

Escrow Impound Accounts: Do You Have a Choice?

Escrow impound accounts are those accounts which lenders set up to collect "up-front" money from you when you take out a mortgage to cover future expenses such as property taxes and insurance. Lenders like to set up these impound accounts, as they are then certain that the property taxes and insurance will be paid on time, as they will be holding the money and paying these expenses for you. You can typically waive escrows on a conventional loan if your loan-to-value ratio is 80% or less. The key point is to convey to your lender or mortgage broker from the start that you choose to waive the escrow account option.

The lender may charge you an additional 1/4 point for this option to "waive escrows." This is not an increase in the interest rate, but rather a one-time charge. If your loan is for \$100,000.00, for example, and you are paying no points, you would pay \$250.00 for the privilege of waiving the escrow impound account. In the long run it may well be worth it. It is very difficult to get a lender to cancel the escrow impound account once it is in place, and difficult to get the lender to pay out any interest accrued on the money. Only about 14 states have passed legislation which requires the lender to pay interest on your escrow funds held in these accounts. In some states, lenders allow buyers to set up separate accounts into which they place a certain amount of money and then pay the insurance and property taxes themselves. These are called pledge accounts, and they must be set up before you close on the house.

If you change your mind before the close of escrow regarding your escrow account, you can ask the lender to redraw your loan documents, but they will charge you a fee for this and it would delay your closing. It is best to make a decision regarding the escrow account option before you start shopping for a loan.

If you do choose to allow the lender to collect for escrow accounts, keeping track of your escrow money may become difficult. Many loans are sold in the secondary money market and the original lender you contracted with may not be the lender you are dealing with today. You definitely lose control of that money once the lender has collected it from you.

In some cases you may find that the lender did not pay the hazard insurance or property taxes on time and you receive a cancellation notice or penalty assessments. In this case, you would need to contact your lender, sending along a copy of the bill. The lender should pay the penalty for not paying the taxes or insurance on time.

Escrow impound accounts do have their advantage to some borrowers, however, in the case where you do not want to be bothered to plan ahead and save to pay the property taxes and insurance. When the lender collects this money from you each month, you don't have any worries when these expenses come due.

You may feel that your lender is requiring you to place more money than necessary into the escrow account. Typically, lenders collect a two-month cushion for taxes and

insurance. There is a law which governs the lender's ability to collect escrow money and if you have a specific complaint you can contact the Department of Housing and Urban Development or the State or Federal financial regulators.

Related Questions

Q Can I cancel my impound account anytime during the life of my loan?

A Most lenders will not allow you to cancel the impound account on your existing loan. The only way to get out of your impound account requirement is to refinance your loan with your existing lender or write a new loan with a new lender.

Q Are lenders required to pay interest on escrow accounts?

A Legislation was introduced in Congress in 1992 and 1993 which would have required lenders to pay interest on your escrow monies being held in an escrow account with your lender, but unfortunately this legislation did not pass. Some states do require interest be paid on escrow account funds, so you may want to check your state laws.

Q What rights do I have in my lender does not pay my property taxes on time from the money they hold in their escrow account on my behalf?

A Your best remedy is to send a copy of the bill to your lender. They should be responsible for the penalty for failing to pay the taxes on time, as long as you were current in your mortgage payments. If your lender refuses to pay the penalty, you may have the option of filing a complaint under RESPA guidelines.