

PROS & CONS

of an Escrow Account



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An escrow account is a special holding account which allows you to pay your annual property taxes and your homeowners' insurance premiums in installments in your regular monthly mortgage payment.

One of the primary benefits to holding your property tax and homeowners insurance payments in escrow puts the responsibility of paying the bills with the lender and not you. This ensures those bills are paid on time to avoid penalties such as late fees or potential liens against your home. With an escrow account, the lender collects a prorated amount toward the annual tax and insurance bills every month, preventing borrowers from the shock of receiving a big tax bill that may be difficult to pay.

Property taxes, assessments and insurance premiums can change annually, so escrow accounts would need to be amended to match. Usually, lenders adjust escrow accounts and, in turn, your loan payments, on an annual basis. Your payment will be reanalyzed in February. You will receive disclosures in the mail by March 1st with payment change taking place on April 1st.

Many mortgage lenders allow homeowners to make property tax payments directly to the county assessor and homeowners insurance premium payments to their insurer. In order to have this option, though, lenders generally require you to put a down payment of at least 20 percent on your home.

For those who do well sticking to a monthly budget and are good at saving money regularly, could skip an escrow account. While property tax bills are paid annually, homeowners insurance premiums can be paid monthly, annually or even semi-annually. This can be convenient for budgeting purposes, but you will need to stay on top of making those payments.

If you opt out of an escrow account and fall behind on tax or homeowners insurance payments, you could face significant consequences. Being late on your property taxes can cost you additional money in late fees and penalties. Being delinquent on your property taxes could result in a lien on your home and that could pose a challenge if you want to sell your house in the future.

Another reason some forgo an escrow account is because they want to invest their cash in short-term investments, such as CDs and money market accounts. Most escrow accounts do not bear interest. In some cases, earning interest on such investments makes more financial sense to many people versus having their money sitting in an escrow account.

The decision to have an escrow account is one you should give serious consideration. A review of your savings habits and investment plans, will determine if an escrow account is in your best interest.