Tuesday, February 7, 2023

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Federal Financial Institutions Examination Council
Appraisal Subcommittee (ASC)
ApprasialBiasHearing@asc.gov

Re: Appraisal Subcommittee Hearing on Appraisal Bias

Guided by a vision of a nation where persistent poverty no longer exists, six regional Community Development Financial Institutions (CDFIs) located in and serving regions with a high prevalence of rural persistent poverty came together. The CDFIs—Come Dream | Come Build (cdcb) of Brownsville, Communities Unlimited, Fahe, First Nations Oweesta Corporation, (HOPE) Hope Credit Union and Hope Enterprise Corporation, and Rural Community Assistance Corporation— formed a coalition, named Partners for Rural Transformation (PRT). With a shared ethos of investing in both people and places and informed by the voices of local people, we seek to unify around opportunities in diverse communities at a time of great division in our nation. Perhaps nowhere else in the United States is the structural exclusion by race and place more self– evident than in communities of persistent poverty. Of the 395 persistent poverty counties, eight out of ten are rural. The majority (60%) of people living in persistent poverty counties are people of color. In fact, 4 out of 10 (42%) persistent poverty counties are majority people of color.

A closer look at persistent poverty America reveals how structural exclusion by place and race continues to paint a picture that is steadfastly rural and marred by racial, capital and data inequity. Rural America faces systematic, avoidable, and unjust economic, health, and racial disparities. Legacies of forced geographic and cultural displacement, enslavement, financial discrimination, residential segregation, and transitioning economies have left an indelible mark. PRT Partners are dedicated to providing critical financial services to areas that otherwise have none in order to reach communities where the racial wealth gap is at its widest.

The effects of the racial wealth gap can be seen nation-wide, specifically in the clusters of persistent poverty counties, where all of PRT's Partners live in and serve. For example, in 2018, Black households only earned 61 cents per every dollar a white household made.[1] There is no shortage of statistics showing Black and Hispanic families staggering below White families when it comes to wealth, housing, and many more areas that pertain to quality of life. In the areas our partners serve, the gap only widens and deepens with decades of disinvestment, resource extraction and marginalization in research.

Homeownership is critical for wealth generation. Each additional year of homeownership increases a household's total net worth an average of $13,700.[2] The median wealth of homeowners ($254,900) is more than 40 times greater than that of renters ($6,270). The median wealth gap between homeowners and renters is even starker among households of color. The median wealth of Black homeowners ($113,130) is 60 times greater than that of Black renters

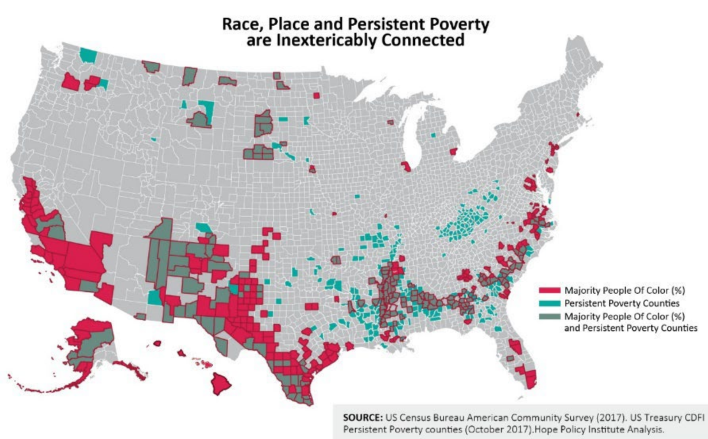
($1,830).[3] Homeownership is a proven wealth acquisition instrument with research showing that even after the Great Recession, the financial returns of homeownership outperformed stocks and bonds.[4]

