

## Addressing Appraisal Bias:

### The connection to homeownership and the wealth gap—what it is, why it matters, and what to do about it.

**Homeownership matters for wealth building.** Latino homeowners have 28 times the wealth of Latino renters,<sup>1</sup> with a median net worth of \$171,900, compared to \$6,210 median net worth for Hispanic renters. Without a doubt, increasing homeownership among Latinos will continue to build intergenerational wealth and reduce the current wealth gap.<sup>2</sup>

However, increasing homeownership by itself will not eliminate the wealth gap, in part because of appraisal bias. Appraisal bias is when **an appraiser considers factors that they legally are not permitted to, such as the race and ethnicity of the homeowner or the racial makeup of a neighborhood, when determining the fair market value of a property.**

Appraisal bias disproportionately affects Latinos.<sup>3</sup> This leads to an appraisal gap, which is the difference between the fair market value as determined by the appraiser and the amount that a buyer agrees to pay for the home.<sup>4</sup> About 15% of single-family properties in majority-Latino Census tracts appraised lower than their contracted price between 2015 and 2020, compared to 7.4% in majority-white areas. Without any intervention to address appraisal bias, large inequities in wealth gained from homeownership by white and Hispanic households is likely to remain

**Addressing the problem.** In March 2022, the Property Appraisal and Valuation Equity (PAVE) Task Force<sup>5</sup> released its Action Plan<sup>6</sup>, with 21 steps to be taken by the 13 member agencies<sup>7</sup> and offices of the Task Force and the Government-Sponsored Enterprises (GSEs), as well as general recommendations for the appraisal industry. Goals of the Action Plan include:

- Enhancing coordination and collaboration between federal agencies to update their appraisal-specific policies and guidelines and expand regulatory agency examinations of mortgage lenders.
- Ensuring that consumers are fully informed regarding the steps they can take after receiving a property valuation that is lower than expected, including the *reconsideration of value* process.
- Preventing algorithmic bias by incorporating a “nondiscrimination quality control standard” into proposed federal rulemaking for automated valuation models (AVMs).
- Promoting diversity in the appraiser profession and to strengthen fair lending training of current appraisers.
- Improving data quality by developing an aggregated database of federal appraisal data to better study, understand, and address appraisal bias.

These actions represent a coordinated and concerted effort across key federal agencies, GSEs, and the White House to begin to address the appraisal bias problem. But this is just the start. UnidosUS will monitor progress made by the task force on these key issues and will support efforts to reduce appraisal bias. Addressing appraisal bias is critical to closing the racial wealth gap, supporting families to thrive in their communities, and maximizing economic output.

## Background on the Appraisal Process

**What is an appraisal?** According to Investopedia, there are several key elements to an appraisal.<sup>8</sup> [Other](#) definitions can be found, but the key elements stay the same.<sup>9</sup>

- An appraisal is an **unbiased** professional opinion of a home's value and is used whenever a mortgage is involved in buying, refinancing, or selling that property.
- A qualified appraiser creates a report based on an in-person inspection, using recent sales of similar properties, current market trends, and aspects of the home (for example, amenities, floor plan, square footage) to determine the property's appraisal value.
- The appraisal serves as official documentation that the home's contract price is correct given the specifics of the home when there is a purchase and sale transaction. Since the home serves as collateral for the mortgage, lenders use the appraisal to ensure they are not over lending.

**Why is an appraisal important?** An appraisal is a critical element of the homebuying and lending processes as it establishes the value of the property as the collateral for a home loan.

Bottom line—the appraisal affects a household's ability to get a home, build equity, access wealth, and sell a home for a fair price. If the appraisal value is lower than expected, there are numerous consequences:

- A housing transaction can be delayed, or even canceled.
- The lower-than-expected appraisal can lead to a downward price negotiation, eroding profits for the seller, which in turn affects that seller's ability to purchase their next home.
- If the lower appraisal happens during a refinancing transaction, the homeowner is left with less equity to make improvements or otherwise access their capital.

Furthermore, an undervalued appraisal can have negative compounding effects such as:

- Affecting other households in the neighborhood, which decreases the collective wealth in the community.
- Less wealth in the community is a barrier to investment for home improvement, education, and surviving negative income shocks.
- These effects can carry forward over time and reduce the property values which then lead to decreased property tax revenue, further negatively impacting maintenance, schools, and other amenities.

<sup>1</sup> [NAC Blog: Let's Talk About Appraisal Bias - NAHREP](#)

<sup>2</sup> <https://www.stlouisfed.org/on-the-economy/2021/january/wealth-gaps-white-black-hispanic-families-2019#:~:text=Most%20Black%20and,family%20owned%20%2438%2C000.>

<sup>3</sup> <https://www.freddiemac.com/fmac-resources/research/pdf/202109-Note-Appraisal-Gap.pdf>.

<sup>4</sup> <https://www.freddiemac.com/research/insight/20210920-home-appraisals#:~:text=Exhibit%201%2C%20based,in%20White%20tracts.>

<sup>5</sup> <https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf>.

<sup>6</sup> <https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf>.

<sup>7</sup> [https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/05/readout-of-the-first-interagency-task-force-meeting-on-property-appraisal-and-valuation-equity-pave/#:~:text=The%20Task%20Force%20membership,Appraisal%20Subcommittee%20\(ASC\).](https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/05/readout-of-the-first-interagency-task-force-meeting-on-property-appraisal-and-valuation-equity-pave/#:~:text=The%20Task%20Force%20membership,Appraisal%20Subcommittee%20(ASC).)

<sup>8</sup> <https://www.investopedia.com/articles/pf/12/home-appraisals.asp#:~:text=KEY%20TAKEAWAYS,or%20even%20canceled.>

<sup>9</sup> <https://www.consumerfinance.gov/ask-cfpb/what-are-appraisals-and-why-do-i-need-to-look-at-them-en-167/#:~:text=An%20appraisal%20is,of%20the%20property.>