Escrow 101

What is escrow? In the simplest of terms, escrow is money that your mortgage servicer (the company you send your mortgage payment to) sets aside to pay property taxes and insurance premiums. Think of it as a sort of “piggy bank.” Every month, a part of your mortgage payment goes into your escrow account, accumulating funds until your homeowner’s insurance and property tax payments come due. Then WCDA, your servicer, uses that money to make those payments for you.

Do I need an escrow account?

All loans purchased by the Authority must establish an escrow for payment of property taxes, hazard insurance, and flood insurance (if required).

- **Conventional loans:** With conventional mortgage loans (loans that aren’t backed by the federal government), the lender decides whether or not to require an escrow account. Most conventional loan contracts contain a clause requiring an escrow account unless the lender waives this obligation in writing.

For many homeowners, the monthly escrow deposit is a good alternative to paying for property taxes and homeowners’ insurance on their own.

Calculating escrow

The first thing you need to be aware of is that your monthly payments can, and usually do, fluctuate, most likely from year to year. The reasons can be either:

- Rate changes for homeowners’ insurance premiums; and/or
- Changes in property taxes.

WCDA performs an **annual escrow analysis** for customers and sends a notification of any changes in payments.
There is a standard formula for calculating escrow. The math is simple. Divide the total of your insurance premium and your annualized property taxes by 12. For example, if you owe a total of $2,400 in property taxes and $1,200 in insurance premiums:

- That would equal $3,600. ($2,400 + $1,200 = $3,600)

- Divide by 12, and you would have to pay $300 per month into your escrow account. ($3,600 ÷ 12 = $300)
- That's $300 in addition to the principal and interest portion of your monthly mortgage payment.

Another thing to keep in mind, some servicers, including WCDA, require the customer to maintain a two-month **cushion in the escrow account*** to ensure there are enough funds available should the tax or insurance bill be higher than expected. The cushion's amount is factored into your monthly escrow payments and is paid over the year.

*Minimum Required (Escrow) Balance

The minimum required balance is the **lowest positive balance allowed** in your escrow account **at any given time**—this positive balance is also known as a cushion requirement.

- This helps us minimize the impact to your monthly mortgage payment when property tax and insurance rates increase.

WCDA requires your escrow account to contain at least **twice (2x) your monthly escrow contribution at all times,** not including mortgage insurance, in accordance with state and federal law.

Escrow Shortage & Surplus

Shortage

A **shortage** means we've **projected** that your escrow account will fall below the ***minimum required balance*** in the coming year.

This can happen for several reasons:

- Your property taxes and/or insurance premiums increased.
- Your taxes were reassessed.
- Your insurance provider(s) changed.

- The due date of your property taxes and/or insurance premiums changed.
- you made fewer escrow payments into your account than expected.
- Your starting escrow balance for the 12-month period was lower than expected due to higher payouts the prior year.

What are my options for handling my escrow shortage?

- We'll **automatically spread** the shortage amount **over the next 12 months** and add that to your monthly payment.
  Note: *This is one of the most common reasons that your payment may increase.*
- You can prevent this additional monthly payment increase by *paying the shortage* as a lump sum before the new payment effective date, but this lump sum payment is not required and is completely voluntary.

  Note: *Your Escrow Review Statement will pinpoint the exact month(s) where the account falls below the minimum required balance.*

Important: *Even if you pay the escrow shortage in full for this year, your monthly payment may increase due to higher tax and/or insurance amounts to be paid this year.*

Surplus

A **surplus** means there's more in your account than we'll need.

- If you have a surplus of **more than $50** and your account is **current,** we'll send you a check **within 30 days** of the escrow analysis.
- If the surplus is **less than $50** no refund will be issued and the surplus funds will remain in your escrow account.
- If the account is **delinquent,** the **surplus will remain** in the escrow account for future disbursements.

Calculating Shortage & Surplus

On your ***Escrow Analysis Statement***, you'll see a month-by-month projection of your upcoming escrow deposits, the timing and amounts of upcoming disbursements we expect to make on your behalf, and the running balance of the escrow account.

Then, we compare your escrow account's lowest projected balance in the year ahead to your minimum required balance.

- If the lowest projected balance is **less than** your minimum required balance, you have a **shortage**.
- If the lowest projected balance is **more than** your minimum required balance, you have a **surplus**.

Example: Let's say your minimum required balance is $600.
If your analysis projects that your lowest escrow balance in the year ahead will be $350, you have a shortage of $250. ($350 – $600 = -$250)
If your analysis projects that your lowest balance will be $800, you have a surplus of $200. ($800 – $600 = $200)

Note: *If your shortage is paid in full, your monthly payment may still go up if your tax and insurance amounts increased last year.*