



September 2020

FANNIE MAE AND FREDDIE MAC

Efforts to Promote Diversity and Inclusion

GAO Highlights

Highlights of [GAO-20-637](#), a report to congressional requesters

Why GAO Did This Study

Fannie Mae and Freddie Mac are government-sponsored enterprises regulated by FHFA that buy and pool mortgages into mortgage-backed securities. The Housing and Economic Recovery Act of 2008 requires the enterprises to promote diversity and inclusion in employment and related activities.

GAO was asked to review the enterprises' diversity and inclusion efforts. This report examines, among other things, (1) trends in the diversity of the enterprises' boards and senior management; (2) the extent to which the enterprises used diverse broker-dealers and implemented practices to promote more diversity; and (3) FHFA oversight of the enterprises' diversity and inclusion efforts.

To conduct this work, GAO analyzed enterprise and Equal Employment Opportunity Commission data on the enterprises' workforces, boards, and broker-dealers; and reviewed FHFA and enterprise policies and regulations and previous GAO reports on these issues. GAO also interviewed FHFA and enterprise staff and a nongeneralizable sample of external stakeholders knowledgeable about broker-dealer diversity.

View [GAO-20-637](#). For more information, contact Michael E. Clements at (202) 512-8678 or ClementsM@gao.gov.

September 2020

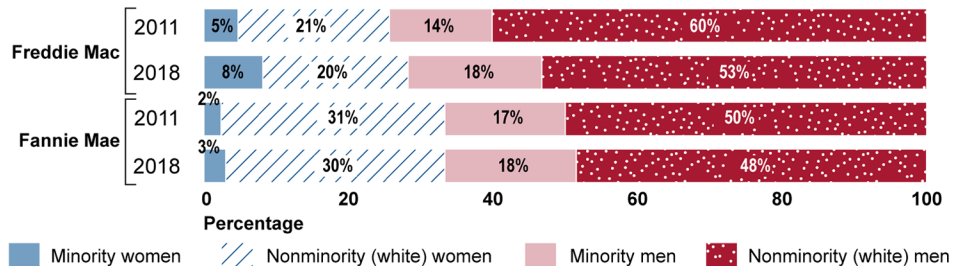
FANNIE MAE AND FREDDIE MAC

Efforts to Promote Diversity and Inclusion

What GAO Found

In 2019, the number of women on the boards of directors at Fannie Mae and Freddie Mac—two government-sponsored enterprises (enterprises)—were five and three, respectively, slightly higher than in 2011. Female directors held leadership positions on the enterprises' boards for the first time in 2019, serving as vice chair at Fannie Mae and chair at Freddie Mac. The percentage of women in senior management positions remained relatively consistent for 2011 and 2018, while minority representation was higher in 2018 than in 2011 (see figure). The enterprises have implemented leading practices to support workforce diversity, such as career and networking events to recruit diverse populations and employee mentorship programs.

Share of Women and Minorities in Senior Management at Fannie Mae and Freddie Mac, 2011 and 2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: Percentages may not add to 100 due to rounding.

Fannie Mae and Freddie Mac used diverse broker-dealers (such as minority- and women-owned) for financial transactions to a limited extent. In 2019, Fannie Mae and Freddie Mac both paid about 6 percent of their financial transaction fees to diverse broker-dealers. The enterprises have taken steps to work with diverse broker-dealers more often, such as by lowering some capital requirements to allow participation by typically smaller, less-capitalized diverse broker-dealers. Broker-dealer representatives GAO interviewed said that enterprises had taken steps to increase their participation. However, some representatives noted that additional performance feedback and data on how they compare to larger firms would help them understand what business areas they could improve to meet standards for handling additional, more complex products. The enterprises said that some of the information on other firms is proprietary.

In 2017, the Federal Housing Finance Agency (FHFA) began reviewing the diversity and inclusion efforts of Fannie Mae and Freddie Mac as part of its annual examinations of the enterprises. In 2017, FHFA found the enterprises generally took steps to promote diversity and inclusion but made recommendations to improve both enterprises' programs. In response, the enterprises have directed more attention and resources to diversity efforts. FHFA officials told GAO the agency planned to review the diversity and inclusion of the enterprises' financial transactions in late 2020 and would update its examination manual to include a focus on activities in this area.

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Abbreviations

CEO	chief executive officer
EEOC	Equal Employment Opportunity Commission
EEO-1 reports	Employer Information Reports
enterprises	government-sponsored enterprises
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
HERA	Housing and Economic Recovery Act of 2008
MBS	mortgage-backed securities
OMWI	Office of Minority and Women Inclusion

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September 8, 2020

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
House of Representatives

The Honorable Carolyn B. Maloney
Chairwoman
Committee on Oversight and Reform
House of Representatives

The Honorable Joyce Beatty
Chairwoman
Subcommittee on Diversity and Inclusion
Committee on Financial Services
House of Representatives

The Housing and Economic Recovery Act of 2008 (HERA) elevated the importance of diversity and inclusion in two government-sponsored enterprises (enterprises)—Fannie Mae and Freddie Mac—which enhance the liquidity, stability, and affordability of mortgage credit.¹ HERA and its implementing regulation require the enterprises to promote diversity and ensure the inclusion of minorities and women in employment and minority- and women-owned businesses in their business and activities. HERA also created the Federal Housing Finance Agency (FHFA) and designated it as the regulator of the enterprises. FHFA issued a rule in 2010 to implement HERA's requirements related to diversity and inclusion.² The rule requires the enterprises to report on the diversity of their workforce and their use of diverse suppliers and broker-dealers, which include businesses owned by minorities, women, and individuals with disabilities.

Research has found that a diverse workforce can help managers understand and address the needs of a demographically diverse

¹Pub. L. No. 110-289, § 1116(4), 122 Stat. 2654, 2682 (2008).

²Minority and Women Inclusion, 75 Fed. Reg. 81395 (Dec. 28, 2010). The rule became effective in January 2011.

customer base.³ Also, diversity can be beneficial in solving complex problems and lead to better performance.⁴

You asked us to review the enterprises' diversity and inclusion efforts. In this report, we examine (1) trends in the diversity composition of the boards of directors of Fannie Mae and Freddie Mac from 2011 to 2019, and any challenges these enterprises face and practices they use in maintaining and increasing the diversity of their boards; (2) trends in the diversity composition (e.g., gender, race, and ethnicity) of the workforces of both enterprises from 2011 to 2018, and any challenges the enterprises face and practices they use in maintaining and increasing a diverse workforce; (3) the diversity composition of suppliers (for goods and services) both enterprises used in 2018, and any challenges the enterprises faced and practices they used in maintaining and increasing use of diverse suppliers; (4) the diversity composition of broker-dealers both enterprises used in 2019, and any challenges the enterprises faced and practices they used in maintaining and increasing use of diverse broker-dealers; and (5) FHFA oversight of the enterprises' diversity and inclusion efforts. This report's definition of diversity incorporates gender, race, ethnicity, and disability.

To address all objectives, we reviewed relevant laws and regulations related to the enterprises' diversity and inclusion efforts, including FHFA reporting requirements related to the enterprises' diversity and inclusion efforts. We also interviewed FHFA staff and directors of the Office of Minority and Women Inclusion (OMWI) of both enterprises.

To identify trends in the enterprises' board diversity, we analyzed data from the Securities and Exchange Commission Form 10-K reports that Fannie Mae and Freddie Mac filed from 2011 through 2019. In the Form 10-K reports, we counted directors who were referred to as "Mr." as male, and directors who were referred to as "Ms." as female. Using this method, we were able to determine the gender of all directors who served from 2011 through 2019. We obtained data on the race/ethnicity of board

³For example, see Scott E. Page, *The Diversity Bonus: How Great Teams Pay Off in the Knowledge Economy* (Princeton, New Jersey: Princeton University Press, 2017): 185 and 194; and Stanley F. Slater, Robert A. Weigand, and Thomas J. Zwirlein, "The Business Case for Commitment to Diversity," *Business Horizons*, vol. 51 (2008).

⁴For example, see Page, *The Diversity Bonus*, 210; and Alexa A. Perryman, Guy D. Fernando, and Arindam Tripathy, "Do Gender Differences Persist? An Examination of Gender Diversity on Firm Performance, Risk, and Executive Compensation," *Journal of Business Research*, vol. 69, no. 2 (2016): 579–586.

directors for 2019 from FHFA, the year directors began to report such data. We reviewed related FHFA and enterprise documents, such as those detailing policies and procedures for identifying, nominating, and selecting board directors. We also interviewed a nongeneralizable sample of board directors from both enterprises with responsibilities for nominating and selecting board members.

To identify trends in the enterprises' workforce diversity, we analyzed data on the gender and race/ethnicity of enterprise employees from 2011–2018 Employer Information Reports (EEO-1 reports) submitted to the EEO-1 Joint Reporting Committee of the Equal Employment Opportunity Commission (EEOC) and Office of Federal Contract Compliance Programs.⁵ We focused on gender, race, and ethnicity because EEO-1 reports only include data by gender and race/ethnicity.⁶ The enterprises submit annual EEO-1 reports to the EEO-1 Joint Reporting Committee on their workforces.⁷ In addition, the enterprises

⁵EEO-1 data from 2018 were the most current available at the time of our review. EEOC requires private employers with 100 or more employees annually to submit data on the sex and race/ethnicity of employees by job category. Regulations require certain federal contractors to file EEO-1 reports if they have 50 or more employees and are not otherwise exempt from the filing requirement. The EEO-1 race/ethnicity categories are: Hispanic or Latino, White (Not Hispanic or Latino), Black or African-American (Not Hispanic or Latino), Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), Asian (Not Hispanic or Latino), Native American or Alaska Native (Not Hispanic or Latino), and Two or More Races (Not Hispanic or Latino). The Hispanic or Latino category on the EEO-1 report incorporates employees of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race. Employers are required to allow employees to self-identify their race and ethnicity. If an employee declines to self-identify race and ethnicity, employment records or observer identification may be used. For our report, we modified the EEO-1 categories and used Black or African-American, Asian, Hispanic or Latino, Other, and White. We included Asian and Native Hawaiian or Pacific Islander under the Asian category, and we included Native American or Alaskan Native and Two or More Races under Other. For our report, minority employees include Black or African-American, Asian, Hispanic or Latino, and Other employees, and nonminority employees include White employees.

⁶As discussed later, the enterprises report the gender and racial/ethnic composition of their workforces in annual reports to FHFA. The enterprises also report to FHFA on the number of individuals with a disability for certain workforce data, such as the number of employees promoted. However, EEO-1 reports do not include data on employees with a disability.

⁷EEO-1 respondents, including the enterprises, submit annual EEO-1 reports for their full-time and part-time employees during an employer-selected payroll period within a 3-month period (from October through December) designated by EEOC.

use the gender and race/ethnicity classifications in the EEO-1 report for the workforce diversity data they submit to FHFA.

We compared the diversity composition of the enterprises' workforces to that of the financial services industry in 2018, based on EEOC data.⁸ More specifically, we used EEO-1 data on companies in the finance and insurance industry categorized under code 52 of the North American Industry Classification System with at least 5,000 employees, excluding the enterprises.⁹ We included data from all sites of private companies and federal contractors in the finance and insurance industry with multiple establishments. Consequently, our estimates for the financial services industry may not match the analysis found on EEOC's website, which excludes sites of companies with multiple locations with less than 50 employees. We assessed the reliability of the EEO-1 data through electronic testing, documentation review, and interviews with knowledgeable agency staff, and determined them to be sufficiently reliable for examining the gender and race/ethnicity composition of the enterprises' workforces and comparing it with that in the financial services industry.

To identify the diversity composition of suppliers in 2018 and broker-dealers in 2019 that the enterprises used, we analyzed the 2018 and 2019 data submitted by the enterprises in quarterly and annual reports to FHFA, including data on transactions and expenditures with diverse suppliers for goods and services and diverse broker-dealers for investment activities. We found that the data prior to 2018 were not comparable across years or enterprises. However, in 2018, FHFA provided instructions and templates to help ensure more consistent reporting. For consistency with our workforce data analysis, we focused on the enterprises' use of minority- and women-owned broker-dealers and suppliers. In addition, the enterprises report to FHFA on their use of

⁸For EEO-1 reporting, the financial services industry consists of five sectors: banks and other credit institutions; funds and trusts (such as investment companies); securities and other activities; insurance; and monetary authorities (such as central banks).

⁹EEOC requires employers to use the North American Industry Classification System to classify their industry.

suppliers and broker-dealers owned by individuals with disabilities, such as disabled veterans.¹⁰

To assess the reliability of the diversity data on suppliers and broker-dealers that the enterprises reported to FHFA in 2018 and 2019, we obtained and reviewed information from FHFA to understand the data system the agency uses to collect the data, how the agency uses the data, and any known data limitations. We determined the 2018 data to be sufficiently reliable for describing the diversity composition of the enterprises' procurement and capital markets transactions and their suppliers and broker-dealers. Because FHFA was still validating the 2019 data at the time of our review, we discuss those data only in broad terms.

To identify challenges the enterprises faced and their practices for maintaining and increasing diverse workforces and using diverse suppliers and broker-dealers, we reviewed the enterprises' annual OMWI reports for 2017–2019 and policies related to their diversity efforts. We previously identified nine key practices for managing workforce diversity.¹¹ In November 2017, we reported that industry representatives confirmed the practices were still relevant.¹² We also previously identified four key practices for increasing opportunities for minority- and women-owned asset managers, which we found can be applied to diverse suppliers and broker-dealers.¹³ We interviewed the OMWI directors, a nongeneralizable sample of board directors with responsibilities for nominating and selecting board members, and external stakeholders (including six broker-dealers that do business with the enterprises).¹⁴

¹⁰In 2017, FHFA amended its Minority and Women Inclusion rule (of 2010). As stated in the preamble, the rule was amended to affirm that the enterprises may expand the scope of their outreach and inclusion programs—for example, to include businesses owned by veterans and by lesbian, gay, bisexual, or transgender individuals. We discuss the rule in more detail in the Background.

¹¹See GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, [GAO-05-90](#) (Washington, D.C.: Jan. 14, 2005).

¹²GAO, *Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007–2015*, [GAO-18-64](#) (Washington, D.C.: Nov. 8, 2017).

