

AI Used To Spot Mortgage Defects

Mortgage-consulting shop Oakleaf is using artificial intelligence to more quickly and accurately identify mortgage-underwriting defects.

The company describes the effort as helping originators make better lending decisions, and aiding investors and shops that aggregate and securitize mortgages in understanding how loans were underwritten and are performing.

In a test project, Oakleaf used AI technology in a forensic re-underwriting of 3,800 loans containing 5,700 defects. The company frequently conducts such reviews of mortgage files by hand to identify representation- and-warranty defects and mortgage-file defects involving factors including debt-to-income ratios, loan-to-value ratios and occupancy misrepresentations. But that process is slow.

“Traditional [quality-assurance] methods, while effective, are time-consuming and susceptible to human error,” Oakleaf said. “AI offers a promising alternative, capable of analyzing large amounts of text data with precision and speed.”

The test project “has yielded meaningful results,” Oakleaf said. “In a review of 5,700 breach narratives, the [AI] agent identified 5% of loans requiring further review.”

The Bethesda, Md.-based company said the technology will help mortgage-market participants identify trends such as lending or appraisal bias, and will help lenders strike the right balance between making sound lending decisions and expanding credit to underserved borrowers. It also will aid lenders in efficiently compiling, summarizing and organizing underwriting notes — including defects and appraisals.

The service is aimed in part at participants in the market for home loans that don’t meet the Consumer Financial Protection Bureau’s qualified-mortgage guidelines. That’s because lenders of such loans have unique guidelines that can make risk assessment difficult.

“The technology holds promise for diverse sectors, notably the emerging scratch-and-dent RMBS market

, where it could significantly enhance the understanding of the intricacies of underwriting and loan programs and their potential impact on performance,” Oakleaf said.