June 26, 2023

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

RE: Notice of Proposed Rulemaking ("Fair Lending, Fair Housing, and Equitable Housing Finance Plans")

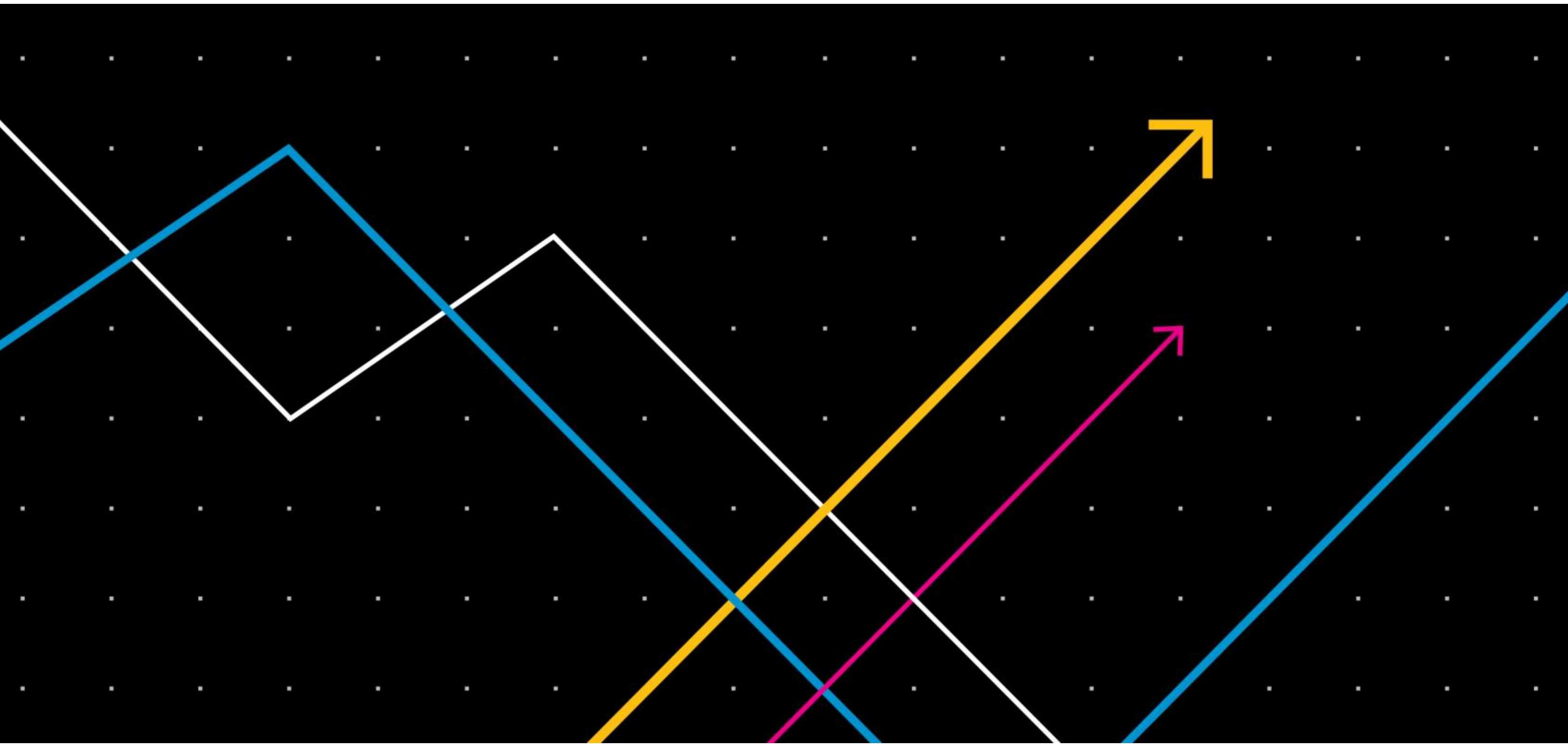
To Whom It May Concern:

We write to offer public comment on the FHFA's notice of proposed rulemaking ("Fair Lending, Fair Housing, and Equitable Housing Finance Plans") published on April 26, 2023 (2023-08602). We are employed by the Urban Institute—a nonprofit research and policy organization based in Washington, DC—but the views shared in this response are our own and do not reflect the views of the Urban Institute, its trustees, or its funders.

This submission contains responses to select questions from the FHFA's request for comment on its proposed rule. We bring to our commentary extensive expertise on housing finance, the FHFA's policies to promote affordability and equity,[1] and specific study of the Equitable Housing Finance Plans.[2] For questions, or to request a follow-up discussion based on this response, please contact Michael Stegman, nonresident fellow at the Urban Institute, at mstegman@urban.org.

[1] Michael Stegman, "How the FHFA Can Increase Federal Home Loan Bank Affordable Housing Investments" (Washington, DC: Urban Institute, 2023).

[2] Janneke Ratcliffe, Laurie Goodman, and Michael Stegman, *Metrics to Make the GSEs' Equitable Housing Finance Plans Count* (Washington, DC: Urban Institute, 2023); Janneke Ratcliffe, Michael Stegman, and Kathryn Reynolds, "The FHFA's Equitable Housing Finance Plans for Fannie Mae and Freddie Mac: Equity Should Be a Primary Business Consideration for the GSEs" (Washington, DC: Urban Institute, 2021); and Janneke Ratcliffe, Laurie Goodman, and Michael Stegman, "The GSEs' Equitable Housing Finance Plans: Strengths and Missed Opportunities" (Washington, DC: Urban Institute, 2022).



