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April 23, 2021

Chairwoman Gauthier
Committee on Housing, Neighborhood Development

RE: Transcript of Remarks from ASA for Resolution #210208

Dear Chairwoman Gauthier,

Please find below a transcript of remarks to be made on behalf of the American Society of Appraisers regarding Resolution #210208.

Good morning, Chairwoman Gauthier and members of the Committee on Housing, Neighborhood Development, and the Homeless. My name is John Russell, and I am the Strategic Partnership Officer for the American Society of Appraisers, or ASA. I am here to testify on Resolution #210208.

ASA appreciates having the opportunity to share our perspective on this topic. ASA is committed both to fully understanding what contributes to devaluation of homes in minority communities and to developing long-term solutions that address the issue.

We agree with the premise that devaluation has and continues to occur in minority neighborhoods. This problem – with roots dating to the 1930s and government backed redlining – has continued into the 21st century. We also believe the problem is not singular, but driven by several factors. Addressing the devaluation of homes in minority neighborhoods requires untangling the threads of the problem so each is better understood and can be addressed with the right legislative, regulatory, or policy solution.

I will focus on what we see as two primary drivers for continued devaluation: First, the overreliance on the Sales Comparison approach to value; and second, the impact of unconscious bias.

On the Sales Comparison approach, it helps to understand how the three approaches to determining value work.

The Cost approach looks at the costs to acquire a piece of land and build a home of similar condition and quality, including adjustments for the age of the home.
The Income approach looks towards what a home *would* rent for. This approach is forward looking, determining value based on expected returns.

This leaves the Sales Comparison approach, which relies on historical sales data to help inform the present value of a home. This approach is retrospective in nature, and as we'll discuss in a moment, has aspects that can contribute to devaluation.

Typically, an appraiser would use each of the approaches to value and then, based on their experience and the information underpinning each approach, weight each approach accordingly and reconcile to determine an opinion of value.

Unfortunately, modern mortgage financing practices are overwhelmingly reliant on the Sales Comparison approach to support the opinion of value.

The two largest government-sponsored secondary mortgage market participants – Fannie Mae and Freddie Mac – have built their collateral decision engines around Sales Comparison data. Internal QC tools like Collateral Underwriter and Automated Collateral Evaluation use prior sales data and previous appraisals to determine whether the opinion of value on a subject property is credible. Data fields collected into these QC tools as part of prior sales and their related appraisals are checked against the appraisal used in connection with a mortgage to be sold to Fannie Mae or Freddie Mac, so that a collateral risk score can be determined. This scoring establishes whether Fannie or Freddie will waive certain purchase conditions, such as warrant and representation repurchase requirements.

The bulk of collateral lending decisions are predicated on Sales Comparison data. Whether a loan will be purchased by Fannie or Freddie and at what terms depends in large part on the Sales Comparison approach and the historical data it utilizes.

This explains why mortgage lending appraisals are generally skewed toward the Sales Comparison approach. Not because Cost or Income approach are somehow less reliable, but because the back-end tools used by the secondary market will focus on the Sales Comparison approach and its data.

Appraisers, therefore, are led to produce appraisals that derive much of their basis from Sales Comparison. In minority neighborhoods – where home values were depressed from the 1930's onwards – this can have the effect of carrying forward the initial devaluation caused by redlining into current values. Whether at the level of Fannie Mae or Freddie Mac, or through Federal legislation, such as current House Resolution 2553 – work must be done to rebalance how each approach contributes to the development of an opinion of value.

Overreliance on the Sales Comparison approach can explain some, but not all, of what contributes to devaluation in minority communities. Another significant factor is unconscious bias.

At the risk of oversimplifying this area of study, unconscious bias is the application of a set of developed assumptions on a current situation. Consider it someone's lived experience – the places they've gone, people they've interacted with, challenges they've encountered. As we age, our lived experience often informs a number of assumptions. These are not conscious decisions we make, but decisions that are wired into who we are.

A simple analogy is driving a car – when we first start, the number of inputs that go into driving a car can be overwhelming. But over time and with experience, we learn when to accelerate and brake based on the expected behavior of the drivers around us. The decisions that once required conscious thought now are ingrained.
Often, these unconscious biases or assumptions are benign. However, when they meet at the intersection of homeownership and race, they can have particularly damaging effects. An appraiser going into a neighborhood whose characteristics and makeup vary from where they call home may reach negative conclusions about a community not through intent or observation, but through unconscious thought.

It's worth noting here that appraisers want to get each appraisal assignment right to the best of their ability. If the problem before us bad actors intent on going into minority neighborhoods and actively discriminating, not only would it see universal condemnation, but the solution to the problem would be readily apparent – you'd kick the bad actors out of the appraisal profession.

Appraisers treat their role as objective, impartial, and unbiased professionals very seriously. They do not seek to influence the outcome of an appraisal based on their own preferences or opinions, but on the underlying data of each assignment. However, they also may not be aware of how their lived experience may cause them to unconsciously view a property in a minority community as having a certain level of condition or quality, for example.

Educating appraisers on the topic of unconscious bias – what it is, how to acknowledge it, and tools for confronting and overcoming it – is a critical piece of any solution to the problem of devaluation. When given the right tools, appraisers will put them into practice so that even their unconscious biases do not affect their opinion of value.

This underscores the need for greater diversity in the appraisal profession. At the same time as we work to equip appraisers so they can overcome unconscious bias, the profession must also work to bring in new practitioners with a range of lived experiences. Be it race, gender, ethnicity, sexual orientation, or military service to name a few, the addition of diversity helps ensure the appraisal profession looks more like the communities it serves.

What has been discussed may not cover everything to address devaluation, but my hope is what has been discussed can help inform the ongoing conversation on this topic. I and ASA appreciate having the opportunity to appear today and look forward to any questions you may have.

Respectfully submitted,

John D. Russell
Strategic Partnership Officer
American Society of Appraisers