Your Rights Concerning Your Escrow Account. If your monthly mortgage payment includes an amount to cover property insurance and taxes on your home, you have a mortgage with an “escrow” or “impound” account. Your servicer is supposed to pay the insurance and tax bills for you when they are due.

Under federal law your servicer must give you an initial statement when your escrow account is first set up and periodic statements at least once per year after that. These statements must include the amount of your current escrow payment, the amount your escrow payment will be for the next year, the total amount you paid into the escrow account during the past year, and the total amount paid out of the escrow account during the past year for taxes, insurance premiums, and other escrow bills. However, the servicer is not required to send this statement if you are more than thirty days behind in payments.

If your annual escrow account statement shows that there is a balance of $50 or more from the previous year, you are entitled to a refund. If your statement shows that your account has a balance smaller than expected (a “shortage”) or a negative balance (a “deficiency”) your servicer will include this amount in your next annual escrow statement so that it is paid back in future escrow payments over the next year. If you want to spread out repayment of this shortage or deficiency for more months than the servicer is offering you, ask the servicer. If that does not work, ask for the supervisor in the escrow or collection department. On the other hand, as long as you pay what the servicer requests for escrow, the servicer must pay your property tax and insurance even if there is not enough money in your escrow account.

Servicers should pay from your escrow your taxes, property insurance, and other escrow bills on time, before the deadline for avoiding penalties such as interest or late fees. You should not have to pay for interest and late fees, and should ask the servicer for a refund if these are included in your escrow account statement. If the bill for interest or some other penalty is sent to you instead, send this bill to your servicer (keeping a copy) and insist that they pay it with their funds.

Avoid Force-Placed Insurance. If you do not have an escrow account and the servicer believes you do not have homeowner’s insurance covering your home, it will purchase over-priced insurance providing you only limited protection, and then charge you for it or add it to your monthly payments. This is called “force-placed insurance” and you should avoid this at all costs.

If your own insurance company or servicer notifies you that you do not have homeowner’s insurance, take this seriously and act immediately. If you do have insurance, provide the servicer with proof—the policy number, the name of your insurance company or agent, and written proof you have the insurance. If you don’t have insurance, obtain your own insurance as soon as possible, and provide the servicer with proof and request that they cancel the insurance that they purchased for you.

If your insurance is being canceled for non-payment and there is an escrow account on your mortgage, the servicer must pay your existing insurance policy rather than purchase force-placed insurance, even if there is not enough money in the escrow account to pay your policy. The servicer will then require that you repay any money it advanced to pay your policy, usually by adding the amount to your future escrow payments.

Private Mortgage Insurance. Most mortgage borrowers are required to purchase private mortgage insurance (PMI) protecting the lender against a mortgage loan default. This cost is included in your monthly payments. PMI is expensive and only protects the lender. Cancelling PMI brings down your mortgage payments and has no down-side for you. If you have PMI, the servicer must cancel it on your request if your remaining mortgage loan balance is less than 80% of your home’s purchase price. Also try to ask the servicer to cancel PMI whenever your home is worth a lot more than your mortgage balance.

Credit Life and Disability Insurance. Credit life, disability, and unemployment insurance coverage pays off some of your mortgage loan if you pass on, become disabled, or unemployed. This insurance is overpriced, expensive, and offers limited protection. Consider cancelling it, particularly when you are having trouble paying your mortgage. Look at your loan documents and monthly statement to see if it is listed there.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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