

DISCRIMINATION AND BIAS IN HOME APPRAISALS

Presented by:

Liza Cristol Deman & Julia Howard-Gibbon

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Appraisals are the gateway to homeownership

- To qualify for a mortgage or refinance loan, the borrower must meet a threshold loan-to-value ratio based on the appraised value of the home
- Lenders will contract with an independent appraiser (usually through an AMC) to provide an appraisal
- If the appraiser returns a valuation that is lower than the expected or true value of the property, the undervaluation could result in a denial of the loan or less favorable terms

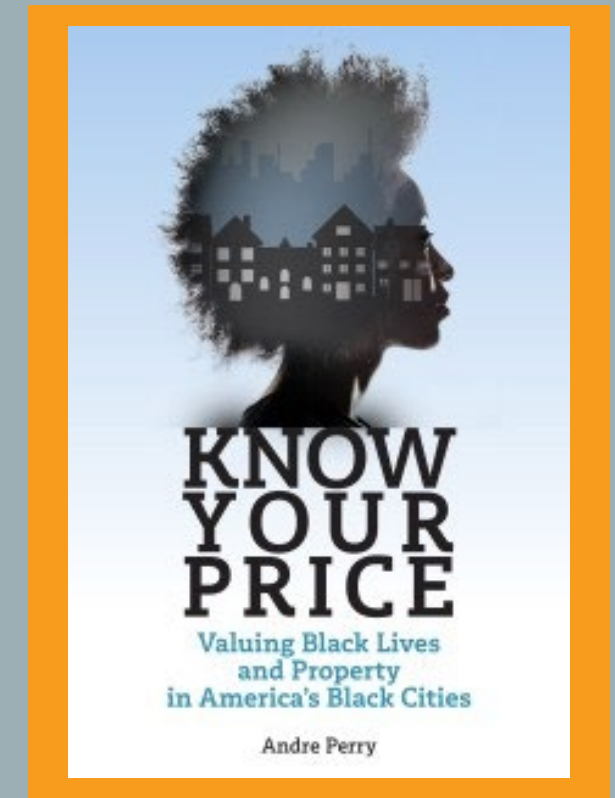
Black-owned homes are undervalued

- Homes in majority Black neighborhoods are valued 23% less than properties in mostly white neighborhoods, even after controlling for home features and neighborhood amenities

Andre Perry

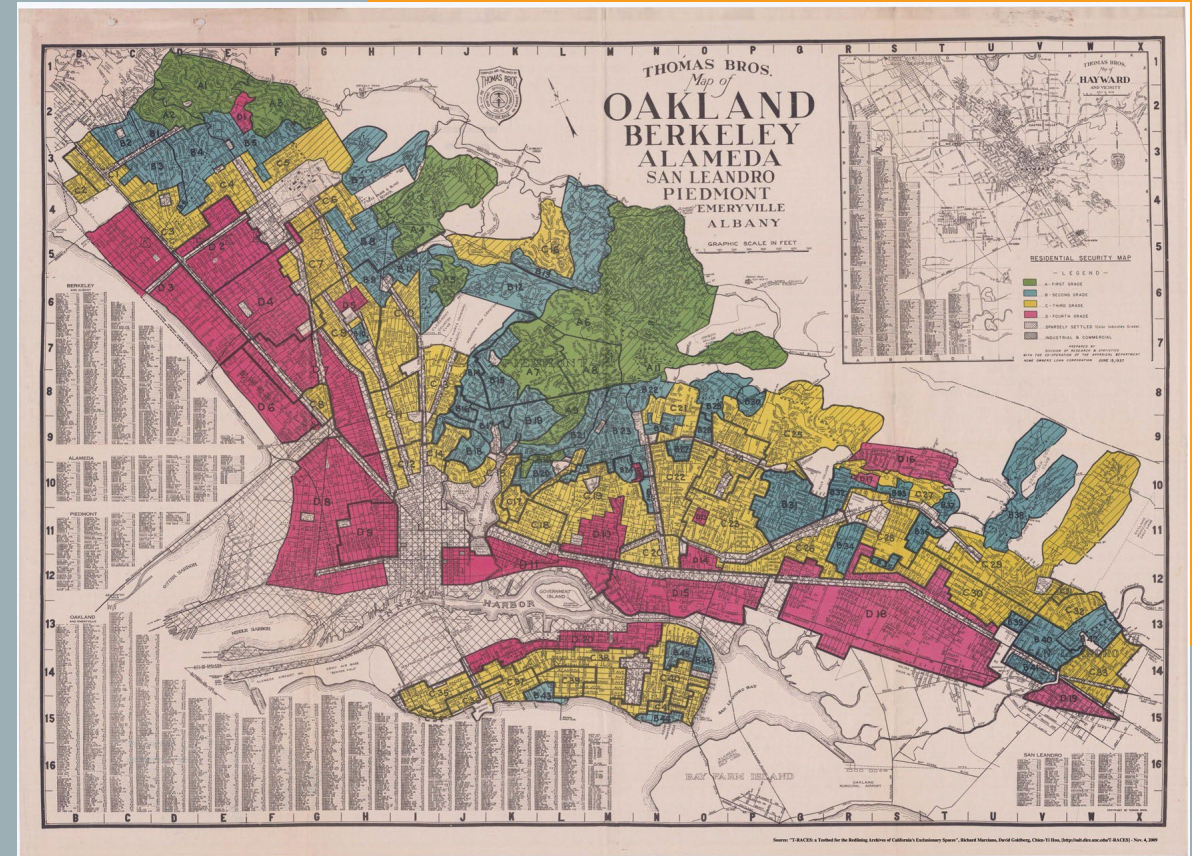
- Neighborhood racial composition was an even stronger determinant of a home's value in 2015 than it was in 1980

