

## E. Barriers to Entry into the Appraisal Profession

The appraisal profession lacks diversity and does not reflect the population of the United States.<sup>132</sup> Remedying this gap is not only likely to reduce the number of biased valuations, but also reduce the acute shortage of appraisers, which is impacting transactions across the nation.<sup>133</sup> The Appraiser Qualifications Board sets the minimum criteria that individuals must meet to obtain each type of appraiser credential. States must adopt the minimum criteria and can add additional criteria. Although The Appraisal Foundation and other appraisal professionals are actively engaged in reviewing this problem and conducting extensive outreach to people of color, it seems that the criteria would still benefit from a review of the impact of each requirement. Below is a discussion of the following barriers to entry into the appraisal profession:

- Multiple levels of licensing and certification
- College degree requirements
- Appraisal education hours
- Experience hours
- Standardized tests

In addition, the report addresses concerns about the pipeline of trainees and the future of the profession.

### **Recommendation**

**It is recommended that each of the barriers to entry to the appraisal profession be reviewed for disparate impact by analyzing the burden on potential appraisers of color, the business justification for the requirement, and whether there is a less discriminatory alternative that can achieve the business interest. Below is a description of each barrier and a more detailed recommendation.**

### **Barrier: Multiple Levels of Licensing and Certification**

The appraiser profession requires several levels of licensing and certification, unlike other professions – such as real estate brokers, accountants, and lawyers – where the individuals are full-fledged members of the profession once they pass the certification examination. Moreover, each level of licensing and certification represents additional barriers in the form of college degree requirements, appraiser education hours, experience hours, and standardized tests, each of which is an additional barrier. Below is a chart summarizing the various credentials and requirements.

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<sup>132</sup> According to the U.S. Bureau of Labor Statistics, the category of “Property appraisers and assessors” is 96.5% White, 2.3% Black, and 1.2% Asian. Six percent are classified as Hispanic and 29.7% were classified as female. See U.S. Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey*, (Jan. 22, 2021), <https://www.bls.gov/cps/cpsaat11.htm>.

<sup>133</sup> See, e.g., Jeff Ostrowski, *How Big Mortgage Lenders Hope to Clear the Appraisal Logjam*, Bankrate.com (Oct. 27, 2021), <https://www.bankrate.com/mortgages/fannie-freddie-expand-desktop-appraisals/>.

### Appraiser Licensing and Certification (subject to individual state laws)

CREDENTIAL	COLLEGE DEGREE REQUIREMENT	EDUCATION HOURS	EXPERIENCE REQUIREMENT*	EXAM	PERMITTED TO APPRAISE
<b>Trainee Appraiser</b>	None	-75 hours -Supervisory Appraiser/ Trainee Appraiser Course	None	No exam	-Properties that the Supervisory Appraiser is permitted to appraise
<b>Licensed Residential Appraiser</b>	None	-150 hours	1,000 hours in a minimum of 6 months (requires a Supervisory Appraiser)	Licensed Residential Exam	-Non-complex 1-4 residential units with a transaction value of less than \$1 million -Complex 1-4 residential units with a transaction value of less than \$400,000
<b>Certified Residential Appraiser</b>	-Bachelor's degree, OR -Associate's degree in a focused field of study, OR -30 college semester credit hours in specified topics, OR -CLEP exam	-200 hours	1,500 hours in a minimum 12 months (requires a Supervisory Appraiser)	Certified Residential Exam	-Any 1-4 residential units, regardless of complexity or transaction value
<b>Certified General Appraiser</b>	-Bachelor's degree	-300 hours	3,000 hours in a minimum of 18 months; 1,500 hours must be in non-residential work (requires a Supervisory Appraiser)	-Certified General Exam	-All real estate types, including commercial real estate

\*Can complete the experience requirements while completing the appraisal education hours; hours are cumulative across credentials.

