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Inaccurate Tax Data a Source of Homeowner Frustration

The CFPB's 2015 Annual Consumer Mortgage Experience report dealt with the **major sources of dissatisfaction** reported by homeowners with the origination, closing, and servicing processes of their mortgages. It found that escrow amount-related issues including inaccuracies of annual tax estimates and the settlement funds required at closing were among the more prevalent areas of complaint;

Almost 50 percent of all borrowers told CFPB they were only "somewhat familiar" with the amounts required at closing, a percentage that was even higher among first-time homebuyers. CoreLogic's Dominique Lalisse says this reinforces the need for homebuyers to have clear disclosure of housing costs in the loan estimate.

Lalisse says a lack of **standardization** in origination and underwriting drives this problem. "From the moment a home is put on the market until the time the new homeowner's mortgage is being serviced by the lender, up to six annual tax estimates are being completed with different levels of accuracy"

To start, the real estate agent includes property **tax information** on the home listing but a diligent homebuyer may also research that information for his or her own budgeting. The loan originator will probably also gather the data afresh to construct a loan estimate and it may be validated again by an underwriter while calculating the borrower's debt-to-income ratio and to estimate the amount required at closing. The closing agent may procure property tax information to prepare closing documents and finally the servicer will need both property tax amounts and due dates to set up escrow accounts.

In each case those amounts are based on past amounts and **inaccurate** estimates can mean that the borrower is actually unable to afford the loan or may require an escrow analysis in the first year of the mortgage. "If the amount is significantly underestimated, the homeowner might face financial hardship which could have been avoided with a more accurate estimate early in the process," Lalisse says.

One survey, of a major national lender, indicated that **about 12 percent of loans will require a change** - immediately after closing-in yearly escrow payments of $250 or more due to inaccurate tax estimates. This, the author says, not only increases servicing costs but also generates customer dissatisfaction.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.29%	+0.03	0.00
15YR Fixed	6.93%	+0.11	0.00
30YR FHA	6.97%	+0.02	0.00
30YR Jumbo	7.40%	0.00	0.00
7/6 SOFR	6.68%	+0.08	0.00
30YR VA	6.99%	+0.03	0.00

Rates as of: 11/27

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.65	-0.24
10 YR Treasury	4.9345	+0.0755
30 YR Treasury	5.3271	+0.0792

Pricing as of: 11/27 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 18	212	+6.11%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Oct	701K	+3.7%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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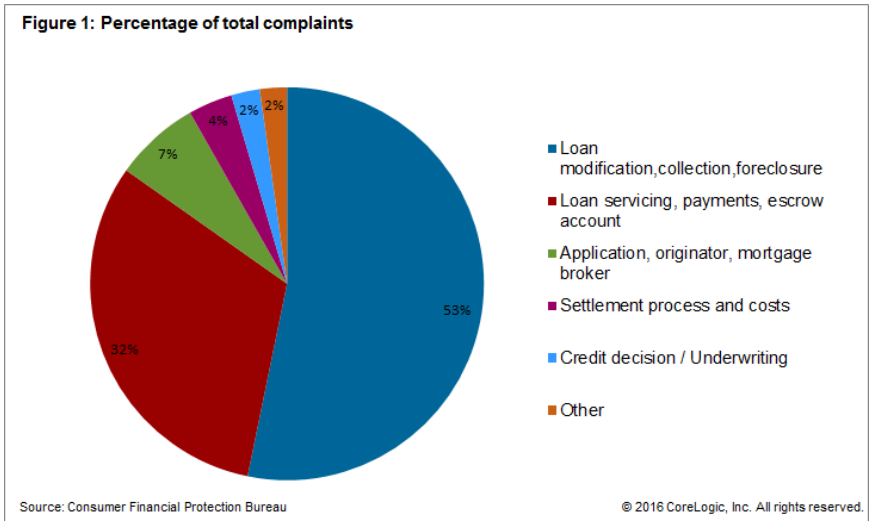
The author does not explain how these estimates - all of which we would assume would come from a common source; the local taxing authority - become so flawed. Is it that lenders are failing to account for homestead exemptions or other owner-specific anomalies that may not pass to the buyer or because tax amounts can change from year-to-year?

The CFPB report covers approximately **170,000 consumer complaints** and many are too general to pinpoint specific root causes. However the Bureau says approximately 32 percent are about loan servicing, payments, and escrow accounts and about 4 percent relate to the settlement process and costs, both of which are directly affected by the accuracy of property tax information throughout the closing process.



Lalisse points out that the new TILA-RESPA Disclosure (TRID) focuses on increased quality and accuracy of information for settlement services, transparency, speed and accuracy of escrow estimations remain key areas of opportunity to improve homeowners' experience. By using more accurate annual tax estimates during the origination and underwriting processes, "lenders will not only satisfy regulatory requirements, but also provide more transparent information and thus a quality experience for the borrower throughout the entire loan lifecycle."

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