Federal Housing Finance Agency

ADVISORY BULLETIN

AB 2023 - 05: Enterprise Fair Lending and Fair Housing Rating System

Purpose

This *Advisory Bulletin* communicates the rating system to be used when assessing the Enterprises for fair lending, fair housing, and equitable housing compliance.

Background

This Enterprise Fair Lending and Fair Housing Rating System is a risk-focused rating system under which each Enterprise is assigned a composite rating based on an evaluation of its fair lending compliance practices and outcomes. The rating system is a framework for annually assessing an Enterprise's compliance with fair lending and fair housing standards and furtherance of equity in the public interest. Specifically, the composite rating of an Enterprise is based on an evaluation and rating of four components: Enterprise Operations and Efficacy, Fair Lending Oversight Program, Supervision Process and Legal Compliance, and Equitable Housing Finance. FHFA considers ensuring Enterprise compliance with fair lending laws part of FHFA's obligation to affirmatively further the purposes of the Fair Housing Act in its program of regulatory and supervisory oversight over the Enterprises and its responsibility to ensure the Enterprises comply with all applicable laws.[1] Aspects of this rating system also relate to FHFA's responsibility to ensure the Enterprises operate consistent with the public interest, in addition to other authorities.[2] FHFA's fair lending policy statement generally articulates its policy on fair lending and how it uses its authorities to ensure compliance with fair lending laws.[3] FHFA has issued supervisory guidance to the Enterprises concerning compliance with fair lending and fair housing laws.[4]

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[1] 12 U.S.C. 4511(b)(2), 42 U.S.C. 3608(d).
[2] 12 U.S.C. 4513(b)(v).
[3] https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Policy-Statement-on-Fair-Lending.aspx
[4] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/AB%202021-04%20Enterprise%20Fair%20Lending%20and%20Fair%20Housing%20Compliance.pdf

Guidance

I. Effective Date and Phased Implementation

FHFA will issue the first ratings pursuant to this system in 2024 based on calendar year 2023. These ratings will provide notice to the Enterprises of the current status of their fair lending compliance management and form the basis of any identification of areas for improvement. When applicable, FHFA can assess ratings-based remedial supervisory measures beginning with calendar year 2024 ratings issued in calendar year 2025.

II. Remedial Supervisory Measures

Remedial supervisory measures may include a diagnostic review, improvement action plan, or remediation plan in response where a composite rating warrants improvement. When an Enterprise is under conservatorship, composite ratings may be considered as part of FHFA's executive compensation decisions through the FHFA Scorecard. Composite ratings may also impact consideration by FHFA of an informal or formal enforcement action related to fair lending.[5]

III. Scope

The Enterprises will be rated according to four factors: (i) Enterprise Operations and Efficacy, which measures contributions and dedication to fair lending compliance by Enterprise business units and sufficiency of Board and management oversight; (ii) Fair Lending Oversight Program, which measures performance of the Enterprise's fair lending oversight program; (iii) Supervision Process and Legal Compliance, which measures the duration and severity of Matters Requiring Attention (MRAs), violations, and any other adverse findings as well as conduct and cooperation during supervision activities; and (iv) Equitable Housing Finance, which measures the performance of each Enterprise under its Equitable Housing Finance Plan activities.

In evaluating compliance, the ratings generally incorporate but are not limited to: FHFA Scorecard activities related to fair lending and equity; fair lending supervisory examinations; reports provided pursuant to FHFA Orders on Fair Lending Compliance and Report Submission;[6] compliance with fair lending and fair housing laws; compliance with FHFA regulations pertaining to fair lending or fair housing; fair housing examinations or engagements with HUD; Equitable Housing Finance Plans; fair lending issues related to conservatorship policy submissions; and, related activities, meetings, and other communications with FHFA.

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[5] *See* https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/20130531_AB_2013-03_FHFA-Enforcement-Policy_508%20(2).pdf.

[6] Order No. 2021-OR-FHLMC-2; Order No. 2021-OR-FNMA-2.

