Myths vs. Facts About Home Insurance and Your Escrow Account

If you're thinking about switching your home insurance carrier, I'm sure you've wondered how it will affect your escrow account and mortgage company. This article discusses the myths and facts about switching your home insurance policy with an active escrow account.

Myth: You can't switch your home insurance mid-policy

Fact: You can switch your home insurance any time. There are two reasons your mortgage company doesn't like you to switch your insurance mid-policy. First, it creates more work for them. Second, if you switch your home insurance mid-policy, there is a chance that your escrow won't have enough money in it to pay your new policy's premium in full. Mortgage companies always pay insurance premiums in full for the year. If your old policy just renewed 2 months ago, there may not be enough money in the escrow account to pay the new premium.

Myth: If you cancel your current home insurance policy prior to the expiration date, the refund check for overpaid premium will go to your escrow account.

Fact: You will receive the escrow refund check. When you cancel your home insurance policy, if any refunds are due they always go to the named insured on the policy, not to the mortgage company. For example, if you switch your home insurance policy and thus cancel your current policy with 3 months until the expiration of the policy, you will receive a pro-rated refund check for the final 3 months of that policy.

Myth: You are charged a cancellation fee for canceling your home insurance early.

Fact: Most home insurance companies do not charge cancellation fees. Although it's safe to check if your company charges one, about

95% of home insurance companies charge no cancellation fees. However, most companies do have a "fully-earned" policy fee. This fee is usually around , and is retained by your insurance company whether you keep the policy for one day or 364 days before canceling the policy.

Myth: With an escrow account, it is difficult to switch your home insurance.

Fact: It is extremely easy to switch your home insurance with an escrow account. In fact, it can be done in three simple steps.

1. Shop for and choose a new policy. Set up a start date for that new policy.
2. Call your mortgage company to notify them of the change. Make sure to have your loan number, your new policy number, and the phone number of your new agent.
3. Cancel your old policy.

Switching home insurance is easy as that! The only time you might possibly run into a snag is if your escrow account does not have enough money in it to pay the new premium. In that case, you might have to "fund" your escrow account by putting money into it.

Myth: Switching home insurance companies requires a large down payment.

Fact: Switching home insurance with escrow requires no money out-of-pocket. One benefit to an escrow account is that you can switch insurance without any money coming directly from you. Your mortgage company will pay the premium for you, as long as you have sufficient amount in your escrow.

Myth: You need to send your pro-rated refund check you received for canceling your insurance policy early into your mortgage company.

Fact: You don't need to send your pro-rated refund check into your mortgage company. However, unless your new yearly home insurance premium is significantly less than your old home insurance premium, it wouldn't be a bad idea to put some or all of it back into your escrow. If your new policy premium was $200 less than your old policy premium and you received a refund check of $300 in the mail, I would recommend send at least $100 back into your escrow account.

Myth: If your escrow account doesn't have enough money in it to pay my new home insurance policy premium in full, you can't switch companies.

Fact: You can switch home insurance companies, even if your escrow account doesn't have the funds to pay your home insurance in full. There are three ways you can switch insurance companies, even if your escrow balance is too low. First, you can pay the new premium out-of-pocket, and just bill the mortgage company for the following year. Second, you can "fund" the escrow by sending into your mortgage company an amount that would allow them to pay for the new policy. Third, you can start the new insurance policy billing the mortgage company, cancel the old policy, and then send your mortgage company the refund check you received by canceling your old policy. This final suggestion is risky, because it implies that you have to receive a refund check from your old home insurance policy first before you pay for a new one. Receiving your refund check can take up to a month, and receiving no payment for over a month of coverage isn't going to make your new insurance company all that happy.

Myth: If you put 25% down on your home, you do not need an escrow account.

Fact: If you put 25% down on your home, your lender may still require an escrow account. After the subprime mortgage collapse in 2009, most lenders require an escrow account regardless of how much money you put down. This has turned out to be a source of revenue for the mortgage companies. Having an escrow account tied to the mortgage can enable mortgage companies to more easily sell your mortgage. Therefore, they may charge you up to one point to "allow" you to pay your home insurance and taxes yourself, regardless of the amount of down payment that you make.