

August 20, 2020

Ms. Leila Dunbar
Chair
Board of Trustees
The Appraisal Foundation
1155 15th Street NW, Suite 1111
Washington, DC 20005

Dear Chair Dunbar:

As you know, our nation is reflecting on important matters of racial justice and discrimination, and this dialogue includes matters involving real estate financing and economic development. Real estate appraisers play an undisputedly important role in real estate development and financing central to taxpayer protection, safety and soundness of financial institutions and the protection of consumers. In fact, these important roles are largely the reason why our organization helped form The Appraisal Foundation and have supported its role in appraisal standards development and minimum qualifications setting for appraisals prepared in real estate financing.

Recently, claims have been made by academic institutions and think tanks alleging racial bias in real estate appraisals. Each of these studies have taken different research approaches to evaluate appraisal (or valuation in general) – some have not included any level of appraisal review, but looked at “self-appraisals” (owner opinions of value) or sales information to draw inferences to real estate appraisal processes or procedures.

We take these claims seriously as they form part of our larger national debate, but, also because they raise questions about the objectivity and independence of appraisers. We see an ongoing need to educate the public and stakeholder organizations about the role of appraisals and appraisal processes and procedures. Differences between appraisal information and listing and sales information, or mass appraisal or assessment information, are two examples we frequently encounter. We also frequently receive questions about neighborhood and market analysis and location adjustments, which are covered concepts in the Basic Appraisal Principles and Basic Appraisal Procedures courses. Accurate valuations are fundamental to economic security for lenders, buyers, sellers and property owners, together with other stakeholders in property tax, income tax, and eminent domain.

Appraisers are already bound by strict ethics and anti-bias requirements in the Uniform Standards of Professional Appraisal Practice (USPAP), and lenders are also bound to collateral valuation guidelines (executed as contracts) that translate to appraisers in scope of service requests and through appraisal review processes. These include prohibitions against:

- *Use of unsupported, descriptive comments or drawing unsupported conclusions from subjective observations. (These actions may have a discriminatory effect).*
- *Use of unsupported assumptions, interjections of opinion, or perceptions about factors in the valuation process. (These actions may have a discriminatory effect and may or may not affect the use and value of a property).*
- *Use of subjective terminology, including, but not limited to:*
 - *“pride of ownership,” “no pride of ownership,” and “lack of pride of ownership”;*
 - *“poor neighborhood”;*
 - *“good neighborhood”;*
 - *“crime-ridden area”;*
 - *“desirable neighborhood or location”;* or

- “undesirable neighborhood or location”;
- Use of subjective terminology that can result in erroneous conclusions;
- Actions that may have a discriminatory effect or may affect the use and value of the property; or
- Basing the analysis or opinion of market value (either partially or completely) on the race, color, religion, sex, handicap, familial status, or national origin, of either the prospective owners or occupants of the property being appraised or the present owners or occupants of the properties in the vicinity of that property.¹

There is no doubt that racial discrimination in appraisal is strictly prohibited, broadly overseen and monitored, and subject to penalties, including the loss of license to practice.

That said, we believe we all have a role to play in reinforcing existing requirements and obligations to promote education and awareness by appraisers on these important topics. With this, we encourage the Board of Trustees and the Appraiser Qualifications Board to consider additional steps that could be taken to reinforce these points within the *Real Property Appraiser Qualification Criteria*. This request is timely considering the *Criteria* are currently under review and update.

Specifically, we believe the *Criteria* could be expanded to encourage development of education on bias and discrimination for appraisers, users of appraisal services and the real estate community for that matter. While the current *Criteria* clearly allows educational programming on bias and discrimination under allowances for “Ethics,” we believe the creditable topics list could be expanded with additional examples more direct to bias and discrimination. This would help stimulate additional education ideas amongst appraisal education developers and providers on this important topic. Additionally, at least two states – Ohio and New York - currently require real estate appraisers to take courses on fair housing and discrimination. The AQB could carry forward these requirements as part of the *Criteria* itself. Further, the required USPAP courses developed by The Appraisal Foundation and used to establish equivalency for other USPAP courses could be enhanced with additional illustrative material on bias and discrimination as it relates to standards. We would only ask that the AQB try to avoid duplication between USPAP education requirements and additional ethics course requirements. Lastly, we believe the Appraisal Standards Board could consider guidance (perhaps through an FAQ, for example) relative to the Ethics Rule of USPAP regarding matters of bias to include discrimination against protected classes.

Within the Appraisal Institute, we have several existing programs concentrating on this issue, including the Appraiser Diversity Pipeline Initiative (ADPI) with Fannie Mae and the National Urban League, and the Minorities and Women Course Scholarship Program from the Appraisal Institute Education and Relief Foundation. These initiatives are dedicated to promoting greater diversity within the real estate appraisal profession through direct outreach to interested individuals and financial assistance covering entry-level education and other support mechanisms. We are working to expand the ADPI program with our partner organizations through additional sponsorship arrangements starting this year.

Further, the Appraisal Institute will expand upon these initiatives by enhancing our required *Business Practices and Ethics* course for Designated members, candidates and affiliates to devote a module of the course to bias and discrimination issues. Additionally, some of our chapters already offer stand-alone seminars on this subject, and we will encourage Appraisal Institute chapters to offer or develop similar programs across the country.

¹ Fannie Mae Selling Guide - B4-1.1-02, *Lender Responsibilities* (09/04/2018). Available at <https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B4-Underwriting-Property/Chapter-B4-1-Appraisal-Requirements/Section-B4-1-1-General-Appraisal-Requirements/1032987331/B4-1-1-02-Lender-Responsibilities-09-04-2018.htm>

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In closing, we are pleased that our organizations have formed a stronger relationship in recent years, working collaboratively to address issues of great importance to appraisers and the public. We both know that the issues under discussion here involve parties and issues greater than appraisal itself. To that end, we look forward to expanding this collaboration by working on additional public policy solutions where other stakeholders are involved and appraisal is one of many larger components.

Thank you for your leadership and consideration of our suggestions above in upcoming deliberations.

Sincerely,



Jefferson L. Sherman, MAI, AI-GRS
President

CC: Mr. David Bunton, President
Mr. Mark A. Lewis, Chair, Appraiser Qualification Board
Mr. Wayne R. Miller, Chair, Appraisal Standards Board
Ms. Kelly Davids, Senior Vice President
Mr. Jim Park, Executive Director, Appraisal Subcommittee