



# CHERELLE L. PARKER

9TH DISTRICT COUNCILMEMBER, MAJORITY LEADER



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PHILADELPHIA

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## PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE FINAL REPORT AND RECOMMENDATIONS



Office of Cherelle Parker, 9<sup>TH</sup> District Councilmember | City Hall Room 577 | (215) 686-3455

District Office: 1503C E. Wadsworth Ave., Philadelphia, PA 19150 | (215) 686-3454



@CouncilwomanCherelleLParker



@CherelleParker9



@CherelleParker9



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# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE FINAL REPORT AND RECOMMENDATIONS

## TABLE OF CONTENTS

**Background ..... 1**

**Local Level Recommendations ..... 3**

**State Level Recommendations ..... 8**

**Federal Level Recommendations ..... 9**

**Task Force Members ..... 13**





# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

### BACKGROUND

On February 25, 2021, Philadelphia City Councilwoman and Majority Leader Cherelle L. Parker co-wrote an op-ed with Ira Goldstein from Reinvestment Fund and Professor Gregory Squires from George Washington University that was published in WHYY's PlanPhilly and entitled "Home appraisals drive America's racial wealth gap – 95% of Philly's appraisers are white."<sup>1</sup> The op-ed highlighted the following data points: "Across the country, Census occupation data show that 86% of real estate appraisers are non-Hispanic white, 14% are Black or Brown.<sup>2,3</sup> This compares to 32% in banking and 32% of real estate brokers and agents who are Black or Brown. The workforce in other occupations is 37% Black or Brown. The Philadelphia region is even more unbalanced. Here, 95% of appraisers/assessors are white, not-Hispanic and 5% Black or Brown — that compares to 22% in real estate and 32% in banking." Additionally, the op-ed previewed that Councilwoman Parker would hold investigative hearings on the issue of racial bias in home appraisals later that spring.

On April 26, 2021, Philadelphia City Council's Committee on Housing, Neighborhood Development, and the Homeless heard Councilwoman Parker's Resolution #210208, which authorized the Committee to hold hearings examining the race gap in home appraisals and its impact on homeownership and wealth accumulation in Philadelphia. During the hearing, the Committee heard from national experts as well as local, on-the-ground practitioners. The hearing examined how race impacts home appraisals from three different perspectives:

- How the race of the homeowner impacts the appraisal;
- How the overall race of the neighborhood impacts the appraisal;
- And how the race of the appraiser impacts the appraisal.

While there were several useful recommendations offered during the course of the hearing, it became clear to Councilwoman Parker that the issue of racial bias in home appraisals would need a more in-depth focus in order to gather recommendations for the local, state, and federal levels. During the hearing, Councilwoman Parker committed to creating a "working group" made up of those who testified at the hearing, as well as additional experts and practitioners in the field. The working group ultimately became the Philadelphia Home Appraisal Bias Task Force.

On June 1, 2021, the centennial of the Tulsa Race Massacre, President Joe Biden announced the creation of an interagency initiative to combat bias in home valuations. This initiative became the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). President Biden directed the PAVE Task Force to (i) evaluate the causes, extent, and consequences of appraisal bias, and (ii) establish a transformative set of recommendations to root out racial and ethnic bias in home valuations. PAVE is a first-of-its-kind interagency task force dedicated to ending discrimination in home appraisals and valuations. The task force includes 13 federal agencies and offices and is chaired by Director of the Domestic Policy Council Ambassador Susan E. Rice and the U.S. Department of Housing and Urban Development Secretary Marcia L. Fudge.

<sup>1</sup> See: <https://whyy.org/articles/home-appraisals-drive-americas-racial-wealth-gap-95-of-phillys-appraisers-are-white/>

<sup>2</sup> See: <https://datausa.io/profile/soc/appraisers-assessors-of-real-estate#:~:text=86.1%25%20of%20Appraisers%20%26%20assessors%20of,or%20ethnicity%20in%20the%20occupation.>

<sup>3</sup> We note that reports on demographics of the appraisal industry vary. For example, the federal PAVE report, states that 97.7% of appraisers are white and 30.4% are female.

Alternatively, the 2019 Fact Sheet from the Appraisal Institute reports that the industry is 85% white and 21.3% female.

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

In creating the Philadelphia Home Appraisal Bias Task Force (Philadelphia Task Force), Councilwoman Parker was mindful that whatever recommendations were offered should ideally supplement any recommendations that would come from PAVE. Councilwoman Parker viewed the Philadelphia Task Force almost as a local version of PAVE – both task forces would look at the same issue from two vantage points: local and national. Councilwoman Parker said, “While I understand that Philadelphia is often reliant on both the state and federal levels of government for policy and funding, it is also not my style to just sit around and wait for help to arrive. I think we, at the local level, can come up with solutions not just for Philadelphia, but also Pennsylvania, and the nation.”

