Understanding ESCROW

PRESENTED BY

21st Mortgage Corporation

ESCROW *BASICS*

WHAT IS ESCROW?

Escrow is a process in which additional money is collected, along with the periodic mortgage payment, and is specifically used to pay taxes and home insurance premiums. This additional payment amount is deposited into a separate account called an escrow account. Funds held in an escrow account can only be used to pay property taxes and home insurance premiums.

AM I REQUIRED TO HAVE AN ESCROW ACCOUNT?

At 21st Mortgage, we require our customers to have an escrow account. 21st Mortgage assumes responsibility for maintaining an escrow account to collect amounts for payment of your home insurance premiums and / or property taxes. The Escrow Agreement between you and 21st Mortgage is valid for the life of your loan, so you cannot discontinue your escrow payment until the loan has been paid off.

WHAT ARE THE BENEFITS OF HAVING AN ESCROW ACCOUNT?

An escrow account ensures that the homeowner has enough money to pay property taxes and home insurance premiums. Holding these funds in escrow keeps the homeowner from having to separately save and pay large lump sums at one time since taxes and insurance payments may add up to large amounts.

HOW IS THE ESCROW AMOUNT CALCULATED?

The formula for calculating escrow is fairly simple. The total tax and insurance bills for the following year are calculated with the sum, then divided by the number of payments per year. The additional amount is then added to the mortgage payment. Any changes in insurance premiums or property tax rates that occur after this calculation will alter the amount of escrow added to the mortgage payment. This calculation is done annually. Some lenders also provide an 'escrow cushion' where an additional dollar amount is added to help avoid shortages.

HOW ARE TAXES & INSURANCE PAID THROUGH ESCROW?

The mortgage company deposits the additional money collected into the escrow account and uses those funds to pay the insurance premium and property taxes on behalf of the homeowner when they become due. Typically, the insurance company will bill the lender directly for home insurance premiums. For property taxes, the local taxing authority will send the tax bill to the mortgage company which then pays the bill. Having an escrow account helps ensure that insurance payments and property taxes are paid on time.

Have other questions about mortgage escrow or other steps of the home loan process?

Call our customer service center to speak with a 21st Mortgage representative.

1-800-955-0021

DO I QUALIFY FOR A TAX EXEMPTION?

Depending on the regulations of your local taxing, you may or may not qualify for a tax exemption.

A few reasons you may qualify for a tax exemption could be...

- If you are disabled
- If you are a disabled veteran
- If you pay the mortgage and live in the home

There are several other scenarios that could qualify for a tax exemption. To find out if you qualify, contact your local property assessor.