# Barefoot Innovation Podcast with Lisa Rice, CEO of the National Fair Housing Alliance

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Jo Ann Barefoot: This is one of those shows that I have been looking forward to way more than most because we have back again with us, Lisa Rice, who is the president and CEO of the National Fair Housing Alliance. Lisa, thank you for joining me today.

Lisa Rice: Jo Ann, thank you so much for having me. It's a pleasure.

Jo Ann Barefoot: We had you on the show before and I know people were fascinated by what you had to say, and we'll link to that in the show notes. But in the months since then, we've done more talking about the work that you have been leading in helping the housing and credit industry more deeply understand structural bias, the amount of bias and discrimination that occurs in this sector that is rooted in practices of the past that were overtly and intentionally racial along the way, and now have shed that overt racial component, but are still operating behind the scenes sometimes. So that's going to be our main topic today, and then relating that also to the racial wealth gap in the United States and what we might be able to do about it, what strategies you're recommending. So I'm really excited to talk with you. I do want to ask, before we jump into the topic, for you to recap your history. Tell us about you and what you did in leading up to the work that you're doing today with the Alliance.

Lisa Rice: Jo Ann, like I said, it's a pleasure to be here with you, and I feel really blessed to have met you and to be able to partner with AIR on the wonderful work that you guys are doing to spark new innovation in terms of the regulations that we put in place to govern the financial services sector in particular, but housing [inaudible 00:02:17] large. So I started my career, believe it or not, when I was 15 years old. I know that sounds strange, but I did. I was 15 years old when I got my first internship at a local civil rights organization in the city that I grew up in, Toledo, Ohio. I got an internship with a group called the Toledo Fair Housing Center, and it was led by a really visionary and phenomenal woman by the name of Shauna Smith.

Jo Ann Barefoot: Yeah, [inaudible 00:03:04] Shauna, yes.

Lisa Rice: Yes. Yeah, I know you know Shauna because Shauna was doing... the Toledo Fair Housing Center was doing some really amazing things, they brought the first sexual harassment case in the nation under the Fair Housing Act. Prior to that, sexual harassment was not deemed by the federal government to be a violation of the law, believe it or not. That was in the 1980s, and our federal government basically said, yeah, if landlords are sexually harassing women, it's not a violation. And Shauna led the team that changed that legal precedent, but the

Fair Housing Center was also doing some really novel things with a new law that was probably about five years old. When Shauna took over the helm of the Toledo Fair Housing Center, it was called the Fair Housing Act. There was a new law that had also just passed when she took over the helm of the Fair Housing Center called the Community Reinvestment Act and another new law called the Equal Credit Opportunity Act.

And she was just a person who read the law and took it for its face value, and she's just a whiz at formulating investigation methodologies to ferret out discrimination. And so the Toledo Fair Housing Center was just bringing a lot of redlining cases during that time. In fact, the Toledo Fair Housing Center was bringing more redlining cases in the Department of Justice. So it was leading the nation. So it was just a fluke, really. And of course, I'm an African American woman. My ancestors have been in this nation since its inception and have really paid a huge price, a heavy toll in terms of experiencing injustices in this nation and fighting for change. I have a cousin, my mother's first cousin actually was assassinated. And so I guess personally... Jo Ann always since I was a little child, felt a personal obligation to change that paradigm, to change the way that our nation was structured to fight and combat injustice.

My parents both grew up in the Jim Crow South, and so growing up and hearing stories of the indignities and the injustices that they experienced really had an impact on me. So when I got an opportunity at 15 years old to work for this groundbreaking civil rights organization, I was just a wide-eyed young girl at that time, but I felt like I was part of a team that was making a difference. And even though it's not the course that I charted for myself, I thought I was going to be an artist painting on the shores of Ghana. Life took a different turn for me. So here I am.

Jo Ann Barefoot: Wow. And just tell us very quickly about the National Fair Housing Alliance.

