

HFSC CONVENES HEARING TO EXAMINE ARTIFICIAL INTELLIGENCE IN FINANCIAL SERVICES & HOUSING

EXECUTIVE SUMMARY

On July 23, the House Financial Services Committee held a [hearing](#) entitled, “AI Innovation Explored: Insights into AI Applications in Financial Services and Housing.” The hearing follows the Committee’s recent publication of its bipartisan [staff report](#) on AI. Republican lawmakers argued that the existing laws and regulations governing the financial services sector are already sufficient to oversee new AI technologies, particularly due to the third-party vendor requirements for financial institutions. However, many Democrats continued to raise concerns about the potential for discrimination perpetuated by AI tools, especially discrimination in the housing and rental sectors due to third party tenant screening, automated valuation models (AVM), and automated mortgage underwriting. As a result, some Democrats — **led by Ranking Member Maxine Waters (D-CA)** — called for legislative action to address algorithmic discrimination.

There was also extensive discussion of industry standards to maintain the safety and fairness of AI models, such as utilizing quality datasets, maintaining transparency, mandating human involvement, and testing models. A few lawmakers and witnesses also explored the possibility of congressional action to implement a single uniform digital identification standard to address the fraud risks posed by AI, such as deep fakes and synthetic identities. Some members agreed on the need to pass bipartisan legislation to study and combat deep fakes. AI competition and access issues were also discussed during the hearing to a lesser extent.

OPENING STATEMENTS

Chair Patrick McHenry (R-NC) discussed the potential benefits of AI to enhance financial services, though he noted that “perceived risks” have delayed adoption. The Chair applauded publication of the Committee’s bipartisan staff report, and he cautioned against “rushing” legislation and advocated for focusing on crafting good policies. Chair McHenry also warned firms that using generative AI does not absolve them from complying with existing consumer protection laws.

Ranking Member Maxine Waters (D-CA) similarly applauded the bipartisan staff report on AI, highlighting the recommendations to maintain consumer protections in the financial industry. Ranking Member Waters stressed her concerns regarding discrimination perpetuated by AI tools, and she touted her [discussion draft](#) to better inform consumers when products and services incorporate AI. The Ranking Member also highlighted the Preventing Deep Fake Scams Act ([H.R.5808](#)), which would establish a task force to examine AI-enabled fraud.

Rep. French Hill (R-AR) echoed Chair McHenry’s comments with regards to taking a “measured” approach to AI legislation.

Rep. Stephen Lynch (D-MA) commented on the importance of ensuring that AI models are explainable, transparent, and do not lead to bias.

WITNESS TESTIMONY

Mr. Vijay Karunamurthy ([testimony](#)), of Scale AI, highlighted three trends to successfully deploy AI in the financial services and housing sectors: (1) foundational AI elements are critical, particularly high quality datasets; (2) industry specific, finetuned proprietary data from financial institutions to better serve customers; and (3) AI deployment must be done safely and responsibly, such as through test and validation. Mr. Karunamurthy opined that new regulations may not be necessary, though he recommended a thorough regulatory gap analysis.

Dr. Ondrej Linda ([testimony](#)), Ph.D., of Zillow, explained how AI tools are being used to increase price transparency in the housing market. Dr. Linda noted the importance of industry standards for AI use, including as it relates to transparency, fairness, accountability, and safety. Additionally, he expressed his belief that public-private partnerships and cross sector cooperation will be important to deploying AI in the housing sector.

Ms. Elizabeth Osborne ([testimony](#)), of Great Lakes Credit Union, explained that AI usage at credit unions generally falls under: (1) underwriting support; (2) combating fraud; and (3) customer service.

Mr. Frederick Reynolds ([testimony](#)), of FIS Global, raised concerns about the impact of AI on existing methods related to fraud prevention, identity verification, customer due diligence (CDD), and anti-money laundering (AML) controls. To address this issue, he recommended consideration of new techniques, such as digital identities and zero-knowledge identity proofs. Mr. Reynolds pushed for congressional action on customer identification programs (CIP) and digital identity.

Ms. Lisa Rice ([testimony](#)), President and CEO of the National Fair Housing Alliance, highlighted the risks of algorithmic discrimination. Ms. Rice was worried that credit and insurance scoring systems that rely on inaccurate data result in consumers being unfairly denied certain services. Additionally, Ms. Rice raised concerns that AVMs can also generate bias. As a result, she advocated for comprehensive AI legislation that would shore up civil and human rights protections, ensure internet access, increase access to data, give consumer control over their data, support the use of privacy enhancing technologies, and increase transparency and accountability.

