

MEMORANDUM

To: Members of the Committee on Financial Services

From: Digital Assets, Financial Technology and Inclusion Subcommittee Staff

Date: July 18, 2024

Subject: Full Committee Hearing: “AI Innovation Explored: Insights into AI Applications in Financial Services and Housing.”

On Tuesday, July 23, 2024, at 10:00 a.m. the Committee on Financial Services will hold a hearing titled “AI Innovation Explored: Insights into AI Applications in Financial Services and Housing.” The following witnesses will testify:

- **John Zecca**, Executive Vice President, Global Chief Legal, Risk and Regulatory Officer, NASDAQ
- **Ondrej Linda**, Director of Personalization AI, Zillow
- **Elizabeth Osborne**, Chief Operations Officer, Great Lakes Credit Union
- **Frederick Reynolds**, Deputy General Counsel for Regulatory Legal and Chief Compliance Officer, FIS Global
- **Vijay Karunamurthy**, Chief Technology Officer, Scale AI
- **Lisa Rice**, President and CEO, National Fair Housing Alliance

Background

Beginning in 2022, the public began to experience how artificial intelligence (AI) could not only dramatically change the lives of individuals but could revolutionize every aspect of our economy. The most recent development in AI technology that has captured the public’s attention is “Generative AI” or Gen AI. Members of the U.S. House of Representatives Committee on Financial Services (Committee) recognized the significant impact of Gen AI, having previously studied AI during the 116th and 117th Congresses at 10 different hearings held by the Task Force on Artificial Intelligence. The Committee considered how the financial services and housing industries, as well as government agencies, used AI to more effectively do their jobs, and how individuals across America and around the world both interacted with and experienced AI in their financial lives.

However, the emergence of Gen AI and the massive investments being made require the Committee to consider the benefits, risks, and consequences of AI. This includes examining the existing statutory and regulatory framework to determine whether it is sufficient to safeguard our financial and housing markets. In response to this watershed moment in AI development, in January 2024, Chair Patrick McHenry and Ranking Member Waters established the bipartisan AI

Working Group (Working Group) comprised of 12 Members.¹ The Republican Members included Chairman Patrick McHenry (NC-10), Congressman French Hill (AR-02), Congresswoman Young Kim (CA-40), Congressman Mike Flood (NE-01), Congressman Zach Nunn (IA-03), and Congresswoman Erin Houchin (IN-09). The Democratic Members included Ranking Member Maxine Waters (CA-43), Congressman Stephen F. Lynch (MA-08), Congresswoman Sylvia Garcia (TX-29), Congresswoman Ayanna Pressley (MA-07), Congressman Sean Casten (IL-06), and Congresswoman Brittany Pettersen (CO-07).

The Working Group conducted six roundtables focused on AI use cases across the financial services industry, including the range of benefits and risks the technology poses, and the hurdles to adopting the technology.

Federal Regulators. During the two sessions held with federal regulators, panelists responded to concerns that AI could lead to bias and discrimination and make it harder to detect such outcomes due to a lack of explainability. Regulators generally noted that the use of AI did not absolve entities from complying with anti-discrimination laws. Several regulators commented that regulated entities are expected to follow all laws, including anti-discrimination and other consumer protection laws, in a tech-neutral manner.

Capital Markets. In general, market participants stated they are taking a measured approach to implementing AI technology in certain aspects of their business. Market participants shared that they are still in the early stages of this technology's capabilities. However, many participants reported that they have been using ML models for upwards of 10 years at increasing rates for data analysis and are exploring the potential for new advancements in AI's capabilities to create new use cases in capital markets.

Housing and Insurance. During the housing and insurance session, participants highlighted how AI has facilitated a major shift in housing and insurance products and services. This shift has allowed for new benefits and conveniences to consumers, but has also presented fair housing, consumer protection, and other challenges. For example, businesses are deploying AI to underwrite mortgages and insurance policies, screen tenants, simplify and enhance the overall customer experience, and perform data analytics that guide their responses to consumers and risks.

Financial Institutions and Nonbank Firms. This roundtable included two panels. The first panel focused on specific use cases by financial institutions of all sizes, specifically in loan underwriting, customer service, fraud detection, and debt collection. The second panel focused on the AI lifecycle at a financial institution or nonbank from acquisition of the technology, development, and integration. Members and panelists discussed how financial institutions use AI and comply with anti-discrimination laws, as well as the need for cybersecurity and privacy safeguards.

National Security. During this session, panelists discussed how bad actors can leverage AI to compromise financial institutions' defenses and how these financial institutions are using AI to respond to threats. In addition, the panel explored how financial institutions use AI to comply with

¹ U.S. House of Representatives, "[McHenry, Waters Announce Creation of Bipartisan AI Working Group](#)," *House Financial Services Committee*, (Jan. 11, 2024).

their existing Bank Secrecy Act/Anti-Money Laundering (BSA/AML) responsibilities. Collectively, the six roundtables along with the off-site visit to the Massachusetts Institute of Technology (MIT) provided the Working Group with a comprehensive exploration of AI adoption across the financial services and housing industries.

