

Title:

Lenders Do Not Really Trust You

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Summary:

Whether you are selling or buying a home, you should always go through an escrow period. Part of the process involves the establishment of a lender account since they do not trust you.

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Article Body:

Whether you are selling or buying a home, you should always go through an escrow period. Part of the process involves the establishment of a lender account since they do not trust you.

Lenders Do Not Really Trust You

Escrow is not a process that is used only in real estate transactions. It is often used in business transactions to create a safety zone for the transfer of something, often business secrets or intellectual property. In the case of real estate, escrow is used to create a centralized, impartial company or agent that can collect documents as specified in the real estate transaction documents. This is simply called escrow, and is not a lender account.

An lender account is a bank account. It is an issue for a buyer to deal with as it is tied to any home loan on a property. The lender does not really trust you even if it agrees to give you a home loan for hundreds of thousands of dollars. As a result, it demands an bank account be established, an account which it controls.

The lender uses the bank account to make sure certain bills are paid, debts that might otherwise cause the lender problems if not paid. These debts and liabilities include homeowners insurance, private mortgage insurance, and real estate taxes such as property taxes. The lender will specify the definitive costs to be covered in loan documents.

Each month, the borrower is required to make a deposit to the bank account. The

lender takes said money and pays the relevant debts and liabilities related to the real estate. Depending on the loan and the lender, the borrower may be required to keep a cushion in the account. A cushion refers to a minimum balance. The cushion is required to make sure there is money to cover the bills if the borrower fails to make the monthly payment.

Lender accounts make sense from the perspective of the lender. Buyers need to make sure they understand the payments required as large cushion requirements can seriously impact a buyer's cash flow.