Understanding Escrow Accounts

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You've heard the term every time you've purchased a home or refinanced, but do you understand what an escrow account is? To make sure you're getting all the facts when receiving monthly payment quotes, take a minute to learn the details.

An escrow account is a fund set up by your lender to handle property tax and property insurance payments. By establishing this account - typically with three months of tax and insurance payments up front, and then monthly additions that are included in your payment - the lender protects itself.

If taxes are not paid, for example, the taxing authority can place a lien on the property that has a higher priority than the lender's lien. Likewise, if a flood, fire or other catastrophe befalls the house and insurance isn't paid up, the lender isn't paid either.

Many property owners find that escrow accounts are a convenient way to ensure that all property-related taxes and insurance are kept current. They simply send the bills to the lender when they arrive and the lender pays them.

Escrow accounts also earn interest for you. Every year you should receive a 1099NT reflecting the interest earned on the money that you pay in every month. As minimal as it might seem, it is considered taxable income.

Related to escrow accounts, one thing to clarify when receiving monthly payment quotes from prospective lenders: **ask if the quotes you receive are principle and interest (P&I) or principle, interest, taxes and insurance (PITI).** A payment may seem extraordinarily appealing *without the taxes and insurance*, but the fact is, most lenders require these expenses to be included in your monthly payment.

Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She'll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.