

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. You will have two options to pay the shortage:

1. Pay the shortage amount in one full lump sum. A shortage remittance form will be included with your escrow analysis. Typically, your monthly mortgage payment will still increase but for a lower amount than when choosing option 2.
2. Pay the shortage amount monthly with your mortgage payment. The shortage will be spread over 12 months and added to the monthly payment.

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 be spread out over a period of 12 months and be credited to your monthly payment amount.

At the end of the credit period, the new monthly payment amount will begin.

2. If the overage is over \$50, and your loan is current a refund check for the overage amount will be included with Annual Escrow Account Disclosure Statement or 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.