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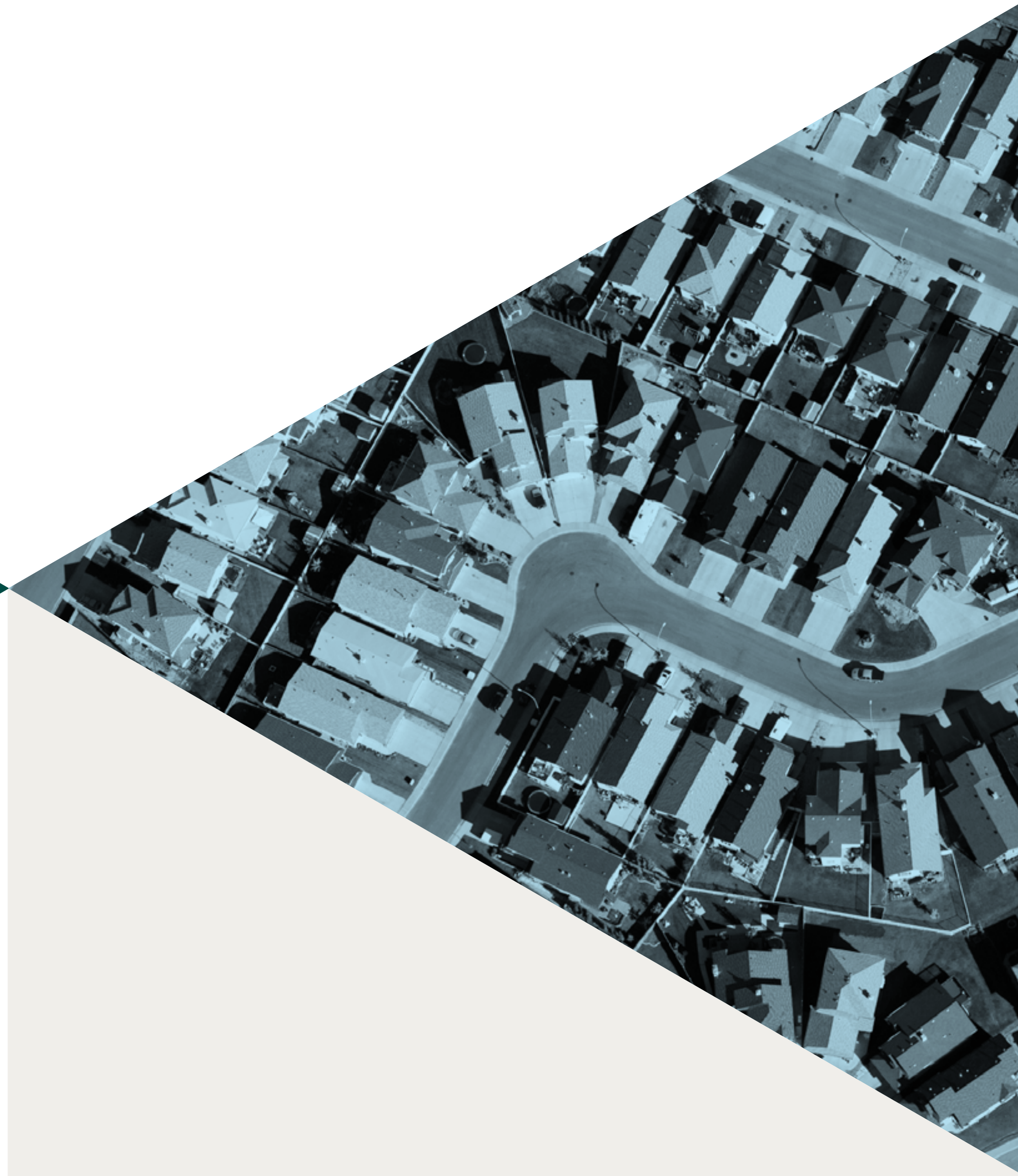
Challenges of Loan Origination

Estimating Accurate Property Tax Amounts



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Background

In the days prior to the democratization and standardization of credit scores and credit reports, the process of estimating a borrower's credit worthiness was a non-standardized, cumbersome and time consuming process. The process relied on specialized knowledge and personal interpretation of financial information. As the mortgage process evolved, breakthrough productivity and quality improvements were achieved through the standardization of the underwriting processes and the full availability of the credit analysis toolset.

"Creditors are responsible for ensuring that the figures stated in the Loan Estimate are made in good faith and consistent with the best information reasonably available to the creditor at the time they are disclosed."

