



# The Race to Solve Appraisal Bias

Appraisers & Activists Respond to the  
Brookings-Ashoka Innovation Challenge

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# Abstract

As the national economy gradually rebounded from the 2008/2009 Great Financial Crisis, neighborhoods did not recover uniformly. Concerns by residents in long-struggling neighborhoods over decades simmered with frustration at disparate outcomes. As the recovery gained steam after 2016, this frustration boiled into the open, and gained prominence in public consciousness.

A widely publicized consumer frustration with appraising is the observed "gaps" between appraised values and sales prices, or appraised values versus consumer refinance expectations. Appraisals are a key factor in finance and highly visible to borrowers, whether residential or commercial. A home is a core measure of personal security and success. Its value strikes close to the sense of well-being.

Because appraisals are "opinions" and not "facts," they are easily criticized. Frustrated homeowners have been cited by many media, complaining about wide variations in appraisals for the same property. This has fostered a crisis in confidence in the traditional objective role of appraisers in finance. Many appraisers vigorously debate whether bias even exists or refute how widespread it may be.

Whether real or perceived, concerns have significant regulatory and enforcement implications. Numerous structural and technology solutions are proposed to address bias and how to ensure that valuations remain unbiased and even-handed.

This lecture addresses the "Brookings-Ashoka Collaborative Innovative Challenge - Valuing Homes in the Black Community," which offers a \$1,000,000 prize -- distributed via grants to Featured Innovators.

This session's presenters submitted proposals to Brookings-Ashoka. The With Action proposal (Williams, Heise & Potts) are 1 of 10 Featured Innovator Winners out of 54 submissions, including an ongoing development grant from Brookings.

# Presentation Highlights

- ▶ Economic Architecture in Residential Finance
- ▶ How We Got to Now - Industrialized Home Finance System
- ▶ PAVE Report & Other Proposed Regulatory Changes
- ▶ Overview of the Brookings-Ashoka Innovation Challenge
- ▶ Overview of 54 candidate proposals
- ▶ Comments on 10 Featured Innovation Winners
- ▶ With Action Proposal - Overview
- ▶ Next Steps in the Race to Solve Appraisal Bias

# Economic Architecture in Housing Finance

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The Evolution of The Inequality Trifecta

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Deed Covenants

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Redlining

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Lending Deserts

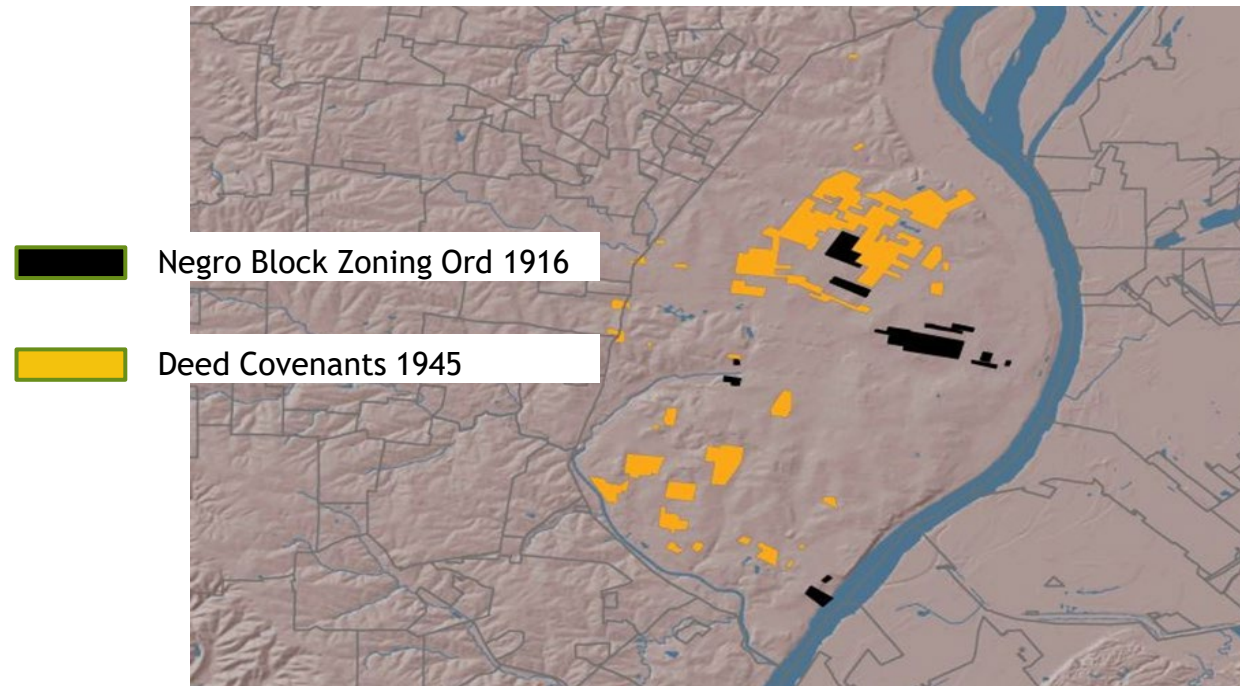
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<https://apps.urban.org/features/mortgages-by-race/>



# Structural Bias & Un-Fair Housing - a Tangled & Disgraceful Legacy


- ▶ Real estate deed covenants excluding ownership/rent by race
- ▶ Concentrated the poor into over-crowded districts
- ▶ Federal policies excluded middle class minorities



# Biased Economic Architecture in Housing Finance

- ▶ Disparate impacts to communities was driven by
  - ▶ Explicit state/federal policies covering ownership since the late 1800s
  - ▶ Home loans starting in the 1930s
  - ▶ Sentiments and attitudes of market participants
- ▶ Appraisal requirements in the 1930s (e.g. Babcock)
  - ▶ Required appraisers to consider race and ethnicity as a way of lenders restricting access to capital
- ▶ Fair Housing rules since the 1960s ended those practices, but ....
  - ▶ Hasn't undone the legacy of financial damage to those marketplaces...
  - ▶ Far fewer sales & far lower prices than similar housing stock elsewhere





# Fannie Mae Guidelines - Locational Analysis

- ▶ **Factors that affect the value and marketability of properties in the neighborhood.** These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences

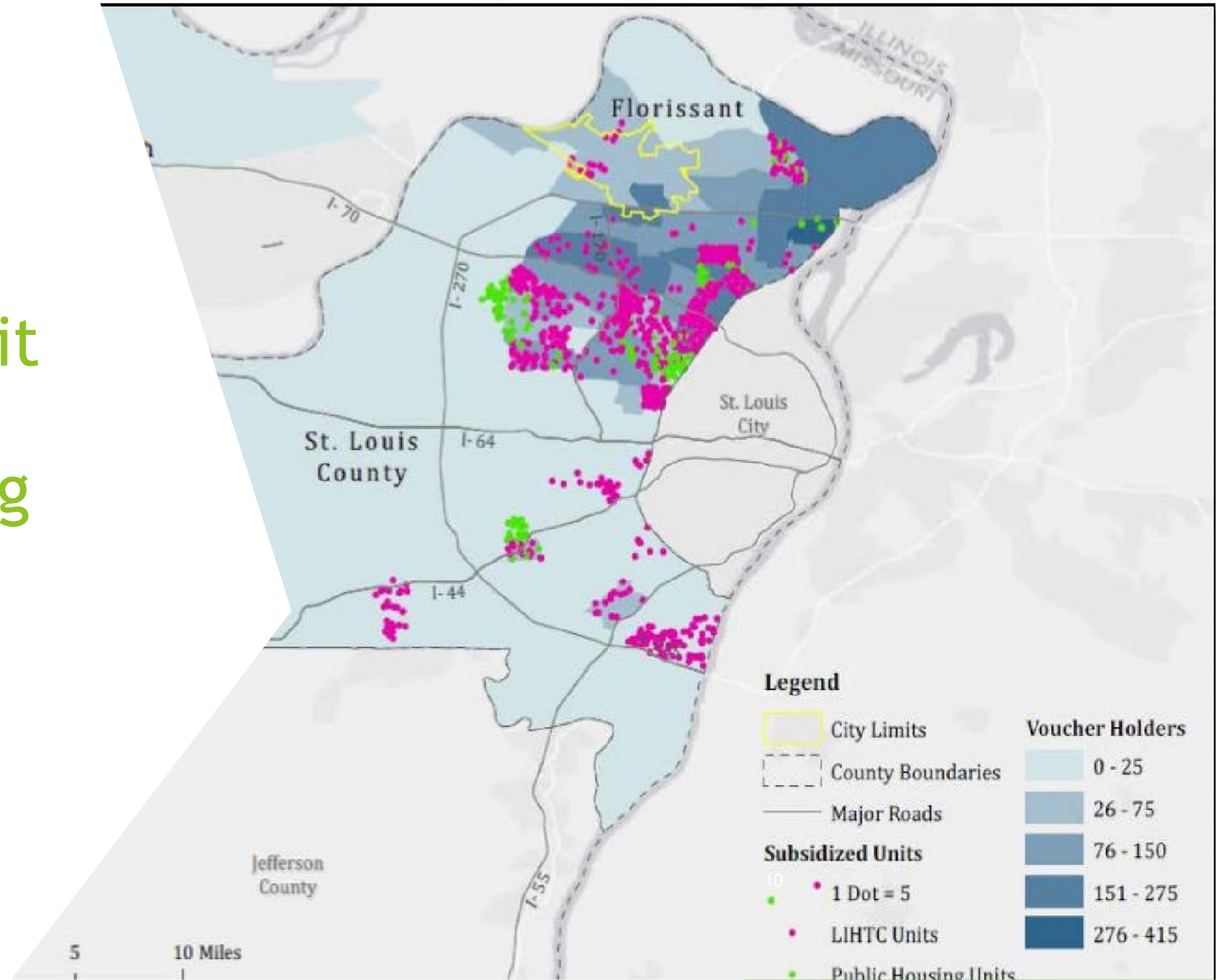


# Locations of Most Exclusionary Zoning



# Low Income Housing Tax Credit projects and Subsidized Housing

by Census Tract in St. Louis County and Florissant, 2013





# Stranded Communities

## Real Estate Floats on a Sea of Capital

- ▶ What happens when the water runs out?
- ▶ Buyers can't buy, sellers can't sell
- ▶ Collapse of activity
- ▶ Collapse of prices
- ▶ Once vibrant markets atrophy