Lisa Rice: The National Fair Housing Alliance is the nation's only national civil rights organization dedicated to eliminating all forms of housing discrimination and lending discrimination. And so that includes appraisal bias, it includes sexual harassment, and as I've just mentioned, in both the lending and housing space, it includes insurance redlining, lending redlining, real estate sales discrimination. It includes in sharing that people with disabilities have access to housing opportunities. It includes ensuring families with children have access to equitable housing opportunities. So it's a very broad and wide-ranging mission, but it's an important mission. Our goal is to also make sure that every neighborhood, every community is replete with the resources and amenities that people need to live healthy, thriving lives. So again, it's a wide-ranging mission, but it's very, very important because where we live, the places, the spaces that we habitate impact literally every area and aspect of our lives. And so we want to make sure that everybody, every child, in particular, in this nation has the opportunity to live out their full potential.

Jo Ann Barefoot: So I know there are many facets to what you're doing, many, many methods that you use to go after these issues, but the one I want to zero in on is helping people understand how much of the infrastructure, the criteria that are used today in mortgage credit underwriting, for example, or appraisal practices, is still carrying a legacy of over discriminatory practices that the people working with them don't perceive anymore and have somehow inherited so many of these practices with the assumption that they are just sound lending practice or appraisal practice. Talk to us about what that history looks like and what are some of the areas where you think there's most misunderstanding of what's going on?

Lisa Rice: Yeah, Jo Ann, that's a great question and I think that as we live in this society today, it's hard for us to imagine a nation, a United States of America that would exact policy legislation that would be outwardly, blatantly, explicitly race-based, it's hard for us to imagine a black codes. It's hard for us to imagine a law that would say Black people can't own property in this particular city, or Black people can't live in these particular neighborhoods. It's hard for us to imagine an Indian Removal Act being passed in 2023. It's hard for us to imagine a Chinese Exclusion Act in 2023, although Florida, the state of Florida is proving me wrong on that front but it's hard for us to imagine that, right? It's hard for us to imagine in 2023, a law being passed that state said if a woman marries a man, all of her property and assets become the possession of that man.

It's hard for us to imagine that today but there was a time when that was a norm in the United States of America. And the hard thing, I think for people to realize is that that time wasn't that long ago, and you heard me say that my mother and my father, my parents grew up in the Jim Crow South. My parents grew up in and lived in communities where it was the law, written on the books, that Black people could not live in certain sections of a city, racially restrictive covenants, laws that denied Black people, Latino people, Native American people, the right to vote. My parents moved to the north from Alabama and Arkansas in part because they couldn't vote in those states, it was a law they couldn't vote. That's hard for people to wrap their minds around, but that was the norm. Look, the Equal Credit Opportunity Act that was passed in 1974 was passed so that women could establish credit in their own name. Now, Jo Ann, that's our lifetime, right? That's our lifetime.

Jo Ann Barefoot: Yeah, [inaudible 00:13:22] lifetime. I started my first job in Washington between the passage of the Fair Housing Act and the Equal Credit Opportunity Act. So when I got there, gender discrimination and credit was still perfect. Not only legal, but widely viewed as necessary good practice. I worked for a federal agency that no longer exists, and one of the officials there was opposed to changing that because his argument was women might get pregnant, so they needed to have their father or their husband cosign their loans.

Lisa Rice: Yeah, wasn't it you, Jo Ann, who told me that you remember insurance companies actually having underwriting guidelines that included moral hazards and viewed women as moral hazards because women were too emotional to make certain kinds of credit decisions.

Jo Ann Barefoot: That was not my anecdote, but wow.

Lisa Rice: Somebody just told me that, and I thought, well, I remember those days. I remember those days. So divorced women were considered as a moral hazard. Not divorced men, but divorced women. So yeah, that is the norm in the United States. And so if we understand that for the entire history of the United States of America, we have passed and established housing and lending policies that were race conscious, that were race-based. And those race-based housing and lending policies created systems of inequality. So what are those systems of inequality? What are those race-based systems that are causing racial inequalities? Residential segregation is one. We are more segregated today than we were a hundred years ago because of these race-based policies. Segregation is not a normal construct in the United States. It is very much a designed, orchestrated, engineered construct. And segregation was designed to make it easier to funnel certain amenities and resources to predominantly white neighborhoods while denying those same amenities and resources to Black neighborhoods.

