HOME APPRAISALS DISPARITY ANALYSIS (MAY 2022)

DATASETS:

Enterprise Public Use Databases, Single-Family Properties Census Tract File (2018-2020), Federal Housing Finance Agency; U.S. Census American Community Survey (5-year averages), 2018 through 2020, U.S. Census Bureau.

METHODOLOGY/NOTES:

We used nationwide home loan originations data collected by the Federal Housing Finance Agency (FHFA) to measure disparities in “appraised values” vs. “contract” or sales prices for homes sold between 2018 and 2020, based on the racial makeup of census tract neighborhoods, and homebuyers. While FHFA has archived loan originations data dating back to 2010, we used data from the most recent three-year period because they contained elements needed for calculations that are not in data from earlier years.

In the appraisal process, an independent real-estate appraiser determines a home’s value by usually looking at: (1) the basic condition of the home for sale; (2) any upgrades or improvement to the home made by the seller, and (3) what similar homes in the area have recently sold for, and how local property values are trending.

While lenders require an appraisal as a condition of loan closing, the buyers typically pay for the evaluation -- unless they negotiate for the seller to pay instead. The cost might range from $300 to $600, depending on the size and location of the home, and the amount of research done by the appraiser.

Depending on the lender and circumstances, alternative appraisals may be requested to reduce costs and speed up the process. They include: (1) Hybrid appraisals, where appraisers never physically visit the home, but use photographs from a home inspection, or hire someone to gather site-specific information; (2) Desktop appraisals, where appraisers use online information – property records, floor plans, comparable sales listings, etc., and (3) Drive-by appraisals, where appraisers do exterior-only evaluations.

Any process that is used gives the appraiser a great deal of latitude to determine a fair market value for a property – one of the biggest factors in buying a home.

Homes appraised lower than the sales can mean bad news for both the buyer and seller. Typically, when an appraisal comes in low, a mortgage lender will not lend more than the appraised value. That means the buyer has to pay more out of pocket, or convince the seller to lower the asking price, to buy the house. Under-appraising homes can either drive away buyers who are unable or not inclined to increase the down payment, or drive down home values in certain neighborhoods.

We first filtered the datasets to include only single-family, one-unit homes that were “purchased” (not refinanced) through mortgage loans during the three-year period.

We then calculated each buyer’s “down payment,” or the amount invested in the home beyond the mortgage loan to meet the selling price, by multiplying the home’s Loan-To-Value” ratio (LTV) by the loan amount.

We added the “down payment” to the mortgage loan to get an estimated “contract,” or sales price of the home.

Then, we compared the sales price to the “property value” of each home – a proxy for the appraised value, according to FHFA.

Based on the calculations, we used our data to tally the number of homes sold in census tracts over the three-year period where the appraisal was HIGHER or LOWER, overall, than our calculated contract price, and whether the appraisal was 2% or more below the sales – a threshold used in Fannie Mae studies to measure the most severe "Appraisals Below Contract" (ABCs). Then, we used census demographic data to develop population, racial makeup, income and other characteristics of each tract.

Our analysis focuses on who benefits from an appraisal process that studies show, over time, has been subjective and biased.

The summarized data replicate a September 2021 study by The Federal Home Loan Mortgage Corporation (Freddie Mac), which used six years' worth of actual appraisal data from its own proprietary data source to examine racial and ethnic valuation "gaps" in home purchase appraisals.

The Freddie Mac study looked at differences in appraisals or selling prices of homes sold in census tracts that were majority Black (50% - 100%); majority Latino (50% - 100%); majority White (50% - 100%), and other minority (not majority White). It also looked at under-appraisal of homes by race / ethnicity of the buyer: Asian; Black; Hawaiian/Pacific Islander; Hispanic/Latino; Native American; Unknown, and White.