RESEARCH REPORT

The FHFA Is Right to Codify the GSEs' Equitable Housing Finance Plans

Comments on the Proposed Rule

Michael Stegman *Janneke Ratcliffe*

June 2023

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The FHFA Is Right to Codify the EHFPs

The generational roots of deep racial disparities in housing market outcomes and the complicity of the government-sponsored enterprises (GSEs)—Fannie Mae, Freddie Mac, and the Federal Home Loan Bank (FHLBank) System—in this historical reality, along with their outsize influence and potential to create a more inclusive mortgage finance system, has led their regulator, the Federal Housing Finance Agency (FHFA), to propose a rule (the "proposal") "that would address barriers to sustainable housing opportunities for underserved communities."[1]

The codification of the GSEs' fair lending, fair housing, and Equitable Housing Finance Plans (EHFPs) via a single rule removes regulatory ambiguity and leverages enforcement authority in a clear and robust way. More importantly, the rule moves the FHFA's legal basis for imposing equitable housing finance obligations on the GSEs from its powers as conservator to its more permanent authority as their regulator (DHMG 2021).

Our comments focus on the EHFPs, about which we and our colleagues have written extensively (Ratcliffe, Goodman, and Stegman 2022; Ratcliffe, Goodman, and Alexandrov 2023; Stegman 2023). As the current EHFP process lacks the force of law, which undergirds other GSE mission obligations, a second-best solution is for the FHFA to formalize the EHFP process by rule, which it proposes to do in 12 C.F.R. Part 1293.

In our and our colleagues' writings on the EHFPs, we have emphasized the need to address three main themes, which this rulemaking seeks to advance:

- The importance of making the EHFPs more durable and more interwoven into standard business practices (Ratcliffe, Goodman, and Stegman 2022):
    - » The FHFA intends not only to codify the current FHFA EHFP guidance but to extend the FHFA's existing statutory enforcement and compliance authorities—that apply to the GSEs' underserved markets and affordable housing goal regimes—to their equitable housing finance obligations. We further applaud the steps to extend to the GSE boards an obligation to appropriately consider the objectives, actions, and goals of EHFPs in their oversight of overall business activities.

- The importance of accountability, transparency, and metrics (Ratcliffe, Goodman, and Alexandrov 2023):
  - The proposed rule incorporates sections for reporting, goals, metrics, tracking, and public comment to drive priorities and performance evaluation.
- The role of special purpose credit programs (SPCPs):[2]
  - The legal framework for SPCPs has been around for decades, but industry adoption remains tentative. By developing SPCPs in their respective EHFPs, though, the GSEs can accelerate adoption.

We also note some questions the proposal raises, about which we have strong recommendations—most notably, whether and how the FHLBanks should be incorporated into the final rule.

Further, three areas need enhancement:

- public engagement, including the appointment of an advisory board
- greater disclosures and public data releases
- promotion of activities where the GSEs' research and intellectual capital can advance equity broadly across the housing finance ecosystem, even if the GSEs' own metrics are not significantly affected

Before addressing specific items in the proposal, we first highlight the EHFP process that the FHFA has led Fannie Mae and Freddie Mac through since 2021, testing the concept and laying a thoughtful foundation for a more permanent rule. In 2021,[3] the FHFA directed Fannie Mae and Freddie Mac to prepare and implement EHFPs over three years. The inaugural plans were issued in 2022,[4] and in 2023, the GSEs issued year-one performance reports (Fannie Mae, n.d.; Freddie Mac 2023) and updated year-two plans.[5] The proposed rule would put the GSEs' equitable housing finance obligations on a more enduring footing, subject to appropriate oversight, compliance, and enforcement.

In brief, the substance of the GSEs' initial equitable housing finance plans and commitments, and the significant equity-enhancing green shoots that are already visible at the end of first-year activities, warrant the FHFA's protecting the EHFP process in its formative years until the results of test-and-learn pilots and activities can be fairly assessed and appropriately scaled. We have previously detailed the strengths and weaknesses of various elements of the plans (Ratcliffe, Goodman, and Stegman 2022). Specific lessons from the plans' implementation and performance inform our following commentary on the proposed rule.

Should the Rule Define Equity?

The FHFA asks for public input on whether the final rule should provide a specific definition of "equity," and if so, what that definition should be (question 1). Equity is defined in terms of outcomes, where personal and community characteristics do not determine one's circumstances and opportunities. The EHFPs, on the other hand, enumerate inputs and activities. These inputs and activities are designed to address barriers to equity that vary depending upon the population and community of interest. If successful, these activities should lead to improved equity for that group and are likely to generally improve access for other groups as well.

As such, the question might be better phrased this way: Should the plan establish an equity metric, and if so, how? We and our colleagues have argued that the EHFPs should be guided by "North Star" equity measures that seek to narrow and ultimately eliminate the racial homeownership gap or to eliminate or meaningfully reduce underinvestment or undervaluation in formerly redlined areas that remain racially or ethnically concentrated areas of poverty or are otherwise underserved or undervalued (Ratcliffe, Goodman, and Alexandrov 2023). In fact, these overarching equity measures were implied in the FHFA's original directive that established the EHFPs in 2021, and the measures remain valid.

These broad North Star measures should guide the EHFPs' activities and priorities but should not serve as outcomes the GSEs are held accountable for achieving on their own, because these aspirational societal outcomes depend on other factors outside the GSEs' control and, from a temporal standpoint, would go beyond countless planning cycles. Therefore, we also recommend that the FHFA establish a few high-level outcomes where the GSEs can and should be held accountable for greater, more equitable outcomes.[6]

Further, rather than a one-size-fits-all equity metric that spans all EHFP activities, each activity should define its own individual-level equity measures, tied to one or more of the higher-level outcomes, which in turn tie to an aspirational North Star outcome (Ratcliffe, Goodman, and Alexandrov 2023). For example, if the North Star outcome is to close the racial homeownership gap, one of the GSEs' higher-level outcome measures is to increase the number of their purchase mortgages made to borrowers of color; because lack of established credit scores is identified as a disparate barrier, helping underserved consumers build their credit through on-time rent reporting to national credit bureaus and incorporating these same data into the GSEs' automated underwriting systems would be important innovations designed to improve equity and are activities that can be quantified and measured as to their remedial impacts.

Later, we review the actual results of early forays into these activities. An important takeaway from the activities and their early results is that we will never achieve equitable outcomes unless the processes involved in achieving those outcomes are themselves equitable. For example, if people of color are less likely than others to take up a GSE invitation to give their lender permission to access their rental payment data from their bank accounts, the ultimate results will disappoint. This reality also has implications for the kinds of disclosures the FHFA should require in the final rule.

