

Understanding Escrow

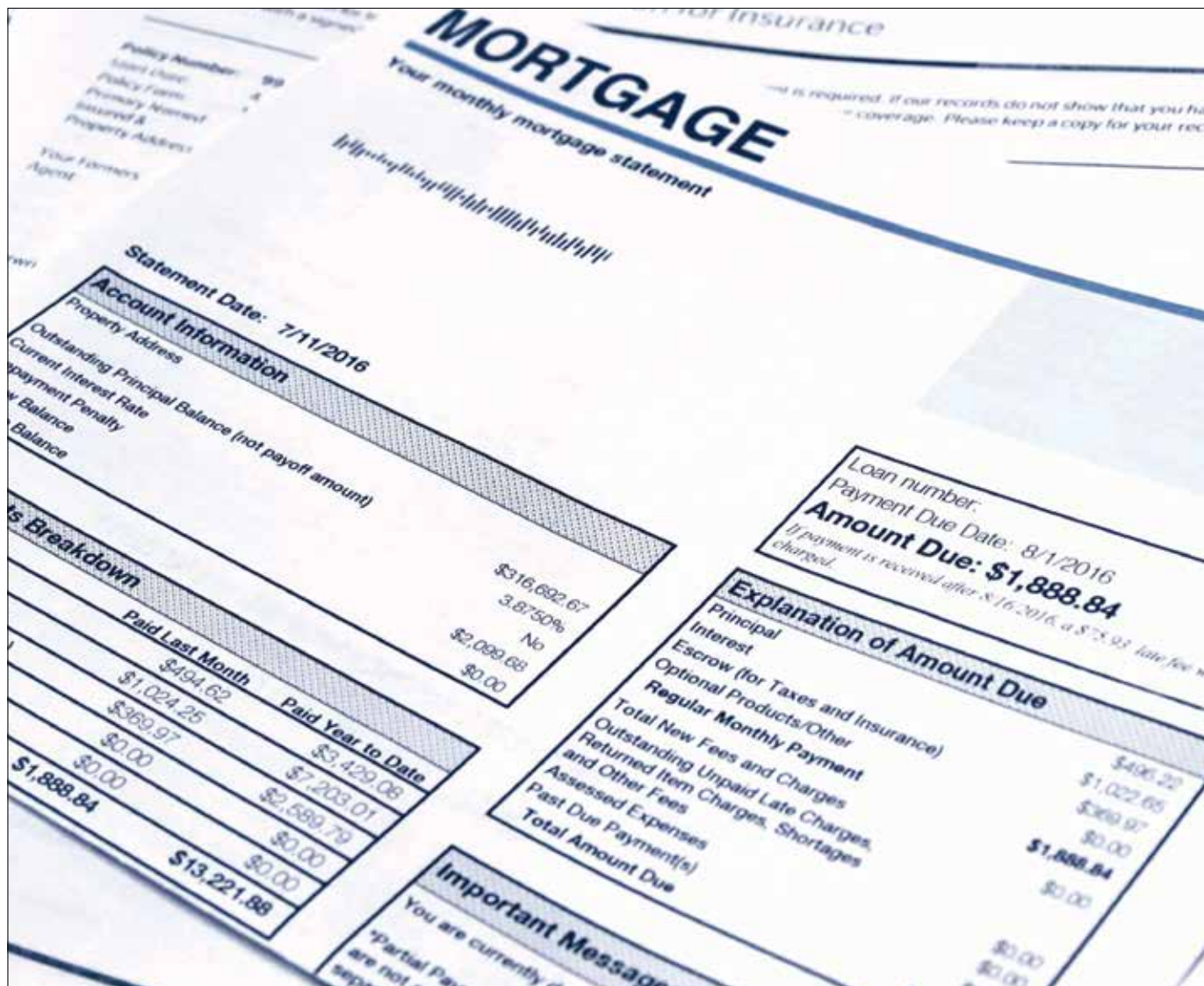
Escrow companies collect and disperse funds to pay insurance and property taxes on behalf of property owners.

They might not necessarily be required as a condition of your purchase, but escrow accounts are still highly recommended. You'll have peace of mind as a borrower no matter your level of expertise and experience, from novice buyers to busy career-minded owners to those who own multiple properties.

HOW THEY WORK

Your lender will establish an account at the time of purchase. The servicer withdraws a portion of your regular mortgage payment and places the money in your escrow account, then uses those funds to take care of expenses when insurance payments or taxes are due. The amount is initially based on the previous year's payouts, but it's always subject to change as premiums and property taxes are updated. Lenders generally require a minimum of two months of extra payments to remain in the escrow account.

The process of dealing with these client funds was stan-



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dardized by the Real Estate Settlement Procedure Act under the guidance of the U.S. Department of Urban Development. Fees for insurance and property taxes are paid over the life of your mortgage, regardless of whether escrow was mandated through the sale document or not. Occasionally, you'll receive a refund. Should your escrow

account come up short, on the other hand, you'll either be asked to make a one-time payment to cover the difference or to increase the amount of your monthly mortgage payment.