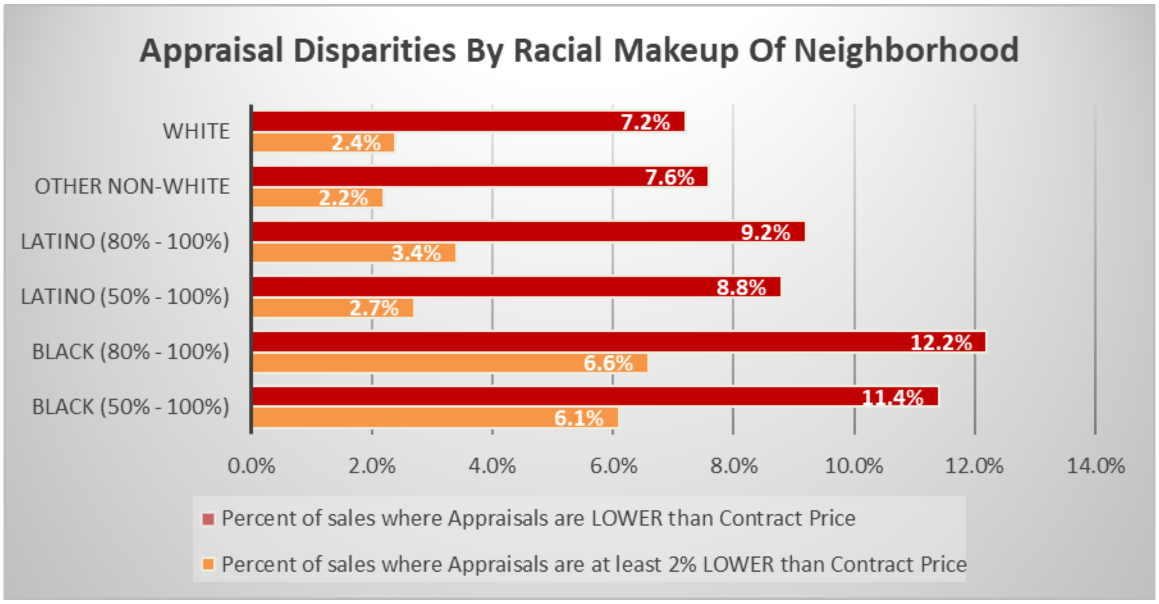
NOTE: *The disparity patterns we found in our three-year analysis using the FHFA data were consistent with the Freddie Mac study, which used a different data source over a longer time period. We also have requested the Freddie Mac data through FHFA, which oversees and regulates Freddie Mac operations. We are awaiting response to our March 1 federal Freedom Of Information Act (FOIA) request.*

FINDINGS:

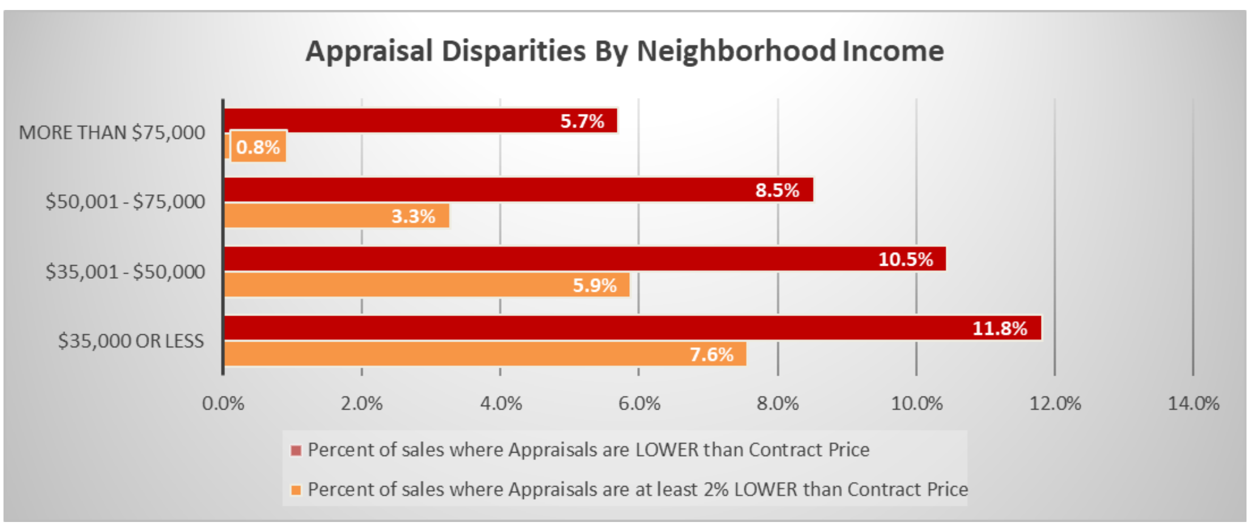
An October 2017 Fannie Mae study of appraised home values concludes that **appraisals come in below contract price about 8% of the time**.

