The FHFA's Equitable Housing Finance Plans for Fannie Mae and Freddie Mac

Equity Should Be a Primary Business Consideration for the GSEs

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On September 7, the Federal Housing Finance Agency (FHFA) issued a request for input on ways that Fannie Mae and Freddie Mac (the government-sponsored enterprises, or GSEs) can sustainably advance equitable housing finance as part of a new Equitable Housing Finance Plan (EHFP) requirement. In combination with the housing goals and the Duty to Serve requirements, these plans mark the FHFA's latest effort to ensure the GSEs fulfill their mission to serve low- and moderate-income families and underserved populations. A long history of racism in access to mortgage credit has led to sizeable homeownership rate gaps and continued underinvestment and undervaluation in previously redlined neighborhoods. Thus, we applaud the FHFA for taking action to address these disparities and to better serve future homebuyers, who will increasingly be people of color. Further, we support the goals and objectives of these plans as outlined by the FHFA. That said, we offer a conceptual reframing of the EHFP to better make progress on its mission.

To truly address systemic racism in the housing finance system, we propose that the EHFP serve not simply as an additional planning requirement but rather as an "equity overlay" that blankets all aspects of GSE policies, processes, and practices, making equity another one of the GSEs' primary business objectives. The EHFP will be most effective if equity becomes a primary concern embedded in the GSEs' structure, with programs and practices being evaluated on an equity basis the same as they would be for risk and profitability.

To that end, we offer three core recommendations:

1. Establish a clear vision and goal for "equitable housing finance," based on a few focused goals.
2. Operationalize equitable housing finance with clear and quantifiable objectives.
3. Align reporting, systems, and structures around the equity objectives.

We offer detailed recommendations and examples as to how this overlay can be implemented. Equity-enhancing activities across these three objectives would include

- aligning EHFPs to affirmatively further fair housing,
- allowing the GSEs to pilot programs for equity purposes and using their retained portfolio,
- reviewing underwriting standards and rethinking loan-level price adjustments (LLPAs), and
- linking EHF planning progress to executive compensation.

The FHFA Has an Imperative to Right Historic Wrongs Directed toward People of Color

More than 50 years after the 1968 passage of the Fair Housing Act, the gap in homeownership rates between white and Black Americans is not only higher than it was when housing discrimination was made illegal but is the highest it has been since 1890.[1] Today, 72 percent of white households own their home, compared with 42 percent of Black households, 48 percent of Hispanic households, 51 percent of American Indian and Alaska Native households, and 58 percent of Asian American and Pacific Islander households.[2]

Despite these disparities, only 4.8 percent of the GSEs' purchase money loans were to Black borrowers in 2020, compared with 7.5 percent of all purchase loans and 16.3 percent of all Federal Housing Administration (FHA) loans that year. Likewise, 7.6 percent of the GSEs' funded purchase loans were to Hispanic borrowers, compared with 14 percent of all loans and 26.5 percent of all FHA loans. The share of GSE loans that went to white borrowers for purchase mortgages in 2020 (76.1 percent) is higher than the white share for FHA loans, private-label securities, and US Department of Veterans Affairs (VA) loans and is on par with loans originated for portfolio and slightly below "other." Refinances matter too. From January through October 2020, Black and Hispanic borrowers were significantly less likely to refinance than white borrowers (Gerardi, Willen, and Zhang 2020), missing out on potential savings of an estimated $1,200 a year by refinancing (Khater, McManus, and Liu 2021).[3] The challenges are even starker for all loans (including refinances), where only 3.8 percent of all GSE-funded loans went to Black borrowers versus 5.9 percent of all loans, and the GSEs represent 60.8 percent of all the loans made.

