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## **FRB, FHFA, AND NCUA JOIN OTHER AGENCIES AND APPROVE FINAL RULE ON AUTOMATED VALUATION MODEL \***

By way of background, Dodd-Frank Act Section 1473(q) amended Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) by adding a new section, Section 1125, which relates to quality control standards for automated valuation models (AVMs) used in valuing real estate collateral that secures mortgage loans.

Section 1125 defines an AVM as “any computerized model used by mortgage originators and secondary market issuers to determine the collateral worth of a mortgage secured by a consumer’s principal dwelling.” 12 USC 3354(d). Section 1125 requires that AVMs, as defined in the statute, adhere to quality control standards designed to: (1) ensure a high level of confidence in the estimates produced by automated valuation models; (2) protect against the manipulation of data; (3) seek to avoid conflicts of interest; (4) require random sample testing and reviews; and (5) account for any other such factor that the agencies determine to be appropriate. 12 USC 3354(a). Section 1125 directed the federal banking agencies to promulgate regulations to implement quality control standards regarding AVMs. Since 2010, the OCC, FRB, FDIC, and NCUA have provided supervisory guidance on the use of AVMs by the institutions they regulate in Appendix B to the Interagency Appraisal and Evaluation Guidelines.

In June 2023, the CFPB, FRB, OCC, FDIC, NCUA, and FHFA jointly issued a notice of proposed rulemaking to implement the quality control standards set forth in FIRREA Section 1125. 88 FR 40638. Under the proposed rule, mortgage originators and secondary market issuers would be required to adopt policies, procedures, and control measures designed to ensure that AVMs adhered to standards designed to meet the criteria set forth in FIRREA Section 1125.

As reported in the July BCG Newsletter, in June 2024, the CFPB, FDIC, and OCC issued a final rule promulgating FIRREA Section 1125’s requirements.

On July 17, 2024, the FRB, FHFA, and NCUA also adopted and issued the same final rule. The final rule largely follows the agencies’ June 2023 proposed rule and requires mortgage originators and secondary market issuers using AVMs to determine the value of mortgage collateral to observe certain quality control standards designed to meet the following criteria:

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1. **Assure Estimates are Reliable and Accurate.** The agencies' rule requires institutions to ensure that AVMs produce reliable and accurate property valuations;
2. **Safeguard Against Data Manipulation.** Pursuant to the agencies' rule, institutions must implement protective measures designed to prevent against the data used by AVMs from being altered or manipulated;
3. **Prevent Conflicts of Interest.** The final rule requires institutions to adopt measures designed to prevent valuation process-related conflicts of interest;
4. **Frequent AVM Testing and Assessment.** Under the final rule, institutions must engage in regular testing and assessment of AVMs to ensure the AVMs' continued accuracy and reliability; and
5. **Fair Lending Law Compliance.** The agencies' rule requires AVMs to comply with all applicable federal fair lending laws, including ECOA and the FHA (this particular portion of the final rule was developed pursuant to FIRREA Section 1125's provision which gives the agencies discretion to adopt additional quality control requirements as they deem appropriate).

The final rule does not specify how institutions must structure policies, practices, procedures, and control systems to implement the above-stated requirements. Instead, institutions will have the flexibility to set quality controls for AVMs as appropriate, based on their size and the risk and complexity of transactions in which they use AVMs.

The final rule was published in the Federal Register on August 7, 2024 and will take effect on October 1, 2025. 89 FR 64538.

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