



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

March 28, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing: "Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color"

Dear Chairwoman Waters and Ranking Member McHenry:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts on issues of importance to credit unions ahead of tomorrow's hearing entitled "Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products. We would like to thank you for holding this important hearing and the opportunity to provide input on the appraisal process.

NAFCU appreciates the work of the Administration and Congress on this important issue. NAFCU has discussed the issues of appraisal modernization and appraisal bias with the U.S. Department of Housing and Urban Development (HUD) as it embarked upon its Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). NAFCU has also been engaged with the Federal Housing Finance Agency (FHFA) on appraisal-related policies, practices, and processes.

Multiple studies have shown that biases in appraisals exist across the board. Freddie Mac¹ and Fannie Mae², the government-sponsored enterprises (GSEs), have found that appraisal disparities exist for communities and borrowers of color. The Consumer Financial Protection Bureau and other federal regulators, including the FHFA, have also acknowledged that appraisal discrimination plagues the mortgage market.³ Appraisal reform is essential in order to address this widely recognized issue. The use of technology is a start to addressing appraisal biases. NAFCU has recommended that the FHFA work with the GSEs, other federal regulators, and The Appraisal Foundation to diversify the appraisal industry by expanding participation of people of color in the appraisal industry, updating standards to root out bias more clearly, and providing training for appraisers to understand and identify implicit bias.

¹ *Racial and Ethnic Valuation Gaps in Home Purchase Appraisals* (September 2021).
<https://www.freddie.com/research/insight/20210920-home-appraisals>.

² *Appraising the Appraisal* (February 2022). <https://www.fanniemae.com/media/42541/display>.

³ *Federal Interagency Comment Letter on Appraisal Discrimination*. (February 4, 2022).
https://files.consumerfinance.gov/f/documents/cfbp_appraisal-discrimination_federal-interagency_comment_letter_2022-02.pdf.

Property value is a key determinant of borrower credit risk and an important aspect of the mortgage process. An appraisal should be an objective way to assess a home's market value. Appraisals are important to protect all parties involved in the homebuying process, including the lender, borrower, and seller, and appraisers should be objectively assessing a home's market value to ensure that the amount of money requested by the borrower is appropriate. Credit unions routinely confirm the consistency, fairness, and accuracy of appraisals they receive, and NAFCU sees the modernization of the appraisal process as a logical step to support continued innovation of the housing finance system and a way to help mitigate the risk of human error or bias.

There is a need for consistent, reliable technology to simplify the appraisal process, make it more efficient, and reduce bias and discrimination. At the same time, regulatory agencies charged with ensuring the integrity of algorithmic valuation models should take care not to develop rules that will chill innovation or prevent smaller community financial institutions from embracing new technology due to compliance costs. In other contexts, such as lending, artificial intelligence and machine learning models have demonstrated that automated processes can expand access to credit while ensuring compliance with fair lending laws.⁴ The same forward thinking should be applied to appraisals.

NAFCU members also report that there is a lack of standardization between appraisers and throughout the appraisal process, the effects of which are carried over to the borrower in terms of overall costs. NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior only appraisals, which can help with flexibility. When alternative processes, aside from traditional appraisals, can be employed, we believe lenders should be allowed the flexibility to use them at their discretion to find the best way to meet the needs of their members. During the pandemic, the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) permitted desktop and exterior only appraisals, but the FHA has since discontinued the flexibility for desktop only appraisals and the VA has discontinued the use of both desktop and exterior only appraisals. NAFCU urges Congress to investigate this decision and require HUD to permanently permit the FHA and VA to accept desktop and exterior only appraisals for all approved mortgages. Likewise, the GSEs should continue to permit desktop only and exterior only appraisals for all mortgages they purchase from lenders.

Credit unions also continue to see significant appraisal challenges in servicing rural areas. NAFCU's member credit unions would like to provide all their products and services, including mortgage loans, to their members in the rural communities they serve. Often, credit unions are the only financial institutions in a rural community, increasing the need for a more streamlined appraisal process so that these communities have easy access to safe, affordable mortgage credit. In rural communities, the appraisal process is less efficient than anywhere else. Moreover, credit unions have been faced with severe difficulties in securing an appraiser to complete traditional appraisals in these rural areas and sometimes even in urban areas. The ability to use desktop appraisals or other alternatives as well as automated valuation models and appraisal waivers in rural areas will decrease the strain placed on NAFCU's member credit unions and their member-borrowers when it comes to financing the purchase of a home through the mortgage loan process.

⁴ CFPB, "An update on credit access and the Bureau's first No-Action Letter," (August 6, 2019), available at <https://www.consumerfinance.gov/about-us/blog/update-credit-access-and-no-action-letter/>.

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NAFCU believes it is important to remove bias in the appraisal process and to strive for enhanced standards and consistency for appraisers. We strongly support efforts to expand the diversity of the appraiser workforce as well, as this can help significantly to reduce bias and discrimination. The use of new technologies, including artificial intelligence and machine learning, can also pave the way for a more fair and transparent appraisal process. Although algorithmic determinations of value may present different challenges, incorporating technologies to assist in the valuation process and serve as a check on the accuracy and consistency of appraisals would likely reduce bias and discrimination.

We thank you for the opportunity to share our thoughts and recommendations and look forward to continuing to work with you on improving the appraisal process. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcuh.org.

Sincerely,

A handwritten signature in cursive script that reads "Brad Thaler".

Brad Thaler

Vice President of Legislative Affairs

cc: Members of the U.S. House Committee on Financial Services