To conclude, each activity could be required to establish an equity-enhancing metric specific to that activity and be evaluated accordingly. If the activity does not improve equity, that activity should be reexamined from the standpoint of both program and process, adjusted accordingly, or abandoned in favor of more fruitful activities. The FHFA and the GSEs should be prepared to address the possibility that some underwriting innovations, for example, might improve credit risk assessment, expanding mortgage lending to borrowers at the margins without compromising safety and soundness but do not disproportionately benefit borrowers of color. In that event, the appropriate response would be to remove those innovations from the EHFPs, not to terminate them. Finally, the final rule should apply the concept of equity to both housing outcomes and housing processes.

Finally, the FHFA cites existing statutory authorities, including GSE charter provisions, that require the GSEs to "advance equity for homebuyers, homeowners, and tenants in the housing market," noting that none of these define equity.[7] If the FHFA were to define equity in this final rule, it should consider the implications this might have on these other authorities.

Accountability (Questions 8, 9, 12, and 14)

Our response to these interrelated questions builds directly on the discussion of defining and measuring equity. We think the definition of "meaningful actions" is highly relevant. We also draw on lessons from the inaugural EHFPs' reporting and results.

The Meaning of "Meaningful Actions"

A major part of the EHFPs are the initiatives the FHFA calls "meaningful actions" that a GSE plans to undertake to accomplish measurable and time-bound equitable housing goals. Where things get tricky is in distinguishing between equity-enhancing activities that "reflect more than de minimis action," according to the proposal, and go beyond other GSE activities that also serve other GSE objectives and goals.[8]

One way to do this would be for the FHFA to require the GSEs to monetize each planned meaningful activity. The proposed rule requires that the plans summarize "the value of resources dedicated by the Enterprise in supporting outcomes categorized by type of activity and a summary of additional value of resources contributed from third parties as a result of the Enterprise's support of the outcomes."[9]

Notably, both GSEs' year-one performance reports broadly follow the FHFA's EHFP guidance that would be memorialized in the rule, but neither contains any cost, investment, or resource data. The absence of such data could reflect a GSE view that these data are proprietary and should not be subject to public disclosure. If that is the case, the FHFA, as regulator, could demand these data as part of its compliance regime but share only aggregated summary data with the public. But the FHFA makes no compelling case for why it needs these data, and the level of aggregation the proposal specifies might be too great to achieve true accountability.

More importantly, the FHFA requires no similar cost or investment disclosures for the GSEs as part of their reporting on their underserved markets and affordable housing goal regimes, so singling out the EHFPs would be a mistake. Mandating such data could mistakenly contribute to a destructive belief that GSE efforts to advance racial equity in the housing finance system should be subject to a benefit-cost test.

To conclude, activities should be deemed "meaningful" to the extent that they advance equity and move the country incrementally toward one of the FHFA's North Star outcomes. Therefore, establishing baselines and assessing performance for those measures is essential to test the validity of each purported meaningful activity. The FHFA could incorporate an alternative approach that is built into the Duty to Serve plans, which would take the form of building historical baselines around meaningful activities and setting goals by specifying the incremental changes to the baselines a GSE seeks to achieve over a defined period, not on marginal cost.

Missing Race and Ethnicity Data

Up until now, most stakeholder analyses of year-to-year changes in the share of mortgage loans going to people of color across lending channels come from the annual collection of Home Mortgage Disclosure Act (HMDA) data. But, as noted by the National Community Reinvestment Coalition[10] and others, complicating and confounding such analyses is the rising share of lender-reported loan data lacking demographic information, including data on applicant race and ethnicity. The National Community Reinvestment Coalition reports that in 2021, more than 5 million HMDA loan records lacked demographic information, accounting for more than 23 percent of the entire HMDA dataset. So it is reasonable to ask whether the modest increase in the share of home purchase loans, measured by HMDA data, going to Black and Hispanic borrowers since 2020 is real or is the result of incomplete data.

MISSING BORROWER RACE AND ETHNICITY DATA

With the rollout of the GSEs' inaugural EHFPs and progress reports, it is reasonable to ask whether the GSEs' reports and interpretations of their performance will be susceptible to similar potential blind spots and distortions. The answer is a qualified "yes." Freddie Mac provides insights into how significant missing racial and ethnic loan data might be, which I summarize in table 1. In 2022, 34 percent of total mortgage applications submitted to Freddie Mac lacked data on the applicant's race, while 30 percent lacked data on ethnicity. Importantly, these data blind spots fall dramatically across the waterfall from application to acceptance to loan acquisitions. For all purchase loans Freddie Mac acquired in 2022, just 16 percent lacked data on borrower race and 14 percent lacked data on borrower ethnicity, an overall 50 percent reduction in nonreporting. But when acquisitions are divided into home purchase loans versus refinance loans, Freddie Mac reports that just 13 percent of all the purchase mortgages it bought in 2022 lacked data on race, which was true for 19 percent of acquired refinance loans.

TABLE 1

Freddie Mac Loan Product Advisor Applications Missing Race and Ethnicity Data, 2022

	Share missing race data	Share missing ethnicity data
All applications	33.9%	30.0%
All accepted applications	32.2%	28.7%
All acquisitions	15.5%	14.4%
All purchase applications	28.3%	24.6%
All purchase applications accepted	26.7%	23.3%
All purchase acquisitions	13.2%	12.4%
All refinance applications	41.7%	37.7%
All refinance applications accepted	39.9%	36.3%
All refinance acquisitions	18.6%	17.0%

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).

MISSING RENTAL RACE AND ETHNICITY DATA

Unlike for home purchase mortgage applications that are run through a GSE's automated underwriting system, which collects race and ethnicity data for most applicants and borrowers, neither GSE routinely collects race and ethnicity data for tenants of the multifamily rental properties they finance. This complicates efforts to determine how well the distribution of the benefits of credit building through rent reporting at scale will increase equity or, more specifically, disproportionately benefit people of color. More about rent reporting appears later.

