



## Solutions to Build Household Wealth by Addressing the Undervaluation of Property

Homeownership is a key wealth-building mechanism for households and communities across the US.<sup>1</sup> It offers families a safety net to weather financial hardships, the ability to borrow money to start a business, and the means to realize socioeconomic mobility.<sup>2</sup> Homeownership also allows families to transfer wealth from generation to generation, ensuring future generations can lean on the financial security afforded by home equity. However, the chronic undervaluation of homes in communities of color, especially in Black communities, prevents households from benefiting equally from homeownership. This threatens to further widen the racial wealth gap—a gap that continues to increase due in large part to disparities in access to homeownership.<sup>3</sup>

Black households face structural barriers to building and transferring wealth through homeownership. Research conducted by the Brookings Institution has consistently found that homes in Black neighborhoods are valued roughly 21 to 23 percent below the estimated valuations for the same homes in non-Black-majority neighborhoods.<sup>4</sup> On average, owner-occupied homes in predominantly Black neighborhoods are undervalued by \$48,000, accounting for \$162 billion in unrealized value for Black households.<sup>5</sup> Reasons for the historic devaluation of property include differences in neighborhood characteristics, such as diminished access to quality housing stock, schools, amenities, and transportation.<sup>6</sup> Recent studies, however, have found that even when adjusting analyses for housing and neighborhood qualities Black homes continue to be undervalued, implying additional factors, such as appraisal bias, must be at play.<sup>7</sup>

This imbalance has far-reaching consequences for families and communities. **JPMorgan Chase is leveraging its business expertise, policy and research capabilities, and philanthropic capital to tackle systemic barriers that contribute to the undervaluation of property**, particularly in Black-majority neighborhoods.

### JPMorgan Chase's Commitment & Impact

As a leading financial services institution with a commitment to advancing a more inclusive economy, JPMorgan Chase is engaging in reforms that address the systemic undervaluation of homes in majority-minority communities and working towards policy solutions that help close the property valuation gap. The firm continues to prioritize five areas of impact through its business practices, philanthropy, and policy recommendations: modernizing appraisal processes, enhancing valuation methods, increasing training and diversity, addressing industry standards, and building consumer awareness.

#### By the numbers

**\$12 billion**

Racial equity commitment toward home lending programs

**\$400 million**

5-year philanthropic commitment to improving housing affordability and stability

## The Undervaluation of Property

A property appraisal is a key part of buying, selling, or refinancing a home. This professional assessment of a property's fair market value is used to determine several elements of a mortgage, including the interest rate and needed down payment to be approved for a loan.<sup>8</sup>

Appraisal bias refers to a discriminatory practice whereby a property is undervalued based on an inhabitant's race, ethnicity, or other protected class. This discriminatory practice dates to the creation of redlining maps by the federal government in the 1930s, which informed appraiser manuals that codified ideas of "desirability" and "risk" in appraisal practices and procedures.<sup>9</sup> These maps and manuals were used to assess a neighborhood's desirability—and ultimately determine lending risk—based on factors such as neighborhood demographics. Despite numerous laws prohibiting redlining and related discriminatory activity, these early policies and practices have persisted to the present.<sup>10</sup>

Today, research suggests that the median appraisal of a home located in a predominantly Black neighborhood is 21 to 23 percent lower than in non-Black majority neighborhoods.<sup>11</sup> A 2021 study by Freddie Mac similarly found that properties in predominantly Black and Latino census tracts are more likely to receive an appraisal lower than the contract price compared to White tracts, while controlling for property characteristics like neighborhood or structure type.<sup>12</sup>

## Business & Industry Impact

JPMorgan Chase is engaged in efforts to reform the appraisal process and close the property valuation gap, including:

- Requiring diversity and anti-bias training for JPMorgan Chase appraisers, including the establishment of training requirements that focus on anti-bias and fair housing education to ensure that appraisers are equipped with the knowledge and skills to identify and redress bias in their work. This commitment to diversity and training aligns with recent state legislative efforts such as [Virginia H.B.284 of 2022 - Real Estate Appraiser Board Continuing Education Include Fair Housing or Appraisal Bias Courses](#), which mandates at least two hours of fair housing or appraisal bias courses as a regulatory prerequisite for appraiser license renewal. Similar legislation has also been passed in New York and Oregon.
- Accepting work completed by apprentice appraisers, advocating for wider hiring of apprentice appraisers, and developing an internal JPMorgan Chase Staff Appraiser Apprentice program. A 2021 demographic study conducted by The Appraisal Foundation revealed significant representational imbalances within the appraisal industry, finding that only 4.4 percent and 3.7 percent identified as Hispanic, Latino, or Spanish, respectively.<sup>13</sup> By accepting and advocating for the industry-wide acceptance of apprentice appraisers, JPMorgan Chase is reducing barriers to entry to promote increased diversity within the profession to better serve the communities in which they work.