The Philadelphia Task Force held its kickoff meeting on June 23, 2021, and was Chaired by Ira Goldstein, with administrative support from the office of Councilwoman Cherelle Parker. There were about 20 members who consistently attended each meeting. The Task Force held subsequent meetings on August 4, 2021; September 27, 2021; January 7, 2022; and April 18, 2022. Additionally, on October 14, 2021, several members of the Philadelphia Task Force were invited to attend a listening session with the federal PAVE task force. Finally, Chair Goldstein, along with the office of Councilwoman Parker, held several one-on-one meetings with specific members of the Philadelphia Task Force in order to solicit thoughts and recommendations.

While the Philadelphia Task Force was doing its work, the PAVE report was issued,<sup>4</sup> as was an analysis of appraiser professional standards by the National Fair Housing Alliance, Dane Law, and Christensen Law Firm.<sup>5</sup> Both of these reports advance a policy agenda that, taken together, reflect some of the key learnings of the Philadelphia Task Force: (1) The profession is not diverse, and there are structural barriers to entry (some of which may perpetuate the lack of diversity, but have no demonstrable connection to an appraiser’s ability to produce high quality, non-discriminatory appraisals) that maintain that lack of professional diversity; (2) Not only are there structural barriers to entry, but the ongoing education of appraisers is not sufficiently inclusive of fair housing education; (3) There is a lack of transparency in the appraisal industry, and thus a limited ability of researchers,<sup>6,7</sup> regulators, and the GSEs<sup>8</sup> to develop a deep base of systematic information to identify problems as they emerge; (4) As a result of the lack of transparency, policymakers are forced to rely on limited research comparing appraisals to home sale prices,<sup>9</sup> media reports of individual incidents of discrimination<sup>10</sup> (which emerge when civil rights lawsuits are filed or settled)<sup>11</sup> and thus the real-life problems of aspirational home buyers and those who wish to refinance mortgages can become politicized or easily dismissed as rare events; and (5) Localized market knowledge is critical to a fair and appropriate evaluation of a home’s value, and that is often missing in the appraisal process.

The Philadelphia Task Force was not founded to keep meeting in perpetuity. Instead, its goal was to have a limited lifespan (about one year), and to put forward recommendations not just for the City of Philadelphia, but other cities in Pennsylvania and the nation. That said, the work is not done and there is energy expressed around future meetings to ensure that people remain engaged in the issue, and that local experience can inform state and national policymakers. Task Force members also expressed interest in using future meetings to encourage the implementation of the recommendations contained herein.

4 See: <https://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf>

5 See: [https://nationalfairhousing.org/wp-content/uploads/2022/02/2022-01-28-NFHA-et-al\\_Analysis-of-Appraisal-Standards-and-Appraiser-Criteria\\_FINAL.pdf](https://nationalfairhousing.org/wp-content/uploads/2022/02/2022-01-28-NFHA-et-al_Analysis-of-Appraisal-Standards-and-Appraiser-Criteria_FINAL.pdf)

6 See, for example: [https://www.brookings.edu/wp-content/uploads/2018/11/2018.11\\_Brookings-Metro\\_Devaluation-Assets-Black-Neighborhoods\\_final.pdf](https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf); <http://www.juniahowell.com/housing-appraisals> (cite has multiple references to Dr. Howell’s research on the topic).

7 See: <https://www.aei.org/research-products/report/comments-on-the-pave-report/>

8 See: <https://www.freddiemac.com/fmac-resources/research/pdf/202109-Note-Appraisal-Gap.pdf>

9 FreddieMac, op. cit. See also: <https://www.fanniemae.com/media/42541/display>

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

The recommendations below are not exhaustive, but they are a solid start. Some recommendations may require legislation, while others just require internal policy and process improvements, as well as the political will to make those much-needed changes.

Underlying these recommendations is a crucial fact that animates our efforts for reform: racial bias in home appraisals inflicts trauma upon the individual and/or family directly impacted as well as upon their larger community. Discussions around home appraisals can get very technical very quickly, but we must not lose sight of the human experience of those impacted by racial discrimination as a result of a biased appraisal process.

### LOCAL LEVEL RECOMMENDATIONS

#### PROBLEM IN NEED OF SOLUTIONS: LACK OF QUANTITATIVE DATA AT THE LOCAL LEVEL

One issue that became immediately apparent to the Philadelphia Task Force is that while there are a few national-level analyses of appraisal bias, there is almost no quantitative data at the local level. This lack of quantitative data makes it difficult to get a sense of the scope and scale of the problem.

