



**FHFA Could Further Combat
Appraisal Bias by Ensuring That
Complaints Are Filed with State
Authorities and Ensuring the
Enterprises Use Appraisals That
Comply with Federal Law**



EVL-2023-001

December 20,
2022

Executive Summary

Racial discrimination in the sale or rental of property in America has been prohibited by federal law for over 150 years. The Civil Rights Act of 1866 established that citizens “of every race and color” have the same right to purchase, hold, sell, and convey real property, and the same right “to full and equal benefit of all laws and proceedings [. . .] as is enjoyed by white citizens.” The Fair Housing Act of 1968, as amended, prohibits discrimination by real estate appraisers. Similarly, the Uniform Standards of Professional Appraisal Practice (USPAP) requires appraisers to perform their assignments without bias. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), among other things, created the framework for setting and enforcing USPAP. The FIRREA framework relies on actions at the private, state, and federal levels to help assure the quality of appraisals.

The appraisal is a critical part of the homebuying process. When a buyer finds a property to purchase, the lender hires an appraiser to provide an estimate of the value of the home. Licensed and certified real estate appraisers who fail to comply with USPAP are subject to investigation and discipline by the applicable state appraiser licensing authority. State appraiser licensing authorities are responsible for implementing USPAP and for investigating complaints against appraisers. In order to initiate such an investigation, a complaint must be filed in accordance with the state’s procedural requirements.

In December 2021, the Federal Housing Finance Agency (FHFA) published “Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary,” to draw attention to overt references to race, ethnicity, and other prohibited bases under federal fair lending laws that FHFA found in its review of appraisal reports. FHFA emphasizes that the racial and ethnic composition of a neighborhood should never be a factor that influences the value of a family’s home, but its review found that “racial and ethnic compositions of a neighborhood are still sometimes included in [appraisal report] commentary, clearly indicating the writer thought it was important to establishing value.” FHFA observed that, among other things, examples of improper references persist in appraisals, and these examples indicate “the continued presence of valuation bias.” FHFA further observed that all stakeholders must ensure that appraisals are compliant with fair lending principles and laws, and provide supported value and equal treatment of the neighborhood and community in which the home is located.

We performed this evaluation to determine what actions FHFA took, or plans to take, to address the examples of valuation bias it called attention to in its



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December 2021 review. FHFA informed us that it made 17 referrals, and provided approximately 25.6 million active appraisal records, to the U.S. Department of Housing and Urban Development (HUD), the agency with lead responsibility for enforcing the Fair Housing Act. These actions are consistent with FHFA's obligation to affirmatively further the purposes of the Fair Housing Act, which includes forwarding information to HUD when such information suggests a violation of that Act. FHFA also reported that it has made appraisal information for approximately 25.6 million active appraisal records available to the U.S. Department of Justice (DOJ). FHFA informed us that it has also shared relevant appraisal information with the Consumer Financial Protection Bureau (CFPB).

We found that FHFA did not take the additional step of filing complaints with the relevant state appraiser licensing authorities that would prompt investigations of the offending appraisers FHFA identified in its review, an action that would be consistent with the FIRREA framework. In our view, FHFA is well positioned to ensure that such complaints are filed because the Agency performed the analysis in its December 2021 review, and it can identify the specific appraisers and appraisals that would be the subject of the individual complaints and provide the factual support for the complaints. The Associate Director of FHFA's Office of Fair Lending Oversight informed us that the Agency does not file complaints with the state licensing authorities and has no policy in place on the subject.

On a separate issue, under a regulation issued by HUD, it is an unlawful practice to use an appraisal of residential property in connection with the "sale, rental, or financing of any dwelling where the person knows or reasonably should know" that the appraisal "improperly takes into consideration race, color" or other prohibited bases. We understand FHFA's position to be that Fannie Mae and Freddie Mac (together, the Enterprises) are "users" for purposes of this regulation when purchasing real estate loans. Our evaluation found that, although FHFA identified appraisals that made overt references to prohibited bases in certain appraisal reports it reviewed, FHFA has not determined the extent to which the Enterprises are using appraisals that improperly consider bases that are prohibited by federal fair lending law.