¹³See GAO, *Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers*, [GAO-17-726](#) (Washington, D.C.: Sept. 13, 2017).

¹⁴Information from these interviews cannot be generalized to all diverse broker-dealers.

To assess FHFA oversight of the enterprises' diversity and inclusion efforts, we reviewed FHFA's examination manual (including the module on diversity and inclusion); documentation related to 2017 and 2018 examinations of the enterprises' diversity and inclusion efforts (the most recently available at the time of our review); and FHFA's data reporting manual and templates for reporting quarterly and annual diversity data. We also interviewed FHFA staff and the OMWI directors of the enterprises to obtain additional information on FHFA oversight activities, including the annual examinations.

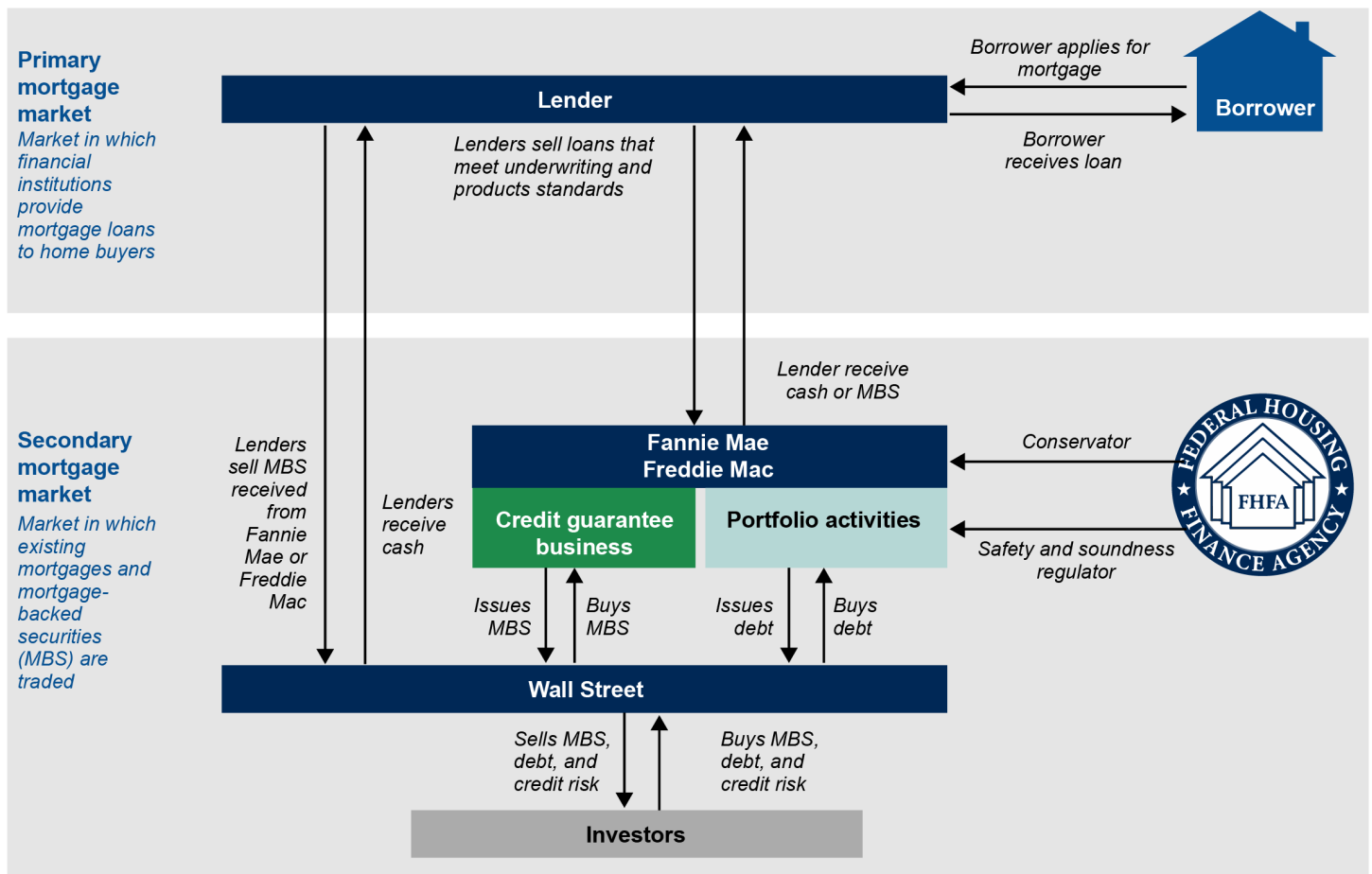
We conducted this performance audit from September 2019 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Overview of the Enterprises

Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970, respectively, to provide stability and liquidity in the secondary market for home mortgages. The enterprises purchase single-family and multifamily mortgages that lenders already made to borrowers. As shown in figure 1, most of these mortgages are pooled into mortgage-backed securities (MBS), which are guaranteed by the enterprises and sold to investors. The enterprises guarantee the payment of principal and interest on the underlying mortgages and charge lenders a guarantee fee for assuming the credit risk associated with the purchased mortgages.

Figure 1: Roles of Fannie Mae and Freddie Mac



Source: Federal Housing Finance Agency. | GAO-20-637

Fannie Mae and Freddie Mac are each governed by a board of directors. As both enterprises are operating under FHFA conservatorship (as discussed below), FHFA determines the size of Fannie Mae and Freddie Mac's boards of directors and the scope of their authority. Each board is to have a minimum of nine and not more than 13 directors. Each board is led by a nonexecutive chair, and each enterprise's chief executive officer (CEO) is the only corporate officer serving as a director. The majority of directors are required to be independent. Directors' terms are limited to 10 years or age 72, whichever comes first, although FHFA may waive this requirement. Fannie Mae and Freddie Mac had workforces of approximately 7,300 and 6,600 employees, respectively, in 2018, according to the most recently available EEO-1 data.

FHFA's Diversity-Related Requirements and Oversight of the Enterprises

To implement requirements in HERA, in December 2010, FHFA issued the Minority and Women Inclusion rule to set forth minimum requirements for the enterprises' diversity programs and reporting, as previously noted. Among other things, the 2010 rule implemented a HERA requirement that each enterprise create its own OMWI or designate an office to perform duties related to the enterprise's diversity efforts. It also established policies related to diversity and inclusion, including workforce and business activities (which can include suppliers and broker-dealers used for capital markets activities).

The 2010 rule also requires the enterprises to submit an annual report to FHFA that describes the gender and racial/ethnic composition of the enterprise's workforce and of the suppliers and broker-dealers used in business activities and past and future diversity and inclusion efforts in these areas.¹⁵ Additionally, the rule requires the enterprises to report on businesses owned by individuals with disabilities that enter into contracts with the enterprises and the number of individuals with a disability or disabilities for certain workforce data, including the number of such individuals who separated from the enterprise and the number of employees promoted. In 2017 amendments to the rule, FHFA added a requirement for each enterprise to develop a stand-alone strategic plan on diversity and inclusion or incorporate a diversity and inclusion plan into their corporate strategic plan.¹⁶

FHFA conducts annual examinations and off-site monitoring of the enterprises. FHFA's examination includes reviewing the enterprises' diversity and inclusion efforts, financial reporting, and corporate governance by board directors.

Our Previous Work on FHFA Oversight of Diversity

We previously reported on FHFA oversight of the diversity of its regulated entities, including its oversight of Federal Home Loan Bank (FHLBank) board governance and board diversity. In 2017, we reported that representation of women and minorities at the management level in the financial services sector showed marginal or no increase during 2007–2015.¹⁷ In a 2015 report on FHLBank board governance, we found that FHFA and FHLBanks had taken steps to increase board diversity,

¹⁵These annual reports contain proprietary information and are not publicly available.

¹⁶Minority and Women Inclusion Amendments, 82 Fed. Reg. 34388 (July 25, 2017). The final rule implementing the amendments became effective in August 2017.

¹⁷[GAO-18-64](#).

including creating regulations that encouraged the banks to consider diversity in board candidate selection and developing processes to identify and nominate independent directors.¹⁸

In a 2019 report on FHLBank board diversity, we found that since 2015, FHLBanks had increased the share of women on FHLBank boards, but the banks continued to face challenges in increasing diversity among directors elected from member institutions.¹⁹ We recommended that FHFA, in consultation with FHLBanks, review the banks' data collection processes for board demographic information and communicate effective practices to banks. FHFA agreed with our recommendation and conducted a review of each FHLBank's practices for collecting gender and race/ethnicity data from boards of directors and shared the findings with the FHLBanks.

In a 2019 report on FHLBank workforce, supplier, and broker-dealer diversity, we found that the share of women in senior management at the FHLBanks increased during 2011–2017, while minority representation stayed about the same.²⁰ Minority- and women-owned suppliers accounted for 8 percent and 13 percent of procurement expenditures, respectively. And minority- and women-owned broker-dealers accounted for about 3 percent and less than 1 percent of the debt issuance amount, respectively.

Enterprises' Boards of Directors Included Women and Minorities and Both Implemented Practices to Support Board Diversity

¹⁸GAO, *Federal Home Loan Banks: Information on Governance Changes, Board Diversity, and Community Lending*, [GAO-15-435](#) (Washington, D.C.: May 12, 2015).

¹⁹GAO, *Federal Home Loan Banks: Steps Have Been Taken to Promote Board Diversity, but Challenges Remain*, [GAO-19-252](#) (Washington, D.C.: Feb. 14, 2019).

²⁰GAO, *Federal Home Loan Banks: Efforts to Promote Workforce, Supplier, and Broker-Dealer Diversity*, [GAO-19-589](#) (Washington, D.C.: Aug. 16, 2019).

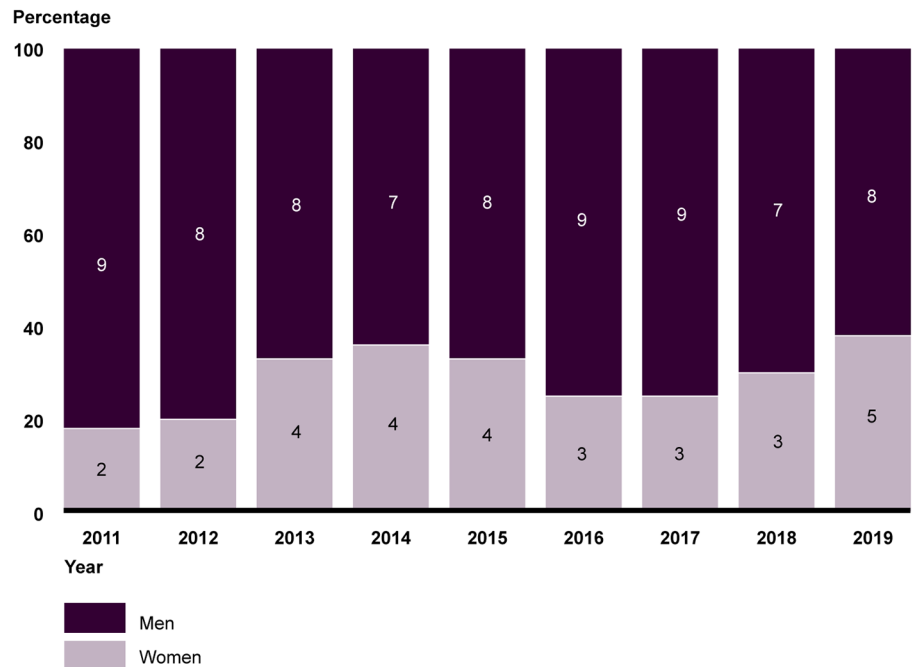
Fannie Mae and Freddie Mac's Boards of Directors in 2011–2019 Included Women

Female Representation on Fannie Mae's Board from 2011 to 2019

From 2011 to 2019, Fannie Mae's board of directors included from two to five women, and Freddie Mac's board included from two to three women. Fannie Mae had a net gain of three female directors in that period and Freddie Mac had a net gain of one.

Fannie Mae's board of directors included 10–13 members from 2011 to 2019 and from two to five were women in a given year (see fig. 2). The share of female directors increased from 18 percent in 2011 to 38 percent in 2019.

Figure 2: Share and Number of Directors on Fannie Mae's Board, by Gender, 2011–2019



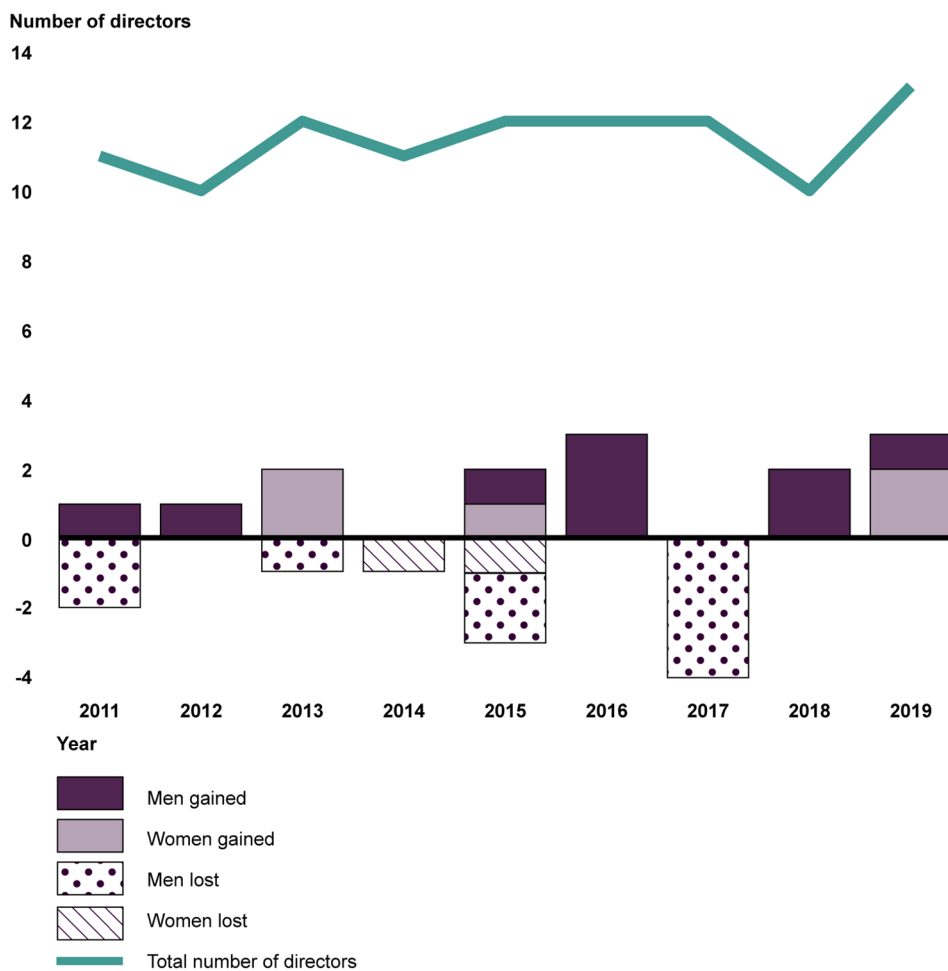
Source: GAO analysis of Fannie Mae and Securities and Exchange Commission data. | GAO-20-637

Note: The total number of directors varied by year.

