

HB 628

February 10, 1976

MEMORANDUM

TO: Rob Bradley

FROM: Terry Berman  
Administrative Assistant

SUBJECT: Escrow Accounts, HB 678

Mortgage reserve, or "escrow" accounts were established as a response to the financial problems of the thirties when banks suffered losses as mortgage holders failed to meet tax payments. As a condition of borrowing, borrowers were required to make an additional payment with their monthly mortgage payment to pay for taxes and hazard insurance. This provided the banks with protection against foreclosure or losses due to damage.

Each month, the homeowner prepays 1/12 of the estimated annual taxes and insurance premiums. In Anchorage, municipal tax payments are made only twice a year. Thus, in the homeowner's eyes, his money lays idle much of the year. Of course, the money does not remain idle, but is invested by the lenders. In most cases, the homeowner receives no interest nor benefits, other than not having to take care of his tax and insurance payments himself.

House Bill 678 requires that an escrow account be treated as a savings account, with the borrower receiving interest at a half percent less than the prevailing rate of return from a U. S. Treasury Department Treasury Bill, which is how banks often invest funds from escrow accounts.

Two lending institutions in Alaska do pay interest on escrow accounts. Home Federal Savings and Loan pays 5½ on all escrow accounts, with the average gain of \$30 per year to the homeowner. Alaska Mutual Savings pays 3½ on balances to \$700 and 5½ when the balance exceeds \$700. If interest were paid on escrow accounts at the current rate for savings accounts, a homeowner might receive \$1,000 over the period of a thirty year mortgage. In fact, if all escrow accounts in the United States received 5% annual interest, American homeowners would gain \$470 million dollars per year.

Requiring escrow to be paid into non-interest bearing accounts which are then invested may actually be a violation of the Federal Truth In Lending Law. Banks are required to state the true rate of interest, but with this interest-free loan they receive from borrowers, the actual interest rate to borrowers is higher than the stated rate.

The argument that banks give that the expense of escrow accounts justifies the non-payment of the interest is questionable. The difference between the rate of interest paid to homeowners and that received by the bank from their investment of such funds ought to cover the expense of the account.

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CONGRESS CONSIDERED CLOSING COSTS LEGISLATION LAST SEVERAL YEARS.  
NO ACTION TAKEN. HOUSE HOUSING SUBCOMMITTEE HEARINGS DECEMBER  
AND JANUARY ON H.R. 11450: REQUIRE FINANCIAL INSTITUTIONS TO  
PAY INTEREST ON ESCROW ACCOUNTS. U.S. LEAGUE TESTIFIED IN  
OPPOSITION. CONCERN FOR ECONOMIC FEASIBILITY AND NEGATIVE IMPACT  
ON LOCAL TAXING UNITS. NOT MUCH INTEREST IN CONGRESS AT THIS  
TIME. RECENT GAO STUDY ON ESCROW ACCOUNT INTEREST INCONCLUSIVE.  
HOUSING SUBCOMMITTEE CONSIDERS BILL LOW PRIORITY. NO ACTION TO  
DATE.

JON V. RASMUS

US LEAGUE OF SAVINGS ASSN

END



# Alaska State Legislature

House

February 10, 1976

JUNEAU ALASKA

## MEMORANDUM

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FROM: Terry Berman  
Administrative Assistant  
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*Good -  
just + just back  
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