We make two recommendations in this report to address our findings. In a written management response, FHFA agreed with our recommendations.

This report was prepared by Adrienne Freeman, Investigative Counsel, with assistance from Jason Ramserran, Program Analyst. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.



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This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaoig.gov, and www.oversight.gov.

/s/

Kyle D. Roberts
Deputy Inspector General for Evaluations

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ABBREVIATIONS

ASB	The Appraisal Standards Board of the Appraisal Foundation
CFPB	Consumer Financial Protection Bureau
DOJ	U.S. Department of Justice
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
HUD	U.S. Department of Housing and Urban Development
OFLO	Office of Fair Lending Oversight
PAVE	Interagency Task Force on Property Appraisal and Valuation Equity
USPAP	Uniform Standards of Professional Appraisal Practice

BACKGROUND.....

Federal Law and the Uniform Standards of Professional Appraisal Practice Prohibit Discrimination and Bias in Appraisals

The Civil Rights Act of 1866

Racial discrimination in the sale or rental of property in America has been prohibited by federal law for over 150 years. The Civil Rights Act of 1866, among other things, established that:

[A]ll persons born in the United States...are hereby declared to be citizens of the United States; and such citizens, of every race and color, without regard to any previous condition of slavery or involuntary servitude...shall have the same right, in every State and Territory of the United States, to make and enforce contracts, to sue, be parties, and give evidence, to inherit, purchase, lease, sell, hold, and convey real and personal property, and to full and equal benefit of all laws and proceedings for the security of person and property, as is enjoyed by white citizens...”¹

The Fair Housing Act of 1968

Over one hundred years after passing the Civil Right Act of 1866, Congress passed the Fair Housing Act of 1968. As amended in 1988, the Fair Housing Act prohibits discrimination in “[t]he selling, brokering, or appraising of residential real estate property[.]”² Section 3605 makes it unlawful to “discriminate against any person in making available [residential real estate-related transactions], or in the terms of conditions of such a transaction, because of

¹ Pub. L. No. 39-26, 14 Stat. 27 (1866), codified as amended at 42 U.S.C. § 1981(a). Despite the plain language of the law, it was not actively enforced. *See generally*, Robert J. Kaczorowski, *Enforcement Provisions of the Civil Rights Act of 1866: A Legislative History in Light of Runyon v. McCrary, The Review Essay and Comments: Reconstructing Reconstruction*, 98 YALE L. J. 565 (1988-1989) (concluding that “the [United States] Supreme Court effectively curtailed civil rights enforcement in the nineteenth century by reading into federal civil rights provisions restricted meanings not intended or even considered by their framers.”).

² Pub. L. No. 90-284, § 805 (1968), as amended by Pub. L. No. 100-430 § 6(c) (1988) (codified at 42 U.S.C. § 3605(b)(2)). *See* 86 Fed. Reg. 7487 (Jan. 29, 2021). For further background, see the President’s January 26, 2021, [Memorandum on Redressing Our Nation’s and the Federal Government’s History of Discriminatory Housing Practices and Policies](#) (e.g., “Throughout much of the 20th century, the Federal Government systematically supported discrimination and exclusion in housing and mortgage lending. . . . Federal policies contributed to mortgage redlining and lending discrimination against persons of color.”).

race, color, religion, sex, handicap, familial status, or national origin.”³ This includes any person or other entity engaged in the “selling, brokering, or appraising of residential real property.”⁴ The Fair Housing Act also requires Federal agencies, including FHFA, to ensure the programs and policies they implement affirmatively further the purposes of the Act.

As recently as February 2022, DOJ filed a “Statement of Interest” in a private civil lawsuit in northern California in which the plaintiffs, a Black couple, allege appraisal discrimination on racial grounds in violation of the Fair Housing Act.⁵ DOJ asserted that “the [Fair Housing] Act directly prohibits discrimination by ‘any person or other entity’ engaged in the ‘apprais[al] of residential real property.’”

