

The Impact of Inequitable Property Valuation: Understanding the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE)

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Karina Leake (Host): Hello, welcome to another episode of the FHEO Table Talks Series. I'm your host, Karina Leake. I'm honored to have this important conversation about the home appraisal valuation and what the government is doing to ensure equality in the valuation process. Last year, President Biden launched a task force to combat bias in home appraisals. The task force, known as the Property Appraisal and Valuation Equity, or PAVE, is co-chaired by HUD's secretary Marsha Fudge and Susan Rice, the Domestic Policy Advisor Ambassador. I just want to say that I love the name PAVE. It sounds like you're breaking down barriers and paving new roads for communities of color. The name carries an amazing visual when you think about it. Today, I'm even more honored to have this conversation with the personal "she-ro" of mine, Melody Taylor, executive director of PAVE, who I've known for over fifteen years. She's taught me a lot about fair housing, whether she knows it or not. Thank you, Melody, for joining me today at the table.

It's a tradition for us at the FHEO Table Talks to ask our guests an icebreaker question. And being a novel host of the Table Talks Series, I don't want to break that tradition. So Melody, if you don't mind, let's start our conversation off with an icebreaker. Where were you born, and what's an interesting fact about your hometown?

Melody Taylor (Speaker): Thank you-- thank you for those kind words, first of all. I really appreciate that. And I appreciate the long-standing relationship that we've had with each other over the course of the years. I was born in Louis, Delaware, which is a beach town, and many people when they think of Delaware always talk about the lack of diversity. In fact, when I went to college, many folks used to say "You're from Delaware?" Or a smaller town where I grew up in Selbyville, Delaware, and they used to ask me "are there black people there?" So, that's not the interesting fact. The interesting fact I want to share about growing up in Delaware and being in Delaware and relating it to the PAVE initiative and property valuation is that I grew up with a mother, grandmother, aunt, who were all landowners. Where I grew up was twelve miles from the Atlantic Ocean, from a beach. And you know, wherever you live near water, there's value in property. But unfortunately, there wasn't value in property in the neighborhood that I grew up in. My grandmother and her three sisters all owned land but were never able to transfer wealth to my mother and to my mother's cousins and others because our land was never land was never valued as such, because we were the smaller population of African Americans that lived in the community. And so, not sure if it is maybe an interesting fact, but a fact that will speak to this PAVE initiative and how we are forging ahead to look at property valuation in this country.

Karina Leake: Thank you for sharing that with us. It's almost like you've come full circle. You're fighting for your grandmother's right to be able to have that value in their land. I'm a firm believer that our surroundings play a vital role in the experiences that we have in life and are an important variable in who we become.

I want to talk about your career in fair housing. How has your expansive career in fair housing and civil rights prepared you to serve as executive director for the PAVE task force?

Melody Taylor: I think I'm a little uniquely situated, I started my fair housing work working for the National Fair Housing Alliance, a national non-profit agency and started doing insurance discrimination. We were looking at multi-city investigations which was a novel and complex issue at that time. As civil rights advocates then, we constantly heard the pushback about there not being enough data to support allegations of insurance discrimination, that insurance discrimination wasn't real. But we pushed back on cities and communities that were suffering from disinvestment and we knew that this was not happenstance. Working alongside some of the foremost experts in fair housing and civil rights is where my career seeds were planted my federal career I've been afforded the opportunity to lead national projects, in particular in AFFH and understanding the political landscape from an internal and external perspective which required consensus and relationship building, effective communications, the art of persuasion and a whole lot of prayer and I would say you put all that in a basket and it prepared me for this mission, a life mission to be the director of the PAVE task force.

Karina Leake: Thank you for sharing information on your civil rights background, can you describe to our viewers what led to the formation of the task force and why it's important for the task force to include multiple federal agencies and offices, there are thirteen as a matter of fact. Can you walk us through that?

Melody Taylor: Sure. I think the historical nature of inequity and the homebuying process offered a tremendous opportunity to deliver on the Biden administration's mission to advance racial equity and equal opportunity. The President created the PAVE task force as a method to address the nations and federal government's history of discriminatory housing and practices and policies which have been a contributing factor in the homeownership gap and the undervaluation of properties on my families of color.

