



# Understanding Custodial Accounts

## Reconciling Escrow Custodial Accounts



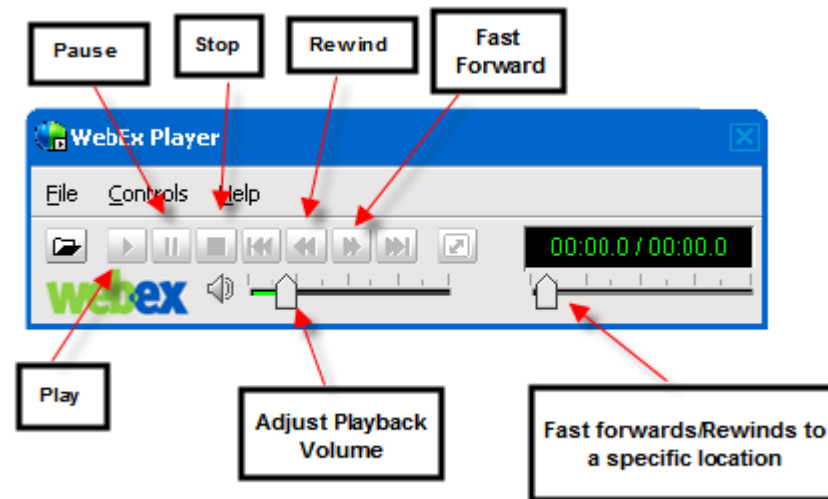
# Your Freddie Mac presenter is...

Elizabeth Bowen



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# Agenda

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# Single-Family Escrow

Escrow funds are funds held on behalf of the Borrower. Common types of funds include:

- ✓ Tax and Insurance (T&I) payments
- ✓ Payments unapplied or in suspense
- ✓ Buydown funds
- ✓ Biweekly payment plans/mortgage payments
- ✓ Insurance claims proceeds



# Buydown Funds

Temporary buydown subsidies are maintained in the Escrow account to supplement the borrower's payments over the first year(s) of the mortgage

- ✓ Each month the borrower makes their payment
- ✓ The supplement is taken from the Escrow account
- ✓ Applied as a full payment and then transferred to the P&I account



# Bi-weekly Mortgages and Plans

- A bi-weekly mortgage is where the borrower makes a principal and interest payment every two weeks per the terms of the note, rider or separate agreement
  - ✓ Each biweekly payment received is applied as a P&I payment
- A bi-weekly payment plan is where the borrower makes a payment every two weeks however the payment is due monthly
  - ✓ Each bi-weekly payment is a partial payment.
  - ✓ It is deposited to the Escrow account until a full payment is received and then funds are posted to the loan record and transferred to the P&I account



# Escrow Account

Even if you do not plan to collect escrow funds, you must open an escrow custodial account in case you receive funds, such as:

- ✓ Insurance claim proceeds
- ✓ Partial payments
- ✓ Buydown funds



# Reconciling the Account

You must:

- ✓ Complete Form 59E, Escrow Custodial Account Reconciliation Worksheet
- ✓ Reconcile as of the accounting cutoff date
- ✓ Compare the bank balance to the total Freddie Mac liability when reconciling
- ✓ Reconcile all custodial accounts within 45 days of the accounting cutoff date
- ✓ Resolve all variances within 90 days of the accounting cutoff date



# One Remittance...Multiple Investors

## For Remittance Purposes only

- Our escrow funds may be co-mingled with escrow funds belonging to other investors
  - ✓ For example, paying county taxes for multiple investors from a single disbursement account
- Our escrow funds may not be transferred to your disbursement account until immediately before remitting the escrow amount due
- Note: Monies for loans not owned by us in part or whole may **NEVER** be deposited into our custodial account



# Negative Escrow

- You must advance funds for negative escrow at the loan level
- You may not use collections from one loan to offset a deficit for another loan
- You must advance funds prior to disbursing the amount due
- You may collect the shortfall from the borrower



# Escrow Custodial Account Reconciliation Worksheet

Section 1 - Adjusted Bank Balance		
1a)	Bank balance as of _	_____
1b)	Subtract: outstanding debits	_____0_____
1c)	Add: deposits in transit	_____0_____
1)	Adjusted bank balance (lines 1a-1b+1c)...	_____
Section 2 - Total Liability		
2a)	Escrow trial balance total as of ____/15/____	_____
2b)	Negative escrow trial balance total as of ____/15/____	_____
2c)	Adjustments for suspense accounts	_____0_____
2d)	Adjustments for mortgages not included on trial balance	_____0_____
2e)	Adjustments for other accounts (e.g. – buydowns subsidies)	_____0_____
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	_____
Section 3 - Total Variance		
3a)	Current cycle's total cumulative variance (Line 1 - line 2)	_____0_____
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0_____
3c)	Current cycle's variance (line 3a -line 3b)	_____0_____
overage/(shortage)		



