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Mortgage Escrow Accounts: An Analysis of the Issues

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ABSTRACT

This report discusses the rationale for mortgage escrow accounts, limits on the accounts, recent changes in regulations covering escrow accounts on federally related mortgage loans, and the effect of the new regulations on borrowers and lenders. The report will be updated as soon as possible after relevant changes in law or regulation.

Mortgage Escrow Accounts: An Analysis of the Issues

Summary

Regulations covering mortgage escrow accounting procedures were implemented in 1995 and revised in 1998. The regulations have resulted in increased payments for some borrowers, and borrowers have written Members of Congress for an explanation of any change in law. This report discusses mortgage escrow accounts, the rationale for having the accounts, limits on the accounts, recent changes in regulations, and the effect of the new regulations on borrowers and lenders.

The terms of most residential mortgages require the borrower to include, with each monthly payment, one-twelfth of the estimated annual real estate property taxes and hazard insurance premiums. These funds are usually deposited into an escrow account and the lender forwards payments to the taxing authority and to the insurance company when the payments are due at intervals throughout the year. Through the use of an escrow account, a lender is able to protect the priority of its mortgage lien and ensure the protection of its collateral. At the same time, the home buyer is able to budget the property taxes and hazard insurance on a monthly basis. Some borrowers, however, feel that they can responsibly handle the payments themselves, and object to lenders having free use of the escrow funds they are required to pay.

On many conventional loans, the lender may waive the escrow requirement as long as the lender reserves the right to resume collection of the escrow if there is nonpayment of the items for which escrow had previously been collected. Neither law nor regulation requires escrow accounts for loans guaranteed by the Department of Veterans Affairs (VA) but lenders may require such accounts because of the rules of the secondary market agency that may ultimately purchase the loans. As with conventional loans, the escrow requirement of VA-guaranteed loans may be waived as long as the lender reserves the right to resume collection of the escrow if there is nonpayment of the items for which escrow had previously been collected. On loans insured by the Federal Housing Administration, escrow accounts are required and the collection of such escrows may not be waived. Escrow accounts are required for Section 502 rural home loans guaranteed by the Department of Agriculture (USDA). Since October 1, 1996, such accounts are required for newly originated Section 502 direct loans from USDA.

Several states require that lenders pay interest on the funds that are held in escrow accounts. Over the years, several bills have been introduced in Congress that would require interest on such accounts but no action was taken on any of the bills.

Section 10 of the Real Estate Settlement Procedures Act of 1974 limits a lender's collection of escrow funds to the amount needed to pay the bills plus a 2-month cushion. In response to complaints that lenders had been violating these limits, a regulation has been written that defines acceptable escrow accounting procedures. While the intent of the regulations was to reduce the amount of borrowers' funds that are being held by lenders, an unintended consequence of these new regulations is that some borrowers have been required to make increased payments into the escrow accounts.

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The Rationale for Escrow Accounts

Since the late 1930s, many lenders have required that when borrowers remit their monthly mortgage payment they also remit one-twelfth of the payment for property taxes and hazard insurance premiums. Lenders have a financial incentive for requiring such payments.

A tax lien is superior to a mortgage lien. If a borrower failed to pay the property taxes, the municipality could obtain a lien on the property and force a sale of it. From the proceeds of the sale, the municipality would collect the taxes owed it, and any proceeds remaining would go to the mortgage holder. But such remaining proceeds might not satisfy the debt in full. If such were the case, the lender would be entitled to a deficiency judgment against the borrower if state law permitted such judgments.[1] The borrower, however, may not be able to pay such a judgment, for if a borrower were able to pay a deficiency judgment, the borrower probably would not have failed to pay the property taxes in the first place. During the "Great Depression," many lenders suffered losses when municipalities forced sales of properties on which the lenders held mortgages.

Suppose a property were destroyed by fire or some natural disaster, and the borrower did not have an insurance policy or had failed to continue premium payments on a policy that would have covered such hazards. It is likely that a borrower would not continue mortgage payments on the property. The lender could foreclose the loan, but given the cost of repairing the damage, in many cases the lender would be unable to recover the value of the borrower's mortgage. The lender would suffer a loss because of deterioration in the value of its collateral. Again, a lender could be entitled to a deficiency judgment against the borrower if the amount realized upon sale of the property were less than the amount of the outstanding

[1]If the lender were aware of the pending tax sale, it would be in the lender's interest to pay the back taxes on behalf of the borrower. If the lender were unable to prevent the tax sale, then it may be in the lender's interest to purchase the property at the tax sale.

mortgage. But this would not necessarily ensure the lender's full recovery of the loan.

