 percent, that's 9 percent deficit that we have of lack of diversity of Black appraisers in the profession. So that's our goal. As the present announced [phonetic], our goal is to bring in more minority into the profession, and that's what we've been working on for the last two, three years.

**ASC MEMBER ENICE THOMAS (OCC):** Do you all have any specific—specific programs that you're doing right now that you can share with us?

**ROBINSON WILSON (NSREA):** We don't have any—we are working with one—we have a big support of PAREA, and then we're trying to promote that. We're working with any agency that would give us scholarship, you know, to get more people into the program. So that's something that we're working on. And that's the two big things that we're working on is recruitment, recruitment, recruitment.

**ASC MEMBER ENICE THOMAS (OCC):** Okay. Ms. Whitaker, kind of to piggyback off that on the barrier to entry, is there anything that the ABA is working on as far as advocacy for programs with your member institutions as far as lowering the barrier to entry?

**SHARON WHITAKER (ABA):** I'd have to get back to you specifically what our members are working on. That hasn't been a common conversation that we've had.

**ASC MEMBER ENICE THOMAS (OCC):** Okay. Thank you. And my next question—this is probably geared toward Ms. Whitaker and Mr. Kelker. So with small financial institutions, are there any—let me make sure I get to the right question. Yes. So how do you think small financial institutions can collaborate with AMCs towards meeting entry levels into the profession, succession, and diversity in the appraisal industry?

**SHARON WHITAKER (ABA):** That's an interesting question. As far as the smaller institutions go, I know that more smaller institutions have been—in order to find appraisers in their area, have been engaging with AMCs.

I do know that as they're looking at their contracts with AMCs—I'm not sure this is specifically answering your question—that they're making sure that they are identifying within their contracts the availability of appraisers and training and the expectations. I'm not sure I have a deeper explanation than that.

**DEAN KELKER (REVAA):** I would say that in many of our contracts, there are either diversity goals, not so much specific to small institutions. Many of the companies in the industry, when they recruit, they request demographic information on the appraisers, but it generally tends to be voluntary. Some respond; some do not.

Again, we have done outreach to attempt to identify, locate, and approve them so that we have them available for the smaller institutions and the midsize and larger institutions as well.

**ASC MEMBER ENICE THOMAS (OCC):** Okay. Thank you. So, Chair Martinez, I'll cede back my time.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** Director Chopra?

**ASC MEMBER ROHIT CHOPRA (CFPB):** Well, again, thanks, everybody. You know, one of the things that each of the agencies on the Appraisal Subcommittee must do under the law is that when we propose rules that have a significant impact on industries or on the public, we go through a process of proposing a rule and collecting feedback from stakeholders in public before finalizing those rules.

Ms. Whitaker, would you just share—the ABA is one that frequently contributes on behalf of its members to that process. Is that correct?

**SHARON WHITAKER (ABA):** Yes, that's correct.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And your member banks certainly have legal rights that if they are excluded from that, they may, you know, seek to take action in a courtroom?

**SHARON WHITAKER (ABA):** Continue. I'm—

**ASC MEMBER ROHIT CHOPRA (CFPB):** Yeah, I know—

**SHARON WHITAKER (ABA):** —trying to follow what you're saying. Sorry.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Well, I'm wondering—

**SHARON WHITAKER (ABA):** I'm not an attorney, so my apologies.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Yeah. Well, what I'm wondering is how does it work—in your testimony, you mentioned that the Appraisal Qualification Board should look at things. What is your recourse for your members when it comes to standards that are promulgated by the Appraisal Qualifications Board or the Appraisal Standards Board?

**SHARON WHITAKER (ABA):** I'm not sure I'm going to be able to answer that question in its entirety. I think that the difficulty in getting appraisers, some of it is the training length of time, where, you know, if I were to join, I may not have a full salary for a bit.

**ASC MEMBER ROHIT CHOPRA (CFPB):** But, I mean, is it in your mind, in your members' mind, is that a governmental entity or a nongovernmental entity?

