Module 8: Preparing for Loan Closing
Learning Activity
Activity #2 – Calculating Escrow Exercise

UniFi is a powerful electronic partner in completing many of the complex calculations associated with the loan closing process. Though UniFi will perform many calculations for you, it is helpful if you understand the basic concepts running in the background of this system. As you prepare for closing one of the aspects you will calculate will be estimating the escrow needed given the estimated taxes, insurance premiums and assessments.

Activity #2 Instructions:

1. Open Chapter 10, Loan Closing, in the DLOS Training Manual. Locate the section titled "Establishing an Escrow Account". Review this information and the example provided.
2. Read the eight points shown below to gain a better understanding of Escrow Calculations.
3. Complete the exercise presented (see last page of this document). HINT: You will find a helpful example provided in the DLOS Training Manual, Chapter 10, Loan Closing "Example: Establishing an Escrow Account."

Understanding Escrow Calculations

1. The correct tax and insurance disbursement dates must be used when completing the escrow screen in Unifi. The disbursement date is 15 days prior to the tax discount or delinquent date and 15 days prior to the insurance expiration date.
2. The correct tax and insurance disbursement amount must be used. The last bill amount is used as the best estimate for future tax and insurance disbursements, unless there is a better estimate available. In these cases, a complete explanation of the amount and reason must be given on the tax information sheet. For example, if the last tax bill was based on lot assessment only and the improvement will be assessed in the coming tax bill, the full assessment tax estimate must be used on the escrow screen.
3. Any escrow item that is due within 60 days from closing must be paid at closing. (Provided the tax bill has been released.)
4. If the tax bills that will be paid in the next 12 months after closing is lot tax only and a fully assessed tax estimate are available, document that amount on the tax information sheet. This will allow CSC to project the escrow payment for the 2nd year of the loan.
5. The initial escrow deposit is the amount sufficient to pay the upcoming tax and insurance bills, allowing the escrow balance to drop down to a two-month escrow payment balance sometime during the computation year. This is what is meant by a two-month cushion.
6. When the tax bill must be pro-rated, the adjustment must be shown on the
7. "Settlement Statement" separate from the initial escrow collection. The pro-rated adjustment is just to pay the new borrower back for any of the tax bill that is the seller's responsibility. Once this is done the new borrower becomes responsible for the entire bill.
8. Inform the borrower that escrow payments will be due each month for the life of the loan and that escrow payments will be adjusted periodically to match current tax and insurance bill amounts. Remind the borrower that they must file for exemption at the applicable time. Failure to do so will cause a higher bill to be due, an escrow shortage, and a payment increase.
9. On construction loans, the escrow is not established until after the construction is complete. The borrower is responsible for any tax or insurance bills due during the construction period.

Calculating Escrow Problem

Assume the following:

1. Loan closed on January 12, with the first payment due on February 12.
2. Annual Taxes of $591.60 (half due June 15 and half due Nov. 15).
3. Annual insurance premium of $285.00 (one year paid at closing).
4. A minimum balance is required, which is equal to a two-month escrow cushion.

Complete the following calculations:
Add the above disbursements, and then divide by 12 to obtain the monthly escrow payment.

1. The monthly escrow payment is: ____________
2. The minimum desired low point is: ____________
3. Total amount needed to set up the initial escrow deposit to avoid exceeding the desired low point is: ____________

Month	(+) Escrow Payment	(-) Disbursement	(=) Unseen Balance	Balance After Deposit
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
January				

UniFi takes the amounts you entered on the Reserves Deposited with Lender screen and calculates to see if at some point there will be a negative balance in the account (unseen balance column in this exercise). If it finds a negative balance, it will take the largest negative balance and add it to the two months cushion and that becomes the starting balance shown on the Initial Escrow Disclosure Statement.