When borrowers pay their property taxes and hazard insurance through an escrow account controlled by the lender, the lender knows that the taxes and insurance are paid, because the lender pays them. So, through the use of an escrow account, a lender is able to protect the priority of its mortgage lien and ensure the protection of its collateral. At the same time, the homebuyer is able to budget the property taxes and hazard insurance on a monthly basis. Some borrowers, however, feel that they can responsibly handle the payments themselves, and object to lenders having free use of the escrow funds they are required to pay.

When Are Escrow Accounts Required?

For conventional loans, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) generally require escrow accounts on first mortgages. If requested by borrowers, lenders may waive the escrow requirement as long as the lenders reserve the right to resume collection of the escrow if there is nonpayment of the items for which escrow had previously been collected. Escrow accounts are not required for second mortgages, but provision for such accounts is included in the mortgage instruments. Thus, a lender may require an escrow account with a second mortgage if such an account is not maintained by the servicer of the first mortgage.

As noted above, the lender may waive the escrow requirement as long as the lender reserves the right to resume collection of the escrow. The private mortgage insurance company, however, may prevent the lender from waiving the escrow requirement. Generally, private mortgage insurance is required for any conventional loan on which the borrower makes a downpayment of less than 20%. If the escrow account is one of the conditions of the insurance, then the lender may need the approval of the insurer to waive the escrow requirement.

Escrow accounts are required with home loans insured by the Federal Housing Administration (FHA), but neither the law nor regulation requires escrow accounts for home loans guaranteed by the Department of Veterans Affairs (VA). An escrow account may be required, however, by the lender initiating the VA-guaranteed loan, depending upon which secondary market agency purchases the loan. If a VA-guaranteed loan is sold to become a part of a Government National Mortgage Association (Ginnie Mae) pool, Ginnie Mae requires that the taxes and insurance be escrowed by the lender. If the VA loan is sold to Fannie Mae or Freddie Mac, then the lender may waive the right to collect escrows as long as the lender retains the right to enforce an escrow requirement if the borrower fails to act responsibly. Similarly, if the VA loan is being held by Fannie Mae or Freddie Mac and an escrow account is in existence, the lender may, at the borrower's request, discontinue the escrow as long as the lender reserves the right to resume collection of the escrow if there is nonpayment of the items for which escrow had previously been collected.

Under the Section 502 program administered by the Department of Agriculture (USDA), current law requires that payments for property taxes and hazard insurance be held in escrow accounts. Homebuyers may obtain Section 502 loans to purchase homes in rural areas in one of two ways. Low-income homebuyers may obtain direct loans from USDA. Borrowers with income of up to 115% of the area median may obtain USDA-guaranteed loans from private lenders. Under the guaranteed loan program, lenders are required to establish escrow accounts for the payment of property taxes and insurance. Since October 1, 1996, all newly originated loans under the direct loan program have escrow accounts maintained by USDA. Borrowers with existing Section 502 direct loans are encouraged but not required to let USDA establish escrow accounts for their loans. If, however, existing loans have to be reamortized or reinstated because of default, escrow accounts will be required.

Interest on Escrow Accounts

Thus, the terms of most residential mortgages require the borrower to include, with each monthly payment, one-twelfth of the estimated annual real estate property taxes and hazard insurance premiums. These funds are usually deposited into an escrow account and the lender forwards payments to the taxing authority and to the insurance company when the payments are due at intervals throughout the year. In general, borrowers receive no interest from these accounts.

In the 1970s, consumer groups began to question this free use of the borrowers' escrow accounts. They questioned the "Christmas Savings Club" mentality of the lenders and argued that borrowers were mature enough to manage their own financial affairs. They demanded a share of the profits that they believed resulted from the use of escrow accounts. The laws, in the states noted below, are the result of lobbying and class action suits by consumer groups.