Nor is the racial homeownership gap (and, by extension, the racial wealth gap) limited to individual households. There are also massive discrepancies based on geography. Neighborhoods redlined by the Home Owners' Loan Corporation and intentionally starved of capital on the basis of race by the FHA nearly 90 years ago remain places of disadvantage and disinvestment, communities characterized by low incomes, high shares of residents of color, and an enduring shortage of economic opportunity (Fishback et al. 2021).[4] Seventy-four percent of neighborhoods the Home Owners' Loan Corporation graded as high risk or "hazardous" are low-to-moderate-income communities today, and nearly 64 percent are majority people of color. As researchers at the National Community Reinvestment Coalition explain, “Redlining buttressed the segregated structure of American cities.”[5]

As a centerpiece of the housing finance ecosystem, the GSEs have a moral imperative to right these wrongs. They also have an economic imperative. Most future homebuyers will be people of color. According to Urban Institute research, net new homeowners from 2020 to 2040 will be all nonwhite and mostly Hispanic. Of the 6.9 million projected new homeowner households during this period, 70 percent will be Hispanic, 38 percent will be Asian, and 17 percent will be Black (Goodman and Zhu 2021). The GSEs face a business imperative to adapt to better serve future homebuyers. Doing so will ensure the GSEs’ relevance in the housing market and strengthen the larger economy. Analysts at Citi Global Solutions estimate that had we equalized access to housing credit 20 years ago, there might be 770,000 more Black homeowners today and up to $218 billion in additional economic activity (Citi 2021).

Equity Should Be an Overlay That Blankets GSE Business

The EHFP should not be thought of as just another, albeit important, planning requirement sitting alongside the GSEs’ affordable housing and underserved markets planning obligations. A more fruitful way of conceptualizing EHFP is as an overlay that blankets all aspects of GSE policies, processes, and practices, with the twin goals of rooting out vestiges of race-related inequity, such as appraisal bias, while taking bold but prudent steps to close the racial and ethnic homeownership gaps.

To be clear, we are not suggesting that an equity overlay would either replace or supersede the commitment to safety and soundness. Rather, we envision a business model that strives for equity and builds safety and soundness considerations into that aim, in which any activity that is not explicitly equity oriented is evaluated for its potential impact on equity. In this way, equity would take its place among the GSEs’ primary business objectives. Similarly, the FHFA’s oversight responsibilities and decisions would first be scrutinized through an equity lens. For example, when considering whether to pursue new products or revise loss mitigation strategies, the first questions that would dictate next steps would be as follows: Does this action advance equity in the housing market? If so, how? If not, would it fuel inequality? Would there be a way to pursue the needed action such that it either promotes equity or at least does not impede it? In the context of the answers to those sorts of questions, the FHFA and the GSEs would then consider the other critical dimensions of any proposed action, including regulatory limitations, implications related to risk, finances and operations, and institutional priorities.

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

BOX 1

How This Work Fits into the Urban Institute's Broader Discussions of Racial Equity

By using an equity overlay framework, the FHFA can use this historic moment to better secure the centrality of homeownership in the American dream.

> [A]n organization should resist the temptation to separate racial equity goals from all other goals in the organization. Racial equity as a value and an operating practice means that racial equity is at the center or core of all the organization's work—no decision is made and no activity is implemented without conducting a racial equity impact analysis to understand the effect of that decision on the organization's racial equity goals. This explicit understanding and practice prevent an organization from making racial equity a 'nice to do' rather than a "must do."[a]

To learn more about the Urban Institute's commitment to knowledge building to inform and accelerate solutions to overcome the legacy of structural racism and close the profound equity gaps that persist today, see "What Would It Take to Overcome the Damaging Effects of Structural Racism and Ensure a More Equitable Future?" Urban Institute, accessed November 29, 2021, https://next50.urban.org/question/structural-racism; and "Racial Equity Analytics Lab," Urban Institute, accessed November 29, 2021, https://www.urban.org/racial-equity-analytics-lab.

[a] Leiha Edmonds, Clair Minson, and Ananya Hariharan, "Centering Racial Equity in Measurement and Evaluation: Emerging Lessons and Guidance from Human Service Nonprofits" (Washington, DC: Urban Institute, 2021).

