

REAL ESTATE NEWS

Escrows: automatic budgeting for homeowners

The original idea behind escrow accounts was to protect the interests of homeowners, and they have been serving that purpose for more than 50 years, say the Mortgage Bankers Association of America.

In the 1930s, many Americans were losing their houses in foreclosure because of late tax payments. To help ease the burden on homeowners who had to come up with large lump-sum payments at tax time, lenders agreed to take on the responsibility by collecting monthly sums from homeowners along with their mortgage payment. In 1934, the government mandated that lenders manage escrows on all FHA-insured mortgages. This then became

the standard practice for all mortgages.

MORTGAGE ESCROW accounts ensure that homeowners' property taxes, fire and hazard insurance premiums and other escrow items are paid on time. They are a guarantee that there is always enough money to pay these bills when they are due so that the homeowners avoid the risk of lapses in insurance coverage or delinquent taxes.

Escrows serve several purposes, the MBAA said.

• They guarantee that bills are paid on time.

The most obvious advantage of escrows is that they automatically budget the borrower's tax and insur-

ance responsibilities over the course of a year.

HOMEOWNERS DO NOT have to worry about coming up with several large lump-sum payments, each with different due dates throughout the year. If there is a fire in the house, or if the basement floods causing damage, the homeowner is assured that the house is protected by up-to-date insurance.

• Unexpected increases are covered.

Because of escrows, homeowners do not need to worry about calculating unexpected increases in their taxes or insurance premiums. It is the responsibility of the lender to allow for possible increases in these

payments.

• Even when there is not enough money in a mortgage escrow account, the lender typically covers the bill without charging interest to the borrower. It is common for lenders to pay taxes and insurance premiums when they are due even though all the money for these bills has not yet been collected from the homeowner.

• Mortgages have lower rates and down payments because of escrows. Escrows protect the interests of investors in home mortgage loans. By making mortgages more attractive and secure as investments, escrowing has led to a healthier mortgage market. As a result, loans with

better terms and lower downpayments are available to buyers.

• Local governments save money. Escrow accounts also benefit local governments by providing a more efficient, less expensive means of tax collection. Rather than working with millions of homeowners, municipalities need collect from just a few hundred lenders.

THE LAW IS specific in setting limits on the amount that a lender may collect. The lender may require a monthly payment of 1/12th of the total amount of estimate taxes, insurance premiums and other charges reasonably anticipated to be paid. The lender also may collect an additional balance of not more than

1/6th of the estimated annual payments. If the lender determines there will be or is a deficiency in the escrow account, the lender is permitted by law to require additional monthly deposits to avoid or eliminate the deficiency.

Escrowing is governed by the Real Estate Settlement Procedures Act of 1974, and administered by the U.S. Department of Housing and Urban Development. Lenders must manage their escrow accounts in compliance with this federal law and with the interpretations set out by HUD.

In addition, the 1990 Housing Bill recently signed into law required lenders to issue itemized statements of escrow accounts to borrowers on an annual basis.

Ownership suggests permanent marina privileges

We are interested in a unit in northern Michigan on a lake. But while the developer says that we have marina privileges, the deal seems to be that the members of the association will have to enter into a long-term lease to use the docking facilities. That reminds me of the "recreation leases" I encountered in Florida many years ago. What do you think?

To the extent that the developer is representing your right to use a marina as part of your purchase of a condominium, you should check the condominium documents carefully to ensure that that right is perpetual and is not subject to termination by the developer through some leasehold provision or other outside inter-

vention such as the Department of Natural Resources denying approval.

In short, I would be suspect of a situation where the developer is not giving you an absolute right to use the marina over the duration of your ownership of the condominium unit. In that regard, you should expect that the developer may be in a position in a lease to extract unreasonable amounts of money from you or your successor in interest.

I would discuss this matter with the other members of the association or, if you are buying a condominium, I would get a commitment from the developer ensuring your rights with respect to the marina use without unreasonable interference or ex-



condo queries

Robert M. Melsner

pense down the road.

We are thinking about converting an apartment complex high rise that overlooks a bay into a condominium hotel. I am concerned about the requirements we will have to meet in terms of certifying the physical condition of the premises. I am also interested in ensuring that the rooms can be turned into condos on a week-to-week basis under the Michigan

Condominium Act. Can you give me any direction?

Conversion condominiums are permissible in Michigan although you are obligated to disclose the physical condition of the condominium project to the extent that you have knowledge of the project. Obviously, any prudent buyer of a piece of real estate should inquire into the physical condition of the premises by way of a thorough private inspection.

Appropriate environmental studies should be undertaken. If you have information concerning the physical and environmental condition of the premises, you must disclose that in the disclosure statement provided to buyers. Additionally, appropriate en-

vironmental studies should be undertaken.

It would also be appropriate to have a competent engineer or architect prepare a comprehensive report to give prospective buyers a clear understanding of the physical condition of the premises.

With respect to your second issue, it is possible to turn any cubicle of space into a condominium, including a high rise apartment building, allowing it to be a hotel condominium saleable in segments of one week. Again, careful draftsmanship of the condominium documents is necessary to ensure that the objects of the developer are clearly and adequately set forth in the condominium doc-

uments.

Our association has a telephone in the clubhouse that is only available to office personnel. Certain co-owners have demanded that they be allowed to use the phone for personal calls, claiming that they pay assessments. As administrator, I have advised the clubhouse manager not to allow any calls. How can I enforce this rule and still retain my job?

Obviously, the phone should be made available to co-owners for emergency purposes. But I can appreciate the position of the board of directors in not allowing the use of the telephone for personal non-business purposes by co-owners.

MAKE THE MOVE NOW!!

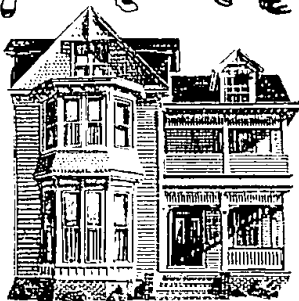
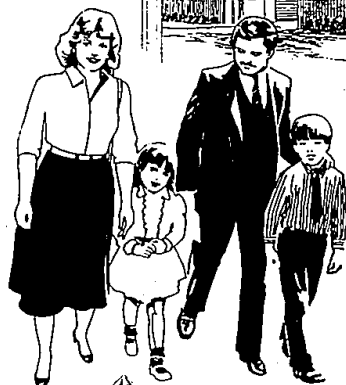
THERE'S NO BETTER TIME TO BUY

If you've been thinking about moving from your current residence to the house of your dreams or from an apartment to a starter home, this is the time to do it.

- The selection is excellent.
- Low interest rates are available.
- There are many financing options available.



Go ahead, make the move. Now is the right time to buy a home.



NOW is the right time to Buy a Home!

Purchasing a home has always been a wise decision, but current market conditions are making it even more attractive to buy now.

EXCELLENT FINANCING IS AVAILABLE NOW

Interest rates are lower, and mortgage lenders are offering a wide variety of financing options. Low interest rates mean you can get more for your money.

- 30-year fixed mortgages are still available as well as many other financing alternatives.
- First time buyers are encouraged to purchase now through financing packages offering small down payments.

YOUR HOME IS YOUR BEST INVESTMENT

Purchasing a home is the best way to build a solid financial foundation. A home not only provides you with warmth and comfort, it also serves as a secure investment.

- Today, homes in the area continue to be a wise investment.
- Equity in your home can be used as collateral, thus providing you with additional financial security.
- Home ownership provides you with a sizable tax advantage because interest paid on mortgages is fully deductible. Property taxes can also be deducted.

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