



Building Generational Wealth through Fair and Accurate Appraisals

NFHA National Conference

Building Generational Wealth: Overcoming Appraisal
Bias, Tangled Titles, and Closing the Wealth Gap for
Communities of Color

July 15, 2024

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1 | Background

What is an appraisal?



Definition of an Appraisal







Protects Lenders and Investors



Protects Consumers and Communities

Which laws prohibit appraisal discrimination?

		Fair Housing Act	Equal Credit Opportunity Act	Civil Rights Act of 1866
	Who Covered	“Any person or other entity”	“Any creditor”	Any party
	What Covered	Residential real property	“Any aspect of a credit transaction”	“Real and personal property”
	Who Protected	Race, color, national origin, religion, disability, familial status, sex (sexual orientation, gender identity)	Race, color, national origin, religion, age, marital status, source of income, sex (sexual orientation, gender identity)	Race, color, national origin
	Who Can Enforce	DOJ, HUD, financial regulators (but not CFPB), fair housing organization, tester, individual	DOJ, FTC, financial regulators (CFPB), fair housing organization, individual	Fair housing organization, individual

How can the risk of appraisal discrimination show up in refinancings and purchases?

Refi Example

- A Black couple in CA applied for a refinancing and received an appraisal of **\$995,000**, which caused the lender to **deny** the refinancing application.
- After **whitewashing**, the 2nd appraisal came in at **\$1,482,500**, which was nearly **50%** higher than the first appraisal.
- **The complaint filed in federal court** alleged irregularities in the first appraisal report and resulted in **settlements** with the appraiser and the appraisal management company.

Purchase Example

- Only a small percentage of appraisals result in an “**appraisal gap**” where the **appraised value** falls below the **contract price** agreed upon by the prospective buyer and seller.
- But of those, Freddie Mac research showed that an “appraisal gap” is more likely to occur in **majority-Black and majority-Latino census tracts** and for **Black and Latino mortgage applicants**, which can mean that the lender **denies** the mortgage application and home values are **depressed**.

Appraised Value with
Black Homeowner



\$995,000

Appraised Value after
“Whitewashing”



\$1,482,500
+487,500

How can we protect access to homeownership, home equity, and generational wealth?



