

Real Estate Taxes and Mortgage Escrows

January 13, 2020

A common question fielded by my office is an increase to a property owner's monthly mortgage escrow payment due the increase in taxes. In many cases the change in taxes from one year to the next has not increased drastically yet the monthly payment and tax escrow has increased substantially. This is due to an escrow shortage. The escrow account must make-up the shortage from the prior year and establish the new accrual for the year going forward.

Changes to your assessment

In 2019 all properties in the Township were revalued. Some properties experienced large changes which mirror market activity. The change in assessment will lead to changes in the real estate taxes payable in 2020. Ultimately this may create a shortage in the escrow account. If you expect an increase in taxes due to a change in assessment, it is recommended to increase your monthly escrow payment to avoid a shortage situation.

Escrow Analysis

Every year your mortgage servicer will conduct an Escrow Analysis to ensure that they will have enough funds in the escrow account to pay for the full property tax bill and annual insurance premium. The escrow analysis will determine if there is a surplus or shortage in your account and mortgage services will then adjust your monthly payment accordingly. (Note: your monthly payment will only change as it relates to taxes and insurance; none of the terms of loan such as interest rate, loan amount, etc. can be modified).

Escrow Refunds

While rare, it is possible that an escrow account is over funded. When property taxes or insurance premiums decrease there could be a surplus in your escrow account. If there is a surplus a mortgage servicer will refund you the excess amount and lower your monthly payments based off the most recent property tax amounts and insurance premiums.

Escrow Shortages

As property taxes and homeowner's insurance premiums increase over time, escrow shortages will occur, and an adjustment will be made to your monthly payment. If there is an escrow shortage a mortgage servicer will typically offer two options:

1. request that you write a check for the immediate shortage AND they will increase your monthly payment by the appropriate amount
2. if you can't pay for the shortage amount in a lump sum, the mortgage servicer will not only increase your payment to offset the recent increase, they will also increase your payment for 12 months to recoup the shortage amount.

For example, let's assume property taxes increased by \$1,200 in one year which resulted in an escrow shortage of \$600 and the homeowner couldn't pay the \$600. The new

payment could be adjusted \$150 higher per month – \$100 to account for the \$1,200 annual increase AND \$50 per month to recoup the \$600 shortage over a 12-month period.

In the following year, assuming the taxes and insurance amount stay the same, the payment would then be revised downward by \$50 since that \$600 has been repaid.

Please contact my office to help determine your real estate tax history and any potential tax increases.

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