



Addressing Appraisal Bias –
A Pennsylvania State Appraisal
Certification Board Perspective


PHRC – Housing Equality Conference

June 21, 2023

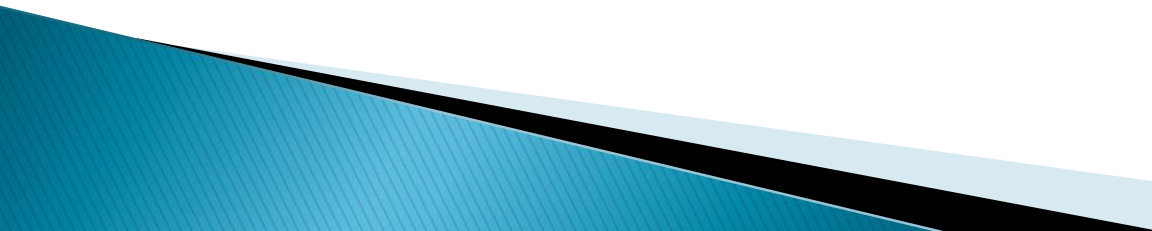
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Disclaimer

- ▶ The information presented today does not necessarily reflect the views of the Commonwealth of Pennsylvania, The Governor, or the Office of General Counsel.
 - ▶ Information and opinions presented today are not positions, opinions or legal advice of/from the Department of State, Bureau of Professional and Occupational Affairs or the Pennsylvania State Board of Certified real Estate Appraisers.
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Presentation Learning Objectives

- ▶ **Understand what a real estate appraisal is and how it can be negatively impacted by historic, systemic and personal sources of bias and discrimination.**
 - ▶ **Learn how to spot suspected appraiser bias and where and how to report your concerns.**
 - ▶ **Understand the actions being taken by State and Federal appraisal regulators to address appraisal bias issues in the short and long term.**
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What is a Real Estate Appraisal?

Definition of Appraisal under Pennsylvania law:

“Appraisal.” A written analysis, opinion or conclusion relating to the nature, quality, value or utility of specified interests in, or aspects of, identified real property, for or in expectation of compensation.

What is NOT a Real Estate Appraisal?

- ▶ Automated Valuation Models – Zillow’s ‘Zestimate’ may be the best known AVM
- ▶ Comparative Market Analysis*
- ▶ Broker Price Opinion*
 - * performed by real estate brokers or salespersons for specified, limited purposes

What role do appraisals play in the mortgage process?

- ▶ Lenders will typically lend up to a certain portion of a home's value for purchase or other financing (Loan to Value Ratio)
- ▶ The value of a piece of real estate is determined via a real estate appraisal
- ▶ The borrower pays the cost of the appraisal, BUT the Lender is the appraiser's client

Appraisal Standards National

- ▶ Uniform Standards of Professional Appraisal Practice a/k/a “USPAP”
- ▶ Adopted by Congress in 1989 after the S&L Crisis
- ▶ USPAP is updated and revised every 1–2 years by the Appraisal Foundation
- ▶ The Appraisal Foundation also sets minimum standards for appraiser training and qualifications

Appraisal Standards Pennsylvania

- ▶ Pennsylvania incorporates all national standards, including USPAP
- ▶ Real Estate Appraisers Certification Act
 - Became law in 1990
 - Created the PA State Board of Certified Real Estate Appraisers
 - Responsible for overseeing Pennsylvania's standards for appraiser training and qualifications
 - Enforces the standards of USPAP and PA law for appraisers

What is Appraisal Bias?

- ▶ Is bias a new issue in appraising? No!
 - USPAP has always defined bias as unacceptable in performing an appraisal:
 - “a preference or inclination that precludes an appraiser’s impartiality, independence, or objectivity in an assignment.”
 - Bias or any kind in an appraisal will render it non-credible
 - Discriminatory bias against protected classes of persons in a fair housing context is also not new, but the focus on identifying and remediating sources of appraisal bias is an ongoing effort