IV. Summary of Rating Scale

Under the rating system, each Enterprise is assigned a composite rating from "1" to "5." A "1" rating indicates the lowest degree of supervisory concern, while a "5" rating indicates the highest level of supervisory concern. The composite rating of each Enterprise reflects the ratings of the underlying components, which are also rated on a scale of "1" to "5." The composite rating is not an arithmetical average of the component ratings. Instead, the relative importance of each component is determined on a case-by-case basis, within the parameters established by this rating system. The evaluative factors listed under each component are not exhaustive and do not indicate level of importance.

Rating	Enterprise Operations and Efficacy	Fair Lending Oversight Program	Supervision Process and Legal Compliance[7]	Equitable Housing Finance
1	• All business units prioritize fair lending risk mitigation, adoption of controls and less discriminatory alternatives, and collaboration with fair lending oversight program to ensure risks are mitigated and violations do not occur • Fair lending, prioritized across the Enterprise • Board and management are engaged in and proactive about fair lending risk mitigation	• Enterprise business units regularly receive fair lending compliance training • Strong monitoring of all consumer-impact underwriting, pricing, and automated valuation models and policies • High fair lending risk activities limited and subject to heightened review • Goals and outcomes of compliance measures exceed minimum legal standards • Quality of fair lending analysis conducted is strong	• No violations of fair lending law identified in rating year and any minimal MRAs are Deficiencies • Enterprise works diligently and efficiently to resolve outstanding MRAs and conduct any remedial activities • Enterprise is cooperative and candid as part of oversight	• Equity prioritized across the Enterprise including actions building upon current and prior Equitable Housing Finance Plans (EHFPs) • Enterprise sets ambitious and impactful goals as part of EHFP and pursues changes mid-cycle to further improve equity • Enterprise works diligently towards goals as part of EHFP and any goal unmet has strong justifications • EHFP reflects strong, respectful engagement with individual and

[7] "Legal Compliance" includes findings related to targeted examinations and the supervision process as well as all other relevant regulatory or enforcement actions.

	• All business units regularly and thoroughly review all policies for fair lending risk • Positive trends or meaningful efforts in key disparity metrics			community stakeholders and responsiveness to outside feedback • EHFP objectives and actions are innovative, designed to catalyze meaningful impact, and clearly relate to identified barriers
2	• All business units generally consider less discriminatory alternatives, controls, and collaboration with fair lending oversight program to mitigate risks • Policies generally reviewed for fair lending risk before adoption • Board and management engaged in fair lending risk mitigation efforts • Most key disparity metrics show positive trends, strong justification for negative trends	• Alternatives/ guardrails appropriately applied for high-risk activities • Satisfactory monitoring of key underwriting, pricing, and automated valuation models and policies • Goals and outcomes of compliance measures generally exceed minimum legal standards • All business units generally receive regular fair lending compliance training • Fair lending analysis is meaningful	• Most, if not all, risks managed such that violations of fair lending law or any fair lending MRA-Deficiency findings are isolated[8] • Enterprise's efforts to resolve outstanding violations or MRAs and conduct any remedial activities are significant • Enterprise is generally candid and cooperative in oversight	• Enterprise pursues current EHFP while continuing to build upon prior EHFPs • Enterprise sets difficult, meaningful goals and sometimes considers mid-cycle changes to improve efficacy • Enterprise makes good faith effort to meet EHFP goals and/or most goals unmet have strong justifications • EHFP reflects extensive engagement with and responsiveness to individual and community stakeholders • Nearly all EHFP objectives and actions are meaningful and logically relate to identified barriers

[8] A "2" rating for Supervision Process and Legal Compliance is possible with MRA – Deficiency and individual violation of law findings during the calendar year.

