

Appraiser News, Market Watch



Mortgage, housing trends outlined by noted author and expert

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Anna DeSimone, author of “Closing the Gap in Homeownership: Rewriting the Rules Against Mortgage Discrimination,” recently shared her expertise on housing and mortgage trends for all 50 states.

Winner of five national book awards and author of 45 nationally published fair lending and compliance handbooks published by the MBA and other trade groups, DeSimone also addressed several challenges appraisers face in this arena.

First, she outlined some of the reason homes could be appraised below their contract prices, particularly in minority neighborhoods.

“Below-contract appraisals can prevail in areas where single-family home inventory is low. To support valuation, an appraiser may need to use comps from outlier areas, where property values might be lower for similar properties,” DeSimone, told *Valuation Review*. “The majority of homebuyers in America are purchasing single-family homes. According to National Association of Realtors’ 2023 Profile of Home Buyers and Sellers, 79 percent of purchases were single-family homes, followed by 7 percent attached single-unit properties.

“Metropolitan areas tend to be diverse in both population and housing characteristics. U.S. Census figures often show a higher percent of rental units, and a broad mix of property types including two-to-four family homes, small rental apartment buildings, and multifamily complexes with more than 50 units. In some metros, the share of single-family detached homes is only 10 percent,” she added.

DeSimone, who has developed fair lending policy and procedures for hundreds of mortgage bankers, was founder and CEO of Bankers Advisory, now Clifton Larson Allen Mortgage Advisory Services, while providing fair lending consulting services at Housing Research, LLC.

“The challenge for appraisers is finding comparable sales while meeting the industry-required parameters for distance to the subject property,” she said. “The most recent data from the Federal Housing Finance Agency (FHFA) Aggregate Statistics Appraisal Gap Dashboard, lists 50 U.S. metros with a minority appraisal gap ranging from 2 percent to 13 percent below contract in 80.1-100 percent minority census tracts. Currently, 80

metros show minority appraisal gaps ranging from about 1 percent to 7 percent in 50.1-80 percent minority tracts. Interestingly, the rate of appreciation in many of those same metro areas have accelerated in recent years. According to the FHFA Housing Price Index, property values increased 13.8 percent in the Miami-Miami Beach-Kendall Florida metro in 2023. That same year, the metro's appraisal gap in majority-minority census tracts (MMCTs) was 7.7 percent."

DeSimone also mentioned a second challenge for appraisers being the ability to find comparable sales while meeting the industry-required parameters for time of sale adjustments.

We then touched on the crucial roles for first-time and first-generation homebuyers. DeSimone said that the most important task for prospective homebuyers is to explore "incentives" vs. "interest rates." Grants, down payment assistance, tax credits, and other incentives are available across the nation, including by lenders who are authorized to originate loans through the state-chartered housing finance agency.

"A crucial role for first-time and first-generation homebuyers will be to learn about the eligibility requirements of affordable housing initiatives," she said. "Lenders will be asking borrowers to sign documents certifying that they have not previously owned a home, or if they are the first member in their family to own a home. They will need to prove their income level and rental payment history meets program guidelines.

"There are many rules associated with innovative programs under consideration, including the \$25,000 down payment assistance grant," DeSimone added. "Homebuyers would be wise to consult with a lender or homebuyer counselor before they begin shopping for a home to check their eligibility and learn what steps they need to take."

As to the importance of every homebuyer having an impartial and trusted advisor, DeSimone told us that meeting with a homebuyer counselor brings much-needed clarity to a complex process, even when customers are dealing with a highly competent realtor or loan officer.

Sometimes, she shared, people feel they are being asked to provide extensive proof about their finances and other documents because of their level of income, the property location, or citizen status. They may sense some form of bias based on their race, ethnicity, gender, or household structure.

"Speaking with an impartial advisor provides validation and assurances regarding the home purchase and mortgage application process," DeSimone said. "It is important for people to hear that underwriting rules are standard and apply uniformly to all borrowers, and this statement is best communicated by someone who is not a party to the real estate transaction."