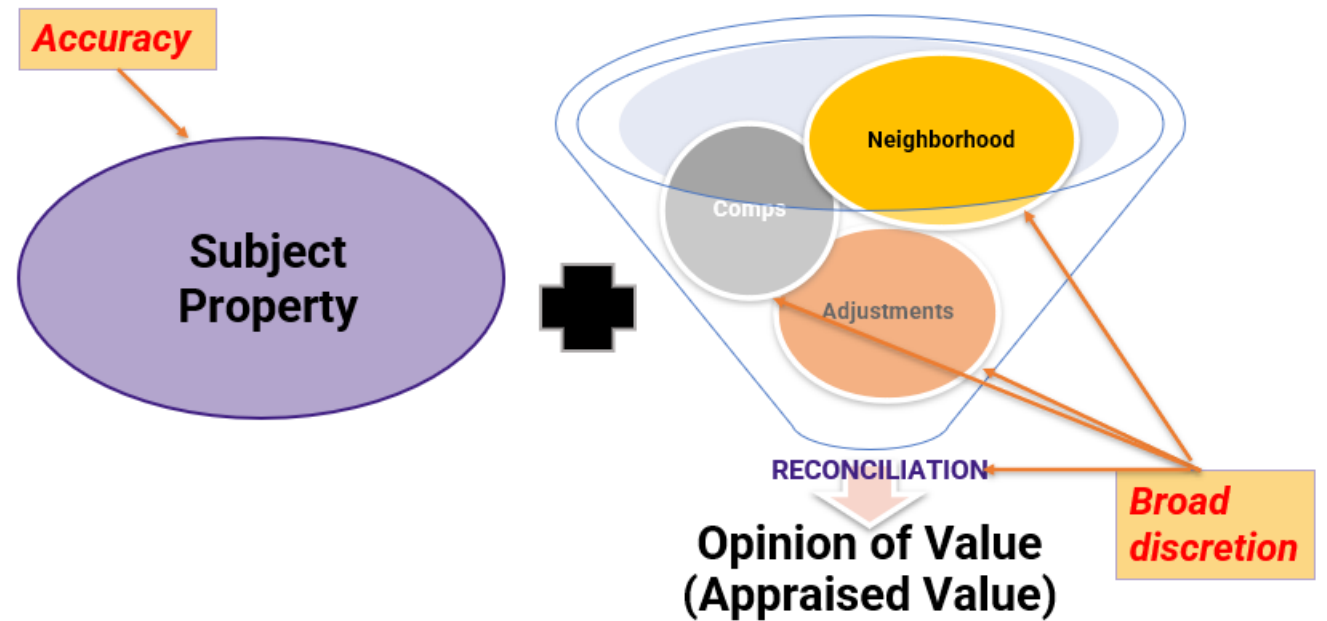
**Read the
Appraisal
Report**

**Raise
Concerns with
the Lender**

2 | How to Read the Appraisal Report

How does the appraisal method increase the risk of discrimination?

- **Broad discretion** has long been considered a key fair lending risk factor because it allows for conscious or unconscious **bias** to affect **decisions** and lead to **inconsistent outcomes**
- The **sales comparison approach** provides the appraiser with **broad discretion** to develop the **opinion of value** based on their view of:
 - Relevant **statements** in the free form descriptions,
 - The **subject property**,
 - **Comparable sales**,
 - **Adjustments**, and
 - **Reconciliation** of the values
- The **Uniform Residential Appraisal Report** (URAR or appraisal report) captures these fields and enables this broad discretion



What are common issues in the appraisal report that may indicate the risk of discrimination?

- Overt Statements
- Subject Property Description
- Comparable Sales Selection
- Adjustments
- Reconciliation

Uniform Residential Appraisal Report											File #			
There are											comparable properties currently offered for sale in the subject neighborhood ranging in price from \$		to \$	
There are											comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$		to \$	
FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3						
Address														
Proximity to Subject														
Sale Price														
Sale Price/Gross Liv. Area														
Data Source(s)														
Verification Source(s)														
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment							
Sale or Financing Concessions														
Date of Sale/Time														
Location														
Leasehold/Fee Simple														
Site														
View														
Design (Style)														
Quality of Construction														
Actual Age														
Condition														
Above Grade														
Room Count														
Gross Living Area														
Basement & Finished Rooms Below Grade														
Functional Utility														
Heating/Cooling														
Energy Efficient Items														
Garage/Carport														
Porch/Patio/Deck														
Net Adjustment (Total)														
Adjusted Sale Price of Comparables														

How can “overt statements” indicate the risk of discrimination?

- “**Overt statements**” are statements that expressly reference a protected class and may indicate the risk of discrimination
- For example, the racial composition of the neighborhood is not relevant to the appraised value, so **references to racial demographics** may indicate discrimination
- Overt statements are more likely to occur in the **free form text** portions of the appraisal report, such as the **Neighborhood Description**
- **Vague or subjective words** or phrases (e.g., good schools) can also increase the risk that the appraisal is not credible and is infused with bias

Appraisal Report – example of free form text:

Neighborhood Characteristics		One-Unit Housing Trend	
Location	<input type="checkbox"/> Urban <input type="checkbox"/> Suburban <input type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing <input type="checkbox"/> Stable
Built-Up	<input type="checkbox"/> Over 75% <input type="checkbox"/> 25–75% <input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage <input type="checkbox"/> In Balance
Growth	<input type="checkbox"/> Rapid <input type="checkbox"/> Stable <input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths <input type="checkbox"/> 3–6 mths
Neighborhood Boundaries			
Neighborhood Description			
Market Conditions (including support for the above conclusions)			

Overt Statements from FHFA and Fannie Mae Research:

- *“Working-Class Black” neighborhood*
- *“Storefronts supplying Jewish households”*
- *“Many of the businesses in the arts and entertainment district are LGBT-owned and/or operated”*

How can the subject property description indicate the risk of discrimination?

