

# Appraisal Bias's Effects, Challenges and Potential Solutions

Jake Lilien, Counsel for Fair Housing Enforcement,  
National Community Reinvestment Coalition



## Key Findings

- NCRC selected Black/White interracial couples who own homes in the Baltimore metro area as testers, and paid for them to get their homes appraised multiple times.
- When White partners showed their homes to appraisers, they were valued on average about \$7,000 higher than when the Black partners showed the same homes to appraisers
- All seven of the appraisers who met with White partners treated them professionally, whereas two of the appraisers who met with Black partners provided them with terrible customer service

## What's Wrong With Home Appraisals?

- Racism in appraisals was encoded into the U.S. government in the 1930s, when federal policies explicitly used the racial compositions of neighborhoods to determine the appraisal values of homes
- Homes in majority-Black neighborhoods are valued, on average, less than half of what the homes in neighborhoods with few or no Black residents

# What's Wrong With Home Appraisals?

- Even when the characteristics of the homes and neighborhoods are the same, the homes in the majority-Black neighborhoods are still valued 23 percent lower. This amounts to \$156 billion in losses for majority-Black neighborhoods

(The Brookings Institution: Perry, Andre M., Rothwell, Jonathan and Harshbarger, David, The Devaluation of Assets in Black Neighborhoods: The Case of Residential Property (November 27, 2018). Available online at: <https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/>)

- Freddie Mac research shows that more than 15% of appraisals in majority-Latino neighborhoods, and more than 12% of appraisals in majority-Black neighborhoods, are for lower values than the homes actually sell at. This is true of only 7.4% of homes in white neighborhoods

(Freddie Mac, Racial and Ethnic Valuation Gaps in Home Purchase Appraisals (September 20, 2021). Available online at <https://www.freddiemac.com/research/insight/20210920-home-appraisals>)

## What's Wrong With Home Appraisals?

More than 97% of American real estate appraisers are white. They are 70% male.

(U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, (January 22, 2021), Available online at <https://www.bls.gov/cps/cpsaat11.htm>).

Appraisers seeking certification need to do extensive training with a currently certified appraiser, which prevents people of color and women from joining the profession.

Appraisers seeking certification need substantial college credits

## Appraisal Bias Against Individuals

In 2020, Carlette Duffy had her Indianapolis home appraised for \$125,000.

She paid for a market analysis of her home, which said it could sell for \$187,000. Her lender wouldn't change the valuation, so she had her home appraised by a different appraiser – who valued it for \$110,000.

She got a third appraisal, and asked a White friend to pose as her brother, and it was appraised for \$259,000.

## Appraisal Bias Against Individuals

Paul and Tenisha Austin bought a home in Marin City, California in 2016, spent thousands of dollars renovating it, and then sought to refinance in 2020

It was appraised at \$995,000

When a white friend posed as the homeowner, a different appraiser valued the home at \$1,482,500

## NCRC's Testing Methodology

- 7 tests were conducted, consisting of 14 appraisals
- In each test, a particular home was appraised twice, by appraisers selected at random.
- When one appraiser showed up for the home inspection, the White partner was the only person present, and the home was “whitewashed.” When the other appraiser showed up for the home inspection, the home had been “blackwashed,” and the Black partner was the only person present.



## Highlighted Appraisers

**Appraiser A:** In Test One, Appraiser A appraised a Black client's home at \$310,000. Another appraiser met with their White spouse, and appraised the home at \$350,000 – a nearly 13% increase in value.

The home was the subject of Test Five, when it was appraised at \$370,000 and \$380,000.

Appraiser A was tested again, in Test Seven, and met with a White homeowner. Appraiser A appraised their home at \$553,000. The other appraiser appraised the home at \$507,000. The home was appraised four other times, and the values ranged from \$460,000 to \$510,000.

## Highlighted Appraisers

**Appraiser B:** In Test Two, Appraiser B agreed to appraise a home in a suburb of Baltimore with far more Whites than Blacks. Appraiser B then showed up for the home inspection, and was greeted by a Black homeowner. After meeting the homeowner, Appraiser B ghosted the homeowner. He never provided a report, or gave an explanation for why he wasn't providing a report.

We attempted to re-test this appraiser. When offered an assignment appraising a home in a majority-Black neighborhood in Baltimore, Appraiser B turned the assignment down.

## Highlighted Appraisers

**Appraiser C:** In Test Three, Appraiser C met with a Black homeowner. It took him 11 weeks to produce an appraisal report for the homeowner. Partway through this 11-week period, he was asked when the report would be ready, and did not respond to the inquiry at all.

Appraiser C was re-tested in Test Five, when he met with a White homeowner. The next week he reached out to the homeowner to apologize that the report wasn't ready yet. He then provided the homeowner with an appraisal report 2 and ½ weeks after the home inspection.

## The PAVE Report

The PAVE Report (Action Plan to Advance Property Appraisal and Valuation Equity), commissioned by President Biden, details the problems caused by appraisal bias, and includes an action plan with proposals for combatting discrimination in the industry.

These proposals include strengthening the guardrails against discrimination, enhancing enforcement activity, diversifying the profession, empowering consumers to take action, and providing better data.

Link: <https://pave.hud.gov/actionplan>

## *NCRC v. Martin Appraisal Company et al*

- Last month, NCRC filed complaints with HUD and the CFPB against an appraisal company (Martin Appraisal Company), an appraisal management company (Appraisal Nation, LLC), and a lender (Stratton Equities).
- Terry Horton is an African-American landlord in Cincinnati, who attempted to refinance one of his properties. His lender provided him with a good faith estimate that his property was worth \$500,000.

## *NCRC v. Martin Appraisal Company et al*

- The appraiser valued Mr. Horton's home at only \$359,000. The appraisal report contained blatant errors, and the comparator homes were poorly chosen.
- Two other appraisers inspected the home. One valued it at \$450,000, and the other valued it at \$560,000.

## *NCRC v. Martin Appraisal Company et al*

- Mr. Horton notified his lender about the problems with the appraisal, and requested a Reconsideration of Value.
- The appraiser refused to reconsider, and offered no explanation for this refusal.
- The lender simply told Mr. Horton to pay for another appraisal.

## *NCRC v. Martin Appraisal Company et al*

Results of this unreasonably low appraisal:

- Interest rates had changed by the time Mr. Horton was able to get a refinance based on a reasonable appraisal, and it was no longer financially advantageous.
- Without refinancing, Mr. Horton was unable to purchase a vacant property that he was planning to transform into Section 8 housing.
- Mr. Horton's credit was damaged, and he has been unable to secure limit increases for his credit cards.