

Bias Research Solutions Project Team Report to the Appraisal Institute

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Charge

The charge of the Bias Research Solutions Project Team (BRSPT Project Team) was to review available research and recommend appropriate next steps for the Appraisal Institute. Consideration was given to any proposed solutions in the research, and the anticipated impact the proposed solutions would have on the profession, the real estate industry, and consumers.

Research Papers Reviewed

Research Article 1	Research Article 2	Research Article 3	Research Article 4
<p>The Impact of Race and Socio-Economic Status on the Value of Homes by Neighborhood: A Critique of the Brookings Institution’s “The Devaluation of Assets in Black Neighborhoods”, Edward Pinto and Tobias Peter. American Enterprise Institute’s Housing Center (AEI). (2021, August 5).</p> <p>READ ARTICLE</p>	<p>How Automated Valuation Models Can Disproportionately Affect Majority Black Neighborhoods, Michael Neil, Sarah Stochak, Linna Zhu, and Caitlin Young. Urban Institute (UI). (2020, December 29).</p> <p>READ ARTICLE</p>	<p>Racial and Ethnic Valuation Gaps in Home Purchase Appraisals, Melissa Narragon, Danny Wiley, Doug McManus, Vivian Li, Kangli Li, Xue Wu, and Kadir Karamon. Freddie Mac Economic and Housing Research Note (2021, September 20).</p> <p>READ ARTICLE</p>	<p>Neighborhoods, Race, and the Twety-first-century Housing Appraisal Industry, Junia Howell and Elizabeth Korver-Glenn. (2018, February 28).</p> <p>READ ARTICLE</p> <p>The Increasing Effect of Neighborhood Racial Composition on Housing Values, 1980-2015, Social Problems, Volume 68, Issue 4, November 2021, Pages 1051-1071.</p> <p>READ ARTICLE</p>

Research Article 5	Research Article 6	Research Article 7
<p>The Devaluation of Assets in Black Neighborhoods, The case of residential property, Andre Perry, Jonathan Rothwell, and David Harshbarger. (2018, November 27). The Brookings Institution</p> <p>READ ARTICLE</p>	<p>Appraising the Appraisal: A closer look at divergent appraisal values for Black and white borrowers refinancing their home, Jake Williamson and Mark Palim. (2022, February 16). Fannie Mae.</p> <p>READ ARTICLE</p>	<p>How Common is Appraiser Racial Bias – An Update, Ed Pinto and Tobias Peter. (2022, May). American Enterprise Institute Housing Center.</p> <p>READ ARTICLE</p>

Project Approach

The Project Team held bi-weekly meetings over the course of five months. As part of its consideration of each research article, the Project Team met with at least one of the author(s) of each article. At these meetings the author(s) had an opportunity to summarize their research and discuss their findings and recommendations with the Project Team.

Project Team Members

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- Sharon Harbin, MAI, SRA, AI-GRS
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- Staff Liaisons: Bill Garber, Director of Government and External Relations
- Jonathan Thatcher, Senior Research Manager
- Organizer: Aaliyah Sheperd, Senior Collateral Associate, Better

Project Team’s Macro Recommendations to the Appraisal Institute

1. Evaluation and development of guidance and education that would enable valuation professionals to analyze bias risk within appraisals and valuations. This would add special processes for risk profiling in appraisal reports. This coincides with an additional recommendation to expand and enhance the Appraisal Institute’s Body of Knowledge relative to bias identification.

2. Update appraisal review courses relating to identified bias issues. Pre-existing appraisal review courses and textbooks will likely require additional components relating to bias topics.
3. Continue to discuss bias mitigation and with end-users and those downstream from the appraisal process to understand issues, trends, and developments and to strengthen confidence in the appraisal and valuation “process.”
4. To mitigate real or perceived concerns about bias, speak out and educate the public about the importance of market and geographic competency within the appraisal procurement and fulfillment processes.

Project Team’s recommendations to the Appraisal Institute Related to Research Articles

Research Article 1: The Impact of Race and Socio-Economic Status on the Value of Homes by Neighborhood: A Critique of the Brookings Institution’s “The Devaluation of Assets in Black Neighborhoods”, Pinto and Peter

Author’s recommendations	Project Team’s Recommendations to AI
<ol style="list-style-type: none"> 1. Build generational wealth through sustainable homeownership for low socioeconomic status households by reducing leverage for low income buyers. Reduce leverage by buying down the interest rate on a 20-year mortgage. This would in part subsidize wealth building rather than debt, lower default risk, and help address credit score issues. 2. Increase housing supply and reduce income stratification by making 2-4-unit housing in 1-unit housing areas and allow extra rooms to be rented out. 3. Promote walkable oriented development in mixed use neighborhoods to promote job and education opportunities. 	<p>The Project Team found that the recommendations in Research Article 1 do not address the issue of appraisal bias.</p> <p>The Project Team recommends that the Appraisal Institute take no action as to those recommendations.</p>

Research Article 2: How Automated Valuation Models Can Disproportionately Affect Majority Black Neighborhoods, Neil, Stochak, Zhu, and Young

Author’s recommendations	Project Team’s Recommendations to AI
<ol style="list-style-type: none"> 1. Encourage direct investment flowing to majority-Black communities, particularly through Black Banks and CDFIs. 2. Support households’ seeking to purchase distressed sales for use as a primary residence. 3. Encourage modelers to continue identifying variables in their AVMs to potentially help reduce magnitude of error in majority-Black neighborhoods. 	<p>The Project Team found that the recommendations in Research Article 2 do not address the issue of appraisal bias.</p> <p>The Project Team recommends that the Appraisal Institute acknowledge but take no action as to those recommendations.</p>