Despite objections from some consumer groups, mortgage lenders defend the use of non-interest-bearing escrow accounts. It is argued that lenders provide a valuable and expensive service by accumulating the deposits and paying the bills when they are due. Lenders argue that the system protects the homebuyer against assessments and attachments for unpaid taxes. Furthermore, they argue, the system provides an efficient method of tax collecting for the estimated 81,000 taxing bodies in the U.S. They contend the escrow system enables taxing authorities to bill and collect taxes more economically, reduces the number of tax delinquencies and the need for advanced collection procedures, and avoids the bad check problem that is associated with dealing with individual taxpayers. They argue that most escrow account balances are small and are incapable of producing significant earnings.

Thirteen states and Guam require that lending institutions pay interest on escrow accounts established to pay the property taxes and hazard insurance on mortgaged property. The states are California, Connecticut, Iowa, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New York, Oregon, Rhode Island, Utah, and Wisconsin. The required interest rate ranges from 2% (California, New York and Rhode Island) to 5.25% (Utah and Wisconsin) to the passbook savings rate (Iowa).

Some states provide exemptions from the interest requirements in certain instances. In Maryland, for example, loans that are purchased by an out-of-state lender through Fannie Mae, Ginnie Mae, or Freddie Mac are exempt from the interest requirement if the purchasing lender elects to service the loans. Similarly, Connecticut exempts certain loans which are sold within 6 months, if servicing is released.

There is no federal requirement that banks pay interest on escrow accounts. The Escrow Account System Improvement Act was introduced in the 93rd Congress (H.R. 9315, H.R. 11460, H.R. 12275, and H.R. 13102), the 94th Congress (H.R. 5092), the 95th Congress (H.R. 826 and H.R. 6686), and the 101st Congress (H.R. 2112). The Escrow Account Reform Act of 1991 (H.R. 3524) was introduced in the 102nd Congress. All the bills contained a provision that would have required lenders to pay interest on escrow accounts established in connection with "federally related" mortgage loans. No action was taken on any of the bills.

The Size of Escrow Accounts

In the early 1970s, Congress found that reforms were needed in the real estate settlement process to ensure that borrowers had more information on the cost of the process and to ensure that borrowers were protected from unnecessarily high charges. It was found that some mortgage lenders were requiring borrowers to keep sums in escrow accounts that greatly exceeded the amounts required to pay the taxes and insurance payments when due.

The Real Estate Settlement Procedures Act of 1974 (RESPA) was enacted to address problems in the real estate settlement process. RESPA applies to all federally related mortgage loans except for loans on property of 25 acres or more.[2] One of the purposes of RESPA is to reduce the amounts homebuyers are required to pay into escrow accounts established to insure payment of property taxes and hazard insurance.[3] Section 10 of RESPA provides that the sum of the borrowers' escrow account deposits over a 12-month period should not exceed the total of taxes, insurance and other items to be paid for the period by more than one-sixth of said total. (This is the equivalent of 2 months of escrow account payments that may be used by the lender as a cushion against unexpected costs.) The Department of Housing and Urban Development (HUD) was given the authority to prescribe the rules and regulations necessary to achieve the purposes of RESPA. The HUD regulation covering RESPA is referred to as Regulation X and is found in the Code of Federal Regulations at 24 CFR Part 3500.

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[2]Federally related mortgage loans are defined as any loans that (1) are secured by first or subordinate liens on one to four unit properties (including condominiums, cooperatives, and manufactured homes) and (2) are either made by lenders who are regulated by or whose deposits or accounts are insured by an agency of the federal government; or are made, insured, guaranteed, supplemented, or assisted by an agency of the federal government; or are intended to be ultimately sold to Fannie Mae, Freddie Mac, or Government National Mortgage Association.

[3]P.L. 93-533, Section 2(b)(3).

A lender originates a loan but the lender may or may not service the loan. The real estate mortgage market has become specialized to the point where some firms' only function may be to service mortgage loans that have been originated by others. The statutes and regulations regarding RESPA may at times use the term "lender" and at other times may use the term "servicer." The HUD regulations use the term servicer, but HUD notes that the term includes the term lender when the lender performs the servicing function. This report uses the term "lender" but notes that the term includes the servicer where the servicing function is performed by someone other than the lender.

