Federal Housing Finance Agency
Office of the Director

400 7th Street SW, 10th Floor
Washington, D.C.
20219

October 25, 2021

Re: Enterprise Equitable Housing Finance Plans Request for Input

Dear Director Thompson,

On September 7, the Federal Housing Finance Agency (FHFA) released a Request for Input (RFI) on ways that Fannie Mae and Freddie Mac ("the Enterprises") can sustainably advance equitable housing finance as part of a new Equitable Housing Finance Plan (EHFP) requirement. This letter serves as our response to that RFI.

We applaud the FHFA for asking these questions, and for asking them at this moment. More than fifty years after the 1968 passage of the Fair Housing Act, the gap in homeownership rates between white and Black Americans is not only higher than it was when housing discrimination was made illegal, but also the highest it has been since 1890.[1,2] Today, 72% of white households own their home, as compared to 42% of Black households, 48% of Hispanic households, 51% of American Indian and Alaska Native households, and 58% of Asian American and Pacific Islander households.[3]

Despite these alarming disparities, in 2020 only 4.8% of the Enterprises' purchase money loans were to Black borrowers, as compared to 7.5% of all purchase loans, and 16.3% of all Federal Housing Administration (FHA) loans that year. Likewise, 7.6% of the Enterprises' funded purchase loans were to Hispanic borrowers, as compared to 14% of all loans and 26.5% of all FHA loans. The share of Enterprise loans to white borrowers for purchase mortgages in 2020 (76.1%) is higher than the white share for FHA, Private-Label Securities (PLS) and the Department of Veterans' Affairs (VA), and on par with loans originated for portfolio, and slightly below "other." Refinances matter too. From January 2020 through October 2020, Black and Hispanic borrowers were significantly less likely to refinance[4] than White borrowers, missing out on potential savings of an estimated $1,200 a year by refinancing.[5, 6] The

[1] Lisa Rice, "Using SPCP Programs to Expand Equity," *National Fair Housing Alliance*, November 4, 2020, https://nationalfairhousing.org/using-spcps-blog/
[2] Adam Levitin, "How to Start Closing the Racial Wealth Gap," *The American Prospect*, June 17, 2020, https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/
[3] United States Census Bureau, "Demographic Characteristics for Occupied Housing Units," https://data.census.gov/cedsci/table?q=Tenure&tid=ACSST1Y2019.S2502
[4] Kristopher Gerardi, Paul Willen, and David Hao Zhang, Mortgage Prepayment, Race and Monetary Policy. 2020. https://www.bostonfed.org/publications/research-department-working-paper/2020/mortgage-prepayment-race-and-monetary-policy.aspx
[5] "Almost 50% of Black and Hispanic Borrower Could Save $1,200 Annually by Refinancing", *Freddie Mac*, May 12, 2021, http://www.freddiemac.com/research/insight/20210512_black_hispanic_borrowers_save_refinancing.page
[6] Jeff Ostrowski, "Black borrowers missed out on mortgage refinancing boom, Fed study finds", June 23, 2021, https://www.bankrate.com/mortgages/black-borrowers-missed-out-on-refinancing-boom/

challenges are even starker for all loans (including refinances) where only 3.8% of all loans funded by the Enterprises went to Black borrowers vs 5.9% of all loans, and the Enterprises represent 60.8% of all the loans made.

Nor is the racial homeownership gap (and, by extension, the racial wealth gap) limited to individual households. There are also massive discrepancies based on geography. The neighborhoods redlined by the Home Owner's Loan Corporation (HOLC) and intentionally starved of capital on the basis of race by the FHA nearly ninety years ago remain today places of disadvantage and disinvestment, communities characterized by low incomes, high numbers of residents of color, and an enduring shortage of economic opportunity.[7][8] Seventy-four percent of neighborhoods graded as high-risk or "hazardous" by the HOLC are low-to-moderate income communities today, and nearly 64% are majority people of color. As researchers at the National Community Reinvestment Coalition explain, "Redlining buttressed the segregated structure of American cities."[9]