Research Article 3: Racial and Ethnic Valuation Gaps in Home Purchase Appraisals, Narragon, Wiley, McManus, Li, Li, Wu, and Karamon

Author's recommendations	Project Team's Recommendations to AI
<ol style="list-style-type: none"> 1. Review of appraisal best practices. 2. Defining uniform standards for AVMs 3. Addressing consumer disclosure and reconsideration of value processes. 4. Revising fair lending exam procedures and risk assessments. 	<p>The Project Team provided Freddie Mac with suggestions for further research.</p> <p>The Project Team found that recommendations 1, 3 and 4 in Research Article 3 identify issues that are directly relevant to the appraiser community. The Project Team recommends that the Appraisal Institute explore opportunities to work on these issues.</p>

Research Article 4: Neighborhoods, Race, and the Twenty-first-century Housing Appraisal Industry, and The Increasing Effect of Neighborhood Racial Composition on Housing Values, 1980-2015, Howell and Korver-Glenn.

Author's recommendations	Project Team's Recommendations to AI
<ol style="list-style-type: none"> 1. Standardize measurements <ol style="list-style-type: none"> a. Automate Floor Plan Technology b. Automate Neighborhood Evaluations c. Automate the Sales Comparison Approach 2. De-racializing property evaluations <ol style="list-style-type: none"> a. Institutionalize a New Appraisal Method (Redefining market value to consider the amount of natural materials, human labor, and public resources required to construct and build a home b. Create regulatory processes that track equity. 3. Financially incentivizing racial equity <ol style="list-style-type: none"> a. Housing Policy Reparations: federal policies to provide housing reparations for historical and ongoing unjust policies b. Lower interest rates for federally insured mortgages c. Rethink the secondary mortgage market. 	<p>The Project Team found that:</p> <ul style="list-style-type: none"> - Recommendations 1(a) and 1(b) could benefit the appraisal process. The Project Team recommends that the Appraisal Institute lead a transition away from the term “neighborhood” to utilize “market area” within The Body of Knowledge. Develop guidance and education relating to the concepts of market area description, selection of comparable sales, and relevance of comparable sales and advocate for its application in lender collateral underwriting guidelines. - Recommendation 1(c) should be disregarded. - Recommendation 2(a) should be disregarded. Recommendation 2(b) should be recognized. - Recommendations 3(a), 3(b), and 3(c) are policy-related recommendations rather than appraisal-related recommendations.

Research Article 5: The Devaluation of Assets in Black Neighborhoods, The case of residential property, Perry, Rothwell, and Harshbarger.

Author's recommendations

1. "Lenders, real estate agent behavior, elected officials and public policies, biased labor markets as well other predatory housing practices also contribute to the problem of devaluation. Consequently, we need a suite of innovations based on people who are intimate with the issue".
2. "We believe that devaluation reflects discrimination throughout housing markets. Therefore, we are interested in innovations that address low appraisals, mortgage rates and insurance costs."
3. "We will call for the hybrid approach. If a property falls below market rate (contract price) it should trigger another appraisal, an AVM. We must hold appraisers accountable. Appraisers must explain the lower rate. Appeals are hard to come by. Ninety percent of appeals are denied. We need a backup when something goes wrong. If someone feels low-balled, get a White person to stand in for them. Is it individual bias or just a bad appraiser? Is it individual bias or a structural problem? It is a structural problem if you use the pricecomparison approach. It can be mitigated by using data."

Project Team's Recommendations to AI

The Project Team found that, for the most part, the recommendations related to Research Article 5 involve policy issues rather than appraisal issues.

The Project Team recommends that the Appraisal Institute continue to explore opportunities to work with other entities and groups that are working to address issues of appraisal bias.

Research Article 6: Appraising the Appraisal: A closer look at divergent appraisal values for Black and white borrowers refinancing their home, Williamson and Palim.

Author's recommendations

1. Increase the use of alternative-scope property valuation approaches such as desktop appraisals and hybrid appraisals. These alternative approaches reduce contact between borrowers and appraisers.
2. Build on existing safeguards to detect valuation errors. For instance, Fannie Mae's Collateral Underwriter provides lenders tools that promote greater appraisal quality and help detect valuation problems in real time.
3. Continue to modernize the appraisal process for home loans - improvement through better use of data, technology, and process design can drive more factual, objective, accurate, and reproducible appraisals.
4. Foster diversity in the appraiser workforce.
5. Enhance the tools appraisers use to validate their opinions. Many valuation problems are related to items like comparable selection, comparable location, and adjustments. It's important that individual appraisers have the same tools necessary to validate these measures as institutions such as Fannie Mae.

Project Team's Recommendations to AI

The Project Team found that:

The Project Team found that recommendation 1 may create unintended consequences, although the Project Team recognized that if more data is utilized it could reduce subjectivity and bias depending on how the data is collected.

The Project Team found that recommendations 2 and 5 relied on data held by the GSEs and that any action related to these recommendations would depend on the GSE's allowing access to their data.

The Project Team found that recommendations 3 and 4 addressed ways the housing industry can help minimize the chance of racial bias in home valuation and that the Appraisal Institute should continue to explore opportunities to get involved in these areas.

Research Article 7: How Common is Appraiser Racial Bias – An Update, Pinto and Peter

Author's recommendations

More research is needed to identify the extent of bad apples, implicit bias, and incompetence. An independent regulator should evaluate the work of individual appraisers for both bias and incompetence without delay using readily accessible data.

Project Team's Recommendations to AI

The Project Team found some analysis of individual appraisers has already been deployed through the Appraiser Quality Monitoring initiative. Much of the data necessary to conduct such an evaluation at the individual level already exists today. Such a study should follow the methodology recently outlined in a Fannie Mae study, for which researchers have already assembled a substantial database.