



House Economic Matters Committee Briefing on Real Estate Appraisals Statement of the Maryland REALTORS®

Maryland REALTORS® appreciates the opportunity to address issues related to appraisal bias. Expanding housing opportunity is an important goal for the Association and we launched a consumer campaign last year, “Open Doors to Stronger Neighborhoods” (opendoorsmaryland.org), to demonstrate our long-term commitment to these issues.

One of the principal bills supported by the Open Doors campaign was HB 58 of 2021, which called for a workgroup to study issues related to minority homeownership including the valuation and assessment of real property. Although HB 58 was not passed, HB 1239 was amended to direct the Maryland Department of Housing and Community Development (DHCD) to conduct a study about real estate appraisals, real estate financing and community investments. DHCD must report its findings back to the Governor and the General Assembly in June 2022.

Just this past year, the Illinois Association of REALTORS® in conjunction with the University of Chicago, conducted a study entitled “Color and Collateral: Examining Individual and Neighborhood Effects of Race on Housing Valuation and Mortgage Lending. That study examined the National Home Mortgage Disclosure Act (HMDA) data and found a relationship “between a borrower’s race and how likely it is they will receive a residential appraisal lower than the contract price.” The study concluded that more research is warranted, particularly of the Government Sponsored Enterprises (GSEs) appraisal data.

Freddie Mac (one of the GSEs) recently reported a preliminary examination of appraisals and also found that “[o]ur preliminary modeling results suggest that a property is more likely to receive an appraisal lower than a contract price if it is in a minority [census] tract.”

Differences in value between properties is a function of many factors, but it is critical that those factors do not relate to the race or other personal characteristics of the homeowners or residents of a community. Devaluing property due a person’s protected class status is always wrong. It is important that affected homeowners, REALTORS® and others know how to identify this and what resources are available to address inconsistencies.

To that end, a REALTOR®’s ability to interact with appraisers was significantly changed by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The federal government limited real estate licensees’ ability to influence appraisals due to the concern that some homebuyers received inflated valuations that contributed to the real estate crash and left many homeowners “underwater” or, worse, facing foreclosure.

A “blind” process is now used to select appraisers and REALTORS® will occasionally complain about out-of-state appraisers undervaluing property in communities that are new to the appraiser. However, because Frank-Dodd limits real estate agents from influencing appraisals, even when a real estate agent has a complaint or concern, the appraiser is under no legal duty to even respond to the agent. While not all contact and information shared between a real estate licensee and appraiser is prohibited, the federal rules can cause confusion and concern for both the appraiser and the real estate agent.

Finally, all real estate licensees representing sellers have a legal duty to protect and promote their client’s interest which includes ensuring their clients receive the best price for their home.

We look forward to engaging with and providing assistance to the General Assembly and the Executive Branch in examining these issues to ensure real estate valuations are race neutral and that owners, REALTORS® and others are educated about the appropriate recourse when a valuation appears low.