As shown in figure 3, this increase resulted from a net gain of three female directors, bringing the total to five female directors in 2019. Fannie Mae added the same number of male directors as it lost from 2011 to

2019.²¹ In 2019, men made up the majority of the board, with a total of eight male directors. As noted previously, the number of directors on Fannie Mae’s board can vary over time.

Figure 3: Directors Gained and Lost on Fannie Mae’s Board, by Gender, 2011–2019



Source: GAO analysis of Fannie Mae and Securities and Exchange Commission data. | GAO-20-637

Note: Directors are shown to have joined Fannie Mae’s board in the first year for which they are listed in annual filings of the Securities and Exchange Commission Form 10-K, which may not align with the calendar year the director joined. Directors are shown to have left the board in the last year for which they are listed in the annual filings. This analysis assumes that no directors left Fannie Mae’s Board in 2019, as this was the last year for which data were available.

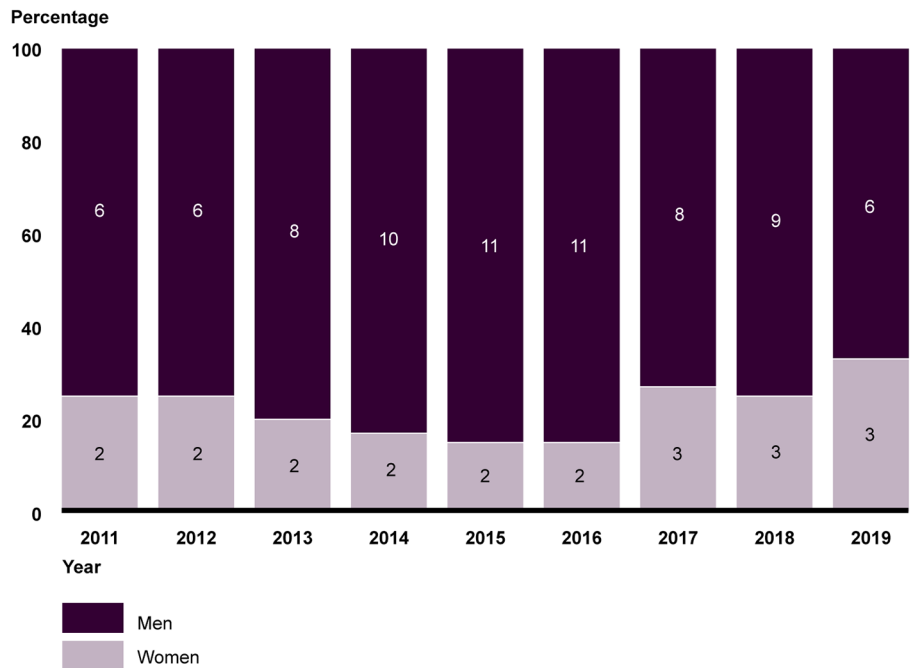
²¹This analysis assumes that no directors left Fannie Mae’s Board in 2019, as this was the last year for which data were available.

Female Representation on Freddie Mac's Board from 2011 to 2019

Over this time period, 24 individuals served on Fannie Mae's board of directors, including seven women who represented 29 percent of the total. Of the directors who left Fannie Mae's board prior to 2019, female directors served an average of 8 years while male directors served an average of 6 years.²²

From 2011 to 2019, Freddie Mac's board of directors included from eight to 13 directors, including from two to three female directors in any given year (see fig. 4).²³ The share of female directors increased from 25 percent in 2011 to 33 percent in 2019.

Figure 4: Share and Number of Directors on Freddie Mac's Board, by Gender, 2011–2019



Source: GAO analysis of Freddie Mac and Securities and Exchange Commission data. | GAO-20-637

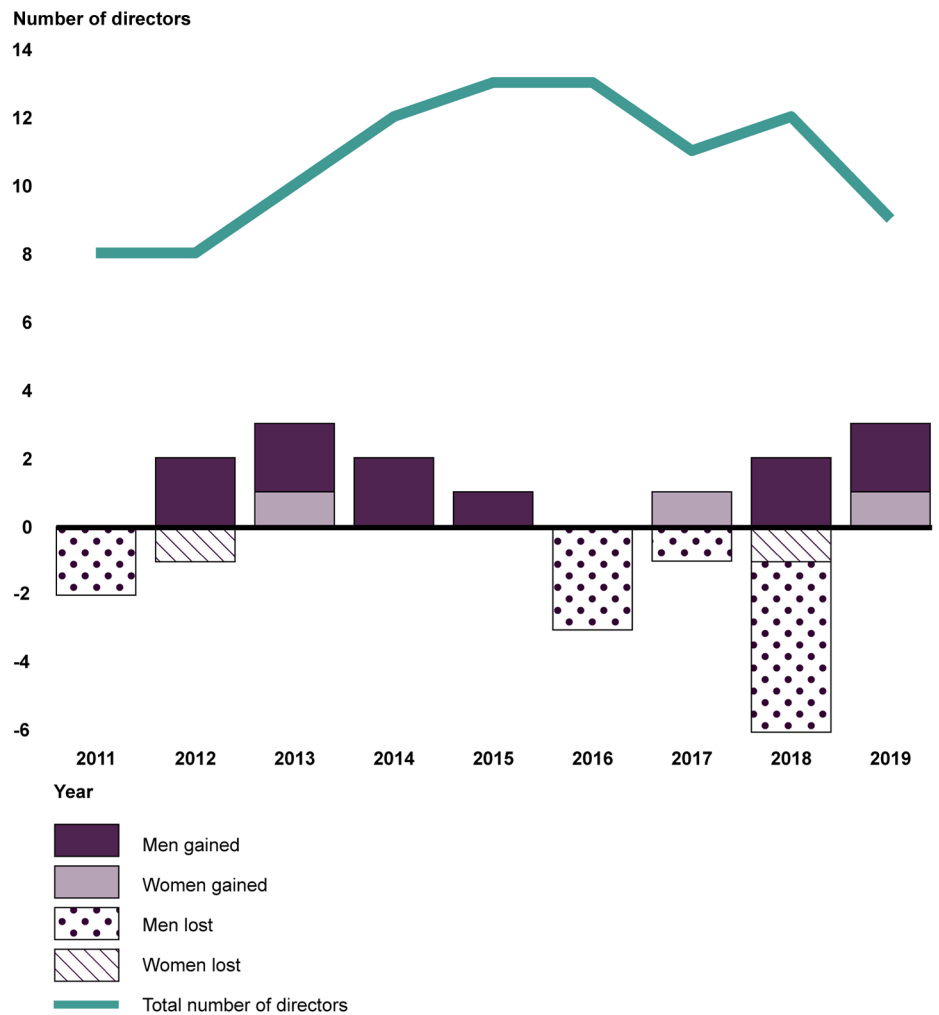
Note: The total number of directors varies by year.

²²Eleven directors (two female and nine male) left Fannie Mae's board prior to 2019. The 13 directors (five female and eight male) who remained on the board as of 2019 were excluded from this calculation because their terms were still ongoing.

²³FHFA requires the enterprises' boards to have a minimum of nine directors. However, Freddie Mac's board had only eight directors when the enterprise filed its Securities and Exchange Commission Form 10-K for 2011 and 2012 (due to the timing of director departures from the board).

As shown in figure 5, Freddie Mac’s board added a total of three female directors, for a net gain of one female director, and a total of 11 male directors, for a no net change in male directors. As noted previously, the number of directors on Freddie Mac’s board can vary over time.

Figure 5: Directors Gained and Lost on Freddie Mac’s Board, by Gender, 2011–2019



Source: GAO analysis of Fannie Mae and Securities and Exchange Commission data. | GAO-20-637

Note: Directors are shown to have joined Freddie Mac’s board in the first year for which they are listed in annual filings of the Securities and Exchange Commission Form 10-K, which may not align with the calendar year the director joined. Directors are shown to have left the board in the last year for which they are listed in the annual filings. This analysis assumes that no directors left Freddie Mac’s board in 2019, because this the last year for which data were available.

Over this time period, 22 individuals served on Freddie Mac's board of directors, including five women who represented 23 percent of the total. Of the directors who left Freddie Mac's board prior to 2019, female directors served an average of 8 years, while male directors served an average of 7 years.²⁴

Both Boards Mirrored Recent Industry Share of Women and Exceeded Share of Minorities

Compared to other corporate boards, in 2019 Fannie Mae and Freddie Mac's boards had a similar proportion of female directors and a higher proportion of minority directors. Historical data on the race/ethnicity for the enterprises' boards of directors are unavailable, as FHFA began collecting these data in 2017. According to an industry report, record numbers of women and minorities are now included on corporate boards, and these trends are likely to continue among corporate boards as shareholders demand greater diversity and new legislation requires board diversity in some states.²⁵ In 2019, women constituted 38 percent of Fannie Mae's board and 33 percent of Freddie Mac's board. In comparison, women constituted 19 percent of boards of the companies in the Russell 3000 and 27 percent of boards of companies in the S&P 500 as of May 2019, the most recently available data according to an industry report.²⁶

Fannie Mae and Freddie Mac's boards had more minority representation than the average for U.S. corporate boards. Minorities constituted 23 percent (three of 13 directors) and 44 percent (four of nine directors), respectively, in 2019 (see fig. 6). In comparison, minorities constituted 10

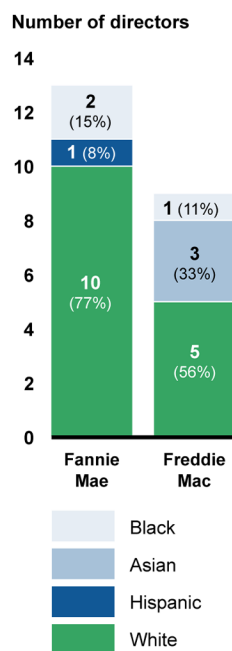
²⁴Thirteen directors (two female and 11 male) left Freddie Mac's board prior to 2019. The nine directors (three female and six male) who remained on the board as of 2019 were excluded from this calculation because their terms were ongoing (and thus assumed to be incomplete).

²⁵Institutional Shareholder Services, *U.S. Board Diversity Trends in 2019*. Institutional Shareholder Services provides corporate governance research and recommendations within the financial services industry.

²⁶These figures are from *U.S. Board Diversity Trends in 2019*. The report profiled the boards of 2,175 Russell 3000 companies (including the boards of 401 members of the S&P 500) with a general meeting of shareholders in 2019. The Russell 3000 tracks the performance of the 3,000 largest companies in the U.S. equity market. The S&P 500 is an index of 500 U.S. company stocks from various industries that meet certain criteria for inclusion in the index, such as a minimum market capitalization.

percent of boards of the companies in the Russell 3000, as of May 2019, the most recently available data.²⁷

Figure 6: Fannie Mae and Freddie Mac’s Number and Share of Directors by Race/Ethnicity, 2019



Source: GAO analysis of Fannie Mae and Freddie Mac data. | GAO-20-637

Female Directors Held Top Leadership Positions on the Enterprises’ Boards for the First Time in 2019

In 2019, Freddie Mac appointed its first female chair of the board, and Fannie Mae appointed a female director as vice chair of the board—the first top leadership position held by a female director at Fannie Mae. Both Fannie Mae and Freddie Mac’s boards have committees that include a subset of directors and have certain responsibilities. From 2011 to 2019, female directors held a commensurate portion of committee leadership positions at both enterprises.

Roles of Women on Fannie Mae’s Board

Female directors had not held top board positions—chair and CEO—at Fannie Mae until 2019, when Fannie Mae instituted a new leadership position—vice chair—and appointed a female director. According to Fannie Mae officials, the vice chair position was created to serve as a

²⁷These figures are from *U.S. Board Diversity Trends in 2019*, which did not report the share of minority directors among S&P 500 companies surveyed.

succession planning mechanism for the chair role and the vice chair participates in ongoing activities at the chair's discretion. From 2011 to 2019, all three CEOs and all three board chairs who served during this time were men.

Meanwhile, female directors have held a commensurate portion of committee leadership positions. In each year from 2011 to 2019, Fannie Mae's board had from five to six standing committees on which female directors represented 17–40 percent of committee chair/vice chair positions.²⁸ In 2019, women represented five of 13 directors and held four of 12 committee chair/vice chair positions (see table 1).²⁹

Table 1: Fannie Mae Board of Directors Committees, 2011–2019

Committee	Years standing	Female chair/ vice chair	Description
Audit	2011–2019	Chair: Never Vice chair: Never	Oversees accounting, reporting, and financial practices of Fannie Mae and subsidiaries, including the performance of internal and external audit functions.
Community Responsibility and Sustainability	2019	Chair: Never Vice chair: Never	Oversees significant initiatives and activities related to access to credit, affordable housing, and sustainability.
Compensation	2011–2019	Chair: 2011–2019 Vice chair: Never	In consultation with the Federal Housing Finance Agency, makes recommendations about senior management hires and compensation, approves the compensation policy for all employees, and oversees compensation-related disclosures.
Executive	2011–2019	Chair: Never Vice chair: Never	Responsible for actions related to Fannie Mae's stock and appointment or removal of top leadership of the board and corporation. Did not convene in 2011–2019.
Nominating and Corporate Governance	2011–2019	Chair: 2011–2014, 2018–2019 Vice chair: 2017–2019	Identifies and recommends potential board members, consistent with criteria approved by the board, and plays a leadership role in shaping Fannie Mae's corporate governance.
Risk Policy and Capital	2011–2019	Chair: Never Vice chair: Never	Assists the board in overseeing Fannie Mae's capital and risk management, including credit, market, liquidity, and operational risks.

