LERETA

Tax Line Set Up

The Industry Demands Better Data

A LERETA Case Study
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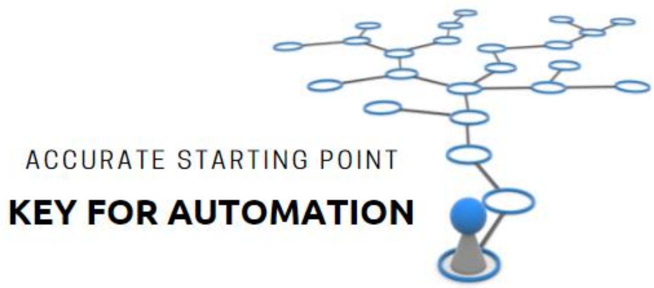
Written By: Jim McGurer and Kelly Hebert

Overview

In an increasingly digital world, virtually every business activity is a potential candidate for automation. That is because less manual intervention, fewer "touches" and the direct interchange of data significantly decrease costs and reduce the potential for "fat-finger" errors. To successfully automate a process, however, there must be deep understanding of both what is involved in that process and what can go wrong to derail it.

This case study will discuss the challenges of relying solely on automation in tax service loan set ups and conversions, and why **an accurate starting point** is essential—whether you are setting up one loan or converting a portfolio of millions of loans.



Tax Line Set Up: Building a Solid Foundation

When a mortgage is originated, a tax contract is ordered, ensuring that for the life of that contract, a tax service vendor will be monitoring, reporting and paying the property taxes to protect the lender's position on the collateral. Once a tax contract is ordered, the next step is setting up the tax lines that determine which agencies—and there are more than 23,000 of them—collect taxes for the collateral and establish future workflow in the property tax life cycle. Tax agencies each have different due dates, which drive the calendar of what needs to be done and when. The due dates determine when lenders need to send or advance funds and the receipt of funds determines how quickly the tax servicer can prepare the payment to get it in the hands of the agency. Tax line set up builds the foundation for a healthy tax service cycle, determining the schedule of all the activities that must be completed to pay taxes. **As such, it is the groundwork for a positive borrower experience and the future servicing of their escrow accounts.**

While tax servicers attempt to automate as much of the process as possible, working with more than 23,000 unique and complex local agencies means that massive amounts of data need to be organized and mapped to create the report for the servicer. Human hands in this process slow the efficiencies, drive up cost, and increase the potential of errors that can result in reputational risk. Maximum automation is desired for consistent outcomes on a mass scale. The catch is automation goals must be balanced with a pragmatic approach to manual intervention to ensure that service starts with an accurate foundation of data.

For all its benefits of speed and cost savings, automation can cause errors in the tax line set up process, and these errors create disruptions for servicers and confusion for borrowers. While manually reviewing each loan is impractical, **LERETA has found a way to balance the speed and efficiencies of automation with hands-on service to ensure clients start their experience with a foundation of accuracy** (more about this later).

Accurate tax lines are the groundwork for escrow servicing and a critical component for a positive borrower experience

Assuming Accuracy Can Be Risky

When a lender decides to move a portfolio of loans from one tax servicer to another, the original tax lines are transferred, not re-created, in the process. In order for this transition to go smoothly, the client and new tax servicer must be able to trust that lines are accurate and that the previous tax provider had performed its services correctly. That is because there generally isn't time to do the level of review needed to find the errors, especially in a large population of loans. Instead, servicers review just a small sample of loans to determine data integrity, and beyond that they rely on the contractual obligation of the prior servicer.

The tax line set up and other tax research commences post-conversion with new originations moving forward.

The trust of data accuracy as portfolios are moved is critical, and this assumption creates a network of intricacies in all the downstream impacts of reporting, paying and managing tax bills for every borrower represented in the pool of loans.

Unfortunately, several recent portfolio conversions from other tax servicers to LERETA have demonstrated that there is a need for additional quality control measures in the conversion process. These findings recommend new best practices that are considered above and beyond the normal standards of automated conversions.

Tax Service Conversion Saves

Tax service conversions usually do not occur in 4Q, because that is the busiest and highest volume time in the year for tax servicing. Approximately, 45% of all property taxes are paid in 4Q so it is not an ideal time to schedule manual work, additional projects or audits.

However, for a number of reasons, including a conversion to a new loan servicing platform, LERETA onboarded a new lender client in December of 2020.

The client was moving from another large tax servicer to LERETA's flagship Total Tax Solutions (TTS) platform, which provides outsourced customers a direct view into all the servicing workflows that make up a tax payment and reporting cycle.

The lender's portfolio included more than 25,000 residential loans, 95% of which required escrow servicing and payments. At the time of conversion, the client also underwent a core system conversion that required tax lines to be mapped from one loan servicing system to another and then converted to a new tax servicer. Additionally, 5,472 liens within the portfolio required year-end escrow payments.