As a centerpiece of the housing finance ecosystem, the Enterprises have a moral imperative to right these historic wrongs. They also have an economic one. The majority of future homebuyers will be people of color: According to Urban Institute research, net new homeowners from 2020 to 2040 will be all nonwhite and mostly Hispanic. Of the 6.9 million projected new homeowner households during this period, 70 percent will be Hispanic, 38 percent will be Asian, and 17 percent will be Black.[10] The Enterprises face a business imperative to adapt to better serve the homebuyers of the future. Doing so will ensure the Enterprises' relevancy in the housing market and strengthen the larger economy. Analysts at Citi Global Solutions estimate that had we equalized access to housing credit 20 years ago, there might be 770,000 more Black homeowners today, and up to $218 billion in additional economic activity.[11]

As the FHFA contemplates how best to extend the benefits of homeownership to people and communities of color, it is important not to think of the EHFP as just another, albeit important, planning requirement sitting alongside the Enterprises' affordable housing and underserved markets planning obligations. A more fruitful way of conceptualizing EHFP is as an overlay that blankets all aspects of Enterprise policies, processes, and practices, with the twin goals of rooting out vestiges of race-related inequity, like appraisal bias, while taking bold, but prudent, steps to close the racial and ethnic homeownership gaps.

To be clear, we are not suggesting that an "equity overlay" would either replace or supersede the current and important commitment to "safety and soundness." Rather, we envision a business model that strives for equity, and builds safety and soundness considerations into that aim, in which any activity that is not explicitly equity-oriented is evaluated for its potential impact on equity. In this way, equity would take its rightful place among the primary business objectives of the Enterprises. Similarly, FHFA's oversight responsibilities and decisions would first be scrutinized through the lens of equity. For example, when considering whether to pursue new products or revise loss mitigation strategies, the first questions –

[7] "New Evidence on Redlining by Federal Housing Programs in the 1930s," *National Bureau of Economic Research*, September 2021, https://www.nber.org/papers/w29244
[8] Tracy Jan, "Redlining was banned 50 years ago. It's still hurting minorities today," *Washington Post*, March 28, 2018, https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today/
[9] Bruce Mitchell, "HOLC 'Redlining' Maps: The Persistent Structure of Segregation and Economic Inequality," *National Community Reinvestment Coalition*, March 20, 2018, https://ncrc.org/holc/
[10] Laurie Goodman and Jun Zhu, "The Future of Headship and Homeownership," *Urban Institute*, January 2021, https://www.urban.org/sites/default/files/publication/103501/the-future-of-headship-and-homeownership_0.pdf
[11] CITI, "Helping Advance Racial Equity in the Financial Services Industry," April 2021 https://www.citigroup.com/citi/racial-equity/data/minority-depository-institutions-brochure.pdf

gating questions that would dictate next steps – would be: Does this action advance equity in the housing market? If so, how? If not, would it actively fuel inequality? Would there be a way to pursue the needed action such that it either promotes equity, or at least does not impede it? It is in the context of the answers to those sorts of questions the FHFA and the Enterprises would then consider the other critical dimensions of any proposed action, including regulatory limitations, implications related to risk, finances and operations, and institutional priorities.

In the following pages, we recommend three essential steps to successfully implement this overlay and help to transition the FHFA and the Enterprises toward meaningfully addressing historic wrongs and unlocking the economic value of a more equitable housing finance system.

Recommendation #1: Establish a clear vision and goal for "equitable housing finance" focused on a small number of measurable outcomes.

The first step in adopting an "equity overlay" is to clearly define "equitable housing finance." A clear and relevant definition of equity allows for tangible analysis of the equity impact of any activity, and can serve as a north star to guide the Enterprises—and the entire housing finance ecosystem—toward meaningful change. Specifically, the RFI requires the following outcomes as the goal of an equitable housing finance system:

- Reducing the racial or ethnic homeownership gap; and
- Reducing underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or otherwise underserved or undervalued.

We support these two outcomes and also suggest adding a third to assure that a commitment to equity encompasses the range of Enterprise operations. To that end, we recommend adding that equity includes: "Improving the supply of, and equitable access to, quality affordable rental housing for underserved households and areas."

Taken together, these three outcomes cover the bulk of the Enterprises' activity areas, which is the reason they can so effectively scaffold the equity plans. We note that the RFI also lists several further objectives and activities that "could be undertaken," and these represent sub-goals or actions in service to those three outcomes.