# Negative Escrow Example

**Loan A's escrow balance**

**Loan B's escrow balance**

**Trial Balance total**

Section 1 - Adjusted Bank Balance	
1a)	Bank balance as of _ <span style="float: right;">_____</span>
1b)	Subtract: outstanding debits <span style="float: right;">_____0_____</span>
1c)	Add: deposits in transit <span style="float: right;">_____0_____</span>
1)	Adjusted bank balance (lines 1a-1b+1c)... <span style="float: right;">_____</span>
Section 2 - Total Liability	
2a)	Escrow trial balance total as of ____/15/____ <span style="float: right;">_____</span>
2b)	Negative escrow trial balance total as of ____/15/____ <span style="float: right;">_____</span>
2c)	Adjustments for suspense accounts <span style="float: right;">_____0_____</span>
2d)	Adjustments for mortgages not included on trial balance <span style="float: right;">_____0_____</span>
2e)	Adjustments for other accounts (e.g. – buydowns subsidies) <span style="float: right;">_____0_____</span>
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e) <span style="float: right;">_____</span>
Section 3 - Total Variance	
3a)	Current cycle's total cumulative variance (Line 1 - line 2) <span style="float: right;">_____0_____</span>
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle) <span style="float: right;">0_____</span>
3c)	Current cycle's variance (line 3a -line 3b) <span style="float: right;">_____0_____</span>
overage/(shortage)	



# Negative Escrow Example

**Loan A's escrow balance 100**

**Loan B's escrow balance**

**Trial Balance total**

## Section 1 - Adjusted Bank Balance

1a)	Bank balance as of _	_____
1b)	Subtract: outstanding debits	_____0_____
1c)	Add: deposits in transit	_____0_____
1)	Adjusted bank balance (lines 1a-1b+1c)...	_____

## Section 2 - Total Liability

2a)	Escrow trial balance total as of ____/15/____	_____
2b)	Negative escrow trial balance total as of ____/15/____	_____
2c)	Adjustments for suspense accounts	_____0_____
2d)	Adjustments for mortgages not included on trial balance	_____0_____
2e)	Adjustments for other accounts (e.g. – buydowns subsidies)	_____0_____
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	_____

## Section 3 - Total Variance

3a)	Current cycle's total cumulative variance (Line 1 - line 2)	_____0_____
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0_____
3c)	Current cycle's variance (line 3a -line 3b)	_____0_____
		overage/(shortage)



# Negative Escrow Example

**Loan A's escrow balance 100**

**Loan B's escrow balance (25)**

**Trial Balance total**

## Section 1 - Adjusted Bank Balance

1a)	Bank balance as of _	_____
1b)	Subtract: outstanding debits	_____ 0 _____
1c)	Add: deposits in transit	_____ 0 _____
1)	Adjusted bank balance (lines 1a-1b+1c)...	_____

## Section 2 - Total Liability

2a)	Escrow trial balance total as of ____/15/____	_____
2b)	Negative escrow trial balance total as of ____/15/____	_____
2c)	Adjustments for suspense accounts	_____ 0 _____
2d)	Adjustments for mortgages not included on trial balance	_____ 0 _____
2e)	Adjustments for other accounts (e.g. – buydowns subsidies)	_____ 0 _____
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	_____

## Section 3 - Total Variance

3a)	Current cycle's total cumulative variance (Line 1 - line 2)	_____ 0 _____
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0 _____
3c)	Current cycle's variance (line 3a -line 3b)	_____ 0 _____
		overage/(shortage)



# Negative Escrow Example

**Loan A's escrow balance 100**

**Loan B's escrow balance (25)**

**Trial Balance total 75**

## Section 1 - Adjusted Bank Balance

1a)	Bank balance as of _	_____
1b)	Subtract: outstanding debits	_____ 0 _____
1c)	Add: deposits in transit	_____ 0 _____
1)	Adjusted bank balance (lines 1a-1b+1c)...	_____

## Section 2 - Total Liability

2a)	Escrow trial balance total as of ____/15/____	_____
2b)	Negative escrow trial balance total as of ____/15/____	_____
2c)	Adjustments for suspense accounts	_____ 0 _____
2d)	Adjustments for mortgages not included on trial balance	_____ 0 _____
2e)	Adjustments for other accounts (e.g. – buydowns subsidies)	_____ 0 _____
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	_____

## Section 3 - Total Variance

3a)	Current cycle's total cumulative variance (Line 1 - line 2)	_____ 0 _____
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0 _____
3c)	Current cycle's variance (line 3a -line 3b)	_____ 0 _____
		overage/(shortage)



