

ESCROWS - FAQs

When you own a home, your responsibility goes beyond just making monthly mortgage 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.

Lenders prefer to “escrow” these funds meaning they collect them each month with the mortgage payment. 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 funds are 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. When you sell the home or pay off the mortgage, any funds in this account are returned to you.

The balance in an escrow account will be very small right after a tax or insurance payment is made and will grow each month as you contribute into it.

Most home buyers chose to escrow their real estate taxes but many pay their home insurance directly. Paying directly is referred to as “Waiving Escrows”. Some loan programs require escrows or charge a one-time fee to waive escrows. For loans over 80% escrows are always required.

Common Questions:

If I pay my real estate taxes and insurance upfront at closing, why would I need to make monthly payments into an escrow account?

If you don't contribute monthly, then there would not be sufficient funds in the escrow account to make the payment when it is due. This may seem like you are double paying but that is not the case because taxes and insurance are always PREPAID.

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.

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

The lender (servicer) is required to refund the balance to you 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 very small but will be added to your account.

What happens if my taxes change?

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

When do I need to decide if I want to escrow or not?

We confirm this at the time we lock in the rate.