Uniform Standards of Professional Appraisal Practice Prohibits Bias in Appraisals

USPAP requires appraisers to perform their assignments without bias⁶ and defines bias as a preference or inclination that precludes an appraiser’s impartiality, independence, or objectivity in an assignment. USPAP instructs that an appraiser “must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value...”⁷

³ 42 U.S.C. § 3605(a). Another federal fair lending law, the Equal Credit Opportunity Act of 1974, as amended, makes it unlawful for creditors to discriminate against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act.

⁴ 42 U.S.C. § 3605(b)(2).

⁵ See [Statement of Interest](#), *Austin v. Miller*, No. 3:21-cv-09319 (N.D. Cal.).

⁶ USPAP is set by the Appraisal Foundation, a non-governmental organization.

⁷ 2020-2021 USPAP, Ethics Rule. The Appraisal Standards Board of the Appraisal Foundation (ASB) provides additional guidance through its “advisory opinions,” which demonstrate the applicability of USPAP in specific situations and offer the ASB’s advice on resolving appraisal issues. Advisory Opinion 16, *Fair Housing Laws and Appraisal Report Content* states, in pertinent part, that “[i]n some cases, even supported conclusions” based on protected characteristics (such as race) cannot be used because they are precluded by law. In 2022, FHFA joined with other federal agencies charged with enforcing the Fair Housing Act, in a letter to ASB in which the agencies expressed their concerns regarding the current ethics standards that prohibit *unsupported* conclusions based on prohibited factors. The agencies emphasized to the ASB that federal law prohibits appraisal bias whether or not the conclusions in the appraisals are supported. The ASB has proposed changes to the Ethics Rule to make it clear that any violation of applicable antidiscrimination laws also is a violation of USPAP.

Property Appraisals and Appraisers Play a Key Role in Housing Finance

The appraisal is a critical part of the homebuying process. When a buyer has found a property to purchase, the lender hires an appraiser to provide an estimate of the value of the home. The appraiser's opinion of value is a key determinant of the loan-to-value ratio and whether the subject property provides sufficient collateral for a mortgage loan. The borrower's home equity, which is the portion of the fair market value of the home that exceeds the unpaid principal balance of the mortgage loan, is a means by which Americans and their families can build wealth.

Recent Focus on the Persistence of Appraisal Bias in Housing Finance

The appraiser's role is to provide an impartial, objective, and independent opinion of value. In March 2022, the President's Interagency Task Force on Property Appraisal and Valuation Equity (PAVE), of which FHFA is a member, described an "appraiser's work" as having subjective and imprecise elements dependent on the appraiser's expertise and familiarity of the homes and neighborhoods being appraised. In addition, a 2021 Freddie Mac study found that 12.5% of home appraisals in majority-Black neighborhoods and 15.4% of home appraisals in majority-Latino neighborhoods resulted in a value below the contract price compared to 7.4% of home appraisals in majority-White neighborhoods.⁸ As noted above, there is also a pending lawsuit that alleges racially based appraisal bias during the home refinance process.⁹ The plaintiffs, a Black couple, allege the defendant, an appraiser, provided the couple with an "unreasonably" low home valuation, stating that race was a motivating factor for the low appraisal in violation of the Fair Housing Act and related federal and state laws. The initial appraisal was nearly \$500,000 less than a second appraisal the couple received for their home approximately one month later.

Appraisers Are Required to Certify That Their Valuation Was Not Based on Any Basis Prohibited by Law

The Enterprises require that appraisers provide reports on the Uniform Residential Appraisal Report (Fannie Mae Form 1004; Freddie Mac Form 70). The appraisal report form requires appraisers to certify on each appraisal report that they did not base their analysis or opinion of value on, among other things, the race, color, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

⁸ See Freddie Mac, [*Economic & Housing Research Note: Racial and Ethnic Valuation Gaps in Home Purchase Appraisals*](#) (Sept. 2021). The study highlighted the need for more research regarding appraisal bias.

