



Written Testimony of Pledger M. (Jody) Bishop, MAI, SRA, AI-GRS
President of the Appraisal Institute
Before the House Committee on Financial Services

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Thank you for the opportunity to testify at today's hearing. The Appraisal Institute is deeply concerned about recent allegations of bias and discrimination in housing and appraisal. When just one individual conveys concern or uneasiness about bias or discrimination during an appraisal assignment, we must stop and listen, and seek to understand the consumer's experiences. Further, where issues or problems are identified, we must seek to understand the causes and work with stakeholders to resolve them.

To be an appraiser is to be independent and unbiased. It is our ethos and at the core of a professional appraiser. There is no benefit to an appraiser in violating this public trust. We firmly believe most appraisers uphold this high standard and strive to learn more and develop protocols to increase confidence and credibility in their work.

Appraisers are subject to the Fair Housing Act and Equal Credit Opportunity Act. Bank regulations require independent and unbiased appraisals, as do the requirements of the government-sponsored enterprises and loan guarantee agencies. Further, appraisers are subject to state licensing requirements that include adherence to uniform appraisal standards requiring appraisers to perform their work in an unbiased and objective manner. These requirements should be vigorously enforced.

The appraisal process has come under study and review by several researchers, think tanks, and the government-sponsored enterprises, and that has been welcomed by the Appraisal Institute. Although some of the results as to bias in appraisal are preliminary and others have produced contradictory conclusions, these findings have educated all stakeholders to better understand the appraisal process and how it fits into a larger ecosystem of mortgage finance and risk management. We strongly believe that even one instance of appraisal bias is unacceptable.

To directly address the issues that have been identified, the Appraisal Institute has conducted our own introspective review of the profession and launched several collaborative initiatives.

Prioritizing Diversity, Equity, and Inclusion

Since 2019, the Appraisal Institute has helped lead the Appraiser Diversity Initiative (ADI), an industry collaboration with Fannie Mae, Freddie Mac and the National Urban League that promotes the appraisal profession to diverse communities. ADI helps raise awareness by hosting workshops (both in person and virtual) throughout the United States. These workshops educate participants about professional opportunities in real estate appraisal, inviting interested participants to apply for education scholarships.

ADI is a private sector initiative, but it was recognized by the Property Appraisal and Valuation Equity (PAVE) Task Force Action Plan for its early progress in addressing diversity issues within the profession. As of today, the program has awarded approximately 150 scholarships with 18 individuals who have completed the education requirements and been successfully placed in positions. Around 100 individuals are currently enrolled in the required qualifying education courses. For 2022, the initiative's goal is to host at least seven events and provide 200 scholarships to support minorities and women in the appraisal profession.

ADI has secured several sponsors that have provided additional support in adviser, supervisory and field experience sponsorship, financial support, hosting workshops, as well as promoting and advertising upcoming workshops. This includes a \$3 million commitment from Chase Bank in support of the ADI.



Other Activities

Beyond the ADI, decreasing barriers to entry into the profession is something the Appraisal Institute is focused on through the development of a Practical Applications of Real Estate Appraisal (PAREA) program. PAREA will provide an alternative to the traditional supervisory appraiser-trainee model for gaining experience in real estate appraisal. Through PAREA, experience is cultivated in a simulated environment without the need to identify a supervisory appraiser. PAREA leverages technology, and the vast body of knowledge of the Appraisal Institute and the network of the National Society of Real Estate Appraisers – the nation’s oldest and largest professional association of black real estate appraisers - to present valuation scenarios to aspiring appraisers. These scenarios are monitored by a team of experienced real estate appraiser mentors. It is akin to pilots who gather flight experience in cockpit simulators or surgeons that expand their skills virtually. This application is rapidly under development, and we hope to bring it to market next year. Participant priority will be given to veterans, minorities, and women and those in underserved rural areas.

The AI also promotes the services of minorities and women through the Minority and Women’s Directory of the AI Find an Appraiser service. This directory helps clients identify diverse appraisal service providers throughout the country, where service and practice areas can be cross-referenced by property type and other factors. This program also allows members to report additional credentials they may hold, including Minority Business Enterprise designations.

An internal review of policy and procedure has led to the adoption of a new Strategic Plan by our Board of Directors that recognizes diversity, equity and inclusion as a top priority. As part of this proactive effort, the AI has adopted a diversity statement, and is currently conducting a review of policies and procedures in developing a diversity action plan approved by the Board of Directors.