Recommendation 1: Establish a Clear Vision and Goal for Equitable Housing Finance Focused on a Few Measurable Outcomes

The first step in adopting an equity overlay is to clearly define equitable housing finance. A clear and relevant definition of equity allows for tangible analysis of the equity impact of any activity and can serve as a North Star to guide the GSEs—and the entire housing finance ecosystem—toward meaningful change. In its request for input, the FHFA sets the following outcomes as the goal of an equitable housing finance system:

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

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

These three outcomes are an effective way to define equity, not only because they align with and encompass the GSEs' core activities and objectives but because they are concrete:

1. **The outcomes are focused.** By targeting a few key outcomes, the FHFA and the GSEs can drive meaningful change and accountability.
2. **The outcomes are measurable.** With transparent tracking and evaluation, the FHFA can effectively and publicly measure progress toward EHFP goals and objectives.
3. **The outcomes directly address legacies of race- and place-based housing discrimination.** By repairing the damage of housing discrimination on both individual households and entire communities, the FHFA and the GSEs can begin to dismantle the most egregious, powerful, and systemic barriers to homeownership, as opposed to simply making change at the margins of the housing finance system.
4. **The outcomes align with the GSEs' role in the housing finance system, with their statutory purposes, and with their business and policy motivations.** Recent studies show that closing racial wealth gaps and integrating communities would increase the nation's gross domestic product by 0.30 to 0.35 percentage points per year, adding an additional $5 trillion of growth over the next five years (Peterson and Mann 2020; Zandi et al. 2021). Measurably improving equity in housing market outcomes is a natural channel for the GSEs to support macroeconomic stability while fulfilling their duties to support underserved populations.

Recommendation 2: Operationalize the Definition of "Equitable Housing Finance"

With clear and quantifiable objectives as the guide, the full range of business and regulatory activities can be evaluated and held accountable to those objectives.

In fact, the FHFA already appears to have brought more of an equity overlay to the housing goals by modifying the low-income-area subgoals to address equity concerns regarding minority neighborhoods. But the FHFA can challenge the GSEs to go further in serving greater numbers of people of color under their single-family home purchase goal (recently raised from 24 percent to 28 percent), the goal for very low–income families (increased from 6 percent to 7 percent), and the refinance goal for low-income families (increased from 21 percent to 26 percent). Given the lagging racial disparities in the GSEs' mortgage purchase and refinancing activities, casting a broad equity lens across activities suggests the GSEs should report their affordable mortgage purchase and refinance activities by race and ethnicity. Alternatively, the FHFA should consider creating subgoals for people of color within the overall purchase and refinance goals.

This is just one of the many businesses and regulatory activities that the FHFA and the GSEs could adjust to implement an equity overlay. Below are a few more strategies we think would be fruitful. That said, this is not a comprehensive list. But the list does illustrate the myriad of ways an equity overlay would influence not only business but operational and regulatory activities.

REVIEW AND RETHINK UNDERWRITING STANDARDS

A pivotal factor in attaining homeownership, and an area in which the GSEs are especially influential, is the standards for who gets a mortgage. Today, the GSEs' underwriting box is narrow, a relic of the Great

Recession that is likely exacerbated by lender overlays and GSE loan-level risk-based pricing, impeding homeownership for many who might have been approved under a more "normal," risk-tolerant set of underwriting guidelines. As researchers from the Urban Institute's Housing Finance Policy Center point out in its most recent report on the housing credit availability index, "Significant space remains to safely expand the credit box. If the current default risk was doubled across all channels, risk would still be well within the pre-crisis standard."[6]

The EHFP requirement creates the opportunity to make significantly more progress toward an equitable housing finance system by recognizing that although the GSEs' conforming mortgage standards may seem race neutral, they are not. Despite increased reliance on automated and algorithmic underwriting, the three Cs of mortgage lending—credit, collateral, and capacity—still drive underwriting decisions. Although these criteria do not explicitly include race, relying on them nevertheless perpetuates racial inequities.[7] Thanks to a long history of discrimination, the typical white household holds more wealth and has higher credit scores, higher income, lower debt-to-income ratios, and lower loan-to-value ratios than do Black, Hispanic, and American Indian households.

Therefore, all underwriting determinants should be scrutinized through an equity lens to identify opportunities for safely expanding equitable access to mortgage credit, and the mostly untapped, deep pool of rich data on GSE mortgage denials, which also reflect racial disparities, needs to be mined for equity-improving insights.

