August 21, 2023

Hon. Michael S. Barr
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Hon. Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, SW
Washington, DC 20429-9990

Hon. Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
Constitution Center
400 Seventh Street, SW
Washington, DC 20219

Hon. Sandra Thompson
Director
Federal Housing Finance Agency
400 7th St. SW
10th Floor
Washington, DC 20219

Hon. Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

RE: Quality Control Standards for Automated Valuation Models; Docket No. OCC-2023-0002

Dear Vice Chair Barr, Acting Comptroller Hsu, Chairman Gruenberg, Director Thompson, and Director Chopra,

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide feedback to the Office of the Comptroller of the Currency (OCC); Board of Governors of

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding $5.8 trillion in assets, $4.8 trillion in deposits, and $3.8

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the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); Consumer Financial Protection Bureau (CFPB); and Federal Housing Finance Agency (FHFA) regarding the implementation of quality control standards for the use of automated valuation models (AVMs) to determine the value of the collateral backing a mortgage loan. These standards would apply to mortgage originators and secondary market issuers, forcing them to adhere to quality control standards designed to improve confidence in an AVM's valuation estimates, protect against data manipulation, avoid conflicts of interest, and comply with relevant non-discrimination laws. The standards will also require random sample testing and reviews to help verify compliance.

The proposed rule also seeks to promote flexibility by permitting regulated institutions to design or adopt their own control systems and AVM policies without prescriptive guidelines. In theory, this would allow institutions to tailor their policies to reflect their size, risk levels, and the complexity of transactions. Moreover, the regulatory agencies suggest that this flexibility will allow regulated entities to adapt to and evolve alongside emerging technologies in this space going forward.

While it is critical to ensure that AVMs are accurate and do not violate fair lending laws, **ICBA is greatly concerned that these standards will force lenders, particularly smaller community banks that rely on AVMs – often for in-house valuations – to cease using this technology due to compliance challenges and uncertainty.** This will likely disincentivize mortgage lending in rural areas where AVMs can be utilized as more cost-effective, efficient, and accurate options to help value collateral and manage risk.

Many community banks simply do not have the personnel or resources to evaluate AVMs based on opaque or unavailable data regarding their valuation algorithms and methodology. Additionally, the more flexible approach regarding the determination of these quality control standards – as outlined in the proposed rule – would likely not help community banks that may prefer or require clear and simple instructions on how to comply. As an alternative, **ICBA suggests the Agencies explore using both a Standards Setting Organization (SSO) that will provide specific, clear, and consistent industry standards and a third-party testing organization capable of validating AVM providers without a conflict of interest.**

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trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

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ICBA Recommendations

1. Exempt Certain Portfolio Loan AVM Evaluations

Last year, ICBA provided feedback and expressed concerns to the CFPB following the Small Business Regulatory Enforcement Fairness Act (SBREFA) review panel relating to AVM evaluations.[2] We noted that in recent years AVMs have become increasingly necessary for smaller institutions to make underwriting decisions and identify properties with comparable values. Community banks continue to show that they are able and willing to adapt to new technologies to serve their customers, but they are likely unable to afford to comply with additional regulatory burdens that require them to vet and ensure AVMs meet specific quality control standards.

As we highlighted in our letter, this is doubly challenging and burdensome if small lenders are forced to consider an AVM's fair lending practices. ICBA continues to advocate that "[r]equiring smaller community banks to assess and evaluate the models for potential fair lending concerns, prior to their use, would be unreasonable, redundant, and extremely costly. It would likely increase fees and result in additional staffing requirements to perform AVM analysis."[3] As it stands, small lenders do not have access to the data being used by an AVM, nor has there been adequate guidance from regulators regarding how to use this data to confirm compliance to the proposed standards. Either way, a community bank is unlikely to retain staff with the knowledge or expertise to determine valuation accuracy or reverse engineer the algorithms to assess any fair lending red flags. Anecdotal evidence suggests that this would be extremely challenging for almost any institution, excepting the very largest lenders.

In 2019, the FDIC, the OCC, and the Board determined that home mortgage loans not guaranteed or insured by a government sponsored agency or exceeding a $400,000 sales price threshold should not be required to have a traditional appraisal.[4] We believe that it makes sense to apply this same threshold to portfolio loans evaluated in-house by an AVM. In other words, a portfolio loan under $400,000 that was evaluated by an AVM should not be subject to all the quality control standards outlined in a proposed rule.

2. Create a SSO to Develop Specific Standards and Structure an Independent Third Party to Validate AVMs

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[2] https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-regulators/letter-on-sbrefa-panel-avm-models.pdf?sfvrsn=390b1d17_0
[3] Ibid.
[4] https://www.occ.gov/news-issuances/bulletins/2019/bulletin-2019-45.html#:~:text=Summary,transactions)%20from%20%24250%2C000%20to%20%24400%2C000.

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ICBA urges the Agencies work with industry stakeholders, particularly community banks, to simplify and streamline the AVM validation process as much as possible. Community banks already conduct comprehensive due diligence when selecting third party vendors such as AVMs and numerous others. Given the unique and relatively niche nature of AVMs, the regulatory agencies should help these originators comply with these standards without imposing burdensome costs and challenges.

It is also critical that regulators act to encourage broad industry adoption of AVMs. One possible solution is to adopt clear and cohesive standards that promote industry transparency and result in the broad acceptance of AVMs as an alternative to a traditional appraisal under certain circumstances – particularly by Fannie Mae and Freddie Mac. This can be achieved by partnering with an SSO to create specific and clear standards that reflect general stakeholder and industry consensus while satisfying statutory and regulatory requirements.

The proposed rule also recognizes that cooperating with a third-party to develop these standards is a viable option, especially for smaller lenders. We ask that regulators go one step further by conducting a study to determine the value of using a fully independent, centralized third-party testing organization to confirm whether an AVM's system satisfies the standards in the proposed rule, especially AVM accuracy and avoidance of racial bias. Moreover, it is vital that this independent party be impartial and free of any conflict of interest; a centralized organization will likely help ensure this is achieved.

ICBA appreciates the opportunity to comment on this NPR and looks forward to working with FHFA on this issue in the coming months. Please contact the undersigned if you have any questions regarding this letter.

Sincerely,

Tim Roy
AVP – Housing Finance Policy

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