

Consumer Disclosure – Unimproved Tax Escrow Account Setup

Improved Land vs. Unimproved Land

When land is unimproved, this typically means no home or building has been placed on the property. Land becomes improved once a home has been built. To determine property tax obligations, state and local governments assess unimproved land at a lower value than improved land. The improved value therefore results in a higher property tax obligation.

What is Payment Shock?

Payment shock occurs when the monthly payments into an escrow account substantially increase after the first year due to a significant rise in escrow items such as property tax obligation. Payment shock is common with new housing construction, where the property tax assessment is based on the unimproved value of the land for the first calendar year but reassessed at the improved value of the land in the second calendar year.

The tax bills paid out of an escrow account are expected to increase substantially after the first calendar year due to the home being new construction. Under normal escrow practices, the monthly escrow payment in the second year could be much higher than in the first.

By Signing Below, The Following is Understood:

My (our) escrow account is set up with a tax amount based on an unimproved assessment. I (we) realize that my (our) escrow payment, which is included in my (our) mortgage payment, may increase substantially when the account is re-analyzed after the first calendar year.

Borrower

Date

Co-Borrower (If applicable)

Date