# Automated Decisioning in Lending

## Including Model Validation and Fair Lending Compliance

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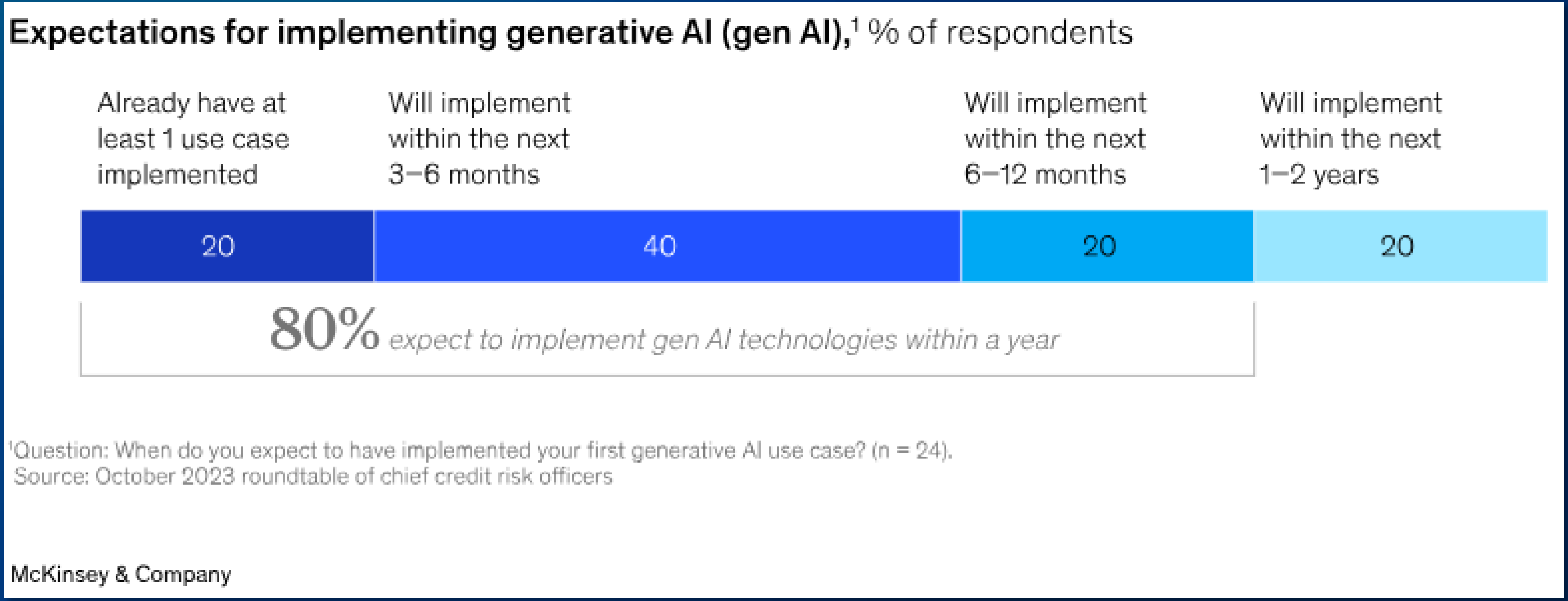
# polling question #6

# AI in Credit Underwriting



# GenAI Adoption Momentum

## Strong Adoption Momentum

Surveys indicate rapid growth in GenAI use within credit risk management despite governance challenges.

## Institutional Investments

Financial firms invest heavily in building AI capabilities and forming partnerships for responsible scaling.

# Opportunities and Challenges

## CFPB Issues Guidance on Credit Denials by Lenders Using Artificial Intelligence

*Consumers must receive accurate and specific reasons for credit denials*

SEP 19, 2023

Personalization

Financial Inclusion

Risks

# CFPB Oversight on Algorithmic Discrimination

- **Algorithmic Discrimination Focus**
- **Digital Redlining Concerns**
- **Transparency and Accountability**

# Automated Valuation Models (AVMs)

- **CFPB Quality Control**
- **Bias Avoidance**
- **Data Integrity and Compliance**

# Bias, discrimination, and representation issues in AI models

### Historical Bias Replication

AI systems trained on historical data often perpetuate past discriminatory patterns such as redlining.

### Representation Bias

Underrepresentation of certain demographic groups in training datasets leads to skewed AI outcomes and unfair decisions

### Proxy Discrimination

Neutral attributes like device type can act as proxies for protected characteristics, causing indirect discrimination.