**RECOMMENDATION:** Introduce an ordinance that would require the filing of specific appraisal information (e.g., appraiser and appraiser's business location, date of appraisal, property address, appraised value, location, and value of three comparable properties) for all residential real estate transactions in Philadelphia on which an appraisal is completed.

**RECOMMENDATION:** Introduce an ordinance that would require a local business license requirement for appraisers who appraise properties in the City of Philadelphia. In Philadelphia, there are numerous business license types.<sup>12</sup> Potentially, in order to secure such a license, an appraiser could be required to have a certain number of hours of fair housing training.

**RECOMMENDATION:** Secure funding to engage a nonprofit partner to conduct a controlled investigation of appraisal practices in Philadelphia in order to better understand how and where appraisal bias occurs. The investigation should be designed to discover bias at the individual household level (e.g., a home owned by a person of color is valued higher after it has been "white-washed") and neighborhood level (i.e., racial/ethnic composition of the home's Census tract).

**RECOMMENDATION:** Support an organization (e.g., the Housing Equality Center of Pennsylvania or Fair Housing Rights Center in Southeastern Pennsylvania) to develop the investigative capacity to conduct fair housing enforcement testing of appraisals when an allegation of appraisal bias emerges.

**RECOMMENDATION:** Partner with local lenders active in Philadelphia and seek cooperation to share de-identified appraisal data such as address of the appraised property, appraiser name and business location, date of appraisal, appraised value, contract sales price (on sale transactions) or

<sup>10</sup> See, for example: <https://chicago.suntimes.com/2020/10/7/21493755/chicago-home-appraisal-black-race-homeowners> or <https://www.cnn.com/2021/12/09/business/black-home-owners-appraisal-discrimination-lawsuit/index.html>

<sup>11</sup> See: [https://www.hud.gov/pres/pres\\_releases\\_media\\_advisories/hud\\_no\\_21\\_037](https://www.hud.gov/pres/pres_releases_media_advisories/hud_no_21_037)

<sup>12</sup> See: <https://www.phila.gov/departments/department-of-licenses-and-inspections/licenses/business-licenses/>

<sup>13</sup> See: <https://phdcphila.org/residents/homebuyers-and-renters/philly-first-home/>

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

refinance amount (on refinance transactions), and location of comparable properties. Appraisal data could be connected to Census tracts and analyzed to understand whether there was any evidence of bias related to the racial or ethnic composition of the neighborhood in which the appraised property is located.

**RECOMMENDATION:** Work with various City, State, and Federal programs to collect de-identified appraisal data, as defined above, around real estate transactions.

Data from locally supported programs such as:

- Philly First Home<sup>13</sup>
- The City's Residential Mortgage Foreclosure Diversion Program, which may include an estimation of current value for modifications during which an appraisal is done

Data from state supported programs such as:

- The Pennsylvania Housing Finance Agency (PHFA), which works with a network of mortgage lenders across the Commonwealth – many in Philadelphia – that require appraisals (e.g., Keystone Home Loan Program, Keystone Government Loan)

Data from federally supported programs such as:

- FHA mortgages insured by the Federal Housing Administration
- VA mortgages backed by the Veterans Administration

**RECOMMENDATION:** Gather data on the usual business location (address, Census tract or zip code) and license number for appraisers who conduct residential appraisals in the city of Philadelphia.

**RECOMMENDATION:** Work with Community Development Financial Institutions (CDFIs) and housing counseling agencies to get them to routinely request appraisal reports and loan data from the individuals they serve and then establish data sharing agreements to share de-identified appraisal data.

### **PROBLEM IN NEED OF SOLUTIONS: LACK OF QUALITATIVE DATA AT THE LOCAL LEVEL**

While quantitative data is important, there is also a need for qualitative data. Robust and detailed accounts help show the real-life repercussions of appraisal bias, and also help researchers and policy-makers understand how these biased appraisals happened.

**RECOMMENDATION:** Work with local community-based organizations to sponsor focus groups and/or interviews with individuals with whom they work and who have recently had their homes appraised. Appraisers who frequently appraise properties in Philadelphia could also be interviewed. So too could homeowners who have recent experience with an appraisal either for a home purchase or refinance of an existing mortgage.

**RECOMMENDATION:** Create structured listening sessions with housing counseling agencies and real estate agents who report having seen the issue of appraisal bias firsthand.



# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

**RECOMMENDATION:** Emulate the Chicago Rehab Network Appraisal Equity Campaign, which chronicles appraisal issues experienced by residents of Chicago through an online “Appraisal Incident” survey and collection of appraisal documents.<sup>14</sup>

**RECOMMENDATION:** Partner with like-minded efforts like the Middle Neighborhoods Initiative, housed under National Community Stabilization Trust, to organize a collection of appraisals from their partners.

### PROBLEM IN NEED OF SOLUTIONS: NEED FOR MORE LOCAL APPRAISERS OF COLOR

In Philadelphia, a “majority minority” city, 95% of appraisers are white, and the vast majority are male.

**RECOMMENDATION:** Work with local universities and community colleges as well as the local chapters of the Appraisal Institute and American Society of Appraisers to promote the appraisal profession as a career option for women and people of color pursuing their degrees, including those pursuing degrees in the data sciences.

**RECOMMENDATION:** Create a workforce development pipeline program specifically targeted at “skilling up” those who want to become appraisers.

- A word of caution: The City has tried this approach in the past, but faced challenges in matching Trainees with Supervisors to get their required 1,500 hours of experience. Years ago, the Philadelphia Housing Development Corporation (PHDC) had a successful program to train individuals who wanted to become appraisers. However, they ran into problems when the Trainees needed to find a Supervisor. There were not enough Supervisors who were willing to take on Trainees with whom they did not have a personal connection (see below under “Federal Level Recommendations” for more on how to address issues with the Supervisor-Trainee Model).
- There is currently a Real Estate Valuation Fairness and Improvement Act (HR 2553) that is looking to give grants or scholarships to Black appraisers<sup>15</sup> and it appropriates \$50 million per year for 5 years for grants and scholarships to HBCUs and other institutions of higher learning for minority students to increase the diversity of appraisers. The City Council of Philadelphia unanimously passed a resolution in support of HR 2553 on May 6, 2021.

**RECOMMENDATION:** Work with anchor institutions – hospitals, nonprofits, and/or universities, etc. – to encourage the use of local, minority appraisers.

**RECOMMENDATION:** Work with the City to create a “preferred local vendor list” of local, MWDBE appraisers – and require that any City program, as well as any firm doing business with the City or receiving a subsidy (e.g., housing or economic development) from the City, must use this “preferred local vendor list” when needing an appraisal. Additionally, the City could require that any appraisers on this list must have undergone recent fair housing training.

<sup>14</sup> See: <https://www.chicagorehab.org/advocacy/appraisal-equity-campaign>

<sup>15</sup> See: <https://www.congress.gov/bill/117th-congress/house-bill/2553/text?q=%7B%22search%22%3A%5B%22APPRaisal%22%5D%7D&r=4&s=2>

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

**RECOMMENDATION:** Require City depositories to disclose demographic information on the appraisers who conduct residential appraisals for residential mortgages.

**RECOMMENDATION:** Promote the Better Appraiser Program as a model for organizations to help eliminate barriers to education, training, and experience for aspiring appraisers. Better, a digital-first homeownership company offering mortgage lending, real estate services, title insurance, and homeowners insurance, launched the Better Appraiser Program in 2022 – the initiative is designed to address the severe lack of diversity in the appraisal profession and empower the next generation of appraisers. Better will hire dozens of appraisers to equip Trainees with the coursework, appraisal orders, and field experience they need to become licensed appraisers. Better will provide Trainees with their qualifying education and coursework (at no cost), match Trainees with Supervisors so they are guaranteed to complete their field experience hours, and prepare Trainees and Supervisors with tools to navigate bias in the industry. By launching the Better Appraiser Program<sup>16</sup> in counties across the U.S., such as Philadelphia, Better aims to foster a younger, more diverse pool of appraisers who represent the communities they serve.

### **PROBLEM IN NEED OF SOLUTIONS: HOMEBUYERS AND HOMEOWNERS NEED TO BE EDUCATED ABOUT THE TRADITIONAL APPRAISAL PROCESS AND THE EVOLVING AUTOMATED VALUATION PROCESSES**

Many homebuyers and homeowners are not aware that their home is being under-appraised. While the issue has garnered some recent national attention, the average person may not even be aware that they could be a victim of appraisal bias, or that the appraisal report can be requested from the lender, or that the appraised value can be contested.

**RECOMMENDATION:** Develop and proactively distribute consumer-facing materials so that homebuyers and existing homeowners can better understand how the appraisal process works and what rights consumers have.

**RECOMMENDATION:** Provide funding and support for local housing counseling and fair housing organizations' educational efforts related to fair housing issues in appraisals.

**RECOMMENDATION:** Work with local lenders to implement a standardized Reconsideration of Value process, which may also entail lenders providing contact information to a local fair housing organization.