				and are linked to specific measurable goals
3	• Business unit policies sometimes reviewed for fair lending risk before adoption and while active • Business units may sometimes consider less discriminatory alternatives, controls, and collaboration with fair lending oversight program and are at least sometimes ineffective in mitigating fair lending risk • Board and management engagement with fair lending risk mitigation efforts needs improvement • Key disparity metrics show at least some negative trends, strong justification for most negative trends	• High-risk activities not always adequately limited by controls • Ongoing monitoring of key underwriting, pricing, and automated valuation models and policies may not be comprehensive • Goals and outcomes of compliance system may seek to exceed minimum legal standards but do not always do so • Not all business units receive regular fair lending training • Quality of fair lending analysis needs improvement	• Violations and/or MRAs have been identified[9] • Enterprise's efforts to resolve outstanding violations or MRAs and conduct any remedial activities need improvement • Enterprise is sometimes candid and cooperative in oversight	• Equity efforts limited to current EHFP • Enterprise sets moderately difficult and/or impactful goals • Efforts to meet EHFP need improvement and/or justifications for not meeting goals are weak • EHFP reflects stakeholder feedback from a range of stakeholders, and evidence of contribution exists in the plan • Enterprise does not generally consider changes for efficacy and improvement mid-cycle • Some EHFP objectives and goals logically relate to identified barriers for underserved communities
4	• At least some business units do not generally consider less	• Many high-risk activities allow for discretion without	• MRAs, individual and/or systemic violations are	• Enterprise's commitment to equity deficient

[9] All "3" or higher ratings for Supervision Process and Legal Compliance include at least one adverse finding during the calendar year.

	discriminatory alternatives or controls or collaborate with fair lending oversight program • Business unit policies frequently not reviewed for fair lending risk before adoption • Board and management engagement in fair lending risk mitigation efforts is deficient • Negative trends in many key disparity metrics, justification for negative trends weak	appropriate guardrails • Inconsistent and deficient ongoing monitoring of key underwriting, pricing, and automated valuation models and policies • Goals and objectives of compliance system do not seek to exceed minimum legal standards and/or do not meet minimum legal standards • Most business units receive inconsistent or inadequate fair lending training • Quality of fair lending analysis deficient	identified in the subject year • Enterprise's efforts to resolve outstanding violations or MRAs and conduct any remedial activities are deficient • Enterprise generally lacks candor and cooperation in oversight	• Enterprise sets goals that are unambitious and/or with minor impact • Efforts to meet EHFP goals deficient and/or justifications underlying unmet goals generally weak • EHFP reflects some stakeholder engagement but not from a diverse range or minimal integration of feedback into the plan • Few EHFP objectives and actions logically relate to identified barriers for underserved communities
5	• One or more business units' consideration of less discriminatory alternatives or controls and collaboration with fair lending compliance program is critically deficient or nonexistent • Most, if not all, key disparity metrics show negative trends, and/or justification	• Minimal/no controls imposed for high-risk activities • Minimal/no ongoing monitoring of key underwriting, pricing, and automated valuation models and policies • Goals and objectives of compliance program critically deficient and Enterprise does not meet minimum legal standards	• Individual and/or systemic violations and MRAs identified in the subject year • Enterprise's efforts to resolve outstanding violations or MRAs and conduct any remedial activities critically deficient • Enterprise is dishonest and/or uncooperative in oversight	• No articulated commitment to equity • EHFP goals easy to achieve and/or with minimal impact • Efforts to meet EHFP goals critically deficient and/or justifications underlying unmet goals deficient or nonexistent • EHFP objectives and actions do not logically relate to

	for negative trends weak or non-existent • Board and management unengaged in fair lending oversight program or actively obstructionist • At least some business units routinely fail to review policies for fair lending risk	• Most business units do not receive fair lending training, or the training provided is deficient • Quality of fair lending analysis critically deficient		barriers and/or actions for an underserved community • Enterprise generally only engages with stakeholders with whom it has pre-existing relationships and/or is unresponsive to feedback

V. Composite Ratings

Composite ratings are based on a careful evaluation of an Enterprise's fair lending compliance practices and furtherance of equity goals, including the Enterprise's operations and efficacy, fair lending oversight program, supervision process and legal compliance, and equitable housing finance activities.

Composite 1 – The Enterprise's demonstrated commitment to fair lending compliance, risk prevention, and equity and its fair lending oversight program is strong in every respect and typically, each component is rated "1" or "2." The Enterprise as a whole is candid, proactive, and cooperative with regulators about any issues and the Enterprise is in substantial compliance with the law and with supervisory standards.