Takeaways

Based on these extended discussions with the Working Group participants, Committee staff takeaways for the Committee to consider are below:

- Given the Critical Role of the Financial and Housing Markets, the Committee Should Play a Leading Role in Overseeing the Adoption of AI in the Financial Services and Housing Industries.
- The Committee Must Ensure Regulators Apply and Enforce Existing Laws, Including Anti-Discrimination Laws, and Assess Regulatory Gaps as Market Participants Adopt AI.
- The Committee Should Ensure the Financial Regulators Have the Appropriate Focus and Tools to Oversee New Products and Services.
- The Committee Should Continue to Consider How to Reform Data Privacy Laws Given the Importance of Data, Especially Consumer Data, to AI.
- The Committee Should Work with Financial Regulators to Understand AI's Impact on the Workforce.
- The Committee Should Ensure U.S. Global Leadership on AI Development and Use.

Establishment and Process of the AI Working Group

The Working Group was comprised of 12 Republican and Democratic Members. Republican Members included Chairman Patrick McHenry (NC-10), Congressman French Hill (AR-02), Congresswoman Young Kim (CA-40), Congressman Mike Flood (NE-01), Congressman Zach Nunn (IA-03), and Congresswoman Erin Houchin (IN-09). The Democratic Members included Ranking Member Maxine Waters (CA-43), Congressman Stephen F. Lynch (MA-08), Congresswoman Sylvia Garcia (TX-29), Congresswoman Ayanna Pressley (MA-07), Congressman Sean Casten (IL-06), and Congresswoman Brittany Pettersen (CO-07). The AI Working Group conducted a total of six roundtables.

Throughout the course of the roundtables, Members focused on specific use cases, technological developments, and regulatory implications. This focus facilitated a better understanding of the benefits and risks presented by AI throughout the financial services and housing industries. At the first two roundtables, Members heard directly from the federal agencies under the Committee's jurisdiction. These discussions centered around the agencies' use of AI for internal operations, the adoption of AI by entities within their purview, and whether additional guidance or authorities are needed.

After meeting with the federal regulators, the Working Group held four more roundtables in which Members heard from market participants and consumer advocates. These roundtables focused on AI use cases across the financial services industry, including the range of benefits and

risks the technology poses, and the hurdles to adopting the technology. Additionally, some Members of the Working Group conducted an off-site visit with AI experts at the Massachusetts Institute of Technology (MIT). The six roundtables along with the off-site visit provided the Working Group with a holistic understanding of AI adoption across the financial services and housing industries. Collectively, this agenda provided valuable insight as Members work to ensure the U.S. proceeds in a safe, competitive, fair, and efficient manner as AI use increases.

Other key initiatives include the Bipartisan AI Task Force created by Speaker Mike Johnson and Democratic Leader Hakeem Jefferies and led by Chair Jay Obernolte (CA-23) and Co-Chair Ted Lieu (CA-36),² as well as the AI Insight Forums hosted by U.S. Senate Majority Leader Chuck Schumer (D-NY), and Senators Mike Rounds (R-SD), Martin Heinrich (D-NM), and Todd Young (R-IN).³ These initiatives have taken a similar bipartisan approach toward examining the technology and any potential legislative gaps.

[The Full Report and Takeaways can be found here.](#)

Legislative Proposals

- H.J.Res. ___ (McHenry/Waters). The resolution expresses the important role the Financial Services Committee plays in overseeing artificial intelligence in the financial services and housing industries.
- H.R. 5808, the *Preventing Deep Fake Scams Act* (Pettersen). The bill establishes a taskforce comprised of agency representatives that would be responsible for issuing a report on how banks and credit unions can protect themselves and consumers from fraud associated with AI use.
- H.R. 7781, the *Artificial Intelligence Practices, Logistics, Actions, and Necessities Act* (Nunn). The bill directs Treasury, Commerce and Homeland Security to issue a report on the economic and national security risks posed by the use of artificial intelligence in the commission of financial crimes, including fraud and the dissemination of misinformation
- H.R. ___, (Waters). The bill requires the Federal financial agencies to carry out a study and report on standardized descriptions for vendor provided artificial intelligence systems.

² Speaker Mike Johnson, "[House Launches Bipartisan Task Force on Artificial Intelligence.](#)" *U.S. House of Representatives*, (Feb. 20, 2024).

³ U.S. Senate Democratic Caucus, "[Schumer Launches Major Effort To Get Ahead Of Artificial Intelligence.](#)" (May 18, 2023).