Montecito Bank & Trust®

Frequently Asked Questions about your Escrow Account

An escrow account is used to disburse your tax and insurance payments on your behalf. The amount in your escrow account is based on the estimated amount necessary to pay these obligations each year. The following are the most common questions about escrow accounts. We hope that these will answer all of your questions. Should you still have questions or need more information please contact our Loan Services Department at (805) 564-0229.

- What is an Escrow Account?
- Can I pay my Total Annual Escrow Amount if full?
- What is an Escrow Account Analysis?
- When an Escrow Account Analysis is performed on my account, how is my new payment calculated?
- What is a Reserve or Cushion Requirement?
- What is a Deficiency?
- What is a Shortage?
- What is an Overage?
- Will an Escrow Account affect my credit?

What is an Escrow Account?

Part of your monthly loan payment goes into an account to pay for your property taxes and insurance premiums. This is called an Escrow Account. During the year, payments are made out of this account as bills come due.

Note: Your taxing authority and insurance company determine the amount of your tax and insurance payments. We take responsibility for administering the payment of your tax and insurance bills from your escrow account; however, the payment liability is still your obligation. If you should receive any notices from your insurance carrier, broker or agent or the taxing authority regarding your payment, please call us immediately at (805) 564-0229*.*

Can I pay my Total Annual Escrow Amount in full?

You may pay your Total Annual Escrow amount in full. To do so please contact (805) 564-0229.

What is an Escrow Account Analysis?

An Escrow Account Analysis helps determine how much money should be deposited into an escrow account to cover future tax and insurance obligations. An annual escrow analysis is performed to determine whether the monthly payment amount needs to be adjusted for the next year. Adjustments will be based on payments that have already been made on your behalf, estimated future amounts and the amount in your escrow account at the time of the account analysis.

Please Note: There are some exceptions to this requirement, such as for seriously delinquent accounts. Also, if there are significant changes in any of the billed amounts, we may analyze the account more often.

When an Escrow Account Analysis is performed on my account, how is my new payment calculated?

Your new payment amount is calculated by adding the following elements:

- *Principal & Interest* – This is the amount of your total monthly payment that is required for your principal and interest per the terms of your loan or your last statement.
- *Shortage Payment* – If there is an escrow shortage on your account at the time of review, the shortage amount may be incorporated into the monthly payment until the next escrow account analysis.
- *Reserve Requirement* – This is an additional safeguard to cover unanticipated disbursements or disbursements made before all of your payments have been made into your escrow account.
- *Rounding Amount* – Federal Law allows us to round up or down to the nearest dollar amount. Any additional funds collected are deposited into your escrow account.

What is a Reserve or Cushion Requirement?

Your loan documents refer to a reserve requirement, sometimes also called a "cushion". This reserve requirement is allowed by federal and most state laws and acts as an additional safeguard to cover unanticipated disbursements or disbursements made before all of your payments have been made into your escrow account. The reserve may be up to 1/6 of your total yearly expenses.

What is a Deficiency?

A deficiency is a negative balance in your escrow account. We may require you to make additional monthly deposits into the escrow account to eliminate the deficiency. If the deficiency is less than one month's escrow payment, we may require you to repay the deficiency within 30 days or repay it in 2 or more equal monthly installments. If the deficiency is greater than or equal to one month's escrow payment, we may require you to repay the deficiency in 2 or more equal monthly installments.

What is a Shortage?

A shortage is the amount by which the escrow account balance is expected to fall short of the target balance at the time of the escrow account analysis. If a shortage exists, we may permit it to exist, we can collect it within 30 days if the amount is less than one month's escrow payment or we can spread repayment out over 12 months. If the amount is greater than or equal to one month's payment, we may permit it to exist or require repayment over at least a 12-month period.

What is an Overage?

Due to the complexities involved in estimating an escrow account, over collection may sometimes occur. If there is a surplus of funds in your account after analysis, this is called an overage. If the overage is $50 or more after the first year, it will be refunded within 30 days of the escrow account analysis (provided your loan is current). Otherwise, the additional funds will remain in your escrow account and will be credited against the next year's escrow payments.

Will an Escrow Account affect my credit?

Yes, if the account is delinquent more than 30 days, we may report information about your account to the Credit Bureaus. Late payments, missed payments or other defaults on your account may be reflected in your credit report.