She then gave us some details behind HUD's comprehensive support in relationship to the counselors for homebuyers and homeowners.

"HUD administers a network of 1,500 Housing Counseling Agencies, serving approximately 1 million clients each year," she told us. "Every counselor is trained and certified by HUD. Counseling agencies provide information, advice, and tools for people who are looking to find a home, need help with financing, maintaining the home, or other services. HUD's robust web portal enables consumers to locate and seek counseling services, and the system's telephonic search capability offers translation services in more than 250 languages.

“Counseling is one-on-one assistance that addresses a homebuyer’s unique circumstances and helps overcome specific obstacles to achieving a housing goal including (but not limited to) repairing credit, saving money for a down payment, and qualifying for down payment assistance,” DeSimone added. “Counselors also help with communicating with landlords, managing bills, credit cards, student loans, and other debt.”

She also said that homebuyers can benefit from a long-term help from a trusted support network and that HUD’s homebuyer counseling centers offer support services to both future homebuyers and existing homeowners. Through their websites, both Fannie Mae and Freddie Mac provide tools to access help through the HUD-approved counseling network.

“Counselors are trained and certified to help homeowners deal with financial stress and unexpected emergencies, such as a flood or other weather-related disaster,” DeSimone said. “They will explain the various options available for pausing loan payments or setting up a mortgage payment plan. Counselors also provide assistance processing insurance claims (or denials) from the Federal Emergency Management Agency (FEMA) and other insurance entities.”

Artificial intelligence (AI) is a very prominent and relevant topic within the appraisal, mortgage, lending and real estate arena.

But does AI fall short regarding the need for human insight in mortgage lending?

DeSimone brought up that according to the U.S. Department of Justice, “Financial institutions are collecting and using large amounts of consumer data to make predictions and decisions in the context of underwriting, pricing, and loan requirements, as well as advertising for all types of loans—including home loans. Purportedly neutral algorithms can end up amplifying or reproducing unlawful biases that have long existed around race, homeownership, and access to credit in the United States.”

She also shared with us that “digital redlining” is a form of modern-day redlining and can result from any type of outreach that excludes minority populations. AI programs based on algorithms that determine the recipients of digital advertisements can result in bias.

“Studies have shown that AI and machine learning models have the potential to perpetuate, amplify, and accelerate historical patterns of discrimination,” DeSimone said. “Because models are trained on historical data that reflect and detect existing discriminatory patterns or biases, their outputs will reflect and perpetuate those same problems. Algorithmic systems were found to have disproportionately negative effects on people and communities of color.”

She then shared some thoughts on biased appraisals, and how the industry can do better in terms of fair housing (ownership) for all. Additionally, she touched on how and why customer perception matters when it comes to hidden bias.

“Consumer perception can improve through change, and call-to-action by federal watchdogs,” DeSimone said. “Over the past decade, the federal government, along with industry trade associations, have taken many steps to protect consumers against appraisal bias. While there have been many reported incidents of discrimination, response from overseers of the appraisal industry has been measurable—and gives people hope.

“AIR (appraiser independence requirements) established standards to safeguard the independence, objectivity, and impartiality of appraisers and other independent parties throughout the valuation process for one to four-unit residential properties,” she added. “The ruling set forth absolute lines of independence between a mortgage lender’s collateral evaluation process and appraisal functions. AIR influenced the use of appraisal management companies.”



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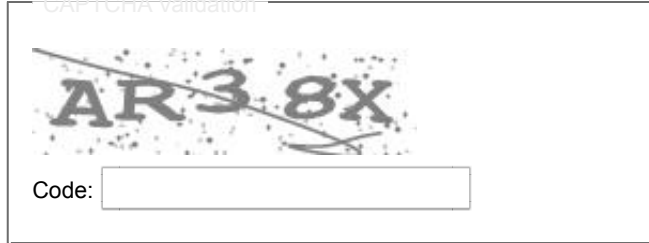
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