# Negative Escrow Example

<b>Loan A's escrow balance</b>	<b>100</b>
<b>Loan B's escrow balance</b>	<b>(25)</b>
<b>Trial Balance total</b>	<b>75</b>

Section 1 - Adjusted Bank Balance	
1a) Bank balance as of _	100
1b) Subtract: outstanding debits	0
1c) Add: deposits in transit	0
1) Adjusted bank balance (lines 1a-1b+1c)...	<b>100</b>
Section 2 - Total Liability	
2a) Escrow trial balance total as of ____/15/____	_____
2b) Negative escrow trial balance total as of ____/15/____	_____
2c) Adjustments for suspense accounts	0
2d) Adjustments for mortgages not included on trial balance	0
2e) Adjustments for other accounts (e.g. – buydowns subsidies)	0
2) Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	_____
Section 3 - Total Variance	
3a) Current cycle's total cumulative variance (Line 1 - line 2)	0
3b) Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0
3c) Current cycle's variance (line 3a -line 3b)	0
	overage/(shortage)



# Negative Escrow Example

**Loan A's escrow balance 100**

**Loan B's escrow balance (25)**

**Trial Balance total 75**

## Section 1 - Adjusted Bank Balance

1a)	Bank balance as of _	100
1b)	Subtract: outstanding debits	0
1c)	Add: deposits in transit	0
1)	Adjusted bank balance (lines 1a-1b+1c)...	<b>100</b>

## Section 2 - Total Liability

2a)	Escrow trial balance total as of ____/15/____	75
2b)	Negative escrow trial balance total as of ____/15/____	0
2c)	Adjustments for suspense accounts	0
2d)	Adjustments for mortgages not included on trial balance	0
2e)	Adjustments for other accounts (e.g. – buydowns subsidies)	0
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	0

## Section 3 - Total Variance

3a)	Current cycle's total cumulative variance (Line 1 - line 2)	0
3b)	Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0
3c)	Current cycle's variance (line 3a -line 3b)	0
		overage/(shortage)



# Negative Escrow Example

<b>Loan A's escrow balance</b>	<b>100</b>
<b>Loan B's escrow balance</b>	<b>(25)</b>
<b>Trial Balance total</b>	<b>75</b>

Section 1 - Adjusted Bank Balance	
1a) Bank balance as of _	100
1b) Subtract: outstanding debits	0
1c) Add: deposits in transit	0
1) Adjusted bank balance (lines 1a-1b+1c)...	100
Section 2 - Total Liability	
2a) Escrow trial balance total as of ____/15/____	75
2b) Negative escrow trial balance total as of ____/15/____	25
2c) Adjustments for suspense accounts	0
2d) Adjustments for mortgages not included on trial balance	0
2e) Adjustments for other accounts (e.g. – buydowns subsidies)	0
2) Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	
Section 3 - Total Variance	
3a) Current cycle's total cumulative variance (Line 1 - line 2)	0
3b) Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0
3c) Current cycle's variance (line 3a -line 3b)	0
	overage/(shortage)



# Negative Escrow Example

<b>Loan A's escrow balance</b>	<b>100</b>
<b>Loan B's escrow balance</b>	<b>(25)</b>
<b>Trial Balance total</b>	<b>75</b>

Section 1 - Adjusted Bank Balance	
1a) Bank balance as of _	100
1b) Subtract: outstanding debits	0
1c) Add: deposits in transit	0
1) Adjusted bank balance (lines 1a-1b+1c)...	100
Section 2 - Total Liability	
2a) Escrow trial balance total as of ____/15/____	75
2b) Negative escrow trial balance total as of ____/15/____	25
2c) Adjustments for suspense accounts	0
2d) Adjustments for mortgages not included on trial balance	0
2e) Adjustments for other accounts (e.g. – buydowns subsidies)	0
2) Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	<b>100</b>
Section 3 - Total Variance	
3a) Current cycle's total cumulative variance (Line 1 - line 2)	0
3b) Subtract: Previous cycle's total cumulative variance (line 3a of previous cycle)	0
3c) Current cycle's variance (line 3a -line 3b)	0
	overage/(shortage)



# Summary

You must perform a consolidated Escrow reconciliation within 45 days of the accounting cutoff

- ✓ Using the Escrow Custodial Reconciliation Worksheet (Form 59E)
- ✓ You must reconcile to the total positive escrow liability
- ✓ Fund escrow at the loan-level



# Resources

- The Learning Center – Servicing Home Page
  - ✓ <http://www.freddiemac.com/learn/service>
- (800)FREDDIE (373-3343)
- Single-Family Seller/Servicer Guide



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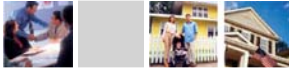
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