Bridging the financial inclusion divide digest: Addressing purpose and profit through regulation

Regulatory developments in the financial services industry (FSI) regarding financial inclusion

Leading off
In the wake of significant changes over the past few years, both social and political, fueled by scars of the pandemic, the case for inclusion is stronger than ever. The industry is moving toward attaining the financial inclusion goal in steady steps, putting forth its creative best.

Continuing from our October 2021 issue of the financial inclusion digest, we have noted a fresh wave of new regulations, amendments, and updates to combat inequities in the consumer financial marketplace. In this issue, we highlight how the industry is working to address financial inclusion through one of the prime catalysts of wealth: homeownership. We put forth how proposed legislation could address the potential inequities to homeownership and how alternative sources of data are used in the underwriting process to expand access to credit and to drive equity in real estate.

Senator Reverend Warnock introduces legislation to support first-generation homebuyers, pushes for inclusion in Build Back Better economic package[1]
One of the major components of President Biden's Build Back Better Framework[2] is to make the single largest and most comprehensive investment in affordable housing history, eventually supporting Americans in buying quality housing. The Downpayment Toward Equity Act of 2021 is designed to help millions access the benefits of homeownership and provide a pathway to financial security and housing stability

across the country. This bill will provide federal grants, administered through local entities, to aid first-generation homebuyers with qualifying expenses toward purchasing their first home—including down payment costs, closing costs, and costs to reduce interest rates.

This legislation addresses concerns regarding potential multigenerational inequities in access to homeownership and helps to narrow and ultimately close the racial homeownership gap in the United States. It would also help address the legacy of discrimination in the housing market by providing down payment and other financial assistance, along with housing counseling requirements, to expand access to sustainable home ownership and reduce barriers to entry for creditworthy, lower wealth borrowers.

The legislation is introduced by US Sen. Rev. Warnock, joined by US Senators Sherrod Brown (D-Ohio), Chairman of the US Senate Committee on Banking, Housing, and Urban Affairs Tim Kaine (D-Va.), Chris Van Hollen (D-Md.), Mark Warner (D-Va.), and Elizabeth Warren (D-Mass.).

FHFA announces inclusion of rental payment history in Fannie Mae's underwriting process[3]

In a major step forward to expand access to credit in a safe and sound manner, the Federal Housing Finance Agency (FHFA) has announced that Fannie Mae will consider rental payment history in its risk assessment processes. With the update to Fannie Mae's systems, future borrowers are said to have the benefit of a positive rental payment history being included in an underwriting decision. There is no additional burden—either for the borrower or for the lender—to make use of this feature.

This is a move toward understanding how rental payments can be more broadly included in credit-related assessments, giving tenants an additional opportunity to realize their dream of sustainable homeownership. Commenting on the same, Acting Director Sandra L. Thompson noted, "For many households, rent is the single largest monthly expense. There is absolutely no reason timely payment of monthly housing expenses shouldn't be included in underwriting calculations."[4]

Other notable regulatory developments

FDITECH selects three winning teams in tech sprint to reach the unbanked[5]

On September 13, 2021, the Federal Deposit Insurance Corporation (FDIC) announced three winners for the "tech sprint" designed to explore new technologies and techniques to help banks meet the needs of unbanked consumers. FDITECH launched a first-of-its-kind tech sprint on July 6, called "Breaking Down Barriers: Reaching the Last Mile of the Unbanked," which invited and challenged participants to identify and sustain better resources and tools to help banks bring unbanked consumers into the banking system and banking relationships over time.

The criteria considered for reviewing submissions was (i) Creativity: how the unbanked can be served by financial institutions, using a new paradigm shift in how financial institutions serve the unbanked, (ii) Effectiveness/Impact: how the relationship between the unbanked and financial institutions can be improved, and (iii) Market Readiness: the time frame required for the approach to be introduced and adopted in the market.

