

# Understanding Your Escrow Account

## WHAT IS AN ESCROW ACCOUNT?

An escrow account is established to hold money collected by your lender to pay your hazard insurance, mortgage insurance and property taxes when they become due. This is sometimes called an impound account.

Your monthly mortgage payment includes an amount, approximately 1/12 of the anticipated total annual tax and insurance due. This account may contain a cushion, also referred to as a reserve.

## WHAT IS A CUSHION?

The cushion is a required dollar amount to remain in the escrow account to offset unanticipated increases in the property tax amounts or insurance premiums. This amount cannot exceed 1/6th of the total amount of items paid out of the escrow annually.

## WHAT IS A SHORTAGE?

A shortage occurs when your escrow account does not have sufficient funds to pay for property taxes and/or insurance premiums. Unexpected increases to the items paid through your escrow account can cause a shortage. For example: If property taxes increase from the prior year, your escrow account must fund the full amount due. The difference would be included in the shortage amount.

If the shortage is greater than or equal to one month's escrow payment it will be spread over 12 months and added to the monthly payment. You will also have the option to pay the shortage in one lump sum.

## CAN THE MONTHLY ESCROW PAYMENT STILL CHANGE WITHOUT A SHORTAGE OCCURRING?

Yes, if any annual disbursements change, the monthly collection amounts will be calculated based on the new amounts due.

## WHAT IS AN OVERAGE?

An overage occurs when your escrow account has more funds than required at the time of the analysis. For example: if your insurance premium decreased from the year prior, the premium amount paid would be less than anticipated. The difference would be included in an overage amount. The overage amount will be refunded in one of two ways:

1. If the overage is less than \$50, the funds will remain in your escrow account.
  2. If the overage is over \$50 and your loan is current, a refund will be deposited to your savings account. An annual escrow account disclosure will be mailed to you.
- The overage amount cannot remain in the escrow account or be treated as a prepayment of escrow funds. Real Estate Settlement Procedures Act (RESPA) requires the overage funds to be sent back to you.
  - If your mortgage account is more than 30 days past due, the overage amount will remain in your escrow account. The overage can be released once your mortgage account is current and it has been confirmed that an overage still exists.



## MEMBERS SHOULD...

### ✓ Review their escrow statement regularly.

Lenders provide an annual escrow analysis that outlines projected and actual expenses.

### ✓ Understand that a fixed-rate mortgage doesn't mean fixed payments.

Property taxes and insurance premiums can change yearly, affecting monthly mortgage payments.

### ✓ Monitor property tax assessments.

If a homeowner believes their property is overvalued in a property tax assessment, they could consider it appealing.

### ✓ Shop around for homeowners' insurance.

With many insurers raising rates or pulling out of certain markets, comparing different policies can help secure better coverage at a competitive rate.

### ✓ Communicate with their mortgage servicer.

If they have concerns about their escrow balance or upcoming payment changes, homeowners should reach out to their mortgage servicer for clarification.



With rising property taxes and insurance premiums showing no signs of slowing down, staying informed is key to avoiding unexpected financial strain. By taking a proactive approach to escrow education, homeowners can better prepare for the inevitable fluctuations in their monthly mortgage costs.



## CONTACT US

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