BUILDING BASELINES

Using data generated from their automated underwriting systems, the GSEs include in their performance reports, at the FHFA's direction, data for the current year and the preceding three years on the number of applications, acceptance rates, and funding rates for home purchases, rate-term refinancing, and cash-out refinancing, by racial and ethnic group and underserved community group. In future analyses, these data can be used to establish baselines against which to measure the effectiveness of executed EHFP initiatives designed to narrow racial and ethnic financing gaps.

BASELINE LOAN PURCHASE ACTIVITIES

Table 2 examines two years of Freddie Mac loan purchase activities (2019 and 2022) by race and ethnicity, which reflects significant absolute and relative increases in loan funding to people of color. The overall share of purchase loans to white borrowers fell from 75 percent in 2019 to 67 percent in 2022, with a corresponding increase for overall borrowers of color from about 25 percent to a third of all loan acquisitions. Loans to Black borrowers rose from a 4.4 percent share to 6.4 percent during the same period.

TABLE 2

Freddie Mac Single-Family Purchase Loans Funded in 2019 and 2022

	2019		2022	
Borrower race or ethnicity	Number of loans funded	Share of loans funded	Number of loans funded	Share of loans funded
White	1,126,980	75.2%	605,447	67.2%
Overall borrowers of color	371,759	24.8%	**295,126**	**32.8%**
Black	67,145	4.4%	57,889	6.4%
Latino/Hispanic	164,706	10.9%	125,682	13.8%
Asian	137,919	9.1%	115,728	12.8%
American Indian	10,565	0.7%	8,156	0.9%
Pacific Islander	6,333	0.4%	3,520	0.4%
All borrowers	**1,760,460**	**100.0%**	**1,039,305**	**100.0%**

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).
Notes: The "All borrowers" row includes those for whom race or ethnicity is missing.

LOAN FUNDING GAPS

The proposed rule implies that a narrowing of acceptance rate differences across racial and ethnic groups is an appropriate metric to gauge progress in equitable finance. We broaden possible success metrics for the FHFA to consider across a wider range of the origination waterfall. Table 3 displays changes in application shares, acceptance rates, and loan acquisition and funding rates because equitable finance progress requires not only a narrowing of application and acceptance rate gaps but increases in actual loan funding rates. The Black share of purchase applications to Freddie Mac rose from 6.8 percent to 9.5 percent from 2019 to 2022, a 40 percent increase, while acceptance rate shares for Black applicants rose from 5.3 percent to 7.6 percent, a 43 percent increase.

TABLE 3

Freddie Mac Purchase Loans Funded for White Borrowers and Black Borrowers in 2019 and 2022

	2019	2022
Application share for white borrowers	68.2%	60.6%
Application acceptance rate for white borrowers	71.1%	63.6%
Application share for Black borrowers	6.8%	9.5%
Application acceptance rate for Black borrowers	5.3%	7.6%
Acceptance rate gap for Black borrowers	22.2%	19.9%
Acquisition share for white borrowers	74.2%	67.2%
Acquisition share for Black borrowers	4.3%	6.4%

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).

But this significant progress in converting applications from Black applicants into acceptances has not, thus far, translated into success in converting acceptances into new Freddie Mac–funded loan acquisitions, which would be a real step toward a more equitable finance system. Table 4 shows dramatic reductions from 2019 to 2022 in loan conversion rates for successful white and Black applicants who were approved for a Freddie Mac purchase loan. The conversion rate for white applicants plummeted to 41 percent, while for Black applicants, only about one-third of acceptances turned into a Freddie Mac mortgage in 2022.

TABLE 4

Freddie Mac Single-Family Purchase Loans Funded in 2019 and 2022

	2019		2022	
	Number	Share of acceptances that were funded	Number	Share of acceptances that were funded
Acceptances for white borrowers	944,306		1,483,366	
Loans funded for white borrowers	635,944	67.3%	605,447	40.8%
Acceptances for Black borrowers	71,653		176,798	
Loans funded for Black borrowers	37,254	52.0%	57,889	32.7%

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).

Two implications of this analysis are that (1) the FHFA should not lock into the rule a single metric to measure GSE movement along the equitable housing finance continuum and that (2) making meaningful progress in closing the lending gap to borrowers of color requires more than shifting loans to the GSEs from the Federal Housing Administration through a pricing competition that will do nothing to help close the lending gap. The FHFA and the Federal Housing Administration need to work together to expand total lending to borrowers of color instead.

Underwriting Innovations

POSITIVE RENTAL PAYMENT HISTORY

With the FHFA's support, the GSEs continue to enhance their respective automated underwriting engines to, in Freddie Mac's words, "help identify creditworthy borrowers that prior model versions might have missed" (Freddie Mac 2023, 20). Last year, both GSEs began to incorporate positive rental payment history (PRPH) into their systems for select borrowers, making those borrowers eligible when they otherwise might not have been (Fannie Mae, n.d.). Since Fannie Mae's initial inclusion of PRPH in Desktop Underwriter in 2021, 3,400 applications have benefited from PRPH, resulting in the approval and funding of 885 loans—an overall success rate of 30.3 percent—that would have been rejected otherwise. According to Fannie Mae (n.d., 4), "of the applications that benefited [from PRPH], about half self-identified as minority borrowers, including 41% who identified as Black or Latino/Hispanic" (table 5).

TABLE 5

Fannie Mae Loans Underwritten Using Positive Rental Payment History, by Race or Ethnicity, 2022

	Number	Share with race or ethnicity data
White borrowers	439	54.6%
Black borrowers	151	18.8%
Hispanic/Latino borrowers	160	19.9%
Total for borrowers of color	365	45.4%
Total loans with race or ethnicity data	804	
Total loans with no race or ethnicity data	81	
Grand total	885	

Source: Fannie Mae, *Equitable Housing Finance Plan: 2022 Performance Report* (Washington, DC: Fannie Mae, n.d.).

