

Appraisal and Valuation Bias

Consumer Advisory Board (CAB) Meeting| November 3, 2021

Note: This presentation was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion, nor the relative emphasis on topics therein.

Disclaimer

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Background

- Home ownership is a key building block of wealth.
- Reports of appraisal bias have appeared in the news and recent research articles. It is illegal to discriminate against someone because of race at any stage of the mortgage process, including property appraisals.
- Undervaluation hurts the homeowner and the surrounding community. Undervaluation of homes based on race also helps drive the racial wealth divide.
- Overvaluation of homes can also put family wealth at risk and lead to higher rates of foreclosure.
- Important to ensure that the appraisals used to make lending decisions are accurate and free from bias.

CFPB and Appraisal Bias

- Property Appraisal and Valuation Equity (PAVE) Interagency Task Force:
 - June 1, 2021 – the Biden-Harris Administration announced the first-of-its-kind interagency initiative to address inequity in home appraisals.
 - Acting Director Uejio named Fair Lending Director Patrice Ficklin to serve as the Bureau’s senior executive representative for PAVE.
- June 15, 2021 – the CFPB hosted a roundtable to look closer at the role of racial bias in home appraisals. Participants included various external stakeholders and interagency partners.

CFPB and Appraisal Bias (Con't)

- *Interagency Rulemaking:*

- The Bureau is participating in an interagency rulemaking to implement DFA amendments to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) concerning automated valuation models (AVMs).

- *Outreach/Education:*

- July 2, 2021 – “CFPB Prioritizes Resources Against Racial Bias in Home Appraisals”
- October 17, 2021 – CFPB & HUD provided a primer on ECOA & FHA at Association of Appraiser Regulatory Officials (ARRO) Fall Conference. CFPB also provided this primer at the May 2021 AARO virtual conference

ECOA Background & Scope

- ECOA is a federal law that makes credit discrimination illegal and holds lenders responsible if they break the law.
- ECOA prohibits lenders from discriminating against people based on the characteristics listed below, which are considered “protected:”
 1. Race
 2. Color
 3. Religion
 4. National origin
 5. Sex (including sexual orientation and gender identity)
 6. Marital status
 7. Age (provided the applicant has the capacity to contract)
 8. The fact that all or part of the applicant’s income derives from a public assistance program; or
 9. The fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

ECOA Background & Scope: Applicability

ECOA prohibits a **creditor** from discriminating on a prohibited basis regarding **any aspect** of a credit transaction.

“**Credit**” means the right granted by a creditor to an applicant to defer payment of a debt, incur debt and defer its payment, or purchase property or services and defer payment therefore.

“**Creditor**” means a person who, in the ordinary course of business, regularly participates in a credit decision, including setting the terms of the credit. The term creditor includes a creditor's assignee, transferee, or subrogee who so participates.

“**Credit transaction**” means **Every aspect** of an applicant's dealings with a creditor regarding an application for credit or an existing extension of credit.

ECOA Background & Scope: Applicability

- Regulation B covers **a wide** range of credit transactions including:
 - Consumer loans, including home mortgages loans
 - Business loans, including commercial real estate loans
- Regulation B prohibits creditors from acts or practices directed at **prospective applicants** that could discourage a reasonable person, on a prohibited basis, from applying for credit.

ECOA: Applicability to Appraisals

- “Any **aspect of a credit transaction**” includes:
The creditor’s “**information requirements**,” “**investigation procedures**” and “**standards of creditworthiness**” (12 C.F.R. § 1002.2(m)).
- Appraisals are an aspect of a credit transaction.
- Discrimination “**on a prohibited basis**” (e.g., on the basis of race) includes:
 - discrimination against an applicant subject to the appraisal;
 - discrimination against individuals with whom the applicant is affiliated or associated, including other residents in the neighborhood where the property offered as collateral is located (12 C.F.R. § 1002, Supplement I 2(z))
- A **creditor**, in certain circumstances, may be liable under ECOA for relying on a discriminatory appraisal.