So I'll give you one example, Lubbock, Texas, and this example that I'm going to give... no, let me use Austin, Texas. And this example is sort of the norm in many cities so it's not unique to Austin. This happened in city after city, throughout the United States. After the turn of the century, in the early 1900s, Austin leaders started passing local ordinances requiring Black people and Latino people to move to the east side of Austin. So physically, and they used law enforcement to force Latino and Black people to move to one area of Austin, Texas. And then once Black and Latino people got funneled into that particular area, creating segregation, because again, segregation was not the norm in the United States, we did start out in terms of at least where we were physically related to one another, we were much more integrated. But once the city created this physical construct of segregation, they then rezoned the areas where Black and Latino people were living to non-residential uses.

So industrial uses, commercial uses, non-residential, whereas the predominantly white communities, the areas where white people were living were zoned residential. So when the city is deciding where the new landfill will be located, or where new oil refineries will be located, or where new more toxic kinds of... and industrial and commercial facilities will be located, where does it go? It goes to the community where the Black and brown people are living. Then in the 1940s, '50s and '60s, when we get the National Highway legislation being passed, those big major infrastructure bills, what happens? Well the city and the state of Texas build highways and barriers, railroads and other kinds of steel and concrete barriers that physically create a concrete and still barrier and blockade between the Black and Latino community and the white community. You've got Black and brown people who are forced to live in these segregated neighborhoods that are now impacted by environmental hazards, climate hazards.

And when a bank is deciding where it's going to locate, where do you think it's going to locate? Is a bank branch going to build its facility in an area that is zoned for commercial use and that is physically cut off from the rest of the city? No. The bank is going to locate its branch in the residential areas, the cleaner zoned areas and the areas where they believe that they can get more business and people can gain more access to those bank branches. When banks are making the decision, when they're writing their underwriting guidelines and they write underwriting guidelines that say, you know what? We are not going to issue a loan for a house that is located in an area that is not zoned for residential purpose. What does that mean? That means that primary financial institutions aren't going to be writing mortgages in those Black and brown communities that are zoned for commercial use or non-residential use.

So then where do Black and brown people go to access credit? There's only one place they can go, that's to subprime lenders. So this whole segregation then becomes the bedrock of inequality, if you will, because it creates these two Americas. It creates these two constructs. Yesterday, Jo Ann, may the 24th, NAFA and the NAACP LDF Legal Defense Fund, that's the organization that was started by Thurgood Marshall. We hosted an event yesterday, on May the 24th, commemorating the 55th year anniversary of the Kerner Commission report. The Kerner Commission was convened by President Lyndon Johnson to examine protests that were happening in the 1960s. And the Kerner Commission released a report that said, America is two societies, one Black, one white, separate and unequal. We have an apartheid system in America, and this apartheid system works to the detriment of not only Black communities, non-white communities, but it works to the detriment of white communities as well. It will mean the destruction of this nation.

And the Kerner Commission also said, when we look at Black communities and we look at Latino and Native American communities, and we see the devastation, we see the poverty, we see dilapidated housing, outdated housing, we see the lack of infrastructure. What we want to do is blame the people who live in those communities for those conditions. But the current Kerner Commission pointed out that you can't do that. We can't blame Black people because they live in overcrowded, impoverished, low standard housing. We can't blame them because white people created the policies that facilitated that. And what's happening today, Jo Ann, is that all of these systems of inequality that we have put in place over the decades, residential segregation, these physical, these concrete, and still barriers that disconnect communities of color from main residential areas and cleaner neighborhoods, the dual credit market, all of these systems of inequality are still with us today. Appraisal bias, the biased appraisal system is still with us today. We still have-

Jo Ann Barefoot: I'd like you to talk about the appraisal issue specifically, including that the Federal Housing Administration, FHA, had explicit racial redlining requirements again within our lifetimes. Talk a little bit about that legacy.