Source: Appraiser Criteria

### **Recommendation**

**The credentialing criteria should be reviewed to consider streamlining the credentials to just two certifications: 1) certified residential appraiser and 2) certified general appraiser. This approach would:**

- **Follow the model of other professions where the individual is fully licensed or certified after passing the exam (e.g., real estate broker, accountant, lawyer);**
- **Follow the model of many large lenders and appraisal management companies, which already require appraisals to be conducted by a certified appraiser; and**
- **Provide a more realistic way for new entrants to earn a living in the profession.**

## **Barrier: College Degree Requirements**

Although real estate brokers are not required to have a college degree, certified residential appraisers must have a college degree or equivalent, and certified general appraisers (who can appraise both residential and commercial properties) must have a college degree. This poses an obvious barrier for potential appraisers of color who are underrepresented in the college degree population. In addition, the cost and time associated with completion of a college course of study create an additional burden. Finally, people of color, who disproportionately do not have access to inter-generational wealth, bear the brunt of student loan debt which can cripple their ability to earn an effective living wage once they graduate.<sup>134</sup>

### **Recommendation**

**The criteria should be reviewed to consider whether the college degree is necessary for the profession, including whether this requirement has appreciably improved the quality of appraisals.**

## **Barrier: Appraiser Education Hours**

In addition to any college degree requirement, each level of appraiser credential requires education hours. To be a trainee, the individual must complete 75 hours; the licensed residential appraiser credential requires an additional 75 hours (for a total of 150 hours); the certified residential appraiser credential requires an additional 50 hours (for a total of 200 hours); and the certified general appraiser requires an additional 100 hours (for a total of 300 hours). Of course, each of these education requirements represents additional time and money for the potential appraiser. In addition, concerns have been raised about the content of this education. Several appraisers we interviewed stated that the education does not offer practical guidance on how to complete an appraisal.

### **Recommendation**

**The appraiser education hours criteria should be reviewed to consider whether the extensive hours are necessary and whether the content of the courses should be revised to better prepare the student to conduct the work of an appraiser.**

## **Barrier: Experience Hours**

The experience hours requirement was cited in almost every interview we conducted as by far the biggest challenge to entering the profession. More specifically, to be a licensed residential appraiser, the individual must complete 1,000 hours of experience in a minimum of six months, under the direction of a Supervisory Appraiser; the certified residential appraiser requires an

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<sup>134</sup> See, e.g., Andre Perry, Marshall Steinbaum, and Carl Romer, *Student Loans, the Racial Wealth Divide, and Why We Need Full Student Debt Cancellation*, Brookings Institution (June 23, 2021) <https://www.brookings.edu/research/student-loans-the-racial-wealth-divide-and-why-we-need-full-student-debt-cancellation/>.

additional 500 hours (for a total of 1,500 hours) in a minimum of 12 months, under the direction of a Supervisory Appraiser; and the certified general appraiser requires an additional 1,500 hours (for a total of 3,000 hours) in a minimum of 18 months, under the direction of a Supervisory Appraiser.

While the hours themselves are a significant barrier, the biggest challenge is finding a Supervisory Appraiser. There are several disincentives to acting as a Supervisory Appraiser, including the time, cost, and competition. First, the Supervisory Appraiser must commit to the hours, which sometimes even include attending a training course. In many instances, the commitment includes being on site while the trainee conducts the appraisal. Second, the Supervisory Appraiser is essentially agreeing to reduce their pay. Typically, the appraiser is already splitting part of the appraisal fee with the appraisal management company, so the appraiser would have to further reduce their percentage of the fee to share with the trainee. Finally, the Supervisory Appraiser is in effect training their competition as once the trainee has received his or her license or certification, the newly-minted appraiser will very likely begin working independently in the same market for the same clients as his or her former supervisor. For this reason, many appraisers report that it is almost impossible to find a Supervisory Appraiser unless they are a friend or family member willing to do this as a favor. Many appraisers say, "To be an appraiser, you have to know an appraiser." Accordingly, because most current appraisers are older, White males, the lack of social and professional connections in communities of color may perpetuate the pattern of new appraisers being mostly White males. This significantly impacts the ability of people of color to enter the profession.