- Expanding use of alternative appraisals, such as hybrid, desktop, and inspection-based waivers, to limit interactions between consumers and appraisers, therefore reducing the prevalence and impact of appraisal bias. Whereas a standard appraisal is comprised of an individual appraiser assessing the property and conducting market research of comparable homes to arrive at an appraised value, alternative appraisals allow third-party, non-appraisers to inspect the property. Doing so reduces potential bias and streamlines appraisals by removing an appraiser's exposure to the customer in their valuation of a property.
- Enhancing our Reconsideration of Value (ROV) process by providing written communications to customers at critical decision points in the home purchase process about their right to request an ROV and updates on the status of their request. This proactive approach serves as a valuable tool to improve customer awareness of their rights and creates an opportunity to address any concerns they may have regarding the credibility or reliability of their appraisal. JPMorgan Chase's updated disclosures also provide guidance on how to report concerns related to bias or discrimination within the appraisal process. Lenders can follow suit by implementing policies to address ROV requests that follow clear review and resolution procedures, in alignment with the ability to consider additional information and correct errors pursuant to the Dodd Frank Act. Together, reforms to ROV processes can provide a consistent borrower experience and strengthen the credibility of valuations across the industry.

## Key Terms Defined

### Alternative Appraisals

**Hybrid:** A hybrid appraisal circumvents the need for an appraiser to visit the property being appraised altogether; instead, a third-party inspects the property and provides information to an appraiser who completes an appraisal drawing from the third party's assessment and independent market analysis. Preliminary evaluations of this appraisal alternative find greater visibility into property characteristics, a reduction in errors, and more consistent and accurate reporting.

**Desktop:** A desktop appraisal, alluding to its name, consists of an appraiser's remote assessment of a property using desk research of tax records and digital information.

**Inspection-Based Waiver:** An inspection-based appraisal waiver, also referred to as value acceptance, employs a waiver and property data collected by a third party to derive the value of a home; this alternative can save borrowers over \$300 in closing costs and reduce closing times by three to four days.

### Reconsideration of Value

An ROV is a formal request by a homeowner or homebuyer for a lender to reconsider the assessment of the value of their property. Through this process, a borrower can identify and provide evidence for errors, omissions, inadequacies in comparable properties, or potential influence by bias against a protected class.<sup>14</sup> This is an important consumer advocacy opportunity, yet many consumers remain unaware of their right to an ROV.

- Participating in various task forces and initiatives focused on addressing appraisal bias and promoting fair practices within the industry, including:
  - **OCC Project REACH**, a taskforce that aims to identify and address barriers to credit access and fair lending;
  - **Housing Policy Council**, a platform that brings together industry leaders to discuss and develop solutions for housing-related challenges, including appraisal bias;
  - **Appraisal Salon**, a forum that fosters dialogue and collaboration among appraisers, lenders, and other stakeholders to address bias and promote diversity in the appraisal profession; and
  - **State-Level Task Forces**, including the Illinois Real Estate Valuations Task Force, the Philadelphia Home Appraisal Bias Task Force, and the New Jersey DCR Appraisal Discrimination Enforcement Task Force. These entities work alongside community organizations, government agencies, and industry experts to combat bias and discrimination in appraisals.

## Philanthropic Impact

Since 2020, JPMorgan Chase has committed \$5.3 million dollars to advance innovative solutions that tackle the property valuation gap.

- In 2021, **JPMorgan Chase provided a \$3 million grant to support the Appraiser Diversity Pipeline Initiative**,<sup>15</sup> which seeks to attract new entrants to the appraisal industry, help trainees overcome common barriers to entry, and foster diversity. Since the program's inception, JPMorgan Chase has supported more than 700 scholarships with 66 scholars now working as appraisers across the country.
- In 2020, **JPMorgan Chase provided a \$1 million grant to Ashoka to launch the Valuing Homes in Black-Majority Neighborhoods Challenge** to collect and study the most promising innovations to help address the valuation gap.<sup>16</sup> The Challenge identified ten local market and policy-based innovations to foster a new generation of structural innovations that enable homeowners in Black-majority neighborhoods to realize the value and appreciation of their assets.<sup>17</sup> Insights from the first challenge informed research shortly after on the effects of appraisals on the undervaluation of property, finding that racial bias plays a critical role in widening the property valuation gap.<sup>18</sup> In 2023, JPMorgan Chase provided another \$1.3 million in grant support for the partners to launch the second round of the Challenge in 2024.