On July 1st of 2021 at the centennial of the Tulsa race massacre, President Biden, as you mentioned earlier, charged Secretary Fudge and Domestic Policy Council Ambassador Rice, the co-chair of the task force, to document the extent, causes of, and consequences of appraisal bias, and we were given the charge of doing this within 180 days. When you speak to the thirteen federal agencies that were a part of it, it was a necessary venture to have those federal and independent agencies participate because we were looking at appraisal bias which includes the whole lending opportunity as well, a home buying process and all the touch points that live within that process.

To name a few of the key partners, the appraisal subcommittee the Federal Reserve Board, Department of Labor, Office of Comptroller, Department of Justice, and Federal Housing Finance Agency, among others, were partners that assisted HUD and this administration to bring forth what I believe to be one of the most significant reports and action plans under this administration. We immediately began to prioritize and theme issue determined to be the most critical to address within this narrow window of time. The issues that are impacting homeowners and folks who are seeking to refinance their homes, involving and working with over 150 stakeholders; we hold listening sessions and all those things catalyze a very rich discussion and balance perspectives regarding the many touchpoints in what we believe and where bias occurs in the homebuying process.

Karina Leake: Wow, you have a big task on your hands, and in 180 days. I wish you the best as you all move forwards to help these communities. In what ways do appraisals impact the homeowner or homebuyer? And what are the long-term implications of an appraisal that underestimates the value of a home?

Melody Taylor: That's a great question. An appraisal is a critical element of homebuying and the lending processes as it establishes the value of the property as a collateral for a home loan. The difference between a property's value and homeowners loan amount generally represents the homeowners' home equity and this is one of the core benefits of home ownership is that a homeowner can build wealth by leveraging and growing that home equity. Homeownership can be hindered and is hindered by inequities within the current home lending and appraisal processes. Research shows disproportionately impacts people in communities of color and because a home is typically the largest investment a person makes, this disparity is the biggest driver of the racial wealth gap.

In the PAVE action plan, we talk about the compounding effect that devaluation of disinvestment in a community can have and for persons seeking to purchase a home, it can mean increased out of pocket expenses of the appraisal is less than the sale price of the home but more importantly what it does for community is that the undervaluation to a homeowners equals a loss of wealth and impedes the ability for one to leverage equity to make repairs, pay for school, or other life events. That disinvestment and economic loss in the community is something that is critically important for viewership to know about.

Just in closing, I'll share, we had the opportunity to meet a couple in Prince County, Maryland and they sought to build their forever home. The construction costs almost half a million dollars more than the appraisal value. What that meant for them was that in order for them to build their forever home, they were responsible for covering the difference in that cost in order to build their home. Which was a significant loss to that couple but also a significant loss to the community because comparably, in Montgomery County, that same house that they built was valued at almost one and a half million dollars more. Which is why the issue over appraisal bias is so significant and is so important for us to educate consumers but also to hold lenders and appraisers accountable for the devaluation of property in communities of color.

Karina Leake: Wow, that's a large difference in amount to the value in the construction cost. The difference is amazing. You kind of covered this next question, but I'll ask it and see if you want to add anything to it. How do inequities in the appraisal process contribute to the racial homeownership and wealth gap?

Melody Taylor: Again, as I mentioned, the notion of undervaluation – we phrase in the report as misevaluation. That could mean overevaluations. There were communities whose properties during the 2008 home boom were being over-appraised, and people were paying more money than the value of the property. Now we see the impact of the disinvestment in those communities, so people are bottoms-up in their mortgages. There was a huge impact and foreclosures in those communities as a result of some of the overvaluations.

What we see in undervaluation in communities is the disinvestment and the economic loss to communities, the inopportunity for homeowners to be able to leverage wealth, to have access to the equity and credit in your own homes to do those things that other communities are able to do. To leverage the equity to pay for college for their children, to leverage equity to do home repairs. In fact,

you see some of the communities that have been devalued— communities of color, where you see blight and you see disrepair to homes. Just imagine being able to access your home and have it valued for what it's worth and being able to access the equity in your home to repair a roof or to do landscaping or to fix your yard up so that it would add equity to your home but also to the homes in the community. It has a significant impact.