These three outcomes are an effective way to define equity, not only because they align nicely with the Enterprises' core activities and objectives, but also because they are concrete. Specifically,

1) *The outcomes are focused.* By targeting a few key outcomes, the FHFA and the Enterprises can drive meaningful change and accountability.
2) *The outcomes are measurable*. With transparent tracking and evaluation, the FHFA can effectively measure progress towards meeting specific EHFP goals and objectives.
3) *The outcomes directly address legacies of race- and place-based housing discrimination.* By repairing the damage of housing discrimination on both individual households and entire communities, the FHFA and the Enterprises can begin to dismantle the most egregious, powerful and systemic barriers to homeownership, as opposed to simply making change at the margins of the housing finance system.
4) *The outcomes align with the Enterprises' role in the housing finance system, with their statutory purposes, and with their business and policy motivations.* Recent studies show that closing racial wealth gaps and integrating communities would increase the nation's GDP by 0.3 to 0.35 percentage points per year, adding an additional $5 trillion of growth over the next 5

years.[12] Measurably improving equity in housing market outcomes is a natural channel for the Enterprises to support the stability of the macroeconomy while fulfilling their duties to support underserved populations.

Recommendation #2: Operationalize the definition of "equitable housing finance."

With clear and quantifiable objectives as the guide, a range of business and regulatory activities can be evaluated and held accountable to those objectives. In this way, conceiving of the EHFP as an overlay that affects how the Enterprises think about and execute all their business activities is far more powerful than envisioning this new tool as just another planning regime joining the housing goals and duty to serve regimes.

In fact, already the FHFA appears to have brought more of an equity overlay to the housing goals, whose latest planning cycle fortuitously overlaps with the 3-year EHFP period. We commend the FHFA for modifying the low-income areas sub-goals to address equity concerns regarding minority neighborhoods. However, the FHFA could challenge the Enterprises to go further in serving greater numbers of people of color under their single-family home purchase goal (recently raised from 24% to 28%), the goal for very-low-income families (increased from 6% to 7%), and the refinance goal for low-income families (increased from 21% to 26%). Given the lagging racial disparities in the Enterprises' mortgage purchase and refinancing activities described earlier, casting a broad equity lens across activities suggests that the Enterprises should report their affordable mortgage purchase and refinance activities by race and ethnicity. Alternatively, FHFA should consider creating sub-goals for people of color within the overall purchase and refinance goals.

This is just one of the many business and regulatory activities that could be adjusted by the FHFA and the Enterprises to implement an "equity overlay." Below are a few more strategies we think would be especially fruitful. That said, please note that this is in no way a comprehensive list. However, the list does illustrate the myriad of ways that an "equity overlay" would influence not only business but also operational and regulatory activities.

***(a) Review and rethink underwriting standards*.** A pivotal factor in attaining homeownership, and an area in which the Enterprises are especially influential, is the standards for who gets a mortgage. Today, the Enterprises' underwriting box is narrow, a relic of the Great Recession that is likely exacerbated by lender overlays and Enterprise loan-level risk based pricing, impeding homeownership for many who might have been approved under a more "normal," risk-tolerant set of underwriting guidelines. As researchers from the Urban Institute's Housing Finance Policy Center point out in the most recent report on the housing credit availability index, "Significant space remains to safely expand the credit box. If the current default risk was doubled across all channels, risk would still be well within the pre-crisis standard of 12.5 percent from 2001 to 2003 for the whole mortgage market."[13]

The introduction of the EHFP requirement creates the opportunity to make significantly more progress towards an equitable housing finance system by recognizing that although the Enterprises' conforming mortgage standards may seem to be race neutral, they aren't. Despite increased reliance on automated

[12] See Moody's Analytics, "The Macroeconomic Benefits of Racial Integration" at https://www.moodysanalytics.com/-/media/article/2021/macro-consequences-of-racial-integration.pdf and Citi, "Closing the Racial Wealth Gaps," by Dana M. Peterson and Catherine L. Mann, 2020, at https://ir.citi.com/NvIUklHPilz14Hwd3oxqZBLMn1_XPqo5FrxsZD0x6hhil84ZxaxEuJUWmak51UHvYk75VKeHCMI%3D.