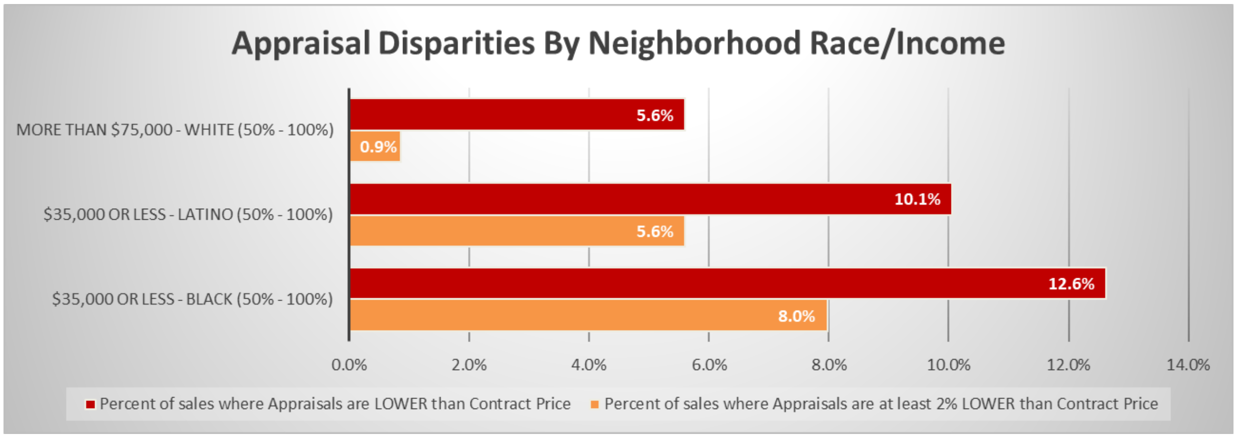
But our analysis shows the portion of "ABC" home sales vary greatly when considering the racial composition of the neighborhood and the race/ethnicity of the buyer.

- **Appraisers were more likely to value homes below their contract price in census tract neighborhoods where the residents are mostly Black or Latino**. Overall, the data show that homes sold in neighborhoods with 50% or more Black residents are **2.5x** more likely to be under-appraised by 2% or higher than homes sold in mostly White neighborhoods (neighborhoods where any minority resident share is below 50%). In neighborhoods with 80% or more Black residents, the severely under-appraised rate jumps to **2.75x** higher in Black neighborhoods than in mostly White neighborhoods. In mostly Black neighborhoods, the overall under-appraisal rate is **1.5x** higher than the 8% national average. In neighborhoods with 80% or more Latino residents, the rate of severely under-appraised homes sold was **1.4x** higher than in mostly White neighborhoods. (*See chart below).*

