

Understanding Your Escrow Analysis: Why Your Payment Can Change

By: Nathan Sands



Your escrow account is a vital tool in managing your property-related expenses. It's designed to help you by spreading out the cost of your taxes and insurance over the entire year, rather than requiring you to come up with a large lump sum payment all at once. As you make payments into your escrow account, those funds are used to pay your property taxes and homeowners insurance on your behalf. This ensures that these expenses are covered and helps you budget more effectively for your homeownership costs. Understanding how your escrow account works can empower you to manage your finances more efficiently and make the most of your homeownership experience.

Each year, Essex Mortgage performs an escrow analysis to ensure that your account has enough funds to cover these expenses. This analysis can sometimes result in changes to your monthly escrow payment also known as your Taxes and Insurance payment. Here is why these changes can occur and what you can expect.

What is an Escrow Analysis?

An escrow analysis is a review of your escrow account to determine if the amount you are paying into the account each month is sufficient to cover your upcoming property-related expenses. During the analysis, Essex Mortgage will estimate your future expenses for items such as property taxes and homeowners insurance based on current information available.

Why Does Your Escrow Payment Change?

Several factors can impact your escrow account and lead to changes in your monthly payment:

1. Insurance Premium Changes: A common reason for a change in your escrow payment is a change in your homeowners insurance premium. If your insurance company raises its rates or you switch to a different policy with a higher premium, your escrow payment will need to increase to cover the additional cost.

2. Property Tax Changes: Another significant factor is changes in your property taxes. If your local tax authority increases your property taxes or reassesses the value of your property at a higher rate, your escrow payment will need to increase to cover the higher taxes.

3. Disbursing Timing: The timing of when your escrow account disburses payments can also impact your escrow analysis. For example, if your property tax payment is due in January but your taxes are disbursed from your escrow account in December, your account balance may be lower than expected in December, leading to a shortage. Similarly, if you change insurance policies and the policy is now due in a different month, it may impact your escrow balance.

4. Low Point: Your escrow account is required to maintain a certain minimum balance, known as the low point. If your escrow analysis determines that your account balance will fall below this minimum during any month in the coming year, you may experience a shortage. The low point is the month with the projected lowest balance over the next year. Any shortage will be collected in 12 equal payments.

Examples of Escrow Shortages and Deficiencies

Let's consider a couple of examples to illustrate how these factors can lead to an escrow shortage or deficiency:

1. Insurance Premium Increase: Suppose your homeowners insurance premium increases from \$1,200 per year to \$1,500 per year. This \$300 increase will need to be divided across your monthly payments, leading to a \$25 increase in your monthly escrow payment. This can also impact the low point month requiring the difference between the low point and required amount to be collected over 12 months as well.

2. Property Tax Reassessment: If your property is reassessed at a higher value, resulting in a \$500 increase in your property taxes for the year, your monthly escrow payment may need to increase by approximately \$42 to cover this additional expense. This can also impact the low point month requiring the difference between the low point and required amount to be collected over 12 months as well.

Overall

Your escrow account is an essential part of managing your property-related expenses. Understanding why your escrow payment can change each year can help you better prepare for any adjustments. When reviewing your yearly escrow analysis, it's beneficial to compare what occurred last year with what was expected to happen. Look at the history of payments into and out of your escrow account and how they impact the forecasted monthly balance and the low point for the projected next year. By reviewing these details, you'll gain a better understanding of your escrow payment.