The experience requirement also raises other related concerns. First, the experience hours requirement is essentially an extended apprenticeship, which significantly impacts the individual's ability to earn a living due to the fee split and/or the reliance on the supervisor to provide clients and work assignments. In addition, several appraisers reported that the experience hours and minimum months requirement seemed to be an artificial barrier as they felt prepared to conduct appraisals independently well before the minimum experience requirement was fulfilled. It did not seem like the additional hours and waiting a certain number of months provided any additional benefit.

Several concerns were raised about the Practical Applications of Real Estate Appraisal ("PAREA"), which the Appraiser Qualifications Board recently approved as an alternative to the experience hours requirement. Through PAREA, an individual would be able to bypass the experience hours by means of a virtual course in which the student handles simulated appraisal situations and completes mock appraisal exercises and assignments, removing the need to find a Supervisory Appraiser. However, there are several roadblocks to implementing PAREA as a viable alternative. First, proposed courses are still under development and none are actually available at this time. The timeline for deploying the course and the eventual cost to potential appraisers are unknown. Second, each state must adopt these new criteria, which may take years in some cases. Some states who have adopted the criteria have retained some of the experience hours requirements, meaning that the individual would still need to find a Supervisory Appraiser.

## Recommendation

Given the clear racial disparate impact of the experience hours and Supervisory Appraiser criteria, this requirement should be thoroughly reviewed to consider less discriminatory alternatives, including:

- Improving the content of the education courses so that the student is better prepared to conduct appraisals after passing the exam;
- Improving the content of the exam by including a practice-based component that ensures a prospective appraiser has a clear understanding of industry practices; and
- Replacing the current experience requirement with an exam that, once passed, makes the individual a certified appraiser.

## Barrier: Standardized Tests

Questions have long been raised about the validity of certain standardized tests and the potential disparate impact on the basis of race or ethnicity.<sup>135</sup> In the appraisal profession, the individual has to pass a standardized test to become a licensed residential appraiser, a certified residential appraiser, or a certified general appraiser.<sup>136</sup> Typically, the examination consists of about 125 questions and takes about 4-6 hours. According to data from The Appraisal Foundation (see below), the pass rate is only about 55%-65% for first-time test takers. The Appraisal Foundation does not retain data on the basis of race, ethnicity, or gender, so the numbers may be higher or lower for these individuals. This means that even after spending the time and money on the appraisal education courses, any college degree requirements, and experience hours, there is a good chance that the individual will not receive the credential. These results raise concerns about the education and experience requirements as well as the validity of the test if individuals cannot pass the exam after all that training.

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<sup>135</sup> See, e.g., John Rosales and Tim Walker, *The Racist Beginnings of Standardized Testing*, National Education Association News (March 20, 2021) <https://www.nea.org/advocating-for-change/new-from-nea/racist-beginnings-standardized-testing>; U.S. Equal Employment Opportunity Commission, *Employment Tests and Selection Procedures* (Dec. 1, 2007), <https://www.eeoc.gov/laws/guidance/employment-tests-and-selection-procedures>.

<sup>136</sup> State appraiser regulatory agencies and examination developers may use the *National Uniform Licensing and Certification Examination* developed by the Appraiser Qualifications Board or develop “equivalent examinations,” which must be reviewed and approved by the Appraiser Qualifications Board.

2015-2020												
National Uniform Licensing and Certification Examination Pass Rates												
	2015		2016		2017		2018		2019		2020	
	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate
LR	169	53%	175	62%	260	67%	325	62%	371	60%	383	57%
	89		108		173		203		224		220	
CR	411	64%	402	66%	465	73%	735	68%	846	63%	849	65%
	262		267		338		498		529		548	
CG	393	66%	407	71%	447	71%	399	71%	433	54%	368	55%
	259		287		319		250		234		203	
TOTAL	973	63%	984	67%	1172	71%	1459	65%	1650	60%	1600	61%
	610		662		830		951		987		971	

\*Data is for first time test takers.

