Collateral-Related Loan Denials Exhibit Wide Geographical Variations

Volume of Sales, Market Distress, Home-Price Growth May Be Causes of Variation

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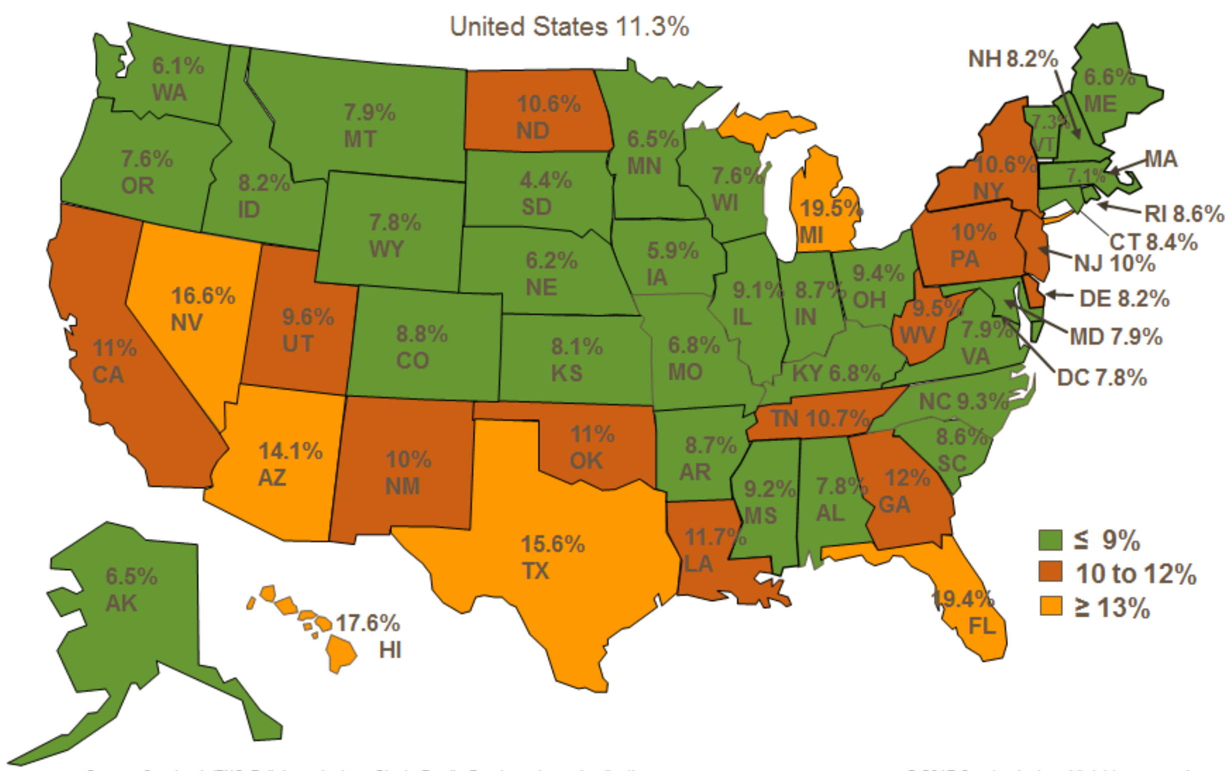
In a November CoreLogic Insights Blog, collateral was noted as the third most-frequently-cited reason for denials (13.7 percent) for nearly 450,000 first-lien purchase mortgage applications on one- to four-family, owner-occupied homes, as reported in the 2015 Home Mortgage Disclosure Act (HMDA) data. Since the 2012 housing recovery, the number of loans denied due to collateral issues has remained relatively unchanged in HMDA data: 13.7 percent in 2012, 14 percent 2013 and 12.9 percent in 2014 – continuing to trail distantly behind credit history and debt-to-income (DTI) for lender-cited reasons of denials.

When viewed geographically, however, the 2015 HMDA data reported wide variations at the state level in collateral-related loan denials, ranging from 7 percent in Delaware and 8 percent in Alabama, to 20 percent in Ohio and Hawaii and 22 percent in Michigan. Although there were no specific details on why collateral was listed as a cause of denial, often it is caused by appraised values that come in below the buyer-and-seller's negotiated price. Nationwide, appraised values below contract sales price make up about 10-13 percent of single-family purchase-loan appraisals, tracking closely with the HMDA data.

Figure 1: Home Appraisals below Sale Contract Price, 2015



Source: CoreLogic/FNC Full Appraisals on Single-Family Purchase Loan Applications.

Likewise, at the state level, the frequency at which appraisals come in below the arms-length price can vary widely from state to state (Figure 1). Nationwide, about 11 percent of purchase-loan home appraisals assessed a lower collateral value than the contract price stated in the loan applications during 2015. In only about a dozen states the share of homes with an appraised value below the contract sales price exceeded the national average. Notably, the frequencies of low-appraised homes in Michigan (20 percent) and Hawaii (18 percent) are in line with the states' respective HMDA data on collateral-related loan denials - likely not a coincidence.

Besides geographic variations, there are a number of noteworthy temporal differences. For most states, on the heels of the 2012 housing recovery the temporal trends generally show a small-to-modest decline in the number of appraisals assessed at below the arms-length market price, but nevertheless stay close to the 7-9 percent range. What stands out the most are Florida, Hawaii, Michigan, Nevada, Texas and Arizona in which, despite rising sales and a strong market recovery, appraised collateral continues to come in relatively frequently at below the arms-length contract price (Figure 2).

