AI GOVERNANCE

RESIDENTIAL MORTGAGE LENDING

AI GOVERNANCE FRAMEWORK

As of August 6, 2026, Fannie Mae and Freddie Mac require their mortgage seller/servicers to implement an artificial intelligence (AI) governance framework for AI and machine learning (ML) technologies. Freddie Mac's requirements went into effect March 3, 2026. The new directives apply to tools developed internally, provided by vendors, or accessed through banking-as-a-service (BaaS) applications.

AI governance is considered to be a core element of an institution's enterprise risk management plan, with oversight delegated to appropriate divisional managers, including residential mortgage compliance.

Housing Research's AI governance assessments include a cross-document review of internal forms and vendor reports to assess document quality, consistency and uniformity in the origination of residential mortgages, irrespective of the institution's full or partial use of AI or ML technology. Fannie Mae's Desktop Underwriter and Freddie Mac's Loan Product Advisor are classified and regulated under AI and ML frameworks.

Supervisory agencies and mortgage enterprises require lenders to manage risks associated with vendor use of AI in a manner that is no less protective than their internal controls.

Assessments include data integrity checks of vendor reports and data extracted from integrated tools. File reviews assess accuracy and interpretability of external feeds, and notes any remedial steps taken by the lender due to uninterpretable data, false positives, or failed criteria recognition.

COMPARATIVE ANALYSIS

A sampling of loan files are chosen from the institution's application log, covering a range of loan programs and include both approved and denied loans. Samplings encompass similarly-situated borrowers with marginally equivalent credit scores, debt ratios, loan-to-value, and loan characteristics. A parallel analyses is completed on closely-matched pairs to assess whether algorithmic and AI-supported tools delivered outcomes consistent with manually underwritten loans. Specific reasons for denial are taken into account for reviews of denied loans.

EXPLAINABILITY

Under the 2026 regulatory framework, explainability is mandatory for any consumer lending system that feeds into a credit decision. AI governance file reviews look for interpretability, traceable lineage, and documented rationale.

Exception reports delineate levels of AI-ML and level of explainability in 12 document categories: application, loan pricing, loan program, borrower identity, credit report, asset verification, employment, income verification, appraisal, AUS analysis, underwriting, and conditions.

Assessment reports are formatted in narrative style, suitable for presentation to senior management, board of directors, and supervisory agencies. Reports include a 2-page summary for each loan file, along with descriptive findings and statistical graphs. Roll-up summaries denote key findings by branch, originator, underwriter, loan program, and borrower demographics.

For further information, contact
Anna DeSimone
annabankers@gmail.com
860-395-8823

HOUSING RESEARCH

(c) 2026 Housing Research, LLC