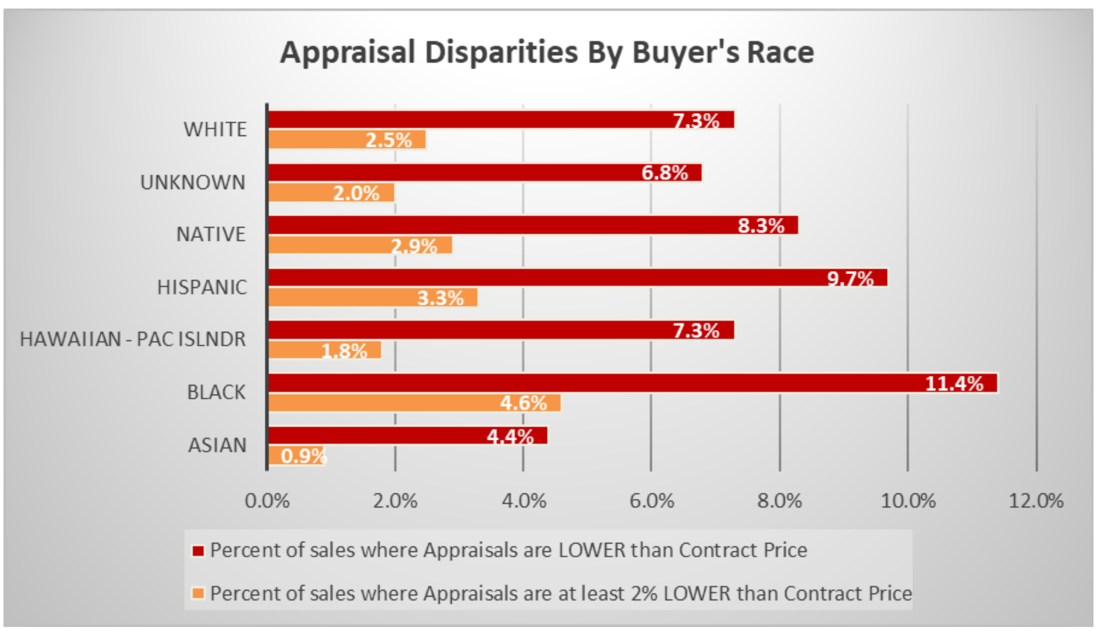


- **Appraisers were more likely to under-value homes in poorer neighborhoods – particularly poorer neighborhoods that are mostly Black or Latino – than in wealthier mostly White neighborhoods.** Overall, home sales where appraisals fell at least 2% below the selling price were **9x** more likely in tract neighborhoods with median household income of $35,000 or less than in neighborhoods with income of more than $75,000. Overall, the under-appraisal rate in the nation's poorest neighborhoods is **1.5x** higher than the 8% national average. In the nation's poorest mostly-Black or Latino neighborhoods, the 2% or higher under-appraised rate is **6x-9x** higher than in the wealthiest mostly White neighborhoods. (See *charts below*).