### **PROBLEM IN NEED OF SOLUTIONS: CITY NEEDS TO TAKE LEADERSHIP ROLE IN PROMOTING THE IDEA THAT COMBATTING APPRAISAL BIAS IS A FAIR HOUSING ISSUE FOR PHILADELPHIANS**

The issue of appraisal bias cannot be just an individual homeowner issue. It must be an issue prioritized by City government, particularly the Mayoral administration and the Department of Planning and Development.

**RECOMMENDATION:** Philadelphia should incorporate a specific goal related to promoting and prioritizing the recommendations of this Task Force, inclusive of supporting state and federal recommendations, in its 2022 Assessment of Fair Housing.

<sup>16</sup> See: <https://better.com/b/become-a-real-estate-appraiser>

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

### **PROBLEM IN NEED OF SOLUTIONS: APPRAISERS ARE NOT FAMILIAR WITH THE CITY OR THE NEIGHBORHOODS IN WHICH THEY OPERATE**

A trend that has become more common in recent years is that appraisers do not actually live in the neighborhoods (or perhaps even in the city) in which they are doing business. In Philadelphia for example, Task Force members report that most of the appraisers live in the suburbs outside of City limits. They only come into the City for work, but they are not familiar with the history or planned public, private, and philanthropic investments that will positively impact the future prospects of the neighborhood. For example, they may not know the City has a planned capital investment in the local recreation center or public library – neighborhood assets that can positively impact property values. Additionally, some of these appraisers may be coming into the neighborhoods with preconceived notions and biases that inherently impact the work they are conducting.

**RECOMMENDATION:** Provide funding and support for neighborhood groups to generate information (via promotional brochures, but also in-person information sessions) for appraisers and potential homebuyers alike to educate them about the neighborhood, its amenities, and its assets. Example – Belair-Edison in Baltimore.<sup>17</sup>

**RECOMMENDATION:** Work to educate appraisers about the City’s Consolidated Plan<sup>18</sup> and local redevelopment efforts. The City’s Consolidated Plan provides information about neighborhood investments that are planned and funded with federal funds. An appraiser that lives outside the City may not take the time to seek out this type of information, but a local appraiser will be familiar with this kind of detailed market information.

**RECOMMENDATION:** To ensure that outside appraisers are familiar with the work being done in city neighborhoods, the City should create a central clearinghouse with information about neighborhoods and affirmatively promote this material on an annual basis.

### **PROBLEM IN NEED OF SOLUTIONS: LOCAL TRAINEES MUST TRAVEL FOR CLASSES**

For Trainees that are matched with a Supervisor, they must attend 3 foundational classes, followed by an additional 5-6 classes, in order to become fully licensed. Unfortunately, those classes are not offered locally on a regular basis, and many local Trainees must travel to classes offered in Pittsburgh, New York City, and Washington D.C., or as far away as Dallas, Houston, and Denver. While virtual classes have been offered during the pandemic, students benefit greatly from being able to attend classes in-person due to the complexity of the subject matter. With sufficient Trainee interest and institutional support, classes could be offered in Philadelphia to help reduce barriers for local Trainees interested in developing the necessary skills to become an appraiser.

**RECOMMENDATION:** Have the City establish relationships with the Appraisal Institute and the American Society of Appraisers to develop and offer Trainee classes in Philadelphia. Perhaps the Community College of Philadelphia (or other local universities) could be the formal partner. At the same time, the City should explore options for remote/asynchronous learning, which can be especially helpful for working adults, caregivers, etc.

<sup>17</sup> See: <https://belair-edison.org/>

<sup>18</sup> See: <https://www.phila.gov/documents/five-year-consolidated-plan-annual-action-plans-and-reports/>

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE FINAL REPORT AND RECOMMENDATIONS

## STATE LEVEL RECOMMENDATIONS

### **PROBLEM IN NEED OF SOLUTIONS: LACK OF CLARITY REGARDING APPRAISAL ISSUES STATEWIDE**

Currently, the state government is not taking an active role in monitoring, tracking, or reporting appraisal issues on a statewide basis. At the same time, the state does not appear to be benchmarking itself against other states in terms of appraisal policies and practices.

**RECOMMENDATION:** Work with the Pennsylvania Department of Community and Economic Development (DCED) and the Pennsylvania Housing Finance Agency (PHFA) to conduct an annual audit of appraisal issues statewide, and to incorporate recommendations into the Commonwealth's Assessment of Fair Housing.

