CONSUMER FINANCIAL PROTECTION BUREAU | OCTOBER 2024

Quality Control Standards for Automated Valuation Models

Small Entity Compliance Guide

Consumer Financial Protection Bureau

Version Log

The CFPB updates this guide on a periodic basis. Below is a version log noting the history of this document:

Date	Version	Summary of Changes
October 2024	**1.0**	**Original version**

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1. Introduction

In 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376, 2004 (2010) (Dodd-Frank Act). The Dodd-Frank Act amended the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to add a new section 1125 relating to quality control standards for automated valuation models (AVMs) used to value principal dwellings securing mortgage loans. Section 1125 directed the federal banking agencies,[1] the National Credit Union Administration (NCUA), the Federal Housing Finance Agency (FHFA), and the Consumer Financial Protection Bureau (CFPB) to issue regulations to implement quality control standards for AVMs.

In June 2023, the CFPB and other agencies jointly issued a notice of a proposed rulemaking, and in July 2024, they issued a final rule.[2] Under the final rule, both mortgage originators that engage in credit decisions regarding certain mortgages and secondary market issuers that engage in securitization determinations regarding certain mortgage-backed securities must adopt and maintain policies, practices, procedures, and control systems to ensure that the AVMs they use in their respective decisions and determinations adhere to certain quality control standards.

The final rule is an interagency rule. FIRREA, as amended by the Dodd-Frank Act, provides that the final rule will be enforced by the banking agencies and the NCUA with respect to insured banks, savings associations, and credit unions, as well as federally regulated subsidiaries under their ownership and control.[3] The statute gives the CFPB, as well as the Federal Trade Commission and State attorneys general, enforcement authority with respect to other nondepository participants in the market.[4] While the final rule adds substantially similar provisions to each of the rulemaking agencies' existing regulations, this guide cites solely to the CFPB's regulation.[5]

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

[2] 89 Fed. Reg. 64658- 64580 (Aug. 7, 2024).

[3] 12 U.S.C. 3354(c). *See also* 12 U.S.C. 3350(6) (defining "Federal financial institutions regulatory agencies") and (7) (defining "financial institution").

[4] 12 U.S.C. 3354(c). Unlike the CFPB, the Federal Trade Commission and State attorneys general do not have FIRREA section 1125 rulemaking authority. 12 U.S.C. 3354(b).

[5] While the CFPB is codifying its AVM requirements in Regulation Z, 12 CFR part 1026, which generally implements the Truth in Lending Act (TILA), the statutory authority for this final rule is FIRREA rather than TILA.

1.1 Scope of this guide

This guide includes a detailed summary of the final rule's requirements.[6] Except when specifically needed to explain the final rule, this guide does not discuss other laws, regulations, or regulatory guidance that may apply. The content of this guide does not include any rules, bulletins, guidance, or other interpretations issued or released after the date on the guide's cover page.

Users of this guide should review the final rule as well as this guide. The final rule is available on the CFPB's website at https://www.consumerfinance.gov/rules-policy/final-rules/quality-control-standards-for-automated-valuation-models/.

1.2 Use of examples

This guide has examples to illustrate some portions of the final rule. The examples do not include all possible factual situations that could illustrate a particular provision, trigger a particular obligation, or satisfy a particular requirement.

1.3 Additional resources

Additional resources to help industry understand and comply with the final rule are available on the CFPB's website at https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/quality-control-standards-for-automated-valuation-models/. There is a link on this website to sign up for an email distribution list that the CFPB will use to announce additional resources as they become available.

If you have a specific regulatory question about the final rule after reviewing these resources, you can submit the question to the CFPB on its website at http://reginquiries.consumerfinance.gov. CFPB staff provides only informal responses to regulatory inquiries, and the responses are not official interpretations or legal advice. CFPB staff is not able to respond to specific inquiries within a particular requested timeframe. Actual

[6] This guide meets the requirements of section 212 of the Small Business Regulatory Enforcement Fairness Act of 1996 with regard to the final rule and is a Compliance Aid issued by the Consumer Financial Protection Bureau. The CFPB published a Policy Statement on Compliance Aids, available at www.consumerfinance.gov/policy-compliance/final rulemaking/final rules/policy-statement-compliance-aids/, that explains the CFPB's approach to Compliance Aids.

response times will vary based on the number of questions that staff is handling and the amount of research needed to respond to a specific question.

