

WHAT IS AN ESCROW OR IMPOUND ACCOUNT?

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An escrow or impound account is an account that your mortgage lender may set up to pay certain recurring property-related expenses on your behalf, such as property taxes and homeowner's insurance.

These expenses are usually semi-annual or annual and may involve large payments. Lenders often require escrow accounts to ensure you have enough money to pay those bills when they come due. The lender breaks these expenses down into monthly installments or payments and adds them to your mortgage payment each month. If your lender requires an escrow or impound account, your mortgage servicer will manage this account and pay the property-related expenses covered by the account on your behalf.

Sometimes escrow accounts are required by law. Sometimes lenders require escrow accounts to protect their interests in your property. For example, if you failed to pay your property taxes, the local or state government could place a lien on your property, which would put the lender at risk.

You may be able to cancel your escrow account if you have built up enough equity in your home.

Tip: Ask your lender or mortgage servicer when you're allowed to cancel your escrow account. Also, some states require lenders to pay you interest that accrues on your escrow account. If you have an escrow account, you may want to ask your lender about this.

Tip: If your loan doesn't include an escrow account, you will have to plan for potentially large property-related expenses, such as property taxes and homeowner's insurance premiums. Be sure you budget for your monthly mortgage payments plus these extra costs and stay current on your taxes and insurance payments.

Warning: If you fail to pay your property taxes, your state or local government may impose fines and penalties or place a tax lien on your home.

In addition, if you fail to pay any of your property-related costs, your lender may:

- Add the amounts to your loan balance.
- Add an escrow account to your loan.
- Require you to pay for insurance on your home that your lender buys on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Tip: Even if your lender does not require an escrow account, consider requesting a voluntary escrow account. Although there may be downsides to an escrow account for some people because the money may be placed in a non-interest bearing account, an escrow account could save you from scrambling to pay a large property tax bill or insurance premium.