# From Policy to Practice

Diversity laws are making an impact within the mortgage and housing industries, both on companies required to follow new policies, as well as ones choosing to adapt new inclusion strategies.

By **Phil Britt**

In a historically homogenous industry, diversity inclusion laws are now changing the face of housing—quite literally.

Section 1116 of the Housing and Economic Recovery Act of 2008 required Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and other federal agencies to promote diversity and the inclusion of women and minority in all activities, a rule that became effective in 2011.

The law required that each regulated entity establish an office of minority and women inclusion or designate an office responsible for the diversity requirements and standards. Diversity is supposed to be promoted "in all activities and at every level of the covered organizations, including management, employment, and contracting."

The subsequent Dodd-Frank law (Section 342) extended some of these requirements to other financial regulatory agencies and specified that the agencies had to have a separate Office of Minority and Women Inclusion (OMWI).

To promote diversity in the workplace, each agency governed by Dodd-Frank is charged with taking affirmative steps to seek diversity in the workforce by:

- Recruiting at historically black colleges and universities, Hispanic-serving institutions, women's colleges, and colleges that typically serve majority minority populations
- Sponsoring and recruiting at job fairs in urban communities
- Placing employment advertisements in newspapers and magazines oriented toward minorities and women
- Partnering with organizations that are focused on developing opportunities for minorities and women to place talented young minorities and women in industry internships, summer employment, and full-time positions
- Where feasible, partnering with inner-city high schools, girls' high schools, and high schools with majority minority populations to establish or enhance financial literacy programs and provide mentoring
- Any other mass media communications deemed to be necessary

In the Federal Register, the FHFA says its policy "is to promote non-discrimination diversity, and, at a minimum, the inclusion of women, minorities and individuals with disabilities in its own activities and in the business and activities of the regulated entities and the Office of Finance."

The rules further require mortgage companies to conduct annual self-assessments of their diversity policies. These include increasing participation when it comes to contracting women-owned and minority-owned businesses.

## A Necessary Start

The need for federal rules and industry initiatives to proactively promote diversity seeks to change what has historically been a very homogeneous business. And it's not just the GSEs who are paying attention—other companies are following suit with implementing their own policies on diversity and inclusion even though they aren't mandated to.

"Historically, there hasn't been a lot of diversity in the mortgage industry," said Vladimir Bien-Aime, CEO of Global DMS, a firm that became minority-certified in 2014. "In the past, there was less diversity, although that is slowly improving in recent years."

Awareness of the diversity issues facing the industry is the first step to addressing them, Bien-Aime says.

"There are some really amazing firms like PCV Murcor and Urban Lending that are doing a great job shining a light on the issue by addressing the diversity issues in a proactive way; these firms have shown exceptional growth," he said, adding that some industry groups, such as the American Mortgage Diversity Council, have been instrumental in addressing the diversity cause as well.

At Global DMS, diversity has always been a natural part of the firm's culture, Bien-Aime says.

"It was more of an organic thing," he said. "We've always employed a large number of women and minorities. Our staff is 40 percent female. Other mortgage firms also have dedicated themselves to the diversity of their companies and to serving a diverse customer base."

Churchill Mortgage even created a position just for

spearheading the company's diversification efforts.

"We recognize that there is an ever-changing demographic in homebuyers and homebuyer preferences," said Matt Clarke, COO for Churchill Mortgage, a privately owned company with more than 420 employees. "Therefore, we created the position of Cultural Marketing Manager to ensure that we adjust within the new landscape. In recruiting and training, we look for people who are not only experts when it comes to processes and regulations, but who also have a deep understanding of the demographics and population of the local areas in which they work. We want them to understand the specific issues and concerns of prospective borrowers."

Clarke added: "We appointed a Director of Customer Experience, who focuses on ensuring the borrower experience in the end-to-end mortgage process is educational, enjoyable, and beneficial. And we've seen the effectiveness in high customer retention rates, product adoption, and usage rates of various services offered across the board. We believe this position is also responsible for the consistently positive feedback on borrower satisfaction surveys and in our online ratings."

Beyond the internal activity to promote diversity, Churchill looks to conduct its business with diversity in mind, according to Clarke.