Karina Leake: That access to that equity would, as you said, make a high difference in those communities. So now let's shift our conversation to federal law and policy. Which laws enforce appraisal equity, and how are they applied to decrease barriers in home ownership?

Melody Taylor: Home appraisals, again, a critical component of home buying and lending process, fall within the scope of the Fair Housing Act and fair lending laws. In particular, the Fair Housing Act and the Equal Credit Opportunity Act. We know that the Fair Housing Act in 1968 was proposed to lift barriers that created separate and unequal neighborhoods on the basis of race, color, religion, and national origin. Then there were subsequent amendments to the Fair Housing Act to include disability and familial status.

With regards to the Equal Credit Opportunity Act, similarly it prohibits discrimination by creditors on the basis of those protected classes as a part of the applicant's income which derives from any public assistance or because the applicant has in good faith exercised their right under the Consumer Credit Protection Act, which includes color. I'd just like to note, despite the fact that we have these civil rights laws, and most notably the Fair Housing Act, which was designed to ensure equal opportunity, we note in the action plan that the disparities persist and there's still a sprawling racial wealth gap. Racial housing laws and the Credit Opportunities Act have been on the books for years but we're still seeing and experiencing the disparity and a huge racial wealth gap.

Karina Leake: Thank you for that. We did another Table Talks on credit score and how it affects communities of color and housing, so it's piggybacking on pretty much a whole ecosystem, how this all works together. The task force recently published an action plan. Can you share with our viewers some key takeaways about the plan?

Melody Taylor: Certainly. One thing, it puts a smile on my face, because the action plan establishes the most wide-ranging set of equity reforms to the home appraisal process since 1989. So super proud of that. The action plan also details a set of actions and commitments that will ensure that every American will have a change to build generational wealth and home ownership. Nearly every item in the action plan can be taken by agencies using existing authorities and it doesn't require an action by Congress.

In the beginning, part of my vision for this was that we would create policy that would reach people. I think far too often we create big policy agendas that don't oftentimes reach people. We see it, we hear about it, we go through these political processes and somewhere down the line, people benefit from it. The goal of this task force, this action plan, was purposed to not be a one-report-wonder. It was our vision and hope that the action items that were born in this report would actually materialize rapidly and that we would get quick wins.

Just to name a few of those things, we note in the report that strengthening guardrails against unlawful discrimination in all stages of residential valuations. Clarifying the Fair Housing Act and its application to the appraisal process was critically important. In fact, while we were writing the report, the Department

of Justice issued a statement of interest in a case out of California. We were gathering wind as we were authoring and researching and writing this report. Enhancing oversight and accountability, so seeking to improve coordination and collaboration between federal enforcement agencies. HUD being one, DOJ, Federal Housing and Finance Agency, CFPD, aligning and harmonizing the work we all do to ensure that there's coordination in those efforts. Empowering consumers, big takeaway here. The plan provides education of the process and concrete commitments for embedding appraisal bias training in our housing counseling processes. We seek to issue guidance to improve the reconsideration of value process as well.

Another area that we felt very strongly about, and based on our conversations with some of the stakeholder industry folks, was automated valuation models. We know during this pandemic that technology has been super important to our existence daily, but we also know that technology can have discrimination baked into it. We've had media campaigns in recent years where we talk about how zip codes matter. We know that algorithmic bias does play a part in technology. Part of the effort in what we evaluated during these 180 days was to look at automated valuation models, to ensure that there were quality control standards. That will be part of future proposed rulemaking on ABMs.

And just a couple more things that are noteworthy— cultivating an appraisal profession that is well-trained and looks like the communities that it serves. Probably over the last six to eight months what has resonated and has been resounding in terms of conversations and statistics is that the appraisal profession is not diverse. There are numbers that you will hear from ninety-five to ninety-seven percent that it is a white male dominated industry. The plan lays out a series of actions to remove barriers to some of the experience requirements that make it difficult for under-represented groups and communities to access this profession, and also to strengthen anti-bias and fair housing and fair lending training of existing appraisers. Right now, there's not a requirement for appraisers to take fair housing or fair lending training, and we're seeking to increase that as an opportunity to diversify the profession.

