The Need for an Escrow Account

Ad Valorem taxes are based on the market value of the property as assessed by County Appraisal District and have priority over all other liens. In order to protect its interests in your property, the mortgage company must ensure that your taxes are paid in a timely fashion each year, (sending you an annual statement for income tax purposes). This allows the mortgage company to maintain the priority of its lien (i.e., claim) to your property until your loan is paid in full and a Release of Lien is filed of record with the County Clerk.

To ensure payment of taxes and insurance on the property are made, you can setup a mortgage escrow account with your mortgage company. These accounts are built into the monthly mortgage payments that you make. Most lenders require that escrow accounts be built into the loan to ensure that taxes and insurance are paid on time. An escrow account can be beneficial since the payments are made by the bank, which reduces the chance of falling behind on payments. Note, however, as a homeowner, you do have a choice as to whether you want to opt out of the bank having a mortgage escrow account.

Once your loan is paid in full and a Release of Lien is filed of record with the County Clerk, you are on your own to pay your taxes. If you fail to pay them, the taxing authorities may sell your property at a "Sheriff's Sale" for all delinquent (back) taxes due. The Internal Revenue Service may also sell your home for back income taxes due, with a limited option for paying the same, after which time it sells your property. Foreclosure sales for mortgages are held on the first Tuesday of each month, and notice of your foreclosure will be posted 21 days prior to the first Tuesday. Prior to posting, you will receive notification of default (20 days), giving you time to cure the default.

As stated above, your mortgage company may also pay your hazard insurance policy premium each year to ensure you have insurance and to protect its interest in your home in case of damage and destruction from a covered hazard. If you have a covered hazard in your home and it is damaged or destroyed and you have a mortgage on the home, there are two options (depending on your mortgage): (1) collect the insurance and payoff the mortgage on your home, with the ability to rebuild; or (2) use the insurance proceeds to rebuild and repair your home and continue your mortgage payments as usual.

The insurance company makes all insurance claim checks payable to both you and the mortgage company, and the mortgage company will not endorse the check to you until all repairs have been made. Essentially, until your mortgage is paid off, your mortgage company owns a portion of your property.

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