The Consumer Financial Protection Bureau Proposes New Rule for Automated Valuation Models

Article
Amundsen Davis Banking & Finance Alert
September 6, 2024

The Consumer Financial Protection Bureau (CFPB) has proposed a new rule that could impact lenders using forms of artificial intelligence in their lending practice. The rule affects mortgage originators and secondary market issuers that engage in credit decisions or covered securitization determinations that use automated valuation models (AVM) to determine the value of consumer real estate.

The proposed rule requires originators to adopt and maintain policies, practices, procedures, and control systems to ensure that AVMs used in consumer transactions adhere to standards that are designed to ensure a high level of confidence in the estimates produced, protect against the manipulation of data, avoid conflicts of interest, require random sample testing and reviews, and comply with applicable non-discrimination laws.

In the background information attached to the proposed rule, it states that advances in AVM technology and data availability could possibly contribute to lower costs and shorten turnaround times for property valuation, but that it is important for institutions to ensure the credibility and integrity of the valuations produced by the AVMs. It also notes that the Interagency Appraisal and Evaluation Guidelines recognize that lenders may use varying methods and tools in determining real estate values, but lenders must be able to show that the methods used are consistent with safe and sound banking practices. To do this, lenders must establish policies and procedures governing the selection, use, and validation of AVMs, including steps to ensure the accuracy, reliability, and independence of an AVM.

This new proposed rule makes it clear that while lenders can strive for efficiency and utilize technology in order to provide the best possible product for its customers, such efficiency cannot come at the cost diluting consumer protections by using artificial intelligence that does not comply with regulatory standards. As technology improves and algorithms become more complicated and, hopefully, accurate, the need for policies by lenders may lessen. However, until that time, lenders should ensure that any usage of artificial intelligence in

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determining property valuations follows the institution's policies and that those policies comply with the CFPB's proposed rule.