While homeownership is a key strategy to closing the racial wealth gap, the scale of the wealth gap also contributed to current homeownership gaps. Due to historic patterns of discrimination and exclusion in housing opportunities the racial homeownership gap remains acute. Over three-quarters of white households are homeowners while less than half (49%) of Black households are homeowners. This disparity persists at the national level and for each state within the Deep South. This gap has widened between 2009 and 2019, with Mississippi and Tennessee experiencing a seven-percentage point increase during this time.[5] Mississippi's Black homeownership rate has steadily fallen every year in the decade since to its lowest point in 14 years.[6] Eliminating racial disparities in rates of homeownership is a critical strategy for narrowing the racial wealth gap. In fact, if policy changes resulted in equalizing homeownership rates between Black and white households in the Southeast, the wealth gap would shrink by 38 percentage points.[7]

The homeownership gap is complex and there are several points throughout the life-span of a home loan where systemic inequities should be addressed. Some of these disparities show up during the initial home purchase process, with lack of equitable access to credit. Other structural barriers, can make it more difficult for a homeowner to keep their home and build the type of equity that grows generational wealth.

The link between homeownership and the racial wealth gap is apparent. What is also just as apparent is the link between homeownership and health. First, it is important to understand that persistent poverty is a choice of public policy. It is neither accidental nor incidental. Often, in regions of persistent poverty, other forms of distress are also present – high unemployment, a lack of access to banking services, a paucity of quality affordable housing and safe drinking water – all of which contribute to higher rates of premature death and lower health outcomes:

- 86% of persistent poverty counties have unemployment rates in excess of the national average;
- Three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties;
- Eighty-one percent (81%) of persistent poverty counties are in the bottom quartile of counties in terms of health outcomes;
- Of the 395 persistent poverty counties, a "health related drinking violation" occurred in approximately 42% of the counties – nearly five percentage points higher than the rate nationally.



With there already being barriers to rural homeowners and communities of color having equal and equitable access to homeownership, the barriers that are a result of residential appraisal bias for those who are able to become homeowners are exacerbated. A 2022 study conducted by the National Community Reinvestment Coalition (NCRC) found that when an appraiser believed the home was owned by a White individual/family, the house was appraised at a higher valuation compared to if that exact same house was appraised by the same appraiser in the same time frame would if the appraiser believed the owner was a person of color. White owners across the board received higher values than Black counterparts, in addition to more professional and pleasant treatment from the appraisers during the process. The study identified that the appraisal industry is one of the least diverse work force industries in the country, with 97.7% of appraisers being White, and 69.6% of appraisers being male.

Homeownership is valued in the United States because of its potential to build generational wealth. The effect of appraisal bias is that it devalues the homes of people of color, decrease the equity potential, and takes away from the homeowners' ability to build generational wealth. Lower appraisal values resulting from appraisal bias can also impact the homeowner's future purchasing power and the homebuyer's ability to obtain a mortgage due to discrepancies between appraisal value and asking price. Appraisal bias is magnified in rural and underserved communities where there is a shortage of appraisers. Housing bias is one of many contributing factors for racial disparities in homeownership and wealth and financial well-being between white and communities of color, specifically black communities and must be addressed if we wish to correct the decades of systemic racism within housing policy and the housing industry.

Communities Unlimited, a PRT Partner, tells the story of a community affected by appraisal bias within their footprint: Pine Bluff, Arkansas. The population of Pine Bluff is 76% black/ African American and 18% white. The current median appraised value for owner occupied homes is $78,500. We can compare this to the nearby city of White Hall, with a population that is 70% white and 19% black, and an appraised median value of $170,300. Homes in Pine Bluff appraise significantly lower than homes in White Hall, with appraisers refusing to use comparables from the nearby city of White Hall to adjust to current market rates in the area. The Urban Renewal Agency in Pine Bluff has possession of land in downtown Pine Bluff to build two new homes with the hopes to provide new construction comparables and decrease the current appraisal gap for the area. The problem remains that available appraisers are limited and may continue to contribute to the appraisal gap and the process to certify and train new appraisers is a long, and often convoluted processes.