Figure 2: Temporal Trends in Home Appraisals Below the Sales Contract Price, 2012-2016

States with Elevated Low-Appraised Collateral, Ranked Based on the 2016 Data

	2016 Jan - Nov	2015	2014	2013	2012
Florida	19.6%	19.4%	19.3%	23.3%	21.9%
Hawaii	19.1%	17.6%	18.0%	15.4%	16.3%
Michigan	19.0%	19.5%	20.5%	25.9%	23.6%
Nevada	15.9%	16.6%	18.3%	23.6%	26.9%
Texas	15.9%	15.6%	14.3%	14.5%	12.3%
Arizona	14.1%	14.1%	12.3%	18.3%	24.7%
National Average	**11.3%**	**11.3%**	**10.5%**	**13.4%**	**12.6%**

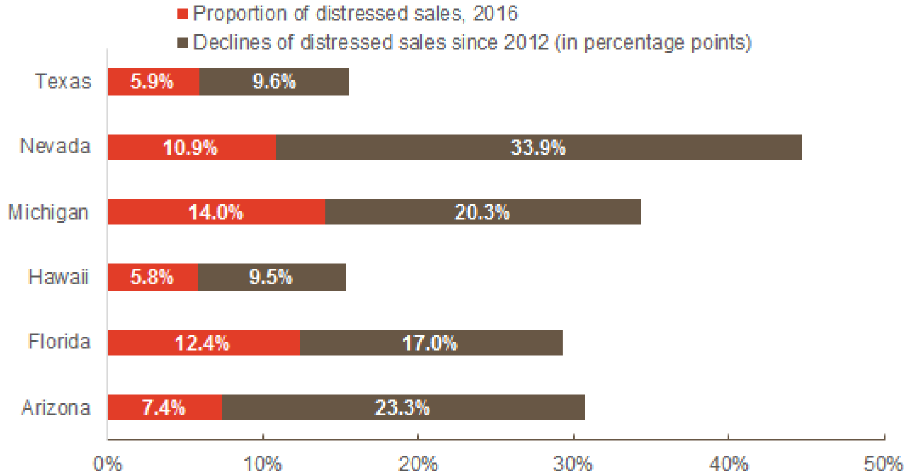
Source: CoreLogic/FNC Full Appraisal on Single-Family Purchase-Loan Applications.

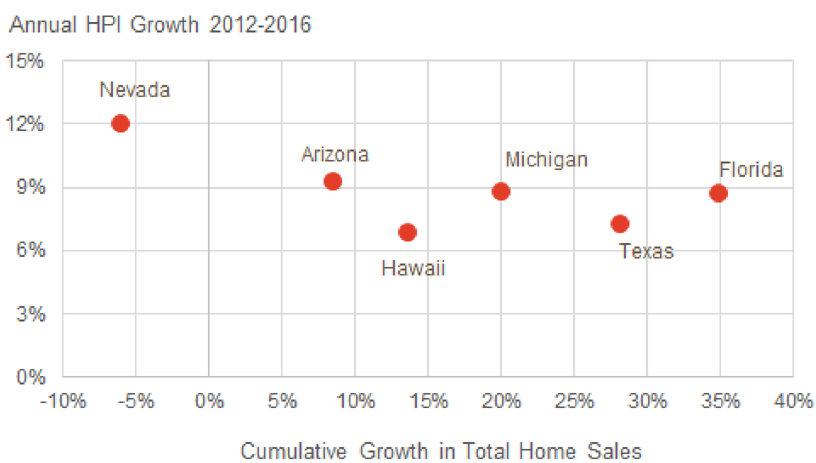
As of November 2016, collateral is appraised at below the arms-length market price for nearly one-in-five single-family purchase-loan applications in Florida and Michigan. Florida's temporal improvement since 2012 – down to 19.6 from 21.9 percent – is rather modest in light of steadily improving market conditions (e.g., rising sales volume, declining REO and short sales, and steady home-price growth: Figure 3). And Michigan's temporal declines are likewise moderate at best. In Nevada and Arizona, on the other hand, the incidences of low-appraised collateral fell significantly during the same period marked, similarly, by a strong housing recovery. The upticks in Hawaii and Texas, however, are despite significant declines in the volume of REO and short sales, rising housing activity and solid home-price growth.

In view of its underlying sales comparison approach, the quality and accuracy of home appraisal can only be as good as the availability and quality of the comparable transactions used for the appraisal development. Through the impact on the pool of comparable properties, many factors - such as a local market's sales activity, market distress, whether the appraisal is an REO or short sale property, or whether it is a higher- or lower-priced property – are found to influence the appraisal accuracy.[1] Of course, let's not forget that the experience of the appraiser is just as important, if not more, since even with an abundance of comparable sales to select from, the appraisal can only be as good as the accuracy of comparative adjustments made subjectively by the appraisers.

[1] See, for example, a research note by the author, *"FNC Study: How Local Market Conditions Affect Appraisal Valuations,"* June 2012.

Figure 3: Declining Distressed Sales, Rising Home Prices and Rising Home Sales





Source: CoreLogic. Annual HPI growth is compounded monthly; Cumulative growth in total home sales is between 2011 and 2015 with full-year data.