**SHARON WHITAKER (ABA):** I don't have an answer for that. I can't answer for my members.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Okay. But that's fine. I think one of the things is—much of this, many of you mentioned USPAP. Many of you have mentioned Appraisal Qualifications Board. In previous hearings, we've essentially learned that this has force of law, but it is not occupied by a specific agency.

Mr. Wiley, did you once serve in the Appraisal Standards Board?

**DANNY WILEY (Freddie Mac):** Yes, sir, for six years.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And then can I ask you, what is the process by which that board gets input, and what is the recourse for those who disagree or believe that it's legally invalid?

**DANNY WILEY (Freddie Mac):** I believe the processes that were there when I was there 20 years ago are essentially the same. We would publish a public exposure draft, and we would invite the public-at-large to comment. It would be posted very broadly and publicly on the internet, and the board members would take and diligently read the input that was provided through that process. And then we could only vote to change USPAP at a public meeting.

**ASC MEMBER ROHIT CHOPRA (CFPB):** And again, what is a—what is an appraiser's or a bank's or affected party's recourse if they believe that that is inconsistent with the law?

**DANNY WILEY (Freddie Mac):** I'm not aware of any recourse, but I'm also—

**ASC MEMBER ROHIT CHOPRA (CFPB):** Okay.

**DANNY WILEY (Freddie Mac):** Yeah.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Yeah. I guess I'll ask you this, then. So who—when you were there, who appointed you?

**DANNY WILEY (Freddie Mac):** I was appointed by the Board of Trustees of The Appraisal Foundation.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Okay. And at the time, was it also the case—we learned this in previous hearings, that the Board of Trustees of The Appraisal Foundation, that some trustees could actually purchase seats on that board?

**DANNY WILEY (Freddie Mac):** I'm sorry, sir. I'm not familiar with—I wasn't on the Board of Trustees, and I'm not familiar with their processes back 20 years ago.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Okay. So do you remember how you were selected? Was it a fair distribution of all the stakeholders involved, or were there sponsors involved?

**DANNY WILEY (Freddie Mac):** No, I applied, much like applying for a job or a position. I applied, submitted a résumé. I was interviewed. I was screened. I was interviewed at a public hearing and selected by vote of the Board of Trustees.

**ASC MEMBER ROHIT CHOPRA (CFPB):** Well, I think all I'm trying to underscore here—and I ask these questions in advance of our next hearing—is that one of the things that has come up in many of your testimonies—and Ms. Whitaker mentioned Appraisal Qualifications Board—there are many things that are de facto law. USPAP, as you know, is basically a requirement, not just in federally backed mortgages, but is now an industry standard. And I'm not so sure that The Appraisal Foundation's governance—and we've talked about this in each and every hearing now—has fair representation across the board and may not even have recourse for everyone who is affected by it.

So I think, as you all think about how we think about the future of the appraisal profession, we should make sure that The Appraisal Foundation's governance is one that actually reflects input from everybody and that there is recourse for those who are affected by it. And frankly, we will continue to look at the role of sponsorship and a pay-to-play system when it comes to affecting the outcomes of so many of these issues.

And we do not want a situation where sponsors are able to skew the rules toward themselves rather than having a fair and equitable appraisal system that works for appraisers, homeowners, and actually all the creditors and agencies involved in that system.

That's all. And I look forward to the next hearing where we'll focus more on that.

**ASC CHAIR ZIXTA MARTINEZ (CFPB):** I want to thank the ASC staff and member agency staff who helped plan and facilitate this hearing. I want to thank all of the ASC member agency representatives and our witnesses here today. A special thank-you to HUD, our colleagues who hosted today's hearing.

And then I will just remind everyone that we're taking written comments from the public on the topics discussed today through November 15. You can submit a comment by emailing ASChearing@ASC.gov. You can also find a recording of today's hearing by visiting HUD's YouTube channel. I encourage everyone to check the ASC website at ASC.gov in the coming months for more information about the next ASC hearing on appraisal bias, which will be held on February 13, 2024.

That concludes today's appraisal bias hearing. Thanks to everyone who attended in person and who attended remotely. Have a great afternoon.

[End of recorded session.]