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March 9, 2020

Vice President Joseph Biden
Biden for President
PO Box 58174
Philadelphia, PA 19102

RE: Recent Comments Regarding Appraisals in Minority Communities

Vice President Biden,

The American Society of Appraisers (ASA), a not-for-profit global organization of professional appraisers representing all appraisal disciplines, writes to discuss your recent comments regarding the impact of appraisals in minority communities and the stated position that widespread devaluation of these homes requires additional federal oversight and standards. We believe that, while concerns exist regarding how outsized reliance on a specific approach to determining value can work to codify prior actions that negatively affected home values in impacted communities, the overall work of appraisers and their use of existing appraisal standards is not to blame for these conditions.

As a founding sponsor of the Appraisal Foundation – the entity authorized by Congress to promulgate appraisal standards – we support the Uniform Standards of Professional Appraisal Practice, or USPAP. The cornerstone of USPAP is its requirement that an appraiser must be objective, impartial, and neutral in determining an opinion of value in connection with any appraisal assignment. This requirement prohibits the imposition of any explicit or implicit bias by the appraiser and were an appraiser to inject any bias whatsoever into their assignment results, that appraiser would be in violation of USPAP. Such violations can and should be addressed by the real estate appraiser licensing board in the jurisdiction where the violation occurred. As followed, applied, and enforced USPAP is fully capable today of dealing with bias issues.

We are sensitive to the fact that the topic of systemic devaluation has been a point of conversation beyond just one study or one Congressional hearing. To dismiss out of hand the potential for something in the appraisal or housing finance process to create unintended consequences on home values not only discounts the experience of many Americans of color, but also risks offending the principles of fair housing. While we share the belief of others that appraisers and their work generally are not the driver of this concern, we do believe that a specific aspect of how appraisers are asked to perform their work in connection with mortgage lending transactions can create the kind of impacts you discussed.

Overwhelmingly, mortgage lenders and the two largest secondary market participants in mortgage finance – Fannie Mae and Freddie Mac – prefer that appraisers place outsized importance on the results derived from the Sales Comparison approach. Generally, this approach uses prior sales activity to develop an opinion of value, applying adjustments where needed based on differences between the subject property and its comparables as selected by the appraiser. The preference for the Sales Comparison approach not only rests on its grounding in observable data, but also in how the data contained in each appraisal can be used to further buttress the automated valuation models, or AVMs, used as part of the underwriting process by Fannie Mae and Freddie Mac. This incentive to cultivate fresh data further explains the preference for the Sales Comparison approach.

While the strength of this approach is its reliance on observable market data, this retrospective approach also runs the risk of codifying prior actions that did intentionally work to affect home values in minority communities – namely, the widespread practice of redlining. Because each Sales Comparison approach builds upon prior market activity, it is easy to understand how a depressed initial value for a home caused by previous bad acts can be unintentionally carried forward by an appraiser who, while injecting no bias of their own, must work within the confines of available data to reach and support their conclusions. We believe this outcome may be at the root of your concerns, and we share these concerns as well.

The most direct way to address this concern is to encourage the broader use of the other two approaches when appraisers develop an opinion of value: The Cost approach and the Income approach. In the Cost approach, the appraiser is asked to determine the present-day expense required to build a home like the subject property. This includes site acquisition and preparation, materials, labor, and regulatory expense, and then considers proper and appropriate depreciation factors. This approach, if applied appropriately, is a good indicator of value. Under the Income approach, the appraiser must determine the rental rate for the subject property based on current rental market activity. This type of analysis would be most applicable for rental properties. Both approaches rely on contemporaneous data, and therefore avoid reliance on historical transactions.

By using and weighting all three approaches and reconciling the value conclusions each approach presents, appraisers not only use the full complement of tools available to them but do so in a way that can potentially overcome the unintended codification of previous actions that devalued properties in the first place. To be clear, we are not suggesting that appraisers or lenders intentionally overstate the value of homes either – such an outcome would cause as much harm to homeowners and the housing finance system as devaluation. We are saying, however, that comprehensive use of all the approaches to value, and reviewing and analyzing future trends, could begin to overcome historical factors that led to depressed home values in minority communities in the first place.

We thank you for addressing this topic as part of your overall platform on housing finance and believe that appraisers have an important voice in dealing with your concern, and we look forward to further dialogue on this and other issues. If you have any questions or wish to discuss our views further, please contact John D. Russell, JD, Senior Director of Government Relations and Business Development at 703-733-2103, or by e-mail at jrussell@appraisers.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas R. Krieser". The signature is fluid and cursive, with a large loop at the beginning.

Douglas R. Krieser, ASA FRICS
International President
American Society of Appraisers