Composite 2 – The Enterprise's dedication to fair lending compliance, risk prevention, and equity and its fair lending oversight program is generally strong and most components are rated "1" or "2," with no component rated more severely than a "3." The Enterprise is in significant compliance with the law and with supervisory standards, and engagement with regulators regarding fair lending issues is satisfactory.

Composite 3 – The Enterprise's dedication to fair lending compliance, risk prevention, and equity and its fair lending oversight program needs improvement. Most components are rated "3" or better, with no component rated more severely than a "4." The Enterprise may be in non-compliance with one or more legal requirements or supervisory standards and its engagement with regulators regarding fair lending issues and/or equity goals needs improvement.

Composite 4 – The Enterprise's dedication to fair lending compliance, risk prevention, and equity and its fair lending oversight program is weak and deficient. The Enterprise is in non-compliance with the law or supervisory standards.

Composite 5 – The Enterprise's dedication to fair lending compliance, risk prevention, and equity and its fair lending oversight program is critically deficient or nonexistent. The Enterprise is in substantial non-compliance with the law or supervisory standards and equity goals and requirements.

VI. Component Ratings

A. Enterprise Operations and Efficacy

When rating an Enterprise's operations and efficacy, FHFA reviews the Enterprise's business units to determine whether they are adequately contributing to the identification of risk and compliance with fair lending laws. FHFA also reviews any information supporting conclusions regarding Board and management commitment and engagement with respect to fair lending compliance and equity goals. When making this determination, FHFA may assess:

a. Do programs and activities have clear, legitimate, and nondiscriminatory business justifications?
b. Are clear, written, documented policies and procedures in place whenever appropriate?
c. Do business units cooperate with internal fair lending program personnel to ensure that fair lending risk is identified and mitigated prior to the development of MRAs or violations?
d. Does the Enterprise ensure that any discretionary decision-making in policies, procedures, programs, and activities is limited to situations where there is a clear, legitimate, nondiscriminatory business justification for such discretion?
e. If a disparate impact is foreseeable or identified, does the Enterprise search for less discriminatory alternative means to achieve the business purpose?
f. If fair lending risk is foreseeable or identified, does the Enterprise consider altering the program or introducing appropriate controls to mitigate that risk?
g. After implementation, are policies, procedures, programs, and activities appropriately analyzed, monitored, and/or reviewed on a regular schedule, with high fair lending risk activities screened more frequently?[10]
h. Is fair lending compliance reinforced as a priority across the entire Enterprise, including by the Board of Directors, senior management, and business unit officials?

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[10] All policies should be reviewed periodically, but not all policies must be reviewed according to the same timeframes. For example, policies that pose the greatest fair lending risk should be reviewed the most frequently, at a minimum, as they change or as enough data accumulates to reconsider effectiveness. Policies that do not pose the greatest fair lending risk may be reviewed less frequently than the first group, at a minimum, when changes to the policy are implemented to be sure that there is no new fair lending concern. Policies that do not pose significant fair lending risk may be reviewed the least frequently, at a minimum, according to a risk-focused program for regular policy review.

i. Do business units analyze, assess, and mitigate fair lending risk in third- and fourth-party interactions?
j. Does the Enterprise make meaningful efforts and/or consistent progress to improve existing accept rate gaps and similar disparities in outcomes presented by the Automated Underwriting System and related credit policies?
k. Are trends for key disparity metrics like accept rate gaps, pricing disparities, and acquisitions improving?[11]

Enterprise Operations and Efficacy Ratings

1. A rating of 1 indicates: Business units prioritize risk mitigation, adoption of controls and less discriminatory alternatives in evaluating new and revised policies, procedures, programs, and activities. Fair lending is prioritized across the Enterprise and business units collaborate with internal fair lending oversight and legal programs. The Board and management are meaningfully engaged in and proactive about fair lending risk mitigation. Business units regularly and thoroughly review all policies for fair lending risk at intervals commensurate with potential risk according to a comprehensive fair lending risk assessment process. Discretionary decision-making is substantially limited wherever possible, and regularly monitored for development of risk. The Enterprise's key disparity metrics show positive trends or meaningful efforts to improve metrics.