Three winning teams were selected by an evaluation panel. Goalsetter was selected for the Creativity category; Amazon Web Services, Narmi, and Galileo of the Onramp team were selected for the Effectiveness/Impact category; and National Asian American Coalition (NAAC) and Talino Venture Labs of the NAAC-Talino Finance team were selected for Market Readiness.

New York State Department of Financial Services issues guidance to mortgage lending institutions to comply with New York's Fair Lending Law[6]

With an intent to develop and implement compliance programs that include a fair lending plan, and to comply with New York's Fair Lending Law, the New York State Department of Financial Services (NYSDFS) issued new guidance to DFS-regulated mortgage lenders.[7]

This move comes after an analysis of mortgage loan applications conducted by DFS revealed that same-sex pairs of applicants were denied mortgage loans at higher rates than opposite-sex pairs of applicants. Although it was not possible to determine with certainty whether discrimination based on sexual orientation occurred as same-sex pair would include LGBT+ as well as sisters, brothers, or two business partners of the same sex. The DFS's findings raise sufficient concern about the possibility of discrimination against LGBT+ mortgage applicants. DFS urges mortgage lenders to take actions to reduce risks of discrimination in terms of access to credit based on sexual orientation, including implementation of fair lending practices, training modules for employees, periodic review of the policies, etc.

Fair lending laws and regulations: Prohibited basis

ECOA	←	ECOA and FHA	→	FHA
• Marital status • Age • Public assistance income • Good faith exercise of rights – Truth in lending – Fair credit reporting – Fair debt collection practices		• Race • Color • Religion • National origin • Sex		• Familial status • Disability

DFS also recommends that mortgage lenders take compliance actions—such as documenting approved loans for same-sex pairs who received less favorable terms than applicable, conducting statistical and regression analysis of loan data—to prevent potential discrimination based on sexual orientation. DFS also plans to conduct fair lending examinations and take necessary actions to ensure lending in New York complies with all applicable fair lending laws.

FHFA proposes 2022–2024 housing goals for Fannie Mae and Freddie Mac[8]

In a major step to bring more equity to the housing finance industry, the FHFA has proposed housing targets for Fannie Mae and Freddie Mac (the "Enterprises") from 2022 to 2024. The proposed housing targets are designed to ensure that the Enterprises responsibly promote equal access to affordable housing that reaches low- and moderate-income families, minority communities, rural areas, and other disadvantaged populations. The FHFA proposed two new subgoals for single-family home purchases to replace the current subgoals of low-income areas. One new subgoal is aimed at minority communities while the others continue to target low-income neighborhoods.

Single-family housing goals

Current and proposed single-family goals (percentage of overall qualified single-family purchases)

Single-family goals	Current benchmark level 2018–2021	Proposed benchmark level 2022–2024
Low-income home purchase goal	24%	28%
Very-low-income home purchase goal	6%	7%
Minority census tracts home purchase subgoal (new)	—	10%
Low-income census tracts home purchase subgoal (new)	—	4%
Low-income refinance goal	21%	26%

Multifamily housing goals

Current and proposed multifamily goals (number of multifamily units)

Multifamily goals	Current level 2018–2021	Proposed level 2022–2024
Low-income goal	315,000	415,000
Very-low-income subgoal	60,000	88,000
Small multifamily (5–50 units) low-income subgoal	10,000	23,000

Source: Federal Housing Finance Agency

FHFA Acting Director Sandra L. Thompson stated that the new subgoals were "designed to help preserve and support affordable housing in communities of color." These benefit families with a regional average income or below, enabling them to remain in the communities they are helping to build. Thompson added, "The Enterprises' housing goals over the next three years should support equitable access to sustainable affordable housing opportunities in a safe and sound manner that bolsters the health of communities."[9]

Ongoing efforts from CFPB and FDIC to support financial inclusion

The Consumer Financial Protection Bureau (CFPB) proposed a new rule designed to help small businesses gain access to the credit they need and deserve by increasing transparency in the lending marketplace.[10] This rule, mandated by Congress in the Dodd–Frank Wall Street Reform and Consumer Protection Act, would—if finalized—require lenders to disclose information about their lending to small businesses, allowing community organizations, researchers, lenders, and others to better support small business and community development needs.

