

OCC: Docket ID OCC-2023-0007

FRB: Docket No. OP-1809

FDIC: RIN 3064-ZA36

NCUA: Docket No. NCUA-2023-0061

I am writing to express my support for the proposed interagency guidance on reconsiderations of value (ROV) of residential real estate valuations. I appreciate the efforts of the agencies to provide some recommendations and best practices for financial institutions regarding ROVs, which are requests that a financial institution may make to the appraiser or other entity that developed a valuation report for a property being used as collateral for a loan to re-assess the report based upon potential deficiencies or information that may affect the value conclusion. I think the guidance document is a good initiative to promote sound valuation practices and prevent valuation discrimination in residential real estate transactions.

However, I also think that the guidance document could be improved by addressing some additional topics and issues that are relevant to the ROV process and its impact on consumers and communities. Therefore, I suggest the following improvements to the guidance document:

RECOGNIZE AND ACKNOWLEDGE THE LENGTHY HISTORY AND CONSEQUENCES OF APPRAISAL BIAS

The guidance document should explicitly recognize the history and consequences of redlining, racial and religious covenants, and appraisal bias on homeownership and wealth accumulation for people of color, especially African Americans. Redlining was a practice in which a federal agency created color-coded maps for cities across the country that indicated risk levels for long-term real estate investment. The neighborhoods most likely to default were shaded red and over time these neighborhoods had the largest concentrations of African Americans. Racial and religious covenants were another form of discrimination that prevented people of color and certain faiths from buying, leasing, or occupying homes in certain areas. These covenants were written into the deeds of millions of new homes by developers and realtors from the 1890s to the 1960s. Appraisal bias is another factor that contributes to the devaluation of homes in majority-Black neighborhoods. Appraisal bias occurs when appraisers use subjective or inaccurate methods to determine the market value of a property, resulting in either under-appraisal or over-appraisal based

on the racial composition of the neighborhood. These historical realities have a significant impact on the accuracy and reliability of residential real estate valuations and should be acknowledged and addressed in the guidance document.

The guidance document should emphasize the importance of appraiser education and training on how to recognize and avoid appraisal bias based on race, ethnicity, religion, or other protected characteristics. The guidance document should also recommend some best practices for appraisers to ensure that they use objective and reliable methods and data sources to conduct ROVs, such as using comparable properties within the same neighborhood or adjusting for differences in property size, quality, location, and amenities. The guidance document should also provide some examples of how appraisers can demonstrate their compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and other applicable laws and regulations when conducting ROVs.

The guidance document should encourage financial institutions to adopt policies and procedures that facilitate fair access to ROV processes for consumers who believe their properties have been undervalued due to appraisal bias. The guidance document should also provide some examples of how financial institutions can communicate with consumers about their rights and options regarding ROVs, such as providing clear information on how to request an ROV, how long it will take, what it will cost, and what recourse they have if they are dissatisfied with the outcome. The guidance document should also inform consumers about their right to file a complaint with the appropriate agency if they suspect any violation of fair lending laws or regulations in relation to ROVs.

RECOGNIZE THE CHALLENGES AND LIMITATIONS OF AUTOMATED VALUATION MODELS

The guidance document should address the challenges and limitations of using automated valuation models (AVMs) or other alternative valuation methods in the ROV process. AVMs are computer-generated estimates of property values based on mathematical models that use data from various sources, such as public records, multiple listing services, or proprietary databases. Alternative valuation methods are any methods other than an appraisal or an evaluation performed by a person that estimate property values, such as broker price opinions or tax assessments. While these methods may offer some advantages in terms of cost, speed, or convenience, they may also pose some risks in terms of accuracy, reliability, or bias. The guidance document should discuss how financial institutions can validate the accuracy and reliability of AVMs or other alternative valuation methods, especially when they are used for complex or non-standard properties. The guidance document should also explain how financial institutions can ensure that AVMs or other alternative valuation

methods are not biased or discriminatory, and how they can incorporate human judgment or oversight into the ROV process when using these methods.

INCORPORATE THE POTENTIAL IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS ON VALUATION

The guidance document should acknowledge the potential impact of environmental, social, and governance (ESG) factors on residential real estate valuations. ESG factors are any factors that relate to the environmental, social, or governance aspects of a property, a neighborhood, or a community that may affect its value or risk profile. For example, ESG factors may include climate change, natural disasters, social justice movements, or demographic changes. These factors may affect the value of properties or neighborhoods over time, either positively or negatively, depending on how they are perceived or managed by various stakeholders. The guidance document should consider how ESG factors may influence the ROV process and its outcomes, and how financial institutions can incorporate ESG factors into their ROV processes and controls. The guidance document should also suggest how financial institutions can communicate with consumers about ESG factors and their impact on residential real estate valuations.

EXPLORE THE UTILITY OF A CENTRALIZED DATABASE/PLATFORM ON ROVs ACROSS FINANCIAL INSTITUTIONS

The guidance document should explore the possibility of creating a centralized database or platform for collecting and sharing information on ROVs across financial institutions and possibly regulatory agencies. Such a database or platform could enhance transparency and accountability in the ROV process, as well as facilitate data analysis and research on residential real estate valuations. The guidance document should also discuss the potential benefits and challenges of creating such a database or platform, such as data security, privacy, standardization, and accessibility. The guidance document should also consider the feasibility and desirability of making some or all of the information on ROVs available to the public, especially to consumers who may benefit from having access to comparable valuation data for their properties or neighborhoods.

Thank you for considering my comments.

Michael Ravnitzky
Silver Spring, Maryland