

# AI-driven tools are transforming third-party mortgage due diligence

Investors and originators will benefit from improved quality control, consistency and speed.

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Artificial intelligence (AI) is no longer a future concept in mortgage due diligence. AI-driven data recognition and data extraction tools are already operational, and these technologies are reshaping how due diligence firms assess risk and scale reviews in an increasingly complex environment. Through machine learning's capabilities for pattern recognition and continuous improvement, AI empowers human reviewers to quickly digest cumbersome documents, discover discrepancies, and make fast, informed decisions.

For decades, mortgage investors have relied on third-party due diligence to independently validate loan quality, property value, compliance and credit risk. Today, the mission of due diligence remains the same, to protect investors. However, the methodologies and processes are being fundamentally transformed.

"Up until now, we've done all the analysis with people," said Kim Hoffman, CMB, AMP, President of Mortgage Connect Risk Solutions (formerly Adfitech), a national due diligence, quality control and risk management services provider. A mortgage industry veteran, Hoffman expects AI adoption to impact and improve loan manufacturing, servicing, sales, and especially risk. These technologies will reduce the cost and time to perform functions while improving the borrower and employee experience. "In 40 years of originating, servicing and risk mitigation, I have not seen anything that stands to revolutionize our industry as much as artificial intelligence," she said. Until now, I thought Garth Graham of the STRAMOR Group was right when he said "the best technology advancement in mortgage productivity was two monitors"! I think we can agree that AI will be the best technological advancement.

## The future of AI-driven due diligence

The AI-driven transformation of mortgage due diligence processes is expected to bring benefits such as:

- Reducing or eliminating incorrect review findings and conditions
- Identifying defects early, before loans are sold, purchased or securitized
- Improving confidence in loans of older vintages
- Expediting the QC review process
- Create consistency amongst underwriters
- Mine thousands of data and documents fields in minutes instead of hours

As technology use is optimized across the mortgage lifecycle, the industry and investors will reap considerable benefits in quality, consistency and speed. However, caution is needed as new technologies bring new risks. Transparency and human oversight are paramount. Responsible AI adoption requires careful management of models to accuracy, Hoffman states, "I don't think we will ever accept a 'black box decision.' As AI becomes embedded in mortgage due diligence, governance and transparency are critical. We must be confident that AI-driven findings are explainable, auditable, and aligned with all expectations."

What will AI-driven mortgage due diligence look like?



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Mortgage Connect Risk Solutions

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## 1. From manual review to intelligent analysis

**Traditional model:** The traditional model of due diligence requires manual review of thousands of elements of a mortgage file against stacks of guidelines and regulations that have changed over time. Consider these examples:

- Fannie Mae's Selling Guide has over 1,100 pages
- A typical loan file has approximately 600 pages
- The average loan origination system (LOS) has over 2,500 data fields

In a process known as “stare and compare,” all fields must be painstakingly confirmed against guidelines, overlays, and ever-changing regulatory requirements. “You quickly see the difficulty in human-driven reviews, we’re miners! And that’s why it takes so long to review, the costs are high, and misses occur,” said Hoffman.

The manual model is inherently difficult to scale. When volumes surge, more people must be added to the process, working with sometimes inconsistent training and constrained timelines. This can easily result in a higher rate of errors.

**New model:** AI shifts the paradigm from a manual review process to an intelligent, technology-enabled risk assessment model. Machine learning algorithms can quickly ingest vast amounts of structured and unstructured loan data, then compare and contrast documents with data. Agentic agents can perform tasks typically reserved for human underwriters, like income and credit analysis. AI-driven due diligence can recognize patterns, flag anomalies and surface risk indicators that might otherwise go undetected or require significant time. “Rather than replacing human expertise, AI enhances it, allowing reviewers to focus on judgment-driven analysis instead of administrative and repetitive tasks,” said Hoffman.



