

Escrow Essentials: Timely Disclosures & Yearly Analysis

Presented by:

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Today's Presenter

Molly Stull

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Molly launched her banking career as a teller while earning her undergraduate degree — an unexpected start that sparked a lifelong journey in the financial industry. Over the years, she's held leadership roles, guided de novo institutions from inception, and helped organizations navigate enforcement actions. Since 2015, Molly has energized banks, credit unions, associations, and state leagues nationwide with dynamic training sessions. She also provides regulatory compliance reviews and BSA/AML audits with a practical, solutions-focused approach. Molly believes that when employees understand the "why" behind processes, they execute with precision and purpose. She holds a bachelor's degree from the University of Akron and an MBA from Ashland University.



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Understanding the Requirements

1. 1024 – Real Estate Settlement Procedures Act (RESPA)*
 1. 1024.17 – Escrow Accounts
 2. 1024.34 – Timely Escrow Payments and Treatment of Escrow Account Balances
 3. Appendix E to Part 1024 – Arithmetic Steps
2. 1026 – Truth in Lending Act (TIL)*
 1. 1026.37 – LE
 2. 1026.38 – CD
 3. 1026.35 – HPML

[*Interactive Bureau Regulations – CFPB Resource](#)
3. Flood Disaster Protection Act

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RESPA Coverage...Escrow

- The Real Estate Settlement Procedures Act (RESPA) applies to all mortgage loans.
- Generally, this means the loan is secured by a one to four family residential property, then RESPA applies.



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HUD FAQ...

Does RESPA require borrowers to maintain an escrow account?

- **No.** It is the **lender's decision** whether the borrower must maintain an escrow account for the purpose of paying taxes and other items. The HUD regulations only limit the maximum amount that a lender can require a borrower to maintain in an account.

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HUD FAQ...

Can HUD require lenders to pay interest on escrow accounts?

- **No.** In 1992 and 1993, legislation was introduced in Congress that would have required lenders to pay interest on escrow account balances, but it never passed. Some states do require interest to be paid on escrow account funds, but many do not.

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Escrow Analysis

We must conduct an escrow account analysis to determine the amount the borrower must deposit into the escrow account and the amount of the borrower's periodic payment into the escrow account. These amounts will show on the Loan Estimate as well as the initial escrow account statement.

This escrow analysis is the accounting that a servicer conducts in the form of a trial running balance for an escrow account to:

1. Determine the appropriate target balances;
2. Compute the borrower's monthly payments for the next escrow account computation year and any deposits needed to establish or maintain the account; and
3. Determine whether shortages, surpluses, or deficiencies exist.

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Servicer Estimates

- If we **know the charge** for an escrow item in the next computation year, then we shall use that amount in estimating disbursement amounts.
- If the **charge is unknown**, we may base the estimate on the preceding year's charge, or the preceding year's charge as modified by an amount not exceeding the most recent year's change in the national Consumer Price Index.
- In cases of unassessed **new construction**, we may base an estimate on the assessment of comparable residential property in the market area.

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Disclosing Escrow on Loan Estimate Escrow Is REQUIRED by Lender

Projected Payments			
Payment Calculation	Years 1-7		Final Payment
Principal & Interest	\$853.78		\$149,262.95
Mortgage Insurance	+ 87		+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 309		+ —
Estimated Total Monthly Payment	\$1,250		\$149,262.95
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$309 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <small>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</small>	In escrow? YES YES

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Disclosing Escrow on Loan Estimate Escrow Is **NOT** REQUIRED by Lender

Projected Payments			
Payment Calculation	Years 1-7		Final Payment
Principal & Interest	\$853.78		\$149,262.95
Mortgage Insurance	+ 87		+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 0		+ —
Estimated Total Monthly Payment	\$1,163		\$149,262.95
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$309 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <small>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</small>	In escrow? YES YES

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Loan Estimate – Page 2

G. Initial Escrow Payment at Closing

Items that the consumer will be expected to place into an escrow account at consummation to be applied to recurring periodic payments.


Initial Escrow Payment at Closing includes:

- Homeowner's Insurance,
- Mortgage Insurance,
- Property Taxes, and
- A maximum of five other items.