### **PROBLEM IN NEED OF SOLUTIONS: STATE NEEDS TO TAKE LEADERSHIP ROLE IN COMBATTING APPRAISAL BIAS AS A FAIR HOUSING ISSUE FOR PENNSYLVANIANS**

The issue of appraisal bias cannot be solved by individual homeowners acting alone, and municipalities require the support of partners at the State level to adequately address the underlying causes of appraisal bias. Addressing appraisal bias must be a priority for State leaders, particularly the Gubernatorial administration, DCED, the Attorney General of the Commonwealth of Pennsylvania, Pennsylvania Human Relations Commission, PHFA and the state's private fair housing groups.

**RECOMMENDATION:** Introduce legislation at the state level that imposes specific fair housing training requirements for valuation professionals, as states such as New York, California, and Ohio have done.

**RECOMMENDATION:** The Pennsylvania Human Relations Commission (PHRC) should undertake public education about appraisal bias and develop a focus on investigating discrimination in appraisals. Private fair housing groups should be engaged in public education and planning at the state level about strategies to increase enforcement of fair housing laws against appraisal bias and funded by the PHRC to collaborate on enforcement. The Attorney General should establish a task force to work with these groups to address discrimination in appraisals. The task force should include all relevant state agencies, and it should analyze state policy as well as quantitative and qualitative appraisal data. PHFA, because of the expertise of its professionals, should have a leadership role.

### **PROBLEM IN NEED OF SOLUTIONS: ADDRESS THE MORE BURDENSOME REQUIREMENTS IN PENNSYLVANIA THAN AT THE FEDERAL LEVEL TO BECOME AN APPRAISER**

Traditionally, the appraisal industry has been overwhelmingly white and male. It has also been an industry with many "family-owned and operated businesses," and it is increasingly becoming an industry with an aging workforce. Many believe that the industry demographics are the result of



# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

barriers to entry imposed under the Supervisor-Trainee mentoring model. For a Supervisor to take on a Trainee, it costs them both time and money. As a result, many Supervisors are only willing to take on family members – sons or nephews, for example – as Trainees. At the federal level, the number of hours of mentoring required (1,500 hours) has been cited as an impediment to getting people of color to become an appraiser. In an industry where there are no incentives for a Supervisor to take on a Trainee, the 1,500 hours requirement has become a significant roadblock to diversifying the field. At the state level, Pennsylvania has overlaid an additional burden to this already burdensome requirement – the Supervisor must go with the Trainee for 300 of these hours, which is a significant time commitment for the Supervisor. There are additional requirements that serve to restrict Trainee opportunities in Pennsylvania. Trainees are only allowed to work with one Supervisor. Furthermore, in Pennsylvania, Trainees may only renew their license 4 times, while most states have no similar cap. Finally, one can only become a Supervisor in Pennsylvania with 5 years of experience, while the federal rules only require 3 years.

**RECOMMENDATION:** The State Board of Certified Real Estate Appraisers should examine its rules and regulations regarding appraisers, Supervisors, and Trainees. Consistent with the NFHA, et al. recommendation, their examination should be conducted with a special focus on requirements that make it more difficult for people of color to enter the profession, but for which there is no or limited evidence that the requirement produces better appraisers. The Board should consider changing the rules and regulations to better align with the federal standards.

## FEDERAL LEVEL RECOMMENDATIONS

### PROBLEM IN NEED OF SOLUTIONS: LACK OF QUANTITATIVE DATA AT THE FEDERAL LEVEL

As mentioned earlier in this report, while there are a few national-level analyses of appraisal bias, there is no quantitative data at the local level. And while this report does offer some local-level recommendations to collect quantitative data, ideally this data would be collected at the national level. For most municipalities, the onus to collect the data at the local level, which likely would require some sort of legislative mandate on appraisers and/or lenders, is quite burdensome, and national data will allow for more robust analysis of municipal- and state-level policy environments.

**RECOMMENDATION:** Create a disclosure requirement similar to the Home Mortgage Disclosure Act, but for the appraisal industry. The disclosures would include, among other variables, the appraised value, contract sale price (for a home purchase), mortgage amount, transaction type (purchase or refinance), reconsideration of value requested, results of the reconsideration, and Census tract for all appraised properties. The race of the owner and buyer should also be included. This data would enable city officials, state and federal regulators, researchers, reporters, advocacy groups, foundations, and others to examine appraisal practices much like HMDA has allowed for mortgage lending. The data would also facilitate identification of appraisers who have effectively served the city and complement the 'Preferred local vendor list' of MWDBE appraisers" noted on page 5.

**RECOMMENDATION:** As advanced, by the NFHA, et al., in its January 2022 report (p. 72), collaborate with lenders, appraisers, researchers, consumer rights organizations and the federal

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

agencies and GSEs to publicly release annually a set of indicators from the GSE appraisal databases used by Fannie Mae and Freddie Mac in their studies cited earlier. These data, like those from the Home Mortgage Disclosure Act, are invaluable assets not only in studies of lending patterns and compliance with CRA obligations, but also in investigations conducted by federal and state agencies as well as local agencies operating under laws that are substantially equivalent to the Fair Housing Act, and fair housing organizations.