Elizabeth Korver-Glenn



How did we get here?

- Discrimination, **Redlining**, and Restrictive Covenants help create segregated neighborhoods
- Appraisers were taught through the 1970s that white, segregated neighborhoods are more valuable
- Values are recycled through appraisal practices – sales comparison approach



Appraisal textbooks prior to 1978

“ the habits, character, the race... of the people are the ultimate factors of real estate value”

- Frederick Babcock
Appraisal of Real Estate (1924)

Property values decline with “the presence of people of dissimilar cultures.”

- George Schmutz
The Appraisal Process (1951)



The Fair Housing Act ended discrimination in 1968, right?

Bans discrimination in residential real estate-related transactions, including appraisals, on the basis of:

- Race
- Religion
- National Origin
- Sex (1976)
- Familial Status (1988)
- Disability (1988)

U.S. v. American Institute of Real Estate Appraisers

- Race discrimination in appraisals did not end with the passage of the Fair Housing Act
- In 1976 the DOJ sued AIREA
 - ❖ DOJ claimed AIREA's textbook instructing appraisers to lower value in integrated neighborhoods violated FHA
 - ❖ Court agreed that racial bias in appraisals
- Settlement resulted in changes to the textbook and ethical standards for appraisers

The damage was already done

- **Low values in communities of color lead to more low appraisals based on similar “comps”**
 - ❖ leading to disinvestment, weak tax base, poor city services/ school inequality
 - ❖ Leading to segregation
 - ❖ Leading to lower generational wealth

Minority homes and neighborhoods are still undervalued

“Appraisers’ opinions of value are more likely to fall below the contract price in Black and Latino census tracts, and the gap increases as the percentage Black and Latino people in the tract increases”



Selection of comps and neighborhood boundaries

- **Freddie Mac study showed that appraisers often choose comparable properties that are located substantially closer to the subject property if it is located in a Black or Latinx census tract than if it is located in a white tract.**
 - ❖ Suggests that when appraising a home in a Black neighborhood, appraisers are reluctant to venture outside the invisible racial boundaries of the neighborhood.
 - ❖ Conversely, when appraising a home in a white neighborhood, which is more likely to be surrounded by other white neighborhoods, appraisers do not feel as constrained by neighborhood boundaries.

Underlying assumptions based on race

Appraisers interviewed “assumed that white buyers were the standard for determining an area’s desirability, with white areas... receiving the highest values...”

Elizabeth Korver-Glenn

Race & ethnicity of homeowner also matters

- Freddie Mac study found "Black and Latino applicants receive lower appraisal values than the contract price more often than White applicants," regardless of neighborhood
- Fannie Mae study found that homes owned by white people are more likely to be overvalued



Austin v. Miller (N.D. California 2021)

- Black couple applied to refinance their renovated home in Marin City
- Historically diverse neighborhood in otherwise white Marin County
- Comps almost all from Marin City despite lack of similarity
- Appraisal report says Marin City has a “distinct marketability”
- White washed appraisal came in \$500,000 higher
- Court denied appraiser’s motion to dismiss



