

Escrow Shortage Explanation

A normal, but very confusing part of having a mortgage is dealing with changes in your monthly payment caused by Escrow Shortages. You'll be notified when it happens by an Escrow Analysis Letter.

We receive a lot of calls concerning this issue! Because this is such a common concern, we thought it would be a great service to our clients to put an explanation in writing.

First, what is an Escrow Analysis Letter? It's a projection for the next 12 months on how much you'll be paying into your Escrow Account and how much will have to be paid out for property taxes & home insurance.

Second, it's important to understand that your payments into your Escrow Account are actually saved up to pay a future tax bill or insurance invoice. The only bill paid immediately is PMI (Private Mortgage Insurance) or the government's equivalent, MIP (Mortgage Insurance Premium). The rest of your monthly escrow payment is placed in your Escrow Account.

Third, you have to realize that property taxes in Michigan are paid in advance. The tax bills that come in July and December are collecting for future taxes, not past taxes! This type of billing is very similar to how most of us pay ahead for our car insurance.

Lastly, you will receive an Escrow Analysis Letter for the following reasons:

1. Annually, typically in January.
2. Whenever the servicing of your loan is transferred from one company to another.

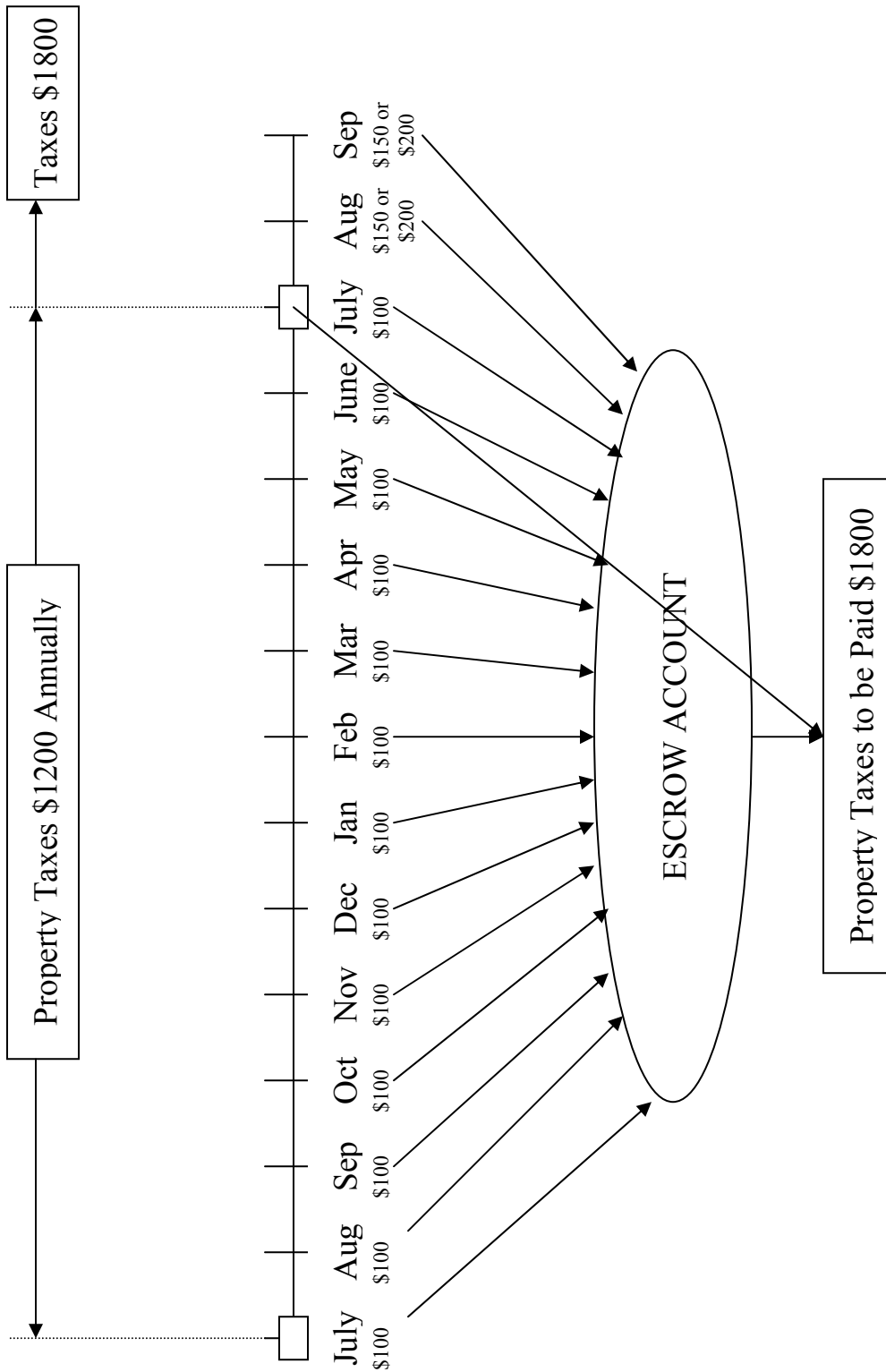
Now comes the hard part, understanding how it all comes together! The escrow payments you've been making for the past several months, were based on last year's property taxes. If the new tax bill comes in with an amount different than last year's, an adjustment in your escrow payment will be needed to account for it. If the property taxes have decreased, your escrow payment will go down and you'll receive a refund of the excess monies in your escrow account. If there's been an increase, 2 things occur:

1. Your escrow payment increases to cover your future taxes as they're unlikely to go down!
2. Because the current balance (based on last year's taxes) in your escrow account is insufficient to pay the higher current taxes, Federal regulations allow a lender 2 options to collect this shortage:
 - a. An upfront payment from you equal to the shortage.
 - b. An additional temporary increase in your monthly escrow payment equal to the shortage/12 months. This will only be for the next 12 months and is basically an interest-free loan to you!

Please see the attached illustration for a visual explanation.

We hope this explanation was helpful and answered most of your questions. As always, feel free to contact us with any concerns or questions!

If you know anyone looking to purchase a home, sell an existing home, consolidate debt, or lower their monthly payment – please call us with their name and number. Remember, A Referral is sending someone you Care about to someone you Trust!



Because the property taxes went up to \$1800, the escrow account payment has to be raised to \$150/month for next year's property taxes. Unfortunately, this still leaves a shortage because the escrow account only has \$1200 in it. The \$600 shortage can be paid in a lump sum or the escrow payment can be temporarily raised another \$50 (\$600/12 months) to a total of \$200/month for the next 12 payments.

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