### **PROBLEM IN NEED OF SOLUTIONS: SUPERVISOR-TRAINEE MODEL**

Task Force members and guest presenters stated that while the appraisal profession has evolved, appraisers are predominantly white, older, male, heterosexual, and cisgender. People tend to look for individuals that mirror their own life experience, background, etc., and if Supervisors are not affirmatively and consciously looking for Trainees unlike them, it is difficult to diversify the profession. Appraiser firms are frequently multi-generational (i.e., a family business), which can further limit the availability of qualified Supervisors for new entrants to the profession.

Acting as a Supervisor to a new Trainee is a significant time and cost commitment. For the first 3-6 months of training, the Trainee is typically unable to contribute to the Supervisor's work, and the total Supervisor-Trainee process takes 3-5 years. Trainee classes cost \$300-\$600 each, and the Supervisor usually pays for some of this, plus the cost of travel. A Supervisor that takes on a Trainee must dedicate time to training, which takes away from the time that they might otherwise dedicate to generating revenue. This can put a Supervisor at a disadvantage compared to other appraisers or firms that do not take on Trainees. One estimate we were given is each Trainee costs the Supervisor about \$20,000 a year, in terms of actual costs and opportunity costs.

While some might view this as a state-level issue, the fact of the matter is that many appraisers cross state lines to appraise. Remote virtual appraisals are likely to become more prevalent. The lack of diversity in the appraiser field is a national problem, which therefore requires a national solution.

**RECOMMENDATION:** Provide direct monetary support to Supervisors to bring Trainees on, with special incentives to cultivate diversity within the field.

**RECOMMENDATION:** Explore working with lenders to accept Trainees' work (properly reviewed by certified appraisers) so that the effort to diversify and grow the profession does not have a negative financial consequence.

**RECOMMENDATION:** Eliminate the need for Supervisors to have specific educational credentials to bring Trainees on.

**RECOMMENDATION:** There was some sentiment expressed by Task Force members and guests that perhaps it is time to abandon the Supervisor-Trainee model altogether in favor of education and testing/licensing. Practical Applications of Real Estate Appraisal, or PAREA,<sup>19</sup> is a potential path forward. PAREA provides another pathway for aspiring appraisers to fulfill their experience requirements by taking advantage of innovative technology. PAREA is designed to offer practical experience in a virtual environment combining appraisal theory and methodology in real-world simulations. The Appraiser Qualifications Board created the program as an alterna-

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

tive to the traditional Supervisor/Trainee model for gaining appraisal experience. To meet the experience requirements for the Licensed Residential and the Certified Residential credential level, a participant can now choose between PAREA or the Supervisor/Trainee model. PAREA is still being rolled out though. An informal tracking shows that around 32 states have adopted PAREA either fully, partially, or by reference in their law.

### **PROBLEM IN NEED OF SOLUTIONS: THE CURRENT SYSTEM WITH APPRAISAL MANAGEMENT COMPANIES (AMCS)**

AMCs have existed for many decades, but they rapidly expanded in 2009-2010<sup>20</sup> after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, in which Congress required that there be a firewall between lenders and appraisers. AMCs are designed to facilitate the conduct of appraisals at the behest of lenders; they conduct some baseline review of appraisals, ordering process, etc. Lenders cannot contact the appraisers, but they can contact the AMC. It is reported by Task Force members that AMCs typically seek out the least expensive candidate to conduct the appraisal, not the most qualified or most competent for that location. When AMCs were established, there were no requirements to closely scrutinize issues of equity and inclusion. Task Force members report that AMCs do not always select appraisers who are familiar with the local market. Task Force members also reported that the compensation offered by many AMCs – which are often located outside of PA – is insufficient to attract local, qualified appraisers to accept the assignment.

**RECOMMENDATION:** Perform a national examination of AMCs, including their staff demographics, their familiarity with the local market, and their fee structure and its impact on the field as a whole. This examination could also look at the requirements the lenders are putting on the AMCs, and what requirements the AMCs are putting on the appraisers.

### **PROBLEM IN NEED OF SOLUTIONS: OUTREACH TO APPRAISERS**

Leadership is saying all the right things, and appraisal industry representatives are stepping up to the challenge. The concern is that the message does not trickle down to those in the field. Most individual appraisers are not members of the professional associations. We must figure out how to deliver messages to the grassroots and provide resources at the appraiser level.