Challenges

Much like the evolution of credit scoring, another critical component of the new loan origination process has emerged—property tax amount estimation quality. The estimating process is conducted during the initial stages of origination in order to complete the required Loan Estimate provided to the borrower. With the increased scrutiny around the preparation of the Loan Estimate, lenders must increase the quality and consistency of the processes used to calculate the projected tax amounts listed in the documentation provided to the borrower. Estimates also need to be validated during the underwriting stage to qualify the borrower's ability to financially support all of the mortgage costs, and ultimately property taxes need to be included in the settlement documents. Lenders are gathering this data from several disparate places including directly from the community website, from realtors, or even the borrower. Asking a borrower or a Real Estate Agent for tax information is analogous to requesting a homeowner to estimate his own credit score! Only a consistent procurement process can ensure access to the best information available. A standardized version of a validated property tax estimating processes in line with the RESPA-TILA requirements follows these main steps:

1. Validate address
2. Determine county and tax agencies (there can be more than one!)
3. Identify the source of information for each county/tax agency
4. Determine Tax Identifications for each tax agency. This step cannot be fully performed for new construction loans or apartment units where the final allocation to each unit has not yet been completed by the tax agency. New construction tax estimates require additional steps to calculate the tax amounts.
5. Find and document tax amounts and tax bills
6. Analyze tax amounts to determine expected future tax amounts

This description of the process illustrates the complexity and the knowledge/experience required to make accurate estimates of future tax amounts. The current RESPA-TILA regulation calls for the lenders to use reliable sources and methods to determine accurate tax amounts: *"Creditors are responsible for ensuring that the figures stated in the Loan Estimate are made in good faith and consistent with the best information reasonably available to the creditor at the time they are disclosed"*.

The tax estimating challenge is even more complicated in areas in which legislation caps tax increases for existing residents. In 1978, California amended its Constitution to add Proposition 13, officially named the People's Initiative to Limit Property Taxation. The Proposition 13 amendment limits the annual increases of assessed value of real property except in cases of (a) change in ownership, or (b) completion of new construction. Whenever a property changes ownership or new construction occurs, the law requires the assessor's office to reassess the property at current market value. During times of large increases of property values, Proposition 13 can create increases in assessed property values when a change in ownership occurs. These increases create a challenge for any lender trying to predict property tax amounts in order to assess the full cost of ownership and accompanying escrow amounts as part of the loan origination process outlined in the TRID (TILA-RESPA Integrated Disclosure) rules. California is not the only state in which this effect can be widely observed. Florida also introduced legislation, referred to as “Save Our Homes,” which limits assessed value increases for existing homeowners. Massachusetts, Maryland, Michigan, Texas and Oklahoma also have limits on changes for assessed values at the state or county levels.

To better understand the effect of tax estimating on the origination, underwriting, and settlement processes, CoreLogic® conducted a controlled random experiment simulating the estimation process.

Based on the results of the controlled random sample experiment, CoreLogic concluded the following:

- Accurate completion of all above steps impacted the time required for processing.
- Well-trained researchers required at least 20 minutes, but less than 45 minutes, for existing property loans.
- New construction loans required additional estimate calculation time.

It should be noted that although the steps above follow a validated process, the potential for quality variations and regulatory exposure risks may still exist in the absence of standardized information sources.

CoreLogic understands the challenge of providing quality property tax estimates during origination. As the largest provider of property tax services in the United States, we have access to current and historical tax information for the entire country, and for an estimated 22,000 taxing agencies. Additionally, CoreLogic manages the largest real estate database used to procure, store and pay property tax amounts. Combined with our ability and infrastructure, our domain expertise provides the foundation for delivering new products designed to quickly and consistently generate high quality property tax estimates throughout all stages of loan origination.

Solutions

Property Tax Estimator is the first product to offer a comprehensive response to tax amounts for all properties within the United States.

The product brings the full value and scope of CoreLogic data capabilities in an Electronic Data Interchange (EDI) solution with an option to integrate with the lender’s system. By facilitating the delivery of highly accurate data before closing, CoreLogic helps increase the accuracy of both the loan estimate and loan underwriting. This improved accuracy helps increase the quality of the closing and servicing experience.

Who Benefits from Accurate Property Taxes?