2. Covered transactions

The final rule applies to the use of AVMs in determining the value of a consumer's principal dwelling in connection with making a credit decision regarding a mortgage or covered securitization determination regarding a mortgage-backed security. However, the final rule does not apply to the use of AVMs in:

1. Monitoring of the quality or performance of mortgages or mortgage-backed securities;

2. Reviews of the quality of already completed determinations of the value of collateral; or

3. The development of an appraisal by a certified or licensed appraiser as defined in § 1026.35(c)(1)(i).

12 CFR 1026.42(i)(1).

For purposes of the final rule, a "consumer" is a natural person to whom credit is offered or extended, even if the credit is primarily for business, commercial, agricultural, or organizational purposes. 12 CFR 1026.2(a)(11). Additionally, for this purpose, credit extended to a natural person includes credit extended to a trust established for tax or estate planning purposes and land trusts. See comment 2(a)(11)-3.

2.1 Automated valuation model

For purposes of the final rule, an "automated valuation model" or "AVM" is any computerized model used by mortgage originators and secondary market issuers to determine the value of a consumer's principal dwelling collateralizing a mortgage. 12 CFR 1026.42(i)(2)(i).

Mortgage originators and secondary market issuers will need to consider whether the valuation products that they are using are (1) automated (i.e., computerized); (2) a model; and (3) designed to estimate the value of a consumer's principal dwelling collateralizing a mortgage.

2.2 Credit decisions regarding mortgages

The final rule applies to the use of AVMs to make credit decisions regarding mortgages.

2.2.1 Mortgages

For purposes of the final rule, a mortgage includes any transaction in which a consensual security interest is created or retained in a consumer's principal dwelling. The consensual security interest could be a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or an equivalent consensual security interest. 12 CFR 1026.42(i)(2)(v). See also 12 CFR 1026.2(a)(11).

Thus, for purposes of the final rule, a mortgage can be an open-end or closed-end transaction as long as it is secured by the principal dwelling of a natural person to whom credit is offered or extended. Comment 42(a)-1.

A consumer can have only one principal dwelling[7] at a time. Thus, a vacation or other second home would not be a principal dwelling. However, if a consumer buys or builds a new dwelling that will become the consumer's principal dwelling within a year or upon the completion of construction, the new dwelling is considered the principal dwelling for purposes of applying this definition to a particular transaction. Comment 2(a)(19)-4. A principal dwelling does not need to be property classified as real property under applicable law and can include an individual condominium unit, cooperative unit, mobile home, boat, or trailer if used as a principal dwelling.

- A transaction can be a mortgage for purposes of the final rule even if the transaction is exempt from other provisions of Regulation Z. Comment 3-2. While the CFPB is codifying the final rule's requirements in Regulation Z, which generally implements TILA, the statutory authority for this final rule is FIRREA.
- As noted above, for purposes of the final rule, the term "consumer" does not impose any limits on the purpose of the transaction because the final rule defines "consumer" to mean a natural person to whom credit is offered or extended, even if the credit is primarily for business, commercial, agricultural, or organizational purposes. 12 CFR 1026.2(a)(11). A mortgage can be for any purpose as long as it is secured by the principal dwelling of a natural person to whom credit is offered or extended. See Example 1 below.

Example 1: Company A originates an agricultural purpose line of credit to an individual. The loan is secured by farmland and a dwelling, which is the individual's principal dwelling. The loan is a mortgage for purposes of the final rule because the

7 The term "dwelling" is defined in § 1026.2(a)(19). The term "principal dwelling" has the same meaning as under §§ 1026.2(a)(24), 1026.15(a), and 1026.23(a). See comments 2(a)(19)-4, 2(a)(24)-3, 15(a)(1)-5, and 23(a)-3.

individual is a consumer for purposes of the final rule and the credit transaction creates a security interest in the consumer's principal dwelling.

Example 2: Company A originates a business purpose loan to a corporation that has only one shareholder. The shareholder is a natural person, and the loan is secured by the shareholder's principal dwelling. The loan is not a mortgage for purposes of the final rule because the credit was not extended to a consumer pursuant to the final rule.

