



## **MORTGAGE ESCROW ACCOUNTS: WHAT YOU NEED TO KNOW**

Generally, mortgage escrow accounts are used to collect and pay property taxes and insurance payments on a home. Lenders want to make sure that your property is insured and that the taxes are paid on time, reducing the risk to the bank that you will default on the loan or incur liens on the property. The amount needed to cover these payments is added onto your mortgage payment each month.

While there is no law requiring lenders impose an escrow account on borrowers, certain loan programs or lenders require escrow accounts as a condition of the loan. The Real Estate Settlement Procedure Act (RESPA) protects you by strictly controlling how a lender handles an escrow account for a mortgage.

### **How Much Escrow Can a Lender Require?**

The lender is not allowed to charge an excessive amount for the escrow account during the course of the loan, and there are limits on the amount that a lender may require you to put into the account.

The lender may require that you pay into the escrow account each month no more than 1/12 of the total of all payments needed during the year, plus an amount necessary to pay for any shortage in the account. In addition, the lender may require a cushion, not to exceed an amount equal to 1/6 of the total amount needed for the year.

The lender must perform an escrow account analysis once a year and notify you of any shortage, or surplus. The lender can require that you pay the amount needed to correct a shortage. If the escrow account has a surplus of more than \$50, the lender must return that amount to the borrower.

### **What Happens to Your Current Escrow Account When You Refinance?**

Once mortgage payoff funds are posted, money held in escrow with your current lender will be returned to you from that lender. The existing escrow account cannot be transferred unless your current lender is the same as your new lender, in which case your payoff will be reduced by your current escrow balance.

### **How Much Money Should You Expect to Place in Escrow When You Refinance?**

You can expect to place an additional 1-2 months of taxes and insurance into a new escrow account in addition to your current escrow balance. For example: you owe \$100,000, your current escrow balance is \$1,500, and your current monthly escrow payment is \$200. At settlement, your payoff will be \$98,500. Your new lender may require you to place \$1,800 into the new escrow account, \$300 of which is new money, and \$1,500 representing the balance in your existing escrow account.

If you are not refinancing with your current lender, you will have to fund the new escrow account at the time of settlement and then wait to receive a check back from your existing lender.

### **Loan Servicing Complaints**

Borrowers who have a problem with the servicing of their loan (including escrow account questions), should

first contact their loan servicer in writing, outlining the nature of their complaint. The servicer must acknowledge the complaint in writing within 20 business days of receipt of the complaint. Within 60 business days the servicer must resolve the complaint by correcting the account or giving a statement of the reasons for its position. Until the complaint is resolved, borrowers should continue to make the servicer's required payment.

If your servicer is a [New York state registered mortgage loan servicer](#) you can [file a complaint](#) with the DFS.

If your servicer is a national or out of state institution, or you are not sure, you may contact the DFS for assistance or contact the Consumer Financial Protection Bureau (CFPB) Consumer Response team by calling (855) 411-2372 (or (855) 729-2372 TTY/TDD), or by fax to (855) 237-2392, or visit them on the web at [www.consumerfinance.gov](http://www.consumerfinance.gov).