²⁸From 2011 to 2015, no committees had vice chair positions. In 2016, only the Audit Committee had a vice chair. Since 2017, all committees have had a vice chair position.

²⁹Directors can serve on multiple committees; thus, the number of positions female directors hold may exceed the number of female directors on the board.

Committee	Years standing	Female chair/ vice chair	Description
Strategic Initiatives and Technology	2012–2019	Chair: 2016–2018 Vice chair: Never	Assists the board in overseeing Fannie Mae’s development, planning, and implementation of key strategic change initiatives, as well as technology strategy development, planning, and execution. Originally named the Strategic Initiatives Committee and renamed in 2016.

Sources: GAO analysis of Securities and Exchange Commission data; Fannie Mae. | GAO-20-637

Note: From 2011 to 2015, no committees had vice chair positions. In 2016, only the Audit Committee had a vice chair. Since 2017, all committees have had a vice chair position. “Years standing” represents the years for which the committee was listed as a standing committee in Securities and Exchange Commission Form 10-K filings.

In particular, the Nominating and Corporate Governance Committee had a high share of female directors in membership and leadership positions from 2011 to 2019. This is significant because this committee is responsible for identifying and recommending candidates for board membership. From 2011 to 2019, 10 directors served on this committee, half of whom were women. During the time of our review, two of these women served as chair, and another two served as vice chair (a position the committee created in 2017).

Roles of Women on Freddie Mac’s Board

Female directors had not held top board positions on Freddie Mac’s board of directors until 2019, when the first female director was appointed as chair. From 2011 to 2019, all three CEOs and one of the two board chairs who served during this time were men.

Meanwhile, female directors have held a commensurate portion of committee leadership positions. In each year from 2011 to 2019, Freddie Mac’s board had five standing committees and female directors held 20–40 percent of committee chair positions.³⁰ In 2019, women represented three of nine directors and held two of five committee chair positions (see table 2).

³⁰Freddie Mac’s board of directors does not have vice chair positions for its standing committees.

Table 2: Freddie Mac Board of Directors Committees, 2011–2019

Committee	Years standing	Female chair	Description
Audit	2011–2019	2012–2018	Oversees Freddie Mac’s accounting and financial reporting and disclosure processes, including internal controls and audits of financial statements.
Risk	2011–2019	2011–2012	Oversees Freddie Mac’s enterprise-wide risk-management framework, including its risk policy, board-level risk metrics, risk exposures, risk assessment, and risk-management strategies. Originally named the Business and Risk Committee and renamed in 2014.
Compensation and Human Capital	2011–2019	Never	Oversees compensation and benefits policies and programs. Originally named the Compensation Committee and renamed in 2019.
Coordinating	2011–2012	Never	Replaced by the Executive Committee in 2013. When in session, facilitated communication among board and committee chairs about developments that might affect board or committee agendas or materials. Had authority to act on behalf of the board between regularly scheduled board meetings.
Executive	2013–2019	2019	Consists of the board chair, committee chairs, and chief executive officer. Authorized to exercise the corporate powers of the board between meetings of the board, except for those powers reserved for the board by Freddie Mac’s bylaws or otherwise.
Nominating and Governance	2011–2019	2019	Oversees Freddie Mac’s corporate governance, including reviewing bylaws and guidelines; identifies and recommends qualified individuals to become members of the board; reviews board member independence and qualifications; and recommends membership of the board committees.

Sources: GAO analysis of Securities Exchange and Commission data; Freddie Mac. | GAO 20-637

Note: “Years standing” represents the years for which the committee was listed as a standing committee in Securities and Exchange Commission Form 10-K filings.

Freddie Mac’s Nominating and Governance Committee had a commensurate share of female directors in membership and leadership positions from 2011 to 2019. During this time, four female directors served on the committee (making up 36 percent of all members who served on this committee), while one female director served as chair.

Fannie Mae and Freddie Mac Have Implemented Practices to Address Challenges Recruiting Female and Minority Board Members

Fannie Mae and Freddie Mac cited high competition, limited candidate pools, and the enterprises’ conservatorship status as challenges that may hinder their efforts to recruit diverse members. However, the enterprises have implemented practices to address or mitigate these challenges by emphasizing the importance of diversity in their recruitment processes and making an effort to broaden the search for new candidates.

Fannie Mae and Freddie Mac board members noted diverse candidates are in high demand, because corporate guidelines limit how many public directorships an individual can hold. For both enterprises, potential candidates are assessed on whether they would be able to fully participate in board activities and whether they have business or personal relationships that would conflict with director responsibilities, which may reduce the pool of qualified candidates. As we previously reported, board directors of the FHLBanks similarly noted that they face competition as they seek to recruit women and minority candidates.³¹

Additionally, according to the Fannie Mae board member we interviewed, the candidate pool for female and minority candidates historically has been limited. Directors are collectively required to have specific skills and expertise to serve on the boards, which may further limit the pool of potential candidates. For example, Fannie Mae and Freddie Mac's boards at all times must include at least one director from the homebuilding, mortgage lending, and real estate industries. Representatives from both enterprises' boards stated that while they seek to ensure a diverse pool of candidates, they also must factor in necessary skills and experience.

Freddie Mac board members also noted that they face challenges in recruiting board members more generally due to the political nature of board membership, Freddie Mac's conservatorship status and uncertain future, and limited compensation for directors. A Fannie Mae board member similarly noted that once released from conservatorship, the board would be able to use compensation and equity as a tool to further attract diverse candidates.³²

To address or mitigate these challenges, Fannie Mae and Freddie Mac officials say they have been taking several steps:

- The boards' search committee charters have emphasized the importance of diversity. Fannie Mae's Nominating and Corporate Governance Committee seeks candidates "who represent diversity in ideas, perspectives, gender, race, and disability." Freddie Mac's Nominating and Governance Committee seeks candidates with "a

³¹[GAO-19-252](#).

³²FHFA determines the compensation for members of both Fannie Mae and Freddie Mac's boards.

diversity of talent, perspectives, experience and cultures...including minorities, women, and individuals with disabilities.”³³

- The boards work with outside search firms to identify diverse candidates. In particular, Fannie Mae’s board uses search firms that focus on recruiting diverse candidates, such as women or minority members, and Freddie Mac’s board provides feedback to search firms to ensure it has a diverse pool of candidates.
- Directors of both Fannie Mae and Freddie Mac say they have sought to broaden the potential pool of board candidates—such as by considering those without top-level executive experience, up-and-coming talent, and candidates from the government sector. Both enterprises noted that referrals from current board members are one potential source of good candidates.

Minority Representation in Enterprises’ Workforces Increased and Both Implemented Leading Practices to Support Diversity

Share of Women at All Levels Remained Consistent and Share of Minorities Increased from 2011 to 2018

Among senior management and other employees, the share of women at Fannie Mae and Freddie Mac remained generally consistent from 2011 to

³³Fannie Mae, Nominating and Corporate Governance Committee Charter, last amended February 2019; and Freddie Mac, Charter of the Nominating and Governance Committee of the Board of Directors of the Federal Home Loan Mortgage Corporation, effective November 2018.

Female Representation among Senior Management

2018.³⁴ While Fannie Mae had a higher share of women in senior management than other large financial services firms, both Fannie Mae and Freddie Mac had a lower share of female employees overall than comparable firms. Meanwhile, among senior management and other employees, the share of minorities at both enterprises increased slightly and generally exceeded the share among large financial services firms.

During 2011–2018, women held approximately 37 percent of senior management positions at Fannie Mae and approximately 26 percent of senior management positions at Freddie Mac. Fannie Mae and Freddie Mac classify senior management somewhat differently, with Freddie Mac including a wider pool of executives in this category.³⁵ As a result, data on senior management among the enterprises and large financial services firms may not be directly comparable.

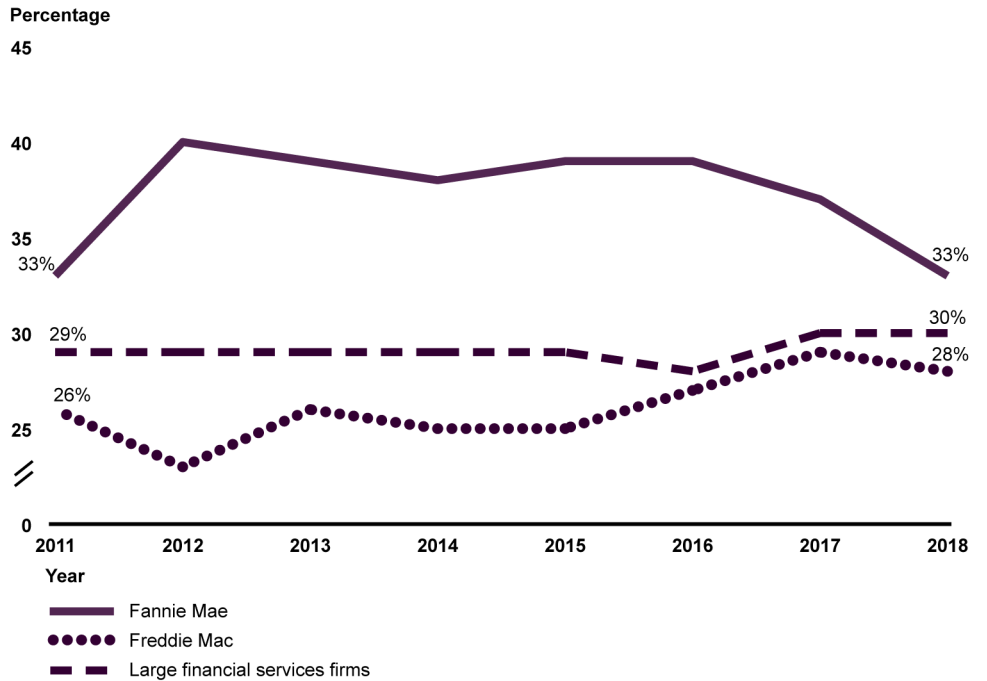
The share of women in senior management at Fannie Mae exceeded the share among large financial services firms, while the share at Freddie Mac was generally on par with large financial services firms (see fig. 7). We analyzed trends across large financial services firms—those with at least 5,000 employees—to compare to trends at Fannie Mae and Freddie Mac.³⁶ In 2018, the year with the most recently available data, women represented 33 percent of senior management at Fannie Mae, 28 percent at Freddie Mac, and 30 percent across large financial services firms. Because of the relatively small number of senior managers at the enterprises, a small change in the number of such managers can result in a significant change in the associated percentage.

³⁴For this report, other employees include those in all job positions not in the “executive/senior level official and manager” category of the EEO-1 reports, such as first- and mid-level officials and managers, professionals, and administrative support workers.

³⁵Both enterprises include senior vice presidents and executive vice presidents, but Fannie Mae additionally includes the president and Freddie Mac additionally includes vice presidents in its definition of senior management positions.

³⁶In any given year during 2011–2018, Fannie Mae had approximately 6,800–7,300 employees and Freddie Mac had approximately 4,900–6,600.

Figure 7: Percentage of Women in Senior Management at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2011–2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: The Equal Employment Opportunity Commission (EEOC) defines executive/senior-level officials and managers as those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the enterprises/organizations for the development and delivery of products or services, within the parameters approved by the boards of directors or other governing bodies. For this figure, we refer to executive/senior-level officials and managers as senior managers or senior management. From 2011 to 2018, Freddie Mac reported more senior management positions than Fannie Mae because Freddie Mac interprets EEOC’s definition of senior management more broadly. Because of the relatively small number of senior managers at Fannie Mae and Freddie Mac, a small change in the number of such managers can result in a significant change in the associated percentage.

We also analyzed the gender of executive officers (excluding CEOs) for each enterprise, which represents the portion of senior management that includes top-level executives and executives leading business functions. For Fannie Mae, two of seven executive officers (29 percent) were female in 2019. For Freddie Mac, two of eight executive officers (25 percent) were female. This is on par with major U.S. financial firms, where women

constituted 26 percent of executive committee members in 2019, according to an industry report.³⁷

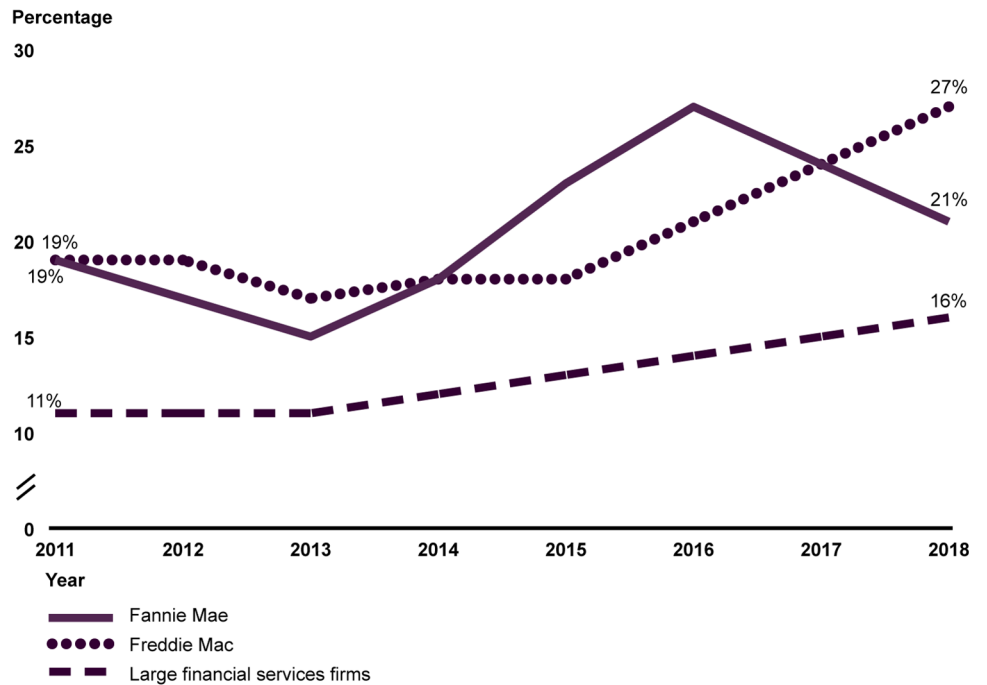
Minority Representation among Senior Management

In 2011–2018, minorities represented 15–27 percent of senior management at Fannie Mae. This share generally increased to 27 percent in 2016, before decreasing to 21 percent in 2018. Over this same time period, minorities represented 17–27 percent of senior management at Freddie Mac. This share generally increased from 2011 to 2018. Because of the relatively small number of senior managers at the enterprises, a small change in the number of such managers can result in a significant change in the associated percentage.