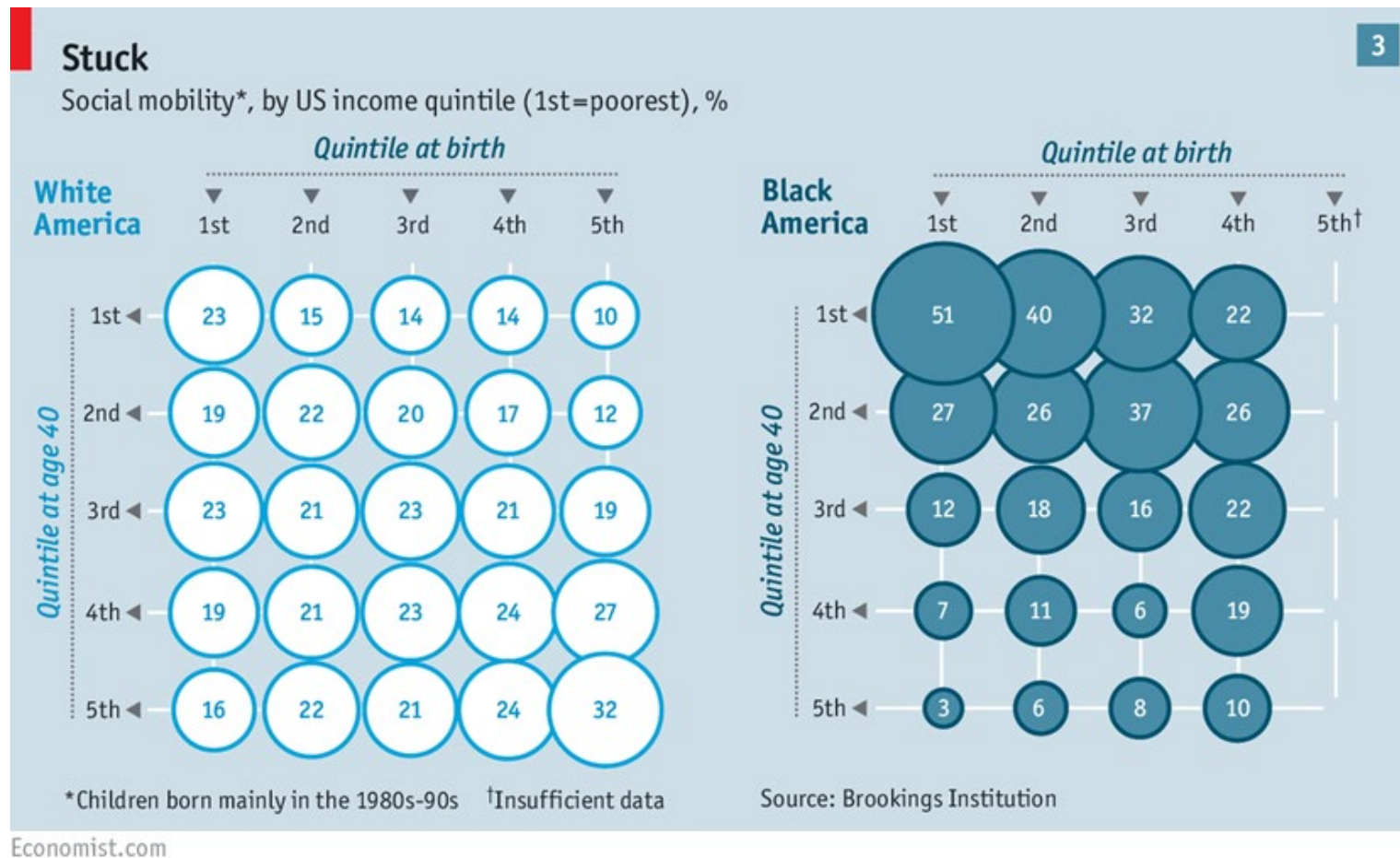
# Restricting Finance by Race & Ethnicity

## Sustainability Needs Renovation Capital

- ▶ Redlined districts - withheld finance
- ▶ Pervasive across the country
- ▶ Communities starved of economic oxygen
- ▶ Aging housing stock wears out
- ▶ No funds to renovate & modernize
- ▶ The pressure to leave overcomes the desire to stay
- ▶ Ever widening cycle of abandonment



# Inequality Trifecta Outcome - Crushed Mobility in Income / Wealth / Opportunity





# How We Got to Now -

## The Industrialized Home Finance System



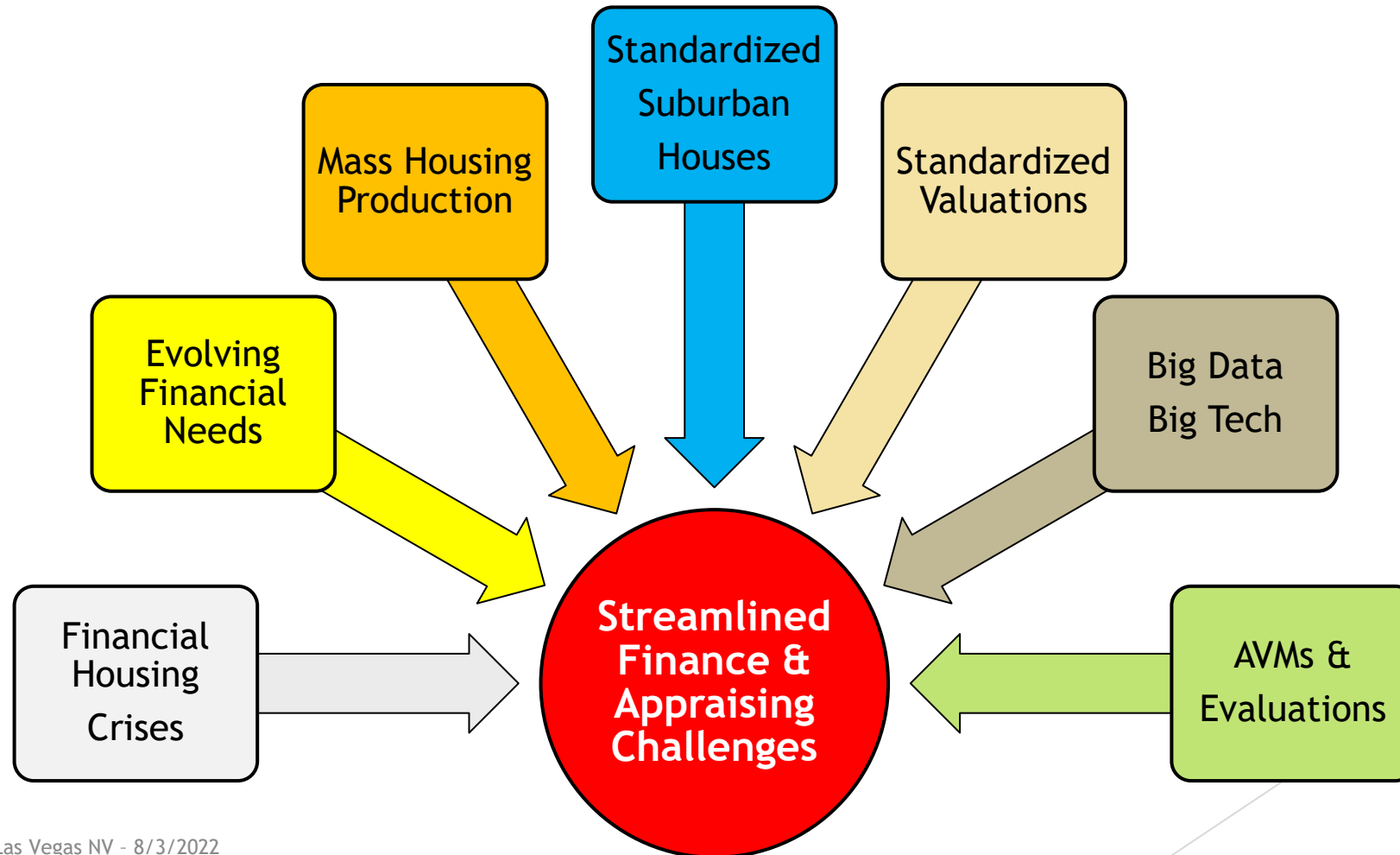
## Always Been This Way? *(guess the year)*

“Our property seems to me the most beautiful in the world. It is so close to *Babylon* that we enjoy all the advantages of the city, and yet when we come home we are away from all the noise and dust.”