2. A rating of 2 indicates: Business units generally consider risk mitigation, adoption of controls, and less discriminatory alternatives in evaluating new and revised policies, procedures, programs, and activities. Policies are generally reviewed for fair lending risk according to a comprehensive fair lending risk assessment process and business units generally collaborate with the fair lending oversight program to mitigate risks. The Board and management are engaged in fair lending risk mitigation efforts. Most of the Enterprise's key disparity metrics show positive trends or meaningful efforts to improve and there is strong business justification for negative trends.

3. A rating of 3 indicates: Business units sometimes consider risk mitigation, adoption of controls and less discriminatory alternatives in evaluating new and revised policies, procedures, programs, and activities and are at least sometimes ineffective in mitigating risk. Policies are sometimes reviewed for fair lending risk according to a comprehensive fair lending risk assessment process but the schedule of reviews and consistency in reviewing needs improvement. Business units do not always collaborate with the fair lending oversight program. The Board and management's engagement with fair lending risk mitigation efforts need improvement. The Enterprise's key disparity metrics show at least some negative trends for which there are usually strong business justification or efforts to improve key metrics need improvement.

4. A rating of 4 indicates: At least some business units do not generally consider non-discriminatory alternatives or controls and risk mitigation and frequently do not review

[11] FHFA will not penalize the Enterprise for market factors outside the Enterprise's control. FHFA will consider the Enterprise's direct or indirect actions that contribute to disparities even when market factors are also found to contribute to disparities.

new or revised policies, procedures, programs, and activities for fair lending risk prior to adoption. At least some business units' collaboration with the fair lending oversight program is deficient. The Board and management's engagement with fair lending risk mitigation efforts is deficient. Many of the Enterprise's key disparity metrics show negative trends and there is weak justification for some negative trends and/or efforts to improve key metrics are deficient.

5. A rating of 5 indicates: One or more business units' consideration of non-discriminatory alternatives or controls and collaboration with fair lending oversight program is critically deficient or non-existent. Business unit employees do not surface fair lending violations or fair lending concerns even if fully trained on fair lending. The Board and/or management are unengaged on fair lending risk mitigation efforts, their engagement is critically deficient, or they actively obstruct mitigation efforts. Most, if not all, of the Enterprise's key disparity metrics show negative trends and there is weak or non-existent justification for some negative trends and/or efforts to improve key metrics are minimal or critically deficient.

B. Fair Lending Oversight Program

When rating an Enterprise's fair lending oversight program, FHFA determines whether the Enterprise's program strives to exceed minimum legal standards, conducts effective monitoring of high-risk activities, and performs robust fair lending analysis. When making this determination, FHFA may assess:

a. Is there a fair lending oversight program in place, and if so, how is the program structured?
b. Does the program incorporate appropriate controls, monitoring, and training components?
c. Are there sufficient resources and personnel dedicated to fair lending oversight to effectively identify fair lending risks and prevent fair lending violations, including a sufficient number of trained and committed fair lending professionals across disciplines and lines of defense?
d. Are consumer-impact models, including underwriting, pricing, and automated valuation models and collateral risk tools, regularly monitored for disparities and less discriminatory alternatives?
e. Are Enterprise employees throughout the organization sufficiently trained commensurate with their job responsibilities in fair lending compliance to identify potential fair lending risk and raise potential fair lending concerns to the appropriate officials?
f. Does the program incorporate both qualitative and quantitative fair lending analysis of policies, procedures, processes, and activities?
g. Does the program produce comprehensive fair lending analysis appropriately tailored to the risk presented?
h. Does the program conduct heightened, ongoing fair lending monitoring for policies, procedures, programs, and activities that involve discretionary decision-making,

including having a process for identifying such policies, procedures, programs, and activities?

i. Does the program regularly conduct comprehensive and independent fair lending compliance reviews of business units and business activities presenting heightened fair lending risk?
j. Does the program aim to exceed minimum legal standards, meaning, does it seek to prioritize equity and implement fair lending best practices including mitigating fair lending risk and disparities in areas of legal uncertainty?[12] Does it in fact exceed minimum legal standards?