The share of minorities in senior management at Fannie Mae and Freddie Mac exceeded the share among large financial services firms overall (see fig. 8). In 2018, the year with the most recently available data, minorities represented 21 percent of senior management at Fannie Mae, 27 percent at Freddie Mac, and 16 percent across large financial services firms overall.

³⁷Jessica Clempner, Ted Moynihan, et al., *Women in Financial Services 2020* (2019).

Figure 8: Percentage of Minorities in Senior Management at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2011–2018

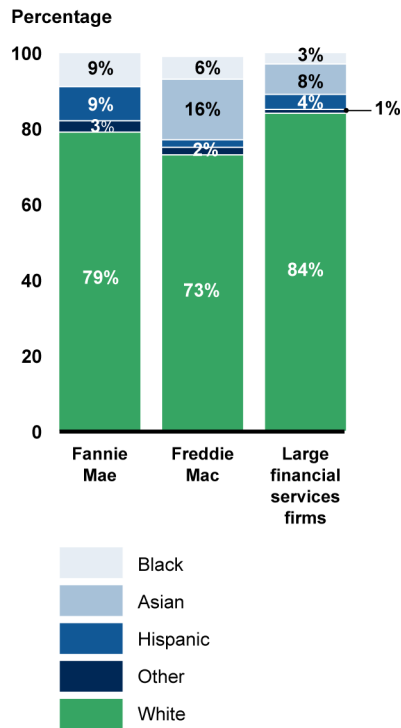


Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: The Equal Employment Opportunity Commission (EEOC) defines executive/ senior-level officials and managers as those who plan, direct, and formulate policies, set strategy, and provide the overall direction of the organizations for the development and delivery of products or services, within the parameters approved by the boards of directors or other governing bodies. For this figure, we refer to executive/senior-level officials and managers as senior managers or senior management. From 2011 to 2018, Freddie Mac reported more senior management positions than Fannie Mae because Freddie Mac interprets EEOC’s definition of senior management more broadly. Because of the relatively small number of senior managers at Fannie Mae and Freddie Mac, a small change in the number of such managers can result in a significant change in the associated percentage.

As shown in figure 9, the largest minority racial/ethnic groups among senior management at Fannie Mae were Hispanic and Black (at 9 percent each). At Freddie Mac, the largest minority racial/ethnic group among senior management was Asian (16 percent), followed by Black (6 percent).

Figure 9: Percentage of Senior Management by Race/Ethnicity at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: The race/ethnicity categories used in the Equal Employment Opportunity Commission's Employer Information Report (EEO-1 report) are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category on the EEO-1 report includes Hispanics or Latinos regardless of race. We included Asian and Native Hawaiian or Pacific Islander under Asian. We included Native American or Alaskan Native and Two or More Races under Other.

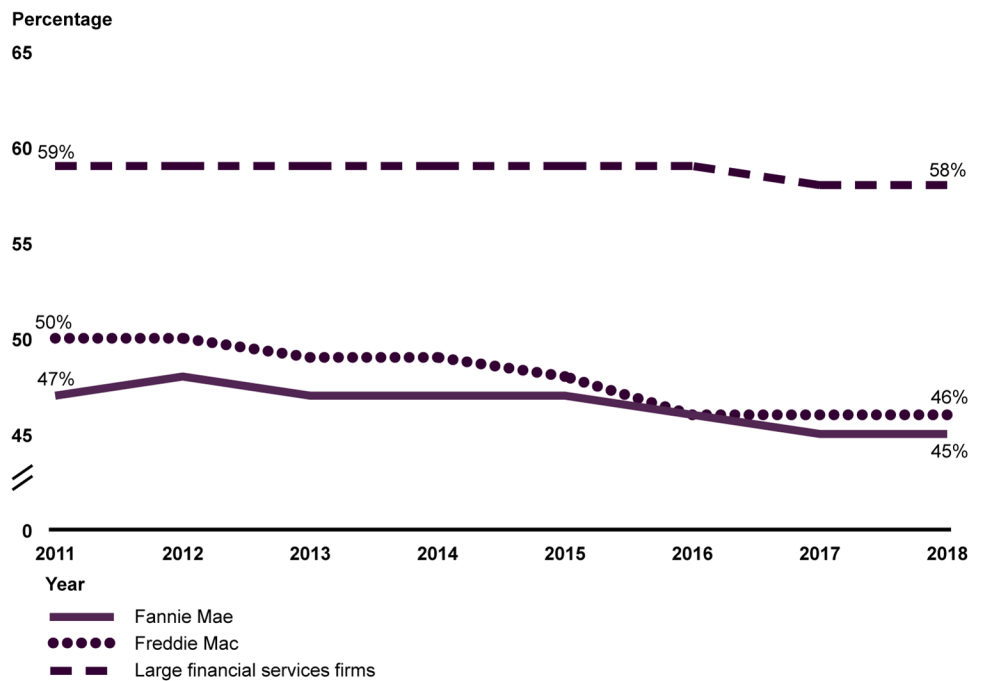
We also analyzed data provided by the enterprises on the race/ethnicity of executive officers (excluding the CEO), which includes top-level executives and executives leading business functions. For Fannie Mae, two of seven executive officers (29 percent) were minorities in 2019. For Freddie Mac, two of eight executive officers (25 percent) were minorities.

Female Representation among Other Employees

From 2011 to 2018, women represented 45–48 percent of employees at Fannie Mae and 46–50 percent of employees at Freddie Mac (see fig. 10). (For the purposes of this report, the term employees refers to all job positions other than senior management roles, as categorized in EEOC data.) Female representation declined slightly over this period. However, the share of female employees at Fannie Mae and Freddie Mac was

lower than the share among large financial services firms from 2011 to 2018. In 2018, the year with the most recently available data, women represented 45 percent of employees at Fannie Mae, 46 percent at Freddie Mac, and 58 percent across large financial services firms.

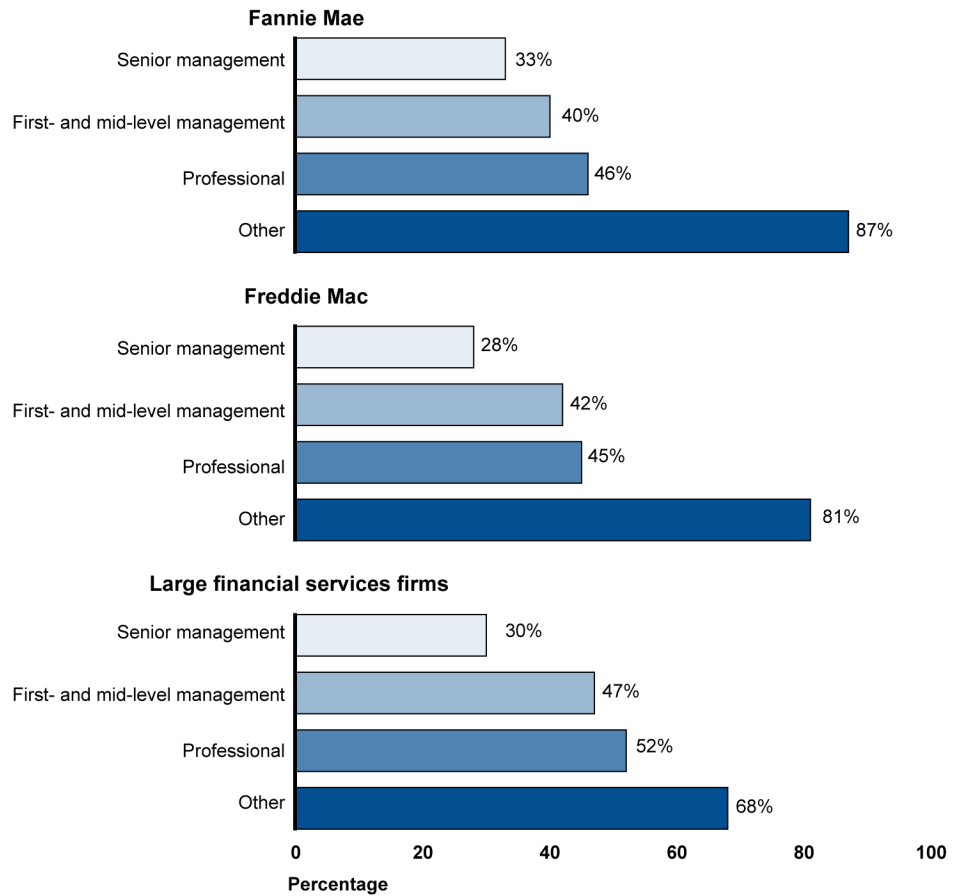
Figure 10: Percentage of Female Employees at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2011–2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Employees in first- and mid-level management positions are of interest as they can be potential candidates for senior management positions. In 2018, the share of female employees in these positions was smaller than the share among professional and other job categories at both Fannie Mae and Freddie Mac, as shown in figure 11.

Figure 11: Percentage of Women by Job Category at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2018



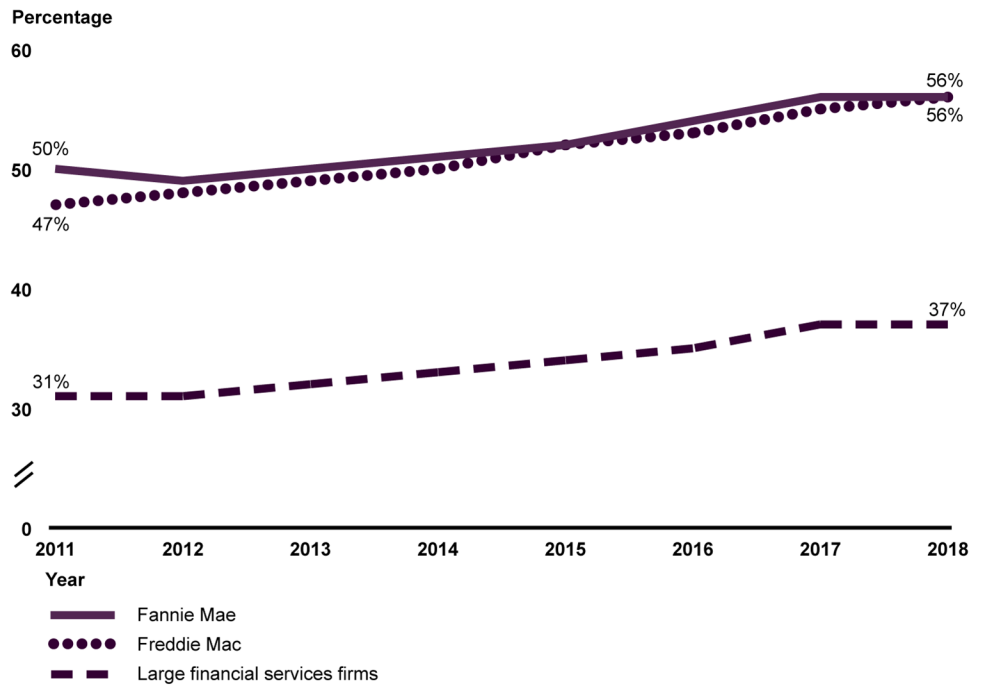
Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: In this graphic, “Other” includes all other job categories not listed, as categorized in the Equal Employment Opportunity Commission’s Employer Information Report, such as administrative support workers and sales workers.

Minority Representation among Other Employees

From 2011 to 2018, minorities represented 50–56 percent of employees at Fannie Mae and 47–56 percent of employees at Freddie Mac, exhibiting a general increase over time at both enterprises (see fig. 12). The share of minority employees at both enterprises exceeded the share among large financial services firms, which increased from 31 percent in 2011 to 37 percent in 2018.

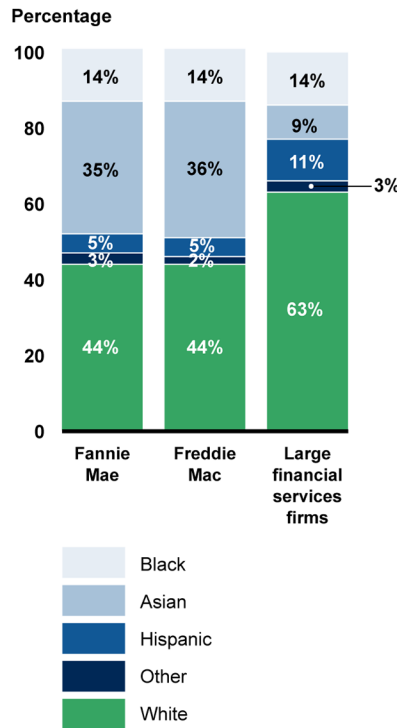
Figure 12: Percentage of Minority Employees at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2011–2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

In 2018, the largest minority racial/ethnic group among employees at both Fannie Mae and Freddie Mac was Asian (at approximately 35 percent), followed by Black (14 percent), as shown in figure 13. Asian employees constituted a smaller share among other large financial services firms (9 percent).