## Recommendations to Address the Undervaluation of Property



### Federal-level Policy

- Congress can enact proposals like the [Portal for Appraisal Licensing \(PAL\) Act \(H.R. 2771\)](#) to establish a Portal for Appraisal Licensure and streamline administrative processes, reduce costs, and address disparities in conducting background checks and license renewals across states. By standardizing procedures nationwide, the PAL Act would ensure competitiveness and maintain rigorous standards within the appraisal industry.
- The federal government can expand ongoing efforts spearheaded by the [Interagency Task Force on Property Appraisal and Valuation Equity \(PAVE\)](#). JPMorgan Chase is proud to have supported PAVE since its announcement in 2021 and applauds its work to enhance fair housing protections, fortify governmental accountability against discrimination, create greater data transparency, increase awareness, and diversify the appraiser workforce. JPMorgan Chase supports and recommends additional research and policy efforts outlined in the [PAVE Action Plan](#), such as expanding the use of alternative appraisals, exploring alternative approaches to the sales comparison method, and investigating the use of range-of-value estimates to mitigate the subjectivity within the sales comparison approach. If conducted, this research can identify alternatives and modifications to these approaches that could result in more accurate and equitable valuations. For example, the Sales Comparison Approach, which relies on comparing the subject property to recent sales of similar properties, is used with “broad discretion.” The research would therefore enhance an industry-wide understanding of this approach and its limitations, as well as lead to ways to improve its effectiveness in providing fair and unbiased valuations.
- The Federal Housing Finance Agency (FHFA) can continue promoting new technologies in reducing bias and increasing customer accessibility through its Office of Financial Technology. JPMorgan Chase applauds FHFA’s demonstrated leadership within the regulatory community in recognizing the positive impact of new technologies for customers in the housing market and encourages other regulatory bodies to follow this model framework.
- FHFA can release more detailed information from their [Uniform Appraisal Dataset \(UAD\)](#) to help promote data transparency and enable further trend analysis within the industry. The UAD is an industry-wide dataset with standardized formatting and definitions. Modernizing this dataset is an important step in ensuring that new appraisal products are accurately capturing industry data, definitions, and standards. FHFA can also share a subset of historical appraisal data to reach root cause analyses of potential appraisal bias, increase the sample rate to better understand minority and rural areas while maintaining privacy, eliminate the property value cut-off, and increase the availability of comparable-level data to allow for more up-to-date findings for greater analysis and decision-making.

- Adopt [policy changes proposed by HUD, Fannie Mae, and Freddie Mac](#) to the ROV process to raise consumer awareness and create a borrower-initiated appeal process. This includes formalizing the ROV framework to standardize the process for lenders whose loans are sold to Government-Sponsored Enterprises (GSEs), make lenders responsible for disclosing the ROV process to borrowers, and revising the Selling Guide to update ROV policy requirements.
- The GSEs can strengthen their use of technological tools to enhance the quality and reliability of appraisals and promote fairness and transparency in property valuations. This includes reinstating the use of customer-assisted photos permitted during the COVID-19 pandemic as a supplemental source in the appraisal process for instances when appraisers have limited access to properties. Customer-assisted photos have been proven to help streamline the appraisal process and limit potential bias as the appraiser would not be privy to borrower race or other lifestyle information, while also being particularly valuable as part of a bifurcated review process, such as desktop or hybrid appraisals. Additionally, GSEs can continue to leverage their tools to implement a robust undervaluation flag system to help identify instances wherein properties may be undervalued. Similarly, text scanning technology can be strengthened to scan appraisals for potentially inappropriate words and phrases, ensuring that appraisals are free from any biased or discriminatory language.
- The GSEs and FHFA can raise greater awareness about the role of apprentices in providing quality appraisals to reduce barriers to entry into the industry. In particular, the GSEs can leverage their data to educate industry partners on the importance and quality of apprentice-completed appraisals.



## State-level Policy

- States can support the nationwide adoption of [Practical Application for Real Estate Appraisers \(PAREA\)](#) to reduce barriers to access into and promote efficiency, accessibility, and consistency within the appraiser industry. Currently adopted in 48 states, JPMorgan Chase supports the adoption of PAREA to provide a uniform pathway for appraisers to gain experience hours through computer based training, fulfilling state-based training and experience requirements. If adopted, this program offers a more accessible and standardized approach to obtaining an independent appraisal license.
- States can adopt similar legislation to [Virginia H.B. 284 of 2022](#) to include fair housing training or appraisal bias courses as a prerequisite for appraisal licensure renewal. New York and Oregon have passed similar legislation to identify and reduce bias in the valuation of property within the appraisal industry. The adoption of state-level training policy will pave the way for continued industry reform to reduce bias and discrimination across housing markets.

## Endnotes

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### About the PolicyCenter

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