

What to Know About Mortgage Escrow Accounts

Escrow accounts ensure that you pay your bills for home insurance and property taxes.



When you finance your home with a mortgage, your lender will likely require you to maintain an escrow account. With this setup, a portion of your monthly mortgage payment is set aside to cover your annual property taxes and home insurance premiums.

Lenders want to protect their financial investment when they loan you money; an escrow account acts as a forced savings account to ensure those property expenses are paid on time and in full, says Ed Santiago, a branch manager with Fairway Independent Mortgage in Wayne, Pa.

Lenders hold back one-twelfth of the estimated annual expenses each month to pay your taxes and insurance. Some lenders require an additional cushion of up to two months' worth of expenses to avoid potential escrow shortages. If you end up with an overage because you get a cheaper insurance policy or your property taxes decrease, your lender will send you a refund check.

Because property-tax assessments and insurance rates tend to rise over time, the amount collected for escrow can fluctuate. So while your principal and interest payments remain the same for the life of a fixed-rate mortgage, your total monthly payment may change from year to year.

Homeowners felt the sting of both higher property-tax bills and soaring home insurance premiums in 2024. According to data from Intercontinental Exchange, home insurance premiums rose by an average 14% from the previous year, and 2024 property-tax bills jumped 2.7%.

Escrow rules

Government-backed mortgages — Federal Housing Administration (FHA), Department of Veterans Affairs (VA) and U.S. Department of Agriculture (USDA) loans — require escrow accounts regardless of the down payment amount.

For conventional loans, most lenders require an escrow account if you put down less than 20% on the home purchase. In some cases, though, you can get an escrow waiver with a loan-to-value ratio of 95% or less, a good credit score, and no recent mortgage payment delinquencies or defaults on past escrow waivers. However, you'll pay 0.25% of the loan amount for an escrow waiver.

A waiver makes sense only if you have sufficient disposable income to cover larger (but less frequent) tax and insurance payments and the financial discipline to keep up with them independently, Santiago says. Check how often your locality collects property taxes — some collect only once or twice a year, leading to bigger bills, while others collect quarterly.

If you get an escrow waiver, you could put money to pay your insurance and tax bills in a high-yield savings account, earning interest on the funds. (But for this to be worthwhile, your interest earnings would need to be greater than the fee to waive escrow.)

Additionally, if you switch home insurance providers or successfully appeal your home's assessed value for property taxes, you may not face as much hassle and paperwork. But most loan servicers offer online account management, so updating your account isn't as cumbersome as it used to be, Santiago says.

And the flexibility of managing escrow expenses on your own isn't without some risk. Failing to pay your property taxes could result in your county filing a tax lien against your home, potentially leading to foreclosure.

Likewise, if you don't pay your homeowners insurance premiums and let the coverage lapse, you're breaching your agreement to maintain home insurance as a condition of taking out a mortgage. In that event, your loan servicer can require force-placed homeowners insurance, which is usually costlier and less comprehensive, Santiago says.

NYSUT NOTE: Buying real estate is always an expensive proposition, so any way to save money is welcome. With the NYSUT Member Benefits Corporation–endorsed [UnionDirect Mortgage Discount Program](#), presented by Mid-Island Mortgage, NYSUT members can save up to \$2,700 on lender fees and closing costs. Don't pay more than you have to — let your union membership work for you.

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