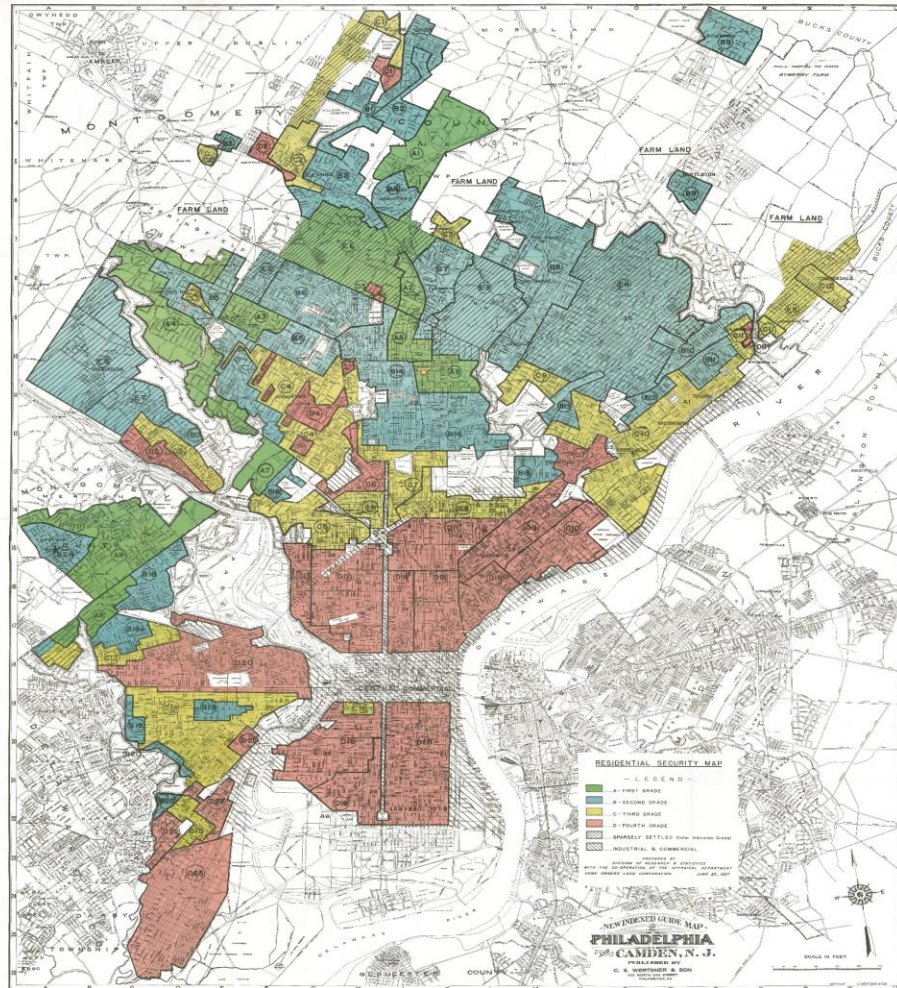
Sources of Appraisal Bias

- ▶ Appraiserer Bias is one aspect of Appraisalal Bias
- ▶ Sources of Appraisal Bias are often interlinked
- ▶ Types of Appraisal/Appraiser Bias
 - Historic – redlining is ONE example of historic and systemic RE bias
 - Systemic – current appraisal standards can compound the socioeconomic affects of historic discrimination
 - Appraiser Bias – Implicit/Overt bias

Redlining and Appraisal Bias

- ▶ Redlining identified neighborhoods on lending maps that were considered high risk places to lend money/give mortgages
- ▶ Reverse redlining was the practice of predatory lenders moving into areas excluded from mainstream sources of loan capital
- ▶ Redlined areas were low income, older areas of cities and included a majority of racial and ethnic minorities within a city
- ▶ Acted to depress home value, make home sales and improvement difficult and deprived families of a major resource of generational wealth

“Residential Security” Map of Philadelphia circa 1937



Eliminating redlining??

- ▶ Fair Housing Act of 1968
- ▶ Equal Credit Opportunity Act of 1974
- ▶ But...
 - “CFPB and DOJ Order Hudson City Savings Bank to Pay \$27 Million to Increase Mortgage Credit Access in Communities Illegally Redlined” (9–24–2015)

Systemic Sources of Appraisal Bias

- ▶ Excerpts from the Fannie Mae Selling Guide – Section B4–1.3: Appraisal Report Assessment (June 2023)
- ▶ 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.
- ▶ Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.


Spotting Possible Appraiser Bias

- ▶ Description of the property and/or neighborhood
 - Inclusion of racial demographic information in the neighborhood description
- ▶ Selection of Comparable Properties
 - Are comps being chosen from areas with similar houses or from areas with similar population demographics?
 - Appraising the person instead of the property
- ▶ Appraisal Testing by Fair Housing entities

Appraiser Bias In The News

- ▶ Widely publicized Appraiser Bias cases related to discrimination/violation of Fair Housing laws
 - Marin City, California (settled)
 - HUD vs JPMorgan/Chase (conciliation agreement)
 - Indiana
 - Maryland
- ▶ Appraiser Bias affects individual sellers/borrowers based on personal traits of the borrower or demonstrated in their home

Spotting Possible Appraiser Bias

- ▶ Description of the property and/or neighborhood use ‘code’ words
 - ▶ Inclusion of racial demographic information in the neighborhood description
 - ▶ Selection of ‘Comparable Properties’ from locations that align with personal traits of the homeowner (race, ethnicity) rather than the property
 - ▶ Undervaluation of your home***
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Filing an appraisal complaint in PA

- The PA State Board of Certified Real Estate Appraisers is one of 29 professional licensing Boards and Commissions within the Pennsylvania Department of State
- Complaints can be filed online at:
- <https://www.pals.pa.gov/#/page/filecomplaint>


- [Pennsylvania Human Relations Commission](#)
- Call (717)787-4410 \ (717) 787-7279 TTY users or go to PHRC's website



Federal and Pennsylvania Efforts to Combat Appraisal Bias

- ▶ Mandating specific continuing professional education for practicing appraisers on the subjects of Appraisal Bias and Fair Housing
- ▶ Mandating increased education on Appraisal Bias and Fair Housing issues in appraiser pre-certification education
- ▶ PAREA (see next slide)
- ▶ Coordinating Enforcement efforts between the Appraiser Board and the PHRC
- ▶ Interagency Task Force on Property Appraisal and Valuation Equity (PAVE)

PAREA – A New Approach to Appraiser Training

- ▶ Appraisal certification requires classroom training and extensive appraisal experience working with a certified appraiser
 - ▶ The number of appraisers is shrinking and opportunities for experiential training are becoming very limited
 - ▶ PAREA offers an alternative experiential option that utilizes online and virtual experience that can expand the pool of potential appraiser candidates and offer directed experiential education in dealing with fair housing issues
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Questions??



Thank you!!