[13] Urban Institute, Housing Credit Availability Index, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index

and algorithmic underwriting, the three basic "C's" of mortgage lending – credit, collateral and capacity – still drive underwriting decisions today. While these criteria don't explicitly include race, relying on them nevertheless perpetuates racial inequities.[14] Thanks to a long history of discrimination, the typical white household holds more wealth, has higher credit scores, higher income and debt-to-income ratios, and lower loan-to-values than is the case for Black, Hispanic and American Indian households.

Recent moves by the Enterprises to begin to consider rental payment history as part of the loan decision process are a good first step. But the Enterprises can go much farther. All current underwriting determinants should be scrutinized through an equity lens to identify opportunities for safely expanding equitable access to mortgage credit, and the mostly untapped, deep pool of rich data on Enterprise mortgage denials, which also reflect racial disparities, need to be mined for equity-improving insights.

(b) Facilitate Special Purpose Credit Programs (SPCPs). SPCPs could advance mortgage equity, [15] and the Enterprises can pave the way for lenders to offer them. The Consumer Financial Protection Bureau's (CFPB) 2020 Advisory Opinion clarifies the conditions under which for-profit lenders can create ECOA-compliant SPCPs. These SPCPs could, for example, provide lower down payment loans for loan applicants of color, or reduced rates for applicants in majority-minority neighborhoods.[16,17] FHFA and the Enterprises could convene regulators, seller/servicers and a host of other stakeholders for the purpose of translating the Bureau's guidance into SPCP design template(s) for loan products that would be eligible for purchase by the Enterprises.

(c) Utilize the Enterprises' Retained Portfolios and allow them to pilot programs for equity purposes. Many loans that the Enterprises could fund in carrying out their EHFPs are likely to be nonconforming and ineligible for sale in the Too Be Announced (TBA) market. It makes sense to hold these loans on the Enterprises' balance sheets, especially as they are being pilot tested. There is sufficient room under the current Preferred Stock Purchase Agreements (PSPAs) cap on each Enterprises' retained mortgage portfolios ($250 billion) to accommodate several billion dollars of nonconforming equitable finance loans (as of Nov. 2020, Fannie Mae's mortgage portfolio was $163 billion, and Freddie Mac's was $193 billion).[18] However, as the Enterprises launch their respective EHFPs, FHFA and the Treasury Department might want to modify the terms of the PSPAs to specifically allow equity-related mortgages purchased by the Enterprises, including from SPCPs, to be retained on their balance sheets. Prohibitions on piloting and portfolio holdings should be lifted for equity-enhancing programs. We recommend that such exemptions be conditioned on numeric goals, reporting and accountability against those goals, strong regulatory oversight, and public visibility.

(d) Revisit Loan-Level Price Adjustments (LLPAs). For many in the housing finance system, there is a question of whether the Enterprises' risk-based pricing policies, including LLPAs, place a greater burden on low- and

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[14] Liam Reynolds, Vanessa Perry, Jung Hyun Choi, "Closing the Homeownership Gap Will Require Rooting Systemic Racism Out of Mortgage Underwriting," *Urban Institute*, October 13, 2021, https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting
[15] Lisa Rice, "Using Special Purpose Credit Programs to Expand Equity," *National Fair Housing Alliance,* November 4, 2020, https://nationalfairhousing.org/using-spcps-blog/
[16] Anand S. Raman, Darren M. Welch," Special Purpose Credit Programs—Taking a Second Look at a Familiar Tool," *Skadden*, July 29, 2020. https://www.skadden.com/en/insights/publications/2020/07/special-purpose-credit-programs
[17] Consumer Financial Protection Bureau, "Advisory Opinion on Special Purpose Credit Programs," https://www.consumerfinance.gov/rules-policy/final-rules/advisory-opinion-on-special-purpose-credit-programs/
[18] U.S. Department of the Treasury, "Treasury Department and FHFA Amend Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac," January 14, 2021, https://home.treasury.gov/news/press-releases/sm1236

moderate-income borrowers, who are disproportionately people of color, since LLPAs are higher for borrowers with lower credit scores and for low-down-payment loans (where mortgage insurance already adds costs).[19][20] Along those same lines, there is also a concern that these additional fees could price Fannie Mae or Freddie Mac out of the money for qualified minority low- and moderate-income applicants who have a low enough loan amount to find a better execution from FHA. (That said, some might argue that if the qualified applicant obtains a loan at a cheaper price, equity is still served). In any case, an even greater concern arises if high LLPAs price underserved minority applicants who are approved for an Enterprise loan out of the market entirely, leaving such applicants unable to buy a home. Each of these is a major concern with regards to equity and must be examined. Determining the size of this pool of applicants requires more data on applications across the Enterprises and FHA, the LLPAs paid by different borrower segments, and data on the disposition of those applications.