Mr. John Zecca ([testimony](#)), of NASDAQ, discussed the benefits of AI in enhancing the efficiency of financial markets, countering illicit financial activities, and detecting fraud and market manipulation. Mr. Zecca argued that the adoption of new AI technologies does not necessarily require “sweeping”

legislative and regulatory changes. Moreover, he advocated for a risk-based regulatory approach and sandboxes to encourage innovation.

DISCUSSION AND QUESTIONS

AI Regulations & Standards

- Chair McHenry prompted Mr. Karunamurthy to discuss how his company approaches quality data and model structures. Mr. Karunamurthy explained the importance of examining datasets to ensure diversity and tailoring the models to identify authoritative sources of data.
- Reps. Hill, **Bill Huizenga (R-MI)**, and **Dan Meuser (R-PA)** were critical of the approach being undertaken by the European Union (EU) with its [AI Act](#), and they asked the witnesses to opine on the regulatory framework. Mr. Reynolds contended that the EU's AI Act could stifle innovation by being overly restrictive. Mr. Zecca agreed, noting that the AI Act has already changed since it was first proposed due to evolutions in AI technology.
- Rep. Hill asked how financial institutions should demonstrate compliance with consumer protection laws when using AI. Mr. Reynolds stressed the importance of auditability and transparency with supervisors. Ms. Osborne agreed with respect to credit unions.
- **Rep. Frank Lucas (R-OK)** asked how regulators can avoid impeding novel AI use cases. Dr. Linda explained that his company has continued to comply with existing financial consumer protections laws when incorporating AI and exploring new uses.
- Regarding smaller firms that are acquiring AI as a service, Rep. Lynch asked whether more needs to be done to ensure proper monitoring and mitigation of risk when contracting with third parties. Mr. Reynolds discussed how his company adheres to existing laws and maintains safety when approaching AI, namely by ensuring human involvement to monitor for and address mistakes.
- **Rep. Joyce Beatty (D-OH)** inquired about legislative solutions to ensure responsible use of AI. Dr. Linda expressed support for proportional, risk-based, and flexible regulation that is developed in concert with industry partners. Ms. Rice agreed on the need for a principles-based approach to AI regulation, but she also emphasized the importance of outcomes-based regulations to address cases of bias and discrimination.
- When **Rep. Sylvia Garcia (D-TX)** asked how Congress can better support community-based organizations, Ms. Osborne advocated for preserving the technology-agnostic approach of existing regulations. Additionally, Ms. Osborne urged regulators to provide clarity regarding how AI fits into third-party relationship requirements.
- Mr. Zecca agreed when **Rep. Andy Barr (R-KY)** asserted that existing regulations pertaining to the financial firms' acquisition of technology from third party vendors apply to AI.
- Rep. Barr asked whether safe harbor should be provided to small community financial institutions looking to acquire AI tools from third parties. Mr. Zecca was unable to answer. Ms. Osborne advocated for maintaining existing rules and liability.
- **Rep. Wiley Nickel (D-NC)** asserted that the financial services industry already has a strong legal framework on AI. Mr. Zecca agreed with Rep. Nickel's assessment, adding that financial regulators already have tools to monitor for and address potential risks arising from AI.

Further, when asked about regulatory gaps, Mr. Zecca encouraged examination of market stability, deep fakes, and digital identity.

- Referring to upgrades to the Society for Worldwide Interbank Financial Telecommunication (Swift) network, **Rep. Barry Loudermilk (R-GA)** asked about the benefits of a more “information rich” financial messaging standard for integration with AI. Mr. Reynolds predicted that this would allow for increased speed and accuracy of payments, as well as enhanced regulatory oversight.
- **Rep. Ann Wager (R-MO)** asked Mr. Zecca to describe existing guardrails to ensure proper AI security, oversight, and governance. As it relates to corporate governance, Mr. Zecca explained that his exchange created a single path of approval for AI tools so that they can keep a comprehensive inventory of all models.
- **Rep. Zach Nunn (R-IA)** touted his AI Practices, Logistics, Actions, and Necessities (PLAN) Act ([H.R.7781](#)) to encourage public-private partnerships to examine and explore solutions to AI-related issues.
- **Rep. Andy Ogles (R-TN)** asked Ms. Osborne to opine on the National Credit Union Administration’s (NCUA) AI regulations, in response to which Ms. Osborne applauded the agency’s technology-agnostic approach.
- **Rep. Scott Fitzgerald (R-WI)** asked about safeguards for copyrighted material as it relates to AI. Mr. Karunamurthy stated that his firm tests models to determine whether they have been trained on copyrighted materials. Mr. Reynolds advocated for the ability to patent or copyright products that used generative AI in their creation. Ms. Rice and Mr. Zecca agreed.
- **Rep. Young Kim (R-CA)** stressed the importance of explainability for AI models. Mr. Reynolds agreed that explainability is key to building trust.