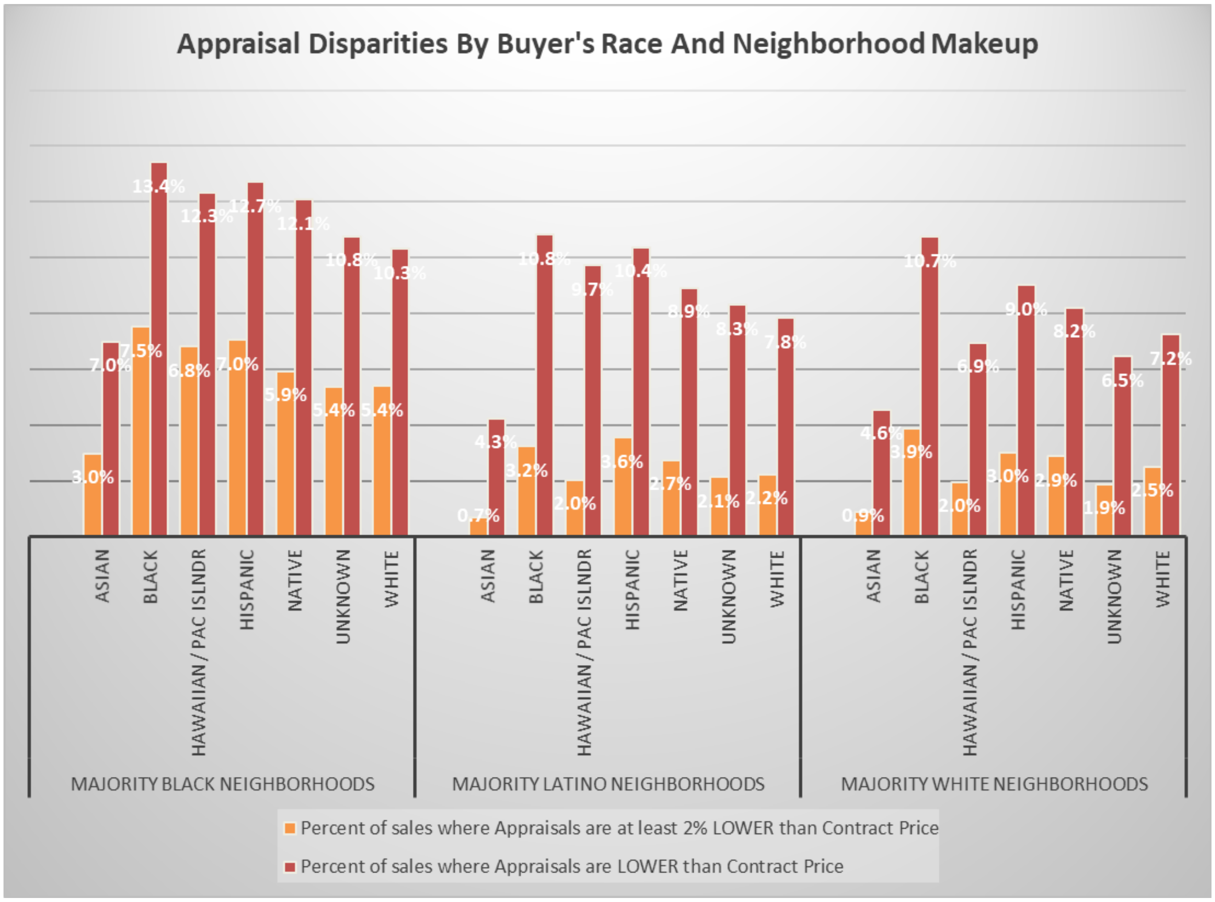




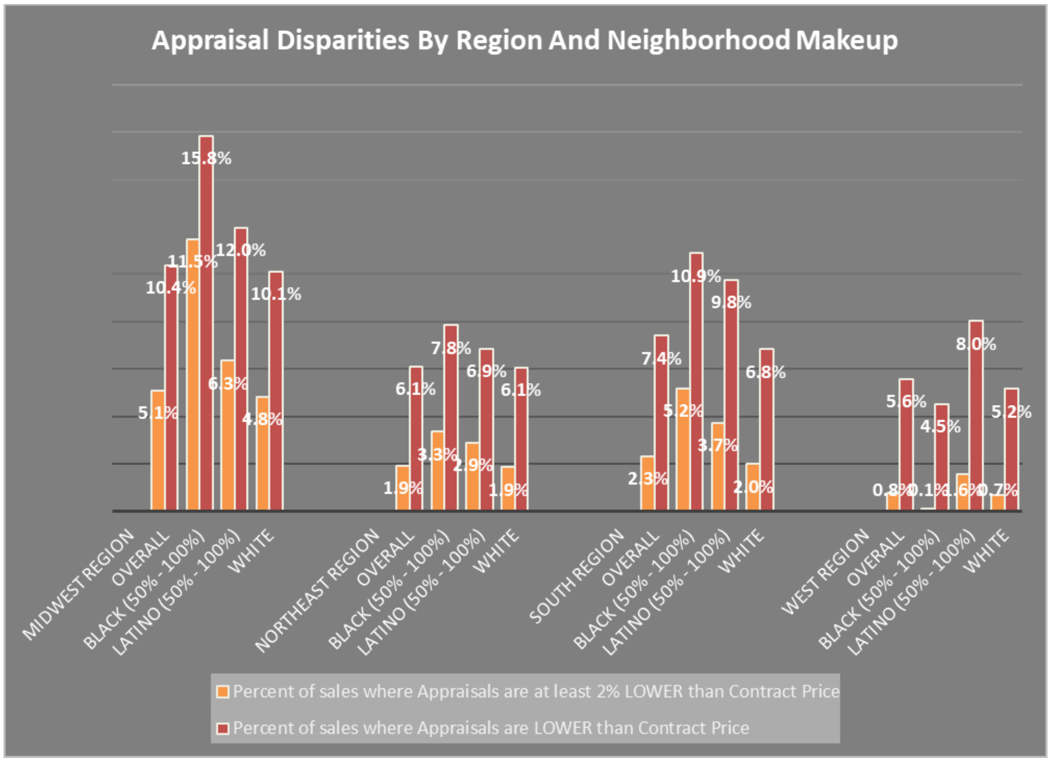
- **Black and Latino buyers were more likely to have purchased a home that was under-appraised than White buyers.** The data indicate the percent of severely under-appraised homes (at least 2% below contract price) being sold to Black buyers is nearly twice as high as it is for White homebuyers. That means that, during the three-year analysis period, thousands of Black homebuyers likely had to pay larger-than-expected down payments, higher interest rates on mortgages, and pay for private mortgage insurance. (*See chart below*).

