



UNDERSTANDING ESCROW ANALYSIS

The Annual Escrow Account Disclosure Statement provides detailed information regarding your escrow account. The first page provides you with our projected escrow disbursements for the coming year as well as determining whether you have an escrow overage or shortage on your account.

The second page provides the history of the escrow account over the past year.

Each of these pages should be reviewed. If you do have a deficit/shortage you may pay this at any time. Please be sure to note on your check or convey to Branch staff that this is your intent with your funds. They will place the funds in a special account which will be posted separately to ensure that the escrow account is credited. Overage amounts are credited to member's S1 accounts.

What is an escrow account?

Escrow accounts are generally required and controlled by a financial institution to guarantee that home owner is able to budget on a monthly basis the additional costs associated with owning a home. These items are usually real estate taxes, flood and/or hazard insurance and, private mortgage insurances.

When the loan is closed, members receive an Initial Escrow Disclosure Statement that clearly itemizes the estimated taxes, insurance premiums and other charges that can be reasonably expected to be paid in the first twelve months after the escrow account is created.

When a borrower with an escrow account makes their monthly payment, a portion is posted to the principal and interest and, the remainder is posted to the escrow account. These funds will accumulate during the year to pay for taxes and insurance payments as they become due.

If the annual tax payment is \$2,400, for example, the monthly portion going to the escrow account will be \$200 (\$2,400 divided by 12). If the annual insurance premium is \$1,200, the monthly amount going into the escrow for insurance is \$100 (\$1,200 divided by 12). The tax and insurance bills are sent to the lender. Checks are cut from the escrow account to pay the entire annual premium or tax bill.

Escrow acct: to have or not to have?

In most cases it's the lender that determines whether you need to establish an escrow account when you obtain financing. It is recommended that members have an escrow account to help them better budget their annual expenses. This generally helps homeowners avoid the shock that comes with having to come up with the funds to pay either the tax or insurance bill.

The lender servicing your mortgage loan is required to analyze the funds in the escrow account to ensure that the balance is adequate – not too much money and, too little. This is referred to as Escrow Analysis.

The lender is required to perform the analysis and provides each “escrowed” borrower with an Annual Escrow Statement on an annual basis. Regulations govern lenders on the limits they require members to keep in the escrow account for the payment of taxes and insurance.

Annual Statement:

The Annual Escrow Account Disclosure Statement consists of several sections which provide detailed information regarding your escrow account. The first page provides you with our projected escrow disbursements for the coming year as well as determining whether you have an escrow overage or shortage on your account.

The second page provides the history of the escrow account over the past year.

Each of these pages should be reviewed. If you do have a deficit/shortage you may pay this at any time. Please be sure to note on your check or convey to Branch staff that this is your intent with your funds. They will place the funds in a special account which will be posted separately to ensure that the escrow account is credited.

Per regulations, the Annual Escrow Statement must contain the following information:

1. Monthly Payment Amount
2. Portion of the monthly payment being placed into the Escrow Account
3. The total amount paid to the escrow account during the period of the statement
4. The total amount paid out of the escrow account during the period for taxes, insurance premiums and other charges (must be identified separately)
5. The balance of the escrow account at the end of the period
6. A statement has to how any excess or surplus will be handled by the lender
7. An explanation of how any shortage amounts or deficiency balance is to be paid by the borrower.
8. If applicable, the reason that the history did not agree with prior projections

Shortages/Deficient balances:

Taxes and insurance can sometimes increase above projected amounts from the prior year. If taxes were projected to be \$2,400 and the insurance was projected to be \$1,200, yet, the actual amount of the premiums is higher, the lender is required to pay the full amount due.

If the tax bill comes in at \$3,000 (vs. \$2,400 projected) and the insurance premium is \$1,500 (vs. \$1,200) there will be a \$900.00 shortage. Basically, the escrow account didn't have enough money in it to pay the higher amounts when they became due.

The escrow analysis is performed to determine if a shortage or overage exists. If there is a shortage – in our example \$900, the member's escrow portion of the mortgage payment will increase by \$75.00 a month (\$900 divided by 12) for the entire year. The \$75.00 is added to the prior escrow payment and this additional amount makes up the shortage.

Overages:

The escrow analysis is performed to determine if a shortage or overage exists. An overage may result from either the tax bill or insurance premiums being lower than projected. In this case, there would be extra funds in the escrow account. The account balance would be more than the amount needed to pay future amounts due. The analysis determines the new payment amount needed to ensure there is not an overage in the future. The escrow portion of the payment will be reduced as needed and, any excess funds greater than \$50 are returned to the borrower. Overage funds are posted directly to membership S1 accounts.

Options:

Members that have a shortage/deficiency may elect to pay the shortage amount in full. In doing so, their loan account is adjusted, returning the escrow payment to the amount it was prior to undergoing the analysis. If this is the option that is chosen by the borrower, they should accompany an "escrow only" payment with a note or letter to the lender. In documenting this information, it will ensure that the funds are posted properly and, that the escrow payment is adjusted appropriately.

Hardships:

Some members may be experiencing a financial hardship and, may not be able to afford the monthly increase in the escrow portion of their payment and, also may not have the funds to pay the shortage in full to keep the same payment. Members must submit a statement outlining their hardship and submit it to the Mortgage Servicing team. The escrow regulations permit lenders to spread the shortage over a period of 24 months rather than the 12 which is required for all accounts. The account will continue to be reanalyzed every 12 months.

FREQUENTLY ASKED ESCROW ANALYSIS QUESTIONS

What does this analysis do?

This annual analysis reviews the amount of funds that are being held in escrow for payment of taxes and insurance premiums to ensure that the appropriate amount is being collected. If there is too little being collected, we will increase the escrow payment annually to make up the difference. If there is too much money, we will send you a refund. There are specific regulations that document this process and the requirements of lenders.

Why do I have a deficit/shortage on my escrow statement?

Deficits result from either not paying the required monthly escrow payment or, from an increase in either real estate taxes or homeowner's insurance. Failure to pay the correct escrow amount on a monthly basis or, having your taxes or insurance "force paid" will also result in a shortage.

Will the Deficit cause my payment to increase?

Yes, your February 2012 payment will increase as noted on your statement. You may choose to pay the deficit amount as noted on your statement. You may pay this amount at any time and your account will be re-analyzed.

When will I get my overage?

Your overage will be returned to you within the next two weeks providing that your loan is current.

What can I do to keep my escrow payment from increasing?

You can review your taxable amount and discuss any discrepancies with the local taxing authorities. You may qualify for exemptions that you are not aware of. You may also get annual quotes for homeowner's insurance to make sure that you're paying the best premium for the same coverage.

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