As noted, we do not intend this as a complete list but an illustrative one. The full range of activities, both new and existing, should be evaluated against the equity objectives, encompassing outreach, content, product and program design, loss mitigation and servicing provisions, property disposition, rental housing investments, and housing supply and climate[21] considerations, just to name a few.

Recommendation #3: Align reporting, systems and structures around the equity objectives.

As is the case with any goal, it is imperative that FHFA establish an effective system for measuring, evaluating and publicly reporting progress towards the goals of reducing the racial homeownership gap and increasing investment in underserved and segregated communities. This shouldn't be a marginal activity, and the early phases of the equity plans should describe how the Enterprises will invest in building a sustained measurement and reporting system, much as they would for financial reporting.

The initial plans should include, but go well beyond, a list of immediate actions. We recommend that the Enterprises and FHFA plan to design and implement a framework and system to support and sustain the equity ethic across the Enterprises' operations, and over time and evolving conditions. This will require an upfront investment in systems, structures and policies. It could also provide for such elements as an equity audit of current practices and policies. Such an audit could be conducted not only within the Enterprises' own activities, but ultimately by mapping out how those activities affect and are affected by the wider ecosystem, and how inequity is embedded throughout it.

(a) Align EHFPs to Affirmatively Further Fair Housing. Under the Fair Housing Act, all federal agencies having authority over financial institutions are required to administer their programs and activities relating to housing and urban development in a manner that "affirmatively furthers fair housing" (AFFH).[22] Though HUD has taken a leading role, FHFA also plays an essential – if largely untapped – role, both in achieving

[19] Rachel Breer, Felicia Ionescu, Geng Li, "Are Income and Credit Scores Highly Correlated," *Federal Reserve,* August 13, 2018, https://www.federalreserve.gov/econres/notes/feds-notes/are-income-and-credit-scores-highly-correlated-20180813.htm
[20] Adam J. Levitin, "How to Start Closing the Racial Wealth Gap, *The American Prospect*, June 17, 2020, https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/
[21] Janneke Ratcliffe, Carlos Martin, Ellen Seidman, "Three Ways the Housing Finance System can Protect All Homeowners from the Escalating Effects of Climate Change," *Urban Institute*, https://www.urban.org/urban-wire/three-ways-housing-finance-system-can-protect-all-homeowners-escalating-effects-climate-change
[22] 11 42 U.S.C. 3608(d); 42 U.S.C. 3601 et seq.

the Act's broad aspiration to eradicate discrimination from housing and lending markets and in ensuring that the GSEs comply with the AFFH requirement specifically. [23]

AFFH means "taking meaningful actions…that overcome patterns of segregation and foster inclusive communities free from barriers that restrict access to opportunity based on protected characteristics."[24] Given the relationship between AFFH and the EHF plans, it is key that certain AFFH terms be consistently applied to EHFP guidance. For example, both HUD's Interim Final AFFH Rule and FHFA's EHFP guidance require covered units of government and the Enterprises to "take meaningful actions" to address racial disparities.[25] The AFFH rule defines meaningful actions to be "actions that are designed and can be reasonably expected to achieve a material positive change that affirmatively furthers fair housing by, for example, increasing fair housing choice or decreasing disparities in access to opportunity." HUD also provides state and local governments a variety of valuable granular data and analytical tools to help them prepare their AFFH plans.[26] These data and tools can be valuable resources to the Enterprises in preparing their EHFPs, and to external stakeholders seeking to hold them accountable for meeting their equitable housing obligations. Moreover, FHFA should work with HUD, Treasury, USDA and VA and other agencies that administer housing programs and share responsibility for complying with the Fair Housing Act to align definitions of AFFH and develop a coordinated approach to implementation and enforcement. [27]