Example 3: Company A originates a consumer purpose loan to two individuals. The loan is secured by a house owned by Individual A and a boat owned by Individual B. The house is a vacation home and is not Individual A's principal dwelling. However, the boat is Individual B's principal dwelling. The loan is a mortgage for purposes of the final rule.

Example 4: Company A originates a consumer purpose loan to a trust established for estate planning purposes. The loan is secured by the principal dwelling of the individual who established the trust. The loan is a mortgage for purposes of the final rule because, pursuant to the final rule, credit extended to a trust for tax or estate planning purposes is considered to be credit extended to a consumer.

2.2.2 Credit decisions

A credit decision is a decision regarding whether and under what terms to:

- Originate;
- Modify;
- Terminate; or
- Make other changes to a mortgage.

A credit decision includes a decision whether to extend new or additional credit or to change the credit limit on a line of credit. 12 CFR 1026.42(i)(2)(iv).

As noted in the preamble, a credit decision includes decisions to make other changes to a mortgage beyond modifying or terminating a loan. Such other changes would include a decision to approve or deny an assumption of an existing mortgage.

Example 1: An individual applies for a loan from Company A. The loan will be secured by the individual's principal dwelling. Company A uses an AVM to determine the value of the principal dwelling, and denies the application based on that estimated value. Company A has made a credit decision for purposes of the final rule.

Example 2: Company A has an existing line of credit account with an individual. The line of credit is secured by the individual's principal dwelling. During the line of credit's draw period, Company A uses an AVM to determine the value of the individual's principal dwelling. Based on that value, Company A decides to terminate the draw period. Company A has made a credit decision for purposes of the final rule. Furthermore, this would be the result regardless of whether Company A extended the line of credit for consumer, business, or agricultural purposes.

2.3 Covered securitization determinations regarding mortgage-backed securities

The final rule applies to the use of an AVM to make a covered securitization determination regarding a mortgage-backed security.

A covered securitization determination is a determination regarding:

1. Whether to waive an appraisal requirement for a mortgage origination in connection with its potential sale or transfer to a secondary market issuer; or

2. Structuring, preparing disclosures for, or marketing initial offerings of mortgage-backed securitizations.

12 CFR 1026.42(i)(2)(iii).

Example: Company A takes a mortgage application from an individual. The individual's principal dwelling will secure the mortgage loan. Company A provides an estimated value of the principal dwelling to Company B, which intends to purchase the mortgage loan and to include it in a mortgage-backed security that Company B is structuring. Company B uses an AVM to verify the estimated value provided by Company A. Company B sometimes requires appraisals for properties that secure mortgages included in its mortgage-backed securities. However, in this case, Company B waives its appraisal requirement based on the results of its AVM. Because Company B will not require an appraisal to purchase the mortgage, Company A decides not to obtain an appraisal or to otherwise verify the value of the principal dwelling. Company B, but not Company A, has made a covered securitization determination for purposes of the final rule.

3. Covered persons

The final rule applies to persons who are mortgage originators and secondary mortgage issuers, as those terms are defined in the final rule. A person can satisfy the final rule's definition of mortgage originator or secondary mortgage issuer regardless of whether that person is also a creditor for purposes Regulation Z. 12 CFR 1026.1(c)(6). Thus, the final rule can apply to a person even if that person is not a creditor pursuant to Regulation Z.

3.1 Secondary market issuer

For purposes of the final rule, a "secondary market issuer" is any party that creates, structures, or organizes a mortgage-backed securities transaction. 12 CFR 1026.42(i)(2)(vii). As discussed in the final rule's preamble, the definition of secondary market issuer includes not only the government sponsored enterprises (GSEs), but any other party that creates, structures, or organizes a mortgage-backed securities transaction.

3.2 Mortgage originator

For purposes of the final rule, a mortgage originator is any person[8] who does any of the following:

1. For direct or indirect compensation or gain or in the expectation of direct or indirect compensation or gain:

   a. Takes a mortgage application;

   b. Assists a consumer in obtaining or applying to obtain a mortgage; or

   c. Offers or negotiates terms of a mortgage.