Freddie Mac invited about 11,000 applicants whose loans were initially denied to give their lender permission to access rental payment records directly from the applicant's bank accounts so the application could be underwritten again with the additional PRPH data. Of those invited, just 823 did so (table 6), representing a 7.6 percent positive response rate. White applicants were slightly more likely to submit their rental data than Black applicants (8.8 percent versus 7.7 percent). The addition of PRPH turned denials into acceptances for less than 30 percent of all applicants, and the acceptance rates for white applicants (32.2 percent) were significantly higher than for Black applicants (24.0 percent). Finally, less than 30 percent of the 238 new acceptances resulted in new Freddie Mac–funded mortgages (30). The addition of PRPH resulted in 16 new Freddie Mac–funded mortgages for white applicants and just 4 new mortgages for previously denied Black applicants.

TABLE 6

Freddie Mac Underwriting Using Positive Rental Payment History, 2022

	White	Black	Other	All
Number of applicants notified	3,332	1,355	6,142	10,829
Number of applicants who provided data	292	104	427	823
Number of data providers as a share of notified applicants	8.8%	7.7%	7.0%	7.6%
Number of applicants accepted	94	25	119	238
Number of acceptances as a share of data providers	32.2%	24.0%	27.8%	28.9%
Number of funded applications	16	4	10	30
Number of loans funded as a share of acceptances	17.0%	16.0%	8.4%	12.6%

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).

Meaningfully reducing the Black-white mortgage funding gap using PRPH requires several steps, beginning with a high response rate from Black applicants to Freddie Mac's request that they grant permission enabling their lenders to directly access rental payment records directly from their bank accounts so the lenders can underwrite the loan application again with the addition of PRPH data.

Without an affirmative response to an invitation to submit PRPH data, there can be no loan approval or funding. Fannie Mae does not report on the share of applicants who were invited to submit their rental data and who did so, but Freddie Mac's early experience shows how much of a hurdle this can be.

USING BORROWER CASH FLOW IN CREDIT DECISIONS

Both GSEs have also modified their respective automated underwriting systems by incorporating a borrower's cash flow activity through bank statement data to responsibly expand access to credit, which may be particularly useful for historically underserved borrowers lacking credit scores or for borrowers with thin credit files. Fannie Mae's changes went into effect in December 2022, so there are no data to report yet. Freddie Mac's incorporation of cash flow data into automated underwriting began earlier and by the end of 2022 had invited nearly 24,000 applicants to enable their lenders to access their bank statement data in a process similar to that pursued with Freddie Mac's PRPH initiative (table 7). Freddie Mac's initial experience with this important underwriting innovation is like its PRPH initiative, with one notable exception. While less than 10 percent of all notified applicants provided bank statement access to their lender, the addition of cash flow consideration resulted in similar rates of loan acceptance for Black borrowers and white borrowers (roughly 27 percent), while the share of Black borrowers accepted resulting in a new Freddie Mac loan (13.5 percent) exceeded the share of white borrowers getting a Freddie Mac loan (9.7 percent).

TABLE 7

Freddie Mac Borrower Cash Flow Considered in Credit Decisions, 2022

	White	Black	Other	All
Number of applicants notified	7,436	2,711	13,538	23,685
Number of applicants who provided data	573	192	894	1,659
Number of data providers as a share of notified applicants	7.8%	7.1%	6.6%	7.0%
Number of applicants accepted	155	52	279	486
Number of acceptances as a share of data providers	27.1%	27.1%	31.2%	29.3%
Number of funded applications	15	7	9	31
Number of loans funded as a share of acceptances	9.7%	13.5%	3.2%	6.4%

Source: Freddie Mac, *Equitable Housing Finance Plan: 2022 Performance Report* (McLean, VA: Freddie Mac, 2023).

EQUITY IMPLICATIONS OF UNDERWRITING INNOVATIONS

The GSEs' updated plans recognize the need to dramatically increase applicant provision of their bank data to their mortgage lender for these underwriting initiatives to meaningfully increase equity by mounting major education and outreach campaigns to improve applicants' understanding that doing so might increase their chances of qualifying for a mortgage. These early results also reinforce the view that the FHFA and the GSEs think about equity in terms of both process and outcomes. Unless the processes by which PRPHs and cash flow underwriting considerations increase equity, the ultimate outcome, narrowing the racial mortgage funding gap between white borrowers and borrowers of color, will not be achieved.

THE GSES SHOULD PROVIDE UNDERLYING DATA

Two additional implications of the GSEs' discussing their respective underwriting innovations should be noted for consideration in the final rule. First, although both GSEs' progress reports discuss the current state of their underwriting refinements, only Freddie Mac provides detailed data on each step of the process to allow readers to see where the bottlenecks are. The final rule should either provide standardized templates for the GSEs to follow or spell out data reporting requirements in more detail than the proposed rule does. Second, the tables we built for the above analyses required more time and resources than would have been the case if GSE performance assessments included downloadable files containing all the data included in the reports. The FHFA should make this part of the final rule.

Building Credit through Rent Reporting

Both GSEs have developed pilots to help renters build credit by encouraging their respective multifamily owner-operators to contract with approved third-party technology platforms to enable on-time rental payments to be reported to the three major credit bureaus. Freddie Mac began its rent reporting initiative in late 2021 and expanded it in 2022 as a feature of its EHFP. Fannie Mae launched its program as part of its EHFP in the third quarter of 2022 with an explicit purpose of helping "Black renters with no credit score establish a credit history and help those with low credit scores increase them" (Fannie Mae n.d., 6). As of December 2022, Freddie Mac reported an enrollment of more than 184,000 renter households across 1,449 properties, while Fannie Mae's later-starting program had enrolled more than 550 properties with more than 100,000 units contracted for inclusion in its pilot.

More than 27,000 of those enrolled in Freddie Mac's pilot had established credit scores for the first time by year-end 2022, and two-thirds had raised their credit scores. For half of Fannie Mae's enrolled residents for whom outcome data were available at the end of 2022, 7,000 had established credit scores and 65 percent of residents with scores saw them increase by an average of 45 points.