(b) Apply Learnings from Affordable Housing and Duty to Serve. Lessons learned from affordable housing goals and duty to serve strategies can benefit the EHF strategic planning regime. In the case of the affordable housing goals regime, baselines and progress in meeting benchmarks established by FHFA are straightforward because they are defined as percentages of Enterprise mortgage purchases, data which are available in real time. This is not always the case with respect to measuring progress in meeting underserved market plan targets because in some instances, the Enterprises' historical inactivity in specified underserved markets has meant that there are no credible baseline benchmarks against which to measure progress. In these cases, both Fannie Mae and Freddie Mac developed transparent processes for establishing credible baseline proxies. Much like with Duty to Serve, FHFA should require each Enterprise to identify the activities it will pursue to advance equitable housing finance and the objectives for

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[23] Margery Austin Turner, Xavier de Souza Briggs, Ashleigh Gardere and Solomon Greene, *Federal Tools to Create Places of Opportunity for All* (Urban Institute, October 2020) available at https://www.urban.org/research/publication/federal-tools-create-places-opportunity-all; Memorandum on Redressing Our Nation's and the Federal Government's History of Discriminatory Housing Practices and Policies (White House, January 2021), available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/26/memorandum-on-redressing-our-nations-and-the-federal-governments-history-of-discriminatory-housing-practices-and-policies/; Solomon Greene, Martha M. Galvez, Kriti Ramakrishnan and Madeline Brown, *HUD Ignores Evidence on Discrimination, Segregation and Concentrated Poverty in Fair Housing Proposal: Public Comment on the Proposed Rule Change on Affirmatively Furthering Fair Housing* (Urban Institute, March 2020), available at https://www.urban.org/research/publication/hud-ignores-evidence-discrimination-segregation-and-concentrated-poverty-fair-housing-proposal.

[24] Code of Federal Regulations, "Affirmatively Further Fair Housing," https://www.ecfr.gov/current/title-24/subtitle-A/part-5/subpart-A/subject-group-ECFRb064b8192adda7c/section-5.151

[25] Code of Federal Regulations, "Affirmatively Further Fair Housing," https://www.ecfr.gov/current/title-24/subtitle-A/part-5/subpart-A/subject-group-ECFRb064b8192adda7c/section-5.151

[26] Department of Housing and Urban Development, "Data and Mapping Resources," https://www.hud.gov/sites/documents/DEFOPPPANELDATAMAPRESO.PDF

[27] FHFA recently entered into a memorandum of understanding with HUD regarding Fair Housing and Fair Lending Coordination, https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/FHFA-HUD-MOU_8122021.pdf which could be expanded to explicitly include AFFH and extended to include other federal agencies that administer housing programs and share responsibility for enforcement of the Fair Housing Act.

advancing each activity which should be strategic, measurable, and time-bound.[28] FHFA's Duty to Serve evaluation regime requires the Enterprises to align each underserved market objective to one of four statutory evaluation factors: outreach, loan product development, investments and grants, and loan purchases.[29] These are also a useful construct for creating an evaluation regime for the EFHP process.

The statute allows the Enterprises to make equity investments in "projects" as part of their Duty to Serve activities, and this provision should be leveraged and extended to stimulate capital investments and funding for organizations at the enterprise level (not just the property level). These organizations, such as community development financial institutions (CDFIs) and large non-profit housing developers, are best positioned to serve previously redlined, disinvested areas and boost the supply of affordable rental housing. In this way, we agree with one outside evaluation[30] of the inaugural Duty to Serve planning cycle that relatively small equity investments by the Enterprises can have an outsized impact on toward the equity objectives.

(c) Use the power of Enterprise data to improve transparency and equity industrywide. We support FHFA's interest in the Enterprises producing timely and publicly available research and data on advancing equity and sustainable housing opportunities. FHFA and the Enterprises have implemented an array of measurement and reporting mechanisms to inform their business activities, stakeholders, and the public, and equity reporting mechanisms should receive similar investment and visibility.

