

MORTGAGE PAYOFFS AND ESCROW

When a Borrower/Seller has a loan that is to be paid off at close, they need to be aware that a loan will be paid in full according to the written instructions in the payoff statement.

Interest on Real Estate Loans is paid in “*arrears.*” What is the simplest way to explain this? In short this means that while the principal portion of the payment reduces the principal for the current month, the interest portion of the payment is for the interest paid to the first day of that month...not through the first of the following month like the principal amount.

Lenders require interest until the date they receive the payoff, not through the close of escrow. What this means for the Borrower/Seller is a possible extra couple of day’s interest that they will pay in order to accommodate the lender for the processing time necessary to receive and process the payoff.

All lenders require that mortgage payments be kept current when a property is in escrow. When making payments during the escrow period, it is recommended that it be made by cashier’s check in order to have proof of payment. Most Lenders require that one month’s payment be held for check clearance even if payment was not made during the escrow period. The money is refunded to the Borrower/Seller by escrow at the expiration of the holding period specified by the lender.

Impound Accounts for Taxes and Insurance: Not all Lenders will refund the amount impounded at close of escrow. Some lenders take as long as several weeks to return impounded funds. It is recommended that the Borrower/Seller contact the Lender’s payoff department and request an expedited return of funds if they do not receive a credit through escrow.



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