Equity-Related Data Challenges

Unlike for home purchase mortgage applications that are run through a GSE's automated underwriting system, which collects race and ethnicity data for most applicants and borrowers, neither GSE routinely collects this kind of information for tenants of the multifamily rental properties they finance. This omission complicates efforts to determine how well the benefits of credit building through rent reporting at scale will increase equity or, more specifically, disproportionately benefit people of color.

Fannie Mae makes a strong attempt to inform this issue indirectly by monitoring activities and outcomes using data on the racial and ethnic composition of the neighborhoods (census tracts) in which the reporting properties are located, assuming that the greater the share of people of color in a census tract, the greater the likelihood of greater racial and ethnic diversity among the reporting residents. Table 8 indicates high and reasonably stable rates of the share of units in enrolled buildings reporting rents and generally similar shares of new credit scores created or improved across neighborhoods with different concentrations of people of color. Third-party household surveys of enrolled properties that attempt to obtain demographic data would shed more light on this issue, but until then, the FHFA should include Fannie Mae's reporting template in its final rule.

TABLE 8

Fannie Mae Progress on Rent Reporting, 2022

	Residents of Color as a Share of the Census Tract Population						
	< 10%	10–20%	20–30%	30–50%	50–80%	80–100%	All
Number of properties reporting	2	18	20	43	67	50	200
Number of units in properties	213	2,160	3,529	10,996	17,763	12,822	47,483
Number of units reporting	138	1,699	2,748	8,634	13,247	9,538	36,004
Share of units reporting	64.8%	78.7%	77.9%	78.5%	74.6%	74.4%	75.8%
Number of residents reporting	140	2,266	3,571	11,611	18,851	14,803	51,242
Number of credit scores established	21	330	573	1,194	2,616	2,429	7,163
Number of credit scores improved	19	728	1,147	3,742	6,136	4,130	15,902
Share of residents with credit scores created or improved	28.6%	46.7%	48.2%	42.5%	46.4%	44.3%	45.0%

Source: Fannie Mae, *Equitable Housing Finance Plan: 2022 Performance Report* (Washington, DC: Fannie Mae, n.d.).

It Is Important to Know Whose Credit Scores Fall

Neither GSE reports on differences among renters who enroll in rent reporting and those who do not, so we cannot say that equity would be enhanced through targeted campaigns to boost the number of units and renter participation rates. More importantly, neither GSE's performance assessment reports the number of renters whose positive rent reporting reduced their credit scores. The known shares of renters experiencing reduced scores are small, and the possible reasons for this result have been discussed elsewhere (Cochran, Stegman, and Foos 2021). Neither GSE has been sufficiently transparent in disclosing these data, and the FHFA should require in its final rule a full accounting on the incidence of credit score creation, increases, decreases, lack of changes, and their respective magnitudes in their rent reporting pilots.

Summarizing Our Responses

Question 8. Should the FHFA Issue an Evaluation of the Enterprises? Should the Rule Include Required Evaluation Metrics?

As it does with other critical GSE programs and activities, the FHFA should issue timely reports on the state and progress of the GSEs' equitable housing finance activities. The final rule should include required metrics that the GSEs should include in their progress reports (more on that below). Each activity should be assessed and reported based on defined equitable outcomes, metrics, and baselines, which would be established in the plans. Those metrics should be publicly reported, as all stakeholders can learn from the GSEs' efforts. But these reports should be distinguished from independent third-party evaluations of the impacts of their plans, which should attempt to draw causal inferences and should draw upon non-GSE data.

Question 9. Should the Rule Include Required or Optional Priority Goals? If So, Who Should Determine Which Priority Goals Are Applicable?

The rule should lay out a few high-level measures of overall equity to guide planning and to prioritize activities. Equitable outcomes are unlikely to materialize unless all the inputs and underlying processes are equitable. The list of example objectives provided in the discussion to the proposal is constructive, though we would caution that these should remain as examples and not as prescriptive requirements in the final rule.

Here, and in the definition of meaningful activities, we recommend that more attention be paid to activities that influence the broader housing finance ecosystem, even if they do not directly move the GSEs' own metrics. This is one of the GSEs' "superpowers," given their access to proprietary data and their influence over the market (Ratcliffe, Goodman, and Stegman 2022). The sample objectives for research and knowledge sharing begin to get at this, and we applaud the emphasis on a robust, focused research agenda. In addition, we commend the GSEs' actions and investments to make their intellectual property, research, and data available to the larger market as part of their EHFPs. The final rule should support, encourage, and credit these broad market-sharing practices. We have in mind here such contributions as (1) Freddie Mac's down payment assistance search tool, DPA One, which aggregates down payment assistance program information, making it easier for loan officers to match programs to their borrowers' needs, and (2) an interactive map Freddie Mac has made available to the larger market that displays the number and attributes of mortgage-ready first-time homebuyers in local markets across the country.[11]

Question 11. Should the Focus of an EHFP Be Limited to One Underserved Community at a Time?

It is not a good idea for a GSE to focus on one underserved community in its annual plan or three-year planning cycle because racial and ethnic disparities in the housing and mortgage markets often have overlapping and interdependent roots and causes. Moreover, knocking down barriers for one group is likely to benefit other historically underserved groups. Useful examples include the GSEs' rent reporting initiatives. Activities should identify the underserved communities they seek to serve, the barriers to address, and goal and success measures.

Question 12. Does the Rule Provide for Sufficient Public Engagement?

Proposed sections 1293.24(a) and (b) lay out public engagement requirements for both the FHFA and the GSEs to help guide and inform the entire EHFP enterprise. The GSE plans and performance reports record impressive outreach and engagement efforts. Fannie Mae conducted 60 consultations that generally focused on "racial equity, housing stability, consumer housing journey maps, and agreement to support and/or participate in actions or research with non-profit organizations and community groups (34) and technology service and Fintech providers (26)" (Fannie Mae, n.d., 21).

