

Implementing HERA Section 1116 :

Background and Purpose:

Surowiecki, who wrote "**The Wisdom of Crowds**," points out that **a group will more often than not come to a better decision than the average individual, so long as the group includes a range of people with different life experiences and ways of looking at and solving problems.** As Surowiecki notes, if the group has enough variation in the information that they bring to the table, their thought processes and their approach to solving problems, **the group is more likely to come up with the right answer before an individual, even in some instances when the individual is an expert.**

This "modern" topic of implementing "Diversity" is really an American core concept as old as the Constitution itself which recognizes the importance of life experiences and diversity. Defendants in the criminal process are entitled to a jury of their peers precisely because jurors bring to the process a collection of varied life experiences.

Four Recommended Guiding Principles Governing Section 1116 Implementation:

- 1) **Establish Goals**- Establish minimum targets for all three GSEs: Management minority %, total staff minority %, contract minimum award %, transactions minority %. Diversity is an area with limited past success amongst the GSEs, such that **hard goals** are needed. Target Goals should be "ramped up" over a several year period.
- 2) **Diversity Office**- Once goals are set- set up the GSEs Office of Diversity and Minority Inclusion to achieve these goals.
- 3) **Business Expansion**- The GSEs, because of their sheer size and scope, can spawn a whole new generation of financial services MWOBs. The implementation of Section 1116 should strongly encourage the growth of new MWOBs which can serve the GSEs as contractors, money managers and investment banks.
- 4) **Share Best Practices**- Encourage GSE sharing of best practices- especially between the 12 FHLBs

Goals- Why Are Hard Goals Necessary?

Below is a posting from July 02, 2007:

“Congress is again trying to motivate the financial-services industry to recruit more executives of color and women. First there was an amendment to HR 1427—the Federal Housing Finance Reform Act of 2007—that called for more diversity at mortgage buyers Fannie Mae and Freddie Mac. This week, the House Financial Services Committee passed House Concurrent Resolution 140, an initiative designed to increase the diversity of the financial-service industry's work force by motivating employers and educational institutions to help take affirmative steps toward diversifying their employee and student pools. “

Following these two legislative efforts, on July 30, 2008 HERA Section 1116 became law governing the GSEs to implement the current FHFA policy proposal.

Despite these varied legislative efforts, very little has happened in the past three years despite two major legislative mandates, or for the years prior to that, by voluntary effort or moral suasion. Thus, it should now be obvious that hard targets and efforts are clearly required.

Office of Minority Inclusion

- **The Office should strive to achieve the aforementioned four goals and additionally conduct:**
- **Diversity Study-** Do survey/study of representation % of white, black, Hispanic, Asians at the GSEs
- **Experienced Recruiting-** Expand their pool of applicants, including diverse applicants for experienced positions, via tapping into new “networks” to the GSEs such as the National Bankers Association (NBA) and the National Association of Securities Professionals (NASP)
- **College Recruiting-** Continue to recruit for new hires at black colleges or to minority student organizations at Ivy League schools
- **Board Diversity-** Enable diverse board member selection and training

Change FHFA's "Experienced Hire" Network-

Researchers have commonly invoked isolation from job opportunities as an explanation for persistence of gender and race inequality in the labor market, but few have examined whether access to information about job opportunities varies by race and gender. Findings from nationally representative survey data reveal significant white male advantage in the number of job leads received through routine conversations when compared to white women and minorities. Differences in social network resources (social capital) partly explain the deficit among minorities, but fail to account for the job lead gap between white women and men. Further analyses show that inequality in the receipt of job information is greatest at the highest levels of supervisory authority, where white males receive substantially more job leads than women and minorities.

Business Expansion- Establish New MWOBs

MWOB businesses are few and far between in the GSE areas of mortgage-related money management, investment banking, credit and interest-rate risk analysis, structured finance and mortgage banking. A whole new industry of MWOBs can be spawned by utilizing contractors to perform and assist the GSEs in critical areas. Similar to GNMA, which heavily has relied on contractors for years, this can greatly augment the number and experience of MWO firms. **For example, the creation of new MWOB mortgage banking firms, who could become GSE seller/servicers, would help the GSEs pursue their mission while also combating some of the predatory lending practices seen in the mortgage industry's recent past.**

Share Best Practices

The GSEs are going to face an uphill battle regarding new diversity and will need support, idea sharing and collaboration between Fannie Mae, Freddie Mac the Office of Finance and each of the twelve FHLBs.

Why Are So Few People of Color and Women on Wall Street or in the Mortgage Industry?

Case Study: House Concurrent Resolution 140

Despite the 2007 passing of Resolution 140, has anything improved or happened in three years?

“Resolution 140 will encourage financial institutions to promote work-force diversity through several efforts:

- Partnering with organizations that focus on developing opportunities for executives of color and women
- Placing young students of color in internships, summer jobs, and full-time positions within the industry and partnering with inner-city high schools and girls' high schools to establish financial literacy programs and mentoring
- Encouraging recruitment at women's colleges and colleges that serve students of color
- Sponsoring job fairs for executives of color and women and recruiting at job fairs that take place in communities of color
- Placing employment ads in media created for people of color”

House Concurrent Resolution 140 follows a Government Accounting Office (GAO) report released a year ago commissioned by the House Financial Services Committee. Meeks' office followed that report with its own research, and both efforts revealed that, while the financial-services industry has shown slight improvement in representation of people of color and women, overall representation of executives of color and women lags far behind "reasonable numbers on all levels and for women in upper management levels exclusively," said Meeks.

Meeks' effort with House Concurrent Resolution 140 follows his work with the amendment to [HR 1427, Federal Housing Finance Reform Act of 2007](#). Like 140, that amendment requires Fannie Mae and Freddie Mac to make proactive efforts designed to ensure their work forces reflect the diversity of the American population.

Meeks has a personal stake in motivating the financial-services industry to employ more people of color because it is the largest employer in his district, New York's 6th Congressional District. New York is a majority-minority city (one in which people of color outnumber white people).

The financial-services industry employs 7 percent of the country's work force, and in New York City, it is the No. 1 field, said Meeks. "Diversity within the financial-services industry is vitally important, not only to promoting innovation and creativity in the industry but to developing a more inclusive work force for a fair and just economy," said Meeks.

If the financial-services industry reaches out to communities of color by involving students in internships and educational programs, people of color will focus on joining the financial-services industry. Also, for the industry to continue to thrive in a city that is predominantly populated by people of color, it must involve itself with that population to develop future employees, said Meeks.

"We need to make sure there's a reach out by the financial-services industry to get New Yorkers aware of where the future lies for employment ... because historically people attracted to the industry have been because their parents worked in the industry," said Meeks. "The best way to do that is to start in high schools and junior high schools by providing internships so they know what's available and then recruiting at historically black colleges and universities and institutions that serve students of color."