

## ESCROW FAQs

When you own a home, your fiscal responsibility goes beyond just making monthly principal & interest payments to the bank. You also have real estate taxes and homeowners insurance to manage. Your mortgage contract requires you to pay each of these when due.

- Principal and interest payments are typically due monthly.
- Real estate taxes are typically due semi-annually to your county or local taxing authority.
- Homeowners insurance (hazard insurance), is typically due annually.

Rather than homeowners paying taxes and insurance directly, most lenders prefer to “escrow” the funds. An escrow account is set up at the closing and each month one twelfth of your annual taxes and insurance are collected along with the mortgage. The tax and insurance portion is held in your escrow account until a payment is due. The lender is responsible for making your tax and insurance payments for the life of the loan. This is your money -- when you sell the home or pay off the mortgage, any funds in this account are returned to you.

Lenders prefer that homeowner’s escrow for taxes and insurance for three reasons:

- 1) By keeping your payments level every month, there is less risk of a home owner not being able to make a hefty tax payment and getting into financial trouble.
- 2) Another benefit is that it eliminates the possibility of a borrower going delinquent on homeowners insurance. If a home were to sustain damage while the policy was lapsed, the borrower might not have the means to repair the home.
- 3) The third reason is that the bank gets the use of your money. The balance in an escrow account averages about 30% of the annual tax & insurance cost. The lost income to an individual is typically quite small but to a bank with thousands of loans the use of escrow funds is significant. The account will bear interest but at a nominal rate.

Asking to pay your own taxes and insurance is known as "waiving escrows". Not all lenders allow a borrower to Waive escrows. It depends on the specific loan product. In some cases there is one time fee to waive escrows. Ask for details if you are interested.

In order for the bank to have sufficient funds in your escrow account to make your tax and insurance payments, they need to collect funds at closing in addition to the monthly payments. The amount needed will depend on the day of the year that you close and when the taxes in your locality are due.

Mortgages are always paid in arrears, meaning an October 1st payment is for use of funds during the month of September. If you were to close on September 5<sup>th</sup>, interest for the 25 days left in September will be collected at closing. Your first mortgage payment would not be due until NOVEMBER 1<sup>st</sup> (for October).

## Common Questions:

**If the tax bill for the coming year is not available how does title company know how much to collect?**

They will increase the amount by 10% to leave a cushion for a potential tax increase. And any excess will be added to your escrow account.

**What happens to the money in my escrow account if I refinance?**

The lender (servicer) is required to refund the balance within 30 days of the loan being paid off.

**Will I earn interest on the money in my escrow account?**

Yes, the amount is typically quite small but will be added to your account.

**What happens if my taxes change?**

The servicer will monitor tax invoices – if there is a shortage (or excess) in your account, the bank will adjust the amount collected moving forward.

**Here is an example:**

- Taxes are 12,000 a year (payable Jan 1 & June 1)
- Home insurance cost: \$2,400 per year
- Escrow payment: \$1,200 per Month (\$1,000 for taxes plus \$200 for insurance)
- Closing date: MARCH 15th
- 1st mortgage payment MAY 1<sup>st</sup> (no payment due April 1<sup>st</sup> as mortgages are always paid in arrears)

DATE	DEPOSIT	WITHDRAWAL	BALANCE*	COMMENT
03/15/15	\$3,600		\$3,600	INITIAL DEPOSIT REQUIRED AT CLOSING (3 mo)
05/01/15	\$1,200		\$4,800	
06/01/15	\$1,200		\$6,000	
07/01/15	\$1,200	\$6,000	\$1,200	TAX PAYMENT
08/01/15	\$1,200		\$2,400	
09/01/15	\$1,200		\$3,600	
10/01/15	\$1,200		\$4,800	
11/01/15	\$1,200		\$6,000	
12/01/15	\$1,200		\$7,200	
01/01/16	\$1,200	\$6,000	\$2,400	TAX PAYMENT
02/01/16	\$1,200		\$3,600	
03/01/16	\$1,200	\$2,400	\$2,400	INSURANCE PAYMENT FOR YEAR 2

**BALANCE CAN NOT GO NEGATIVE – 2 MONTH CUSHION ALLOWED  
THE BANK SERVICING LOAN IS RESPONSIBLE FOR MAKING TAX AND  
INSURANCE PAYMENTS FOR THE LIFE OF THE LOAN**

**ESCROW OPTION FORM**

**FAX OR EMAIL THIS PAGE BACK TO ME AT  
203 724 4992 Fax**

I WOULD LIKE TO ESCROW MY TAXES:      YES       NO       NOT SURE

I WOULD LIKE TO ESCROW MY INSURANCE:      YES       NO       NOT SURE

NAME:

DATE:

SIGNATURE:

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