

Fast Facts: Quality Control Standards for Automated Valuation Models

Background: The Consumer Financial Protection Bureau (CFPB), the federal banking agencies,¹ the National Credit Union Administration, and the Federal Housing Finance Agency (agencies) have issued a final rule to implement quality control standards for automated valuation models (AVMs) used to determine the value of an individual's principal dwelling in connection with a credit decision regarding a mortgage or a covered securitization determination regarding a mortgage-backed security. For this purpose, an AVM is a computerized model used by mortgage originators and secondary market issuers to determine the value of an individual's principal dwelling collateralizing a mortgage.

The rule adds substantially similar provisions to each of the agencies' existing regulations. All cites in this document are to the CFPB's regulation.

Effective date: The rule's effective date will not be known until the rule is published in the *Federal Register*.² Mortgage originators and secondary market issuers that are subject to the rule will be required to comply with the rule beginning on the effective date.

Available at: www.consumerfinance.gov/rules-policy/final-rules/quality-control-standards-for-automated-valuation-models/

About this document: This document is a Compliance Aid issued by the CFPB. The CFPB published a Policy Statement on Compliance Aids, available at <http://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/policy-statement-compliance-aids/>, that explains the CFPB's approach to Compliance Aids.

¹ The federal banking agencies are the Office of the Comptroller of Currency, Federal Deposit Insurance Corporation, and Federal Reserve Board.

² The rule is effective on the first day of the calendar quarter following 12 months after publication. For example, if the rule is published in the *Federal Register* between July 1, 2024 and September 30, 2024, the effective date would be October 1, 2025.

Institutional coverage

Entity	Description in rule	Location in regulation
Mortgage originator	<p>For purposes of the rule, a “mortgage originator” is a person that does any of the following for direct or indirect compensation or gain, or in the expectation of direct or indirect compensation or gain:</p> <ul style="list-style-type: none">▪ Takes a mortgage application;▪ Assists an individual in obtaining or applying to obtain a mortgage; or▪ Offers or negotiates terms of a mortgage. <p>A person is also a mortgage originator if the person represents to the public, through advertising or other means of communicating or providing information, that such person can or will provide any of the services or perform any of the activities described above.</p> <p>The rule has exclusions from the definition of mortgage originator. For the details regarding these exclusions, see § 1026.42(i)(2)(vi) and related commentary.</p>	§ 1026.42 (i)(2)(vi)
Secondary market issuer	For purposes of the rule, a secondary market issuer is a party that creates, structures, or organizes a mortgage-backed securities transaction.	§ 1026.42 (i)(2)(vii)

Transactional coverage

Products	Description in rule	Location in regulation
Mortgage	For purposes of the rule, a “mortgage” is an open-end or closed-end transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained in an individual’s principal dwelling. A transaction is a mortgage pursuant to the rule only if the dwelling that will secure the transaction is the principal dwelling of the individual who obtains credit. However, a transaction can be a mortgage even if it is primarily for business, commercial, agricultural, or organizational purposes.	§1026.42(i)(2)(v); comments 42(a)-1 and -2.

Products	Description in rule	Location in regulation
Mortgage-backed security	The rule also applies to the use of an AVM in connection with making a covered securitization determination regarding a mortgage-backed security.	§ 1026.42(i)(1)

Key requirement

Topic	Rule provisions	Location in regulation
Policies, practices, procedures, and control systems to ensure AVMs adhere to quality control standards	<p>Mortgage originators and secondary market issuers that engage in credit decisions regarding mortgages or covered securitization determinations regarding mortgage-backed securities must adopt and maintain policies, practices, procedures, and control systems to ensure that AVMs used in these decisions and determinations adhere to quality control standards designed to:</p> <ul style="list-style-type: none"> ▪ Ensure a high level of confidence in the estimates produced; ▪ Protect against the manipulation of data; ▪ Seek to avoid conflicts of interest; ▪ Require random sample testing and reviews; and ▪ Comply with applicable nondiscrimination laws. 	§§ 1026.42(i)(1); 1026.42(i)(3)
AVMs, credit decisions, and covered securitization determinations	<p>This requirement applies regardless of whether the mortgage originator or secondary market issuer makes the credit decision or covered securitization determination itself or through or in cooperation with a third party or affiliate.</p> <p>The requirement discussed above applies to a mortgage originator's or secondary market issuer's use of an AVM in determining the value of an individual's principal dwelling in connection with making a credit decision or a covered securitization determination. However, the requirement does not apply to the use of an AVM in:</p> <ul style="list-style-type: none"> ▪ Monitoring of the quality or performance of mortgages or mortgage-backed securities; ▪ Reviews of the quality of already completed determinations of the value of collateral; or 	§§ 1026.42(i)(1); 1026.42(i)(2)(i), (iii), and (iv)

Topic	Rule provisions	Location in regulation
	<ul style="list-style-type: none"> ▪ The development of an appraisal by a certified or licensed appraiser as defined in § 1026.35(c)(1)(i). <p>Under the rule, an AVM is a computerized model used by mortgage originators and secondary market issuers to determine the value of an individual's principal dwelling collateralizing a mortgage.</p> <p>A “credit decision” is a decision regarding whether and under what terms to originate, modify, terminate, or make other changes to a mortgage, including a decision whether to extend new or additional credit or change the credit limit on a line of credit.</p> <p>A “covered securitization determination” is a determination regarding whether to waive an appraisal requirement for a mortgage origination in connection with its potential sale or transfer to a secondary market issuer; or regarding structuring, preparing disclosures for, or marketing initial offerings of one or more mortgage-backed securitizations.</p>	