- **Incorrect subject property descriptions** may raise concerns that the appraisal has **unexplained errors** or **departs from industry standards**, which may be evidence of discrimination
- The most important description is found on **page 2 of the appraisal report**, which indicates which features of the home were included as elements of comparison
- Generally, incorrect subject property descriptions fall into two categories:
 - 1) those based on **accuracy** (e.g., **actual age, room count, gross living area**), and
 - 2) those based on **discretion** (e.g., **Quality Rating, Condition Rating, improvements**)

Uniform Residential Appraisal Report										
There are		comparable properties currently offered for sale in the subject neighborhood ranging in price from \$								
There are		comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$								
FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2					
Address										
Proximity to Subject										
Sale Price	\$				\$				\$	
Sale Price/Gross Liv. Area	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.		
Data Source(s)										
Verification Source(s)										
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment		DESCRIPTION	+(-) \$ Adjustment				
Sale or Financing Concessions										
Date of Sale/Time										
Location										
Leasehold/Fee Simple										
Site										
View										
Design (Style)										
Quality of Construction										
Actual Age										
Condition										
Above Grade	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	
Room Count										
Gross Living Area	sq. ft.			sq. ft.			sq. ft.			
S A L E S C O M P A R I	Basement & Finished Rooms Below Grade									
	Functional Utility									
	Heating/Cooling									
	Energy Efficient Items									
	Garage/Carport									
	Porch/Patio/Deck									

What examples show how the subject property description may indicate the risk of discrimination?

Accuracy: Gross Living Area

- **Case Example:** In a predominately White suburb in Connecticut, a Black doctor and White attorney applied for a **refinancing** and received an **appraisal of \$780,000**
- After whitewashing the home, the second appraisal came in at **\$1.2 million**
- Among other things, the first appraisal left out about **900 square feet of living area**
- The homeowners alleged that even if the first appraisal's low price per square foot was accepted, the valuation would have **increased by \$130,500** by including the omitted square footage

Discretion: Condition Rating

(this issue is not based on race, but shows the risk of inconsistent outcomes)

Inaccurate Condition Ratings

CU contains MLS photos that can be used to validate quality and condition ratings. The appraiser rated the subject condition as C5, but based on photos (kitchen examples below), a higher rating is warranted. The appraiser made a \$37k downward adjustment to the comparable, but side by side comparison of the photos in CU shows that the two are equal condition and no adjustment is warranted. **Inaccurate condition ratings resulted in inappropriate condition adjustments for all comparables used in the report.**



Subject Property

An Hour with Fannie Mae | September 2022



Appraisal Comparable Sale



How can the comparable sales selection indicate the risk of discrimination?

- The selection of **comparable sales** is the **most significant risk factor** because it is the center of the sales comparison approach and provides the appraiser with **broad discretion** to determine which properties are defined as “comparable” to the subject property
- At the right is a graphic of the appraisal report showing the **comparable sales sections** that are commonly subject to errors that may indicate the risk of discrimination:
 - **Neighborhood boundaries and proximity to subject**
 - **Sales/financing concessions and date of sale**
 - **Elements of comparison (e.g., room count, improvements, etc.)**

Uniform Residential Appraisal Report										File #
There are comparable properties currently offered for sale in the subject neighborhood ranging in price from \$										to \$
There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$										to \$
FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3		
Address										
Proximity to Subject										
Sale Price	\$		\$		\$		\$			
Sale Price/Gross Liv. Area	\$ sq. ft.	\$	sq. ft.		\$	sq. ft.	\$	sq. ft.		
Data Source(s)										
Verification Source(s)										
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment			
Sale or Financing Concessions										
Date of Sale/Time										
Location										
Leasehold/Fee Simple										
Site										
View										
Design (Style)										
Quality of Construction										
Actual Age										
Condition										
Above Grade	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	
Room Count										
Gross Living Area		sq. ft.		sq. ft.		sq. ft.		sq. ft.		
Basement & Finished Rooms Below Grade										
Functional Utility										
Heating/Cooling										
Energy Efficient Items										
Garage/Carport										
Porch/Patio/Deck										

What examples show how the identification of the neighborhood boundaries may indicate the risk of discrimination?

