



GSE Activity Report

Thursday, February 10, 2022

The Way to Equitable AI

Summary

Moving far ahead of the banking agencies [AI](#), FHFA [today](#) released a series of supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone because none so far does much within this arena or nobody cared. Reflecting the agency's new equality and equity mission GSE, the AI/ML standards focus not only on risk management, but also ethical deployment in ways sure to set complex new AI/ML entry hurdles for the GSEs. If they surpass them, then a new U.S. AI/ML construct will result; if not, Fannie and Freddie could fall behind this all-important efficiency curve.

Impact

Nothing in the agency's various statements outlaws AI/ML; rather, the goal is the responsible-innovation outcome that has become the mantra of federal policy in the emerging-tech arena. The statements also recognize rapid change, adopting a principles-based approach requiring the most stringent risk-management controls in mission-critical and compliance AI/ML use cases.

Still, much is new, binding, and immediate. Ethical issues are in fact so important to FHFA that a demand for it is embodied in the first of its risk-management principles. This demands that the GSEs ensure sound AI/ML interactions with human beings, system validation addressing fairness, transparency, and consideration of "social, economic, political, or cultural biases." In a separate letter to [agencies](#), FHFA also lays out an array of additional steps to ensure that diversity and inclusion are considered at each step of the AI/ML process, adding a concern about "historical" bias to the overall advisory's list.

The principles also incorporate more standard criteria such as effective governance, life-cycle controls, privacy, and security. The GSEs are also told to ensure they understand what vendors are doing and to control a host of operational risks expressly related to AI/ML or made worse thereby.

Outlook

These standards are effective immediately. What they mean strategically will be evident only over time, but the risk-management rules are likely to make AI safer even as they make it far from free. Under FHFA's eagle eye, the GSEs may well lead the way to equitable AI/ML, at least in housing finance. Or, they may fall behind companies given more room to roam without tight equity guardrails.

While the banking agencies share FHFA's goals and current policy-makers also share its values, they are historically hesitant to infuse prudential rules with social-policy objectives above and beyond those expressly required under anti-discrimination law. If any agency does so, it will surely be the CFPB, with Director Chopra already [announcing](#) that he plans a regulatory and supervisory push into AI/ML. He can't mandate all the risk-management standards, but he could well ensure a lot of transparency by way of his fair-lending power.

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