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Loan Estimate – Page 2

G. Initial Escrow Payment at Closing



Other Costs	
E. Taxes and Other Government Fees	\$85
Recording Fees and Other Taxes	\$85
Transfer Taxes	
F. Prepays	\$867
Homeowner's Insurance Premium (6 months)	\$605
Mortgage Insurance Premium (months)	
Prepaid Interest (\$17.44 per day for 15 days @ 3.875%)	\$262
Property Taxes (months)	
G. Initial Escrow Payment at Closing	\$413
Homeowner's Insurance \$100.83 per month for 2 mo.	\$202
Mortgage Insurance per month for mo.	
Property Taxes \$105.30 per month for 2 mo.	\$211
* Monthly amounts not rounded	
H. Other	\$1,017
Title – Owner's Title Policy (optional)	\$1,017
I. TOTAL OTHER COSTS (E + F + G + H)	\$2,382

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Closing Disclosure Projected Payments – Escrow

Projected Payments			
Payment Calculation	Years 1-7		Years 8-30
Principal & Interest		\$761.78	\$761.78
Mortgage Insurance	+	82.35	+ —
Estimated Escrow <i>Amount can increase over time</i>	+	206.13	+ 206.13
Estimated Total Monthly Payment		\$1,050.26	\$967.91
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i> <i>See page 4 for details</i>	\$356.13 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Homeowner's Association Dues <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>	In escrow? YES YES NO

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Closing Disclosure – Page 2 G. Initial Escrow Payment at Closing

Line 01 = Homeowner's Insurance \$100.83 per month for two months

Line 02 = Mortgage Insurance _____ per month for _____ months

Line 03 = Property Taxes \$105.30 per month for two months

Line 08 = Aggregate Adjustment for Escrow -.01

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Common Errors

- **Finding:** The homeowner's insurance amount disclosed on the Closing Disclosure was \$1,168.11; however, the insurance declaration page stated the premium was \$1,175.68.
- **Finding:** The Closing Disclosure indicated that homeowner's insurance was included in the escrow account, when homeowner's insurance was not escrowed per the Initial Escrow Disclosure.

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Closing Disclosure Page 4

For now, your loan...

will have

OR

will not have

Escrow Account
For now, your loan

will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner's Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner's Association Dues</i> You may have other property costs.
Initial Escrow Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment	\$206.13	The amount included in your total monthly payment.

will not have an escrow account because you declined it your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

In the future,
Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

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CD – Page 4 Will Have an Escrow Account

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner's Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner's Association Dues</i> You may have other property costs.
Initial Escrow Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment	\$206.13	The amount included in your total monthly payment.

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CD – Page 4 Will **NOT** Have an Escrow Account

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

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Initial Escrow Account Statement

Before we establish an escrow account for the payment of taxes, insurance, or other charges...

...an escrow analysis will be performed.

WHY???

1. Determine the amount the borrower shall deposit into the escrow account and
2. Amount of the required periodic payments into the escrow account.

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Initial Escrow Account Statement

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				\$87.20
April	\$43.60	\$0.00		\$130.80
May	\$43.60	\$0.00		\$174.40
June	\$43.60	\$0.00		\$218.00
July	\$43.60	\$0.00		\$261.80
August	\$43.60	\$0.00		\$305.20
September	\$43.60	\$0.00		\$348.80
October	\$43.60	\$131.13	Taxes	\$281.27
November	\$43.60	\$0.00		\$304.87
December	\$43.60	\$0.00		\$348.47
January	\$43.60	\$0.00		\$382.07
February	\$43.60	\$0.00		\$435.67
March	\$43.60	\$382.00	Insurance	\$87.27

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Common Errors

- **Finding:** The loan file did not contain the Initial Escrow Disclosure or evidence that it was provided to the borrowers as required by §1024.17(g).
- **Finding:** The cushion amount was in excess of the limits.
- **Finding:** Mortgage insurance was included in the cushion amount; however, the mortgage insurance is paid monthly.

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Short-Year Statement

This can be done anytime, but is commonly done when:

1. The loan is **sold or paid off**.
2. Upon **transfer of servicing, when** either the payment amount or accounting method will change.
3. To **change the escrow computation year** to a different 12-month period.
4. **Adding items** to the escrow account, which will change the payment amount.