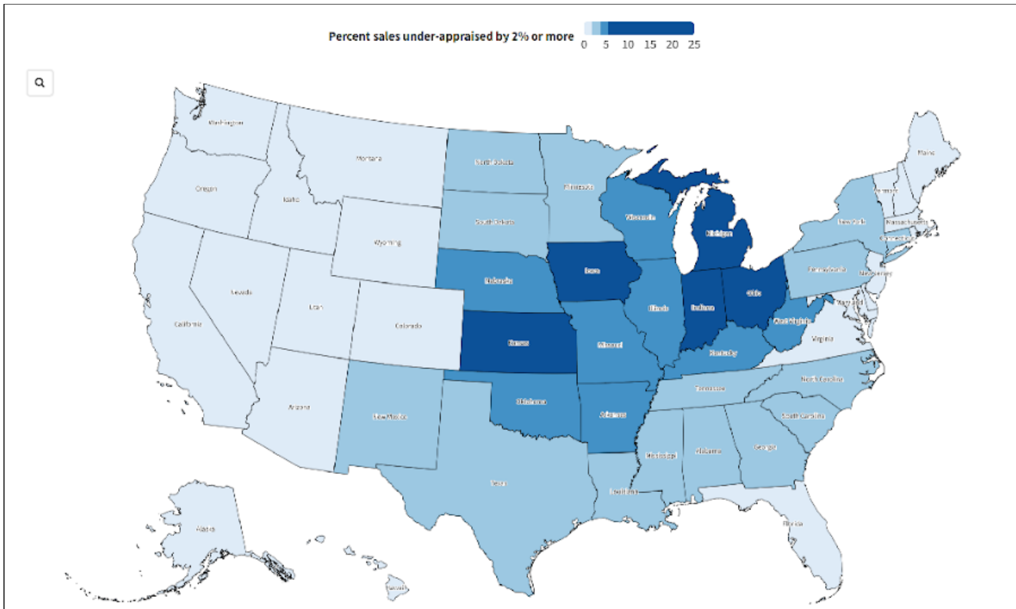


- **Black and Latino buyers were more likely than White buyers to have purchased an under-appraised home, whatever the racial makeup of the neighborhood.** In mostly Black neighborhoods, the percent of 2% or greater under-valued homes sold to Black homebuyers was **1.4x** higher, and to Latino buyers, nearly **1.3x** higher, than the percent purchased by Whites. In mostly Latino neighborhoods, the percent of 2% or greater under-valued home rates was **1.4x** greater for Black buyers and **1.6x** greater for Latino buyers than for Whites. For Black and Latinos buying homes in mostly White neighborhoods, severely under-appraised rates were **1.5x** and **1.2x** greater than for White homebuyers. (*See chart below*).



- **Midwest states have the highest rate of under-appraised and severely under-appraised home sales in the U.S**. In the dozen states that make up the Midwest Region of the nation (IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, and WI) one in every 10 homes was under-appraised, and one in 20 was under-appraised by 2% or higher between 2018 and 2020. In majority-Black Midwest neighborhoods, overall under-appraised home sales are at 16% -- twice the national rate – and severely under-appraised homes are at **5x** the national average. The regional disparity plays out with individual states – the top six states (IA, OH, IN, KS, MI and NE) are all in the Midwest. All have double-digit rates of overall under-appraised sales, and homes with appraisals 2% or greater than the selling price are all at least twice the national rate. Iowa, in particular, has a long history of appraisal complaints – at least 160 have been filed since 2009, and many of them involve under-appraising properties. (*See chart / map below*).

