



Freddie Mac's Confirmation of Appraisal Bias Demands System-Wide Reforms

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The idea that minorities face disproportionate challenges in the American housing system is hardly new. However, Freddie Mac has provided [fresh data](#) that confirms this bias in appraisals for homes in minority neighborhoods, and it cannot be minimized. The study's results are harrowing and demand changes.

Freddie Mac analyzed a robust data set of 12 million appraisals submitted to it from 2015 through 2020. The analysis's primary takeaway is that appraisals conducted in black and Latino neighborhoods are more likely to fall short of the contracted sale price than appraisals done in white neighborhoods.

In neighborhoods where at least half the population is white, a mere 7 percent of appraisals were less than the contracted sale price. Compare that to the share of appraisals that undercut the sale price in black census tracts (13 percent) and Latino census tracts (15 percent).



The analysis also found that this disparity does not only exist among a few appraisers. Rather, “a large portion of appraisers are generating statistically significant gaps,” according to Freddie Mac. Undervaluing properties in minority neighborhoods is a system-wide issue and not something only a few appraisers are guilty of.

The findings beg the question of how appraisals fall short of what homebuyers are willing to pay so much more frequently in minority neighborhoods than white neighborhoods. The analysis explored a number of potential explanations, including distance of comparable historical sales (“comps”) used to conduct the appraisal, comp reconciliation, comp variance, and purchaser overpayment. However, these factors only explained a modest amount of the appraisal gaps.

Freddie Mac’s researchers also developed a model that accounted for variations in structural and neighborhood characteristics. However, even after these controls, analysts still found an unmistakable appraisal disparity between white and minority neighborhoods.

Kudos to Freddie Mac for devoting the time and resources to studying this systemic bias, even if their analysis did not identify clear, specific reasons for the disparity. If anything, this analysis should kick off more research into racial bias in housing and reinvigorate efforts to combat the bias.

So what should be done to develop a more equitable housing system?

One potential step to alleviate racial disparities is through the widespread adoption of algorithmic technology and artificial intelligence. The Financial Services Innovation Coalition’s [research](#) has found that this technology has the potential to reduce racial discrimination in mortgage lending by removing more human biases. This tracks with other findings such as those from [Case Western Reserve University’s Daniel Shoag](#). This technology has demonstrated promise in reducing racial disparity in housing lending, and it can play a similar role in appraisals.

There are also actions that government-sponsored enterprises (GSEs) like Freddie Mac can take to bring us closer to a fair system. GSEs should adopt sensible measures to assess creditworthiness to expand financial inclusion. This means accepting payment histories for utility, rent, and telecom bills as a way for consumers to build credit earlier and expand opportunity for building wealth.

Today we have a housing system that places millions of black and Latino people at a distinct disadvantage. This falls far short of American ideals, and demands reform so that all can receive equal treatment and have a fair shot. With these new findings, industry players must commit themselves to realizing this change.

Kevin B. Kimble, Esq. is founder and CEO of the Financial Services Innovation Coalition. He is a founding member of the Coalition’s [Housing Task Force](#), which seeks to eliminate bias in the housing marketplace.