⁹ See Complaint, *Austin v. Miller*, No. 3:21-cv-09319 (N.D. Cal.) (filed Dec. 2, 2021).

The Enterprises require appraisers to comply with USPAP and the Fair Housing Act. Appraisers who fail to comply with USPAP are subject to investigation and discipline by the applicable state licensing authority in accordance with the federal framework Congress established over 30 years ago through Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Title XI of FIRREA Created an Oversight Structure for Real Estate Appraisals and Appraisers That Relies on Actions at the Private, State, and Federal Levels

Title XI of FIRREA, among other things, created the framework for setting and enforcing USPAP. The framework has been aptly described as “a complex regulatory system that relies upon the actions of private, state, and federal entities to help assure the quality of appraisals and the qualifications of appraisers used in federally related transactions.”¹⁰ FIRREA places the responsibility to oversee compliance with USPAP, and to address and resolve complaints against individual appraisers, with state appraiser licensing authorities.¹¹ At the federal level, the Appraisal Subcommittee of the Federal Financial Institutions Examination Council reviews states’ compliance with the requirements of Title XI of FIRREA, including the states’ complaint, investigation, and disciplinary process related to USPAP, to ensure states maintain an effective regulatory program.¹² The Appraisal Subcommittee consists of designees chosen by the FHFA Director and the heads of CFPB and specific federal financial institutions regulatory agencies.¹³

State Investigations into Allegations That an Appraiser Is Not Complying with USPAP Are Typically Prompted by a Written Complaint

In its “Policy Statements on Requirements and Guidance to State Appraiser Certifying and Licensing Agencies for Compliance with Title XI” (of FIRREA), the Appraisal Subcommittee asserts that “[e]ffective enforcement requires that States investigate allegations of appraiser

¹⁰ See General Accounting Office, [Opportunities to Enhance Oversight of the Real Estate Appraisal Industry](#), GAO-03-404 (May 2003), at 3.

¹¹ Financial Institutions Reform, Recovery, and Enforcement Act, 12 U.S.C. §§ 3345-47. During an interview, an Appraisal Subcommittee executive confirmed that it is ultimately the state’s decision whether or not an appraisal falls short of USPAP or state law.

¹² The Federal Financial Institutions Examination Council was created by Congress in 1979. Its mission is to establish “uniform principles [and] standards . . . for the federal examination of financial institutions” and “to make recommendations to promote uniformity in the supervision of financial institutions.” See FFIEC, [About the FFIEC](#) (accessed Nov. 7, 2022). The Appraisal Subcommittee’s mission is to “provide federal oversight of State appraiser and appraisal management company regulatory programs and a monitoring framework for the Appraisal Foundation and the Federal Financial Institutions Regulatory Agencies in their roles to protect federal financial and public policy interests in real estate appraisals utilized in federally related transactions.” See ASC, [About the Appraisal Subcommittee \(ASC\)](#) (accessed Nov. 7, 2022).

¹³ 12 U.S.C. § 3310. FHFA’s designee has been serving on the committee since October 2014.

misconduct or wrongdoing, and if allegations are proven, take appropriate disciplinary or remedial action.”

State programs do not have a uniform process that governs the handling of complaints about appraisers; however, generally, the licensing authority must receive a written complaint before the state appraiser licensing authority will proceed with the investigation process. State programs are required to analyze each complaint to assess whether additional violations, “especially those relating to USPAP, should be added to the complaint.” It is ultimately the state’s decision whether or not an appraisal complies with USPAP. In sum, the first step in initiating a state appraiser licensing authority’s investigation into appraiser misconduct, such as the failure to comply with USPAP due to bias, is the filing of a complaint in accordance with the individual state’s specific requirements.