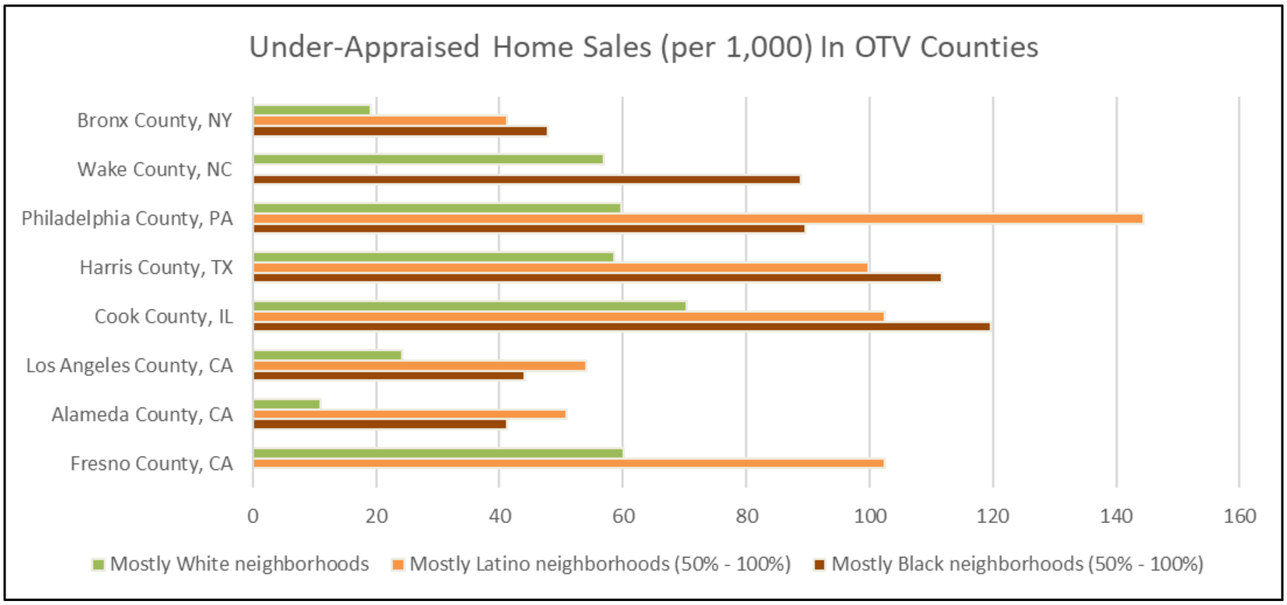




Source: Federal Housing Finance Administration

- **In the primary counties of our OTV stations, there are startling disparities in overall under-appraised home sales in mostly Black or Latino neighborhoods compared to mostly White neighborhoods**. In Fresno, Los Angeles and Alameda counties, CA, and Philadelphia County, PA, the under-appraised rate per 1,000 homes in mostly Latino neighborhoods were highest in our three-year analysis period -- 1.5x to 4x higher than in mostly White neighborhoods. In Cook County, IL; Harris County, TX , Wake County, NC and Bronx County, NY, rates per 1,000 were highest in mostly Black neighborhoods, and 1.5x-2.5x higher than in mostly White neighborhoods. *(See charts below).*

Under-Appraised Home Sales (per 1,000) In Key OTV Counties (2018-2020)						
	Mostly Black neighborhoods (50% - 100%)		Mostly Latino neighborhoods (50% - 100%)		Mostly White neighborhoods	
	Total Sales Originations	Under-Appraised Sales (per 1,000)	Total Sales Originations	Under-Appraised Sales (per 1,000)	Total Sales Originations	Under-Appraised Sales (per 1,000)
Fresno County, CA			5013	**102.5**	7811	60.0
Alameda County, CA	339	41.3	1414	**50.9**	4359	11.0
Los Angeles County, CA	1909	44.0	32396	**54.1**	27560	24.2
Cook County, IL	7799	**119.8**	8593	102.4	72444	70.4
Harris County, TX	2844	**111.8**	11736	99.8	36242	58.7
Philadelphia County, PA	5715	89.6	755	**144.4**	14434	59.7
Wake County, NC	1766	**88.9**			35961	56.8
Bronx County, NY	585	**47.9**	1772	41.2	1303	19.2



--- Mark Nichols