INSURANCE PAYMENTS

Escrow accounts are typically put in place to manage monthly home insurance payments. These policies will most often

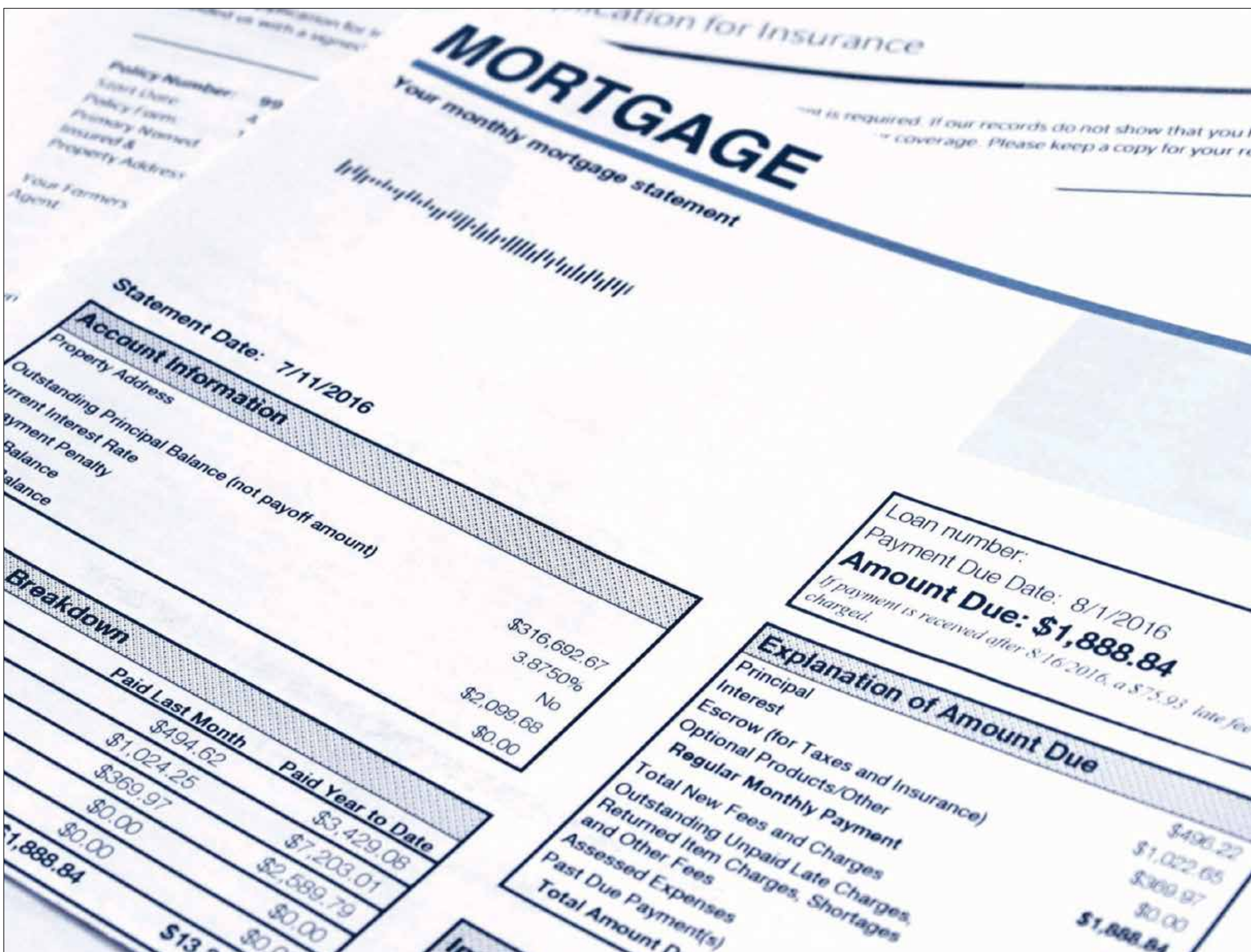
focus on everyday issues, rather than more serious damages relating to storms, a flood or fire. Mortgage companies may require an additional policy to cover those risks, depending on things like where your property is located. Payments are made on time every month, ensuring that these protections remain in place for as long as you own the home.

PROPERTY TAXES

Homeowners are free to pay property taxes themselves, but that requires a level of expertise about relevant laws that many simply don't possess. Then there's the risk of forgetting to pay when life becomes distractingly busy. Falling behind on your property tax obligations is one of the easiest pathways to property seizure. Unfortunately, once the government has confiscated your property because of nonpayment, it's extraordinarily difficult to get back. That's because taxes owed are typically required to be paid in full, and they are continually accruing. If you can't come up with the money, the government takes ownership of the home, and then puts it up for auction to address your outstanding tax debt.

WHY IT'S IMPORTANT

Escrow accounts provide peace of mind in two important ways: You'll know you're protected in the event of a mishap at home because your home insurance fees have been handled. You'll also know that all property taxes are paid in full, thereby avoiding the risk of government seizure. Best of all, this process unfolds in the background as you go along with your own busy life. Discuss escrow options with an experienced professional before buying.



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REAL ESTATE 101



What's a Home Appraisal?

First-time homebuyers may not know the difference between a home appraisal and a home inspection. Lenders usually require an appraisal in order to make sure the home's price matches their pre-approved loan amount. If it's not, they will make adjustments. Appraisers review features of the property, area sales of comparable homes, and regional market trends to come up with a final figure.

HOMEWISER GLOSSARY

Building line or setback: distances from the ends and/or sides of the lot beyond which construction may not extend. The building line may be established by a filed plat of subdivision, by restrictive covenants in deeds or leases, by building codes, or by zoning ordinances. **SOURCE:** Illinois Real Estate Lawyers Association

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