

# Understanding Escrow Accounts

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*A Borrower's Guide from The Housing Assistant*



## Introduction

Escrow accounts are an important part of many mortgage payments, but they can be confusing. This guide explains what escrow is, why it's required, how it's managed, and what causes changes to your monthly payment. Use this guide to better understand the 'what,' 'why,' and 'when' of escrow adjustments.

## What is an Escrow Account?

An escrow account is a special holding account set up by your mortgage servicer to pay for recurring property expenses like:

- Property taxes
- Homeowner's insurance
- Flood insurance (if applicable)

These funds are collected as part of your total monthly mortgage payment and held until the servicer makes the payments on your behalf.

## Why Is Escrow Required?

- Escrow is required for most government-backed loans (FHA, VA, USDA).
- Conventional loans with less than 20% down also require escrow.
- It protects both the borrower and lender by ensuring critical property-related bills are paid on time.

## What Causes Escrow Payments to Change?

Reason	Explanation
Property Tax Increase	Local government reassesses home value, increasing taxes.
Insurance Premium Change	Renewal quote is higher due to market or claim history.
Change of Insurance Provider	Lender may apply a forced-placed policy after lapse.

Escrow Cushion Requirement	Servicer may collect a 2-month buffer to prevent shortfalls.
Impound Adjustments	Annual analysis shows shortage or surplus.

### What Is an Escrow Analysis?

Each year, your mortgage servicer performs an escrow analysis to compare what was collected vs. what was paid. If your taxes or insurance increased, you may have a shortage that raises your payment. If they decreased, you might get a refund. You'll receive a statement with your options:

- Pay the shortage in full
- Spread the shortage over 12 months (higher monthly payment)

### Common Escrow Questions

- Why did my mortgage payment go up? Likely due to increased property taxes or insurance.
- Can I cancel escrow? Only if allowed by investor guidelines and LTV requirements.
- Can I change my insurance provider? Yes, if coverage is continuous and meets lender guidelines.
- What is an escrow cushion? A buffer to ensure there's enough to pay bills even if they increase.