FHFA’s 2021 Review on Valuation Bias

On December 14, 2021, FHFA published the key takeaways from its review on “Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary” to draw attention to overt references to race, ethnicity, and other bases prohibited under federal fair lending laws that FHFA found in appraisal reports it reviewed.¹⁴ FHFA explained that its “main goal in addressing valuation bias is ensuring compliance with federal fair lending law, the Fair Housing Act, the Equal Credit Opportunity Act, and the Safety and Soundness Act.” The Agency emphasized that the racial and ethnic composition of the neighborhood should never be a factor that influences the value of a family’s home. Yet, FHFA stated, in pertinent part, “[i]n our review of [residential real estate] appraisals, we have observed references to race and ethnicity in the ‘Neighborhood Description’ and other free-form text fields in the appraisal form. FHFA is sharing examples of these observations for public transparency and to assist others with fair lending compliance.”

FHFA’s review highlighted 17 examples of overt references to prohibited bases contained in appraisal reports, including references to race or racial composition such as “sundown town” and “white-flight red-zone.” Those references also included the current and historic racial, ethnic, and religious makeup of a neighborhood and the languages spoken therein. According to FHFA, the 17 examples do not represent the total number of overt references to prohibited bases found in the appraisals FHFA reviewed. Because FHFA continued to analyze the appraisal reports during the writing of this evaluation, the Agency was unable to provide the total number of prohibited references. FHFA identified three key takeaways from its review:

¹⁴ See FHFA, [Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary](#) (Dec. 14, 2021).

- “Examples of overt references to race, ethnicity, and other prohibited biases under federal fair lending laws in appraisals and other property descriptions persist, indicating the continued presence of valuation bias”;
- “Ongoing failure to address appraiser consideration of prohibited factors like race, as indicated by prohibited basis commentary within the free-text form fields of appraisals, may result in valuation bias”; and
- “Market participants must ensure that appraisals and other property valuations are compliant with fair lending principles, including in free-form text commentary. Appraisals are to be fair and free of bias, providing a supported value for a family’s future or current home that reflects respect and equal treatment of the community and neighborhood in which the home is located.”

Considering FHFA’s observations regarding the overt references to prohibited bases contained in appraisal reports, we undertook this evaluation to determine what actions FHFA took, or plans to take, to address the examples of valuation bias it called attention to in its December 2021 review.

ANALYSIS

FHFA Is Well Positioned to Ensure Complaints Are Filed with State Appraiser Licensing Authorities Against Appraisers Regarding Appraisals the Agency Identified in Its December 2021 Review

FHFA alerted the public to overt references in appraisal reports to “race, ethnicity, and other prohibited bases under federal fair lending laws,” and the continued presence of valuation bias.¹⁵ The Associate Director of FHFA’s Office of Fair Lending Oversight (OFLO) observed that some of the language was direct evidence of a Fair Housing Act violation.¹⁶ FHFA told us that it made 17 referrals and provided approximately 25.6 million active appraisal records to HUD, the agency with lead responsibility for enforcing the Fair Housing Act. These actions are consistent with FHFA’s obligation to affirmatively further the

¹⁵ *Id.*

¹⁶ For purposes of this report, we take the position that language in an appraisal report that reflects bias and constitutes direct evidence of a violation of the Fair Housing Act would likely also run afoul of USPAP. Our position is consistent with our reading of the Appraisal Foundation’s Advisory Opinion 16; specifically, a practice prohibited under the Federal Housing Act (appraisal discrimination) is not permitted under USPAP (appraisal work must be performed without bias).

purposes of the Fair Housing Act,¹⁷ which includes forwarding information to HUD when such information suggests a violation of that Act. FHFA also reported that it has made approximately 25.6 million active appraisal records available to DOJ; FHFA has not made any specific referrals to DOJ. In addition, FHFA informed us that it has shared relevant appraisal information with the CFPB, an agency responsible for enforcing compliance with the Equal Credit Opportunity Act.¹⁸