FACILITATE SPECIAL PURPOSE CREDIT PROGRAMS

Special Purpose Credit Programs (SPCPs) could advance mortgage equity,[8] and the GSEs can pave the way for lenders to offer them. The Consumer Financial Protection Bureau's (CFPB's) 2020 Advisory Opinion clarifies the conditions under which for-profit lenders can create Equal Credit Opportunity Act–compliant SPCPs. These SPCPs could, for example, provide low–down payment loans for applicants of color or provide reduced rates for applicants in majority-minority neighborhoods.[9] The FHFA and the GSEs could convene regulators, seller-servicers, and other stakeholders to translate the CFPB's guidance into SPCP design templates for loan products that would be eligible for purchase by the GSEs.

USE THE GSES' RETAINED PORTFOLIOS AND ALLOW THEM TO PILOT PROGRAMS FOR EQUITY PURPOSES

Many loans the GSEs could fund in carrying out their EHFPs are likely to be nonconforming and ineligible for sale in the to-be-announced market. By holding such loans on their balance sheets, the GSEs' could create a space to pilot and innovate. There is sufficient room under the current Preferred Stock Purchase Agreements' cap on each GSE's retained mortgage portfolios ($250 billion) to accommodate several billion dollars of nonconforming equitable finance loans (as of November 2020, Fannie Mae's mortgage portfolio was $163 billion and Freddie Mac's was $193 billion).[10] But as the GSEs launch their respective EHFPs, the FHFA and the US Treasury Department might need to modify the terms of the Preferred Stock Purchase Agreements to allow equity-related mortgages purchased by the GSEs, including from SPCPs, to be retained on their balance sheets. Prohibitions on piloting and portfolio holdings should be lifted for equity-enhancing programs. To avoid mission creep, such exemptions should be conditioned on numeric goals, reporting and accountability against those goals, strong regulatory oversight, and public visibility.

REVISIT LOAN-LEVEL PRICE ADJUSTMENTS

Many in the housing finance system wonder whether the GSEs' risk-based pricing policies, including LLPAs, place a greater burden on low- and moderate-income borrowers, who are disproportionately people of color, because LLPAs are higher for borrowers with lower credit scores and for low–down payment loans (where mortgage insurance already adds costs).[11] Along those lines, some are concerned that these additional fees could price Fannie Mae or Freddie Mac out of the money for qualified minority low- and moderate-income applicants who have a low enough loan amount to find a better execution from the FHA. (That said, some might argue that if the qualified applicant obtains a loan at a cheaper price, equity is still served.) In any case, an even greater concern arises if LLPAs price qualified minority applicants out of the market, leaving them unable to buy a home. Each of these is a major equity concern that must be examined. Determining the size of this applicant pool requires more data on applications across the GSEs and the FHA, the LLPAs paid by different borrower segments, and data on the disposition of those applications.

SET STANDARDS FOR MULTIFAMILY

The GSEs can lead the way for more equitable rental housing by setting standards for owners of multifamily projects that receive GSE-backed financing. Two examples of immediate impact follow:

Multifamily projects receiving financing through the GSEs should agree, as a term of financing, to engage in eviction only as a last resort. The racial equity concerns of eviction are stark. Black and Latinx renters disproportionately face the threat of eviction and with it, the consequences for their families' mobility and well-being (Desmond and Gershenson 2017). The disproportionate economic impact of the COVID-19 crisis on households of color has only increased their risk of eviction.[12] The GSEs could require multifamily properties backed by their lending to engage only in just cause evictions when certain conditions exist, such as nonpayment of rent or a lease violation.[13] Because public data are lacking, the GSEs could require owners to report eviction filings quarterly, allowing the GSEs to identify owners with large numbers of filings and take corrective action. Additionally, the GSEs could develop model practices to include information about how best to communicate with tenants about lease issues and nonpayment, model repayment agreements, best practices on late fees, and availability of financial resources and tenant services. For example, the US Department of Housing and Urban Development's (HUD's) Office of Public and Indian Housing (n.d.) recently released an Eviction Prevention and Stability Toolkit for its public housing authorities and participating landlords.

