



Ask the
Expert

Escrow accounts

Reported by
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We've all heard the term, but what exactly is an escrow account, and why is it important?

A ■ When a borrower obtains a loan, an escrow account — which is sometimes referred to as an impound account — can be set up at the request of the borrower or it may be required by the lender. This account is established to collect and hold money for future payment of property taxes and hazard insurance. This would be an additional amount of money collected each month, in excess of the principal and interest payment a borrower is making. The lender will disburse payment when the taxes or insurance come due.

An escrow account is important to a lender so that the lender can protect their collateral. For instance, if there was damage to the home and the insurance premium had not been paid, the lender could not recover the loss. The lender needs to make sure taxes and insurance are paid. For the borrower, an escrow account can be a convenient way to pay taxes and insurance and they can avoid large lump sum payments when taxes and insurance come due.

Source: Sandy Pettet, senior escrow officer, Pioneer Title Agency, Scottsdale