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## 2. Data integrity and loan file validation

**Traditional model:** The manual review model is expensive, opaque and inconsistent. Investors depend on accurate loan data for pricing, pooling, securitization, and ongoing portfolio management. Loan tapes, particularly from older mortgages, aren't well standardized. The inevitable factor of human error can create risk as inconsistencies between loan tapes and source documents are easily missed.

**New model:** One of the most immediate and impactful uses of AI in third-party due diligence is data validation.

AI-powered tools can:

- Automatically comparing loan documents against data tapes
- Identify missing, inconsistent or conflicting information
- Detect altered or potentially fraudulent documents
- Validate key loan terms across multiple sources in seconds

"AI gives us the ability to distill and understand the context of thousands of pages very quickly, and to know whether there are any discrepancies between data and documents almost immediately," said Hoffman. This dramatically reduces review times while improving confidence in the results. Comprehensive reviews that once took hours for each loan file will be accomplished in minutes, at scale.

## 3. Enhancing credit and compliance reviews

**Old model:** Human reviewers review each element contained in loan files to ensure credit, compliance, valuation and data integrity. They check for compliance against changing regulatory and investor guidelines. Verifying compliance for seasoned loans, produced under older rules, is especially challenging.

**New model:** Credit and compliance reviews are particularly well-suited for AI augmentation. Models can be trained on thousands of pages of guidelines, risk attributes and loan manufacturing defects to identify risks that correlate with assignee exposure, overpricing and performance risk. "AI excels at consistency, pattern recognition and scale. It can analyze 100% of a loan population against rules, guidelines and historical information – something humans simply cannot do efficiently," said Hoffman.

In practice, AI will:

- Screen loans for elevated credit risk indicators
- Flag compliance exceptions tied to ATR/QM, TRID, Fair Lending or investor overlays
- Identify layering of risk factors that may not trigger individual rule violations but collectively increase exposure
- Quickly identify data and document inconsistencies

For investors, this means a more consistent, transparent and accurate review process, one that complements reviewer expertise with data-driven insights.

AI-assisted due diligence will also improve investor confidence when it comes to seasoned loans. "AI will normalize the difference between loan vintages, guidelines and laws, quickly surfacing areas of risk, non-compliance and trends that would take humans hours to mine through in hopes they find the issues. AI will show them the issues," said Hoffman. "As a tenured credit underwriting and risk management executive this gives me great confidence for the quality of loans and understanding of risk circulating within our mortgage ecosystem."

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## 4. Improving consistency and reducing subjectivity

**Traditional model:** Variability has been a persistent foible of traditional due diligence, such as when individuals conducting reviews interpret guidelines slightly differently. This can be a particular challenge across large-scale reviews. “While we train and use resources to guide for consistency, two humans looking at risk may see different attributes or calibrate the risk differently,” said Hoffman.

**New model:** AI-assisted due diligence introduces a level of standardization and consistency that benefits all parties, investors and originators. “AI sees, compares, and contrasts data, it does not have an opinion on it,” said Hoffman.

When properly governed and trained, AI models apply rules and risk criteria uniformly across every loan review, helping to:

- Reduce false positives and false negatives
- Improve defect categorization consistency
- Support clearer audit trails and investor reporting

This consistency is especially valuable in today’s environment, where investors are balancing the need for efficiency and cost control while ensuring accuracy.



From a risk standpoint, AI helps identify defects earlier, before loans are sold, purchased, or securitized, which reduces downstream surprises, repurchases, and reputational risk.

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## 5. Risk management: Real-time insights for smarter investor decisions

**Traditional model:** It’s a continual challenge to identify loan defects early in the due diligence process, while they can still be remedied. Any that aren’t discovered can contribute to risks such as repurchases, pricing impact, fees or damage to reputation. “In the decades I’ve been manufacturing mortgage loans, I’ve been seeking ways to consistently identify defects and risks before loans close. We have relied on manual checklists at key points in the process, which is slow, not always conclusive and often interferes with timelines and experience,” said Hoffman.