The GSEs could require multifamily owners receiving GSE financing to accept all forms of income used to pay rent, including government assistance. Black, Native American, and Hispanic households are more likely than white households to be extremely low income and to be rent burdened (JCHS 2021).[14] Housing vouchers and other rental assistance programs can help close disparities in rent burden and reduce housing insecurity (Kim, Burgard, and Seefeldt 2017). Yet landlords often refuse to rent to voucher holders, particularly in low-poverty neighborhoods (Cunningham et al. 2018). Some evidence suggests that state and local protections that prevent landlords from discriminating based on source of income can improve both voucher utilization rates and locational outcomes (Freeman 2011; Freeman and Li 2014; Galvez et al. 2020) and protect renters who apply for emergency rental assistance funds (NHLP, n.d.).[15] New tenants with vouchers, Social Security Disability Insurance, or other sources of income should be treated no differently than other applicants during tenant screening and intake. Nor should tenants living in multifamily homes with GSE-backed mortgages face eviction or other punitive actions when attempting to pay rent owed using a government source.

This list is meant to be illustrative. The full range of activities, both new and existing, should be evaluated against the equity objectives, encompassing outreach, content, product and program design, loss mitigation and servicing provisions, property disposition, counterparty management, and housing supply and climate[16] considerations.

Recommendation 3: Align Reporting, Systems, and Structures around the Equity Objectives

As with any business objective, it is imperative that the FHFA establish an effective system for measuring, evaluating, and publicly reporting progress toward reducing the racial homeownership gap and increasing investment in underserved and segregated communities. The initial plans should include a list of immediate actions. Early phases of the equity plans should also lay out how the GSEs will invest in building a sustained measurement and reporting system, much as they would for financial reporting.

The GSEs and the FHFA can design and implement a framework and system to support and sustain the equity ethic across the GSEs' operations over time and as conditions evolve. This will require an up-front investment in systems, structures, and policies. The framework could also provide for such elements as an equity audit of current practices and policies. Such an audit could be conducted not only within the GSEs' own activities but by mapping out how those activities affect and are affected by the wider ecosystem and how inequity is embedded throughout it.

Here are four areas in which alignment with EHF planning will lead to real change.

1. ALIGN EHFPS TO AFFIRMATIVELY FURTHER FAIR HOUSING

Under the Fair Housing Act, all federal agencies that have authority over financial institutions are required to administer their programs and activities relating to housing and urban development in a manner that "affirmatively furthers fair housing" (AFFH).[17] Though HUD has taken a leading role, the FHFA also plays an essential—if largely untapped—role, both in achieving the Fair Housing Act's broad aspiration to eradicate discrimination from housing and lending markets and in ensuring the GSEs comply with the AFFH requirement (Turner, de Souza Briggs, and Greene 2020).[18]

AFFH means "taking meaningful actions…that overcome patterns of segregation and foster inclusive communities free from barriers that restrict access to opportunity based on protected characteristics."[19] Given the relationship between AFFH and the EHFPs, certain AFFH terms must be consistently applied to EHFP guidance. For example, both HUD's interim final AFFH rule and the

FHFA's EHFP guidance require covered units of government and the GSEs to "take meaningful actions" to address racial disparities.[20] The AFFH rule defines meaningful actions to be "actions that are designed and can be reasonably expected to achieve a material positive change that affirmatively furthers fair housing by, for example, increasing fair housing choice or decreasing disparities in access to opportunity." HUD also provides state and local governments valuable granular data and analytic tools to help them prepare their AFFH plans (HUD, n.d.). These data and tools can be valuable resources to the GSEs in preparing their EHFPs and to external stakeholders seeking to hold the GSEs accountable for meeting their equitable housing obligations. Moreover, the FHFA should work with HUD, the US Treasury, the US Department of Agriculture, and the VA and other agencies that administer housing programs and share responsibility for complying with the Fair Housing Act to align definitions of AFFH and develop a coordinated approach to implementation and enforcement.[21]

2. APPLY LESSONS FROM AFFORDABLE HOUSING AND DUTY TO SERVE

Lessons learned from affordable housing goals and Duty to Serve strategies can benefit the EHF strategic planning regime. In the case of the affordable housing goals, progress in meeting FHFA-established benchmarks are straightforward because they are defined either as shares of GSE mortgage purchases in the case of single-family loans, and in dwelling units in the case of multifamily loans, and those data are available in real time. This is not the case when there are not credible baselines against which to benchmark progress, as with certain Duty to Serve activities. In these cases, the GSEs developed transparent processes for establishing credible baseline proxies. Much like with Duty to Serve, the FHFA should require each GSE to identify the activities it will pursue to advance equitable housing finance and the objectives for advancing each activity that should be strategic, measurable, and time bound.[22] Similarly, the way the Duty to Serve evaluation regime requires the GSEs to align each underserved market objective to one of four statutory evaluation factors—outreach, loan product development, investments and grants, and loan purchases[23]—is a useful construct for creating an evaluation approach for the EHFP process.