The Regulation of Escrow Accounting Procedures

On November 2, 1992, HUD published a final rule that revised Regulation X.[4] This was the first amendment to the regulation since a minor revision in 1977. Since HUD's escrow study was not complete, the 1992 regulation did not address escrow accounting procedures. Part 3500.17 of the regulation, however, was reserved for future regulations on escrow accounting. On December 3, 1993, HUD proposed to amend Regulation X to establish escrow accounting procedures under Part 3500.17.[5] A final regulation was issued on October 26, 1994.[6] A subsequent final rule was issued on February 15, 1995, in response to requests for HUD to correct, clarify, or further illustrate matters contained in the October 1994 rule.[7] A subsequent final rule was also issued on May 9, 1995, to correct and clarify issues addressed in the previous rules.[8] Regulation X was revised again on September 3, 1996, September 24, 1996, November 15, 1996, and most recently on January 21, 1998.[9] The following sections present the requirements for escrow accounts established in connection with federally related mortgage loans.

Payments into Escrow Accounts

At settlement or upon creation of an escrow account, the lender may charge the borrower an amount sufficient to pay the taxes, insurance, and other charges attributable to the period such items were last paid until the first payment into the escrow account. In addition, the lender may charge the borrower a cushion that does not exceed one-sixth of the estimated annual payments from the escrow account.

A lender must examine the mortgage loan documents when determining the escrow account cushion. If the loan documents provide for a lower cushion than Regulation X, then the terms of the loan documents apply. If the loan documents allow greater payments than the regulation, then the regulation applies. If the loan

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[4]57 FR 49600.

[5]58 FR 6406.

[6]59 FR 53890.

[7]60 FR 8812.

[8]60 FR 24734.

[9]61 FR 46510, 61 FR 50208, 61 FR 58472, and 63 FR 3214.

documents do not specifically establish an escrow account, then whether the lender may establish an escrow account is determined by state law. The limits of Regulation X will apply unless state law provides for lower limits.

Throughout the life of the escrow account, the lender may charge the borrower a monthly sum equal to one-twelfth of the annual escrow payments that the lender anticipated paying from the account. In addition, the lender may add an amount to maintain a cushion of no more than one-sixth of the estimated annual payments from the account.

Before establishing an escrow account, the lender must conduct an escrow account analysis to determine the amount the borrower is required to deposit into the escrow account, subject to the limitations noted above. The lender must also conduct an escrow account analysis at the end of the escrow account computation year to determine the borrower's monthly escrow account payments for the next year. Upon completion of the escrow account analysis, the lender must submit an annual escrow account statement to the borrower.

Approved Accounting Methods

Since May 24, 1995, all newly established escrow accounts must use the aggregate accounting method when evaluating the escrow account balances. Under aggregate accounting, a lender conducts escrow account analysis by considering the account as a whole when computing the sufficiency of escrow account funds. In prior years lenders were permitted to use single-item accounting, under which each escrow account item was considered separately when analyzing the sufficiency of funds. The use of single-item accounting was outlawed because it often resulted in escrow account balances exceeding the RESPA limits.

A 3-year phase-in period (which ended on October 27, 1997) applied to existing escrow accounts, after which the accounts had to be converted to aggregate accounting. During the phase-in period, the transfer of the servicing of the loan did not convert the escrow account into one requiring aggregate accounting. If the loan were refinanced, whether by the same or a new lender, then the lender had to use aggregate accounting for the escrow account.

Calculating the Account Balances

The regulation establishes the arithmetic steps that a lender must use to determine whether its use of an accounting method conforms with the limitations of the regulation. The steps are as follows: (1) The lender projects a trial balance for the account as a whole over the next computation year. The lender assumes that the borrower will make monthly payments of one-twelfth of the estimated annual disbursements. The lender also assumes that disbursements will made on or before the deadline to avoid penalties and to take advantage of any available discounts for early payment. (2) The lender examines the monthly trial balances, adds to the first monthly balance an amount that will bring the lowest monthly trail balance to zero, and adjusts all other monthly balances accordingly. (3) The lender adds to the monthly balances the permissible cushion. The cushion will be 2 months of the borrower's escrow account payments or the lesser amount specified by state law or the mortgage documents. The cushion will be net of any increases or decreases because of prior year shortages or surpluses.

The above steps result in the maximum escrow account balances permitted by the regulation. Lenders may use accounting methods that result in lower balances, and lenders may use a smaller cushion or no cushion at all.

