



Tom Payne

Senior Loan Consultant, loanDepot
 NMLS# 1017004 #174457 Licensed in all 50 States
 2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

Office: 702-303-0243
 Mobile: 702-303-0243
tompaynemortgage@gmail.com
[View My Website](#)

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 Lalise says this reinforces the need for homebuyers to have clear disclosure of housing costs in the loan estimate.

Lalise 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," Lalise 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



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

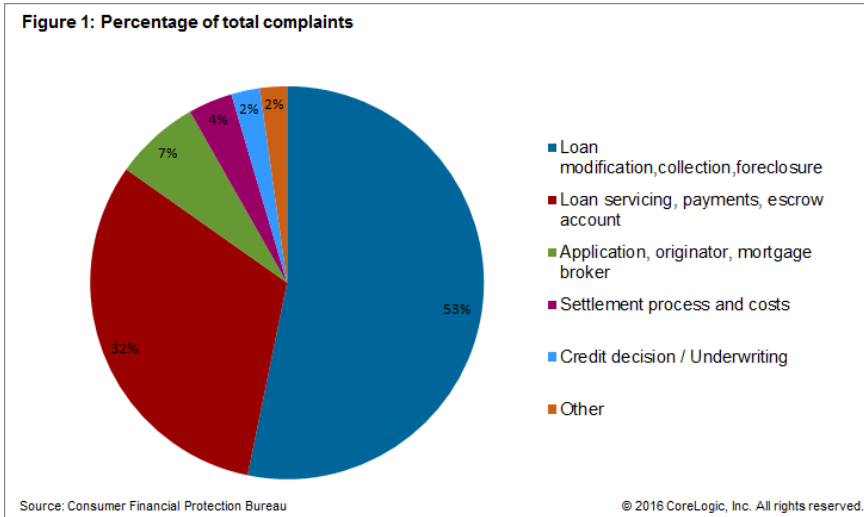
Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

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."

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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