Better

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Sandra L. Thompson
Acting Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: Request for Input - Equitable Housing Finance Plans

Dear Acting Director Thompson,

Thank you for the opportunity to submit a response to the Federal Housing Finance Agency's ("FHFA") Request for Input regarding Fannie Mae and Freddie Mac (the "Enterprises") Equitable Housing Finance Plans ("RFI"). We strongly support the FHFA's efforts to address the critically-important topic of advancing equity in housing and finance. We believe that our responses in this letter will help to inform the Enterprises' plans.

Better is a digital-first homeownership company offering mortgage lending, real estate services, title insurance, and homeowners insurance. Since our founding in 2016, Better has been committed to helping families realize the dream of homeownership by making the entire homeownership process more manageable, more affordable, and more transparent. Better is redefining the homeownership process from the ground up with customer needs in mind, and we strongly support efforts to help pinpoint and address systems that have contributed to unequal outcomes.

As the FHFA has recognized, racial inequity in housing is a systemic problem that spans centuries, in large part as a result of intentional and unintentional past policy and strategies from the government and industry. Partnership across the public, private, and nonprofit sectors, along with the Enterprises, is essential to make meaningful advancements in bridging disparities in housing. Data transparency, clear metrics, and the continued secondary market liquidity for responsible loan products will be key to this ongoing effort.

We believe that among the ways that the Enterprises can address inequities in housing finance is through reforming the underwriting and property valuation processes.
Better is actively engaged in the effort to eliminate bias from home valuations by supporting work to increase diversity in the appraisal profession, advocating for more diversity-related education for appraisers, and modernized valuation. Additionally, we've

launched products and partnered with nonprofits, public and private industry leaders, and the Enterprises to explore ways to help more people achieve homeownership. We would welcome the opportunity to assist the Enterprises as they develop their Equitable Housing Plans to ensure that they maintain a measured path towards advancing equity in the housing market.

How should measurable goals be selected and set by the Enterprises? For example, is pursuing a small set of focused goals or a wide portfolio of goals better?

Measurable goals would be an important component to assess the progress of the Enterprises' efforts to advance their statutory mandate to promote fair access to mortgage credit and support housing opportunities for all Americans. In particular, outcome-based measurements would orient the Enterprises' business activities towards achieving their plans, with the most effective measurements containing specific quantitative components. Such assessments would encompass a clear, targeted set of measurable goals that will foster responsible, creative, and evidence-based solutions.

What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans?

The Enterprises should leverage the vast amount of information that they have regarding borrowers to identify statistical trends and test the efficacy of their initiatives. Insight from this data can be used to develop purpose-built credit programs and underwriting tools that can be tested through pilots with participating lenders.

In studying its data, the Enterprises should also identify the factors that most often lead to the denial of underrepresented borrowers. We believe this analysis will enable the Enterprises to develop targeted underwriting leeways and address the fact that higher loan-to-value (LTV) loans are made more expensive through Loan Level Price Adjustments (LLPAs) and Private Mortgage Insurance (PMI).

Finally, the Enterprises should share data with the industry on appraisal outcomes, as appropriate, to foster industry collaboration to identify and address bias in valuations. Industry participants currently do not have a great deal of access to the Enterprises' valuation data repository. Information regarding the Enterprises' collateral valuation technologies, processes and loan data will improve transparency within the housing finance system and improve the ability for industry participants to develop strategies and solutions to address housing finance bias.

What constitutes a "meaningful" action, and what kinds of meaningful actions should be taken by the Enterprises under their plans?

Meaningful actions are evidence-based approaches designed to address data-driven problems. The Enterprises should create pilot programs and sandbox environments that

allow lenders to explore various approaches to reduce the disparate impact of current systems.
The Enterprises should also identify any existing programs that could be repurposed to address the equitable housing goals. For example, similar to Fannie Mae's appraisal waiver offer for certain high-needs rural areas, the Enterprises could develop an appraisal waiver program for certain census tracts to mitigate the risk of appraisal bias and appraisal contingency impacting the transaction.

The evaluation of current programs should include review of longstanding policies that could be reworked to eliminate additional financial burdens where not absolutely required. For example, traditional title insurance requirements add significant additional cost with sometimes unclear necessity. Alternate forms of streamlined title or self-insured title should be considered for underserved areas where appropriate to aid in affordability for underserved borrowers.

Additionally, the Enterprises should consider taking the following meaningful actions:

<u>Meaningful Actions to Address Valuation Inequity:</u>
While bias in the appraisal process has almost certainly been present as long as the appraisal industry itself, recent reports have brought to light, stark disparities in home valuation concerning race and other protected characteristics. It is equally alarming that of the approximately 75,000 appraisers who make up the appraisal profession, 95% are white, 70% are male, and the vast majority are at or near retirement age.

Better is devoted to rooting out discrimination in the valuation process through several initiatives. These include unconscious bias training, eliminating barriers to entry for new trainees looking to join the appraiser profession, advancing diversity hiring and recruitment efforts, and advocating for modernized approaches to valuation. But without meaningful action by the Enterprises to address race-based appraisal bias and the severe lack of diversity in the appraisal profession, the wealth gap between Black and white Americans will continue to widen.