***Cuneiform on a clay tablet, a letter to the King of Persia, in 539 B.C.***

Jackson, Kenneth T.; 1985. *Crabgrass Frontier. The Suburbanization of the United States*. New York, Oxford University Press

# How We Got to Now - Evolution from Pressure



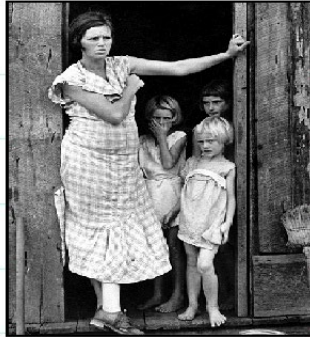
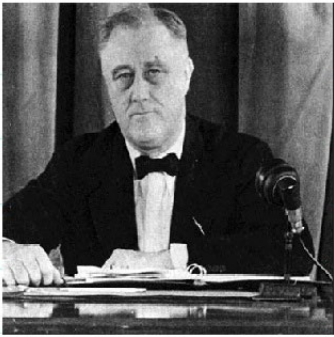
# How We Got to Now - Always Evolving

- ▶ **America Pre 1900 - Banking systems began in earnest in 1780s**
  - ▶ Expand as the nation expanded. National currency post -Civil War remained varied regionally
  - ▶ Extremely migratory population, despite the popular cultural idea of settled populations.
  - ▶ Alexis de Tocqueville in 1835 - “An American will build a house and sell it before the roof is on.”
- ▶ **Early 20<sup>th</sup> C**
  - ▶ 40%-50% down was common
  - ▶ Interest only, often variable,
  - ▶ Renegotiations every than 10 years.
  - ▶ Homeowners had to renegotiate loans regularly at loan renewals



# The Great Depression

## THE NEW DEAL



**Relief**  
*for those suffering*



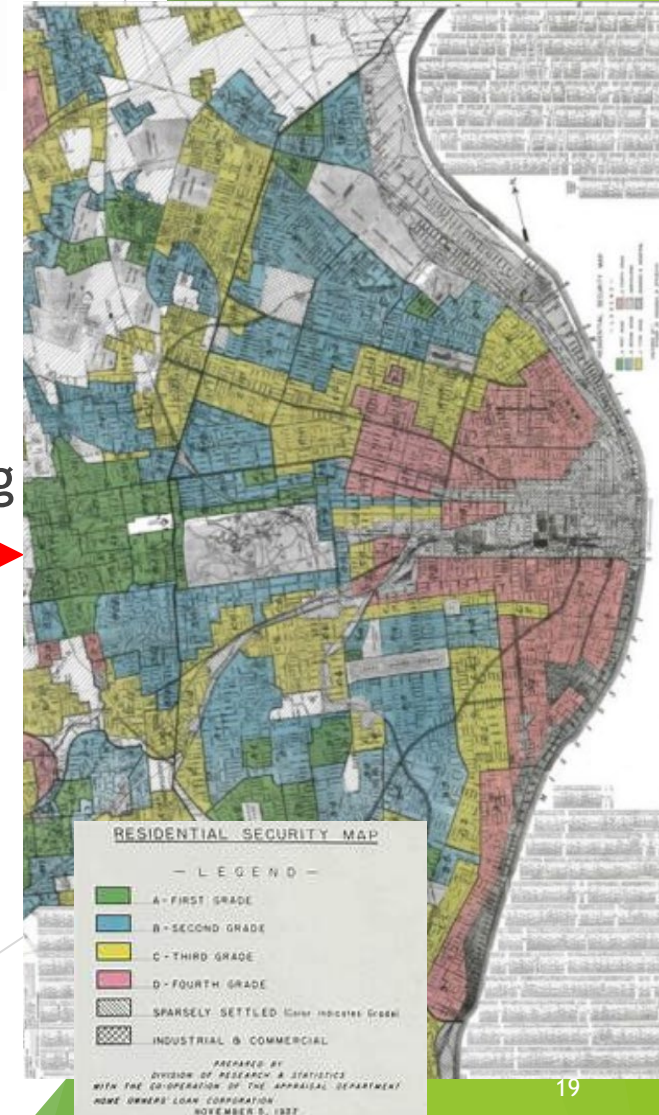
- ▶ New home construction declined 95% (in the GFC of 2008 it was only 75%)
- ▶ Home values declined 50%.
- ▶ Chain reaction liquidity crisis
  - ▶ Runs on the Banks and Savings & Loans.
- ▶ Bank liquidity crisis hits the homeowners at loan renewals
  - ▶ “We need our money back.”
  - ▶ Massive foreclosures = up to 25% of all housing and one-third of all banks.



# New Ideas in Housing Finance



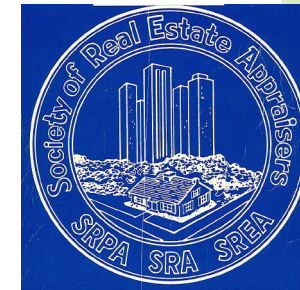
- ▶ National Housing Act 1934 & Home-Owners Loan Corporation
  - ▶ Institutionalize & Standardized the amortizing mortgage
  - ▶ Affected one million loans.
  - ▶ Also created security maps - the origins of discriminatory lending -- redlining.
- ▶ FHA -- created 1934 -- counteracts mortgage crisis  
Insures mortgages, 95% LTVs, loan commitments & developer approvals.
- ▶ FNMA -- inception 1938 -- creates a marketplace to buy FHA debt.



# Professionals Respond



- ▶ Systematized demand for real estate appraisals.
  - ▶ American Institute of Real Estate Appraisers
  - ▶ American Society of Appraisers
  - ▶ Society of Real Estate Appraisers



# Setting the Stage for Modernism

- ▶ The Collapse & Demand Pressure
  - ▶ Minimal new homes 1930 to 1946.  
95% decline new housing production.  
Few new homes or suburbs.
  - ▶ Meanwhile, population increased  $\pm 15\%$   
(123million to  $\pm 141$ million)  
Lots of new families, lots of children = lots of NEED.
  - ▶ Where do they go?
  - ▶ Existing housing = wearing out & overcrowded.



# Model Homes for the Millions

- ▶ 1930 - Better Homes for America -  
7000 chapters of builders, banks, manufacturers
- ▶ Lobbies for government aid to homebuilders
- ▶ War mobilization -  
policy shift away from public worker housing



# Post War - Industrial Housing Production

- ▶ Housing Boom & Model Homes for the Millions -
  - ▶ Extreme housing shortage for expanded & expected population boom.
  - ▶ Industrial scaling mastered from WW2 mfg techniques.
  - ▶ 9 million moved to suburbs by 1954 (Forbes). Despite vacant land in cities, the scattered sites did not suit mass production's need for efficiency.
- ▶ Lending decisions
  - ▶ Local lenders with intimate knowledge of local conditions and housing quality.
  - ▶ The weekend loan committee.  
And let's not forget the SRAs!
- ▶ Homeownership soars from 44% to 64% by 1980.





# The Man with the Plan

- ▶ Gregory Opelka, MAI SREA SRA - Appraisal Committee #17-PRA
- ▶ “The Green Hornet” - US League of Savings & Loan Associations
- ▶ First nationalized form for residential appraisals
- ▶ He also assisted with the URAR
- ▶ Helped a new securitized system from the 1960s .... and beyond.

# Appraisers & Industrialized Finance

- ▶ New Urban Ideal - millions of homogenous homes.
- ▶ Appraisers as the data collectors and commenters.
- ▶ Providing the values to underpin LTV.
- ▶ Rapid form-filled consistency. A blessing?



# Storm Clouds -1970s

- ▶ The Great Inflation - beginning late 1960s
  - ▶ Mismatch in savings & loan Interest rate - funds begin drying up
  - ▶ Stagflation in the 1970s
- ▶ Double Whamy -
  - ▶ 50-mile lending limit
  - ▶ Regulation Q's limits on interest rates
- ▶ Securitization
  - ▶ Fannie, Freddie & Ginnie - providing liquidity



# Storm Clouds -1980s



- ▶ New Ideas in “Securitization”
  - ▶ Salomon Brothers & Lewis Ranieri - from mail room to Vice-Chair
  - ▶ Creates the “private label MBS”
- ▶ Created competitors to Fannie, Freddie & Ginnie -
  - ▶ Suddenly they aren’t the only game in town
- ▶ Created reliance on bond rating agencies
- ▶ Opened a flood of new money sources into finance

# Storm Clouds - 1990s



- ▶ The 1990s - Engineered Finance
  - ▶ Bond ratings & tranches - vast liquidity from international sources
- ▶ The Loss of Seasoned Local Knowledge & Judgment
  - ▶ Underwriting becomes less local and more national / international
  - ▶ **The people with the money know little about borrowers / collateral**

**For appraisers ...  
URAR & Computer-Aided Mass Production Appraising**



# Fast Forward to the 21<sup>st</sup> Century

## The Need to Feel Economic Progress

- ▶ Real wages (post inflation adj) are flat since the 1980s
- ▶ How can people buy the new things? (always costing more and more)
- ▶ Feeding the need.
  - ▶ Borrow the prosperity
  - ▶ “Safe as Houses” = “Houses as Bank Accounts”

