February Loan Defects Hit Historical Low

The frequency of defects, fraud and misrepresentation in mortgage loan applications decreased in February by 4.6 percent compared with the previous month, according to the First American Loan Application Defect Index.

Monday, March 30, 2020 - On an annual basis, the defect index decreased by 34.7 percent in February compared with one year ago.

“A historical view of overall defect risk, as measured by our Loan Application Defect Index, shows a long-run downward trend since we began tracking defect risk in 2011, with a few exceptions,” First American Chief Economist Mark Fleming said in a release. “In February 2020, this long-run trend continued as overall defect risk reached its lowest level in index history.”

February’s index was down 39.2 percent from the high point of risk in October 2013. First American said the index for refinance transactions in February decreased by 5.5 percent compared with the previous month, and decreased by 39.5 percent compared with a year ago.

The index for purchase transactions in February decreased by 2.6 percent compared with the previous month, and declined 23.2 percent compared with a year ago.

“While various dynamics drive fraud risk in the short run, there are two forces that have consistently reduced fraud risk over approximately the last 10 years: policy and technology innovation,” Fleming said.

According to the index, no state had a year-over-year increase in defect frequency in February. The five states with the greatest year-over-year decreases in defect frequency are in February were West Virginia (-51 percent); North Carolina (-42.9 percent); Indiana (-42.3 percent); Montana (-42.2 percent); and Virginia (-42.2 percent).

The five markets with the greatest year-over-year decreases in defect frequency in February were Richmond, Va. (-44.3 percent); Detroit (-43.3 percent); Virginia Beach, Va. (-43.0 percent); San Diego (-41.2 percent); and Indianapolis (-41.1 percent).

“There’s a lot of uncertainty in the economy and mortgage markets these days. While fraud risk will never be zero, it is certainly in a better place today than it was nearly a decade ago,” Fleming said. “Today’s housing market benefits from new technology and policy guardrails against fraud and defect risk, innovations that will serve the industry well in the uncertain days ahead.”

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