We have also been involved in surveying the profession to better understand demographics. Clearly, there is a great deal of work to be done here, as the profession heavily leans white, male and a high percentage are nearing retirement. We do not capture race, ethnic, or gender information of our membership or Board of Directors, but photographs of our Board of Directors can be found on our website. We have conducted or helped develop surveys in recent years, and we are supportive of the Appraisal Subcommittee’s Census/Survey project announced last year and assisted their researchers in the initial scoping.

Leading Education Development

Our organization has been active in developing education and supporting valuation bias and fair housing training requirements for appraisers at the federal and state levels. This work continues, but it has benefitted by new state laws that have been enacted over the past two years that can serve as models for other states looking to bolster education, awareness and understanding.

- The Appraisal Institute has worked with state legislators and other stakeholders to encourage the adoption of fair and reasonable requirements for currently licensed and certified appraisers to complete valuation bias and fair housing continuing education on a one-time or recurring basis. California, Minnesota, New York, and Virginia have recently enacted new laws to require continuing education in these topic areas. These new requirements are in addition to long standing requirements for fair housing qualifying education in Ohio. Several other states are considering similar requirements.
- In 2021, California passed the “Fair Appraisal Act”¹ that contains multiple provisions related to appraisal bias. All residential sales contracts must include a statement promising that appraisals are unbiased and not influenced by improper or illegal considerations. Refinance transactions must have

¹ AB-948 Bureau of Real Estate Appraisers: disclosures: demographic information: reporting: continuing education.



the same statement included within the loan documents provided to borrowers. The state's Bureau of Real Estate Appraisers (BREAs) must change its complaint form to include a way for individuals to note their belief that their appraisal was below market value; BREAs are required to collect data regarding complaints that allege low valuations and report its findings to the state legislature on or before July 1, 2024. Further, the legislation makes it a violation of licensing law for appraisers to base their opinions of value on any of the recognized protected characteristics and makes it a violation of the California Fair Employment and Housing Act for appraisers to discriminate based on any of the recognized protected characteristics.

- Two states – Illinois and Maryland – each have legislation currently pending that would create a task force to study whether there are things that can be done on a state level to ensure that all appraisals are fair and equitable and to reduce barriers to entry into the profession. Many of the topics to be considered by these task forces are like those studied by the PAVE Task Force and that were discussed in the Appraisal Subcommittee's "Identifying Bias and Barriers, Promoting Equity: An Analysis of the USPAP Standards and Appraiser Qualifications Criteria" report.

The Appraisal Institute is the profession's leading provider of appraisal education, and we have been active in the development of education for appraisers and others on valuation bias and fair housing. We have hosted several recent events with industry partners on fair housing and valuation bias issues, which have been made available free to the public and appraisal community. We have also commissioned the development of a seminar for appraisers on valuation bias issues, which we hope to debut later this year. Lastly, at the upcoming Appraisal Institute Annual Conference in August, we will be hosting several sessions that focus on diversity and ethics, and valuation bias related issues. We have proven to be a willing partner with stakeholders, and we remain open to building additional relationships that help further education and awareness of these important issues.

Ethics and Guidance

Over the past two years, the Appraisal Institute has strengthened its ethics rules and Code of Professional Ethics (CPE). This includes a revised definition of "Personal Characteristics" in the CPE to include more recognized protected classes and those applicable laws may provide further protection for personal characteristics. Further, we approved a new ethical rule that one must refrain from conduct that is detrimental to the Appraisal Institute, the profession and the public. This prohibits the development of an analysis, opinion or conclusion and the transmission of a report based on protected classes and any personal characteristics under applicable law unless consideration of a particular personal characteristic is relevant to the assignment.²We also updated our canons to prohibit biasness in valuation practice with the added statements making it clearer that the prohibition of bias in development and reporting of an analysis, opinion and conclusions specifically extends to protected classes and protected characteristics under applicable law. Lastly, our Board of Directors has approved an exposure draft to further strengthen the ethics rules pertaining to when an appraiser engages in discriminatory conduct and makes derogatory statements based on actual or perceived personal characteristics. This proposal extends the conduct requirements of an AI member, candidate, practicing affiliate or affiliate anytime they identify themselves as someone who provides appraisal, review, or other valuation related services, and includes examples of violations of the ethical rules.

