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# MORTGAGE NOTES<sup>TM</sup>

FOR HOMEOWNERS, HOME BUYERS & REAL ESTATE PROFESSIONALS

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## What you should know about escrow accounts

"ESCROW ACCOUNT" can be a phrase that adds mystery to an already confusing and complex path to homeownership. Fortunately, an escrow account is something that provides homeowners with peace of mind that major house obligations will be paid when due. Your lender will often establish on your behalf an escrow account when you take out your mortgage. However, if you already own a home without an escrow account, you can still set up an escrow account directly with an escrow company.

Here are some important questions that Fannie Mae's Homestay newsletter suggests you ask when considering an escrow account:

### What is an escrow account for?

The purpose of an escrow account is to collect and hold funds for paying your property taxes, property insurance premiums, or other charges when they become due. You must pay your real estate and property insurance premiums regularly, typically in large lump payments once or twice a year. Failure to pay these charges on time may result in tax penalties, lapses in insurance coverage, and collection actions.

### What are the benefits of an escrow account?

Most lenders will require that you have an escrow account if your loan has less than a 20 percent down payment; however, even if your lender does not require one, here are some good reasons for arranging your own escrow account:

Manage your budget. You will not need to make lump sum payments when your taxes and insurance come due because you have made manageable monthly payments to your escrow account to cover those obligations.

Gain peace of mind. You will not need to track your tax and insurance bills because the escrow account tracks and pays the bills for you.

Ensure that your home is prepared. When your tax and insurance bills are paid on time, you protect your home investment and meet your lender's requirements.

### How does an escrow account work?

In addition to your monthly principle and interest payment (PI), your monthly mortgage payment will include an amount for property taxes and insurance (TI). Your lender places your monthly taxes and insurance payment into an escrow account that can only be used to pay your taxes and insurance when they come due. Your lender examines changes in your tax and insurance costs and sends you a statement that reflects activity in your escrow account.

### How does the lender calculate my escrow payments?

Your lender divides your estimated annual taxes and insurance by 12, then adds that amount to your monthly payment. For example, if your annual tax bill is \$1,000 and your annual insurance cost is \$500, your annual cost for taxes and insurance is \$1,500. The lender will divide the \$1,500 cost by 12 to arrive at a monthly TI payment of \$125. Of course, the actual amounts for your taxes and insurance will vary depending on the cost of your home, the local property taxes, your down payment, and other factors. Your lender should provide you with a full explanation of all costs when you apply for your mortgage.

See "Escrow" on Back Page

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## MORTGAGE NOTES™

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## Soft existing home sales expected to rise

A flat pattern in home sales activity should continue for the next couple of months before improving over the summer, according to the latest forecast by the National Association of Realtors.

NAR Chief Economist Lawrence Yun said the extent of an expected recovery hinges on better access to affordable loans. "Things are beginning to improve, but the availability of affordable mortgages is uneven around the country and sometimes within metropolitan areas," he said. "As anticipated, we continue to look for a soft first half of the year, for both housing and the economy, before notable improvements in the second half. Some time is needed for FHA and new conforming jumbo loans to become widely available."

"Some areas already are seeing sales increases, underscoring that all real estate is local. "Although some market adjustments are necessary, a downward overshooting of the housing market would cause unnecessary loss in economic output, income and jobs," Yun said. "It is critical to stimulate housing demand by inducing fence sitters

back into the market. A homebuyer tax credit on any home purchase would accomplish that."

### ESCROW, from *fnmt* Page

#### Should I establish an escrow account?

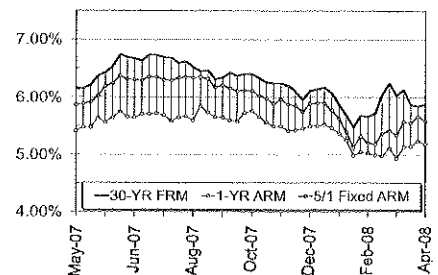
If you already have a home loan but do not have an escrow account, you may want to establish one.

"With an escrow account, you can be assured that your taxes and insurance will be paid on time," Fannie Mae says. "Because funds are automatically collected each month, you can also be assured that you will have enough funds ready for this purpose. Most importantly, you can protect yourself against serious consequences, such as tax penalties for late payment of taxes, or lack of insurance coverage on your home should disaster strike when your insurance policy has lapsed."

For more information about how or whether you should set up an escrow account, contact your lender today.



### 52-Week Mortgage Rate Performance



### Current ARM Indices

05/15/2008	TERM	RATE
1-YR Treasury Sec.	MAY	2.06%
11th Dist COFI	MAR	3.11%
1-MO LIBOR	MAY	2.51%
Prime	4/30/08	5.00%

Sources: FHLMC, Federal Reserve Bank, HSH, bd

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