## The Result - Stagnation & Debt

- ▶ Not Suburbia - SUB-PRIMIA
- ▶ Ever diminishing risk controls
- ▶ Mortgage Fraud



# High Speed Crash - Great Financial Crisis

- ▶ Big Short = BIG DEAL
- ▶ Conservatorship for the GSEs
- ▶ Dodd Frank
- ▶ The Rise of the AMCs
- ▶ AQB changes that reduced new entries to the appraisal profession
- ▶ Eruption of AVMs and Evaluations



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications*



# Streamlined Industrial Finance - The “Now” We Got To....

- ▶ Rise of the AMC ... and their power to control appraisers
- ▶ Stagnation of Residential Certifications/Licenses
- ▶ Data Aggregation -- UAD and UCDP
- ▶ Automation, Machine Learning, AVMs
- ▶ Uneven housing wealth creation in communities
- ▶ Complaints of Appraisal Bias
- ▶ Federal & State Regulatory Response

# PAVE Report

- ▶ Appraisal Recommendations
- ▶ New Bill regarding oversight agency
- ▶ Legal authority - No recommendations for HUD and FHA appraisers are being picked on as the issue
- ▶ Places onus of appraisal bias on appraisers

# Groundwater



Source: REI Groundwater Training

# Appraisal Bias: Real World Examples

- ❖ *Confirmation - Confirmation bias is the tendency to search for, interpret, favor, and recall information in a way that confirms or supports one's prior beliefs or values*

Appraiser based on their prior experience of assignments in a neighborhood have formed an opinion of probable value and seek data to confirm their existing belief

- ❖ *Negativity - Holding on to a negative belief*

Appraiser holds onto their negative beliefs about a neighborhood and ignores data to the contrary



# Appraisal Bias: Real World Examples

- ❖ *Similarity/Affinity - Sameness or the feeling of comfort that looks and talks like you. Appraiser trusts the validity and words of people that look like them over people that look different than them*

Appraiser assumes or gives benefit of doubt regarding recent updates to homeowner that looks and talks like him or her over homeowner that does not





## Brookings-Ashoka Innovation Challenge - Challenge Overview

*"We believe people across the country are developing powerful innovations with the potential to (re)design our markets so they reflect the value of homes in Black communities; the value of homes as financial asset, as the place where people live their lives, and as the building blocks of communities."*

# Innovation Candidate Proposals - Overview of 54 Submissions

- ▶ Designated Land Trust Districts
- ▶ Multi-Unit Housing w/ Land Trust / Community Ownership / PHAs
- ▶ Multi-Unit Renovation Funding
- ▶ Appraisal Review Assistance / Reform / Diversity
- ▶ Assistance in increasing Black ownership rates
- ▶ Real estate brokerage changes
- ▶ 40 acres & a Mule - land reclamation
- ▶ Black women empowerment

# The Greenlining Project

*Providing solutions to reverse the impact of redlining  
in Black and Brown Communities*

- Ayako Marsh Miranda

# Development of the Innovative Solution for the Ashoka/Brookings Challenge

- ▶ Over 22 years in the real estate appraisal industry primarily residential valuation
- ▶ Community engagement at local community meetings on the issues of appraisal bias
- ▶ Recognition that community lacked basic appraisal knowledge
- ▶ Designed to address the core need of increasing home ownership and equity

# Summary of The Greenlining Project

- ▶ Provide on-demand basic homeowner video education
- ▶ Provide knowledge of appraisal process
- ▶ Teach homeowners how to search comps using public sites
- ▶ Provide local resources on downpayment assistance, credit building
- ▶ Future training will include credit building and wealth generation through home equity



# Common Homeowner Questions

- ▶ Why cost does not equal value, Ex. Prince George's County New Construction
- ▶ Above-grade vs below grade gross living area
- ▶ Basement finish
- ▶ Dissimilar comps (Location and Design)
- ▶ New commercial development in area

# Homeowner Education - Appraisal Report

On-demand and in-person training on:

- ▶ Preparing for an appraisal
- ▶ Searching comparable sales using public data sites
- ▶ How to read an appraisal report
- ▶ Interview your lender regarding their reconsideration of value process
- ▶ How to write a reconsideration of value

# Appraisal Ride Along

- ▶ Assisted Members of PAVE Task Force on an Appraisal Ride Along
- ▶ Provided Recommendations to PAVE Task Force on Appraisal Valuations and Appraisal Bias Solutions
- ▶ Greenlining Project will build on the appraisal ride along by offering bus tours of a mock appraisal inspection, data collection and adjustment process
- ▶ On-demand video of appraisal ride along and the appraisal process

# Funding

- ▶ Seek funds from banks and direct lenders
- ▶ Partner with other community organizations
- ▶ Appraisal and Real Estate Firms

# Next Steps

- ▶ Have been asked my two national organizations to provide a proposal to produce project
- ▶ Creating a social enterprise
- ▶ Landing Page

# 10 Featured Innovation Winners - What Did They Innovate?

- ▶ Land Trust - Houston CLT Homebuyer Program - ±\$150K grant < 80% AMI
- ▶ Land Trust - North Memphis Economically Inclusive Revitalization
- ▶ Land Contracts - Detroit MI - Good faith programs to foster home buying
- ▶ Social Equity Assistance - Baltimore/Parity Homes - Purchase Assistance
- ▶ Equity Assistance - Denver Deerfield Fund - \$40K downpayment assistance
- ▶ Equity Assistance - St. Paul/Minneapolis - Family Housing Fund - post equity
- ▶ Appraisal Diversity - Milwaukee DEI Apprentice Program
- ▶ AVM - Just Value AVM - Sister Neighborhood Sales & Financing Controls
- ▶ Machine AI - Class Valuation/Guild Mortgage - (National)
- ▶ Appraisal Change - St. Louis - Restorative Appraisals for Equitable Development



# With Action Winning Proposal - Overview

- ▶ Economic Architecture & Assignment Conditions
  - ▶ Do Existing Assignment Conditions = “Structural Bias?”
  - ▶ Adjust the Assignment Conditions - a Solution?
- ▶ Competitive Restorative Value
  - ▶ Whole Market Analysis - “Show Your Homework”
  - ▶ Adjusting the “Comparability Triangle”
- ▶ Home Equity Assurance
  - ▶ An incentive step to bridge perceived risk.

## “Structural Bias”-

Normalized and legitimized policies, practices, & attitudes that routinely produce cumulative and chronic adverse outcomes for minority populations



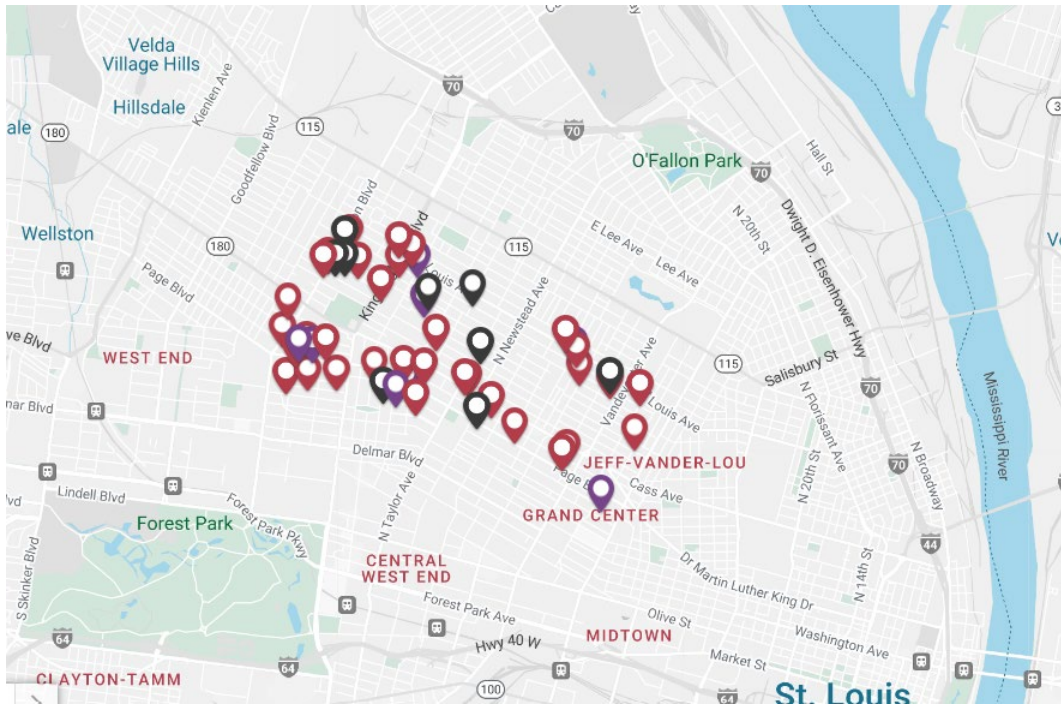
# Assignment Conditions

- ▶ Assignment Conditions from USPAP, Fannie Mae Selling Guide and Lender
  - ▶ Location
  - ▶ Date of Sale - 12 month
  - ▶ Search radius 1-Mile
  - ▶ Range of Adjustments
  - ▶ Required Commentary and Market Support
- ▶ One-way risk - all pointed at the appraiser
  - ▶ Accepting assignment conditions - carries full force of USPAP compliance
  - ▶ If you accept them and they are inappropriate - the appraiser's problem
  - ▶ If you turn the assignment down - when is the next gig?

