



# What is an impound account?

**A:** An **impound account**, also known as an escrow account, is a money reserve funded monthly by you to pay annual recurring ownership obligations together with payments of principal and interest (PI) through your mortgage payments. The impound account is maintained by your lender to pay your annual property taxes and hazard insurance premium (TI).

Payment from an impound account ensures your lender's security interest in your property will not be impaired by defaults in your payment of TI obligations.

An impound account is created when you agree to the terms of an impound account addendum attached to your lender's trust deed. If not required at origination, you may request the lender set up an impound account when they provide this service.

An impound account provision establishes:

- *monthly deposits* to be paid in amounts based on your annual TI obligations;
- *reserves* initially deposited as prepaid installments when future monthly payments will be insufficient to cover TI obligations on their due dates; and
- *interest* to be paid to you by your lender on the impound account balance.

When you have an impound account, your lender will provide accountings, statements and analyses prepared and delivered to you at least once yearly. These will include itemizations of:

- *surpluses* when the balance is greater than necessary to satisfy TI disbursements and reserves, which are

either returned to you or credited toward the next year's impound account payments; or

- *deficiencies and shortages*, arising when the impound account balance is insufficient to pay upcoming TI obligations or the impound account has a negative balance after a TI payment.

The formulas for setting initial impound account deposits, monthly TI payments and limits on reserves for any mortgage are set by California law.

Impound accounts are also subject to some enforcement rules. A lender:

- is prohibited from requiring an impound account at origination on a first mortgage secured by an owner-occupied one-to-four unit residential property when the loan to value ratio is less than 90%; and
- may demand and enforce the establishment of an impound account on a mortgage secured by a one-to-four unit residential property when the owner is delinquent on two or more consecutive property tax payments.

Rules for terminating enforceable impound accounts vary based on the lender's policies.

Your lender is also required to pay 2% annual simple interest on any balance in the impound account.

For *business mortgages*, including carryback business mortgages, impound accounts are optional requirements for the mortgage holder, but are neither common nor compulsory.