Freddie Mac reports interviewing, among others, more than 100 "housing supply" organizations and conducting several original consumer research interviews and field surveys focused on the homebuying journey for Black and Latino households, as well as housing supply issues from the perspective of respondents with low and moderate incomes. From our reading of the plans and performance assessments, we would give both GSEs high marks on the public engagement front while recommending that the FHFA be more prescriptive in the level of detail it expects.

We cannot give the FHFA similar accolades. All the narrative accompanying the proposed rule regarding the FHFA's own outreach says that its "2021 request for input and listening session on the initial Equitable Housing Finance Plan program provided valuable input and the proposed rule would therefore codify these or similar types of public engagement as a requirement for future plans." [12]

The FHFA's 2021 request for input and listening session on the initial EHFP program provided valuable input, and the proposed rule would therefore codify these or similar types of public engagement as a requirement for future plans. Where the FHFA falls short on its public engagement responsibilities is in its failure to make good on its intent to establish a Federal Advisory Committee on Affordable, Equitable, and Sustainable Housing, as recorded in an August 2022 press release [13] and a follow-up Federal Register notice of its intent to establish such a committee.[14] According to the Federal Register notice, the scope of the professionally diverse nearly 20-member committee would include providing information and analysis in support of advice and recommendations to the FHFA regarding affordable, equitable, and sustainable housing. Whether establishment of this advisory body is codified in the final rule or kept separate, it is incumbent upon the FHFA to move forward on this important commitment.

Question 13. The Role of Special Purpose Credit Programs

Even though the legal framework for SPCPs has been around for decades, industry adoption of these targeted mortgage loans to address barriers to sustainable homeownership opportunities for underserved communities remains tentative. But with both GSEs developing their own best versions of SPCPs in their respective EHFPs, this may soon change.

The FHFA acknowledges the potential of SPCPs to create a fairer mortgage finance system and asks for public feedback on whether SPCPs should be incorporated into the final rule (which the proposed rule does not do), and if so, which types of programs should be adopted. We believe that formal incorporation of SPCPs in the rule will convey durability and increase lender willingness to invest their resources in these programs. That said, even though the final rule should encourage and support SPCPs as critical elements of GSE equitable housing finance systems, it would be a mistake to "anoint" SPCP loan parameters in the final rule and thwart what are valuable test-and-learn processes that both GSEs are currently engaged in as they develop parameters for their respective programs that would have the greatest impacts in bringing more underserved communities into the conventional mortgage finance system. The final rule should ensure full reporting on all pilots and should describe GSE-specific SPCP templates and loan acquisitions, the criteria each uses to approve lender-designed SPCPs, and performance data on all loans compared with other benchmarks when such data become available.

SPCP PROGRESS TO DATE

Track 1. Both GSEs have made impressive progress in their inaugural plan year pursuing a dual-track approach in their SPCP activities. Track 1 is to develop a GSE-specific SPCP template that sets the parameters or to define an effective "safe harbor" for lenders to originate and sell into. Freddie Mac has designed and is testing its SPCP template, BorrowSmart Access, through a cross-section of regional and national lenders in 10 geographic markets that have high numbers of mortgage-ready potential borrowers from underserved groups and an adequate supply of affordable housing.[15] BorrowSmart Access is a 97 percent loan-to-value mortgage that provides funding support for first-time homebuyers earning up to 140 percent of the area median income through cash-to-close contributions from both Freddie Mac and the originating lender, totaling at least $3,000 for the borrower. Fannie Mae launched its pilot to define its template in October 2022 through a diverse set of select lenders serving first-time homebuyers in majority-Black census tracts in Atlanta, Baltimore, Chicago, Detroit, Memphis, and Philadelphia. This year, Fannie Mae will evaluate its preliminary parameters "against the hypothesis that down payment and closing cost assistance, combined with other supporting counseling and sustainability assistance where possible, can effectively and safely be used to improve access to mortgage finance and homeownership" (Fannie Mae 2023, 23).

Track 2. In addition to the development of Freddie Mac– and Fannie Mae–specific templates, each GSE has developed its own expedited internal processes to review and approve lender-designed SPCPs. Although there is little recorded activity of loans acquired through their respective SPCP templates, the GSEs combined have acquired almost 2,000 loans from individual lender-approved SPCPs in their inaugural plan years. Table 9 summarizes race and ethnicity data on the borrowers whose lender-approved loans Fannie Mae purchased by the end of 2022. Though targeted to neighborhoods with high concentrations of people of color, rather than individual borrower characteristics, it is still notable that nearly two-thirds of the borrowers were Black or Hispanic and, overall, nearly three-quarters were borrowers of color.

TABLE 9

Fannie Mae Special Purpose Credit Loans Acquired through Guide-Eligible Special Purpose Credit Programs, 2022

	Number	Share with race or ethnicity data
White borrowers	231	27.2%
Black borrowers	355	41.8%
Hispanic/Latino borrowers	203	23.9%
Total for borrowers of color	618	72.8%
Total loans with race or ethnicity data	849	
Total loans with no race or ethnicity data	35	
Grand total	884	

Source: Fannie Mae, *Equitable Housing Finance Plan: 2022 Performance Report* (Washington, DC: Fannie Mae, n.d.).

Question 14. Are the Minimum Requirements for Performance Reports Sufficient, or Should Performance Reports Contain Any Additional Information Not Included in the Rule?

A recent Urban Institute brief provides extensive and specific recommendations for performance reports; we incorporate those recommendations herein by reference (Ratcliffe, Goodman, and Alexandrov 2023). We reiterate our view that the FHFA drop the requirement that the GSEs provide summary data of the resources they are dedicating to their plans in their performance reports.

Questions 15–17. Should Federal Home Loan Banks Be Required to Prepare Equitable Housing Finance Plans? If So, How Would the EHFP Framework Be Applied? Or Are There Other Ways to Incorporate the Principles of Equitable Housing by the Banks?

In a word, yes, the FHLBanks should be required to prepare EHFPs.