PRT Partner Hope who serves the Deep South also reports magnified impacts of appraisal bias in rural, persistently poor, and communities of color. Hope's footprint includes states with high concentration of persistent poverty counties, majority of which are also communities of color. There is a major concern of the lack of appraisers of color within the appraisal workforce. In one state that Hope serves in the Deep South, 99% of the appraisers are White. The general scarcity of appraisers in Hope's market has meant that appraisals are more expensive and take longer, delaying mortgage closings. This especially impacts smaller dollar mortgages where fees make up a greater percentage of a home's purchase price. For example, in January of 2023, there was a case where the fee quote for an appraisal went up 36% (from $1,100 to $1,500) within three weeks.

Another PRT Partner, Oweesta, who is the longest standing Native CDFI intermediary that serves exclusively to Native CDFIs and Native communities, confirms that appraisal bias in rural Indian Country is also exacerbated. There are not many Native appraisers across Indian Country.

In fact, finding appraisers at all is a barrier across Native communities, particularly in rural Native communities. As the South Dakota Native Homeownership Coalition shares, "In many tribal communities in South Dakota, even when a family qualifies for a mortgage, there are no homes to purchase. In explaining the shortage of housing stock, contractors have shared that residential building efforts are hampered by a shortage of workforce-ready employees ('there's no one to hire'), a lack of appraisers working on trust land, and sparsity of inspectors to inspect construction in progress."

These barriers force Native CDFIs to think holistically about how to advance the cause of homeownership in their communities, working to build the culture of homeownership in a variety of ways. In some cases, this requires them to take on many more roles in the process than a traditional mortgage lender would. For example, some Native CDFIs engage in construction financing, in some cases even owning construction companies or doing workforce training for appraisers or builders. In a growing number of cases, Native CDFIs are also doing housing development and advocacy with their tribes on housing-related issues. They may also play an active role in helping borrowers to identify and contract with residential real estate professionals such as inspectors, appraisers, and contractors. In places where the housing market is especially undeveloped, Native CDFIs are providing small business technical assistance to their latent housing industry, helping contractor and appraisers receive training.

PRT Partners live in and serve persistently poor rural communities, many of which are communities of color. Our goal is to expand economic opportunities for rural persistently poor communities by generating persistent prosperity, but beyond that, the communities need equitable policies allowing them to accumulate generational wealth and equity in their homes and communities. Addressing appraisal bias is one step towards equalizing these communities and bringing them out of persistent poverty. We ask the Appraisal Subcommittee to please give serious consideration to the impact of appraisal bias and ways in which it can be corrected.

With the statistics, our Partner's expertise, and the brave and vulnerable testimonies from the witnesses at the first public ACS hearing, the Partners for Rural Transformation suggest the following to begin to eradicate residential appraisal bias:

1. Increasing the diversity of appraisers, particularly those from underrepresented communities.

2. Bias recognition and elimination training for appraisers. Appraisers can be trained to recognize and correct for their own biases, which can help to reduce bias in appraisals.

3. Establishing independent oversight and review of appraisals can help to identify and correct for bias in appraisals.

4. To reduce the impact of bias, appraisers can be encouraged to use multiple comparable properties to determine the value of a property, rather than relying on a single comparable property, including neighboring towns.

5. Advanced technologies like artificial intelligence, machine learning and big data analytics can be used to identify patterns and reduce the impact of bias through the creation of tools that appraisers can access while doing appraisals.

6. Encourage more transparency in the appraisal process, especially in the reasoning in choosing a comparable(s) in all reports. This can help to identify and correct for bias in appraisals.

7. Encouraging and increasing community involvement, awareness and education in appraisal bias and Reconsideration of Value (ROV)s can help to identify and correct for bias in appraisals.

These recommendations are not mutually exclusive. A combination of these solutions should be implemented to best address the complex, multifaceted and generational effects of appraisal bias in rural and persistently poor families. It's important to note that addressing appraisal bias alone is not a panacea, but it could be a significant step in the right direction towards creating more equitable communities.

In partnership,

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PARTNERS FOR RURAL TRANSFORMATION

cdcb come dream. come build.
COMMUNITIES Unlimited
fahe Building the American Dream.
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