Escrow Analysis Frequently Asked Questions

1. **What is an escrow account?**

   An escrow account is a fund set up on the borrower’s behalf to pay any property taxes, property insurance, and/or mortgage insurance. The funds are held in a separate custodial account, and the money is never used by CU Home Mortgage Solutions (CUHMS) for anything other than to pay your taxes and insurance. An escrow account provides a better way to budget property tax and insurance payments by making smaller monthly deposits instead of having to come up with a lump sum when the bills are received. It ensures all taxes and insurance are paid on time.

2. **What is an escrow cushion?**

   An escrow cushion is an additional balance in the escrow account ensuring that there is always enough money in the account to cover expenses for the property. This is the lowest the balance in your escrow account should ever fall, assuming no unexpected increases or additional payments occur during the year.

3. **What is the maximum cushion allowed by law?**

   Escrow account regulations fall under the federal law called Real Estate Settlement Procedures Act (RESPA). The RESPA statute allows servicers to maintain a cushion equal to one-sixth of the total amount of items paid out of the account, or approximately two months of escrow payments.

4. **Why does CU Home Mortgage Solutions require a two month cushion?**

   The escrow cushion kept in the account helps to make sure there are enough funds for CUHMS to pay taxes and insurance as they come due. There is always the possibility of changes in insurance premium, or higher tax amounts than what was predicted throughout the year. Having a cushion reduces the impact of any shortages that occur when the escrow payments increase, due to increases in the taxes and/or insurance bills.
5. Why does my escrow payment change every year?

Property taxes and homeowner’s insurance amounts fluctuate every year; therefore, escrow payments need to be adjusted either up or down to accommodate any unexpected changes. This could be an increase from the previous year or a decrease based on the circumstances of the previous year.

6. How is my escrow shortage/surplus calculated?

The shortage or surplus on your escrow account is calculated by adding up the total of all projected disbursements to be paid from your escrow account between July of the current year we are in, and June of the next, or upcoming year. This total is divided by 12 months to arrive at the “base” or monthly escrow payment needed. This base escrow payment is then multiplied by 2 months to determine the required “cushion” to be kept in the escrow account throughout the year.

(NOTE: Any private mortgage insurance being paid through your escrow is subtracted from the base escrow payment before calculating the required cushion.)

Your current escrow balance will have any expected escrow payments added (typically your June 1st payment) and any insurance disbursements expected in June subtracted. This creates the “Current Balance Projection.” The difference between the “Current Balance Projection” and the “Required Balance Projection” is the shortage or surplus amount. The “Required Balance Projection” is calculated by determining the balance needed at the beginning of the escrow year, after all 12 base escrow payments are made and all projected disbursements are paid and the escrow account never drops below the required cushion.

7. How long will I have the extra amount in my mortgage payment for an escrow shortage?

Escrow shortages are calculated to be paid back over 12 months. After 12 months this portion is automatically removed from your payment, and another analysis of the escrow account will occur.

Another option is the shortage amount can be paid all at once at the beginning of the escrow analysis year. CUHMS will then deposit these funds into your escrow account and re-calculate your monthly payment using the new, higher starting escrow balance created by your payment.
8. My escrow account payments went up rather than down. Why?

There could be a couple of reasons why your escrow payment increased. First, any of your insurance or property tax payments could have gone up and CUHMS adjusted the payment to reflect any changes.

9. Why is my mortgage payment changing more than once a year?

This will only happen if you have an adjustable rate mortgage. If a rate change is scheduled during the year, this will change the principal and interest portion of your payment. When you also have an escrow account, your escrow payment fluctuates through the annual escrow analysis in July. This adjustment only changes the escrow portion of the payment and not the principal and interest.

10. I have a fixed mortgage loan, why is my payment changing?

The amount of your payment that is applied to the principal and interest due on the loan is not changing and never will if you have a fixed rate mortgage. The escrow portion of your payment will change due to the amount of your property taxes and insurance. CUHMS must collect enough funds in your escrow account to be able to pay everything that is due for all taxes and insurance.

11. What are my options if I have a shortage and/or deficiency on my escrow account?

CUHMS will automatically add the amount of the shortage and/or deficiency to the amount of your escrow payment spread out over 12 months. The amount of the shortage and/or deficiency can be paid in full and CUHMS will re-calculate the escrow payment based on a higher starting escrow balance. Finally, a waiver of the escrow account can be reviewed upon request. If approved, the escrow account would be closed; all funds in the account refunded to the borrower and the borrower would be responsible for paying any taxes and insurance due going forward.

NOTE: Loans on manufactured homes, loans that have been modified, and/or have private mortgage insurance are not eligible for escrow waivers.
12. Can I fund my escrow account with enough money to keep my payment the same?

The minimum amount an escrow payment can be is the total amount of all payments to be made for the year divided by 12 months. If there are extra funds in the escrow account than what is required to pay the disbursements for the year, CUHMS is required by RESPA to disburse any funds back to the borrower if the amount is over $50.

13. Why is the escrow analysis calculated in July?

Most counties do not update the tax amounts for the year until February. CUHMS waits until after the first installment of taxes is paid in April before beginning to review the accounts to make sure everything is accurate on the escrow accounts. This review is finished sometime in May, and then the final statement is sent out. We want to make sure time is allowed for all, to adjust for any possible changes in payments due in July.

If you have additional questions please contact us at 800-836-8172 option 4 or by e-mail at servicing@cuhms.com. We are available Monday through Friday 8:00 AM to 6:00 PM PST to answer any questions you may have regarding your escrow account.