Treatment of Surpluses, Shortages, and Deficiencies[10]

If an escrow account analysis reveals a surplus, the lender must, within 30 days of the analysis, refund the surplus to the borrower if the surplus is $50 or more. If the surplus is less that $50, the lender has the discretion of refunding the amount to the borrower or crediting the amount against the next year's escrow payments. If, however, the borrower's loan payments are not current, the lender may retain the surplus according to the terms of the loan documents.

If an escrow account analysis reveals a shortage of less than one month's escrow account payment, the lender has three options: (1) allow the shortage to exist and do nothing to change it, (2) allow the borrower to pay the amount within 30 days, or (3) allow the borrower to repay the shortage in equal monthly payments over a 12-month period. If an escrow account analysis reveals a shortage of one month or more of escrow account payments, the lender has two options: (1) allow the shortage to exist and do nothing to change it, or (2) allow the borrower to repay the shortage in equal monthly payments over a 12-month period.

If an escrow account analysis reveals a deficiency, then the lender may require the borrower to pay additional monthly deposits to eliminate the deficiency. If the deficiency is less than one month's escrow account payment, the lender has three options: (1) allow the deficiency to exist and do nothing to change it, (2) require the borrower to pay the amount within 30 days, or (3) allow the borrower to repay the deficiency in equal monthly payments over a 12-month period. If the deficiency equals one month or more of escrow account payments, the lender has two options: (1) allow the deficiency to exist and do nothing to change it, or (2) allow the borrower to repay the deficiency in equal monthly payments over a 12-month period.

Installment Payments

In some jurisdictions, property taxes or insurance may be payable on a quarterly or semi-annual basis. In the past, lenders have actually paid these charges annually. The 1994 regulation provides that, unless there is a discount to the borrower for early

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[10] A surplus is defined as the amount by which the escrow account balance exceeds the target balance for the account. A shortage is defined as an amount by which the escrow account balance falls short of the target balance at the time of the escrow analysis. A deficiency is defined as the amount of a negative balance in the escrow account. The target balance is the estimated balance, given the scheduled periodic payments and any cushion, that is just sufficient to cover the disbursements from the account in the escrow account computation year.

payment, lenders must pay such charges on an installment basis if jurisdictions permit installment payments. A problem with implementing the rule was whether disbursements from mortgage escrow accounts should be made on an annual or installment basis if the payee offers a choice. In some cases, a switch from installment to annual disbursements, required under certain circumstances under the rule, resulted in greater payments to escrow accounts for some borrowers and adverse tax consequences for some borrowers.

In January 1998, HUD revised the rule to provide that lenders must make payments that are on or before the deadline to avoid a penalty, and to advance funds as necessary, so long as the borrower's payment is not more than 30 days overdue. The rule also provides special requirements for property taxes when the taxing jurisdiction offers the lender a choice between installment disbursements and annual disbursements with a discount. In such cases, if the taxing jurisdiction neither offers a discount for disbursements on a lump sum annual basis nor imposes any additional charge or fee for installment disbursements, the lender must make disbursements on an installment basis, unless the lender and borrower agree otherwise. If, however, the taxing jurisdiction offers a discount for disbursements on a lump sum annual basis or imposes any additional charge or fee for installment disbursements, the lender may, at the lender's discretion (but is not required by RESPA), make lump sum annual disbursements. HUD encourages, but does not require, the lender to follow the preference of the borrower, if such preference is known to the lender.

This 1998 rule also incorporates into the regulations a provision that the lender and borrower may mutually agree, on an individual case basis, to a different disbursement basis (installment or annual) or disbursement dates, than the rule would otherwise require.

The 1998 rule emphasizes that these agreements must be completely voluntary and that neither loan approval nor any term of the loan may be conditioned on the borrower's agreeing to a different disbursement basis or disbursement date for property taxes. The rule does, however, allow such agreements to be made prior to settlement. This rule also clarifies that the agreement must avoid a penalty, comply with normal lending practice of the lender and local custom, and constitute prudent lending practice.

Note that, under this final rule, the only specific requirements for choosing between annual and installment disbursements pertain to property taxes, not other escrow items. The reason HUD distinguishes property taxes from other escrow items is that the concerns that have been raised have been limited to property taxes. For most consumers, property taxes are much larger than hazard insurance and other escrow items.

Consequences of the Regulations

The intent of the new regulation was to lower the amount of borrowers' funds that lenders would be holding during the year. Many borrowers, however, have received notices from their lenders informing them that their payments are increasing.