2. Represents to the public through advertising or other means of communicating or providing information (including the use of business cards, stationery, brochures, signs, rate

[8] A "person" can be a natural person or an organization, including a corporation, partnership, proprietorship, association, cooperative, estate, trust, or government unit. 12 CFR 1026.2(a)(22).

lists, or other promotional items) that such person can or will provide any of the services or perform any of the activities described above.

12 CFR 1026.42(i)(2)(vi)(A) and (B).

However, the final rule excludes the following persons from the definition of mortgage originator:

1. *Certain persons who perform administrative or clerical tasks for mortgage originators*. The definition of mortgage originator excludes any person who performs purely administrative or clerical tasks on behalf of a mortgage originator.

2. *Certain retailers of manufactured or modular homes and their employees*. The definition of mortgage originator excludes a retailer of manufactured or modular homes or an employee of the retailer if the retailer or employee, as applicable:

a. Does not receive compensation or gain for engaging in activities described above that is in excess of any compensation or gain received in a comparable cash transaction

b. Discloses to the consumer in writing any corporate affiliation with any creditor and, if the retailer has a corporate affiliation with any creditor, at least 1 unaffiliated creditor; and

c. Does not directly negotiate with the consumer or lender on loan terms (including rates, fees, and other costs);

3. *Certain real estate brokers*. The definition of mortgage originator excludes a person or entity that only performs real estate brokerage activities and is licensed or registered in accordance with applicable State law, unless such person or entity is compensated by a lender, a mortgage broker, or other mortgage originator or by any agent of such lender, mortgage broker, or other mortgage originator;

4. *Certain seller financers*. A person that meets the criteria for seller financers provided in § 1026.36(a)(4) & (5); and

As discussed in Section 2, a transaction can be a mortgage for purposes of the final rule even if the transaction is exempt from other provisions of Regulation Z. Comment 3-2. For example, the scope of the final rule includes not only consumer purpose mortgages but also mortgages for business, commercial, agricultural, or organizational purposes, as long as they are secured by a consumer's principal dwelling. 12 CFR 1026.42(a); comment 42(a)-2. Additionally, a "consumer" is a natural person to whom credit is offered or extended, even if the credit is primarily for business, commercial, agricultural, or organizational purposes. 12 CFR 1026.2(a)(11).

5. *Servicers and servicer employees, agents, and contractors*. The definition of mortgage originator generally excludes servicers and their employees, agents, and contractors (collectively, servicing personnel). For example, this exclusion applies when such servicers and servicing personnel offer or negotiate terms of a mortgage for purposes of renegotiating, modifying, replacing, and subordinating principal of existing mortgages where borrowers are behind in their payments, in default or have a reasonable likelihood of being in default or falling behind. However, a person is servicer with respect to a particular transaction only after it is consummated, and that person retains or obtains its servicing rights. Therefore, the term mortgage originator includes a servicer and its servicing personnel when they perform mortgage originator activities for purposes of 15 U.S.C. 1602(dd)(2) with respect to any transaction that constitutes a new extension of credit, including a refinancing or a transaction that obligates a different consumer on an existing debt. Comment 42(i)(2)(vi)-1.

12 CFR 1026.42(i)(2)(vi)(C) through (G).

Example 1: Company A originates a closed-end loan to an individual. The individual's principal dwelling secures the loan. Company A originates the mortgage using its own funds and then sells all rights to the mortgage to Company B. After obtaining the rights to the mortgage, Company B attempts to collect scheduled periodic payments from the individual, but the individual becomes delinquent. Company B offers to modify the terms of the individual's mortgage. Assume the modification does not constitute a new extension of credit because it does not satisfy and replace the mortgage with a new obligation pursuant to 12 CFR 1026.20(a). Company A is a mortgage originator for purposes of the final rule, but Company B is not.

Example 2: Company A originates a closed-end loan to an individual. The individual's principal dwelling secures the loan. Company A originates the mortgage loan using its own funds and then sells all rights to the mortgage loan to Company B. After obtaining the rights to the mortgage loan, Company B attempts to collect scheduled periodic payments from the borrower, but the borrower becomes delinquent. Company B offers to refinance the mortgage loan (*i.e.*, offers a new mortgage loan secured by the individual's principal dwelling that would satisfy and replace the existing mortgage loan). Both Companies A and B are mortgage originators for purposes of the final rule.