Fair Lending Oversight Program Ratings

1. A rating of 1 indicates: The work of designated fair lending officials and the function of the fair lending oversight program are strong. Enterprise business units regularly receive comprehensive, updated, relevant, and evidence-based fair lending compliance training. The Enterprise conducts strong ongoing monitoring of all consumer-impact underwriting, pricing, and automated valuation models and policies and other high-risk activities are limited and subject to heightened reviews. Fair lending analysis conducted by the program and fair lending officials is strong. The Enterprise strives to exceed minimum legal standards when setting goals and achieving outcomes, and in fact does exceed them. Compliance management practices are strong, including regular, frequent reviews of activities tailored to the risk presented; effective controls; and quantitative and qualitative monitoring with mechanisms to address issues identified.

2. A rating of 2 indicates: The work of designated fair lending officials and the function of the fair lending oversight program are satisfactory. Enterprise business units regularly receive relevant fair lending compliance training. The Enterprise conducts satisfactory ongoing monitoring of key consumer-impact underwriting, pricing, and automated valuation models and collateral risk tools and policies, and other high-risk activities are appropriately limited and generally subject to heightened reviews. Fair lending analysis conducted by the program and fair lending officials is meaningful. The Enterprise strives to exceed minimum legal standards when setting goals and achieving outcomes and does generally exceed them. Compliance management practices are satisfactory, including generally consistent reviews of activities; controls placed on appropriate programs and activities; evidence-based monitoring generally conducted; and issues are generally able to be addressed.

3. A rating of 3 indicates: The work of designated fair lending officials and/or the function of the fair lending oversight program need improvement. Not all business units receive regular fair lending compliance training and/or fair lending compliance training may at times be inadequate to address the risk presented. The Enterprise conducts ongoing monitoring of key consumer-impact underwriting, pricing, and automated valuation

[12] Minimum legal standards are defined as not violating clearly established law. The Enterprise should strive to exceed minimum legal standards by prioritizing equity and fair lending best practices because simply meeting legal standards in fair lending presents litigation, management, operational, reputational, and regulatory risks to the Enterprise, especially given the sometimes-uncertain application of standards and defenses under fair lending law.

models and collateral risk tools and policies but it may not be comprehensive, sufficiently frequent, and/or evidence-based. Fair lending analysis conducted by the program and fair lending officials needs improvement. Where a policy or program is identified as presenting high fair lending risk, it may not be subject to heightened or routine review or regularly monitored commensurate with the risk presented. The quality, frequency, and/or mechanisms to address issues raised by fair lending analysis conducted by the program and fair lending officials needs improvement. The Enterprise may seek to exceed minimum legal standards when setting goals and achieving outcomes but does not always do so.

4. A rating of 4 indicates: The work of designated fair lending officials and/or the function of the fair lending oversight program is deficient. Business units receive inconsistent or inadequate fair lending training. The Enterprise may fail to conduct regular, ongoing monitoring of consumer-impact underwriting, pricing, and automated valuation models and collateral risk tools and policies, or such ongoing monitoring may be deficient to mitigate the risk presented. The quality of fair lending analysis conducted is deficient. Many high-risk activities allow for discretion without appropriate controls or risk mitigation guardrails. Compliance goals and objectives are designed to only meet minimum legal standards and the Enterprise frequently fails to meet those goals.

5. A rating of 5 indicates: The work of designated fair lending officials and/or the function of the fair lending oversight program is critically deficient. Business units do not receive fair lending training, or the training is critically deficient. The Enterprise may fail to conduct ongoing monitoring of consumer-impact underwriting, pricing, and automated valuation models and collateral risk tools and policies entirely, or such ongoing monitoring is minimal. The quality of fair lending analysis is critically deficient. There are no or minimal controls or risk mitigation guardrails for high-risk activities and those that allow for discretion. Compliance goals and objectives are critically deficient, and the Enterprise frequently fails to meet minimum legal standards.