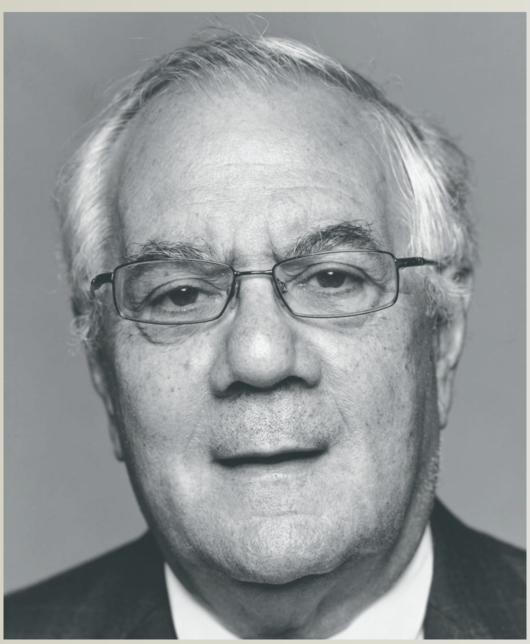
"We strive to connect with the culture of each borrower," Clarke said. "For example, someone may be very heavily rooted in family and therefore base his or her decision to buy a home on the family's opinions. This requires patience, the ability to build trust and view each loan as a family, not a file. Culturally, spending and saving habits vary across the population. Some borrowers have saved the traditional 20 percent for a mortgage; others have zero debt, but operate with mostly cash. A diverse workforce equips us to adapt and guide the individual through the mortgage process. More diversity in our workforce also facilitates the development of fresh ideas. From a marketing and advertising perspective, we have evolved with the constantly changing homebuyer population and strengthened our business development strategies with the healthy combination of experiences and insights provided by its employees at every level."

At MiMutual Mortgage, Inc., there have been three factors promoting diversity, says Daniel Jacobs, EVP of national retail lending.

"Decentralization, lending locally, and technology has served to further our diversity," Jacobs said. "Anytime your talent pool is limited to a particular community, a company's workforce will likely reflect the level of diversity in the local community. Outside of large metropolitan areas, individual communities tend to be more segregated and less diverse. Over the last two years we have increased our racial diversity by 33 percent and our management team is comprised of 41 percent female managers. Expanding from a centralized model to a decentralized model with staff located in branches located in the communities we serve has allowed us to better reflect the communities we serve and diversify our staff. Also, as we've become more technologically advanced, we are able to hire the best operations staff available for many roles, as we're able to allow some positions to be worked from home. This means we hire the best of the best where they are rather than the best available where we are."

However, Jacobs acknowledges that diversity was a challenge immediately following the financial crisis as the industry had a significant downturn, so there was a lack of people with diverse backgrounds entering the industry.

There was also a lack of diverse lending as regulators and lenders strongly stiffened borrower requirements, says Maria A. Gaitan, director of housing counseling and business development for Consolidated Credit Solutions, Inc. Prior to the crisis, too many minorities were fast-talked into inappropriate products, she added.



# Progress in Politics

## Former Congressman **Barney Frank** Offers His Take on How Far the Industry Has Come

Barney Frank, who served in the U.S. Congress representing Massachusetts for the Democratic Party from 1980 to 2012, helped build one of the most influential pieces of financial reform in U.S. history. Section 342 of the Dodd-Frank Act requires various federal agencies to establish Offices of Minority and Women Inclusion (OMWI), which will "be responsible for all agency matters relating to diversity in management, employment, and business activities" and "promote transparency and awareness of diversity policies and practices" within their own respective agencies. According to Frank, Section 342 was an initiative of Congresswoman Maxine Waters (D-California) "based on her observation that there is an under-representation of the affected categories in the industry and the affected agencies of the government."

In 1987, Frank became the first U.S. congressman to voluntarily announce his homosexuality. Frank spoke with MReport about his experiences in politics and about his namesake legislation.

**M // Did you experience a lot of discrimination as a gay man in politics?**

**FRANK //** No, personally I didn't, I must say.

She called for the industry to have more dedicated community loan officers.

## Diversity on the Horizon

Bien-Aime says the industry is at the very beginning of turning the corner on diversity issues.

"It's a relationship business," Bien-Aime said. "People tend to be quite territorial; that makes it difficult to break into the business. Improving diversity isn't going to be easy."