Although FHFA informed us that its review of appraisal data is ongoing and the Agency is committed to continuing to refer appraisal records to HUD, FHFA has not taken the additional step of filing complaints with state appraiser licensing authorities. We discussed with the Associate Director of OFLO whether overt references to prohibited bases are enough to conclude that an appraisal report did not meet USPAP standards. The Associate Director explained that FHFA does not have direct authority over appraisers and cannot make that judgment. As of October 2022, the Associate Director of OFLO told us that FHFA has no policy regarding filing complaints with state appraiser licensing authorities. In FHFA's view, the FIRREA requirement to report information to state authorities does not apply to the Agency.¹⁹

As noted above, the Fair Housing Act requires FHFA to ensure the programs and policies it implements affirmatively further the purposes of the Act. In addition, Executive Order 13985, issued in January 2021, described the Administration's policy that the federal government "[a]ffirmatively advanc[e] equity, civil rights, racial justice, and equal opportunity..."²⁰ According to FHFA, although it is not subject to the requirements of the executive order, it has undertaken several initiatives that are consistent with the objectives of the order. We acknowledge those initiatives, and note that filing complaints with state authorities, and thereby prompting investigations into potential noncompliance with USPAP, is also consistent with the purposes of the Fair Housing Act and the executive order. Filing

¹⁷ Executive Order 12892, *Leadership and Coordination of Fair Housing in Federal Programs: Affirmatively Furthering Fair Housing*, (Jan. 17, 1994), requires that a federal agency that is in receipt of a complaint or information suggesting a violation of the Fair Housing Act must forward such information to the Secretary of HUD. If the agency is in receipt of information that indicates a possible pattern or practice of discrimination in violation of the Federal Housing Act, the agency must also forward that information to the Attorney General. See Executive Order 12892, Section 2-204.

¹⁸ Potential victims of lender discrimination, including by using an improper appraisal, can file complaints with CFPB.

¹⁹ 12 U.S.C. § 3348(c) addresses referrals to state agencies. 12 U.S.C. § 3350 defines "Federal financial institutions regulatory agencies" and "federally related transaction." The definition of "Federal financial institutions regulatory agencies" does not include FHFA.

²⁰ Exec. Order No. 13985, [Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#), 86 FR 7009 (Jan. 20, 2021).

complaints also facilitates the investigation and enforcement framework established by FIRREA and is consistent with other actions FHFA has taken to promote fair lending.²¹

Because FHFA performed the analysis in its December 2021 review, it is well positioned to ensure that complaints are filed with the appropriate state appraiser licensing authorities. Agency personnel can identify the specific appraisers and appraisals that would be the subject of the individual complaints and can provide the factual support for the complaints.

FHFA Is Responsible for Ensuring the Enterprises Comply with Fair Lending Laws

FHFA’s Advisory Bulletin 2021-04, *Enterprise Fair Lending and Fair Housing Compliance*, communicates FHFA’s supervisory expectations regarding fair lending compliance. FHFA asserts that the fair housing provision of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, implemented by HUD regulations, “prohibits an Enterprise from discriminating in any manner in the purchase of a mortgage, including discriminatory property valuation.” The advisory bulletin also states that it is a Fair Housing Act violation for an Enterprise to use a property valuation in connection with the sale or financing of a dwelling when an Enterprise “knows or reasonably should know” that the property valuation improperly takes a prohibited basis into consideration.

FHFA’s advisory bulletin mirrors the operative language in HUD regulation 24 C.F.R. § 100.135(d)(1), which establishes that it is an “unlawful practice” to use an appraisal of residential real property in connection with the “sale, rental, or financing of any dwelling where the person knows or reasonably should know” that the appraisal “improperly takes into consideration race, color...” and other specific prohibited bases. We understand FHFA’s position to be that the Enterprises are “users” for purposes of this regulation when purchasing real estate loans.