- **Cases** often allege that neighborhood and comps were selected based on the race of the homeowner rather than the comps that were the most **locationally and physically similar** to the subject property
- **Case #1:** A Black couple in Maryland received an initial appraisal of **\$472,000**, and then received a second appraisal of **\$750,000 after whitewashing** the home. The map at right shows that the first appraisal selected two comps (labeled as L2 and L4) that were in **majority-Black census blocks**, one of which was outside the neighborhood. By contrast, the second appraisal used comps (labeled as D1-D5) within the neighborhood and **not directed to majority-Black census blocks**.
- **Case #2:** An appraisal for a Black duplex owner in Oakland, California selected comps that were locationally farther and in a **predominately Black neighborhood**; that appraisal came in at **\$800,000**. A second appraisal selected comps from a **radius around the subject property** and came in at **\$1,239,000**.

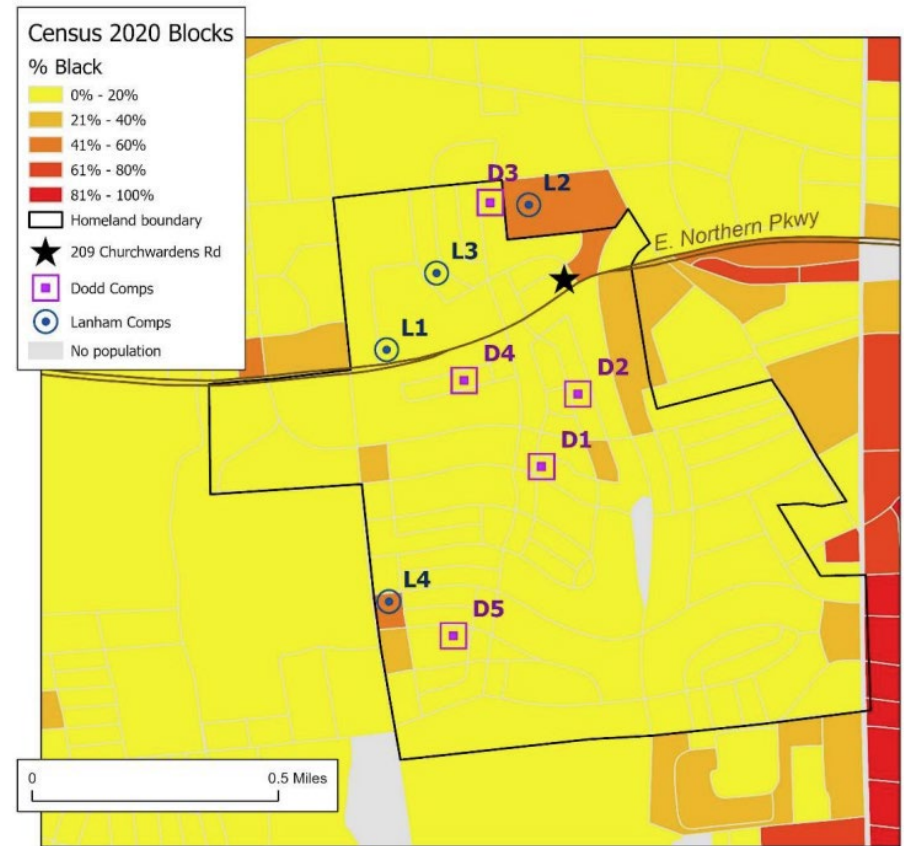


Figure 4: Comparison of Lanham's Comps and Dodd's Comps

What examples show how the date of sale or sales/financing concessions may indicate the risk of discrimination?

Appraisal Report: Date of Sale

VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment
Sales or Financing		ArmLth	
Concessions		Conv;8500	
Date of Sale/Time		s07/19;c06/19	

Date of Sale

- The Fannie Mae and Freddie Mac Guides state that the appraisal report generally should use comparable sales that have been closed within the **last 12 months**
- **Case Example:** A 2021 appraisal for a mixed-race couple living in a predominately White suburb in Connecticut selected comps that sold **prior to the pandemic housing market boom**, even though other comps closer in time were available

Appraisal Report: Sales/Financing Concessions

VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment
Sales or Financing		ArmLth	
Concessions		Conv;8500	

Sales/Financing Concessions

- Generally, the appraisal report should use **arms-length transactions**, commonly abbreviated as “ArmLth”
- However, the appraiser has the discretion to use other types of transactions, such as **foreclosure sales or short sales**
- In those cases, there should be an appropriate **adjustment** to reflect the atypical condition of sale

What examples show how the elements of comparison may indicate the risk of discrimination?