For example, recently the Enterprises developed extensive monthly loan-level disclosures to provide transparency to investors in the credit risk transfer (CRT) market.[31] In a similar manner, FHFA could provide more transparency around LLPAs by releasing more data on whether LLPAs contribute to racial disparities in mortgage purchases by the Enterprises. Additionally, the FHFA can build upon the generation of Duty to Serve public data, tools, and mapping applications to illuminate gaps in equity, progress in closing those gaps, and the extent of Enterprise activities and progress over time.[32] Further, the FHFA and the Enterprises can invest in developing new data collection tools, as they have done before with the National Mortgage Database and the appraisal data collection portal.[33]

These are just a few examples of the power of the Enterprises and FHFA to collect information and inform the many stakeholders in the housing finance system. The more public transparency is enabled, the more that power can be put to good. To that end, FHFA should consider encouraging the Enterprises to develop an equity finance-focused public use database that would enable the research and advocacy community to identify and mobilize around equity-related issues much more rapidly than is possible today. To understand the value of such a database, consider Freddie Mac's recent sophisticated analysis using its

[28] Code of Federal Regulations, "Affirmatively Further Fair Housing," https://www.ecfr.gov/current/title-24/subtitle-A/part-5/subpart-A/subject-group-ECFRb064b8192adda7c/section-5.151
[29] U.S. Code, (12 C.F.R. § 1282.36), https://www.law.cornell.edu/cfr/text/12/1282.36
[30] Jim Gray and George W. McCarthy, "Duty to Serve: The Purpose of Fannie Mae and Freddie Mac and Early Lessons Learned in Underserved Housing Markets," *Lincoln Land Institute*, April 2021, https://www.lincolninst.edu/publications/working-papers/duty-to-serve
[31] Fannie Mae, "Fannie Mae to Enhance its Single-Family Credit Risk Transfer Disclosures," August 13, 2020, https://capitalmarkets.fanniemae.com/credit-risk-transfer/single-family-credit-risk-transfer/fannie-mae-enhance-its-single-family-credit-risk-transfer-disclosures
[32] Federal Housing Finance Agency, "Duty to Serve Data," https://www.fhfa.gov/DataTools/Downloads/Pages/Duty-to-Serve-Data.aspx
[33] Federal Housing Finance Agency, "National Mortgage Database Program," https://capitalmarkets.fanniemae.com/credit-risk-transfer/single-family-credit-risk-transfer/fannie-mae-enhance-its-single-family-credit-risk-transfer-disclosures

treasure trove of proprietary data to expose widespread race-based bias in appraisals.[34] The study confirmed substantial valuation gaps for minority versus white census tracts and that minority applicants are more likely to receive an appraisal value lower than the contract price. Additionally, the research rejects the proposition that the valuation gaps are driven by only a few appraisers. Findings like these are the sorts of equity-related issues that need to be identified and resolved by coordination with other actors, and can only be made known through a greater availability of public data.

(d) Link EHF planning progress to executive compensation. In the first year of their EHFPs, FHFA has directed the Enterprises to identify objectives and specific measurable goals and take meaningful actions to reduce the racial/ ethnic homeownership gap and underinvestment or undervaluation in formerly redlined areas. To underscore the importance of this mandate, and to hold the companies accountable for putting equity first in their business plans, FHFA should link executive compensation to meeting these obligations. The vehicle for doing so already exists in the form of the annual Scorecard.[35] Put in place beginning in 2012, FHFA ties the incentive-based portion of the compensation of Fannie Mae's and Freddie Mac's senior executives to meeting FHFA's strategic priorities for the conservatorships.[36] By making steady progress toward meeting their respective housing finance equity goals a standing element of forthcoming scorecards, FHFA can ensure continued executive attention to putting equity first.

***(e) Lead and coordinate across the housing finance system*.** Equitable housing finance issues are not limited to the Enterprises. Rather, actions taken by FHFA reverberate throughout the market. The Enterprises can leverage their central role to coordinate across government, including state and local housing finance agencies, and private stakeholders.