The FHFA requires the GSEs, including the FHLBanks, to implement diversity, equity, and inclusion strategies[16] because such strategies are an essential component of the FHFA's "work to enhance and implement fair, equitable, sound, and effective housing finance policies for the American people." But exempting the FHLBanks from equitable housing finance considerations in their main financing strategies a big mistake and a missed opportunity, unless the FHFA intends to include equitable housing finance considerations in its forthcoming recommendations to modernize and reform the entire FHLBank system.

The FHFA recognizes the potential of the FHLBanks to contribute to a more equitable housing finance system because it highlights in the proposed rule a narrative about the San Francisco FHLBank's research sponsorship and product development initiative to "address issues related to the racial homeownership gap."[17] In fact, following that research, that bank's board in 2023 "voted to voluntarily allocate up to an additional 5% of the Bank's annual net income to funding economic development and homeownership grant programs and special purpose credit programs that enrich people's lives and revitalize communities."[18] San Francisco is not the only FHLBank to step up its equitable financing considerations. The FHLBank of Boston's 2023 Targeted Community Lending Program discusses its research on SPCPs and its intent to use them "specifically to increase homeownership opportunities for people of color" (Boston Federal Home Loan Bank, n.d., 1).

These are promising developments, but a review of other FHLBank strategic plans—which are community investment and targeted lending strategies the FHFA requires the FHLBanks to prepare—finds several strategic plans that scarcely or do not address racial and ethnic disparities in their districts and fail to disaggregate housing market data to allow for the measurement of those disparities.

Some might argue that the FHLBanks are different than their GSE siblings. Fannie Mae and Freddie Mac are secondary market players, while FHLBanks are wholesale lenders. But just as Fannie Mae and Freddie Mac set the terms of trade for primary market mortgage lenders through their seller-servicer guides, the FHLBanks could exert similar influence on their thousands of financial institution members through the terms they impose on their advances and other specialized liquidity products.

At a minimum, the FHFA could require FHLBank strategic plans and targeted lending and community investment strategies to incorporate equitable housing finance considerations and insist that data on market trends in their districts account for racial and ethnic disparities in access and outcomes for both rented and owned homes. By rule, the FHFA could also direct FHLBanks to increase their support for smaller community banks and other mission lenders that play a significant role in financing affordable housing and community development in underserved markets, boost financing for affordable housing and community economic development by expanding two underused project-based investment programs, and raise the community support program threshold for FHLBank members as a requirement for long-term advance access (Stegman 2023).

Conclusions

Collectively, the FHFA and the GSEs have made remarkable progress in helping to steer America's housing finance system toward the North Star outcome of fair, just, equitable, and sustainable outcomes in the two years that the EHFPs have been in effect. Codifying and expanding EHFP requirements and transitioning their authorization from the conservator's discretionary directive to a more durable rule promulgated under FHFA's regulatory authorities should provide more time to prove the theory of the case.

Notes

[1] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25293.

[2] Liam Reynolds, Jung Hyun Choi, and Vanessa G. Perry, "How People-Based Special Purpose Credit Programs Can Reduce the Racial Homeownership Gap," *Urban Wire* (blog), Urban Institute, April 22, 2022, https://www.urban.org/urban-wire/how-people-based-special-purpose-credit-programs-can-reduce-racial-homeownership-gap.

[3] Federal Housing Finance Agency, "FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac: Public Input Requested on How Enterprises Can Sustainably Advance Equitable Housing Finance," news release, September 7, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans-for-Fannie-Mae-and-Freddie-Mac.aspx.

[4] Federal Housing Finance Agency, "FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac," news release, September 8, 2022, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans--for-Fannie-Mae-and-Freddie-Mac.aspx.

[5] Federal Housing Finance Agency, "FHFA Announces Updated Equitable Housing Finance Plans for Fannie Mae and Freddie Mac: Agency Also Releases Updated Enterprise Fair Lending Data," news release, April 5, 2023, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Updated-Equitable-Housing-Finance-Plans-for-Fannie-Mae-and-Freddie-Mac.aspx.

[6] As an example, the most obvious high-level metric is to increase the share of mortgages purchased by race and ethnicity, in various categories, which both Freddie Mac and Fannie Mae report in the performance reports on their inaugural EHFPs.

[7] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25294.

[8] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25304.

[9] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25308.

[10] Jason Richardson, "The Critical Need to Address Missing Data in HMDA," National Community Reinvestment Coalition, August 25, 2022, https://ncrc.org/the-critical-need-to-address-missing-data-in-hmda/.

[11] "Freddie Mac First-Time Homebuyer Affordability Map," Tableau Public, accessed June 23, 2023, https://public.tableau.com/app/profile/single.family.client.and.community.engagement/viz/FreddieMacFirstTimeHomebuyerAffordabilityMap/DISCLAIMER.

[12] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25303.

[13] Federal Housing Finance Agency, "FHFA Announces Intent to Establish a Federal Advisory Committee on Affordable, Equitable, and Sustainable Housing," news release, August 23, 2022, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Intent-to-Establish-a-Federal-Advisory-Committee-on-Affordable-Equitable-and-Sustainable-Housing.aspx.

[14] Notice of Intent to Establish a Federal Advisory Committee on Affordable, Equitable, and Sustainable Housing, 87 Fed. Reg. 52556 (Aug. 26, 2022).

[15] The 10 markets are Atlanta, Chicago, Detroit, El Paso, Houston, McAllen (Texas), Memphis, Miami, Philadelphia, and St. Louis.

[16] "Diversity, Equity, and Inclusion: Our Foundation," Federal Housing Finance Agency, last updated March 30, 2023, https://www.fhfa.gov/AboutUs/DiversityInclusion.

[17] Fair Lending, Fair Housing, and Equitable Housing Finance Plans, 88 Fed. Reg. 25293 (Apr. 26, 2023), 25297.

[18] FHLBank of San Francisco, “FHLBank San Francisco Unveils New $10 Million Downpayment Assistance Program for Middle-Income Homebuyers in Arizona, California, Nevada,” news release, May 11, 2023, https://fhlbsf.com/about/newsroom/fhlbank-san-francisco-unveils-new-10-million-downpayment-assistance-program-middle.

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