Algorithmic Discrimination & Housing

- In discussions surrounding third-party tenant screening and rent setting tools, Ranking Member Waters observed reports and lawsuits alleging the use of inaccurate data that artificially inflates rent. In response, Ms. Rice recommended restricting the use of data that is highly correlated with race — such as criminal records — in third-party tenant screening models because, she argued, this data is often not predictive of a tenant’s ability to pay rent. Dynamic pricing models can also be prohibitive and unpredictable for consumers, she added.
- Ranking Member Waters was concerned about complexity within AI models that could result in discriminatory outcomes that is not explainable. She advocated for transparency in the data underlying AI models to enhance explainability and accountability.
- **Rep. Brad Sherman (D-CA)** was worried about AI-enabled tenant screening tools, instead discussing the importance of relational tenant screening. He asked how credit unions can safely and compliantly access affordable technology solutions. Ms. Osborne stated that her firm maintains compliance with third-party vendor requirements while purchasing and utilizing AI technologies.
- When Rep. Lucas asked how AI tools can simplify the house purchasing process, Dr. Linda stated that AI tools can be used by real estate agents to reduce administrative burden while they focus on serving clients.

- Rep. Beatty asked Ms. Rice to describe the role of AI in the underwriting process for mortgages. Ms. Rice explained that, especially among larger financial institutions and fintech partners, AI is playing an increasingly critical role in underwriting. Ms. Rice noted the ability to use rental housing payment data and cash flow data in the underwriting process as a benefit of AI.
- When prompted by Rep. Beatty, Ms. Rice agreed on the importance of enforcing consumer protection and fair housing statutes in the housing sector.
- When asked by **Rep. Sean Casten (D-IL)**, Ms. Rice described the role that “disparate impact” plays in bringing legal actions against tech companies for perpetuating discrimination and bias. Rep. Casten then criticized “Project 2025” — A Heritage Foundation policy platform for a second Trump administration — for seeking to eliminate disparate impact as a legitimate legal doctrine.
- **Rep. Ayanna Pressley (D-MA)** stressed her concerns regarding algorithmic discrimination, particularly in AVMs. When asked, Mr. Karunamurthy explained that his firm works to combat bias by ensuring diversity in datasets and designing AI tools that explain their decision-making to operators.
- Rep. Pressley asked Ms. Rice what additional steps companies should be taking to prevent algorithmic bias in housing. Ms. Rice recommended testing the underlying data to ensure that it is accurate and representative, as well as testing systems for their outcomes.
- Mr. Reynolds answered affirmatively when **Rep. John Rose (R-TN)** asked whether the Fair Credit Reporting Act and the Equal Credit Opportunity Act regulate adverse actions in both human and AI decision making.
- **Rep. Steven Horsford (D-NV)** advocated for proactively addressing algorithmic discrimination, and he asked Mr. Karunamurthy to recommend steps that developers should take to combat bias. Mr. Karunamurthy reiterated the importance of ensuring the quality of datasets and testing models for biased outcomes.
- **Rep. Bryan Steil (R-WI)** asked Dr. Linda to discuss potential regulatory impediments that could negatively affect housing market end users. Dr. Linda maintained that existing regulations should be applied equally to businesses processes, real estate professionals, and AI development.
- Rep. Nickel asked about the importance of enforcement of the Fair Housing Act to combat algorithmic discrimination in the housing sector. Ms. Rice described the economic benefits of decreasing discrimination in housing, and she pushed against restrictions on the Department of Housing and Urban Development’s (HUD) disparate effects [rule](#).
- **Rep. Rashida Tlaib (D-MI)** emphasized her concerns about bias and privacy issues presented by third party AI tools used by landlords to screen tenants, collect payments, and evict tenants. Ms. Rice pointed out the inability of consumers to get information about the decisions that these technologies are making as a particular area of concern.
- **Rep. Warren Davidson (R-OH)** discussed reports that some private firms with large stakes in the rental market were using a third-party tool to determine rents, which he contended inflated rental prices. In response, Dr. Linda stressed the importance of using AI tools to provide price transparency for consumers in the housing and rental markets.

- **Rep. Mike Flood (R-NE)** agreed with previous remarks about the importance of addressing algorithmic discrimination, though he opined that legislative changes are not needed to address this matter.