Lisa Rice: Sure, I'm happy to do that. So during the Great Depression, we were experiencing high levels of foreclosure. In fact, the foreclosure rate was 25% in the United States. At that time, Jo Ann, mortgages in the US were all balloon notes. There was no fully amortizing mortgage instruments. So mortgages were extremely difficult for people to manage at that time. And banks were calling in the balloon notes. They were calling in the full payments. So people were foreclosing at record rates. And so the federal government established the Homeowner's Loan Corporation to help stop... [inaudible 00:25:19] the tide of these foreclosures, the Homeowner's Loan Corporation created the fully amortizing loan. So they created this new innovative mortgage that would put people in a fixed payment over a long period of time, thereby making the loan, the mortgage more sustainable for people and people who got these new mortgages, the foreclosure rates on those mortgages were really, really low because the loans themselves, the product was a sustainable product.

And so the federal government wanted to figure out, all right, where are we going to refinance people into these new sustainable mortgages? So they hired real estate professionals, appraisers, real estate agents to fan out across the United States. They created a survey form called a residential security survey. So it's a standardized form, and they ask people to... these real estate and appraisal professionals to fill out the form. The forms included information like how does the predominant housing stock in the area? Is there infrastructure such as sewer lines and things like that in the area? The other thing they wanted to know is the racial composition of people living in communities. And there is a designated field for Negros, and that was a term that they used back in that day. That means Black people. So it didn't matter where these professionals were looking, it didn't matter which neighborhood they were looking in. The federal government wanted to know in every single instance, are there any Black people living in the neighborhood?

And if you look at the residential security form, Jo Ann, you'll see that Negro is the only racial identity on the form. That means that the government really wanted to know, are there any Black folks living in this particular community? Now, I have not looked at every single residential survey, security survey, but for everyone that I have looked at where there were any amount of Black people in a community, that particular geographical area was given the lowest score. So the HOLC established four different grades, four scores, A, B, C, D. A was the best, D was the worst. If you were the worst, that was for the hazardous area. So a degrade meant that you lived in a hazardous area, and that hazardous area was given the color red, red for hazardous. If you lived in the best area, the first grade or A, you were color coded green. The second-best area was color coded blue and cautionary areas were color coded yellow. And again, the worst areas, the hazardous areas where color coded red. So what you get now is the institutionalization of the association between race and risk.

Every area where there are any Black people. And I've looked at residential security surveys, Jo Ann, where there were 2%, an area had 2% Black people, it's color coded red, 4% Black people, it's color coded red, 5% Black people. It's color coded red. And when you read the notes, sometimes the notes will say the area is a really nice area. And even though the Black people who are living in this area are all professional and upper income because they're Black, we're still giving the area a red or a hazardous designation. So you see, it's that association between race and risk that Black people, people of color are hazards by sheer virtue of their race. And white people are the creme de la creme, it's that racial superiority. It's racial supremacy built into our housing policy, our lending policies. And that association between race and risk what that meant was the property values in those red areas were downgraded, and the property values in the green and blue areas were upgraded. And we still see that same dynamic today.

In fact, Brookings Institution did research that showed that homeowners in predominantly Black neighborhoods, their homes have been undervalued by about 23%. So every home undervalued by 23%, that is a loss of 162 billion of wealth because of this institutionalized system of racism, risk, race associated with risk. That construct is still with us today. Both Fannie Mae and Freddie Mac have done analysis, really, really great research analyses looking at the dynamic of appraisal bias in the United States. And they both, Fannie and Freddy, have found in their research that Black homeowners and people who own homes in predominantly Black communities disproportionately see their homes undervalued. In addition, Latino homeowners and people who own homes in predominantly Latino areas are also disproportionately experiencing appraisal bias, it's a phenomenon that is still with us today.

And part of the problem is, Jo Ann, that when we passed our civil rights laws, when we passed the Fair Housing Act and the Equal Credit Opportunity Act, those laws can primarily help us address discrimination on a transactional basis. So if I as a Black woman go into a bank to apply for a loan, and that bank discriminates against me because I'm Black, I can sue the bank. But what those civil rights laws did not do, Jo Ann, is they did not remove the systems, the contract, the construct, the apparatus of inequality. Those laws didn't remove the residential segregation. They didn't remove the institutionalized association between race and risk in our appraisal system. Those laws didn't dismantle the dual credit market. When we passed the Fair Housing Act, those concrete barriers, those bridges, those highways that were built in neighborhoods like Detroit and Baltimore and Austin, Texas and Lubbock, Texas, those concrete barriers and railroads and ridges, they didn't just pull up and move. They stayed in place.