C. Supervision Process and Legal Compliance

When rating an Enterprise's supervision process and legal compliance, FHFA determines whether any new adverse findings were made during the rating year and the severity of those findings, as well as an Enterprise's efforts to resolve outstanding adverse findings. FHFA similarly considers any relevant regulatory or enforcement actions that are initiated, pending, finalized, and undergoing remediation during the rating year. When making this determination, FHFA may assess:

a. Were MRAs or violations identified during the rating year?
b. If MRA(s) were identified, what is the severity of the MRA(s)?
c. If there were violations, were they individual or systemic?
d. Were any other regulatory or enforcement actions initiated, pending, finalized, and/or undergoing remediation during the rating year?
e. Did the compliance oversight program identify any fair lending risks that the Enterprise failed to correct or sufficiently mitigate?

f. If so, what was the duration of the risky activity or violation?
g. If a violation exists, is the evidence overt, comparative, or related to disparate impact?
h. If comparative or overt evidence, is it due to unnecessarily discretion-oriented policies or a lack of appropriate oversight?
i. Is the Enterprise working diligently and efficiently to resolve outstanding adverse findings, including by submitting remediation activities in a complete and timely manner?[13]
j. Is the Enterprise cooperative and candid throughout oversight activities, including when sharing information?

Supervision Process and Legal Compliance Ratings

1. A rating of 1 indicates: No violations of fair lending law are identified in the rating year and any minimal MRAs are Deficiencies. If applicable, the Enterprise works diligently and efficiently to resolve outstanding MRAs, violations, and other adverse findings including by proposing and executing comprehensive remediation plans and submitting complete remediation activities in a timely manner. The Enterprise is cooperative and candid about new or outstanding issues when engaging with regulators in oversight and examination activities.

2. A rating of 2 indicates: Most, if not all, fair lending risks identified and managed so that adverse findings, including violations of fair lending law or MRAs do not develop; those that do occur are isolated. If applicable, the Enterprise's efforts to resolve outstanding MRAs, violations, and other adverse findings are significant including by submitting complete remediation activities in a timely manner. The Enterprise is generally cooperative and candid about new or outstanding issues when engaging with regulators in oversight and examination activities.

3. A rating of 3 indicates: Violations of fair lending law and/or MRAs are identified during the rating year. If applicable, the Enterprise's efforts to resolve outstanding MRAs, violations, and other adverse findings need improvement including by submitting complete remediation activities in a timely manner. The Enterprise is sometimes cooperative and candid about new or outstanding issues when engaging with regulators in oversight and examination activities.

4. A rating of 4 indicates: Violations of fair lending law and/or MRAs are identified during the rating year. Adverse findings may include widespread individual violations of fair lending law or systemic violations. If applicable, the Enterprise's efforts to resolve outstanding MRAs, violations, and other adverse findings are deficient. The Enterprise generally lacks cooperation and candor when engaging with regulators in oversight about new or outstanding issues and examination activities.

[13] Outstanding MRAs or violations from prior rating years would not be considered a sole basis for considering a negative rating under this assessment. Inadequate or untimely remediation deliverables, lack of cooperation in remediation, or other failures during the rating year, however, will be considered, as will responsible business conduct, fulsome corrective action, and other successes in remediation activities.

5. A rating of 5 indicates: Violations of fair lending law and/or MRAs are identified during the rating year. Adverse findings may include widespread individual violations of fair lending law or systemic violations and MRAs are generally serious. If applicable, the Enterprise's efforts to resolve outstanding MRAs, violations, and other adverse findings are critically deficient or nonexistent. The Enterprise is dishonest and/or uncooperative when engaging with regulators in oversight about new or outstanding issues and examination activities.

D. Equitable Housing Finance

When rating an Enterprise on equitable housing finance, FHFA evaluates an Enterprise's planning and execution of its Equitable Housing Finance Plan ("EHFP"). FHFA also considers objective metrics and analytics as part of its evaluation. When making this determination, FHFA may assess:

a. Is equity prioritized across the Enterprise?
b. Does the Enterprise set ambitious and impactful goals as part of the EHFP?
c. Does the Enterprise pursue changes to its EHFP midcycle to further improve equity in accordance with the framework for EHFP updates?
d. Does the Enterprise build upon current and prior EHFPs' goals and objectives in pursuing equity?
e. Does the Enterprise work diligently towards the goals it sets in the current EHFP?
f. Does the Enterprise in fact meet goals set in its EHFP, and if not, is there a strong justification for why the goal was not met?
g. Are EHFP objectives and actions innovative, designed to catalyze meaningful impact, and do they logically relate to identified barriers for underserved communities?
h. Are EHFP objectives and actions clearly linked to specific measurable goals?
i. Does the EHFP reflect engagement with and responsiveness to a wide variety of individual and community stakeholders, including stakeholders with whom the Enterprise does not have a prior relationship?
j. Does the Enterprise use innovative community-based techniques when engaging with a diverse range of individual and community stakeholders?