The original plan was that most of the conversion would be automated with only minimal manual review. While assisting with conversion activities in December, LERETA's team began to identify critical errors in the tax line data: errors that would result in late or missed payments and incorrect amounts, upsetting borrowers and generating financial losses for the client. Despite the pressures of 4Q, LERETA's tax line team stepped in and undertook the meticulous task of reviewing the prior servicing system data and rebuilding the client's tax lines from scratch. Overall, more than **34,000 new tax lines were created**. In addition to the manual tax line clean up, LERETA's audit suite identified and **corrected nearly 4,000 other data errors**. In the end, all 4Q tax payments were made.

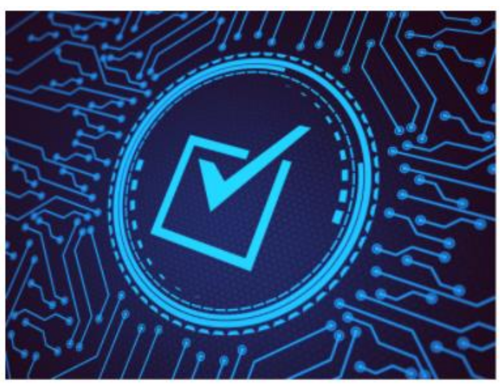
Not every tax servicer would have stepped up to these challenges, particularly during the 4Q tax crunch. But it was never a question for LERETA. While LERETA could have gone ahead with the conversion and used the previous provider's data to make the payments, this would have created liabilities for the client, and it is not consistent with the way LERETA does business.

Balancing automation and manual review
for positive borrower experience

In mid-2020, a large lender transferred a significant amount of loans to LERETA. During the conversion process, LERETA’s Tax Line Set Up team discovered significant data integrity issues. As part of the Tax Line Audit service, LERETA **corrected more than 45,000 erroneous data points**. The errors included active dummy tax lines, invalid tax types, tax line due dates that did not match the payee header and escrow service types mismatches, etc. Each of these errors would have, at least, disrupted automated payment and could have resulted an unacceptable borrower experience due to missed payments or an incorrect escrow analysis.

Shortly before the end of last year, a leading subservicer and a long-time LERETA client, acquired two servicing portfolios that required tax service conversions. Out of these conversions, 911 liens required an end-of-year payment that should have been made by the prior servicer. LERETA stepped in, set up the lines in an expedited fashion and ensured that the client’s year-end payments were made on these accounts.

Without LERETA’s tax line set up technology and expertise, the tax line and data errors discovered in just these three conversions **could have negatively impacted approximately 145,000 borrowers**, and could have created a large hard dollar liability for these loan servicers.



Challenging the Status Quo

The situations at the lender and subservicer previously mentioned are far from unique. **Data issues in loan portfolio conversions are becoming increasingly more prevalent**, due in part to a relaxed view as what constitutes data integrity when mortgage loan portfolios are transferred between tax servicers. Tax line data discrepancies and illogical data conditions can **interrupt downstream processing, creating workflow bottlenecks and negatively impact not only the lender but the borrower**. The result is increased phone calls from upset borrowers due to confusion over payment amounts, missed bills, or incorrect deductions that result in escrow overdrafts or a surplus.

To compensate for defects in tax service quality and common issues in data transfer, LERETA has updated our best practices and enhanced products like Tax Line Audit and Tax Line Set Up. **These enhancements identify data concerns and communicate them directly back to the servicing system with maximum automation and efficiencies.** LERETA's Tax Line Audit, for example, provides more than 30 rows of detailed exceptional conditions to review with a guide that accompanies each finding and the actions needed to correct. Similarly, our audit teams also identify illogical data conditions and corrects them proactively for the client.

In addition, LERETA has developed proprietary technology to identify missed parcels and over-looked taxing agencies. **These solutions are now routinely run on new client set ups to ensure that new tax lines cover the borrower's entire property and are being paid to all correct agencies.**

Finally, LERETA's flagship platform, Total Tax Solution, provides customers with a transparent view into all the servicing work flows that make up a tax payment and reporting cycle. Outsourced customers benefit from LERETA completing all the work on their behalf with direct visibility into processing. Enhanced Tax customers can use Total Tax Solutions as their own workflow tool, allowing them to manage their taxes on their own, with increased accuracy and flexibility while integrated with their loan servicing system for maximum efficiencies.

The demand for visibility and accountability as well the paradigm shift towards a better borrower experience are changing the landscape of what defines service excellence. **Today there is simply no room for mediocrity or complacency when it comes to data integrity.**

As noted at the beginning of this mini-case study, automation requires an accurate starting point, or it's doomed to fail. At LERETA, that **starting point is always the intersection of experience, service and technology**.