When we passed the civil rights laws, the zoning didn't change. Zoning laws didn't change. Those areas remained zoned commercial. They remained zoned industrial. So the actual systems of inequality are still in place, and they're doing what they were designed to do and that is perpetuate racial inequality. And part of the problem that is an invisible sort of component is that we have used the data emanating from these unfair and just systems to build our technologies. So we've used tainted data and we've pretended that the data isn't tainted, we pretended that the data is pristine. But we've actually used data that it has bias infused, embedded in it to build our credit scoring systems, to build our risk-based pricing systems, to build our automated underwriting systems, to build our digital marketing systems, to build our tenant screening selection systems. And those technologies are perpetuating the same biases. But because it's a machine making the decision, we've lulled ourself into the belief that the machine is unbiased and therefore making a fair determination and that's just not the case.

Jo Ann Barefoot: So this in turn has contributed hugely to the racial wealth gap because so many people have built their family and intergenerational wealth and assets over the years through home-ownership and rising home equity. And the system that we've had in place has systematically eroded that opportunity for Black homeowners and people of color. And if your house is appraised at a lesser level, it's going to sell at a lower level, and then it goes generation to generation and people can't get ahead.

Lisa Rice: Yeah, that's exactly the truth. No one doubts that families that have not been subjected to discrimination don't work hard. No one doubts that. No one doubts that families that haven't been subjected to discrimination haven't earned everything that they have. But what we're not understanding is that families that have been subjected to discrimination have an unfair disadvantage. They started out behind the starting line and in many cases very far behind the starting line. And so what it looks like is when the flare goes off, when the gun goes off and the race begins, and families that haven't experienced discrimination keep pacing ahead, and the families that have experienced discrimination lag behind, it looks like, oh, it's a fair race. And the families that haven't experienced discrimination get it to the finish line first because they trained the hardest. They ran the fastest, they did everything they were supposed to do. And those families that reached the finish line last, well, you didn't train hard. You didn't train hard enough, you didn't do what you were supposed to do.

You skipped leg day and you shouldn't have skipped leg day but that's not the case. And oftentimes those families that lag behind, they're working harder. But if the system is rigged so that those families that are lagging behind can never catch up, there is no way, no amount of financial education, no amount of financial literacy. No amount of doing those kinds of things is going to help them finish, be able to have a fair race, a fair shot. They're always going to be lagging behind because they started out a hundred yards behind everybody else. And that's the part that we're not seeing. We're not paying attention to that and we're blaming families that are lagging behind. We're blaming them when we should be blaming the system and changing the system.

Jo Ann Barefoot: So I know we're going to run short on time. I want to ask you about your thinking on two ways of approaching trying to solve this. And the first is the possibilities with technology. You touched on the fact that we've fed that this data into our systems and fall into the fallacy of thinking the system is therefore unbiased because it's a machine. You know that I have been an optimist on the possibility that by collecting more information and analyzing it in different ways, we might be able to get beyond some of the structural bias that we have in traditional risk scoring systems.

And I know that you and I share it, have raised a lot of concerns that that process could make things worse instead of better, could actually be building new biases into these systems. When we think about the potential, in a digitized society with more sophisticated techniques and more sophisticated knowledge, what's your thinking for lenders and for policymakers on how to make sure that those systems reduce structural bias rather than exacerbate it? And then after that, I just want to ask you overall, what else you think we should do?

Lisa Rice: Well, that's a really good question. That's a really good question, Jo Ann. So there's a number of things we think that need to be done, and we actually do believe that technology is probably the best opportunity we have for creating more equitable systems because if you think about it, technology is really the area where companies are innovating, where companies are investing. I say all the time that technology is the new civil rights frontier. And so if we build new technologies going forward that are fair and equitable, that will help us to eliminate some of these unfair systems and constructs and create a more just and fair marketplace. We also think that we can use technology such as artificial intelligence to compel legacy systems to be fairer. So legacy systems that have been built with tainted data, we can use AI to make those systems fairer.