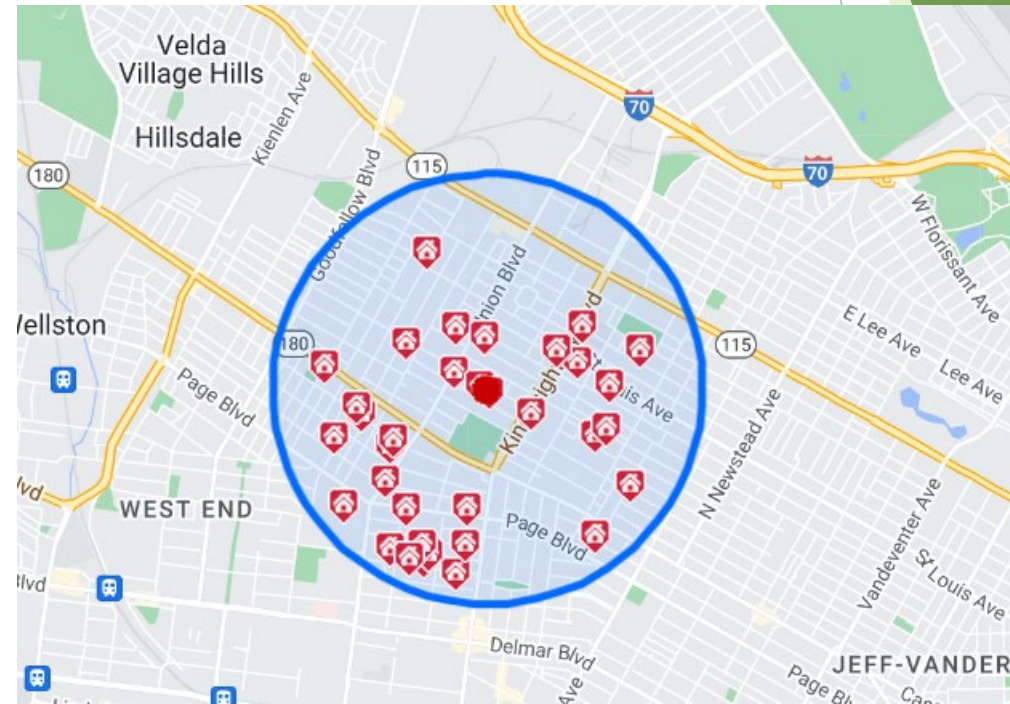
# New Assignment Conditions - Competitive Restorative Value

- ▶ Show Your Homework
- ▶ The Comparability Triangle
- ▶ Expanding the Triangle
- ▶ Impacts

# Show Your Homework - Examples of Candidate Comps



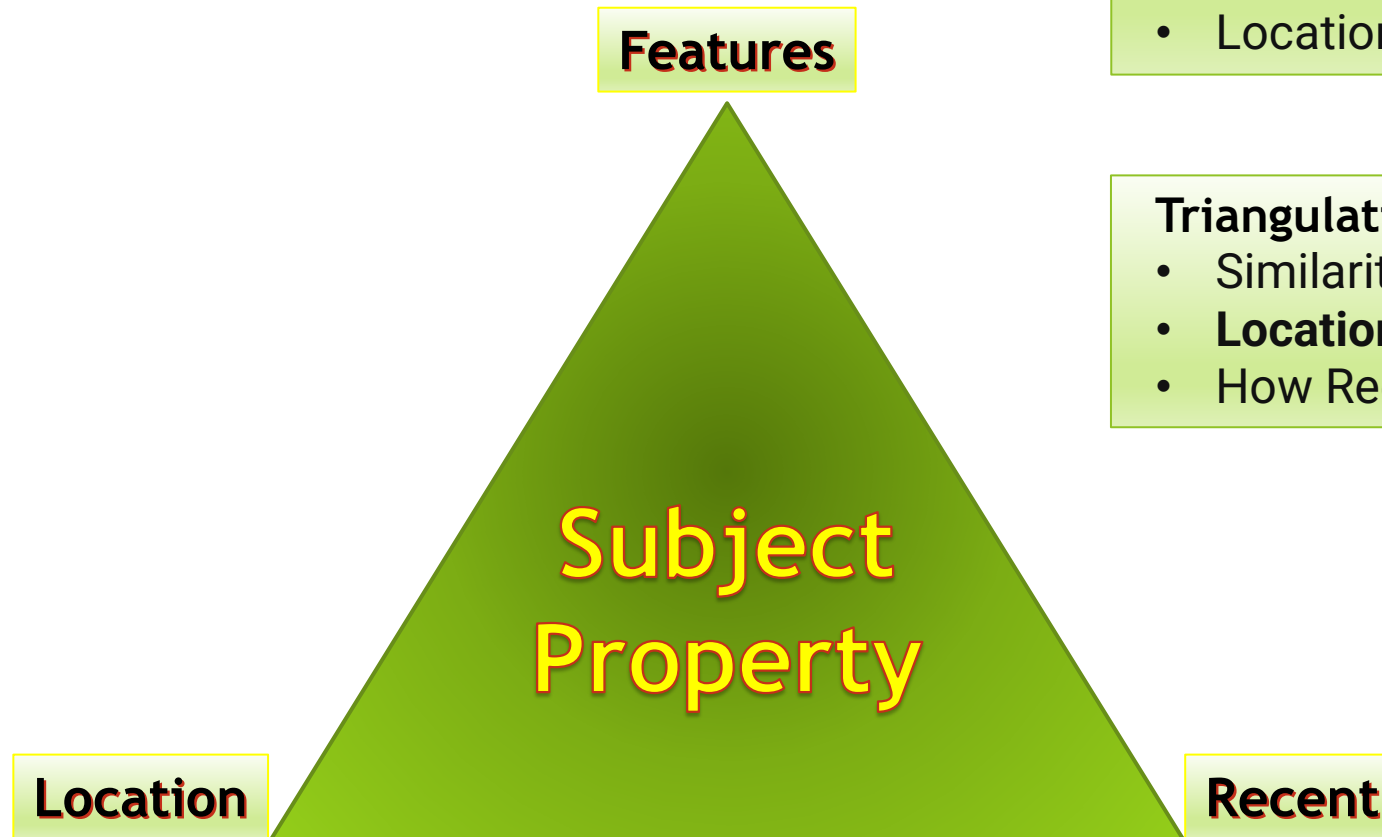
Zip Code



1m Radius

How frequently do appraisals cite more than 5 or 6 sales?

# Comparability Triangle



## Traditional Appraisal Method

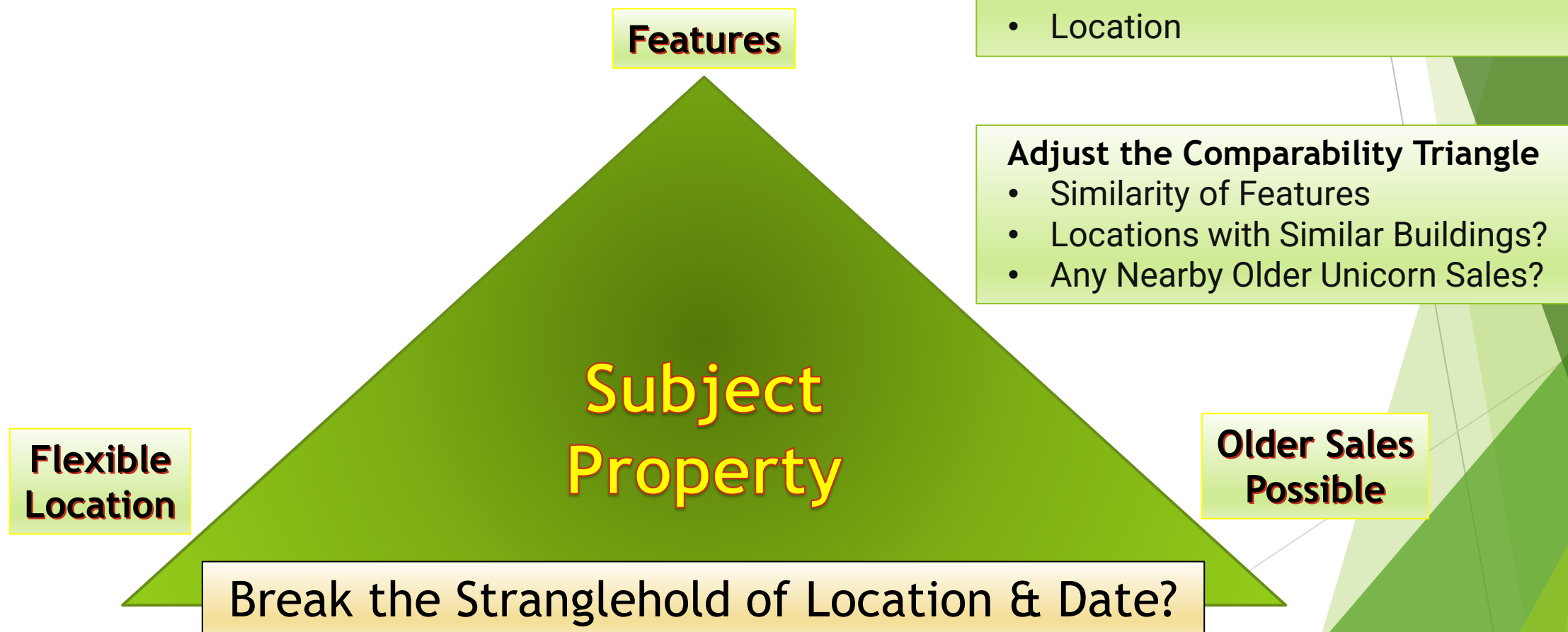
- Subject Property
- Size / Rooms
- Age
- Amenities & Features
- Location

