

Advocacy Submits Comments on the Joint Agencies' NPRM on Automated Valuation Models

On August 21, 2023, the Office of Advocacy submitted comments on the Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Consumer Financial Protection Bureau, and Federal Housing Finance Agency (collectively, the agencies) proposed rule to implement the quality control standards for automated valuation models (AVMs) by mortgage originators and secondary market issuers.

AVMs are computerized models used by mortgage originators and secondary market issuers to determine the collateral worth of certain mortgages. Under the proposal, the agencies would require institutions that engage in certain credit decisions or securitization determinations to:

1. Adopt policies, practices, procedures, and control systems to ensure that AVMs used in these transactions to determine the value of mortgage collateral adhere to quality control standards designed to ensure a high level of confidence in the estimates produced by AVMs.
2. Protect against the manipulation of data.
3. Seek to avoid conflicts of interest.
4. Require random sample testing and reviews.
5. Comply with applicable nondiscrimination laws.

AVMs operate with a computer algorithm. Small entities do not control the data that is used in the AVM and, therefore, do not have the ability to quality control the data or the algorithms used by AVM vendors.

Advocacy recommends that small entities be exempt from the rule, since they do not control the activities of the AVMs. As an alternative, Advocacy recommends that the agencies consider a safe harbor and oversight by a standard setting organization. Advocacy also argues that the nondiscriminatory language was not necessary because small entities already comply with nondiscriminatory housing laws. Advocacy encourages the agencies to provide guidance to assist small entities in complying with the requirements of the rulemaking.

A complete copy of [Advocacy's letter to CFPB](#) is available. For more information, please contact Jennifer A. Smith, Assistant Chief Counsel, at Jennifer.Smith@sba.gov.