

Benefits of Escrow

As a homeowner you are responsible for expenses beyond your mortgage payment, and an escrow may help you manage your bills.

Your personal payment manager

An escrow account is a service provided by your lender to help you manage and budget home-related costs. You make one monthly payment that includes your mortgage principle and interest, plus a percentage of your insurance and tax expenses. Your lender takes care of paying the bills due throughout the year.

Most lenders require escrows on mortgages greater than 80 percent loan-to-value, which they set up at closing.

Spread out annual costs over time.

Another benefit of an escrow is you do not have to stress to come up with large lump sum payments.

How escrow works

Your lender adds up additional home-related costs outside your mortgage payment, e.g., taxes, homeowners insurance, mortgage insurance and flood insurance. They divide the total cost of these payments by 12 (months) and add it to your monthly mortgage payment.

Generally, a cushion of 1/6 of the total escrow charges is collected at loan closing to account for any unexpected increase in premiums



How Escrow Works

when it is time for the lender to make the yearly payment.

Your escrow account builds each monthly payment. Funds are withdrawn to pay bills as they are due.

Why escrow payment may change over time

If there are changes in insurance costs and taxes, your escrow payment will also change.

Annually, your lender reviews your escrow, looking at updated taxes and insurance costs to ensure the amount paid into the account is enough to cover expenses.

If costs decrease, due to a change in insurance, for example, there may be an overage and you would receive a refund. If costs increase, you will be required to make up the shortfall.

Two ways to cover a shortfall:

1. Pay shortfall in one lump sum. Full payment covers past payments and brings your account to balance. An increase in monthly payments is necessary to cover the increased costs for future payments.

2. Divide and pay amount over the next 12 payments.

Paying a shortage over time will increase your monthly payment more than paying a lump sum

because you are paying the shortage plus the increase in costs over the next year.

It's important to understand, if insurance costs and taxes increase, your monthly payment will also increase going forward.

It is your responsibility, not your lender, to review your insurance policy and shop around for the best deal for insurances. If you find a better deal, contact your lender to update your escrow account information.

I am here to help, even if you are not an RCB Bank customer. Feel free to call me.

Invest in yourself
RCBbank.com/GetFit

Opinions expressed above are the personal opinions of Caylon Arundell and meant for generic illustration purposes only. RCB Bank is an Equal Housing Lender and member FDIC. RCB Bank NMLS #798151.