Some notices apparently contain a statement that the increased payments are required by recent changes in federal law regarding RESPA. Several borrowers responded by writing to Members of Congress and asking why Congress would pass legislation to require borrowers to pay more funds to lenders.

Of course, no change in statute has taken place, a change in the regulations implementing the act has occurred. To a lender, the distinction between laws and regulations is not meaningful. The lender has been informed that the federal government has changed the rules regarding some aspect of the way the lender's business is conducted, and the lender has to comply. From the lender's perspective, it is irrelevant whether the change was by statute or by regulation.

The increased borrower payments may be an unintended consequence of the new regulations, and may be explained by several factors. As noted above, Section 10 of RESPA established that lenders may collect no more than 2 months of escrow account payments as a cushion. The 2-month cushion is a "ceiling," and there is no requirement in law or regulation that lenders accumulate any cushion at all. Traditionally, many lenders have correctly interpreted the law and regulation, and have accumulated no cushion or have accumulated a smaller cushion than permitted by RESPA.

The new regulations created a standard format that lenders may use when determining the maximum escrow account balances and monthly payments for the next 12-month period. If lenders follow the format, they will automatically create an account where the lender is accumulating the maximum permitted by RESPA. If those lenders who traditionally accumulated little or no cushion follow the format established in the new regulation, then the lenders would begin to accumulate the maximum cushion permitted by RESPA. The borrowers would be required to increase their monthly payments. This may explain why some borrowers have received notices that their payments are increasing.

This result does not have to be obtained, however. The resulting payments that are calculated when lenders use the new format are still *maximums*. Lenders would be in violation of RESPA if they required borrowers to pay more than the amounts calculated, but it would not be a violation for lenders to require borrowers to pay less. The payment possibilities for the borrower range from (1) that amount that would simply permit the lender to pay the bills as they come due to (2) the amount in (1) plus a 2-month cushion.

The new regulation has required lenders to revise their escrow accounting systems and, in the process, has given lenders the opportunity to examine the economics of their escrow accounting practices. Upon examination, many, who have not done so in the past, have opted to exercise their right to accumulate the largest escrow account as permitted by law and regulation. Some lenders, however, may not have been completely forthright when notifying borrowers of increases in monthly payments. Instead of stating that the lenders were exercising a right that they always had, the lenders may have given the borrowers the impression that the change is due to some change in law. There is also the possibility that some lenders may not realize that the HUD regulation sets an upper limit and that they still have a choice when determining the actual payments that the borrowers make. Part 3500.17(d) of the new rule specifically states, however, that the steps set forth in the regulation derive maximum limits and that lenders are free to choose a smaller cushion or no cushion at all.

Another factor could cause the borrowers' escrow account payments to increase under the new regulations. In certain localities, property taxes are paid on other than an annual basis. The new regulation permits lenders to change to annual payment if the locality provides a discount for such payment. The borrower's monthly payment may increase in the first year of such a change, if the lender needs to ensure that sufficient funds will be available to pay the annual taxes.

The choice of disbursement methods has consequences for borrowers. In general, disbursements from an escrow account in installments work to the borrower's benefit, because, on average, they result in lower up-front payments (lower closing costs) to establish the account.

If an existing escrow account is switched from installment disbursements to a single annual disbursement, the borrower may have to increase the monthly escrow deposits. In addition, depending on the timing of the disbursements, the change may have tax consequences for the borrower. The required change to installment payments has had negative income tax consequences for some borrowers.

The form that the lender sends to the Internal Revenue Service (IRS) and to the borrower shows the amount of funds that the lender has paid on behalf of the borrower during the tax year. If the lender begins to pay the property taxes in installments, depending on the timing of the installment payments, the lender may only have one installment to report to IRS. So the value of the borrower's income tax write-off for property taxes may not reflect the amount of such payments that the borrower has actually remitted to the lender during the tax year. This effect only occurs during the first year of the implementation of the change.

Escrow account payments may be increased because of increases in the property taxes or increases in the insurance premiums. Lastly, escrow account payments may be increased to eliminate a shortage or deficiency revealed by the annual escrow account analysis.

As noted above, the phase-in period for implementing the aggregate escrow accounting method ended on October 27, 1997. Depending on the timing of annual review of the escrow account balances, many borrowers would only notice a change in 1998.

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