Evidence of Bias – *Austin v. Miller*

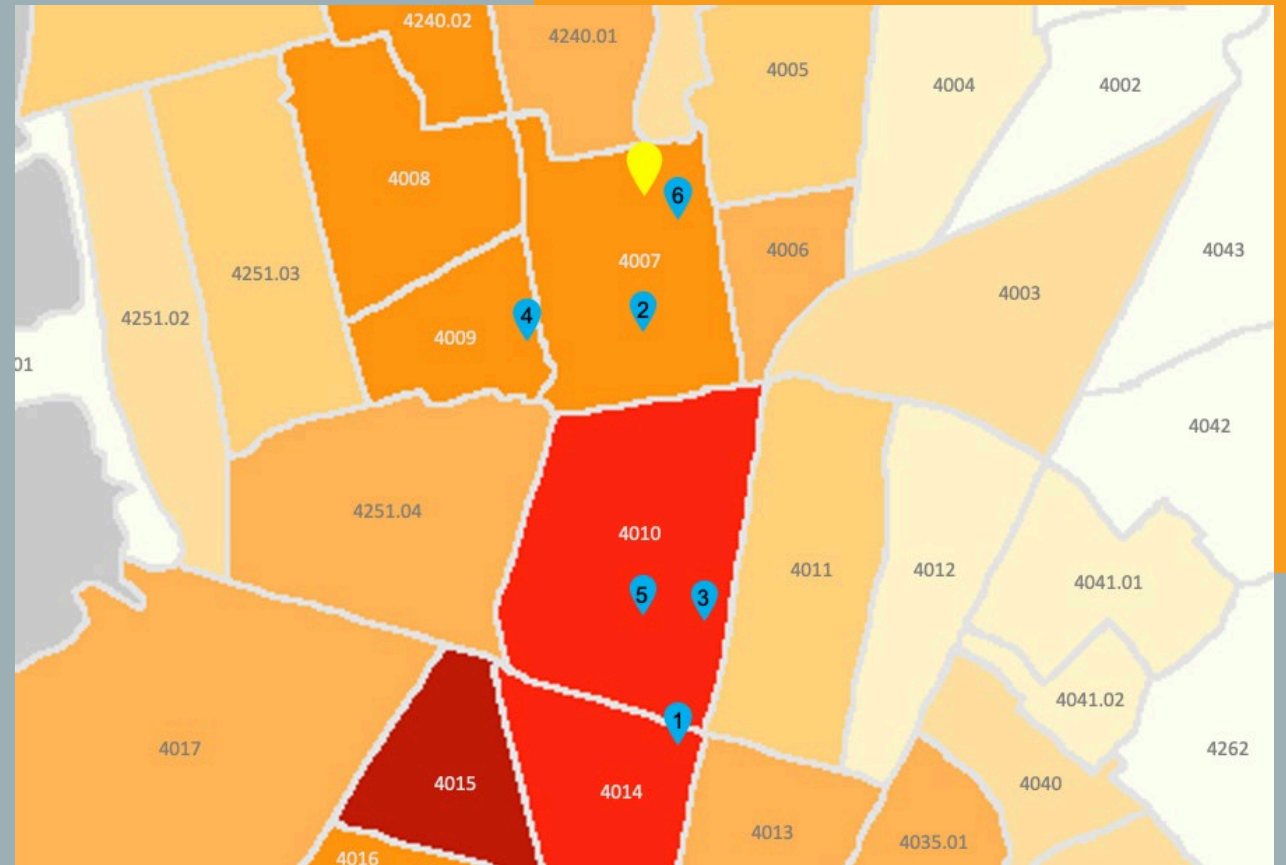
- Court found facts alleged were enough to “make a plausible showing of race as a ‘motivating factor’”:
 - ❖ Appraiser knew the Austins were Black when she conducted her appraisal
 - ❖ 3 of the 6 comps were located in Marin City, 2 of which were not comparable in any way except for their location in Marin City (one was a bank owned property that sold foreclosure two years prior)
 - ❖ Appraiser made “downward adjustments” to the remaining 3 comps, concluding that their house was worth nearly 28% less per sq. foot than the price per sq. foot of the allegedly comparable properties
 - ❖ Appraiser stated that Marin City had a “distinct marketability which differs from the surrounding areas,” which plaintiffs describe as “coded in race”
 - ❖ Appraiser valued the house nearly \$500,000 less than two other appraisers within one year
 - ❖ Appraiser’s methods “deviated from [the] recognized methods and techniques of real estate appraisal”

Circumstantial evidence of bias - examples

- Unreasonably **low appraised value**
- Selection of comps based on **racial demographics of neighborhood**
- **Value adjustment** of comps based solely on location
- **Selection of market area** from which to pull comps
- Mistakes in report or major **deviations from standard practices**
- **Comments** in appraisal report regarding the marketability of a particular neighborhood
- **Treatment of homeowners** during the inspection

Location of comps and racial demographics

- All comps located south of the property where the demographics are similar or more black
- No comps from the north or east, which is more white



Characteristics of neighborhoods



Subject Neighborhood

➤ Demographics:

- ❖ 43% white
- ❖ 23% Black
- ❖ 12% Latinx

➤ Mostly single-families with some small multi-families

➤ Well maintained

➤ Good schools

Comparable sale 2



- Almost 2 miles from subject
- Given the most weight
- Surrounded by large commercial buildings and vacant lot
- Visible illegal dumping and abandoned vehicles
- Demographics:
 - ❖ 47% Black, 35% white
- Adjusted value for size but not for differences in location

Comparable sale 1



- Almost 3 miles from subject
- Neighborhood known for illegal dumping and encampments
- Adjacent to one of the East Bay's largest and major freeways
- Did not increase adjusted value to account for neighborhood
- Few similarities with subject neighborhood apart from racial demographics