WHAT IS AN ESCROW ACCOUNT
and how does it work?

If you have a mortgage, maintaining an escrow account is very important. New homeowners are sometimes unsure of what “escrow” is, so here’s a quick breakdown: First, your lender adds up how much the annual tax and insurance costs are on your home. Then, they evenly divide the cost by 12 and add that amount to your monthly mortgage payments. As you make your payments each month, your escrow fund grows. When tax and insurance bills are due, money is withdrawn from the account to pay those bills.

ADVANTAGES TO HAVING AN ESCROW ACCOUNT

It’s much easier for homeowners to pay their tax and insurance bills using an escrow account. Check out a couple reasons why it just makes sense to have an escrow account.

1. **You only have to make one monthly payment.** You simply pay your mortgage payment as usual, and you don’t have to worry about any extra bills popping up throughout the year. Your lender takes care of it all – Maintaining the escrow account and paying your tax and insurance bills.
2. **It spreads the annual cost out over 12 months.** Paying tax and insurance payments in a lump sum can often cause a financial strain on families. When you use an escrow account to pay these bills, it helps relieve that burden by stretching the bills out over 12 months.

YOUR ESCROW ACCOUNT AND HAZARD INSURANCE

Typically, mortgage companies make sure that your escrow account covers all hazard insurance costs. This protects their interest in your home in case it is damaged or destroyed by a fire or another covered event.

If you experience a covered event and need to either repair or replace your home, you have two options when it comes to your mortgage.

1. **Pay off your mortgage.** In this scenario, you will take the money the insurance company pays you and use it to pay off your current mortgage. Then, you will have to cover the home repair costs yourself OR secure financing to completely rebuild/replace your home if it was totally destroyed.
2. **Use the funds to repair the home.** If you decide to go this route, you will use the insurance payout to fix or rebuild your home. You will continue to pay your regular mortgage payments when you choose this option.

It is important to note that the insurance company will make all checks payable to both you AND your mortgage company. The mortgage company will only endorse the check when all home repairs have been made. **Remember:** The mortgage company essentially owns part of your home until the loan is paid in full.

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