In parallel, the Federal Deposit Insurance Corporation (FDIC) created a new office to support the agency's ongoing strategic and direct engagement with Minority Depository Institutions (MDIs), Community Development Financial Institution banks (CDFIs), and other mission-driven banks.[11] The new office will further promote private sector investments in low- and moderate-income (LMI) communities.

Also, FDIC launched new Mission-Driven Bank Fund, a capital investment vehicle being developed by the FDIC to support insured MDIs and CDFIs.[12] In addition, a multinational mass media conglomerate will join as a founding investor in the fund, bringing the combined initial commitment to $120 million, with additional investments expected.

Key takeaways

Along with industry cognizance, slight nudges from the policymakers now have leading institutions taking steps to incorporate robust corporate social strategies and incentives to innovatively develop products and services, invest in underserved communities, and partner with institutions outside of the industry to address the many challenges. In this issue, we've noted momentum of how the industry is addressing potential inequities including:

- **Financial institutions must quickly adopt products and services to meet regulations that make housing more inclusive.** Federal and state governments have started prioritizing and laying out policies and investments to create greater access to opportunity in the housing sector.
- **The value of alternative data is vastly increasing as institutions, particularly fintechs, are gaining market share with more accurate and inclusive credit decisioning.** Fannie Mae is now shifting toward including rental payment history for assessing creditworthiness in the underwriting process.
- **Financial institutions should be intentional in prioritizing their financial inclusion goals for the enterprise.** Given the visible rise in efforts across sectors like housing, credit, and banking, the industry will see more reforms that should motivate market action among organizations and stakeholders in the coming future. Many organizations are moving toward attaining the financial inclusion goals in steady steps, making diversity, equity, and inclusion the very core of how they operate to bring about real change.

Note: This is a brief spotlight on current industry ongoings and not Deloitte's point of view.

Additional Deloitte perspective on financial inclusion

For additional insights, please see our ongoing series on financial inclusion and the impact it has on FSI and the broader economy.

- Driving purpose and profit through financial inclusion
- Advancing social and economic goals with global financial inclusion
- Financial inclusion and the underserved life insurance market, part one
- Additional Deloitte resources

Endnotes

1. US Senate Committee on Banking, Housing, and Urban Affairs, "Senator Reverend Warnock introduces legislation to support first-generation home buyers, pushes for inclusion in Build Back Better economic package," press release, September 30, 2021.
2. The White House, "The Build Back Better Framework," accessed February 4, 2022.
3. Federal Housing Finance Agency (FHFA) "FHFA announces inclusion of rental payment history in Fannie Mae's underwriting process," news release, August 11, 2021.
4. Ibid.
5. Federal Deposit Insurance Corporation (FDIC) "FDITECH selects three winning teams in tech sprint to reach the unbanked," press release, September 13, 2021.
6. New York State Department of Financial Services (NYSDFS) "New York State Department of Financial Services issues guidance to mortgage lending institutions to comply with New York's Fair Lending Law," press release, August 31, 2021.
7. Shirin Emami, "Industry Letter: Preventing Sexual Orientation Discrimination in Mortgage Lending," NYSDFS, August 31, 2021.
8. FHFA, "FHFA proposes 2022–2024 housing goals for Fannie Mae and Freddie Mac," news release, August 18, 2021.
9. Ibid.
10. Consumer Financial Protection Bureau (CFPB), "CFPB proposes rule to shine new light on small businesses' access to credit," press release, September 1, 2021.
11. FDIC, "FDIC creates new Office of Minority and Community Development Banking to support mission-driven banks," press release, November 2, 2021.
12. FDIC, "FDIC launches Mission-Driven Bank Fund," press release, September 16, 2021.

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