

Your Mortgage Lender's Escrow Account Is Costing You Interest Income

High interest rates have been the theme of all real estate conversations for over a year now. While our current real estate market has some challenges, it has been great for our savings and investment accounts. If you have a low-rate loan, you may think that you are not affected by current rates, but **Jaxzann Riggs**, owner of **The Mortgage Network** suggests otherwise. According to lereta.com, 80% of mortgage holders have an escrow account. Yes, they offer convenience and stability, but having an escrow account for taxes and insurance may not be the best choice for many homeowners.



You may be happy with your low mortgage rate, but you may be paying unnecessary fees and missing out on interest income if taxes and insurance are being paid monthly by your lender. There are benefits of having your lender manage your property tax and homeowners' insurance for you. You don't have to worry about missing a payment or budgeting for large annual payments. But if you are the type of person who never misses a payment and are good with a budget, you might want to consider requesting an escrow waiver.

When you pay for an escrow account with your lender, your money is sitting in a savings

account, earning interest for your lender each month. It might be wise to let your money work for you instead by keeping the funds in a high interest savings account until the payments are due. Many savings accounts are paying 4.25% or higher.

So, how much interest are we talking about? Joe has a mortgage with an escrow of \$435 each month (\$160 for insurance and \$275 for taxes), totaling \$5,220 annually. If he deposits \$3,000 in a savings account with a 4.25% APR and puts in the \$435, he currently pays for escrow each month, he will earn \$146 in interest in the first year, and \$784 after 5 years. He is paying the exact same amount monthly, but now he instead of his mortgage company is earning interest on those funds, .

Lenders prefer that borrowers have escrow accounts to guarantee tax and insurance payments are made on time. It lowers their risk on the loan. There are several factors that make you eligible for an escrow waiver: Loan-to-Value ratio under 80%, high FICO score, and no late mortgage payments in recent history. Some (but not all) servicers charge a fee for a waiver, typically around .25% of the loan amount. You should factor in this cost

against expected interest earnings. If you are planning to sell or refinance soon, don't bother; paying the waiver fee might not be offset by the earned interest.

It's important to consider the many benefits that escrow accounts provide. If you miss a tax payment, whether due to oversight or cash flow problems, you are at risk of defaulting on your home. Paying through escrow eliminates that risk. You also receive discounted insurance rates for paying annually while still getting to pay monthly. In recent years, insurance premiums and property taxes have increased significantly for many borrowers. An escrow account allows you to spread those corresponding increases out over a 12-month period. Consider your escrow account as a service provided by the lender. They manage tax and insurance payments for you and allow you to receive annual payment discounts. How much is that service worth to you?

If you are interested in requesting an escrow waiver, reach out to your servicing department to see if you are eligible. If you want to know if removing escrow makes sense for you, reach out to Jaxzann Riggs anytime on her cell phone at 303-990-2992 today!