Figure 13: Percentage of Employees by Race/Ethnicity at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2018

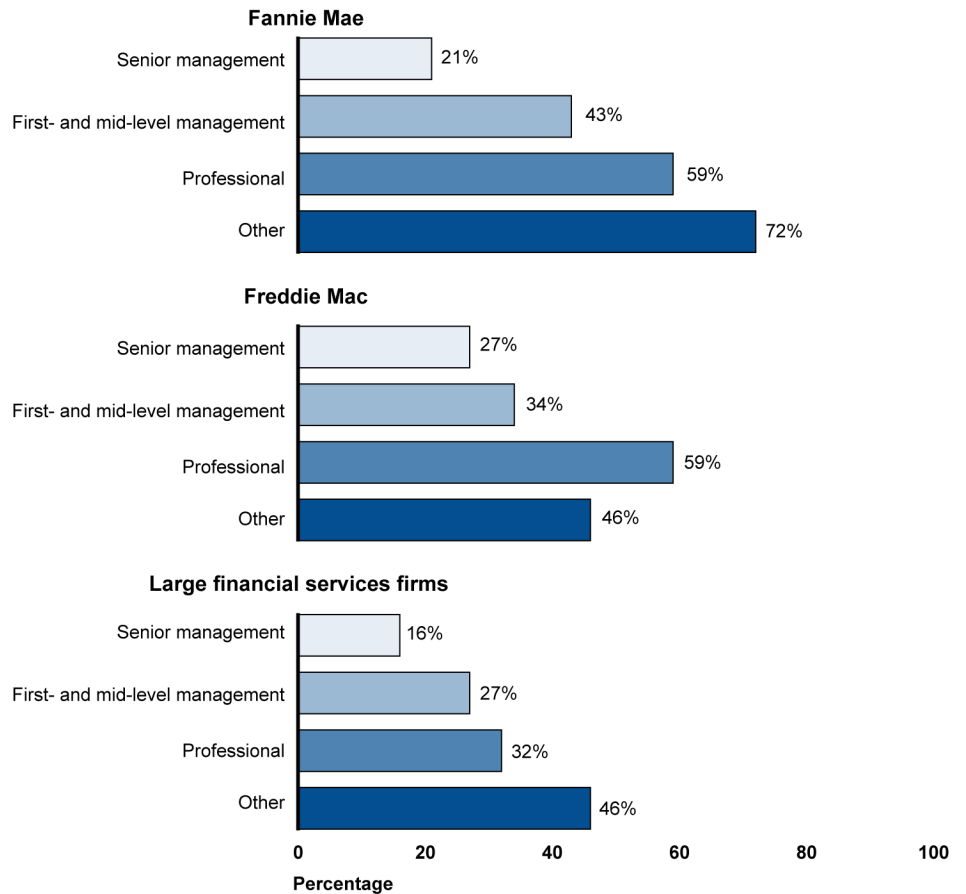


Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: The race/ethnicity categories used in the Equal Employment Opportunity Commission’s Employer Information Report (EEO-1 report) are Hispanic or Latino, White, Black or African-American, Native Hawaiian or Other Pacific Islander, Asian, Native American or Alaska Native, and Two or More Races. The Hispanic or Latino category on the EEO-1 report includes Hispanics or Latinos regardless of race. We included Asian and Native Hawaiian or Pacific Islander under Asian. We included Native American or Alaskan Native and Two or More Races under Other.

As with the share of female employees, in 2018 the share of minority employees in first- and mid-level management positions was smaller than that among professional and other job categories at both Fannie Mae and Freddie Mac, as shown in figure 14.

Figure 14: Percentage of Minorities by Job Category at Fannie Mae, Freddie Mac, and Large Financial Services Firms, 2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-20-637

Note: In this graphic, “Other” includes all other job categories not listed, as categorized in the Equal Employment Opportunity Commission’s Employer Information Report, such as administrative support workers and sales workers.

Fannie Mae and Freddie Mac Have Implemented Leading Practices to Address Challenges and Support Workforce Diversity

We found that the practices Fannie Mae and Freddie Mac have implemented align with leading practices we previously identified on diversity management, as well as related practices employed by firms in

the financial sector to recruit and promote a diverse workforce.³⁸ These practices seek to address challenges identified by the enterprises. Specifically, Freddie Mac officials reported that competition from firms for top female and diverse candidates at all levels, including senior management, is a challenge to recruiting, retaining, and promoting women and minorities. Fannie Mae's 2018 Report on Minority and Women Inclusion noted that low application and hire rates among potential candidates is a challenge, because the number of potential job seekers at career events did not always translate into job applicants or hires.

Fannie Mae and Freddie Mac have implemented some of these leading practices in recent years. The practices can be generally summarized into four categories: (1) a high-level emphasis on diversity and inclusion, (2) measurement and accountability for diversity and inclusion goals, (3) recruitment targeted to diverse candidates, and (4) support for diverse employees and inclusive norms.

High-Level Emphasis on Diversity and Inclusion

- **Top leadership commitment:** Senior management at Fannie Mae and Freddie Mac is responsible for overseeing diversity and inclusion activities. For example, members of Freddie Mac's senior management serve on the Corporate Diversity and Inclusion Committee, created in 2017, which directs and oversees diversity and inclusion activities in all business areas of the enterprise. Fannie Mae's senior management is responsible for assessing whether diversity and inclusion goals have been met and identifying opportunities to improve the company's diversity and inclusion strategy. Both enterprises also have a senior executive who reports to

³⁸As we previously reported, nine leading diversity practices we identified are (1) commitment to diversity as demonstrated and communicated by an organization's top leadership; (2) the inclusion of diversity in an organization's strategic plan; (3) diversity linked to performance, with the understanding that a more diverse and inclusive work environment could help improve productivity and individual and organizational performance; (4) measurement of the impact of various aspects of a diversity program; (5) management accountability for the process of diversity initiatives; (6) succession planning; (7) recruitment; (8) employee involvement in an organization's diversity efforts; and (9) training for management staff about diversity. See [GAO-05-90](#). Also as we previously reported, practices that financial services firms use to recruit women and racial/ethnic minorities include engaging in broad-based recruiting, establishing relationships with student and professional organizations, intentionally recruiting diverse candidates, and offering programs to increase awareness of financial services. Practices to retain and promote women and racial/ethnic minorities include establishing affinity groups, training managers and employees on inclusion and unconscious bias, establishing management-level accountability, offering staff mentors and sponsors, and implementing family-friendly policies. See [GAO-18-64](#).

Measurement and
Accountability for Diversity and
Inclusion Goals

top-level management and is responsible for implementing the enterprise's diversity and inclusion strategy. Specifically, Fannie Mae's Chief OMWI Officer reports to the CEO and is responsible for ensuring diversity and inclusion strategies are embedded in the enterprise's initiatives, programs, and practices. Freddie Mac's Chief Diversity Officer reports to the CEO and leads the company's diversity and inclusion strategy.

- **Diversity as part of the strategic plan:** The boards of both Fannie Mae and Freddie Mac approved stand-alone diversity and inclusion strategic plans in January 2018 and March 2019, respectively. The enterprises' boards of directors and senior management are responsible for reviewing and approving each enterprise's diversity and inclusion strategic plans. Both enterprises also have included these diversity and inclusion goals as part of their enterprise-wide strategic plans, based on our review of these strategic plans.
- **Diversity linked to performance:** Fannie Mae and Freddie Mac's strategic plans state that a more diverse and inclusive work environment contributes to productivity and organizational performance. Based on our review of documents provided by the enterprises, both Fannie Mae and Freddie Mac provide training programs that emphasize diversity and inclusion as it relates to business outcomes or team efficiency.
- **Measurement:** Fannie Mae and Freddie Mac use a variety of quantitative data to establish benchmarks and measure progress toward their diversity and inclusion goals. For example, according to the enterprises' diversity and inclusion strategic plans and officials, both Fannie Mae and Freddie Mac use an employee engagement survey to monitor engagement among female and minority employees and assess engagement scores for these groups relative to overall employee scores. Both enterprises also track workforce diversity relative to benchmarks, such as peer institutions or prior year metrics.
- **Management-level accountability:** Fannie Mae and Freddie Mac each have established protocols designed to ensure that managers and leadership are accountable for diversity and inclusion goals. For example, according to Freddie Mac officials, whether divisions achieve their respective diversity and inclusion goals partly determines the respective manager's annual performance assessments and corresponding compensation. Freddie Mac's Corporate Diversity and Inclusion Committee monitors and reviews diversity and inclusion results against established goals and performance measures. According to Fannie Mae officials, all managers are responsible for meeting certain goals that address

Recruitment Targeted to Diverse Candidates

performance management of their diverse staff. According to their diversity and inclusion strategic plan, all functions within Fannie Mae are accountable to the OMWI officer to perform according to the diversity and inclusion strategic plan goals, regardless of whether those functions report directly to the OMWI officer.

- **Engaging in broad-based recruiting:** According to their 2018 reports on inclusion, Fannie Mae and Freddie Mac both conduct outreach activities through a variety of channels. For example, Fannie Mae's report said it markets the importance of diversity and inclusion at the enterprise at external recruiting events, participates in targeted career and networking events to reach diverse populations, and highlights its efforts to foster an inclusive work environment on its career website, online job boards, and social and print media. Freddie Mac's report said it participates in outreach events hosted by organizations that serve diverse populations and works with the organizations to identify prospective candidates for employment.
- **Intentionally recruiting diverse candidates:** Fannie Mae and Freddie Mac have both implemented policies to identify and target recruitment towards underrepresented groups. According to officials, Freddie Mac assesses outreach and engagement opportunities and its performance in meeting its employment diversity goals each year. If a particular group is underrepresented, Freddie Mac conducts additional outreach efforts. Similarly, according to Fannie Mae's 2018 diversity and inclusion strategic plan, the enterprise seeks to ensure diverse candidate pools, when possible, and increase outreach for under-represented pools. To address low application rates, Fannie Mae also has been strengthening partnerships with organizations that aim to connect disabled individuals and veterans with employers.
- **Establishing relationships with student and professional organizations:** Both Fannie Mae and Freddie Mac conduct outreach activities through college recruiting programs and professional organizations. For example, Freddie Mac officials stated that the enterprise partners with the Hispanic Scholarship Fund, an organization that supports placement of entry-level Hispanic talent in the workforce. Fannie Mae officials stated that they recruit talent from a number of college campuses, including Historically Black Colleges and Universities and conduct panels on diversity and inclusion for women in the financial sector at certain universities.
- **Offering programs to increase awareness of financial services:** Fannie Mae's outreach efforts in 2018 included supporting academic institutions focused on exposing minority youth to careers in financial services. For example, officials told us Fannie Mae participates in

Support for Diverse Employees and Inclusive Norms

Year Up, which connects minority and underprivileged students with no college education with job training and internship opportunities.

- **Employee involvement, including employee resource groups:** Fannie Mae and Freddie Mac established working groups, employee resource groups, and committees to support employee involvement in diversity and inclusion efforts. For example, Fannie Mae's Diversity Advisory Council is a working group of officers and employees who provide feedback to the CEO on proposed diversity and inclusion initiatives. Fannie Mae's OMWI also sponsors a number of employee-led Employee Resource Groups to provide opportunities for employees to connect. Similarly, Freddie Mac has Employee Resource Groups to offer opportunities for leadership, development, and collaboration.
- **Succession planning, including mentorship and sponsorship:** Fannie Mae and Freddie Mac use initiatives to promote diverse candidates to top-level leadership. For example, according to Fannie Mae's 2018 Report on Minority and Women Inclusion, the Executive Development Program and Director Development Program, which provide development opportunities that emphasize leadership and the skills required to lead teams, support developing diverse individuals in their careers. Meanwhile, Freddie Mac's Employee Resource Groups provide mentorship programs and employment development opportunities. Additionally, Freddie Mac officials noted that the Office of Inclusive Engagement has been implementing a formal diversity and inclusion sponsorship program to support its goals.
- **Diversity training, including inclusion and unconscious bias training:** Fannie Mae and Freddie Mac both provide diversity and inclusion training and programming to employees at all levels. For example, according to officials and based on our review of documents, Fannie Mae offers courses aimed at providing diversity and inclusion awareness, uncovering hidden bias, and managing with inclusive leadership skills. According to Freddie Mac officials, the enterprise requires diversity and inclusion training for all employees and contractors and has integrated diversity and inclusion into other existing training.

Fannie Mae and Freddie Mac Took Steps to Promote Supplier Diversity

In 2018, the most recent year for which data were available, the enterprises spent approximately \$3.3 billion on supplier services.³⁹ Of this amount, Fannie Mae's total supplier expenditures were about \$2.0 billion, of which about 18 percent went to minority-, women-, and disabled-owned suppliers.⁴⁰ Freddie Mac's total supplier expenditures in 2018 were about \$1.3 billion, of which about 18 percent went to minority-, women-, and disabled-owned suppliers.⁴¹ In terms of contracts with suppliers, in 2018 the enterprises entered into more than 5,000 contracts for supplier services.⁴² Fannie Mae entered into 4,268 contracts with suppliers, of which about 18 percent were with minority-, women-, and disabled-owned suppliers.⁴³ Freddie Mac entered into 1,080 contracts for supplier services, of which about 23 percent were with minority-, women-, and disabled-owned suppliers.

Fannie Mae and Freddie Mac Described Steps to Overcome Challenges in Promoting Supplier Diversity

Fannie Mae and Freddie Mac used suppliers for a variety of goods and services but faced challenges increasing supplier diversity in some supplier categories. Fannie Mae and Freddie Mac officials told us that they generally met their 2019 goals for utilizing diverse suppliers. However, they have had less diverse representation in some supplier services, including legal and insurance services. For example, officials told us suppliers that service properties (usually, foreclosures) that the enterprises own are primarily smaller businesses of types historically rich with diverse suppliers such as landscaping, property maintenance, and real estate agents. Officials with the enterprises told us that they have had challenges recruiting diverse suppliers in categories in which minority

³⁹As described later in this report, FHFA identified inconsistencies in the quarterly data reports that the enterprises submitted to FHFA for 2019. Therefore, we have not included data for 2019 on total supplier expenditures or number of contracts with diverse firms.

⁴⁰Minority-owned suppliers primarily refer to African-American-, Asian-, and Hispanic-owned suppliers. Other minority-owned suppliers include American Indian, Alaskan Native, Native Hawaiian or Pacific Islanders. Nonminority suppliers refers to white suppliers.

⁴¹We use "diverse suppliers" to refer to minority-, women-, and disabled-owned suppliers. The Minority and Women Inclusion rule requires the enterprises to include, minority, women, and disabled-owned business in all business activities to the maximum extent possible (consistent with financially safe and sound business practices). 12 C.F.R. § 1223.21.

⁴²The enterprises enter into contracts with suppliers for services such as (1) consulting and professional services, including auditing and legal services; (2) corporate services, including facilities and building maintenance; (3) technology, including information technology support, software, and hardware development; and (4) real estate services, including property contractors and maintenance.