In the area of guidance, in 2020, the Appraisal Institute released a *Guide Note on Personal Characteristics and Valuation Practice*. An appraiser must be unbiased. An appraiser's opinions and conclusions must be prepared in an unbiased manner, and they must be credible, which means they must be supported with relevant data and analyses. This Guide Note confirms that appraisers and reviewers have a professional responsibility to ensure that appraisals are prepared fairly and without bias

² One example might involve analysis of age-restricted housing.



relating to personal characteristics. Personal characteristics are characteristics of an individual or group of individuals such as (but not limited to) race, color, religion, national origin, gender, sexual orientation, gender identity or expression, marital status, familial status, age, receipt of public assistance income, disability, or any protected characteristic under applicable law. The characteristics of people – including but not limited to people who occupy a subject property, live in the area, or are in any way associated with a transaction – are, with limited exceptions, not relevant to the development of any value opinion. Relevant characteristics in the valuation of a property include its physical and economic characteristics, not the personal characteristics of those who are in any way connected to the property. Value is an economic concept. Value is created because there is effective demand, not because of the characteristics of people.

The PAVE Report

The Appraisal Institute actively participated in the listening sessions held during the development of the PAVE Action Plan, and we met multiple times with agencies and Biden administration staff to discuss ideas and issues of concern. This includes facilitating a “ride-along” with a Designated Member of the Appraisal Institute for members of the PAVE Task Force to illustrate the appraisal process.

Reconsideration of Value

One portion of the Action Plan we strongly support is the issuance of guidance and new policies to improve the processes by which a valuation may be reconsidered if the initial value is lower than expected. The policies for a reconsideration of value (ROV) can vary depending on the type of institution and oversight mechanisms. This leads to frustration for both borrowers and appraisers. “The original appraisal stands” is commonly communicated to borrowers in response to a ROV request, with no explanation of the level of review that was completed, the qualifications of the reviewers, or any justification for supporting the original appraisal.

We believe the Veterans’ Administration’s (VA) “Tidewater Initiative” would serve as a strong model for the industry to implement, balancing consumer rights of appeal with appraiser independence. The Tidewater Initiative is a formal process established by the VA for when an appraisal is below a contract price. Once a VA appraiser supports a value opinion and invokes the Tidewater Initiative, the parties are notified, and they have two days to provide additional relevant information to the appraiser. That information is reviewed and the VA decides whether the value is correct. In the distant past, and prior to appraiser licensing requirements, this type of arrangement was common as a matter of courtesy, offering opportunities for stakeholders to provide additional relevant information and to mitigate any concerns prior to completion of the appraisal. This kind of mitigation on the front end would clearly be helpful to address some of the concerns recently reported in the media.

Education and Awareness

We also strongly support the appraiser, lender and consumer education goals found in the Action Plan. Our organization has been active in developing education and supporting valuation bias and fair housing education requirements for appraisers at the federal and state levels. This work continues, but it has benefitted by new laws that have been enacted over the past two years that can serve as models for other states looking to bolster education, awareness and understanding. Further, the Task Force and agencies involved in the implementation of the Action Plan will undoubtedly require greater education, awareness and understanding of the appraisal process moving forward, whether related to enforcement through appraisal review or basic understanding of appraisal methods and techniques. We stand ready to assist in fostering greater understanding of the appraisal process for all stakeholders.



PAL Act Information Sharing

The Action Plan includes many recommendations for interagency coordination and action, including information sharing between agencies. One item of the Action Plan that stands out is the need for interagency coordination on information sharing amongst appraisers and appraisal management companies across state lines. We have long advocated for states to coordinate the licensing functions through a common platform, or portal, like the Nationwide Mortgage Licensing System for mortgage originators. This proposal has been introduced in the last two sessions of Congress as the Portal for Appraisal Licensing Act (HR 5756). We strongly suggest this bill serve as a foundation for future regulatory reforms for the industry to improve information flow at the federal and state levels and for industry practitioners and stakeholder organizations.

Additional Considerations

- *Appraiser Qualifications*- We believe instances of potentially sub-par or otherwise problematic appraisals could be mitigated by hiring highly qualified appraisers who also have market and geography competency at the outset. This is not always the case, as the turnaround times and price of the appraisal often are bigger factors in the appraisal assignment process. Beyond this, lender appraisal management could be strengthened by engaging qualified appraisal review staff, coupled with better communication with borrowers as to what level of review was completed and what was identified during that review in response to appeals.
- States issue several types of licenses and certifications for appraisers, and private organizations may confer professional designations that exceed these requirements. It's important to work with the most highly qualified appraisers such as Appraisal Institute Designated Members who have completed more rigorous training and are bound by a higher Code of Professional Ethics.
- *Automated Valuation Models* - The idea of technology and automated valuation models (AVMs) being used to resolve valuation bias concerns has been offered by many. The Action Plan includes an initiative to develop a long-awaited quality control standard for AVMs. We support the idea of including a component in the standard that addresses bias or discrimination, but the idea that policy might whisk away biases – some of which are systemic within the market – is potentially short-sighted and dangerous. One thing to be noted is that a good portion of the research that has been conducted has evaluated automated valuation model data – not appraisal data, including the contrasting research from the Brookings Institution and the American Enterprise Institute. We cannot overlook the Zillow CEO's statement in the 4th Quarter of 2021 concerning the “difficulty of accurately estimating market value” as a concern for AVM reliability.
- *Appraisers “making” the market* – a belief is held by some that appraisers control or set the market through their work. The thought process goes that the market starts with the appraiser “assigning” value to the property and buyers, sellers, agents, and the rest of the market responding to the appraisal. This view is not consistent with our experience. In our work, the market is driven by buyers and sellers, and their actions are reflected in sales data, which includes the terms of the sale, including any sales concessions or other considerations. Purchase price is a fact. Appraisers use the “facts,” analyze this activity, and apply local market knowledge and professional judgment as an unbiased and independent actor to develop a credible and well-supported opinion of value (appraisal) for a specific property as of a single date in time. As an opinion, it is not a “fact” that can be found. Opinions require support. They should be logical and