FINDINGS

- FHFA has identified appraisal reports that contain evidence of valuation bias but has not filed complaints with the appropriate state appraiser licensing authorities to prompt investigations into potential noncompliance with USPAP. Filing complaints with state authorities and prompting investigations into potential noncompliance with USPAP is

²¹ Other actions FHFA has taken include, but are not limited to, the issuance of the Agency’s “[Policy Statement on Fair Lending](#)” and its Advisory Bulletin on “[Enterprise Fair Lending and Fair Housing Compliance](#)” that communicates FHFA’s supervisory expectations. FHFA is also conducting fair lending examinations through its Office of Fair Lending Oversight. In its management response to a draft of this report, FHFA highlighted actions it took in 2021 and 2022 to address appraisal bias. FHFA’s management response is included in the Appendix to this report.

consistent with the purposes of the Fair Housing Act, the Administration’s policy set forth in executive order 13985, and with actions FHFA has taken to promote fair lending. Filing complaints also facilitates the investigation and enforcement framework established by FIRREA.

- FHFA found that appraisal reports continue to include overt references to prohibited bases and observed that valuation bias persists. FHFA has not determined the extent to which the Enterprises currently are using appraisals that improperly take into consideration bases that are prohibited by federal fair lending law.

CONCLUSIONS

FHFA conducted an independent review of a sample of appraisal reports and concluded that valuation bias persists in housing finance in America. Although FHFA has not determined how widespread the prohibited activity is, the Agency identified several overt references to race, color, and other prohibited bases in appraisals. FHFA told us they made 17 referrals to HUD and made appraisal information available to DOJ. The Agency also told us it shared information with the CFPB. Although the Agency has not taken the additional step of filing complaints with the state licensing authorities responsible for investigating complaints against appraisers, doing so would provide state authorities with the actionable information needed to initiate investigations of the appraisers FHFA identified.

RECOMMENDATIONS

We recommend that FHFA:

1. In a timely manner, ensure that complaints are filed with the relevant state appraiser licensing authorities for each appraisal from its December 2021 review in which FHFA found overt references to race, color, and other prohibited bases.
2. Coordinate with Fannie Mae and Freddie Mac to determine the extent to which the Enterprises currently use appraisals that improperly take into consideration race, color, and other prohibited bases under federal fair lending laws.

FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft of this evaluation report. FHFA provided technical comments on the draft report, which were considered in finalizing this report. FHFA also provided a management response, which is included in the Appendix to this report. In its management response, FHFA agreed with our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

In this evaluation, we sought to determine what actions FHFA took, or plans to take, to address the examples of valuation bias it called attention to in its December 2021 review. The review period for this evaluation was from January 1, 2020, to July 31, 2022.

To meet this objective, we reviewed applicable FHFA guidance and standards in effect during our review period, prior OIG reports, the Enterprises’ selling guides, FHFA Request for Information, and other FHFA and Enterprise documents and workpapers germane to the Enterprises’ appraisal process and equitable housing plans. We requested and reviewed FHFA orders, directives, and guidance regarding appraisals and appraisers. We also reviewed examination workpapers, stakeholder comments to the Request for Information, and Enterprise Equitable Housing Plans.

As part of this evaluation, we conducted interviews of personnel from FHFA’s Office of Fair Lending Oversight, Fannie Mae, Freddie Mac, and the Appraisal Subcommittee.

This evaluation was conducted between April 2022 and November 2022 under the authority of the Inspector General Act and in accordance with the Council of the Inspectors General on Integrity and Efficiency’s *Quality Standards for Inspection and Evaluation* (December 2020).

