

MOTION BY SUPERVISOR HOLLY J. MITCHELL

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Fighting Back Against Racial Bias in Appraisals

Based on federal law, home appraisals should never consider race, ethnicity, national origin, gender, or religion in an assessment of property value. A recent analysis from mortgage Buyer, Freddie Mac, which has been validated by multiple sources, found that properties in Black and Latinx neighborhoods appraise for less than the contract price, more often than in White areas. According to the report, 12.5% of appraisals in Black-majority and 15.4% of appraisals in Latino-majority census tracts were appraised below the contract price of the home, which compared to 7.4% of appraisals in White-majority tracts.

Today, while some historical discriminatory practices have been deemed illegal, such as redlining and blockbusting, the legacies and ramifications of these harmful policies continue to permeate the housing market. Consequently, homeowners of colors have experienced and continue to experience reduced financial benefits from homeownership and have lost out on opportunities to build generational wealth. (Urban Institute, 2020).

The consequences of bias in appraisals contributes to disparities of median equity among people of color. Black homeowners have an estimated half of the median equity of White households, while Hispanic households have 63%. Racial bias in the appraisal

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system effect home value determination and the total amount of mortgage debt, which largely contribute to this disparity. (Urban Institute, 2020).

The Biden Administration's Interagency Taskforce on Property Appraisal and Valuation Equity (PAVE) outlines actions to advance equity in home appraisals, such as increasing oversight and accountability in the appraisal industry. This Action Plan, which was announced in March includes an explanation of how the appraisal process is affected by racial bias:

“An appraisal that is below the contract price in a home sale can sometimes result in a higher required down payment for a home buyer. This unexpected, out-of-pocket increase can often cause a sale to fall through, potentially preventing a prospective buyer from purchasing a home. It can also result in a downward price renegotiation, helping the buyer, but reducing the seller's financial gains, which may in turn hinder that family in purchasing their next home. A low valuation in a refinance transaction can be similarly damaging to a homeowner, reducing the cash out available and in some cases affecting the refinance interest rate and mortgage insurance premiums the homeowner pays, which can result in substantial costs over time.”

The County of Los Angeles (County) is responsible for maintaining records on the value of property within its boundaries and has taken proactive steps to ensure that the Assessor leads the way to establish unbiased policies on assessing property values. However, the County also plays a crucial role in acquiring property, often for construction of a public works project or for temporary use during the construction phase of a project. In fact, the Department of Public Works has completed 50 appraisals of property within the last 5 years. It is our responsibility to ensure that all County departments go above and beyond to ensure our contracted appraiser firms set industry best practices in anti-biased home appraisals.

I THEREFORE MOVE THAT THE BOARD OF SUPERVISORS (BOARD):

1. Direct the Interim County Counsel, in conjunction with County departments using consultant appraisers, to revise the standard appraisal services contracts

- to include the below directives as standard provisions and incorporate such provisions into any amendment for existing appraiser contracts. The Interim County Counsel shall report back to the Board in writing within 90 days once all standard provisions have been revised with a timeline on when existing contracts will be amended and on any issues with such contract amendments. The standard contract language for appraisal contracts should be revised to:
- a. Require that all Los Angeles County (County) consultant appraisers complete the Elimination of Bias Training within 12 months prior to working on any County appraisals, rather than only at the time of license renewal, as required by the State.
 - b. Require that all of the County's consultant appraisers include a section in every appraisal report that requires the appraiser to certify that they have taken every lawful measure possible to eliminate bias in the preparation of the report.
 - c. Require that, for any consultant appraisers that complete more than 10 consultant-prepared appraisals in any calendar year on behalf of the County, the County shall have a different appraiser, selected from an outside organization such as the Appraisal Institute, conduct a peer review of 10 percent of the consultant's County appraisals for that year.
2. Direct the Director of the Department of Economic Opportunity to report back to the Board in writing in 90 days on strategies to strengthen and diversify the appraisal industry in the County, particularly among firms that seek to contract with the County.
 3. Direct the Chief Executive Office, through the Countywide Communication Office and in partnership with the Bureau of Real Estate Appraisals, to share resources with the County's property owners, in multiple languages, on strategies and resources to fight biased appraisals.

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