follow reasoning. Any formal appraisal review requires forensic analysis and understanding. These points are missing from today's conversation.

- Appraisers don't set the market, they reflect it. Think of appraisers as referees in a sporting event. They're a disinterested third party whose focus is on fairness for all parties involved and generating credible, reliable opinions of value.
- *The ecosystem and guidelines* - Appraisal is one piece of a larger ecosystem to look at when it comes to housing issues. Appraisal groups are working alongside consumer groups, real estate brokers and agents, banks, government agencies, think tanks and others to explore where housing inequities may stem from and what combination of solutions should be considered.
- The Action Plan touches upon the idea of interagency coordination around certain activities, including ROV policies. One step that we believe would benefit all parties involved is greater coordination on lender collateral valuation guidelines that are established by the agencies and enterprises and used by mortgage lenders and others in the review process. These guidelines drive much of the review process in today's mortgage ecosystem – automated review systems have been created based upon these rules to optically screen appraisals via computer to flag information that may be inconsistent or questionable. While these guidelines have a great deal of consistency, variations can be found as they relate to the acceptance or application of certain approaches to value. More to the point, we believe the agencies and enterprises could work with the appraisal profession, consumer groups and others to address challenging issues or topics. This would help bring focus and greater consistency to the approach by all parties within the mortgage ecosystem.
- *Uniform Appraisal Dataset/Forms Update* – Fannie Mae and Freddie Mac, overseen by the Federal Housing Finance Agency, have been working on an update to the Uniform Appraisal Dataset and uniform appraisal forms developed and maintained by the GSEs for many years, and this work is nearing the finish line. Much of the mortgage appraisal process today centers around the seller/servicing guidelines mentioned above and the UAD and the Uniform Residential Appraisal Report. The UAD defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. The update project aims to improve the quality and consistency of appraisal data for loans delivered to the GSEs and to move away from a form or guideline driven process to one relying on the analysis of the appraiser backed by more consistent and richer data. These projects are significant and could be transformational to the entire appraisal process. We urge that this work be allowed to proceed unabated.
- Data is the lifeblood of the appraisal profession, and our organization welcomes the opportunity to discuss how we can get better data in the hands of appraisers. This not only would add value to appraisal assignments, but result in more credible outcomes for consumers as well.

Legislative Proposal

The Action Plan calls for significant regulatory and oversight changes but does not outline specific plans. Transparency and accountability are important, but these goals should be balanced with maintaining industry independence and promoting entry into the profession. When The Appraisal Foundation was created as a private entity, it was intentional to prevent outside influences from Agencies and those with vested interests in the transactions, which was identified as a cause of the S&L crisis. While a reasonable construct then, lack of any oversight is not best practice. The proposal to create a new federal agency is



not the right answer and is inconsistent with other industry standards-setting governing models. There are a wide variety of governance models in the marketplace that we can turn to for ideas to promote accountability, oversight, and transparency.

In closing, we must be careful to balance the proposals for increased regulatory requirements on appraisers and potentially significant additional work in the event value conclusions are challenged, with the efforts to make this an attractive, attainable, and diverse profession. We see the difficulties of attracting new individuals to the profession under the current appraisal business and regulatory environment. Increased regulation may be more unattractive and dissuade new entrants to the profession.

The proposed increased regulation, review and audit of appraiser files resulting from a complaint of undervaluation due to bias does not reference due process. Due process must remain a central part of any reform. We need better consumer appeals processes, but we also need to protect appraiser independence. This is a tough balance, but it is one that is necessary to protect the health of our banking and real estate markets.