Other Federal Laws and Regulations

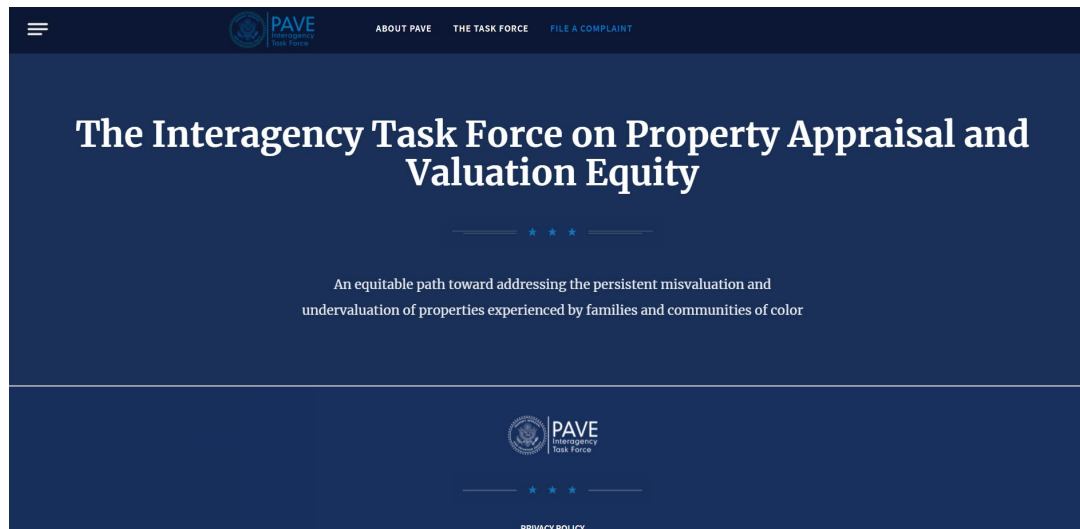
- Other federal laws and regulations that may also apply to appraisals include:
 - The **Fair Housing Act** (42 U.S.C. § 3605)
 - **OCC, FRB, FDIC, and NCUA regulations** (12 C.F.R. § 34.42 (OCC), 12 C.F.R. § 225.62 (FRB), 12 C.F.R. § 323.2 (FDIC), and 12 C.F.R. § 722.2 (NCUA))
- Other federal agencies have jurisdiction over these laws and regulations.

Property Appraisal and Valuation Equity (PAVE) Interagency Task Force

- On June 1, 2021, the Biden-Harris Administration announces first-of-its-kind interagency initiative to address inequity in home appraisals
- On August 5, 2021, PAVE held its first principal level meeting
- Task Force scope:
 - Ensure that government oversight and industry practice further valuation equity;
 - Combat valuation bias through educating the consumer and training the practitioner;
 - Ensure equity in valuation by making available high-quality data;
 - Create a comprehensive approach to combating valuation bias through enforcement and other efforts.

PAVE Interagency Task Force

- The Task Force is chaired by HUD Secretary Fudge and Ambassador Rice, and includes cabinet-level leaders from executive departments and additional members from independent agencies.
- The Task Force will deliver a final action report within 180 days.
- PAVE Website: <https://pave.hud.gov/>



PAVE Task Force Membership

- Secretary of Housing and Urban Development (co-chair)
- Assistant to the President for Domestic Policy (co-chair)
- Director of the National Economic Council
- Attorney General of the United States
- Secretary of Agriculture
- Secretary of Labor
- Secretary of Education
- Secretary of Veterans Affairs
- Comptroller of the Currency (OCC)
- Chairman of the Board of Governors of the Federal Reserve
- Chairman of the Federal Trade Commission (FTC)
- Chairman of the Federal Deposit Insurance Corporation (FDIC)
- Chairman of the National Credit Union Administration and the Federal Financial Institutions Examination Council
- Director of the Consumer Financial Protection Bureau (CFPB)
- Director of the Federal Housing Finance Agency (FHFA)
- Appraisal Subcommittee (ASC)

ECOA Resources

Know Your Rights Brochures

- The Bureau recently updated its brochures on lending discrimination, highlighting the protections afforded by ECOA.
 - “Credit discrimination is illegal” for consumers ([English](#) | [Español](#) | [繁體中文](#) | [Tiếng Việt](#) | [한국어](#) | [Tagalog](#) | [العَرَبِيَّةُ](#)).
 - “Helping consumers spot credit discrimination” for those who work with consumers ([English](#) | [Español](#) | [繁體中文](#) | [Tiếng Việt](#) | [한국어](#) | [Tagalog](#) | [العَرَبِيَّةُ](#)).
- The brochures are currently available in English, Spanish, Arabic, Chinese, Korean, Tagalog, and Vietnamese.




ECOA Resources


- **To submit a complaint about a lender or creditor:**

Call: (855) 411-2372 TTY/TTD: (855) 729-2372

Website: www.consumerfinance.gov/complaint/

 An official website of the United States government

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Having a problem with a financial product or service?

We have answers to frequently asked questions and can help you connect with companies if you have a complaint.



Submit a complaint

Complaints give us insights into problems people are experiencing in the marketplace and help us regulate consumer financial products and services under existing federal consumer financial laws, enforce those laws judiciously, and educate and empower consumers to make informed financial decisions.

About us

We're the Consumer Financial Protection Bureau (CFPB), a U.S. government agency that makes sure banks, lenders, and other financial companies treat you fairly.

[Learn how the CFPB can help you](#)

ECOA Resources

- **To report a violation as a whistleblower:**

- ☐ Call: (855) 695-7974

- ☐ Email: whistleblower@cfpb.gov

Discussion and Q&A