These documents must be sent to the borrower within **60** days of the transfer or payoff.

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Administration of Escrow

The creditor must make all disbursements to third parties on a **timely basis**, before the deadline, to avoid a **penalty** (as long as the borrower's payment is not more than 30 days overdue).

In addition, so long as the borrower's payment is **not more than 30 days overdue**, the creditor must advance funds to make disbursements in a timely manner. Upon advancing funds to pay a disbursement, the creditor may require the borrower to repay the deficiency under the deficiency options discussed below.

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Discretionary Payments

Any borrower's discretionary payment (such as **credit life or disability insurance**) made as part of a monthly mortgage payment is to be noted on the initial and annual statements.

If a discretionary payment is established or terminated during the escrow account computation year, this change should be noted on the next annual statement.

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Escrow Cushion



Cushion or reserve means funds that a servicer may require a borrower to pay into an escrow account to cover unanticipated disbursements or disbursements made before the borrower's payments are available in the account, as limited by 1024.17(c).

Charges during the life of the escrow account. Throughout the life of an escrow account, the servicer may charge the borrower a monthly sum equal to $1/12$ of the total annual escrow payments which the servicer reasonably anticipates paying from the account.

In addition, the servicer may add an amount to maintain a cushion no greater than $1/6$ of the estimated total annual payments from the account.

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HUD FAQ

Does RESPA require lenders to maintain a cushion?

- **No.** The RESPA statute and regulations do not require the lender to maintain a cushion. However, since 1976 the RESPA statute has allowed lenders 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. If state law or mortgage documents allow for a lesser amount, the lesser amount prevails.

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Exception to Annual Statement

*No annual statements in the case of
default,
foreclosure, or
bankruptcy.*



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Escrow Analysis Surplus

1. All surpluses of **\$50 or more** will be refunded to the borrower within 30 days of the analysis if the borrower is current in regard to escrow payments.
2. All surpluses of **less than \$50** will either be refunded to the borrower or credited to the borrower's escrow payments in the coming year if the borrower is current in regard to escrow payments.
3. If the **borrower is not current** (payment not received within 30 days of payment due date) in regard to escrow payments, the creditor has the option of retaining surpluses according to the terms of the loan contract.

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Escrow Analysis Shortage

If a shortage of

less than one month's

escrow account payment is present at the time of account analysis,
the creditor may choose to do any one of the following:

1. **Allow** the shortage and do nothing to change it
2. Require the borrower to pay the shortage amount within **30 days**
3. Require the borrower to pay the shortage in equal monthly payments over at least a **12-month period**

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Escrow Analysis Shortage

If a shortage

greater than or equal to one month's escrow

account payment is present at the time of account analysis, the
creditor may choose to do any one of the following:

1. **Allow** the shortage and do nothing to change it
2. Require the borrower to pay the shortage in **equal monthly payments** over at least a 12-month period

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Escrow Analysis Deficiency (Negative Balance)

If the account analysis reveals a deficiency of

less than one month's

escrow payment in the account, the creditor may choose to do any one of the following:

1. **Allow** the deficiency to exist and do nothing about it
2. Require the borrower to repay the deficiency within **30 days**
3. Require the borrower to repay the deficiency in **two or more equal monthly payments**

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Escrow Analysis Deficiency (Negative Balance)

If the account analysis reveals a deficiency

greater than or equal to one month's

escrow payment in the account, the creditor may choose to do any one of the following:

1. **Allow** the deficiency to exist and do nothing about it
2. Require the borrower to repay the deficiency in **two or more equal monthly payments**

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Notice of Shortage or Deficiency

- Servicer shall notify the borrower at least once during the escrow account computation year if there is a shortage or deficiency in the escrow account.
- Notice may be part of the annual escrow account statement, or it may be a separate document.



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Escrow Closing Notice

What Transactions are Subject to the Escrow Closing Notice Requirement?

The Escrow Closing Notice must be provided prior to cancelling an escrow account to any consumers for whom an escrow account was established in connection with a closed-end consumer credit transaction secured by a first lien on real property or a dwelling, except for reverse mortgages.