Equitable Housing Finance Ratings

1. A rating of 1 indicates: Equity is prioritized across the Enterprise, including by building upon goals and objectives specified in both the current and prior EHFPs. The Enterprise sets ambitious, impactful goals in its EHFP and pursues changes to its stated goals and objectives mid-cycle to further improve equity. The Enterprise works diligently to achieve the goals set out in the EHFP and has strong justifications for goals unmet. The EHFP reflects strong and respectful engagement with a diverse range of individual and community stakeholders using innovative community-based techniques and the EHFP is

responsive to outside feedback. EHFP objectives and actions are innovative, designed to catalyze meaningful impact, and clearly related to identified barriers.

2. A rating of 2 indicates: The Enterprise pursues equity through its current EHFP while continuing to build upon goals and objectives specified in prior EHFPs. The Enterprise sets difficult, meaningful goals in its EHFP and sometimes pursues changes to its stated goals and objectives mid-cycle to further improve equity. The Enterprise makes a good faith effort to achieve the goals set out in the EHFP and has strong justifications for most goals unmet. The EHFP reflects extensive engagement with a diverse range of individual and community stakeholders and the EHFP is generally responsive to outside feedback. Nearly all EHFP objectives and actions are meaningful and logically related to identified barriers for underserved communities and linked to specific measurable goals.

3. A rating of 3 indicates: The Enterprise's commitment to equity is limited to its current EHFP. The Enterprise sets moderately difficult and/or impactful goals in its EHFP and does not generally consider changes to its stated goals and objectives mid-cycle to further improve equity. The Enterprise's efforts to achieve the goals set out in the EHFP need improvement and/or the Enterprise has weak justifications for at least some goals unmet. The EHFP reflects engagement with a range of individual and community stakeholders and the EHFP includes evidence of contribution. Most EHFP objectives and actions logically relate to identified barriers for underserved communities and are sometimes linked to specific measurable goals.

4. A rating of 4 indicates: The Enterprise's commitment to equity is deficient. The Enterprise sets goals that are unambitious or have minor impact in its EHFP and rarely considers changes to its stated goals and objectives mid-cycle to further improve equity. The Enterprise's efforts to achieve the goals set out in the EHFP are deficient and/or the Enterprise generally has weak justifications for goals unmet. The EHFP reflects some engagement with stakeholders but not from a diverse range of stakeholders and feedback provided is minimally integrated into the EHFP. Few EHFP objectives and actions logically relate to identified barriers for underserved communities and are generally not linked to specific measurable goals.

5. A rating of 5 indicates: The Enterprise has no articulated commitment to equity or its commitment is critically deficient. The Enterprise sets goals that are easy to achieve or have minimal impact in its EHFP and does not consider changes to its stated goals and objectives mid-cycle to further improve equity. The Enterprise's efforts to achieve the goals set out in the EHFP are critically deficient and/or the Enterprise generally has weak or nonexistent justifications for goals unmet. The Enterprise generally only engages with stakeholders with whom it has a pre-existing relationship and/or is unresponsive to feedback. EHFP objectives and actions do not logically relate to identified barriers for underserved communities and are mostly not linked to specific measurable goals.

FHFA has statutory responsibility to ensure that the regulated entities carry out their missions consistently with the provisions and purposes of FHFA's statute and the regulated entities' authorizing statutes and applicable law. Advisory Bulletins describe supervisory expectations in particular areas and are used in FHFA examinations of the regulated entities. For comments or questions pertaining to this Advisory Bulletin, contact James Wylie at James.Wylie@fhfa.gov or by phone at 1-202-649-3209.