## Triangulating the Comparables

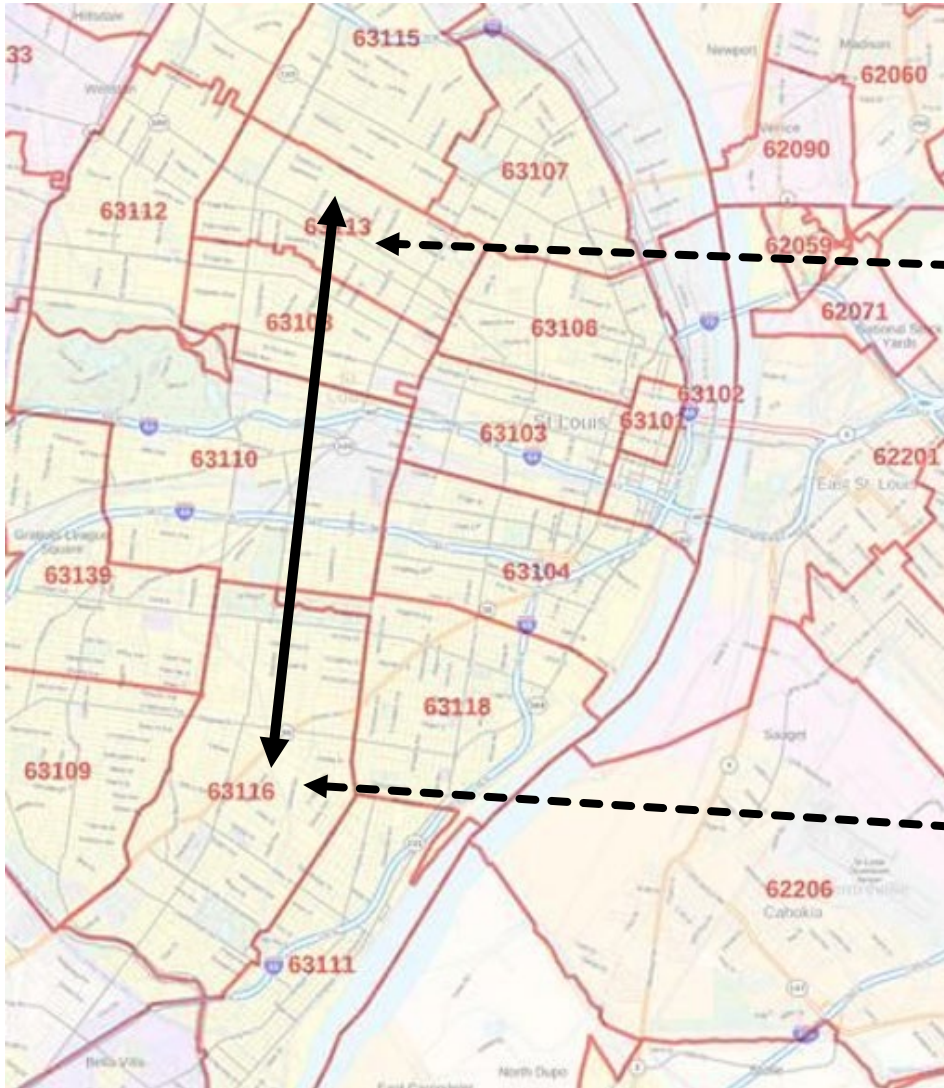
- Similarity of Features
- **Location Location Location**
- How Recent a Transaction