And then lastly I'll say this—the notion of data. Again, at the top of our discussion, I talked about the insurance industry and the pushback we had on data. Similarly, we hear the same thing about the notion that appraisal bias is not an issue. We've gotten great pushback in that area. What I will say is that we had a research and data workstream that really honed in on the fact that there's a need for federal data to exist more transparently to inform policy practice and further research. As a result of this, we are and have and will continue to stand up a research and data workstream that will look to create strategies that will foster the opportunities to aggregate data and better study and understand the issues around appraisal bias.

Karina Leake: Wow those are some great takeaways. It's great to know that the action plan isn't just a report that as you say will be put on the shelf, but that there are already some wins with the action plan. Since the publishing of the PAVE action plan, can you share with us the policy initiatives that the task force is currently exploring to further its commitment to equitable housing evaluations?

Melody Taylor: What I just laid out for you are areas in which we seek to create policy. I will say under reconsideration of value, right now your depository and non-depository lending institutions don't necessarily have guidance or policy around reconsiderations of value. That's one of our top-line policy or guidance issues that we're seeking to issue as a part of the implementation strategy. I also think something worth of noting is that we are working to develop a legislative proposal that modernizes the governance structure of the appraisal industry, which we hope to improve transparency and public

participation in the establishment of appraisal standards and qualifications criteria, all which will feed into advancing diversity in the profession and giving other people and communities that have been left out of this an opportunity to be able to gain access to the appraisal industry.

Karina Leake: Thank you for sharing that. We know that this practice of under-evaluations is having an adverse impact on home values around the nation. Tell me, what other resources are available to homeowners who live in communities of color and believe that a biased housing appraisal underestimated the value of their home.

Melody Taylor: I think that it's an education. I have friends and family, and as I embarked upon working in this and spreading the word, I've heard from many people after I described this that they said they didn't know what to do. They didn't realize that bias had occurred. It's a huge education that we have to create around this. I smile when I say these things, but simultaneous to the launch of the report, we launched a website as well. PAVE.HUD.gov, and on that website you'll find a wealth of information and resources that will create an education. In particular for people to understand what appraisal bias is or even just the appraisal process, what it looks like in the homebuying process and the finance world. It also helps individuals understand how to get help. Where to file complaints through HUD and the Fair Housing process or through Consumer Federal Protection Bureau and their process as well. There's also information regarding states and the requirements for licensing and other things. That website is definitely a huge resource to consumers right now.

Karina Leake: Great, thank you for sharing that. Again, that website is PAVE.HUD.gov. This has been an amazing knowledge-building conversation. In fact, when we talked about a week or so ago was the first time I learned that there were other agencies that monitored the appraisal process. I had no idea even working here at HUD. That's why conversations like these are necessary, as you said, to educate and empower the public. One final question, is there a message or final thought that you would like to share with our audience before we conclude the program?

Melody Taylor: Thanks for that. We view this report as a milestone, not a capstone. There's so much more work to be done to close the racial wealth gap in this country, and it requires an all hands on deck approach. We know that we can't do it alone, so the federal government obviously has a role to play. Also industry advocacy, academics, researchers, and consumers alike, we all have to participate and play our role in reducing bias to ensure that our future generations have an opportunity to grow and to have access to wealth. I would just say that this effort will continue and we will definitely move forward in implementing some of these critical strategies to help close the wealth gap. Thank you.

Karina Leake: Thank you, and thank you for talking with me today and sharing PAVE's information on how you're eliminating bias in appraisals. You gave us some key takeaways from the action plan and resources that are currently available to people who are experiencing inequity in the valuation of their home. A home is more than just a house. It's a present and a future that holds no boundaries. Quantifying or putting a number to the wealth-building power of home ownership shows that a home is not only where your heart is, but where your wealth is. At the core HUD's mission is the belief that every person deserves the chance to live with security, dignity, and hope in the place they call home. Melody, I am reassured that more people will receive appraisal equity with you at the helm leading the charge. This discussion has been fulfilling, education, and outright fun. Thank you for joining me today at the table. Stay tuned for the next episode of the FHEO Table Talks Series. Remember, fair housing is more than just words— it's the law. Take care everyone.