

70 Ways For Home Buyers To Save Money When Buying A Home: Tip #2

Don't put insurance and taxes in escrow

When you get your mortgage, you will be asked (if your loan officer is honest) if you want to put the money for homeowner's insurance and taxes in escrow. Most people do not understand what this means.

Your mortgage company will determine how much you will have to pay for homeowner's insurance and in taxes at the end of the year. They will then divide this amount into 12 and add that to your monthly payment. At the end of the year, they will make the payments to the insurance company and to the tax collector for you.

Isn't that nice of them?

NO!

They only do this to protect themselves. If you forget to pay the homeowner's insurance bill and the house burns down, they can't foreclose on you. Or if you do not pay the taxes and the government takes the house away, the mortgage company is left out in the cold. There is nothing they can do to get the house back and they lose the money they lent you.

By putting taxes and homeowner's insurance payments into escrow your monthly payments to the mortgage company will increase. They will hold your money for you to pay for the yearly taxes and to renew the insurance.

Why should they hold your money, when you can keep it until you need to pay. Even if you have money just lying around you can keep it in an investment and earn interest on it until it is time to pay your bill. The less of your money other people have the better.

So let's say your taxes and homeowner's insurance add up to \$5,000 a year. If you take that \$5,000 and put it in an investment account that earns 10% interest for the year, you will have \$5,500 at the end. You then pay the insurance and taxes and you still have \$500 left over!

When you pay homeowner's insurance and taxes in escrow you allow the mortgage company to put that money in THEIR savings account and they earn the \$500 a year instead of you!

So if you want to make your monthly mortgage payment smaller and even earn some interest for free, then do not put your money into escrow.

Please note that homeowner's insurance is not the same as mortgage insurance. If you have a loan that is higher than 80% of the value of the house, the lender will require you to pay mortgage insurance. You have no choice in the matter. Mortgage insurance protects the lenders in case they have to foreclose on you. Homeowner's insurance protects the house in case something gets damaged. You choose the homeowner's insurance company you want. The lender will choose the mortgage insurance company they want.

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