title tips and escrow essentials

ESCROW IMPOUND ACCOUNTS

Every year property taxes in each county may increase. If a homeowner's mortgage lender has setup an **impound account (also known as an escrow account or a reserve account)**, they will see an increase in their minimum monthly house payment each year.

WHAT IS AN IMPOUND ACCOUNT?

Unless the homeowner pays property taxes directly to the county, these taxes are paid through an impound account attached to the mortgage.

With an impound account, each month the lender or loan servicing company will set aside approximately 1/12th of the taxes owed for the year and deposit these funds into an impound account used to pay the property taxes. In many cases, the impound account includes the homeowner's insurance premium, which will also usually increase each year.

Property taxes are paid twice a year. Payment of taxes in April pays taxes through June 30 using funds collected since the previous November. The payment in October pays taxes through December using funds collected since May.

Annual tax assessments are not finalized until the beginning of each year. Taxes collected for the impound account from November of the previous year through the May deadline are not equal to the amount actually owed because it is collected at the at the previous year's rate.

For example, if the tax amount last year on a property was $3,000, 1/12th of that amount, or $250, is set aside each month. If the property's tax increase is 20 percent for the current year, and the lender is only collecting the amount for last year, the funds in the account are not equal to the actual amount owed at the current tax rate at the first payment in May. Meaning there is already a shortage in the impound account as soon as the assessor's new tax rates are released.

When the lender or loan servicing company notifies the borrower of the new tax rate increase (notice should be expected anytime from May through July) information will be included for how the shortage can be resolved.

In this example, a 20 percent tax increase is equal to $600 additional each year ($50 additional each month). To bridge the deficit, the lender or loan servicing company will increase the monthly house payment by 1/12th of the amount of the annual increase of the property taxes (in this example $50), *plus* whatever is needed to makeup the shortage accrued through the first half of the year.

The lender may also provide the option for the property owner to pay the shortage amount in one lump sum. By doing this the homeowner may minimize any increase in their monthly payment.

Connect with CW Title to get answers to all of your title and escrow questions!

1.855.CWTITLE | cwservice@cwtitle.com | www.cwtitle.com

cw title AND ESCROW