Note: We always maintain the right to require escrow for the life of a loan.

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Escrow Closing Notice Timing

When Must the Escrow Closing Notice Be Provided?

For loans subject to the Escrow Closing Notice requirement, the creditor or servicer must provide consumers with a notice no later than

three (3) business days

before the consumer's escrow account is cancelled.

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Escrow Closing Notice Exceptions

1. Creditors and servicers are not required to provide the notice if the escrow account that is being cancelled was established solely in connection with the consumer's **delinquency or default** on the underlying debt obligation.
2. Creditors and servicers are not required to provide the notice when the underlying debt obligation for which an escrow account was established is terminated, including by **repayment, refinancing, rescission, and foreclosure**.

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Escrow Closing Notice Required Information

- The **date** on which the account will be closed;
- That an escrow account may also be called an **impound or trust account**;
- The **reason why** the escrow account will be closed;
- That without an escrow account, the **consumer must pay** all property costs, such as taxes and homeowner's insurance, directly, possibly in one or two large payments a year;
- A table, titled "**Cost to You**," that contains an itemization of the amount of any fee and,

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Escrow Closing Notice Required Information

- Under the reference "**In the Future**:"
 - The **consequences** if the consumers fails to pay property costs;
 - A **telephone number** that the consumer can use to request additional information about the cancellation of the escrow account;
 - Whether the creditor or servicer offers the **option of keeping the escrow account open**; and,
 - Whether there is a **cut-off date** by which the consumer can request that the account be kept open.

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Escrow Closing Notice Optional Information

- The creditor or servicer's name or logo
- The consumer's name, telephone number, mailing address, and property address
- The issue date of the notice
- The loan number, or the consumer's account number

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Escrow Closing Notice Required

In addition, the disclosure **MUST**:

- Contain a **required heading** that is more **conspicuous** than and precedes the required disclosures discussed above.
- Be clear and conspicuous. This standard generally requires that the disclosures in the Escrow Closing Notice be in a **reasonably understandable form** and readily noticeable to the consumer.
- Be written in **10-point font**, at a minimum.
- Be **grouped together** on the front side of a **one-page** document.

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Escrow Closing Notice Other Timing Requirements

- **When the borrower requests cancellation.** The creditor or servicer must ensure that the consumer receives the Escrow Closing Notice no later than three (3) business days before the consumer's escrow account is closed.
- **Cancellation for any other reason.** The creditor or servicer must ensure that the consumer receives the Escrow Closing Notice no later than 30 business days before the consumer's escrow account is closed.



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Mortgage Servicing FAQs

- Escrow Accounts:
 - General (8)
 - Escrow Account Analysis (2)
 - Deficiencies, Shortages, and Surpluses (11)
 - Public Guidance Documents (2)

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Escrow Accounts: Public Guidance Documents

- 1. What are escrow disclosure Public Guidance Documents?*
- 2. Where can I find the Escrow Disclosure Public Guidance Documents? Do these documents differ from HUD's Escrow Disclosure Public Guidance Documents?*

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FDPA Escrow Requirements

The escrowing of flood insurance is **mandatory** when you require the borrower to escrow for other funds associated with the loan, such as taxes, insurance premiums, or any other fees or charges.



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FDPA Exempt Lenders



- Total assets of **less than \$1 billion** (Or as of December 31 of either of the two prior calendar years),
- Federal or State law **does not require** the escrow of taxes or insurance for the term of the loan, AND
- Your FI does not have a policy of **uniformly** and consistently escrowing taxes or insurance.
 - Does not include if we only maintain escrow accounts based on borrowers' requests.

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FDPA Loans NOT Covered



- Credit primarily for **business, commercial, or agricultural** purposes
- **Subordinate liens** secured by the same property for which insurance is being provided
- Property where coverage is provided by **condominium, cooperative, or homeowners associations**
- **Home equity lines of credit**
- **Nonperforming loans**
- Loans for a **term not longer than 12 months**

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FDPA FAQS



XIV. Requirement to Escrow Flood Insurance Premiums & Fees – General

1. Escrow requirement applies only upon a triggering event and would not apply if either the small lender exemption or any loan-related exemption apply.
2. If required, must escrow flood. Does not trigger escrowing taxes and insurance.
3. Force-placed insurance must be escrowed if required.
4. Escrow is required when there is a triggering event.
 - Borrower can request escrow.