Another lesson learned from Duty to Serve offers an opportunity for relatively small investments by the GSEs to have a big impact toward the equity objectives. The statute allows the GSEs to make investments in "projects," and this provision can be leveraged and extended to stimulate capital investments and funding for organizations at the enterprise level (not just the project level). These organizations, such as community development financial institutions (CDFIs) and large nonprofit housing developers, are best positioned to serve previously redlined, disinvested areas and boost the affordable rental housing supply.

3. USE THE POWER OF GSE DATA TO IMPROVE TRANSPARENCY AND EQUITY INDUSTRY-WIDE

The FHFA and the GSEs have implemented various measurement and reporting mechanisms to inform their business activities, stakeholders, and the public, and equity reporting mechanisms should receive similar investment and visibility.

For example, the GSEs recently developed extensive monthly loan-level disclosures to provide transparency to investors in the credit risk transfer market.[24] The FHFA could provide similar transparency around LLPAs by releasing more data on whether LLPAs contribute to racial disparities in mortgage purchases by the GSEs. Additionally, the FHFA can build upon the generation of Duty to Serve public data, tools, and mapping applications to illuminate gaps in equity, progress in closing those gaps, and the extent of GSE activities and progress over time.[25] Further, the FHFA and the GSEs can invest in developing new data collection tools, as they have done with the National Mortgage Database and the appraisal data collection portal.[26]

These are just a few examples of the FHFA's and the GSEs' power to collect information and inform housing finance system stakeholders. The more public transparency is enabled, the more that power can be put to good. To that end, the FHFA and the GSEs could develop an equity finance–focused public use database that would enable researchers and advocates to identify and mobilize around equity-related issues more rapidly than is possible today. To understand the value of such a database, consider Freddie Mac's recent sophisticated analysis using its proprietary data to expose widespread race-based bias in appraisals (Narragon et al. 2021). The study confirmed substantial valuation gaps for minority versus white census tracts and that minority applicants are more likely to receive an appraisal value lower than the contract price. Additionally, the research rejects the proposition that the valuation gaps are driven by only a few appraisers. Findings like these are the sorts of equity-related issues that need to be identified and resolved by coordination with other actors and can be made known only through a greater availability of public data.

4. LINK EHF PLANNING PROGRESS TO EXECUTIVE COMPENSATION

In the first year of their EHFPs, the FHFA has directed the GSEs to identify objectives and measurable goals and take meaningful actions to reduce the racial and ethnic homeownership gap and underinvestment or undervaluation in formerly redlined areas. To underscore the importance of this mandate, and to hold the companies accountable for putting equity first in their business plans, the FHFA should link executive compensation to meeting these obligations. The vehicle for doing so already exists in the form of the annual scorecard.[27] Since 2012, the FHFA has tied the incentive-based portion of the compensation of Fannie Mae's and Freddie Mac's senior executives to meeting the FHFA's strategic priorities for the conservatorships.[28] By making steady progress toward meeting their respective housing finance equity goals a standing element of forthcoming scorecards, the FHFA can ensure continued executive attention to putting equity first.

A Call to Action

The work of bringing equity to the housing finance system cannot be achieved unilaterally by the GSEs. To achieve success, they must leverage their central role to coordinate across sectors, both private and public. As one example of the GSEs' catalyzing equity lending throughout the system, in carrying out their underserved rural market plans, they both approved the same two CDFIs as seller-servicers. This enables these entities to become aggregators, buying loans from smaller CDFIs who reach deep into communities (Gray and McCarthy 2021). Expanding these kinds of efforts to penetrate markets underserved by traditional financial institutions and the GSEs could be transformative.

