



# *GSE Activity Report*

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Wednesday, September 22, 2021

## How Discriminatory are Appraisals?

### Summary

Getting a bit ahead of FHFA's new [equitable-finance mandate and its express demand for appraisal equity](#), Freddie Mac has released a detailed [study](#) of one of the most significant barriers to housing-finance equity: discriminatory appraisal practices that reduce the chances for wealth accumulation. The study finds demonstrable differences in appraisals for like-kind homes that correlate strongly with race and ethnicity, but provides no guide to either causation or cure.

### Impact

In what is likely the largest empirical assessment to date, the Freddie Mac study looked at twelve million appraisals for single-family, one-unit purchase transactions submitted to Freddie Mac from 2015 through 2020. It finds that:

- Appraisal values are lower than the contract price for 12.5% and 15.4% of Black- and Latino-tract appraisals versus 7.4% for white-tract appraisals and 8.3% for all appraisals.
- Appraisal valuation gaps (i.e., percent difference between minority and white groups in the share of properties receiving appraisal value lower than contract price) are 5.2% and 8% for Blacks and Latinos versus whites.
- Valuation gaps increase as minority concentration of a majority-minority tract increases, with census tracts which are 80%+ Black or Latino having appraisal values lower than the contract price for 13.3% of Black and 16.7% of Latino appraisals.
- Black and Latino borrowers received appraisal values lower than the contract price for 8.6% and 9.5% of applications, versus 6.5% for whites and 7.1% overall. These results likely underestimate the gaps between minority and white borrowers given data limitations.
- Valuation discrepancies are found at a wide range of appraisers, not a small, problematic group. Indeed, valuation gaps are statistically significant for around half of relevant appraisers.

The report also lays out “exploratory” research aimed at understanding the causes of observed gaps. These include findings of a smaller average comparable sale-price distance when a property is in a Black or Latino tract compared to a white tract, with results consistent in both urban and suburban areas. Properties in minority tracts also tend to be appraised toward the lower end of the comp range compared to those in white tracts, although the average dollar impact from this is less than \$500. Interestingly, the report uses data to suggest that there is more subjectivity regarding appraisals in Black tracts and less subjectivity in Latino tracts when each are compared to white tracts. However, an analysis of overpayment rates on similar properties found no statistically significant difference between minority and white borrowers.

## **Outlook**

In short, there are major gaps between appraisals and comps that clearly correlate with race and ethnicity that extend across a broad spectrum of appraisers, markets, and neighborhoods and are thus harder to wish away on grounds of hidden non-demographic data drivers. This puts Fannie and Freddie under still more pressure to use their formidable clout to ensure equity among these critical third-party providers as FHFA now demands they do. The tricky bit is how.

Enforcement actions are an option for FHFA referral to DOJ if GSE data such as that deployed in this study allow identification of appraisers with particularly problematic records. AI methodology might also permit loan-by-loan evaluation of assessment equity, but any such methodology appears a long way off. The easiest action step is of course to demand that someone else figure this out, thus making it more than possible that the GSEs will demand that lenders apply anti-discriminatory filters to accepted appraisals or face put-back risk or even a remediation requirement of some sort. The Federal Financial Institutions Examination Council is also under pressure to do something somehow about appraisers, but no one on the Council or in Congress has yet to figure out what that something might be.