**RECOMMENDATION:** Conferences are a possibility, and the American Society of Appraisers' (ASA) Philadelphia chapter (and the Appraisal Institute) could be a partner in hosting conferences.

**RECOMMENDATION:** The focus must also be on the state appraisal programs and regulators. Most of these organizations have a newsletter or some other ability to communicate with licensed appraisers in their state.

**RECOMMENDATION:** The City should support a city-wide conference focused on fair housing issues in appraisals, with a goal of identifying fair housing solutions to common appraisal issues. Trade associations should market the training to their members. The conference could include listening and learning sessions to address fair housing issues.

<sup>19</sup> See: <https://www.appraisalfoundation.org/TAF/TAF/PAREA.aspx>

<sup>20</sup> See: [https://www.nar.realtor/appraisal-valuation/nar-is-sue-brief-appraisal-management-company-qa#:~:text=AMCs%20have%20been%20in%20existence,Code%20of%20Conduct%20\(HVCC\)](https://www.nar.realtor/appraisal-valuation/nar-is-sue-brief-appraisal-management-company-qa#:~:text=AMCs%20have%20been%20in%20existence,Code%20of%20Conduct%20(HVCC))

# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE

## FINAL REPORT AND RECOMMENDATIONS

### **PROBLEM IN NEED OF SOLUTIONS: CHANGE OFTEN BEGINS AT THE LOCAL LEVEL**

While federal and state changes are needed, change often begins at the local level. Currently, however, only Philadelphia and a handful of other cities are seriously focused on this issue. Municipalities and jurisdictions across the country need to begin taking this issue seriously, and they need to be supported in their efforts.

**RECOMMENDATION:** Encourage other cities to emulate Philadelphia and create their own local Home Appraisal Bias Task Force.

**RECOMMENDATION:** Support the creation of a nationwide Community of Practice, represented by individuals in cities across the country, who are grappling with the same issues.

**RECOMMENDATION:** Recruit local, like-minded valuation professionals from the future Community of Practice to run for the boards of The Appraisal Foundation, which sets the policies at the federal level.

**RECOMMENDATION:** Solicit members of the future Community of Practice to attend the public meetings of The Appraisal Foundation and comment on proposals.

**RECOMMENDATION:** Reconvene the Philadelphia Home Appraisal Bias Task Force on at least a biannual basis. Although this Task Force was expected to end with the release of its recommendations, ongoing meetings will allow the Task Force to monitor progress on the recommendations contained herein, and raise new issues in need of local action. Furthermore, this Task Force, working with Philadelphia City Council, could hold subsequent hearings or public meetings on this report and its recommendations.



# PHILADELPHIA HOME APPRAISAL BIAS TASK FORCE FINAL REPORT AND RECOMMENDATIONS

The recommendations in this report do not necessarily reflect the formal positions of any of the organizations listed below.

## TASK FORCE MEMBERS

<b>NAME</b>	<b>ORGANIZATION</b>
Cherelle Parker	Philadelphia City Council
Ira Goldstein	Reinvestment Fund
Rachel Meadows	Philadelphia City Council
Mark Alston	National Association of Real Estate Brokers
Mia Bailey	HUD's International and Philanthropic Affairs Division
Carlo Batts	Rittenhouse Appraisals
Annette Collier	Able Real Estate, Realtists
Toni Johnson	Real Estate Associate, Realtists
Melissa Long	Division of Housing and Community Development
Charles Lowery	New American Funding
Laura Mabery	Fair Housing Rights Center In Southeastern Pennsylvania
Angela McIver	Fair Housing Rights Center In Southeastern Pennsylvania
Darlene Meekins	Real Estate Agent, Realtists
Sara Pratt	Relman Colfax PLLC
John Russell	American Society of Appraisers
Jorge Soto	National Fair Housing Alliance
Gregory Squires	George Washington University
Dave Thomas	Philadelphia Housing Development Corporation
Jillian White	Aloft (formerly with Better.com)
Morgan Williams	National Fair Housing Alliance
Vincent Wimbish	Wimbish Appraisal Service
Melody Zimmerman	Greater Philadelphia Association of REALTORS (GPAR)







# CHERELLE L. PARKER

9TH DISTRICT COUNCILMEMBER, MAJORITY LEADER



City Council  
PHILADELPHIA

PHLCouncil.com



Office of Cherelle Parker, 9<sup>TH</sup> District Councilmember | City Hall Room 577 | (215) 686-3455

District Office: 1503C E. Wadsworth Ave., Philadelphia, PA 19150 | (215) 686-3454



@CouncilwomanCherelleLParker



@CherelleParker9



@CherelleParker9



PHLCouncil.com