Moreover, the FHFA could foster a public-private dialogue to contribute to the EHFPs' development and broader implementation. Examples of nongovernmental communities of practice in local housing programs and policymaking include the Urban Institute–convened Renters and Rental Market Crisis Working Group[29] and New York University's Furman Center/Abt Associates Local Housing Solutions.[30] Formulating this community of practice around a council, such as the CFPB's Consumer Advisory Board,[31] could more formally engage a cross-section of stakeholders. Members of such an advisory community of practice should be given specific, substantive visibility and input into the EHFPs and the GSEs' execution of them while mapping out how sectors they represent can contribute to and be accountable to the success of those plans.

There is also a role for philanthropy in developing a community of practice in equitable housing finance that should not be ignored. After all, the MacArthur and Kresge Foundations are principal funders of both Housing Matters and Local Policy Solutions, which also receive major support from the Ford and JPMorgan Chase Foundations. More to the point, philanthropy played an important role in setting the stage for the earliest fair housing plans required under HUD's 2015 AFFH rule. Moreover, several foundations, including the JPB, Ford, Robert Wood Johnson, and Rockefeller Foundations, also helped directly support preparation of the New York Region's Fourth Regional Plan, a pillar of which is devising strategies to achieve greater equity and shared prosperity (Regional Plan Association 2017).

Finally, to move the needle on the objectives requires coordination across government agencies whose jurisdictions touch upon mortgage finance. Fortunately, Congress created such a coordinating vehicle: the Federal Housing Finance Oversight Board (FHFOB). Created by statute to advise the director on overall strategies and policies in carrying out the duties of the director, the FHFOB is chaired by the director and counts as its members the secretary of HUD, the chair of the Securities and Exchange Commission, and the chair of the Commodities Futures Trading Commission. As the FHFA and the GSEs contemplate how best to address the long and unrelenting practice of discrimination in housing finance, we strongly recommend involving the FHFOB, a tool that is underused but perfectly positioned to bring together important stakeholders. By improving transparency, communication, and collaboration between agencies, the FHFA can strengthen the government's commitment to righting historic wrongs and more fully capture the significant macroeconomic benefits of an equitable housing finance system.

Conclusion

The FHFA and the GSEs are profoundly influential in shaping the future of the housing finance system and, as such, the future for millions of Americans, including those who have been denied the economic opportunities that America represents. This landmark undertaking has elicited many insightful and potentially market-moving recommendations that can improve homeownership outcomes for households of color.[32]

Notes

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[2] "Demographic Characteristics for Occupied Housing Units," US Census Bureau, accessed November 19, 2021, https://data.census.gov/cedsci/table?q=Tenure&tid=ACSST1Y2019.S2502.

[3] See also Jeff Ostrowski, "Black Borrowers Missed Out on Mortgage Refinancing Boom, Fed Study Finds," Bankrate, June 23, 2021, https://www.bankrate.com/mortgages/black-borrowers-missed-out-on-refinancing-boom/.

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[5] Bruce Mitchell and Juan Franco, "HOLC 'Redlining' Maps: The Persistent Structure of Segregation and Economic Inequality," National Community Reinvestment Coalition, March 20, 2018, https://ncrc.org/holc/.

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[7] Liam Reynolds, Vanessa Perry, and Jung Hyun Choi, "Closing the Homeownership Gap Will Require Rooting Systemic Racism Out of Mortgage Underwriting," *Urban Wire* (blog), Urban Institute, October 13, 2021, https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting.

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[9] Anand S. Raman and Darren M. Welch, "Special Purpose Credit Programs—Taking a Second Look at a Familiar Tool," *Skadden*, July 29, 2020, https://www.skadden.com/en/insights/publications/2020/07/special-purpose-credit-programs; and "Advisory Opinion on Special Purpose Credit Programs," Consumer Financial Protection Bureau, December 21, 2020, https://www.consumerfinance.gov/rules-policy/final-rules/advisory-opinion-on-special-purpose-credit-programs/.

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[11] Rachel Breer, Felicia Ionescu, and Geng Li, "Are Income and Credit Scores Highly Correlated," *FEDS Notes* (blog), Board of Governors of the Federal Reserve System, August 13, 2018, https://www.federalreserve.gov/econres/notes/feds-notes/are-income-and-credit-scores-highly-correlated-20180813.htm; and Levitin, "How to Start Closing the Racial Wealth Gap.".

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