Accurate tax estimates benefit not only originators and underwriters, but borrowers as well. Ensuring precise tax estimates throughout the loan origination process helps create the right blend of quality, performance and efficiency required for optimizing the borrower experience. The following table describes value propositions and competitive advantages, by user group, of a property tax estimation tool:

User Group	Value Proposition	Advantage
Loan origination officer/processor	Use of a standard, independent source of information to prepare the tax portion of the Loan Estimate document and educate the borrower	▸ Easy access ▸ Comprehensive solution ▸ High quality source for compliance ▸ Productivity ▸ Accuracy
Loan underwriting officer	Use of an accurate, independent source of information to qualify the borrower	▸ Easy access ▸ Comprehensive solution ▸ Accuracy ▸ Productivity
Borrower/consumer	Accurate escrow amounts	More accurate information results in the lender meeting the borrower's expectations

A comprehensive property tax estimation solution should, at a minimum, be configured to facilitate the following steps:

- Loan Officer collects basic information about the property
- Loan Officer technology triggers XML call
- Automated receipt of information by data provider
- Automated address standardization
- Automated search of property in property database and extraction of information
- Automated calculation of value based tax amounts, excluding exemptions
- Automated standardized return of information to the user through XML link (few seconds)

A complete property tax estimation solution should reduce the total tax amount process time to two to three minutes. Additionally, an estimation tool eliminates the need for any specialized skills required for the procurement and eliminates the quality and time variation across property complexity and loan officer tenure.

Benefit Estimates

The benefits of adopting a unique and comprehensive tax estimation solution across the origination tasks are multiple and range from ease of compliance to process cycle time reduction, increased transparency and productivity. With the market refocusing on acquisition loans, the productivity of Mortgage Specialists and the ability to rapidly accelerate origination capacity while maintaining borrower experience are critical success factors. The automation and standardization of one of the most critical and demanding tasks of the loan origination process enables these market priorities.

In an attempt to quantify the productivity benefits enabled by the adoption, we created a calculator based on standard cost models and monthly origination volumes. Lender loan volumes vary widely, from a few loans per month to tens of thousands. For a sample calculation, we elected to use an approximate median number of 500 loans/month. In the model, we compare a traditional manual process which meets the Compliance requirements of "using the best available information" to an automated comprehensive property tax estimation solution. Current process procurement time is based on two contributors:

1. An internal experiment comprised of a mixed sample of properties across the continental USA. This experiment considers a variety of employee skill sets, from beginner to experienced.
2. Our assumptions regarding the time and cost were further validated based on aggregate information obtained during lender interviews.

In addition, the benefits model reflects that the procurement process is completed twice in the loan origination process (once by the loan officer, and once by the loan underwriter).

Study Factor	Current Process		with PTE	
Estimated monthly origination volume	500	loans/month	500	loans/month
Fully loaded Loan Officer cost per hour*	34	$/hour	34	$/hour
Tax information procurement time (Loan Officer)**	20	min	2	min
Fully loaded Loan Underwriter cost per hour*	55	$/hour	55	$/hour
Tax information procurement time (Underwriter)**	20	min	2	min

Loan officer monthly savings	$5,100
Loan underwriter monthly savings	$8,250
Total Monthly Savings	**$13,350**

* Fully loaded cost calculation based on average GSA contract for Residential Tax Certification Services (www.gsaadvantage.gov/advantage/main/start_page.do). The scope of skill levels factored into the estimate range from new hires through experienced professionals with decades of experience.

** Current Process Procurement time estimate based on internal experiment of mixed sample of properties across the Continental USA and aggregate information obtained through lender interviews. The estimate is also based on the assumption that a thorough and complete property tax data procurement process is followed.

In this model, we used the minimum 20 minutes measured in our experiment and compared it to the two minutes taken for the process using our property tax estimation tool. The productivity benefits are significant and the results are compelling for all loan originators. The product helps streamline, standardize and reduce the processing cost for new loans. With the increased quality of the estimate, borrowers will also experience fewer escrow amount changes through the initial year of the loan.

Conclusion

In today's mortgage environment, borrower's expectations are trending upward. Accurate information must be readily accessible. Millennials demand transparency with easy and instant access. Efficient distribution of information is expected. Originators lacking the processes and controls to help ensure accurate property tax data collection, analysis and estimation, will not be positioned to move forward with those adopting a comprehensive property tax estimation solution as part of their lending process.

About CoreLogic

CoreLogic (NYSE: CLGX) is a leading global property information, analytics and data-enabled services provider. The company's combined data from public, contributory and proprietary sources includes over 4.5 billion records spanning more than 50 years, providing detailed coverage of property, mortgages and other encumbrances, consumer credit, tenancy, location, hazard risk and related performance information. The markets CoreLogic serves include real estate and mortgage finance, insurance, capital markets, and the public sector. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and managed services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. Headquartered in Irvine, Calif., CoreLogic operates in North America, Western Europe and Asia Pacific. For more information, please visit corelogic.com.

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