⁴³Fannie Mae supplier contract data included subcontractors.

and women-owned suppliers are underrepresented. Freddie Mac officials told us they had challenges identifying diverse candidates in the categories of insurance and legal services. Fannie Mae officials told us that suppliers that are larger businesses, including software providers, are often not owned by diverse suppliers. According to Fannie Mae and Freddie Mac's quarterly data reports, in 2019, the enterprises did not enter into new contracts with diverse suppliers in the underrepresented categories of insurance and legal services. However, Fannie Mae officials noted that the enterprise's legal department continued existing relationships with diverse suppliers and legal professionals at majority-owned law firms and legal professional organizations. Furthermore, other service contract categories included few diverse suppliers. For example, in 2019 Fannie Mae entered into at least 10 audit supplier contracts; however, no audit expenditures or contracts were provided to diverse suppliers. (See table 3 for categories of supplier services under which the enterprises had at least one contract with diverse suppliers in 2019).

Table 3: Supplier Service Categories for Which Fannie Mae and Freddie Mac Had One or More Contracts with Minority, Women, or Disabled-Owned Suppliers, 2019

Supplier service category	Fannie Mae	Freddie Mac
Audit	—	✓
Contract labor	✓	✓
Employee	✓	✓
Facilities	✓	✓
Financial agreement	—	—
Insurance	—	—
Information technology products and services	✓	✓
Legal	—	—
Marketing and events	✓	✓
Other	—	✓
Printing and office supplies	✓	—
Training	✓	✓
Travel	Not applicable	—

Legend: — indicates no contracts with minority, women, or disabled-owned suppliers.

Source: GAO analysis of Fannie Mae and Freddie Mac quarterly supplier data. | GAO 20-637

Notes: In 2019, Fannie Mae did not have any travel services contracts that were required to be reported.

In prior work, we identified practices that institutional investors can use to increase opportunities for minority- and women-owned asset managers.⁴⁴ These practices also are applicable to practices Fannie Mae and Freddie Mac can use to increase opportunities for contracting with minority- and women-owned suppliers. The practices are (1) demonstrating top leadership commitment, (2) removing potential barriers, (3) conducting outreach, and (4) communicating priorities and expectations.

Based on our review of the enterprises' OMWI annual reports for 2016–2018 and interviews with OMWI staff, we identified the following measures—within each of the four practice categories noted above—that Fannie Mae and Freddie Mac have taken to promote diversity among suppliers:

Demonstrating top leadership commitment: Fannie Mae's and Freddie Mac's boards of directors and executive leadership play a significant role in monitoring their companies' diversity goals and practices.

Fannie Mae's board is responsible for reviewing annual diversity reports and ensuring that they achieve their goals and benchmarks. The goals include fostering consistent, replicable, and measurable supplier diversity practices. Fannie Mae's executive leadership held quarterly meetings with OMWI and procurement leadership, and reviewed OMWI quarterly reports, to monitor expenditures to minority, women, and disabled-owned suppliers. Additionally, as stipulated by Fannie Mae's procurement policy, the Chief Procurement Office and Vice President must report progress toward meeting diversity and inclusion strategic goals to the OMWI.

Freddie Mac's senior management approves the annual reports that outline the enterprise's supplier diversity goals. In addition, Freddie Mac's Corporate Diversity and Inclusion Committee meets at least three times annually to monitor implementation of diversity supplier goals. Freddie Mac also holds quarterly presentations for its board of directors, which include discussion of supplier diversity outcomes. Additionally, Freddie Mac's Chief Diversity Officer reports directly to the CEO.

Removing potential barriers: Fannie Mae and Freddie Mac have implemented several initiatives designed to remove barriers and increase opportunities for diverse suppliers.

⁴⁴See [GAO-19-589](#).

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- **Scoring supplier proposals:** When Fannie Mae and Freddie Mac receive proposals, they score them based on variables like supplier costs, experience, and operational capabilities. To increase opportunities for diverse suppliers, Freddie Mac includes “diversity” and “ability to innovate” among the variables incorporated in the score. Fannie Mae officials stated that including diversity in the scoring can help mitigate bias in the supplier selection process by helping diverse suppliers gain access to contracting opportunities.
 - **Supplier development:** Freddie Mac’s Supplier Academy provides education and mentorship opportunities to prospective diverse suppliers whose services align with business needs. Freddie Mac officials told us that 40 percent of Supplier Academy participants receive contracts to provide services to Freddie Mac, and they plan to increase the number of courses offered. While Fannie Mae does not have a specific program, its 2019 strategic plans states that it will focus on the development of diverse suppliers through increased exposure to and interaction with its business units.
 - **Diverse supplier solicitation requirements:** Freddie Mac procurement policies require that it solicit at least one diverse supplier to submit proposals to meet Freddie Mac’s procurement needs for competitive contracts above \$150,000, whenever feasible. Fannie Mae’s procurement policies also require it to consider diverse suppliers in contracting, although they do not specify specific numbers or contract amounts.

Conducting outreach: Fannie Mae and Freddie Mac use a variety of outreach methods to connect with diverse suppliers.

Fannie Mae participated in more than 22 supplier diversity outreach events in 2018, and it monitors such participation to track its progress in meeting diversity goals. It also partnered with 13 organizations to increase opportunities for diverse suppliers. Fannie Mae’s procurement division also has its own annual goals for outreach activities for diverse suppliers and was a member of supplier advocacy associations, including the American Mortgage Diversity Council and the Capital Region Minority Supplier Diversity Council. In addition, Fannie Mae officials told us that in 2019, 511 diverse suppliers registered with the enterprise’s online supplier database.

In 2018, Freddie Mac participated in 15 outreach activities across 13 organizations and used a diverse supplier database to facilitate contracting opportunities. In addition, in 2017, Freddie Mac created an online application for suppliers, which officials said helped more quickly

determine the capabilities of diverse suppliers and assess if they met minimum requirements. In 2019, 284 diverse supplier applications were submitted through the online application.

Communicating expectations and priorities: Both Fannie Mae and Freddie Mac document and communicate expectations on supplier diversity to their staff through procurement policies and quarterly reports.

Fannie Mae's procurement policies provide direction to enterprise leadership and procurement staff on how to implement supplier diversity goals. For example, these policies state that the Chief Procurement Officer is responsible for maintaining supplier diversity and that business units should engage procurement staff to identify diverse suppliers in the contracting activities they manage. Additionally, the Chief Procurement Office and Vice President must report progress toward meeting diversity and inclusion strategic goals to the OMWI.

Freddie Mac's policies communicate diversity priorities and expectations with business areas and staff responsible for procurement and supplier diversity. For example, Freddie Mac policies state that procurement officials will solicit and encourage qualified diverse suppliers to submit proposals to meet Freddie Mac's procurement needs whenever practicable. Freddie Mac business areas also are required to communicate with and inform procurement staff offices about upcoming contracting requirements so that procurement staff can partner with the diversity and inclusion team to identify qualified diverse suppliers in a timely fashion.

Fannie Mae and Freddie Mac Used Diverse Broker-Dealers to a Limited Extent but Have Made Efforts to Increase Their Use

Fannie Mae and Freddie Mac each paid approximately 6 percent of their financial transaction fees to diverse broker-dealers in 2019.⁴⁵ Fannie Mae and Freddie Mac officials described potential challenges that may limit the use of diverse broker-dealers but described steps they have been taking to increase their use and implement leading diversity practices.

⁴⁵We use "diverse broker-dealers" to refer to those that are minority-, women-, or disabled-owned.

Fannie Mae and Freddie Mac Used Broker-Dealers from Diverse Backgrounds to a Limited Extent

In 2019, Fannie Mae and Freddie Mac each paid approximately 6 percent of their financial transaction fees to diverse broker-dealers. Fannie Mae and Freddie Mac use broker-dealers to conduct various financial transactions including debt issuance, sale of nonperforming loans, and credit risk transfer programs. They compensate these broker-dealers through a fee structure. The fees vary, depending on the type of transaction made and the broker-dealer's role in it, and can be a percentage of transaction value, a fixed amount, or a combination of both.⁴⁶ (See sidebar for additional information.)

⁴⁶Our review focused on financial transaction fees. Fannie Mae and Freddie Mac officials noted that diverse broker-dealers also transact in enterprise products whereby they may earn compensation in the form of a spread between the price paid by the buyer and price paid to the seller.

Overview of Broker-Dealer Financial Transactions

Broker-Dealer Compensation

Broker-dealers are paid fees for certain transactions they conduct with Fannie Mae and Freddie Mac. Generally, the fees a broker-dealer can earn for capital markets transactions depend on the transaction type or the broker-dealer's role in transactions.

Role in Certain Transactions

Broker-dealers may conduct financial market transactions in syndicates—groups of financial institutions. Those syndicates engage with investors for debt funding and securities products. However, according to the enterprises, an individual broker-dealer's participation in a syndicate may be limited by its product expertise, its capital, and size of its balance sheet. For example, syndicate participants may need to fund the transaction prior to a sale to investors. Hence, larger syndicate transactions may require a participant to have a greater amount of capital to fund its portion of the transaction.

Selected Types of Financial Transactions

Debt issuance. These transactions utilize a range of debt securities to provide funding for Fannie Mae and Freddie Mac. The debt transactions can vary in size and be conducted by one or more broker-dealers.

Nonperforming loans. Fannie Mae and Freddie Mac periodically sell delinquent nonperforming loans or reperforming loans through competitive auctions intended to reduce the number of seriously delinquent loans they hold.

Credit risk transfer programs. These structure mortgage credit risk into securities, and thereby transfer some credit risk exposure from U.S. taxpayers to private investors.

Source: GAO analysis of interviews with Fannie Mae and Freddie Mac officials. | GAO-20-637

According to data Fannie Mae reported to FHFA, in 2019, Fannie Mae paid approximately 6 percent of its financial transaction fees to diverse broker-dealers. During 2019, according to Fannie Mae officials, 19 diverse broker-dealers transacted debt products with Fannie Mae.⁴⁷

According to data Freddie Mac reported to FHFA, in 2019, Freddie Mac also paid approximately 6 percent of its financial transaction fees to diverse broker-dealers. As of June 2020, 16 diverse broker-dealers transacted debt with Freddie Mac.⁴⁸

All broker-dealers must be approved by the enterprises to participate in Fannie Mae and Freddie Mac financial market transactions. For instance, Fannie Mae and Freddie Mac review broker-dealers' financial soundness and expertise before they are approved to participate in such transactions. Diverse broker-dealers follow the same processes to be approved to participate as all broker-dealers, but they also must verify their diversity status.

In addition, Fannie Mae visits diverse broker-dealers that are members of its ACCESS program for expanding business with diverse dealers. The visit are part of doing business with the firms.

Using diverse broker-dealers can broaden the investor base for Fannie Mae and Freddie Mac, according to enterprise officials, because diverse broker-dealers tend to have relationships with smaller investors that may not receive attention from the larger firms. They noted that diverse broker-dealers can leverage such relationships to attract new investors, and some diverse broker-dealers have relationships with large investors as well. Representatives of one diverse broker-dealer told us their firm provides the enterprises with access to clients that are less served by traditional broker-dealers.

⁴⁷The diversity status of broker-dealers that conducted transactions of other types of products for Fannie Mae is proprietary.

⁴⁸The diversity status of broker-dealers that conducted transactions of other types of products for Freddie Mac is proprietary.

Fannie Mae and Freddie Mac Described Steps to Overcome Challenges in Promoting Broker-Dealer Diversity

Fannie Mae and Freddie Mac officials described potential challenges that may limit the use of diverse broker-dealers or create barriers for such broker-dealers to participate in additional financial transaction types.

Capital requirements. Fannie Mae and Freddie Mac officials said that because diverse broker-dealers often are smaller firms, they generally do not have the level of capital required to execute transactions for larger and more complex financial products.⁴⁹

Trading capabilities. Diverse broker-dealers may not actively trade certain products, according to enterprise officials. This may limit their ability to conduct large and complex transactions with the enterprises because the enterprises consider trading activity as a criterion for selecting broker-dealers. Active trading supports market liquidity of securities and provides broker-dealers with more experience and investor relationships.

Product experience. According to Fannie Mae officials, diverse broker-dealers may have limited financial advisory services opportunities if they do not have staff who specialize in certain products. Because of the experience gap, diverse broker-dealers typically provide fewer financial advisory services than larger broker-dealers.

To help assess the performance of broker-dealers, Fannie Mae and Freddie Mac officials stated they maintain internal scorecards for particular financial market transactions for all broker-dealers they use. The scorecard metrics may include trading volume, advisory services, investor development, research capabilities, and market as well as syndication experience. For example, according to Freddie Mac officials, scorecards may be used to assess the capabilities of a broker-dealer and participation in a transaction. Fannie Mae and Freddie Mac do not provide broker-dealers with their specific scorecard rankings; instead, they provide general feedback on where the broker-dealer ranks.

While five broker-dealers with whom we spoke stated that Fannie Mae and Freddie Mac had made significant efforts to provide opportunities for participation by diverse broker-dealers, four broker-dealers stated that

⁴⁹According to Fannie Mae officials, a broker-dealer must maintain sufficient capital to repay its obligations in case it fails, prevent losses to customers, and increase the chances that it can self-liquidate in an orderly fashion. In addition, the capital should include a cushion to cover potential market, credit, and other risks, and pay continuing operating costs.

additional transparency on performance benchmarks (that is, indicators of how the enterprise views a broker-dealer's performance relative to other broker-dealers it uses) would help improve diverse broker-dealer performance. Three broker-dealers stated that additional performance feedback and benchmarks would help them understand what business areas they could improve to meet financial transaction standards for more complex products. Representatives of a diverse broker-dealer association told us that, in contrast to larger banks, their members may not have as many opportunities with the enterprises despite many diverse firms underwriting billions of dollars' worth of debt elsewhere. For example, they explained that many diverse broker-dealers are routinely lead managers of billions of dollars of municipal bonds and have been for 15–20 years.

Officials with the enterprises told us that some of the information they use to assess firms is proprietary and cannot be shared with other firms. However, as discussed later in this report, FHFA officials told us that their 2020 examinations of the enterprises will review the enterprises' processes for delivering performance feedback to broker-dealers, including diverse broker-dealers.

