

Understanding the HOW and WHY of Escrow Accounts

Escrow accounts provide for the timely payment of taxes and insurance on your home. This prevents tax liens, loss of property and any lapse of insurance coverage.



HOW DOES IT WORK? As part of your regular mortgage payment, 1/12th of the annual cost is collected. These funds are held and paid out as bills come due. If taxes are \$5,000 and insurance is \$1,000 for a total of \$6,000, you'll pay \$500 into escrow each month. The balance will build until an outgoing payment is made.

WHAT IS THE MINIMUM REQUIRED BALANCE?

It is usually a two month cushion to assure that sufficient funds are in the account even if payments are interrupted.

WHY IS THE MINIMUM DIFFERENT FROM THE STARTING AMOUNT?

To begin, you need your minimum plus sufficient funds to make the first tax or insurance payment when due.

HOW DOES AN ESCROW ACCOUNT HELP YOU?

- You have a consistent monthly expense instead of large bills a few times per year.
- The money in the account is always yours. You receive any remaining balance at sale or refinance.
- You might enjoy more competitive interest rates. Loans without an escrow account will often incur a price adjustment.

If you have questions about escrow accounts or mortgages in general, please give us a call. We're here to help.



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