Benefits of an Escrow Account

By ALEX MASON | Green Shoot Media

An escrow account helps ensure monthly mortgage and housing expenses get paid and your property is safe from foreclosure.

The mortgage escrow account was created to give peace of mind to the borrower that all insurance and taxes are accounted for and sent in on time. The result of letting a payment slide can bring serious and unexpected consequences to the borrower, no matter if he or she is a seasoned pro at handling a mortgage or a first-time buyer struggling to understand mortgages.

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An escrow account is a good way to be sure you put aside enough money each month to cover all your housing-related expesnes.

TAXES AND INSURANCE

Your money is safe and sound when handled by an escrow company, and you may rest assured that your lender is under strict scrutiny and authority to discourage the misappropriation of funds.

The Real Estate Settlement Procedure Act, or RESPA, was established by the U.S. Department of Urban Development, or HUD, to bring all lending institutions into governmental account when handling and dispersing funds for their clients.

If a homeowner so chooses, the escrow company is responsible to collect sufficient funds from the borrower to cover the cost of property taxes and insurance fees that may or may not be mandatory for the sale of the property.

PAYING INSURANCE

Natural and man-made disasters often come without warning, and you want to be sure your real estate investment is protected.

In some property zones, flood and fire insurance is mandatory, and the mortgage company may insist that the premiums are paid on condition of the loan.

However, if the property is not located in a designated flood zone, where flood insurance is not required, that does not mean that the home is going to be free and clear of property damage. Broken water heaters, rogue weather conditions and a myriad of other turmoil can strike, causing severe property damage and dangerous mold conditions that could destroy a home.

A wise home buyer should be sure to cover all of the bases with the maximum coverage he can afford.

PAYING TAXES

Having your escrow company take a small monthly stipend throughout the year to pay your property taxes at the designated time is a relief on the financial strain and makes a budget more manageable.

As a borrower, you are not compelled by law to have your money managed, but the system is ideal to reduce the risk of getting behind in your local taxes, an ordeal that could start the home confiscation process in motion.

Unpaid property taxes can result in the county seizing the property, and the process to regain the home is a long and difficult climb. The distressed taxpayer has only two options: either to pay the lump sum of back taxes due, which could be astronomical, or concede the property to county possession and watch it hit the courthouse steps at auction.

To remedy these serious consequences and keep control over your insurance and taxes, the escrow account policies and procedures offer freedom and flexibility with your budget and ensures everyone is paid is time.

You may, by law, do it yourself, but most borrowers elect to have this sometimes complicated service performed for them by the experts at escrow to boost their confidence that all bills are paid on time. Talk with your escrow professional about the numerous services and advantages to using their system, and the decision should be an an easy one to follow through on their recommendations.

Alex Mason is a former real estate agent and mortgage broker living in Los Angeles.

REAL ESTATE 101

Escrow Facts

Here are some need-to-know facts about escrow accounts:

- Even if your mortgage does not require an escrow account, you can request one.
- If you have concerns about the management of your escrow account, contact the Consumer Financial Protection Bureau at consumerfinance.gov or by calling 1-855-411-2372.
- When you have an escrow account and your insurance or tax amounts change, your monthly mortgage payment will change accordingly.

HOMEWISE Real Estate Tips and Advice

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HOMEWISE GLOSSARY

Estimated prepaid items: The dollar amount of the escrow/impound that is to be held by the lender and is to be collected at closing for future payment of taxes, insurance or other obligations on the subject property.

Equity: The difference between the value of the Mortgaged Premises and the total dollar amount of all Mortgages and other liens secured by the mortgaged premises.

SOURCE: U.S. Department of Housing and Urban Development