- **Fannie Mae Guide:** “Comparable sales should have **similar physical and legal characteristics** when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition.”
- **Fannie Mae Example** (not based on race): In the example at right, one of the comps appeared to be **significantly different and inferior** to the subject property, which increased the risk of **undervaluation**
- **Case Example:** An appraisal for a Black/Latina couple came in at **\$1,154,000**. A few months later, a second appraisal came in at only **\$900,000** and was based on comps with **boarded-up windows, a caved-in garage, and a roof with bricks to hold down the shingles.**

Selecting Comparables

The photo to the left is a street-level view of the subject property. The photo to the right is a view of the front of one of the comparable sales provided by the appraiser, which is almost half the size, **lacks a garage, and is inferior** in construction and appeal.

Why did the appraiser use a comparable sale that is so significantly different from the subject when there were alternative sales that were more similar?



Subject Property

An Hour with Fannie Mae | September 2022



Appraisal Comparable Sale



How can adjustments indicate the risk of discrimination?

- Under the sales comparison approach, the appraisal report should show adjustments for each **subject property element** that is **different** from the comp AND that the market (or typical buyer) would consider **important** to the value of the home
- The **example** at right shows some typical adjustments in absolute dollars:
 - Addition of \$4320 because the subject property's above-grade gross living area is better than the comp;
 - Subtraction of \$5,000 because the subject property's kitchen is not as good as the comp's kitchen;
 - A net adjustment of -\$680 (-\$5000 + \$4320); and
 - A final adjusted sale price of \$1,003,320 (original sale price of \$1,004,000 - \$680)
- Generally, errors in the adjustments fall into two categories: **inaccuracies** in the math and **discretion**

VALUE ADJUSTMENTS	DESCRIPTION			DESCRIPTION			+(-) \$ Adjustment	DESCRIPTION			+(-) \$ Adjustment
Sales or Financing				ArmLth				ArmLth			
Concessions				Conv;8500				Conv;0			
Date of Sale/Time				s07/19;c06/19				s09/19;c08/19			
Location	N;Res;			N;Res;				N;Res;			
Leasehold/Fee Simple	Fee Simple			Fee Simple				Fee Simple			
Site	1465 sf			1458 sf			0	1020 sf			0 14
View	N;Res;			N;Res;				N;Res;			
Design (Style)	AT4;Intr-Town			AT4;Intr-Town				AT4;Intr-Town			
Quality of Construction	Q3			Q3				Q3			
Actual Age	21			21				14			0 21
Condition	C3			C3				C3			
Above Grade	Total	Bdms.	Baths	Total	Bdms.	Baths		Total	Bdms.	Baths	
Room Count	8	3	3.1	8	3	3.1		8	3	3.1	
Gross Living Area	2,108 sq.ft.			2,136 sq.ft.			0	2,012 sq.ft.			+4,320
Basement & Finished Rooms Below Grade	0sf			0sf				0sf			
Functional Utility	Adequate			Adequate				Adequate			
Heating/Cooling	FWA/CAC			FWA/CAC				FWA/CAC			
Energy Efficient Items	Insulated Wnds			Insulated Wnds				Insulated Wnds			
Garage/Carport	2gbi2dw			2gbi2dw				2gbi2dw			
Porch/Patio/Deck	Deck			Deck				Deck			
Fireplaces	1 Fireplace			1 Fireplace				1 Fireplace			
Upgrds/Updts/Rnvt	Average			Supr Kit, Ls Flm			0	Supr Kit Updts			-5,000
Net Adjustment (Total)				<input type="checkbox"/> + <input type="checkbox"/> -			\$ 0	<input type="checkbox"/> + <input checked="" type="checkbox"/> -			\$ -680
Adjusted Sale Price of Comparables				Net Adj. 0.0 %				Net Adj. 0.1 %			
				Gross Adj. 0.0 %			\$ 945,000	Gross Adj. 0.9 %			\$ 1,003,320

What examples show how the adjustments may indicate the risk of discrimination?

