

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

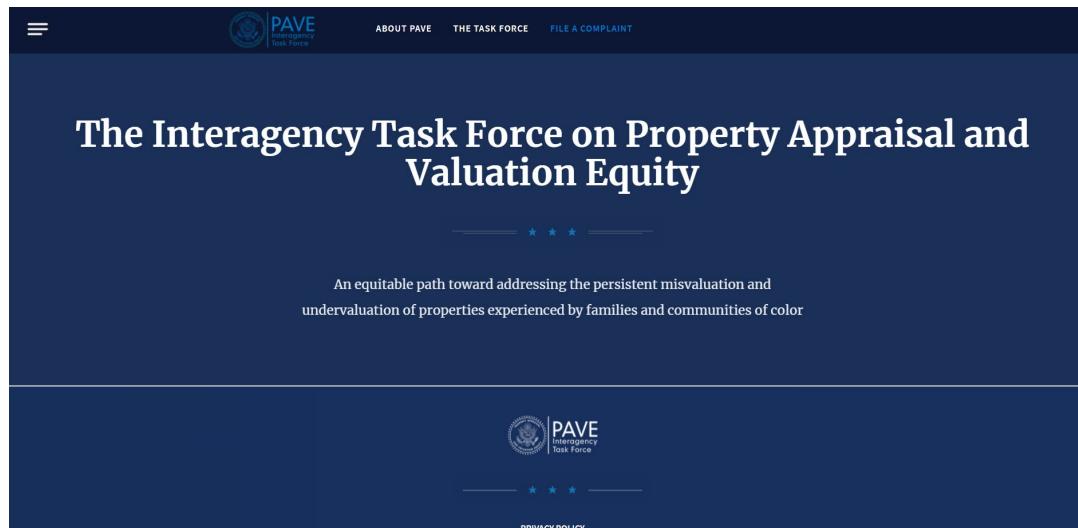
- Other federal laws and regulations that may also apply to appraisals include:
 - **The Fair Housing Act (42 U.S.C. § 3605)**
 - **OCC, FRB, FDIC, and NCUA regulations (12 C.F.R. § 34.42 (OCC), 12 C.F.R. § 225.62 (FRB), 12 C.F.R. § 323.2 (FDIC), and 12 C.F.R. § 722.2 (NCUA))**
- Other federal agencies 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](#) | [العربية](#)).
- “Helping consumers spot credit discrimination” for those who work with consumers ([English](#) | [Español](#) | [繁體中文](#) | [Tiếng Việt](#) | [한국어](#) | [Tagalog](#) | [العربية](#)).

- The brochures are currently available in English, Spanish, Arabic, Chinese, Korean, Tagalog, and Vietnamese.

KNOW YOUR RIGHTS
Credit discrimination is illegal

Under federal law, lenders are not allowed to discriminate against you. When you apply for credit or borrow money, it is illegal to discriminate because:

- Race
- Color
- Religion
- National origin
- Sex (including gender)*
- Marital status
- Age
- Receiving money from public sources

*Currently, the law requires lenders to consider sex discrimination when it affects income or marital status.

The ECOA applies to all forms of credit including:

- Car loans
- Credit cards
- Home loans
- Student loans

Entender la discriminación de crédito

Los consumidores con quienes usted trabaja sobre la discriminación o si han sido usted o Al compartir información que puede bajo la Ley de Oportunidad por sus siglas pueden ayudar entender mejor.

Helping consumers understand credit discrimination

Consumers you work with may not know about credit discrimination or whether they've experienced it. By sharing information with them and can't the Equal Credit Opportunity Act (ECOA), you can help better understand it.

CONOZCA SUS DERECHOS
La discriminación de crédito es ilegal

Bajo la ley federal, los prestamistas no pueden discriminar a usted. Cuando usted solicita crédito o pide dinero prestado, es contra la ley discriminar debido a:

- Raza
- Color
- Religión
- Origen nacional
- Sexo (incluyendo el género)*
- Estado civil
- Edad
- Por recibir dinero de la asistencia pública

*Actualmente, la ley requiere que los prestamistas no se basen en la discriminación de sexo o la discriminación de edad al prestar crédito a los consumidores que no tienen una casa propia.

La ley se aplica a todas las formas de crédito, incluyendo:

- Prestamos para automóviles
- Prestamos para paquetes de empresas
- Tarjetas de crédito
- Préstamos estudiantiles
- Prestamos hipotecarios

Dentro de ciertos límites, los prestamistas pueden considerar factores como los ingresos, la deuda, y el historial de crédito cuando deciden ofrecerle crédito y qué términos ofrecerle.

Usted está protegido bajo la Ley de Igualdad para la Oportunidad en Crédito (ECOA), por sus siglas en inglés.

ECOA se implementó en 1974. Hace que la discriminación de crédito sea ilegal y hace responsables a los prestamistas si infringen la ley. Muchos sectores del gobierno de los EE.UU. aplican la ley, incluyendo a la Oficina de Protección Financiera del Consumidor (OFC) por sus siglas en inglés así como a la Oficina del Controlador de la Moneda, la Junta de la Reserva Federal, la Corporación Federal de Seguro de Depósitos, la Administración Nacional de Seguros de Crédito, el Departamento de Justicia, y la Comisión Federal de Comercio.

cfpb Consumer Financial Protection Bureau

cfpb Oficina para la Protección Financiera del Consumidor

Aprende más en [consumerfinance.gov/es](#) 1 de 3

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/

The screenshot shows the homepage of the Consumer Financial Protection Bureau (CFPB). At the top, there is a navigation bar with links for Spanish, Chinese, Vietnamese, Korean, Tagalog, Russian, Arabic, and the Kreyòl Ayisyen, along with the phone number (855) 411-2372. Below the navigation bar is the CFPB logo and a search bar. The main content area features a large green banner with the text "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." To the right of this text are three stylized speech bubbles in teal, blue, and green, each containing an exclamation mark. Below the banner, there are two columns: one for "Submit a complaint" and one for "About us".

ECOA Resources

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

- Call: (855) 695-7974

- Email: whistleblower@cfpb.gov

Discussion and Q&A