To truly move the needle on the objectives, the Enterprises' equitable finance planning processes require coordination across government agencies whose jurisdictions touch upon mortgage finance. Fortunately, Congress created such a coordinating vehicle, the Federal Housing Finance Oversight Board (FHFOB). Created by statute to advise the Director with respect to overall strategies and policies in carrying out the duties of the Director, the FHFOB is Chaired by the Director, and counts as its members the Secretary of HUD, the Chairman of the Securities and Exchange Commission, and the Chairman of the Commodities Futures Trading Commission. As the FHFA and the Enterprises contemplate how best to move forward with addressing the long and unrelenting practice of discrimination in housing finance, we strongly recommend involving the FHFOB, a tool that is at once seriously underused and also perfectly positioned to bring together important stakeholders. By improving transparency, communication and collaboration between agencies, the FHFA can strengthen the government's commitment to righting historic wrongs and more fully capture the significant macroeconomic benefits of an equitable housing finance system.

In addition to coordinating across government agencies, the FHFA should consider creating a more active public/private dialogue that contributes to the development of EHFPs and facilitates their implementation. There are several outstanding examples of non-governmental communities of practice in local housing

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[34] Freddie Mac, "Racial and Ethnic Valuation Gaps in Home Purchase Appraisals," September 2021, http://www.freddiemac.com/fmac-resources/research/pdf/202109-Note-Appraisal-Gap.pdf

[35] Federal Housing Finance Agency, "Reports and Plans," https://www.fhfa.gov/AboutUs/reportsplans/Pages/All-Reports.aspx#0154543c-431f-47c7-bbcf-c828383bfa6d=%7B%22k%22%3A%22%22%2C%22r%22%3A%5B%7B%22n%22%3A%22ReportPlanCategoryOWSCHCS%22%2C%22t%22%3A%5B%22%5C%22%C7%82%C7%82436f6e7365727661746f72736869707320506572666f726d616e636520476f616c73202d2053636f726563617264%5C%22%22%5D%2C%22o%22%3A%22and%22%2C%22k%22%3Afalse%2C%22m%22%3Anull%7D%5D%7D

[36] Federal Housing Finance Agency, "Executive Compensation," https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Executive-Compensation.aspx

programs and policymaking, including the Urban Institute-convened Renters and Rental Market Crisis Working Group,[37] and NYU's Furman Center/ABT Associates Local Housing Solutions.[38]

We recommend the FHFA consider going further and consider implementing an advisory council that would allow a cross section of stakeholders visibility and input into the EHFP process. One model is the CFPB's Consumer Advisory Board, which includes "external experts, industry representatives, consumer and consumer representatives, community leaders and advocates" charged with " identifying and assessing the impact of emerging products, practices, or services on consumers and other market participants."[39] However, in the case of the EHFP process, council members should be given more specific, substantive visibility and input into the EHFPs and their execution.

Conclusion

We are pleased and honored to offer these comments and hope they add to the many thoughtful recommendations that this landmark undertaking will surely elicit. In closing, we encourage you to use this historic moment to make lasting and fundamental change on the premise that "[A]n organization should resist the temptation to separate racial equity goals from all other goals in the organization. Racial equity as a value and an operating practice means that racial equity is at the center or core of all the organization's work—no decision is made and no activity is implemented without conducting a racial equity impact analysis to understand the effect of that decision on the organization's racial equity goals. This explicit understanding and practice prevent an organization from making racial equity a 'nice to do' rather than a 'must do.'"[40] The FHFA and the Enterprises are profoundly influential in shaping the future of the housing financial system and, as such, the future for millions of Americans, including those who have for centuries been denied the economic opportunities that America represents. We are encouraged by your vision of that future, appreciate the opportunity to provide these recommendations, and applaud FHFA for its leadership and vision in creating a more equitable housing finance system.

Sincerely,

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The views included are those of the authors and should not be attributed to the Urban Institute.

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[37] Urban Institute, "The Renters and Rental Market Crisis Working Group," https://www.urban.org/renters-and-rental-market-crisis-working-group

[38] Community of Practice on Local Housing Strategies, "Local Housing Solutions," https://localhousingsolutions.org/

[39] Consumer Finance Protection Bureau, "Consumer Advisory Board," https://www.consumerfinance.gov/rules-policy/advisory-committees/consumer-advisory-board/

[40] Urban Institute, Centering Racial Equity in Measurement and Evaluation: Emerging Guidance and Lessons from Human Service Nonprofits. https://www.urban.org/sites/default/files/publication/104487/centering-racial-equity-in-measurement-and-evaluation_0.pdf