#1: Elements of Comparison

- An appraisal for a Black couple in a predominately White suburb in Maryland made **downward adjustments** to the sales prices of the comps and failed to make appropriate **upward adjustments** to reflect features that were in the subject property
- A **second appraisal** provided **smaller** downward adjustments and up to **double** the amount of upward adjustments

#2: Quality Ratings

- An appraisal for a mixed-race couple living in a predominately White suburb in Connecticut applied value adjustments **inconsistently**
- For instance, three of the comps were assigned a Q2 rating and had value adjustments of **10%**
- By contrast, another Q2 comp had an adjustment of **20%**

#3: Neighborhoods

- An appraisal for a Black couple living in a majority-Black census tract in a predominately White county in California selected three **comps from outside of the majority-Black census tract**
- When evaluating these comps, the appraisal made **downward adjustments of 25%** less per square foot allegedly based on historical data plus an unexplained additional **28%** reduction

How can the reconciliation indicate the risk of discrimination?

- The appraiser must **reconcile** the adjusted comp values to determine the final opinion of value, which should not be based on an average but rather the relative **relevance** of each comparable
- **Example:** While there are no cases directly on point, the Fannie Mae/Freddie Mac guidance suggests the following **risks**:
 - Whether there is a sufficient number of comps to develop an opinion of value
 - Which comps were given the most weight
 - Whether the reasoning for the final opinion of value is sufficiently documented

RECONCILIATION	Effective Date of Data Source(s)			
	Analysis of prior sale or transfer history of the subject property and comparable sales			
	Summary of Sales Comparison Approach			
	Indicated Value by Sales Comparison Approach \$			
	Indicated Value by: Sales Comparison Approach \$ Cost Approach (if developed) \$ Income Approach (if developed) \$			
This appraisal is made <input type="checkbox"/> "as is", <input type="checkbox"/> subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, <input type="checkbox"/> subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or <input type="checkbox"/> subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:				
Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$ _____, as of _____, which is the date of inspection and the effective date of this appraisal.				

Freddie Mac Form 70 March 2005 Page 2 of 6 Fannie Mae Form 1004 March 2005

3 | How to Raise Concerns with the Lender

How can concerns be raised with the lender?

Reconsideration of Value (ROV)

- The consumer can ask the lender to ask the same appraiser to reconsider the opinion of value
- Typically, the consumer will submit information, such as comparable sales that were available at the time of the appraisal but were not used in the appraisal report

2nd Appraisal

- The consumer can ask the lender to request a second appraisal from a different appraiser
- This is more likely to occur if the consumer believes that the first appraisal was impacted by bias or discrimination

Complaint

- The consumer can submit a complaint to the lender, without a specific request for an ROV or second appraisal
- This is more likely to occur if the consumer does not feel there is time for an ROV or second appraisal

Other

- HUD complaint
- Federal or state court complaint
- Federal or state regulator complaint
- Lender internal review

What are best practices for raising an effective consumer complaint to the lender?

- Review and/or request the lender's disclosure and timeline for raising consumer concerns (required at time of application and upon delivery of appraisal report)
- Clearly state a) whether you are asking the lender for an ROV or 2nd appraisal, or are just filing a complaint with the lender; and b) whether you have concerns about possible discrimination (may trigger lender escalation)
- Describe in detail any irregularities in the appraisal report based on: overt statements, subject property description, comp selection, adjustments, reconciliation
- Provide as much information as possible about appropriate comps available at the time of the appraisal (can work with the real estate agent)
- Describe any other details that may indicate the risk of discrimination, such as overt statements made by the appraiser during the property visit
- Ask the lender for the expected turn around time
- Ask whether the lender will pay for the ROV and/or 2nd appraisal (required for FHA lenders)



The National Fair Housing Alliance

The National Fair Housing Alliance® leads the fair housing movement. NFHA™ works to eliminate housing discrimination and ensure equitable housing opportunities for all people and communities.

- Education and outreach
- Member services
- Public policy & advocacy
- Housing and community development
- Tech equity
- Enforcement
- Consulting and compliance programs

Email: nfha@nationalfairhousing.org

