

## Artificial Intelligence in Consumer Lending: Addressing AI-Related Risks

Published by *The Banking Law Journal*

November/December 2024

The article explores the growing use of artificial intelligence (AI) in consumer lending, focusing on the associated risks and regulatory responses. AI and machine learning (ML) have transformed lending by improving creditworthiness assessments, lending decisions, and customer service. AI-driven models are being implemented to streamline credit underwriting and fraud detection, making processes more efficient and accurate.

The Consumer Finance Protection Bureau (CFPB) has been active in regulating AI in lending, issuing rules and guidance to ensure fairness and transparency. This includes quality control standards for automated valuation models and measures to combat digital redlining and algorithmic discrimination.

Consumer groups have urged the CFPB to provide clearer guidance to financial institutions on mitigating discrimination through less discriminatory alternatives in credit underwriting. They emphasize the need for flexibility, clarity, and documentation in implementing these alternatives.

The article highlights the risks of AI in lending, such as perpetuating societal biases, lack of transparency, and high implementation costs. It suggests that financial institutions can mitigate these risks through regular model monitoring, transparency on how AI-based credit decision-making works, careful use of alternative data, and peer benchmarking.

Overall, the article underscores the importance of regulatory oversight and proactive measures by financial institutions to ensure AI in lending is fair, transparent, and non-discriminatory.

["Artificial Intelligence in Consumer Lending: Addressing AI-Related Risks,"](#) *The Banking Law Journal*, November/December 2024

---

## CONTACTS

For more information, contact your Katten attorney or any of the following attorneys.



**Johnjerica Hodge**

+1.202.625.3710

[johnjerica.hodge@katten.com](mailto:johnjerica.hodge@katten.com)



**India D. Williams**

+1.202.625.3626

[india.williams@katten.com](mailto:india.williams@katten.com)



**Nicholas Gervasi**

+1.212.940.8562

[nicholas.gervasi@katten.com](mailto:nicholas.gervasi@katten.com)



**Gabriella A. Weick**

+1.212.940.6304

[gabriella.weick@katten.com](mailto:gabriella.weick@katten.com)