Illicit Financial Activity & Fraud

- Chair McHenry asked how AI may evolve to enhance access to and the efficiency of capital markets. Mr. Zecca remarked that AI tools could allow the development of new financial products at a lower price point, enable expanded access to tailored investment advice, and enhance the ability of firms to combat illicit activity and fraud.
- Chair McHenry asked about challenges and opportunities in AI and blockchain technology to address financial fraud. Mr. Reynolds described AI fraud risks, specifically the ability of AI tools to generate new identities. To address this issue, Mr. Reynolds explained that blockchain technology can be used to create immutable digital identities.
- Rep. Sherman was interested in the ability of AI tools to enhance monitoring of suspicious behavior in financial transactions and capital markets, but he raised concerns that the use of digital assets could complicate monitoring.
- Rep. Lucas asked how AI can be used to detect market fraud and manipulation. Mr. Zecca explained how AI tools can be used by firms to sort through the large amount of data generated by capital markets to detect illicit behavior, which is then reported to market regulators.
- **Rep. Blaine Luetkemeyer (R-MO)** highlighted the risk that small community institutions face considering the proliferation of deep fake attacks. Ms. Osborne agreed that deep fakes are a concern for community financial institutions, pointing out that her firm has introduced voice authentication to add a layer of security for customers.
- Rep. Huizenga asked Ms. Osborne about barriers to adopting AI-powered fraud analytics. Ms. Osborne pointed to vetting third parties to identify an appropriate partner as a barrier.
- Rep. Huizenga asked how AI is being used by exchanges to monitor illicit activity. Mr. Zecca explained that NASDAQ has worked as a third-party partner with banks to sift through transaction data to identify illicit activity.
- In response to a question from Rep. Williams, Mr. Reynolds opined on the promise of AI in enhancing efforts to counter illicit financial activity and fraud — particularly to reduce false positives flagged by fraud systems.
- **Rep. Al Green (D-TX)** echoed concerns about algorithmic discrimination due to models being trained by bias datasets. In response, Ms. Rice discussed her organization's efforts to develop new tools and technologies to combat bias in AI models.
- Rep. Steil noted that bad actors are using AI to carry out fraud, including by generating synthetic identities. Mr. Zecca stated that his exchange has been working actively with partners to determine solutions to AI-enabled fraudulent activity.
- Rep. Kim asked how AI is being used to detect fraudulent or illicit activity in the payments industry. Mr. Reynolds explained that AI has long been deployed in payments and has become more sophisticated over time, thereby decreasing false positives and increasing transaction speed.
- Rep. Flood promoted the bipartisan Preventing Deep Fake Scams Act.

- **Rep. Tom Emmer (R-MN)** was optimistic about the potential for digital assets and blockchain technology to support verification and data authenticity with the increasing use of AI tools in financial services. Mr. Karunamurthy agreed that blockchain technology has a role to play in authenticating the provenance of data used to train AI models, though he also noted the importance of human involvement in the development of models.

Digital Identities

- **Rep. Bill Foster (D-IL)** prompted Mr. Reynolds to discuss his advocacy for congressional action on customer identification programs and digital identities. Mr. Reynolds observed growing weakness in existing CIP and CDD methods, starting with the growth of pseudonymous blockchain networks outside of the traditional financial system and continuing with the spread of AI tools. To solve this problem, Mr. Reynolds argued in favor of congressional action to establish a digital identity system.
- Rep. Foster asked Mr. Reynolds to opine on the possibility of government-issued digital identities — similar to driver’s licenses — to ensure wide compatibility and prevent splintering between commercial and government digital identities. Mr. Reynolds was supportive of this idea, which he believed would also enhance bank portability.

Competition & Access

- Rep. Lynch was concerned that a few large foundational models will dominate the AI sector. Mr. Zecca echoed this concern about concentration in the sector, though he was hopeful that there will be diversity and competition regarding AI model end uses.
- **Rep. Roger Williams (R-TX)** remarked on the benefits of AI tools to support small businesses, particularly with regards to logistics and financial decisions. Rep. Williams asked how Congress could ensure that small businesses can access AI applications to compete with larger market participants. Mr. Reynolds pushed for regulations that allow for innovation and adoption.
- With the increasing prevalence of AI in financial services, Rep. Garcia asked whether smaller financial institutions can compete with larger ones. Ms. Osborne answered in the affirmative, noting the importance of third-party vendors.
- Rep. Tlaib asked about how AI can be used to facilitate market manipulation and concentration. Ms. Rice explained that firms’ ability to develop and use AI models depends on the amount of data they have access to, thereby favoring larger institutions.
- Rep. Rose was interested in how AI can expand access to financial services in rural communities. Ms. Osborne stated that her firm has been able to provide 24/7 customer service, allowing customers support regardless of location and time zone.
- Rep. Wagner asked how AI benefits retail investors. Mr. Zecca once again pointed to how AI can be used to create cheap, unique financial products that retail investors can use to diversify their portfolios.
- **Rep. William Timmons (R-SC)** argued that AI can be used to enhance the transparency, accuracy, and fairness of the credit reporting process, thereby expanding access to lending. He argued that proper oversight can easily mitigate algorithmic discrimination. Dr. Linda agreed with Rep. Timmons.