

March 17, 2021

House Committee on Financial Services
3340 O'Neill Federal Building
Washington, D.C.

Re: Real Estate Valuation Fairness and Improvement Act of 2021

Dear Chairwoman Waters and Representative Green:

We write to support the Real Estate Valuation Fairness and Improvement Act of 2021. This bill addresses issues of racial equity in the procedures and techniques used to value residential real estate. It also directs money to historically Black colleges and universities for the purpose of training more appraisers of color.

This bill is necessary because there are indications that homes owned by people of color are not being valued fairly and that historic redlining is still harming communities of color. People of color are also significantly under-represented in the appraisal field. These problems likely result from the lingering consequences of institutional racism, current bias by individual appraisers, under-representation of people of color in the appraisal industry, and new automated valuation models (AVMs) that may incorporate biased assumptions.

In addition to funding appraiser training, this bill will require the relevant appraisal regulators and entities to cooperate on necessary research into the causes of racial disparities in real estate valuation.

While traditional appraisals are the best known valuation tool, other methods are allowed and are becoming more popular. These include computer systems known as automated valuation models (AVMs), hybrids combining the work of a fully qualified appraiser with a nonappraiser or AVM, and ill-defined "evaluations" permitted by federal bank regulators.¹

Real estate valuation is critical to the sale, financing, and taxation of homes across the nation. Banks need accurate valuations for safety and soundness reasons. Insurers, guarantors, and investors need to know how much properties are worth to protect their assets. Municipalities depend on accurate valuation for assessment and budgeting purposes. And consumers need to know the true value of a property when buying, selling, or mortgaging a home.

A valuation that is too high or too low can have serious, practical consequences for consumers, especially those in communities of color:

- Entire neighborhoods may be undervalued, preventing entire communities from growing wealth and discouraging outside investment.

¹ See 83 Fed. Reg. 63,110 (December 7, 2019) (discussing proposal to increase the threshold at which an appraisal becomes mandatory).

- Potential buyers may refuse to purchase and lenders may refuse to finance a home if the valuation does not support the home price.²
- If an appraisal undervalues a home so that lenders refuse to finance it, the buyer may be driven to a more expensive and risky land-installment or rent-to-own contract.³
- A lender might make an incorrectly low bid at a foreclosure auction, causing the homeowner to owe a larger deficiency.
- Undervaluation may lead homeowners to sell for less than their home is worth.
- Loan applicants may be offered a rate that is too high or charged for unnecessary mortgage insurance because the lender mistakenly believes the loan will have an LTV over 80%.
- Undervaluation may also prevent homeowners from refinancing, thereby missing out on lower interest rates or be prevented from making needed repairs.
- Overvaluation may discourage potential buyers from purchasing a home in the mistaken belief that their down payment is too small to achieve the necessary LTV.
- Buyers may be tricked by speculators flipping overvalued dilapidated properties or developing shoddy new construction for sale at huge markups—leaving buyers unable to sell or get a loan for repairs.
- A distressed homeowner may be denied a loan modification entirely because an inaccurate AVM leads the servicer to believe that foreclosure is better for the investor. Or the AVM may negatively affect which modification programs the borrower is evaluated for. Notably, the Enterprises have different loan modification rules for loans below 80% LTV. Such loans are not eligible for interest-rate reductions or principal forbearance.

² See Alexander N. Bogin & Jessica Shui, *Appraisal Accuracy and Automated Valuation Models in Rural Areas*, 60 *J. of Real Estate Fin. & Econ.* 40, 41 (2020) (citing research finding that about a third of negative appraisals result in cancellation of sale).

³ See National Consumer Law Center, *Toxic Transactions: How Land Installment Contracts Once Again Threaten Communities of Color* (2016), available at <https://www.nclc.org/issues/toxic-transactions-threaten-communities-of-color.html>; Sarah Mancini & Margot Saunders, *Land Installment Contracts: The Newest Wave of Predatory Home Lending Threatening Communities of Color*, Fed. Reserve Bank of Boston Communities and Banking (Apr. 2017).

- A homeowner may find herself underwater after purchasing an overvalued home. If the homeowner later wants to sell to avoid foreclosure or take up a new job, doing so will be difficult or—for most people—impossible.
- A high LTV is also associated with an increased risk of foreclosure—which harms both the homeowner and the investor.⁴
- Homes and entire neighborhoods may be overvalued for property tax purposes, draining wealth from a community.

As this list illustrates, home buyers, sellers, and owners have just as much interest in getting an accurate valuation as do other, larger industry participants. The real estate industry is a multi-billion dollar component of the American economy and accurate valuations are a critical underpinning. This bill is an important step toward ensuring that people of color have a fair opportunity to achieve the American dream of homeownership. We encourage Congress to pass this bill as written.

Sincerely,

National Consumer Law Center (on behalf of our low-income clients)

Americans for Financial Reform

California Reinvestment Coalition

Center for Community Progress

Center for Responsible Lending

Color of Change

Consumer Action

Consumer Federation of America

Empire Justice Center (New York)

Faith in Action

Legal Action Chicago

Massachusetts Communities Action Network (MCAN)

MICAH- Metropolitan Interfaith Council on Affordable Housing

National Community Reinvestment Coalition (NCRC)

National Community Stabilization Trust

National Disability Rights Network.

National Fair Housing Alliance.

National Housing Resource Center

Prosperity Now

Public Citizen

Woodstock Institute

⁴ Fed. Deposit Ins. Corp., Interagency Guidance on High LTV Residential Real Estate Lending 2 (Oct. 8, 1999), available at <https://www.fdic.gov/news/financial-institution-letters/1999/fil9994.pdf>.