Part of the challenge is that mortgage veterans in some areas, particularly appraisers, are staying in the business longer, so there isn't the same progression of people retiring and a new, more diverse workforce coming in to replace them.

"You have to take a very targeted approach," Bine-Aime said. "You have to have people dedicated to sustaining the process."

That process means more than just paying lip service to proactively improving diversity, Bien-Aime adds. Mortgage firms need to open offices in ethnic communities, actively recruit from colleges and universities that have large minority student populations, and work with vendors who themselves are dedicated to diversity.

Additionally, mortgage firms need to be involved in the ethnic communities, attending cultural fairs, parades, and festivals, supporting community causes, sports teams, etc., according to Bien-Aime.

"When people see you being involved in the community, they are more apt to trust you," he said.

Partaking in those activities to be truly involved in the community and hiring a diverse workforce will result in long-term business benefits, Bien-Aime adds.

## More Changes in the Future

In mid-October, the FHFA issued a Notice of Proposed Rulemaking seeking comments on proposed amendments to its minority and women inclusion regulations.

The proposed amendments would:

- Require regulated entities to engage in diversity and inclusion strategic planning by developing stand-alone plans or by incorporating diversity and inclusion into their existing planning processes
- Encourage the regulated entities to expand contracting opportunities for minorities, women and the disabled through subcontracting arrangements
- Require the regulated entities to amend their policies on equal opportunity in employment and contracting by adding sexual orientation, gender identity, and status as a parent to the list of protected classifications
- Require regulated entities to provide information in their annual reports to the FHA about their efforts to advance diversity and inclusion through capital market transactions, affordable housing and community investment programs, initiatives to improve access to credit, and strategies for promoting the diversity of supervisors and managers.

The commentary period will extend through the middle of December, so any changes to the proposed amendments likely wouldn't appear until early 2017. No matter what the final amendments outline, however, it is clear that these policies are having an important impact not only on the financial institutions required to follow them, but the mortgage industry as a whole. **M**

**PHIL BRITT** *started covering mortgages and other financial services matters for a suburban Chicago newspaper in the mid-1980s before joining Savings Institutions Magazine in 1992. When the publication moved his offices to Washington, D.C., in 1993, he started his own editorial services firm and continued to cover mortgages, other financial services subjects, and technology for a variety of websites and publications.*

I was causing it for the first 15 years, whereas for the next 20-some-odd years I was not. If I had ever been somebody thinking about trying to be in the leadership of the House, my sexual orientation would've stopped that. Other than that, no, I didn't find any discrimination either in my electoral situation, or in the support I got from my colleagues.

I'm a Democrat, and the Democratic party has been much more supportive of LGBT people in their ranks than the Republicans. The Republican elected officials have had a very hard time, most of them. Very, very few openly gay Republican officials have lasted. The longest lasting one I could think of, Jim Colby, was ultimately forced out way before the normal retirement age because of the prejudices he faced.

**M // What do you mean when you say you caused it for the first 15 years?**

**FRANK //** I did not announce to people that I was gay. A number of people knew it. An increasing number of people knew by the '80s. When I got to Congress, there were people who knew it. But I was not public about it.

**M // Dodd-Frank has always elicited strong reactions—with critics saying it is overreaching, while others say ineffective. What is your response?**

**FRANK //** Well, it could hardly be both, could it? I think it is, in fact, very helpful and constructive. Certainly, if you go towards what's happened with Wells Fargo and the Consumer Financial Protection Bureau, I think that was entirely appropriate. I also believe if you look at the nature of the industry that there is much less of the irresponsible risk-taking that you saw in, for example, AIG. On the other hand, the economy has not been hurting in the sense that the financial industry hasn't been able to do its job. We've had better growth after the great crisis than any other Western economy, although none of them have recovered as quickly as we'd like, for a variety of reasons.

In fact, the department elsewhere has been one of the major slowdowns for us. So I think it has been helpful. The last thing I would say is, the kind of loans that were made—housing loans that were made that were the single biggest cause of the crisis—we are not seeing that degree of irresponsible mortgage loans.

**M // In a perfect world, what do you think diversity inclusion would look like in the mortgage and financial industry?**

**FRANK //** In a perfect world, it would mean that all the various segments of American society were represented. Not statistically—I think that's not necessary or possible. I think we are further along than we were, but we're not yet where we should be.