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FDPA FAQS



XIV. Requirement to Escrow Flood Insurance Premiums & Fees – General

5. Multi-family and mixed-use properties are subject to escrow
6. Junior lienholder determines flood insurance is not adequate, escrow required unless HELOC
7. Not in an SFHA, but the borrower purchases flood insurance
 - Escrow is not required

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FDPA FAQS



XV. Requirement to Escrow Flood Insurance Premiums & Fees – Small Lender Exception

1. \$1B small lender exemption – lending institution level
2. Escrowing required for programs (USDA/FHA)
3. Escrowing on behalf of a third party
4. Escrowing only on the borrower's request
5. Option to escrow notice
6. Borrower waived escrow, notice still needs to be sent
7. Qualify for small lender exception, then escrow notice is not required

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FDPA FAQS



XVI. Requirement to Escrow Flood Insurance Premiums & Fees – Escrow Loan Exceptions

1. Commercial loans are exempt
2. Multi-family buildings = Exempt if the group pays for the policy
 - Condominium, cooperative, homeowner's associations
3. RCBP: Escrow would be required for a borrower who obtains a separate dwelling policy
4. Construction-permanent loans do not qualify based on the construction period alone
5. Subordinate lienholder becomes primary lienholder
 - If the lender becomes aware

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Civil Money Penalties (CMP) \$\$\$ Flood Disaster Protection Act

Failing to require
escrow of all premiums and fees
for required flood insurance
when it required the escrow of taxes, insurance
premiums, fees, or other charges for a loan
secured by residential improved real estate.

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Issues Identified by Examiners

Supervisory Highlights

- Failure to consider the PMI termination date during annual escrow analysis.
 - Regulation X requires servicers to conduct an annual escrow analysis. If the servicer knows the charge for an item in the next computation year, then it shall use that amount in its estimate. Servers were found to violate this requirement by including in the annual escrow analysis a full year of PMI disbursements, despite knowing that PMI would be charged for only part of the year.
- Failure to make timely disbursements from escrow accounts.

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Issues Identified by Examiners

Consumer Compliance Outlook

- Using an “escrow computation year” longer than 12 months
- Providing the escrow annual statement more than 30 days after the end of the computation year w/out issuing a short year statement
 - December 2023-December 2024 – Escrow analysis in March
- Failing to conduct a surplus/deficiency w/in 30 days of completing the computation year
- Errors in disclosing the amounts paid in & out during the prior year
- Initial escrow account analysis incorrectly included payments of taxes and insurance when they had been paid at loan closing

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Best Practices for Managing Escrow Risks

- Understand the differences between **single-item and aggregate analyses**. This distinction is a key factor in complying with the escrow accounting requirements.
- Conduct regular staff **training** on escrow requirements and include training on the **proper usage of the software platform** used to generate escrow account disclosures.
- Perform **periodic system testing** to ensure systems are accurately performing escrow account analyses.

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Best Practices for Managing Escrow Risks

- Review **mortgage loan documents** for wording regarding cushion limits and ensure that systems comply with either the regulatory or the contractual cushion limitations, whichever are lower.
- Develop **policies and procedures** for escrow account requirements.
- Conduct periodic **compliance reviews and audits** that include escrow accounting as well as escrow account statements.

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Best Practices for Managing Escrow Risks

- Periodically verifying that the **vendor's** calculations are correct and that the vendor is implementing regulatory changes to escrow requirements.
- Similarly, following up after a **system refresh or software upgrade** to ensure parameters were not inadvertently changed, resulting in a previously nonexistent issue.

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Record Retention/Keeping

Any documents required by this section shall be retained for

five (5) years

from the date of execution.

Electronic, microfiche ☺, computerized...

Easily Retrievable!!!

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In Closing...

**Thank you so much for joining
this webinar!**

Have a great day!

If you have any further questions,
please contact Molly Stull at
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