



Wednesday, January 31, 2024

Senate Banking Turns to AI's Impact on Housing Finance

Today's lightly-attended Senate Banking Subcommittee hearing on AI and Housing focused principally on AI governance issues including accountability, model explainability, transparency, and bias. Sen. Warnock (D-GA) called for action on S. 3692, legislation to prohibit use of algorithmic systems to coordinate – and it is believed thus inflate – rental prices or reduce supply. Although Subcommittee Chairwoman Smith (D-MN) lauded AI for its potential to boost the housing supply, she and other Democrats raised serious concerns that AI reinforces biases in lending decisions. Asked by Sen. Menendez (D-NJ) if AI can be prevented from perpetuating lending disparities, Lisa Rice of the National Fair Housing Alliance called for purpose and process monitoring frameworks, while Vanessa Perry of GW Business School argued that models should be designed to remove discriminatory effects. Sen. Cortez-Masto (D-NV) renewed concerns that appraisal bias is being put into AVMs; Ms. Rice stated that AVMs can be made fairer by abandoning sales comparisons. Emphasizing a balanced approach to AI regulation in order to maximize its benefits and minimize risks, Subcommittee Ranking Member Lummis (R-WY) urged the Committee to consider how existing regulations apply to AI, noting that new rules may be needed to cover blind spots. Sen. Rounds (R-SD) argued that existing frameworks such as the FCRA and ECOA already apply to most AI applications; Mr. Schmidt said that existing regulations cover ninety percent of AI use.

Democrats Remain Dubious About the Capital Proposal

Today's Financial Institutions Subcommittee [hearing](#) on the capital rules made it still more clear that more than a few Democrats share at least some GOP concerns. Chair Barr (R-KY) reiterated points he has frequently [made](#) about the poor analytics behind the proposal; Full Committee Ranking Member Waters (D-CA) and Rep. Green (D-TX) were unequivocal in their support. Other Democrats raised concerns many had previously expressed in comment letters, with Rep. Sherman (D-CA) [pointing](#) to problems with the proposal's impact on capital markets and its lack of credit for private mortgage insurance and Rep. Beatty (D-OH) [highlighting](#) concerns with small business credit availability. Other Democrats expressing concerns were Rep. Casten (D-IL) who [criticized](#) the proposal's impact on green energy investments, Rep. Meeks (D-NY) who warned of "unintended consequences," and Rep. Scott (D-GA) who expressed concerns about mortgage risk weights for loans sold to [GSEs](#). Republicans also pointed to problems with the long-term debt proposal ([see FSM Report TLAC9](#)), with Rep. Timmons (R-SC) calling for its withdrawal, arguing that tailoring for banks based on size and risk profile should be prioritized. Rep. Fitzgerald (R-WI) also brought up the new OCC merger [proposal](#) because of the capital rule's likely impact on consolidation, suggesting that Congress may need to address bank-merger policy.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-013124a](#): Common-stock investors clearly [think so](#), but they're a notably speculative lot and more than likely wrong.
- [GSE-013124](#): We have reviewed the 2024 scorecards FHFA [released](#) for Fannie and Freddie.

- **CONSUMER55:** The CFPB has followed up a controversial proposal to set prices for larger-bank overdrafts exempt from certain consumer standards with a proposal to simply ban certain non-sufficient fund (NSF) fees when banks decide in real time to decline a consumer-payment request.
- **GSE-012424:** In this report, we build on our previous analyses of the [mortgage implications of the pending capital rules](#), forecasting what's next for mortgage assets as the FRB, FDIC, and OCC wrestle with the mess Karen Petrou has elsewhere [argued](#) they brought upon themselves by careless analytics and political misjudgment.
- **OVERDRAFT12:** Building on a bulletin and circular from late 2022 warning banks about certain overdraft practices, the CFPB has now proposed a rule that would sharply and expressly limit fees for extensions of credit related to overdrawn transaction accounts unless the account comes under an array of consumer-protection requirements.
- **GSE-012224:** A new Fed [staff study](#) uses models to conclude that government-backed mortgage securitization exacerbates financial crises, contradicting conventional wisdom that – GSE blow-ups notwithstanding – properly-regulated GSEs create a liquid, diversified asset pool for an otherwise illiquid, risky asset class.
- **GSE-011224:** A new [staff paper](#) from the Federal Reserve Bank of New York assesses the tender topic of bank mortgage lending to minority borrowers.
- **GSE-010924:** Based on recent dialogue with institutional investors and regulators, a new FRB-NY Teller Window [article](#) concludes that robust data collection, loan standardization, and higher volume could improve CDFI secondary market sales.
- **GSE-010824:** It's not news to observe that things that change at the GSEs then change a lot of other things.
- **INCLUSION3:** As required by law, the U.S. Treasury is working to set policy enhancing financial inclusion.
- **NBFI3:** The banking agencies have proposed significant changes to call-reporting data illuminating how banking organizations are inter-connected with nonbank financial intermediaries and to implement pending requirements for long-term debt (LTD) issuance.
- **DEPOSITINSURANCE123:** In the wake of increasing instances in which customers are confused and even misled about the extent to which fintech and cryptoasset holdings are insured deposits, the FDIC has finalized its proposal setting disclosure standards as well as modernizing IDI representations of their own FDIC-insured offerings in branches and through the fast-changing array of retail banking delivery channels.
- **GSE-010224:** Shortly before the new year, the banking agencies proposed new call-report [requirements](#) that would force banks with over \$10 billion in assets to report new data on nonbank mortgage intermediaries and structured GSE-guaranteed positions.
- **AI4:** Bipartisan Senate legislation has been introduced to press FSOC to do more than highlight artificial intelligence (AI) as a potential threat to financial stability.