

LAWYERS LINK



WHAT IS AN ESCROW OR IMPOUND ACCOUNT?

Source: Consumer Financial Protection Bureau (CFPB) | www.consumerfinance.gov

An escrow account, sometimes called an impound account depending on where you live, is set up by your mortgage lender to pay certain property-related expenses.

The money that goes into the account comes from a portion of your monthly mortgage payment. An escrow account helps you pay these expenses because you send money through your lender or servicer, every month, instead of having to pay a big bill once or twice a year.

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Many lenders require that you pay your taxes and insurance using escrow, so they can make sure that the bill gets paid. Your mortgage servicer will manage the escrow account and pay these bills on your behalf. Sometimes, escrow accounts may also be required by law.

Your property taxes and insurance premiums can change from year to year. Your escrow payment—and with it, your total monthly payment will change accordingly.

Tip: If your loan doesn't include an escrow account, you will have to plan to pay these large expenses yourself. Be sure you budget for these extra costs and stay current on your taxes and insurance payments. If you fail to pay your property taxes, your state or local government may impose fines and penalties or place a tax lien on your home. You could also face foreclosure.

In addition, if you fail to pay your taxes or insurance, your lender may:

- Add the amounts to your loan balance
- Add an escrow account to your loan
- Purchase new homeowners insurance for you and bill you for it. This lender-purchased insurance, known as force-placed insurance, is typically more expensive than homeowners insurance you pay on your own.

Even if your lender does not require an escrow account, consider requesting one voluntarily. An escrow account makes it easier to budget for your large property-related bills by paying small amounts with each mortgage payment. That way you don't have to scramble to pay a large property tax bill or insurance premium when it comes due.



MONTHLY INDUSTRY TERMS

Earnest Money

A deposit of funds made by a buyer of real estate as evidence of good faith.

Trustee

The neutral third party in the deed of trust with limited powers. When the loan is paid in full, the property is reconveyed by the trustee back to the person or persons legally entitled to the land, or if delinquent, the property will be conveyed pursuant to non judicial foreclosure proceedings, to the highest bidder in a public sale.

Veterans Administration Loan (VA Loan)

Housing loan to veterans by banks, savings and loans, or other lenders that are guaranteed by the Veterans Administration, enabling veterans to buy a residence with little or no down payment.