# Expanding the Comparability Triangle



# Examples of Community Disparities



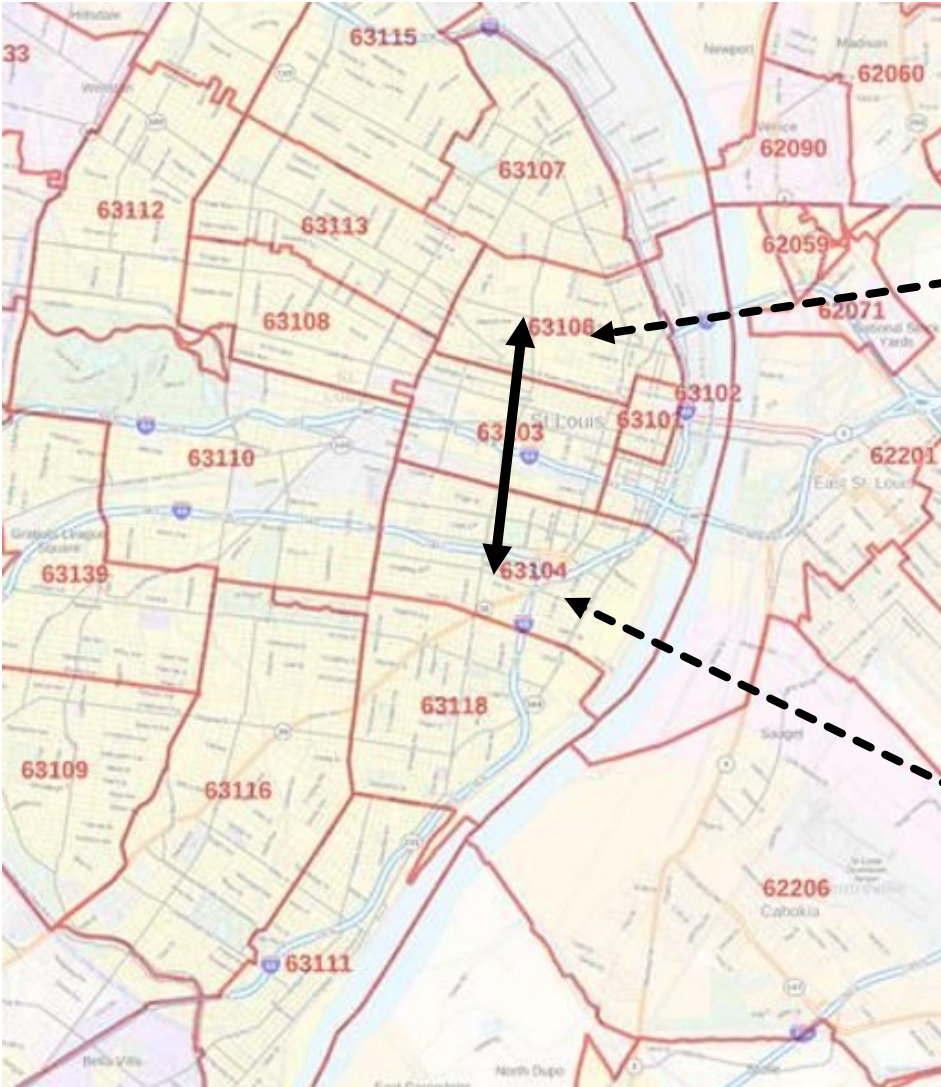
## 63113 - Kingsway

# Sales 2021 = 43  
Avg Age = 1923  
Avg GLA = 1,795 SF  
Style = 1½ - 2½ Sty  
Avg \$ = \$72,132

## 63116 - Southampton

# Sales 2021 = 416  
Avg Age = 1919  
Avg GLA = 1,801 SF  
Style = 1½ - 2½ Sty  
Avg \$ = \$252,545

# Examples of Community Disparities



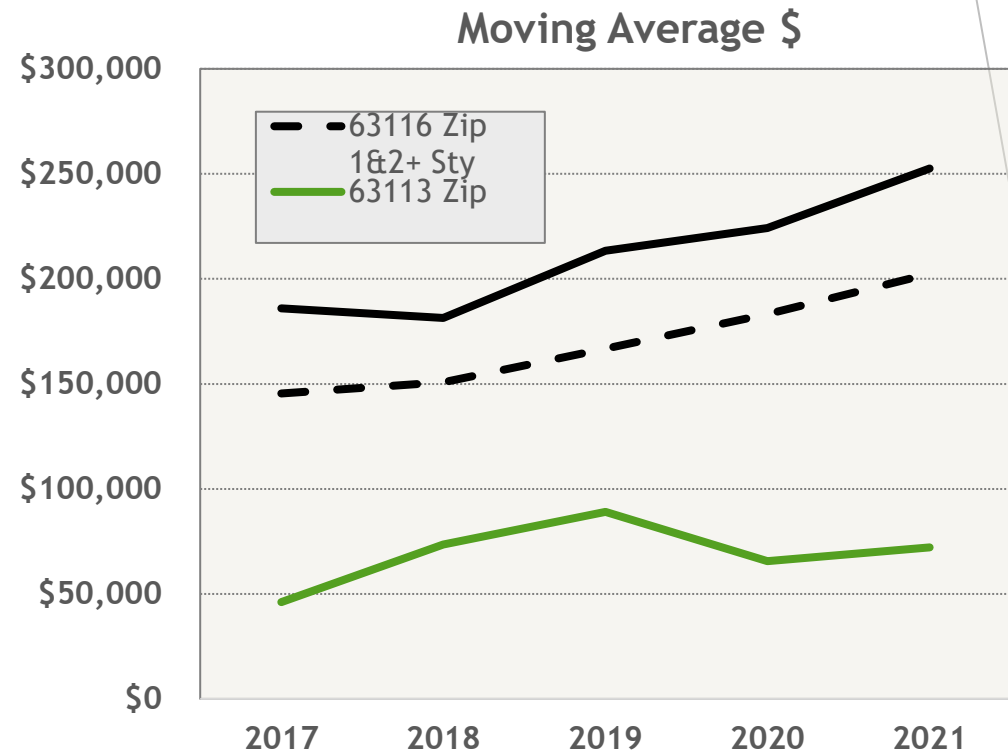
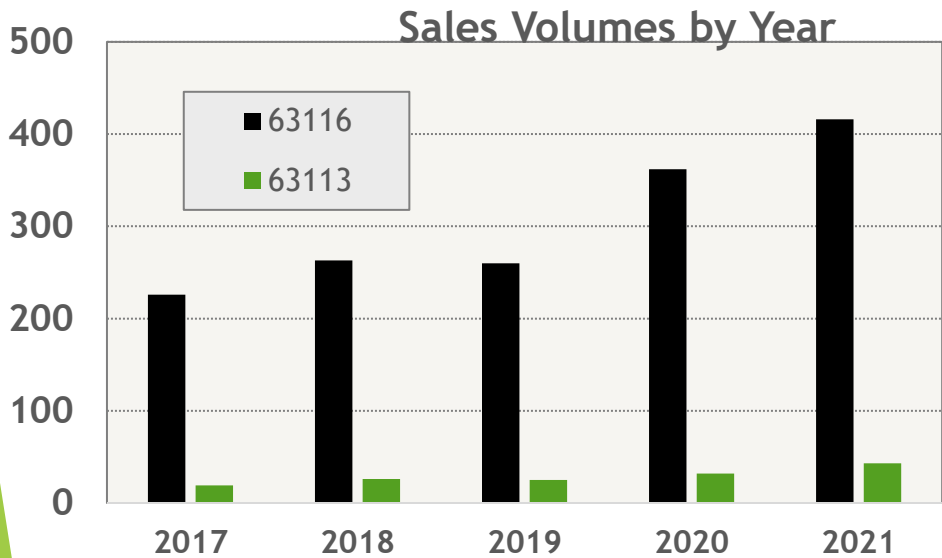
## 63106 - Old North St. Louis

# Sales 2021 = 9  
Avg Age = 1953 (??)  
Avg GLA = 1,951 SF  
Style = 1½ - 2½ Sty  
Avg \$ = \$145,750

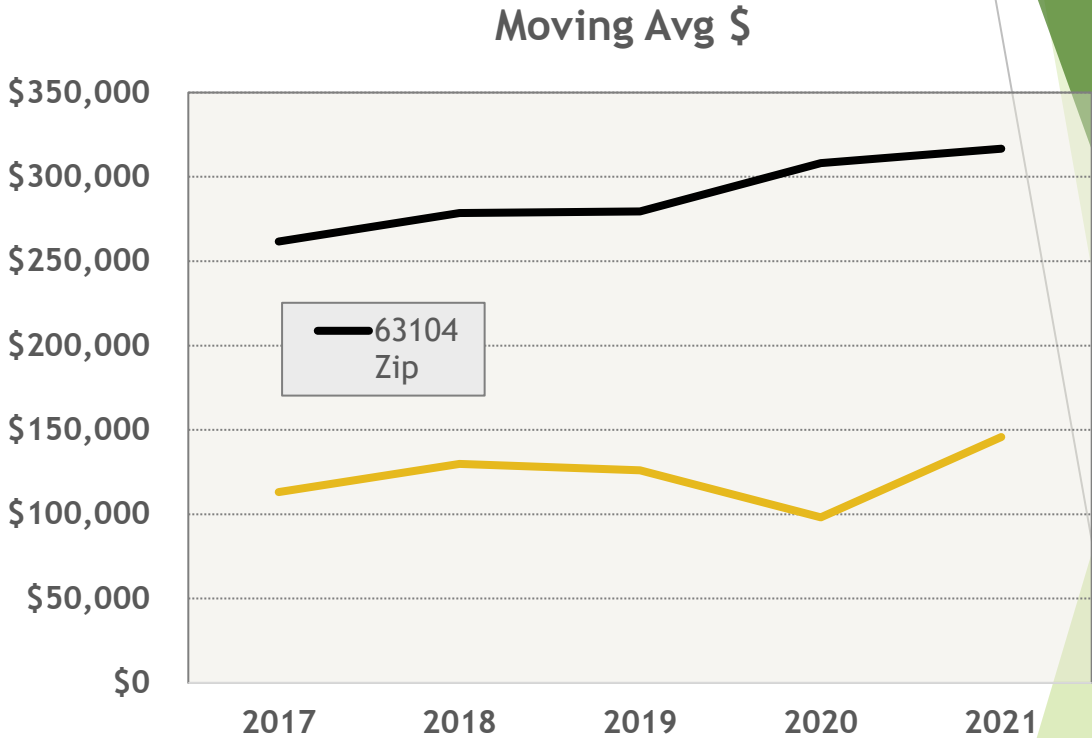
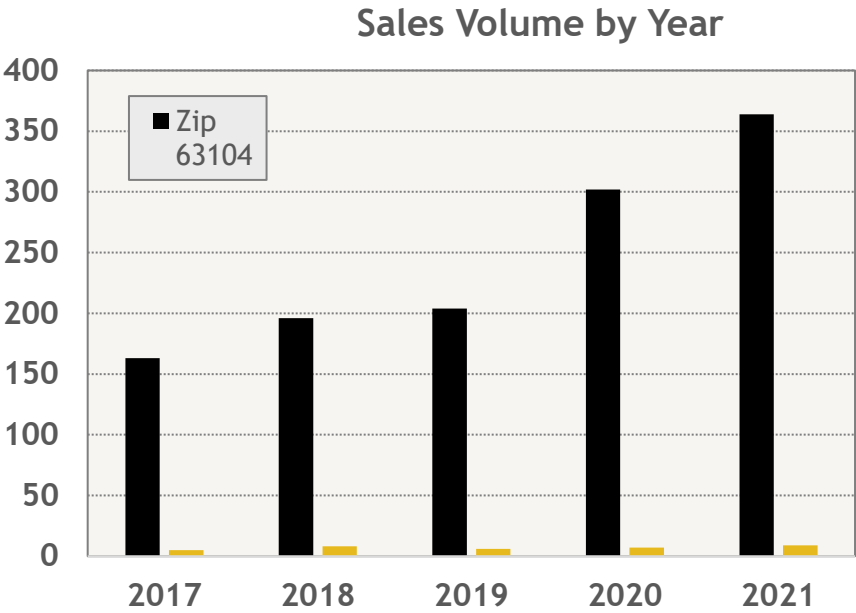
## 63104 - Soulard / Benton