Example 3: Company A accepts an application from an individual for a business purpose loan that would be secured by that individual's principal dwelling. Company A is a mortgage originator for purposes of the final rule because the final rule applies to a business purpose loan made to a natural person if the loan would be secured by that natural person's principal dwelling.

4. Quality control standards

Mortgage originators and secondary market issuers that engage in credit decisions or covered securitization determinations must adopt and maintain certain policies, practices, procedures, and control systems regarding the AVMs they use when engaging in these decisions or determinations. These policies, practices, procedures, and control systems must ensure that the AVMs used in the credit decisions and covered securitization determinations adhere to quality control standards designed to:

> Different policies, practices, procedures, and control systems may be appropriate for institutions of different sizes with different business models and risk profiles.

1. Ensure a high level of confidence in the estimates produced;
2. Protect against the manipulation of data;
3. Seek to avoid conflicts of interest;
4. Require random sample testing and reviews; and
5. Comply with applicable nondiscrimination laws.

12 CFR 1026.42(i)(3).

This requirement applies regardless of whether the mortgage originator or secondary market issuer engages in credit decisions or covered securitization determinations itself or through or in cooperation with a third party or affiliate. 12 CFR 1026.42(i)(3).

For purposes of the final rule, control systems are the functions (such as internal and external audits, risk review, quality control, and quality assurance) and information systems that are used to measure performance, make decisions about risk, and assess the effectiveness of processes and personnel, including with respect to compliance with statutes and regulations. 12 CFR 1026.42(2)(ii).

Mortgage originators and secondary market issuers may work with AVM providers to assist them with their compliance obligations under the rule, as they do with other third-party vendors in order to comply with relevant regulatory requirements. While mortgage originators and secondary market issuers should not rely solely on testing and validation representations provided by an AVM vendor, they do not necessarily need to conduct their own testing and validation. They must, however, adopt and maintain policies, practices, procedures, and control systems for evaluating the sufficiency of the vendor's testing and validation that are appropriate based on the size, complexity, and risk profile of the mortgage originator or secondary market issuer and the transactions for which they would use AVMs covered by the final rule.

The CFPB has published procedures for CFPB examiners to assess an institution's fair lending related risks and controls related to the use of models—including, potentially, AVMs—in the credit decision process. CFPB, ECOA Baseline Review Module 2, 6 (Apr. 2019), available at https://files.consumerfinance.gov/f/documents/cfpb_supervision-and-examination-manual_ecoa-baseline-exam-procedures_2019-04.pdf). Mortgage originators and secondary market issuers may want to review these procedures for additional information regarding risks and controls to ensure AVMs comply with federal nondiscrimination laws.

The CFPB has provided guidance on managing the risk inherent in the use of third-party service providers, such as outside entities that provide AVMs and AVM services. *See* CFPB, Compliance Bulletin and Policy Guidance; 2016–02, Service Providers (Oct. 31, 2016); CFPB, Examination Procedures—Compliance Management Review (Aug. 2017). In line with the CFPB's service provider guidance, regardless of whether mortgage originators and secondary market issuers use their own AVMs or third-party AVMs, the final rule requires mortgage originators and secondary market issuers to adopt and maintain policies, practices, procedures, and control systems to ensure that those AVMs adhere to the rule's requisite quality control standards.

As noted in the preamble, existing nondiscrimination laws apply to appraisals and AVMs, and institutions have a preexisting obligation to comply with all federal laws, including federal nondiscrimination laws. For example, the Equal Credit Opportunity Act and its implementing Regulation B bar discrimination on a prohibited basis in any aspect of a credit transaction. Similarly, the Fair Housing Act prohibits unlawful discrimination in all aspects of residential real estate-related transactions. Policies, practices, procedures, and control systems must ensure that AVMs used in credit decisions and covered securitization determinations adhere to quality control standards designed to comply with applicable nondiscrimination laws.

5. Effective date

The final rule is effective on October 1, 2025. Mortgage originators and secondary market issuers must begin complying with the final rule on that date.