Based on our work with addressing appraisal bias, we believe that meaningful actions in the Enterprises' Plans should include:

- **Encouraging acceptance of trainee appraisal reports:** The appraisal industry is largely based on an apprenticeship model that requires trainees to work anywhere from 1,000 to 3,000 hours under a supervising appraiser before becoming certified appraisers. Even though the Enterprises have no requirement stating that certified appraisers must accompany trainees to the properties for assessment, lenders often require certified appraisers to do so. This creates unnecessary work for the supervisory appraiser, disincentivizes supervisors from taking on trainees, and exacerbates the need for a younger, more diverse pool of appraisers representing the communities they serve. The Enterprises should prohibit lenders from requiring appraiser supervisors to attend appraisal assessments with appraiser trainees.

- **Appraisal trainee incentivization:** The Enterprises should issue a $250 credit for an introductory period for any loan delivered where an appraisal trainee is listed on the report. This would allow lenders to pay an adequate fee to the trainee/supervisor at no additional cost to the consumer and incentivize supervisors to take on trainees.
- **Appraisal modernization:** The Enterprises should accept alternative methods for appraisals. The update to permanently accept desktop appraisals for certain purchases starting in 2022 is a step in the right direction, although LTV maximums could impact which borrower segments will benefit from this policy change. We also recommend that desktop appraisals be considered for certain refinance transactions (e.g., Fannie Mae-to-Fannie Mae or Freddie Mac-to-Freddie Mac rate-term refinances) to further mitigate risk of bias in those transactions. The COVID-19 environment allowed the industry to illustrate how alternative methods can be just as reliable. Alternatives to a traditional, in-person inspection by the appraiser may mitigate bias to some degree by separating the appraiser from the borrower/occupant of the property.
- **Hybrid and bifurcated appraisals:** Hybrid and bifurcated appraisals expedite the appraisal process while making better use of an appraiser's skillset. In a bifurcated appraisal, one party inspects the property, and a separate party completes the appraisal from their desk. An inspector—typically an appraiser trainee, home inspector, or real estate agent—can enter the property and provide hard data points needed to make an accurate assessment. This model alleviates the volume restrictions by allowing experienced appraisers to complete more files from their desks. New technologies have made it possible to capture all necessary information with handheld devices. These new developments offer clear support for allowing virtual, customer-led inspections on the 1004H hybrid form. FHFA should direct the Enterprises to encourage lenders to adopt hybrid and bifurcated appraisals.

<u>Meaningful Actions to Modify LLPAs:</u>
The Enterprises should evaluate the impact of risk mitigation strategies and pricing and how they may disproportionately impact the bottom line of the most vulnerable borrowers. Specifically, risk mitigation tools related to underwriting that fail to consider a borrower's non-traditional ability to pay, along with LLPAs intended to create a less risky loan environment, should be addressed in the plans. Unfortunately, underserved communities who would most benefit from Enterprise-backed loans are likely to pay the most for them—if they are approved at all.

Categorical pricing and eligibility, namely LLPAs and PMI premiums, are where appraisal bias turns into disparate impact. The disproportionate impact on low- to moderate-income (LMI) borrowers could be addressed by flattening LLPAs in certain cases. For example, the Enterprisess should reduce LLPAs in certain census tracts or for LMI borrowers for Enterprise-owned rate/term refinances, or purchases where the appraisal is within a reasonable range of the contract price.

Could special-purpose credit programs (as defined in 12 CFR 1002.8) be included in the Enterprises' plans? How should such programs be structured?

Thoughtfully crafted special-purpose credit programs (SPCPs) could remove some of the barriers that have contributed to financial inequities, housing instability, and residential segregation. SPCPs allow lenders to be intentional and specific in designing programs to help underserved groups, and those programs can be tested in direct partnership with particular lenders. Consideration of liquidity and additional risk mitigation measures are crucial to ensuring good outcomes for both borrowers and investors.

Evaluating the financial state of underserved communities—including types of alternative finances and credit histories—can guide more accessible credit programs. The Enterprises should adapt guidelines to serve communities with the highest financial disparities and pilot the programs through SPCPs.

In addition, certain alternative underwriting criteria may be useful in promoting broader access to mortgage credit. Those criteria, which may be more present in disadvantaged communities, may include multiple part-time jobs and self-employed workers whose income is more difficult to recognize—even when that income is stable and long-term. Indicators such as cash flow may better account for a borrower's actual ability to maintain mortgage payments. Multi-generational households may have several occupants contributing to housing expenses that cannot be accounted for in standard underwriting. The Enterprises should also pursue solutions and outreach to underbanked populations in order to bring well-qualified potential borrowers into eligibility.

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We thank the FHFA for the opportunity to offer input on the Enterprises' Equitable Housing Finance Plans. We are committed to working with the Enterprises in developing plans that foster a more equitable homeownership process for all Americans. We welcome your questions or comments, and please do follow up if you need more information.

Sincerely,

Paula Tuffin

Paula Tuffin
Chief Compliance Officer
Better