

Understanding Escrow

What is Escrow?

An *escrow account* is an account that a servicer establishes or controls on behalf of a borrower to pay taxes, insurance premiums (including flood insurance), or other charges with respect to a federally related mortgage loan, including charges that the borrower and servicer have voluntarily agreed that the servicer should collect and pay.

A *servicer* refers to a person or organization responsible for servicing your federally related mortgage loan. At your loan closing, if an escrow account was required, your closing costs included an initial escrow deposit to start your escrow account. This amount can be different from your monthly escrow payment, as the initial escrow deposit is the amount needed to start your escrow account to maintain a target balance.

A *target balance* refers to the estimated month end balance in an escrow account that is just sufficient enough to cover remaining escrow disbursements in the escrow computation year, taking into account remaining scheduled periodic payments due and a cushion.

A *cushion* refers to the 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. Under federal law, the "cushion" should not exceed 1/6 of the estimated total anticipated annual payments from escrow; however, Chelsea Groton has chosen a lower cushion equal to 1/12th of your anticipated payments from escrow. This means, that at all times there should at least be approximately one month's escrow payment in your escrow account.

Why is my escrow payment changing?

Escrow accounts go through a yearly escrow analysis with a payment adjustment date of September 1st. You are mailed a copy of your Annual Escrow Account Disclosure Statement each year when your account goes through escrow analysis. The Annual Escrow Account Disclosure Statement summarizes how we determined the appropriate target balance and cushion and how we computed your monthly escrow payment for the coming escrow computation year (based on required deposits and disbursements), as well as analyzes the previous year's transactions. The analysis determines whether a shortage, surplus or deficiency exists.

- A shortage occurs if your escrow account falls below the target balance. Repayment of a shortage is spread over the following escrow computation period of twelve months.

- A surplus occurs if you have additional funds in your escrow account above the target balance. The surplus must be returned to you unless it is less than \$50, in which case we credit it against the coming twelve months' escrow payments.
- A deficiency occurs if your escrow account falls below \$0. Repayment of a deficiency is spread over the following escrow computation period of twelve months.

If you have questions about your property assessment, contact your local tax assessor. If you have questions regarding homeowners insurance, contact your insurance agent. If you have a residential mortgage with Chelsea Groton Bank and have any questions regarding your escrow account, please contact Chelsea Groton Bank's Loan Servicing Department at 860-448-4114.