I'm going to take you back a couple of decades to an old lawsuit that we brought against Prudential Insurance. The company was using an off the shelf underwriting, automated underwriting system that we allege was discriminating against Black and Latino home-owners. That system, much like many systems today, was used using linear regression. It was a linear regression model. And so I don't know how many variables were in the model, maybe let's say 30 variables were used to make the model. And so we physically, by hand, manually go through... look at each of those variables, test them for their discriminatory impact, fool around with the waiting. And we made a fairer model, a less discriminatory model, the sort of old-fashioned way. Well, today, with the power of AI, we can ask AI to go in and fiddle with the variables and the waiting and the constructs, and we can ask AI to do two things.

We can ask AI to figure out, when you look at these variables, both in isolation and together, are there proxies for race or proxies for gender in the variables and AI can tell us that, but we can also ask AI to fiddle around and figure out fairer model designs that have a less discriminatory alternative. Now, we can use AI to compel systems to be fairer in that way, but also if we are allowed, we can actually use protected class characteristics like race or gender to even compel models to be more fair and to build models at the outset that are fairer, much more fair than the existing models that we have in employed today. And so that's the work that we are doing. I will tell you that... one of our main goals is to dramatically reduced the ratio of wealth and home-ownership gaps.

Home-ownership, particularly for people of color, drives wealth in a major way because people of color disproportionately their wealth is held in home equity. And so if we reduce the home-ownership gaps, the racial home-ownership gaps, we can go a long way to reducing the racial wealth gaps in the United States. I can tell you that there is absolutely no way we're going to reach our home-ownership goals for Black and Latino families using existing technology. We've looked at it every which way from Sunday, it will not happen. It's an impossibility.

Jo Ann Barefoot: [inaudible 00:46:22].

Lisa Rice: Yeah, these structures are just too unfair. They're too unfair but if we have other structures where we're using non-traditional data like rental housing payment information, really broadening and including more information from Black and Latino families in terms of their payment habits, their credit data, their credit information, we can build systems that are fairer. And when you look at our existing models, automated underwriting models, credit scoring models, they disproportionately exclude the positive payment information of Black, Latino, Asian American and Native American consumers.

Jo Ann Barefoot: This is so crucial, and I hope everyone in the audience is really thinking deeply about what you're saying. But I would say specifically to regulators, I think there's so much opportunity if the regulators themselves will really focus on the potential to pursue the approach that you're talking about. There's so much that could be done that would be... frankly, it's good for business as well as being good for having a fair society if we could be just updating these risk models that we're using that have been stuck in the past. Lisa, we've only got a couple of minutes left. Do you want to add anything else about what you think we should do or anything else that we haven't covered?

Lisa Rice: Well, Jo Ann, I wish you would say more about the point that you just made because you've got much more regulatory experience than I do. And it's something we are really trying to encourage regulators to look at and understand and explore it. It is the case that if you take a traditional credit score model or automated underwriting model, and you test it against a traditional portfolio, so if you test it against, for example, the GSCs, Fannie and Freddy's portfolio as an example, you're going to find that those scoring systems, those automated underwriting systems are highly predictive but I think what regulators have been not quite in tune to is when you score it against people who are operating outside of the financial mainstream, people whose loans are not included in the GSCs book of business, then those models become much less predictive.

Jo Ann Barefoot: Yeah, that's a crucial point. Lisa, I appreciate so much you being with us today. I think this is one of the most thought-provoking shows we've ever done. Where can people get more information about your work at the National Fair Housing Alliance?

Lisa Rice: Oh, please visit our website, nationalfairhousing.org. And in the search bar, you can just type in tech equity and that will take you to our tech equity page. And we have all kinds of resources on that tech equity page. We have comments that we've submitted to the regulatory agencies. We have articles and blogs that we've written on tech equity issues. And so there's just a plethora of information and resources on that website.

Jo Ann Barefoot: Fantastic. And we will also link to all of this information in the show notes, which are at regulationinnovation.org. Lisa Rice, thank you for being our guest today, and thank you for the work that you're doing.

Lisa Rice: Jo Ann, thank you so much for everything that you're doing, and thank you for having me.