**New model:** Perhaps the most transformative aspect of AI-enabled due diligence is the ability to deliver real-time insights. Instead of waiting until the end of a review to identify trends, investors can monitor emerging risk patterns while reviews are underway. “From a risk standpoint, AI helps identify defects earlier, before loans are sold, purchased, or securitized, which reduces downstream surprises, repurchases, and reputational risk,” said Hoffman.

AI-driven dashboards and analytics can highlight:

- Concentrations of defects by originator, product, or channel
- Early warning indicators tied to specific loan originators

Insights like these empower investors to make proactive decisions, adjusting pricing, modifying eligibility criteria, or requesting additional reviews, before risk crystallizes. “I see AI used to surface issues instantly to the analyst, allowing remediation to occur immediately. If you are buying or selling pools of loans you want the opportunity to resolve issues sooner, not later,” she added.

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## Responsible AI use: Training, governance and human oversight

Mortgage Connect Risk Solutions views AI as a decision support tool that empowers humans, not a decision maker on its own. AI models must be continuously tested, validated, and monitored to ensure accuracy and compliance with investor and regulatory guidelines and standards. “When human judgment is applied to exceptions and higher-risk findings, the result is a more controlled, predictable, and defensible credit process,” Hoffman said.

Responsible AI adoption requires:

- Clear documentation of model logic and limitations
- Ongoing performance monitoring and testing
- Strong data security and privacy controls
- Human review of findings and exceptions
- Excellent change management processes
- Internal AI governance and policy committee

When implemented thoughtfully, AI strengthens the integrity of the due diligence process. However, Hoffman notes, “We should walk with caution, with the right training, governance and frameworks in place to create accountability and transparency.” Mortgage Connect Risk Solutions follows the risk framework released by the National Institute of Standards and Technology (NIST).

## Looking ahead

As loan products, regulations, and investor expectations continue to grow in complexity, the due diligence process will evolve accordingly. When used in tandem with human decisioning, AI-assisted due diligence can improve risk management and overall loan quality. The future of third-party due diligence will be a hybrid that combines advanced AI capabilities with deep human mortgage expertise.

In an industry built on trust and risk management, AI is becoming one of the most powerful tools to protect investors and strengthen the mortgage ecosystem as a whole. Investors who embrace this model will benefit from faster reviews, deeper risk insights, improved consistency and greater confidence in their portfolios. Those who do not risk falling behind in a market that increasingly demands precision, transparency, cost effectiveness and speed. To learn more about Mortgage Connect Risk Solutions and AI-driven third-party review, visit [www.mortgageconnectlp.com/risk-solutions](http://www.mortgageconnectlp.com/risk-solutions).



## About Mortgage Connect

Mortgage Connect is a national mortgage service provider that supports lenders, servicers and institutional investors by providing solutions for the entire mortgage lifecycle. Its risk solutions division, Mortgage Connect Risk Solutions, is an industry leading due diligence, quality control, and risk management provider. Formerly known as Adfitech, the company is backed by a 40-year track record of performing due diligence on agency and non-agency mortgage assets. Before becoming President of MCRS, Kim was a four-time Mortgage Connect client and knew the quality of the organization well. "It's an honor to lead the company I depended on through most of my career for quality reviews and due diligence," she said.

Mortgage Connect Risk Solutions is approved by all five major rating agencies. MCRS offers a comprehensive suite of services that includes all phases of mortgage quality control, third-party due diligence, pre-funding quality control, servicing quality control, MERS registrations/transfers and annual attestations, secure loan document management and title services. It provides these critical risk management services to more than 300 clients, including six of the top 10 mortgage lenders, agencies, high-profile Wall Street firms, banks and independent mortgage companies.

For more information, please visit [www2.mortgageconnectlp.com](http://www2.mortgageconnectlp.com).