AI and Financial Services

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AI Regulation and Impact on Innovation

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Some themes applied to AI and ML regulation

Privacy

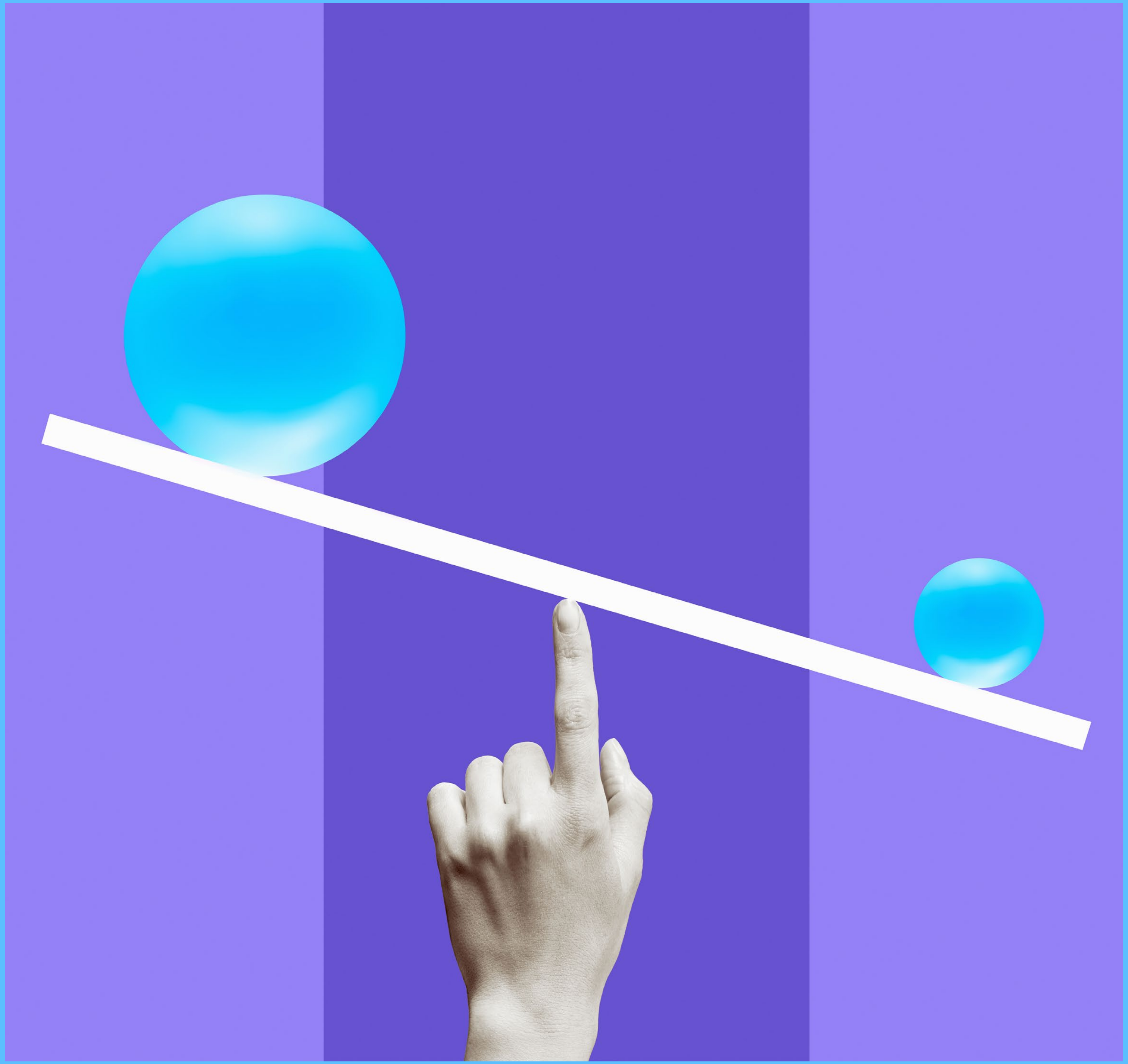
Safety

Transparency

Competition/Antitrust

Fairness/ Antidiscrimination

Copyright



Regulation of AI has been happening for a long time

XI.AUTOMATED UNDERWRITING SYSTEMS and USE OF ARTIFICIAL INTELLIGENCE IN UNDERWRITING. HUD recognizes that some lenders are beginning to use automated underwriting systems and artificial intelligence to approve mortgages.

While HUD will not approve individual automated underwriting systems, we will allow lenders wishing to use them as a means of approving FHA-insured mortgages. The automated system may have been developed by the lender or by a vendor. Lenders desiring to participate in this limited program must describe the type of system being used (e.g., rules-based programs, judgment-based programs), how long the system has operated, and the criteria that must be met for loan approval. The artificial intelligence system may be used for loan approvals only; loans rejected by an artificial intelligence system must be reviewed by a human underwriter.

Source: U. S. Department of Housing and Urban Development, Office of the Assistant Secretary for Housing-federal Housing Commissioner, MORTGAGEE LETTER 95-7, January 27, 1995

AI then and now

+ The HUD reference was to the use of FICO credit scores and Freddie Mac's and Fannie Mae's automated underwriting systems which were introduced in 1995
+ The AI in use? Single model logistic regression
+ The systems later evolved to include cascaded logistic models

fairplay

FAIRNESS-AS-A-SERVICE

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