The four leading practices we discussed earlier for increasing opportunities for diverse asset managers are also applicable to increasing opportunities for diverse broker-dealers. Based on our review of enterprise and FHFA's 2016–2019 annual OMWI reports and interviews with OMWI staff, we found that Fannie Mae and Freddie Mac incorporated these leading practices to increase their use of diverse broker-dealers and address some of the challenges noted earlier:

Demonstrating top leadership commitment. As previously discussed, senior leadership at Fannie Mae and Freddie Mac have demonstrated a commitment to diversity through strategic plans, goals, and reporting. In particular, the strategic plans indicate a commitment to provide guidance and opportunities to diverse broker-dealers.

Removing potential barriers. Fannie Mae and Freddie Mac have taken steps to identify and mitigate barriers that limit diverse broker-dealers' participation in financial markets transactions.

- Lower capital requirements. Fannie Mae has taken steps to lower some capital requirements. For example, Fannie Mae has changed its policy to allow diverse broker-dealers to participate in debt funding transactions with \$2.5 million in excess net capital, instead of the \$5

million normally required. In addition, Fannie Mae instituted a program that relaxes excess net capital requirements for ACCESS firms to allow them to participate in secondary trading activity in the multifamily mortgage market.

- Product support. According to enterprise officials and two diverse broker-dealers with whom we spoke, Fannie Mae and Freddie Mac provide product support on their transactions and operations to diverse broker-dealers. For example, staff arrange educational sessions on an ongoing basis to update diverse broker-dealers on transactions and provide informational materials.
- Incentivized fee structure. For instance, Fannie Mae and Freddie Mac provide an incentive pay program for broker-dealers that bring in new investors to participate in their credit-risk transfer programs.
- Expanded roles on selected financial transactions. In 2017, Fannie Mae provided an opportunity for diverse broker-dealers to participate in certain debt transactions by creating a junior lead role. As previously described, participation in a transaction may be limited by a broker-dealer's amount of capital. According to Fannie Mae officials, as a junior lead, diverse broker-dealers can earn additional fees and gain access to larger investors participating in a deal. Freddie Mac officials stated that they also have created additional opportunities for diverse broker-dealers. As one example, Freddie Mac officials said they selected one diverse broker-dealer to participate in a syndicate with a large broker-dealer for a 2018 debt funding transaction.

While Fannie Mae and Freddie Mac have made efforts to remove potential barriers that limit diverse broker-dealers' participation in financial markets transactions, broker-dealer representatives told us that they still face challenges and that more needs to be done to remove barriers. For example, while the enterprises provide a greater role for diverse broker-dealers, these roles have been limited to a select number, according to broker-dealer representatives with whom we spoke. Representatives of a diverse broker-dealer association told us that those diverse broker-dealers that participate in Fannie Mae and Freddie Mac debt underwriting are compensated less than other broker-dealers. Furthermore, these representatives noted that they believe the enterprises' assignment of most of their lead manager roles is driven by the ancillary business that large firms are already doing with Fannie Mae and Freddie Mac. They explained that firms that are already doing business across the various products that Fannie Mae and Freddie Mac offer are viewed more favorably than diverse broker-dealers and thus get the lead manager roles. Fannie Mae officials told us they limit expanded roles to those

broker-dealers that have demonstrated production across all products and that have balance sheet capacity commensurate with the role's risk.

Conducting outreach. According to enterprise officials, Fannie Mae and Freddie Mac conduct regular outreach activities and work with national industry organizations to help promote the inclusion of diverse broker-dealers in capital markets transactions. Fannie Mae officials told us that in 2018, they participated in more than 50 meetings with such groups, including 14 outreach conferences and networking events. In addition, Freddie Mac officials told us they conducted more than 40 meetings in 2018 to provide educational support to diverse broker-dealers on Freddie Mac financial markets transactions and products. While representatives of broker-dealers with whom we spoke generally praised the enterprises' outreach efforts, officials with one firm noted that improved outreach in terms of greater transparency on the volume of the enterprises' work with diverse and nondiverse firms would be helpful.

Communicating priorities and expectations. As discussed earlier, Fannie Mae and Freddie Mac communicate priorities and expectations through diversity and inclusion reporting and policies. In addition, Fannie Mae officials said they designed the ACCESS program to include a dedicated program management office of capital markets representatives that champions the program and promotes diverse-owned broker-dealer inclusion across various financial transactions. According to Freddie Mac officials, Freddie Mac's enterprise-wide Corporate Diversity and Inclusion Committee exercises oversight of diversity and inclusion activities in all business areas, and the Financial Transactions Subcommittee promotes and evaluates diversity and inclusion efforts for diverse broker-dealers in particular.

FHFA Oversight of the Enterprises' Diversity and Inclusion Efforts Included Annual Examinations and Diversity Reports

FHFA's oversight of Fannie Mae and Freddie Mac diversity and inclusion efforts includes annual examinations, conservatorship scorecards, development of instructions and templates to improve data quality, incorporation of data in oversight, and communication of agency expectations for diversity and inclusion efforts.

Annual examinations of enterprises' diversity and inclusion efforts. In 2017, FHFA began reviewing diversity and inclusion efforts as part of

annual examinations it conducts of the enterprises.⁵⁰ FHFA developed a separate examination module (to add to its existing examination manual) in 2016, specifically for reviewing the enterprises' diversity and inclusion efforts and the enterprises' oversight of these efforts. The diversity and inclusion subject areas that FHFA reviews include strategic planning and associated goals for diversity and inclusion; organizational structure of diversity and inclusion programs; board oversight; senior management; workforce; suppliers (which also encompasses broker-dealers in the capital markets program); performance measures; reporting structure and processes; and internal audit and compliance.

In the 2017 examinations, FHFA found the enterprises had taken steps to promote and maintain diversity and inclusion in their organizations. However, FHFA determined that both enterprises had not fully implemented the requirements for diversity and inclusion programs established in its 2010 rule on minority and women inclusion. FHFA identified areas for improvement, such as in strategic planning, and directed the enterprises to develop oversight mechanisms to measure, monitor, and report on diversity and inclusion performance. FHFA officials told us they discussed with representatives of both enterprises the need to treat diversity and inclusion as an enterprise-level program, not just an addition to their human resources efforts.

In its 2018 examinations, FHFA found that both enterprises had directed attention and resources toward addressing the findings identified in 2017 and were continuing to work on demonstrating their newly implemented diversity and inclusion program elements. For example and as noted earlier, the enterprises developed stand-alone diversity and inclusion strategic plans. FHFA staff said that the 2019 examinations did not identify any additional areas for improvement. However, FHFA officials told us that they continue to work with the enterprises to help them understand the scope of the 2010 rule's diversity and inclusion requirements.

⁵⁰FHFA's annual examination program assesses the financial safety and soundness and overall risk-management practices of the enterprises. In these examinations, FHFA may evaluate financial condition, earnings, liquidity, and efforts taken to mitigate losses in single-family and multifamily portfolios. FHFA uses the assessments to provide a basis for assigning a composite safety and soundness rating to the enterprises. The 2017 diversity and inclusion examinations covered diversity and inclusion efforts as of the end of 2016. The 2018 examinations were the second in which FHFA reviewed diversity and inclusion efforts.

As part of its 2020 examinations, FHFA officials told us that they will include reviews of diversity and inclusion in the enterprises' financial transactions and activities. According to FHFA officials, the 2020 financial transactions review will be high-level, and include an assessment and conclusion on the enterprises' finance diversity and inclusion governance framework and activities. FHFA will review whether the frameworks have been developed and implemented to ensure the enterprises are adequately positioned to execute their diversity and inclusion programs related to financial transactions and ensure compliance with the Minority and Women Inclusion rule. Examiners will focus their reviews on the policies, procedures, and processes that facilitate the identification, onboarding, and utilization of diverse broker-dealers when conducting financial transaction activities. FHFA officials told us the 2020 on-site examinations will be completed by December 31, 2020.

According to FHFA officials, examiners will use the current version of FHFA's examination manual to conduct the 2020 examinations, which combines diversity and inclusion reviews of broker-dealer transactions with reviews of supplier procurement. However, FHFA officials told us they have been revising the manual to separate broker-dealer diversity and inclusion reviews from supplier reviews. The officials noted the revised examination manual will include specific guidance for examiners to follow when reviewing diversity inclusion for financial transactions separately from supplier procurement. In addition, the officials noted they are adding two new diversity and inclusion examination subject areas to the manual: data management and enterprise risk management. FHFA officials told us these revisions are the result of periodic reviews to identify areas in which more clarity can be provided or additional steps were needed. They said this revised manual will undergo internal agency review and should be finalized by September 2020.

Conservatorship scorecards and progress reports. As conservator of Fannie Mae and Freddie Mac, FHFA publicly issues annual scorecards with criteria for measuring Fannie Mae and Freddie Mac's contributions to

achieving FHFA's three strategic goals.⁵¹ Beginning in 2015, FHFA required the enterprises to consider diversity and inclusion in their respective business activities and initiatives to further the three goals.⁵² FHFA published corresponding annual progress reports detailing the activities Fannie Mae and Freddie Mac performed throughout the year to achieve the conservatorship goals. These scorecard progress reports described examples of Fannie Mae and Freddie Mac programs and activities from 2015 through 2018 (the most recent reports available) that promoted diversity and inclusion in support of FHFA's strategic goals. For example, in its 2018 scorecard progress report, FHFA noted that Freddie Mac made changes to its Supplier Management System by developing a Supplier Diversity Program Application that facilitates registration by diverse suppliers, as discussed earlier. The 2018 report also highlighted Fannie Mae's use of a diverse firm as an advisor to work on nonperforming loan sales.

Instructions and templates to improve data quality. To enhance the quality of the data and information submitted by Fannie Mae and Freddie Mac on workforce diversity and use of diverse suppliers and broker-dealers, FHFA worked with the enterprises and developed instructions and templates to help them submit more consistent data on a quarterly basis. As noted above, in 2018 FHFA requested that the enterprises submit quarterly diversity data on their workforce and use of diverse suppliers and broker-dealers. FHFA also developed a data reporting manual that includes a data dictionary and templates for the enterprises to use to consistently report data on diversity. FHFA officials told us the enterprises can include additional information in their quarterly and

⁵¹The annual Conservatorship Scorecard is FHFA's mechanism for communicating its priorities and expectations for the enterprises and providing transparency to the public about these expectations. The three conservatorship goals are to (1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and (3) build a new single-family securitization infrastructure for use by the enterprises and adaptable for future use by other participants in the secondary market. FHFA placed Fannie Mae and Freddie Mac under conservatorship in 2008 to preserve their assets and restore them to a sound financial condition. As of this report, the enterprises continue to operate under conservatorship.

⁵²FHFA establishes the scorecard criteria annually. It included diversity and inclusion among the criteria in each of the annual scorecards from 2015 through 2020. Additional scorecard criteria included safety and soundness; support for a competitive and resilient secondary mortgage market; cooperation and collaboration; and the quality, thoroughness, creativity, effectiveness, and timeliness of their work products.

annual reports, but will need to resubmit data if they do not follow the templates. As noted earlier in this report, FHFA officials told us they identified inconsistencies with the supplier data included in the 2019 quarterly and annual reports that Fannie Mae and Freddie Mac submitted.⁵³ FHFA issued quality control letters to both enterprises requesting resubmissions of the reports by May 31, 2020. (The enterprises were allowed to request an extension, if needed.) As a result of these reporting inconsistencies, FHFA officials told us that their 2020 annual examinations of the enterprises will include assessments of why the inconsistencies exist and recommendations to eliminate them.

Data oversight. According to FHFA staff, in 2018 they began to use the enterprises' quarterly data to monitor their diversity and inclusion efforts in workforce, procurement, and capital markets. FHFA staff said the quarterly data provide more detailed information on the enterprises' use of diverse businesses—for example, the types of goods or services for which the enterprises contract with diverse businesses. FHFA staff noted that the additional data not only inform FHFA's oversight but also can help the enterprises' internal reporting on diversity and inclusion efforts.

Additionally, FHFA plans to review the enterprises' data reporting systems as part of its annual examinations to help ensure they have the appropriate controls for data reporting. FHFA staff said that the agency expects the enterprises to establish the appropriate data system to ensure the quality of data reported to FHFA and for internal reporting.

Communication with enterprises about data templates and expectations. FHFA provided clarification on the roles and duties of the enterprises' OMWI officers and the scope of diversity regulations. FHFA collected the enterprises' feedback and responded to questions on the new quarterly data reporting and the new data instructions and templates. Subsequently, FHFA modified the data templates in 2019 to allow the enterprises to more efficiently report their diversity data on a quarterly and annual basis. For example, FHFA consolidated data fields common to quarterly and annual reporting. Additionally, FHFA answered questions from the enterprises on the data and annual report templates when the templates were first introduced in 2018 and revised in 2019. FHFA staff

⁵³FHFA officials told us that both Freddie Mac and Fannie Mae should provide FHFA with data on all contracts and spending regardless of whether those are for procurable expenses.

said the annual report template helped clarify FHFA's expectations on annual report content.

Both enterprises have made progress in implementing the diversity and inclusion requirements in FHFA's 2010 rule, including establishing strategic plans for and oversight mechanisms of their diversity and inclusion efforts, but additional work remains to fully implement the requirements. FHFA's examination module updates, which will include specific guidance for reviewing diversity and inclusion for financial transactions and new sections on data management and enterprise risk management, should help to ensure FHFA can hold the enterprises accountable for achieving diversity and inclusion goals envisioned by HERA and FHFA's 2010 rule.

Agency Comments

We provided a draft of this report to FHFA for review and comment. FHFA also shared the draft of the report with Fannie Mae and Freddie Mac for review and comment. We received technical comments from FHFA and the enterprises, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Director of FHFA, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or ClementsM@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix I.



Michael Clements
Director, Financial Markets and Community Investment

Appendix I: GAO Contact and Staff Acknowledgments

GAO Contact

Michael Clements, (202) 512-8678, ClementsM@gao.gov

Staff Acknowledgements

In addition to the individual named above, Kay Kuhlman (Assistant Director), Deena Richart (Analyst in Charge), Namita Bhatia Sabharwal, Emily Bond, Gita DeVaney, Raheem Hanifa, Risto Laboski, Jill Lacey, Jessica Sandler, and Jena Sinkfield made key contributions to this report.

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Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707 U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548