# Sales 2021 = 364  
Avg Age = 1914  
Avg GLA = 2,069 SF  
Style = 1½ - 2½ Sty  
Avg \$ = \$316,689

# Persistent Challenges - 63113 v 63116



# Persistent Challenges - 63104 v 63106



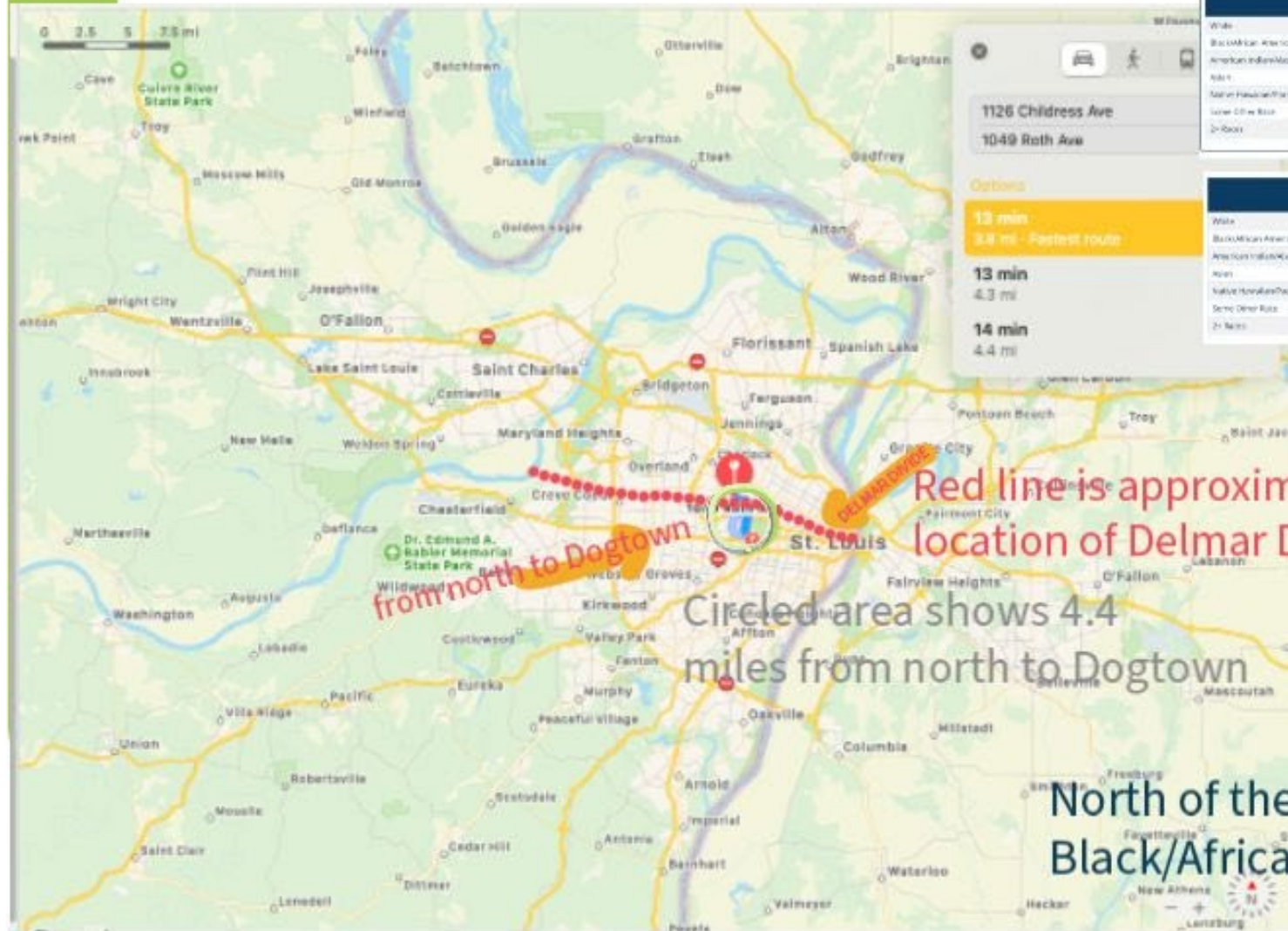


# LOCATION LOCATION LOCATION

Resale  
Convenience  
Amenities  
Schools  
Prestige  
Safety  
View



# OVERVIEW OF ST LOUIS AREA



Population by Race	County 14: Lewis City	
	Persons	% of Population
White	1,08,181	41.40%
Black/African American	1,08,152	41.47%
American Indian/Alaskan Native	731	0.25%
Asian	18,616	7.00%
Native Hawaiian/Pacific Islander	131	0.04%
Some Other Race	4,730	1.67%
2+ Races	8,188	3.04%

Population by Race	County 18: Lewis City	
	Persons	% of Population
White	454,391	60.54%
Black/African American	259,755	35.23%
American Indian/Alaskan Native	2,677	0.36%
Asian	48,748	6.51%
Native Hawaiian/Pacific Islander	228	0.03%
Some Other Race	10,717	1.44%
2+ Races	25,848	3.46%

Red line is approximate location of Delmar Divide

Circled area shows 4.4 miles from north to Dogtown

North of the Delmar Divide is over 75% Black/African American

# Segregation & Blockbusting in STL

1916 reform” ordinance that would prevent anyone from buying a home in a neighborhood more than 75 percent occupied by another race.

1954 Pruitt-Igoe, 33-11 story  
apartment buildings

University City on the border of the Delmar divide

University City Residential service

University City occupancy codes





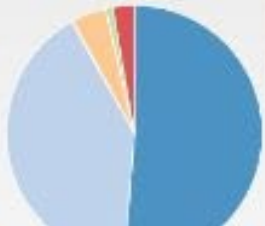
## Homes north of Olive in St.Louis, MO

Average price/sf:\$114.31

Average sale price: \$143548



Race



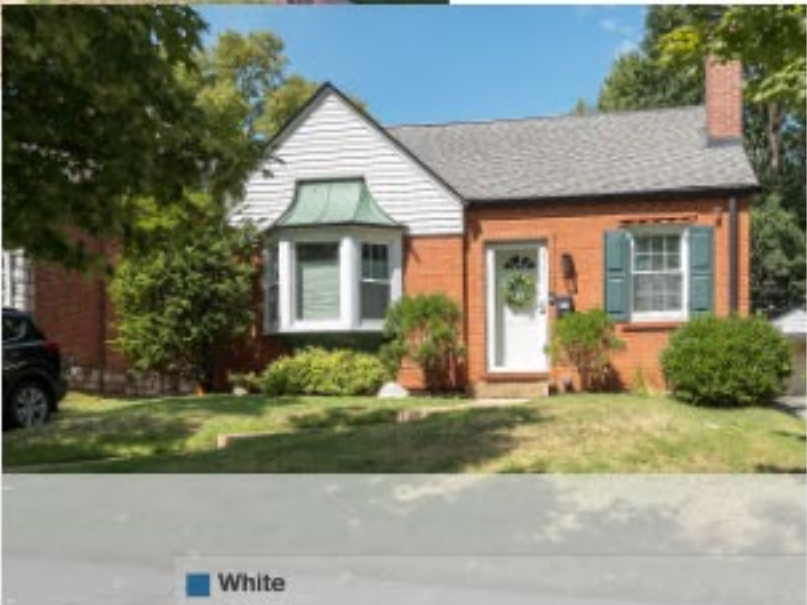
White	15,434	51.3%
Black Or African American	12,191	40.5%
American Indian Or Alaskan Native	70	0.2%
Asian	1,306	4.3%
Native Hawaiian & Other Pacific Islander	10	0.0%
Other Race	240	0.8%



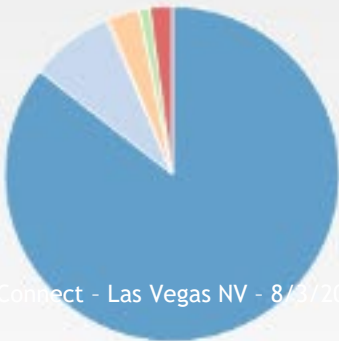
# Homes in “Dogtown” in St.Louis, MO

Average price/sf: \$200.13

Average sale price: \$241,316



Race



White	19,487	85.5%
Black Or African American	1,837	8.1%
American Indian Or Alaskan Native	57	0.3%
Asian	684	3.0%
Native Hawaiian & Other Pacific Islander	7	0.0%
Other Race	231	1.0%
Two Or More Races	486	2.1%



### SKINKER-DeBALIVIERE:

Single family sold in 2021 - 48,  
Average Square feet - 2,242,  
Average Price/s.f. - \$153.41 ,  
Average sold price - \$324,482



## Homes in “West End” in St.Louis, MO

Average price/sf: \$75.62  
Average sale price: \$186,399

## Homes in “Skinker- DeBaliviere” in StL, Mo

Average price/sf: \$170.04  
Average sale price: \$466,552



WEST END: Single family sold in 2021 - 37,  
Average square feet - 2,768, Average Price/sf -  
\$82.11, Average sold price - \$197,936

s NV - 8/3/2022





NV - 8/3/2022

# Homes in “Forest Park Southeast” in St.Louis, MO

Average price/sf: \$206.96

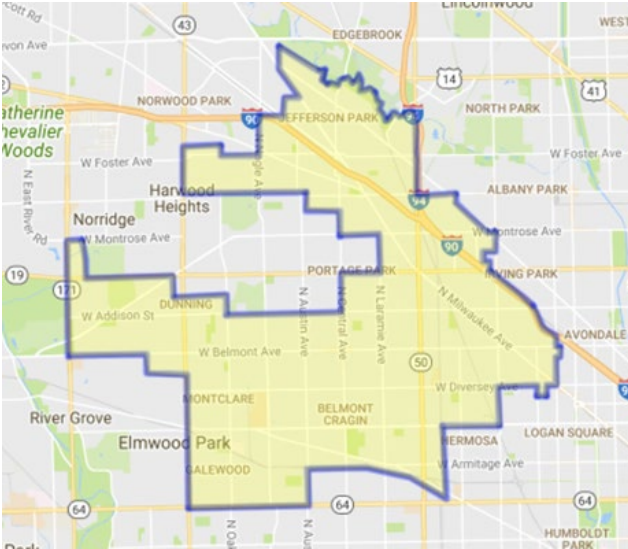
Average sale price: \$363,288





# Home Equity Assurance

- ▶ **City of Oak Park in Illinois** in the early 1970's. Oak Park launched the program backed by a property tax in 1978. The Oak Park became the model for the next 20 years.
- ▶ **Northwest and Southwest Home Equity Assurance** - State Legislation - annual levy of .12% of the total general equalized assessed valuation on residential properties. An appraisal is required to benchmark the value of your home. If you decide to sell after 5 yrs, you will receive the full value of your investment back.
- ▶ **Syracuse Home Equity Protection** program operated from 2002-2006. Payouts tied to a local housing price index based on actual sales in the ZIP code.



# The Race to Solve Appraisal Bias - Next Steps & Aspirations

- ▶ Alignment with Community Partners
- ▶ Demonstration Project
  - ▶ Identify candidate markets
  - ▶ Isolate strengths & weaknesses of process
- ▶ Modeling the Competitive Restorative Value Premise
  - ▶ Identify candidate properties for case studies
  - ▶ Identifying appraisers and brokers for participation
- ▶ Partner with Gap Financing Partners - Gateway Neighborhood Mortgage Program
- ▶ Continued Study of Equity Assurance Program



## The Race to Solve Appraisal Bias

# THANK YOU !!