

Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing
March 24, 2022 at 10:00 AM

Mr. Chairman, thank you.

Almost a year ago, we held a hearing on discrimination in housing. Let me repeat what I said then: racial discrimination is a real and sad part of our nation's history. It's a fact.

Sadly, it's also a fact that government policies contributed to this discrimination. In my view, history shows us that when it comes to housing in America, including housing discrimination, government has been the problem, not the solution.

Today we're talking about appraisals. First we should ask ourselves why the government is micromanaging the appraisal process.

As long as taxpayers are not on the hook for its risk taking, and subject to existing consumer protection and anti-discrimination laws, each private sector market participant should be free to develop its own approach to underwriting its loans.

That flexibility should permit significant discretion to experiment with new technologies like automated valuation models or other alternatives to full appraisals of loan collateral. For example, when there are numerous bids for a home the best appraisal is the market itself.

But, unfortunately, that's not the system we have today. Instead, taxpayers stand behind more than two-thirds of our mortgage loans, and federal appraisal regulation extends even to much of the small remaining portion that is not backed by the government.

Government intervention begets more government intervention. And here we are today with Democrats advocating an "action plan" that will layer yet more regulation on top of an already Byzantine and antiquated set of appraisal regulations.

Thankfully, there are laws against discrimination for real estate transactions, including appraisals. As a result, most institutions have long since abandoned explicit racial discrimination.

Even the President's nominee for HUD's office of policy development and research has publicly acknowledged that. Has the appraisal industry somehow avoided the law?

This administration seems to believe that despite the progress we've made to eliminate discrimination in housing, the appraisal industry remains systemically racist. Yesterday, the administration's task force on Property Appraisal and Valuation Equity, or PAVE, released a report alleging systemic racial bias in home appraisals.

This comes as a bit of a surprise. The report recommends an "action plan" to address alleged systemic racism before the government has sufficiently established that a problem exists in the first place.

In fact, the report admits that "the exact number of instances of valuation bias is difficult to assess." And one of the report's recommended actions is to establish metrics to identify appraisal bias. Well, that certainly calls into question whether the authors have enough information to know whether their conclusion is correct.

Of course, we should not ignore incidents of appraisals that appear to be attributable to race. There have been news reports of some homes being appraised for more when black homeowners had white people stand in for them. And FHFA reviewed millions of appraisals and found some instances where the appraiser included references to race or another protected class.

As bad as these anecdotes are, do they confirm systemic problems? Should the government upend the appraisal regime, and impose significantly higher costs on people buying homes, without such confirmation?

It isn't at all clear that we have a systemic problem of appraisers undervaluing homes based on a borrower's race. The PAVE task force primarily relied upon two studies that have questionable analyses that fail to control for factors other than race that, once considered, may explain disparities.

Other studies disclose their limitations and note that their results are not conclusive evidence of racial bias. Even Fannie Mae's study relied on by the task force found that "the differences observed in undervaluation

between white and Black borrowers were similar in rate and not meaningfully different.”

And another recent academic study, which the PAVE report fails to cite, found racial appraisal bias in mortgage refinance transactions to be either uncommon or have a relatively minor effect on valuations. Yet we are still holding a hearing today to address what we are told is a systemic problem of racial bias in home appraisals.

I am concerned that the PAVE report devotes only half a page to a discussion of the risks of overvaluing homes. Instead, the report recommends studying the use of alternatives to the sales comparison approach of appraisal, and the use of range-of-value estimates instead of single value estimates for appraisals.

Rather than increasing the accuracy of appraisals, these suggestions increase the risk of overvaluation. That risk is exacerbated for rural properties, which already can be challenging to appraise.

We shouldn't do anything to make appraisals of rural housing more difficult. Nor should we adopt recommendations that, in general, could undermine confidence in appraisals, and ultimately, reduce the availability of credit for all borrowers.

The overvaluation of homes harms taxpayers on the hook for underwater mortgages. And it also harms borrowers—in many cases, minority borrowers—who have been sold overvalued homes. I hope we reject any changes that end up increasing the risk of overvaluation.

As I've said before, the lesson we need to learn and apply is: When it comes to housing in America, government is the problem, not the solution.