

You need an escrow account. Here's why:



Ad Valorem taxes have priority over all other liens.

So, to protect their interests in your property, the mortgage company makes sure that your taxes are paid in a timely fashion each year, (sending you an annual statement for income tax purposes) thus protecting their "first lien position" claim to your property until your loan is paid in full and a Release of Lien is filed of record with the County Clerk. You are then on your own to pay your own taxes. If you forget, or 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 they sell your property. Foreclosure sales for mortgages are held on the first Tuesday of each month and they will post your foreclosure 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.

The mortgage company may also pay your hazard insurance policy premium each year to be certain you have insurance

and to protect their interest in your home in case of damage and destruction due to fire or other covered hazard. If you have a fire

or other 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 and have a foundation and partially destroyed home on your hands with which to rebuild.
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. Remember, in essence, the mortgage company owns a part of your property until their note is paid in full.