Source: The Appraisal Foundation, [https://www.appraisalfoundation.org/imis/TAF/Standards/Qualification\\_Criteria/National\\_Uniform\\_Licensing\\_and\\_Certification\\_Exam\\_for\\_Real\\_Property\\_Appraisers\\_/TAF/AQB\\_National\\_Exam.aspx?hkey=50cf1d9e-6430-4e5d-ac6e-2fe92352cbdf](https://www.appraisalfoundation.org/imis/TAF/Standards/Qualification_Criteria/National_Uniform_Licensing_and_Certification_Exam_for_Real_Property_Appraisers_/TAF/AQB_National_Exam.aspx?hkey=50cf1d9e-6430-4e5d-ac6e-2fe92352cbdf).

## Recommendation

**The Appraisal Foundation should collect data on race, ethnicity, and gender to measure the impact of the examinations. Also, the examinations should be reviewed for validity and consistency with federal anti-discrimination laws.**

## Concern: Pipeline of Trainees and the Future of the Profession

The Appraisal Foundation and other appraisal organizations have been actively working to create a pipeline of new trainees and appraisers of color. For example, The Appraisal Foundation has been working with the National Urban League, Fannie Mae, and Freddie Mac on the “Appraiser Diversity Initiative” as well as creating scholarships for women and people of color.<sup>137</sup> That said, the lack of diversity in the financial services space is not new and civil rights groups have used a variety of methods for increasing diversity in the insurance, financial services, and real estate industries. Some of the following methods might also be useful for bolstering the efforts to increase diversity in the appraisal space.

- Creating affinity relationships and programs with Historically Black Colleges and Universities as well as Latino-serving, Asian-serving, and Native American-serving institutions;<sup>138</sup>
- Sponsoring internship opportunities for students of color;
- Partnering with civil and human rights organizations like the National Urban League, UnidosUS, and OneTen to develop apprenticeship and employment opportunities for students and people of color;

<sup>137</sup> Appraiser Diversity Initiative, <https://www.appraisalinstitute.org/the-appraisal-profession/appraiser-diversity-initiative/>.

<sup>138</sup> The Appraisal Foundation has begun an initiative to conduct outreach to Historically Black Colleges and Universities as well as Latino-serving institutions. See The Appraisal Foundation, *Promoting Diversity in the Appraisal Profession*, <https://appraisalfoundation.sharefile.com/share/view/s07b3d65a193d47e6a626af02a7aad265>.

- Implementing accountability measures that match diversity goals with compensation outcomes; and
- Establishing partnerships with real estate affinity groups such as the National Association of Real Estate Brokers, National Association of Hispanic Real Estate Professionals, Asian Real Estate Association of America, and the National Association of Minority Mortgage Bankers of America.

As various groups marshal their resources to encourage women and people of color to enter the appraisal profession, it is worth discussing how the industry can ensure that new entrants are joining a profession that is viable, sustainable, and focused on the future. A disappointing result would be to create a robust pipeline of women and appraisers of color who are not prepared for tomorrow's challenges, particularly in the areas of technology, automation, and artificial intelligence. At one PAVE Listening Session, a participant remarked that "it's difficult to convince people to enter a costly profession that seems to be becoming more automated." A review of the appraisal materials and public meetings found little to no discussion of the role of technology or any committees set up to inform and prepare appraisers for this future. At this time, the GSEs' policies mainly focus on full appraisals by human appraisers, but that could change at any time. Indeed, the GSEs are experimenting more and more with appraisal waivers, automated valuation models, and artificial intelligence. Just recently, the Acting Director of FHFA announced that the GSEs will incorporate desktop appraisals into their guides for many new purchase loans starting in early 2022.<sup>139</sup>

### **Recommendation**

**The Appraisal Foundation and other appraiser organizations should continue and expand their outreach to women and people of color. In addition, The Appraisal Foundation and other appraisal organizations should monitor the demographics of individuals entering the profession or renewing their credentials and share this information publicly to ensure that the demographics of the profession are more transparent. Finally, appraiser organizations should ensure that new professionals are prepared for the future with respect to the use of technology, automation, and artificial intelligence.**

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<sup>139</sup> Sandra L. Thompson, FHFA Acting Director, 2021 Mortgage Bankers Association Annual Convention, <https://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-of-Sandra-L-Thompson-Acting-Director-FHFA-at-the-2021-MBA-Annual-Convention-and-Expo.aspx>.