# Model Validation

## Importance of Model Validation

Model validation ensures AI models are reliable, fair, and conceptually sound for responsible use.

## Validation Techniques

Techniques include back-testing, benchmarking, sensitivity analysis, and use of challenger models.

## Governance and Risk Management

Integrate validation into risk management with governance, documentation, and ongoing monitoring.

# polling question #7

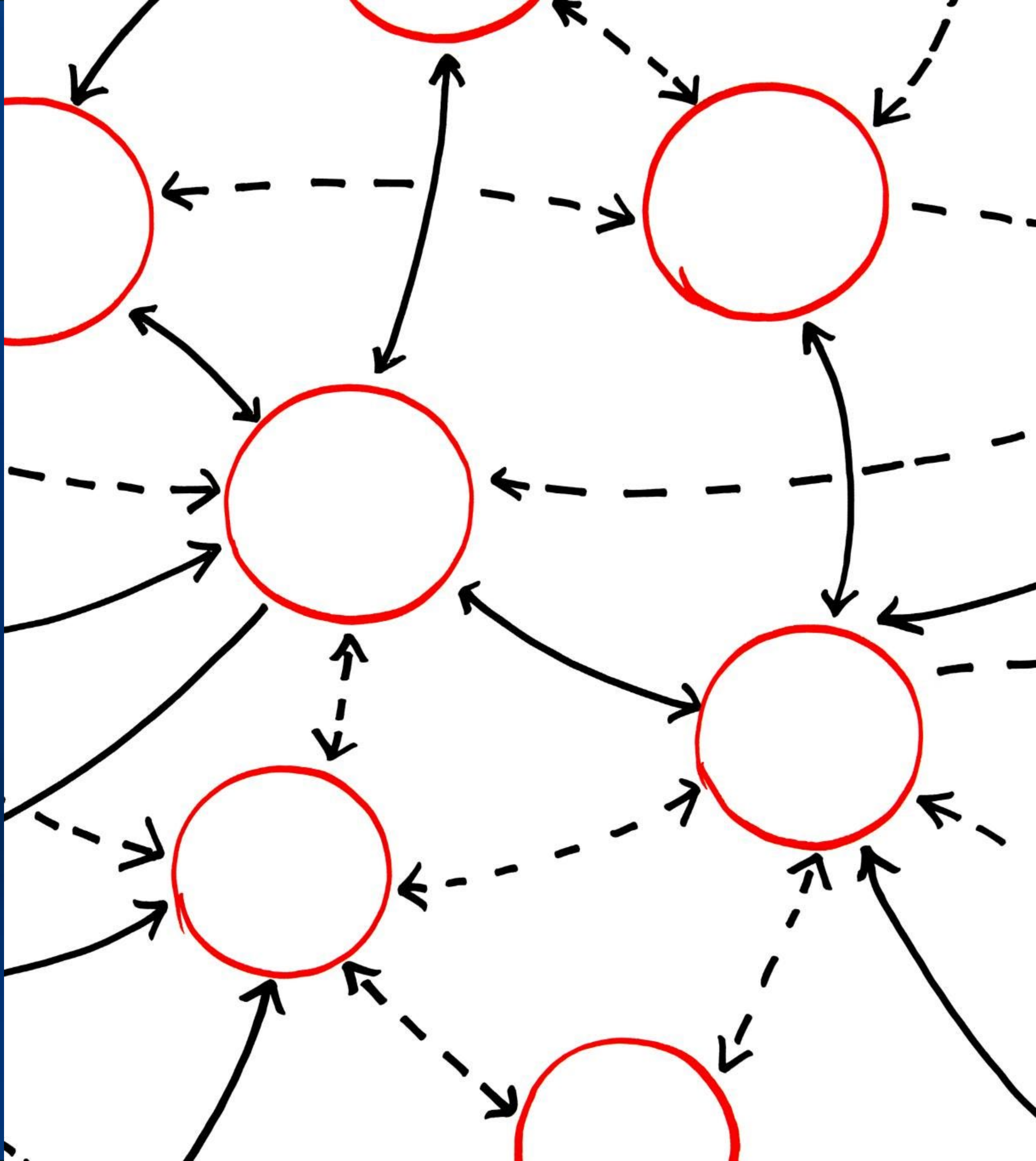
# Industry Best Practices

## Interpretable Models

Prioritize using models that are easy to interpret to enhance transparency and trust.

## Document Decision Logic

Maintain clear documentation of model decision processes and rationale for accountability.



# polling question #8

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# thank you

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# Lunch

12:00 – 1:00