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Kyle D. Roberts, Deputy Inspector General for Evaluations

FROM: Naa Awaa Tagoe, Deputy Director, Division of Housing Mission and Goals

SUBJECT: Evaluation Report: *FHFA Could Further Combat Appraisal Bias by Filing Complaints with State Authorities and Ensuring the Enterprises Use Appraisals That Comply with Federal Law*

DATE: December 12, 2022

NAA AWAA TAGOE
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NAA AWAA TAGOE
Date: 2022.12.12
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Thank you for the opportunity to review the above-referenced draft evaluation report by the Office of the Inspector General (OIG). OIG conducted this evaluation to determine what actions the Federal Housing Finance Agency (FHFA) took, or plans to take, to address the indications of valuation bias identified in the blog titled Reducing Valuation Bias by Addressing Appraiser and Property Valuation Commentary, dated December 14, 2021. The report also describes the role of collateral valuation in the homebuying process and the critical importance of ensuring that this process is free from bias.

FHFA has taken a multi-pronged approach to addressing appraisal bias in 2021 and 2022, including the following actions:

- March 2021: FHFA highlighted fair lending risk related to appraisals as an area to address and mitigate in its 2020 Fair Lending Oversight Letter to the Enterprises
- July 2021: FHFA met with the Appraisal Foundation Appraisal Standards Board to express its concerns with the inadequacy of the current Uniform Standards of Professional Appraisal Practice (USPAP) standard on nondiscrimination and Appraisal Advisory Opinion 16
- September 2021: FHFA established the equitable housing finance program which includes [reducing undervaluation as a core component](#)
- October 2021: FHFA [expanded the use of desktop appraisals](#) which can limit contact between the appraiser and borrower to reduce potential for bias
- November 2021: FHFA included valuation equity in the [2022 scorecard](#) tied to executive compensation for the Enterprises
- December 2021: FHFA issued [Advisory Bulletin 2021-04](#) which included standards related to Enterprise use of discriminatory appraisals
- February 2022: FHFA joined the [letter from federal agencies to the Appraisal Foundation](#) making clear the current USPAP standard is inadequate under federal fair lending law

- May/June 2022: FHFA established the [Fair Lending Oversight Data system of records notice](#), which strengthens FHFA's protections under the Privacy Act of 1974 when sharing appraisal information with other regulators
- June 2022: FHFA oversaw the issuance of the [Enterprises' first Equitable Housing Finance Plans](#) which both include initiatives to address appraisal bias in response to FHFA's instruction
- June 2022: FHFA oversaw the initial release of an [undervaluation flag in Fannie Mae's Collateral Underwriter](#) to fulfill FHFA-specified scorecard obligations
- October 2022: FHFA released the first ever publicly available data regarding Enterprise appraisals, the [Uniform Appraisal Dataset Aggregate Statistics](#)
- As referenced in the report, FHFA has shared extensive appraisal data with the Consumer Financial Protection Bureau, the Department of Housing and Urban Development, the Department of Justice, the Office of Comptroller of the Currency, and the Appraisal Subcommittee to further appraisal fair lending research, supervision, and enforcement.

FHFA's management response to the Report's recommendations are summarized below.

Recommendation 1: *In a timely manner, ensure that complaints are filed with the relevant state appraiser licensing authorities for each appraisal from its December 2021 review in which FHFA found overt references to race, color, and other prohibited bases.*

FHFA Management Response: FHFA agrees with the recommendation. In response to the recommendation, by May 1, 2023, FHFA will coordinate with the Enterprises to ensure complaints are submitted to the relevant state appraiser licensing authorities for the appraisals cited in the December 2021 review which are determined to present USPAP compliance concerns. FHFA will provide OIG with evidence of FHFA's instruction to the Enterprises to submit complaints to the state appraiser licensing authorities.

Recommendation 2: *Coordinate with Fannie Mae and Freddie Mac to determine the extent to which the Enterprises currently use appraisals that improperly take into consideration race, color, and other prohibited bases under federal fair lending laws.*

FHFA Management Response: FHFA agrees with the recommendation. FHFA is actively reviewing whether appraisals improperly take into consideration prohibited bases under federal fair lending laws. FHFA will provide OIG with evidence of FHFA's coordination with the Enterprises to monitor appraisal data for improper consideration of race, color, and other prohibited bases under federal fair lending laws by May 1, 2023.

cc: Edom Aweke
John Major

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