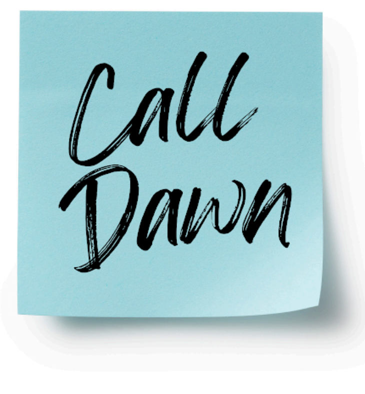
Property Taxes are Making My Head Hurt



Property taxes in Oregon can be quite complex. When you close your home purchase, you'll likely encounter a year's worth of taxes included in your closing costs, often appearing as "pro-rates," "escrow," and "hold and pay" on your Closing Disclosure. Let's break down what these terms mean and how they impact your transaction.

Important Dates to Consider

To fully grasp property taxes in Oregon, it's essential to know the fiscal year structure. The fiscal year runs from July 1 to June 30, with property taxes due annually on November 15. This can seem odd, as you'll be paying taxes for a period that is already four months in progress. A humorous theory suggests that November 15 could be the birthday of Oregon's first tax assessor—though that remains unverified!

So how does this confusing timeline affect your closing costs? Let's explore the three main items associated with property taxes that you may encounter during closing:

Pro-rates

Your purchase agreement includes a section for "prorations," typically found on lines 347 and 348 of the 2018 Realtor forms. If there's an 'x' next to "the Closing Date," you and the seller have agreed on who will pay property taxes for the respective ownership periods.

The amount you and the seller owe depends on your closing date. If you close on July 1 (the beginning of the fiscal year), there will be no prorations, as you will pay the tax bill due in November for that fiscal year.

However, if you close between July 2 and November 14, the seller will owe you a credit. This is because you'll be responsible for a tax bill on November 15 for a period you didn't own the home. Conversely, if you close between November 15 and June 30, you'll pay prorates to the seller, as they already covered the taxes up to June 30.

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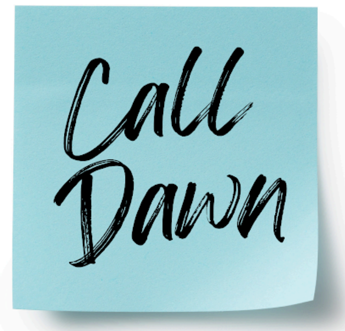
Escrow Deposits



Most loans establish an “escrow” account at closing, which functions like a savings account for your property taxes and insurance. Each month, alongside your mortgage payment, you will contribute one-twelfth of your annual property taxes and insurance premiums to this account.

At closing, you’ll make an initial deposit into your escrow account. The aim is to accumulate 14 months’ worth of last year’s tax bill by the time this year’s tax bill arrives, typically in October. Your lender will calculate how many months of payments you’ll make into the escrow account between your closing date and October, collecting enough at closing to ensure you meet this goal.

Understanding the “Hold and Pay” Process for Property Taxes in Oregon

If you close your home purchase in September or early October, the property tax situation can become a bit unusual. As the November due date approaches, the county files a lien against your new property for the upcoming taxes. Unfortunately, this lien initially lacks a dollar amount, and the county will not accept payment at this time. This creates a challenge: how can we settle a lien for an unknown amount with an entity that won't take payment?

Fortunately, there’s a solution known as a “hold and pay.” When your loan closes during this tricky period, the title company steps in as a middleman, collecting the expected amount for this year’s taxes, holding those funds, and then paying the bill as soon as it becomes available.

Since the title company won’t know the exact amount of your tax bill upfront, they typically collect slightly more than they anticipate needing—usually between 110% to 120% of the previous year’s taxes. Once the county issues the tax bill, the title company pays it, and any excess funds will be refunded to you. If you have a hold and pay arrangement at closing, keep an eye out for a check in the mail; it could be a nice surprise to treat yourself to a dinner out in October! Just a note: if the seller covered 100% of your closing costs, that refund may be due to them.

Examples of Tax Calculations at Closing

Understanding how these processes work can be clearer with examples. Remember, the goal is to have 14 months’ worth of last year’s taxes in your escrow account by the time the tax bill arrives in October.

1. **Closing on July 1:** Your first mortgage payment is due September 1. You will make two payments (September 1 and October 1), which adds two

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months’ worth of taxes into your escrow account. At closing, you need to deposit 12 months of taxes into your escrow account (12 months at closing + 2 months of payments = 14 months by October). Since there are no prorates, you owe only that 12-month deposit.

2. **Closing on August 1:** You will make one payment (October 1) before the tax bill arrives, requiring you to put 13 months of taxes into your escrow account (13 months + 1 month payment = 14 months by October). The seller will owe you a month of tax prorates, so you’ll only need to pay 12 months at closing (13 months escrow deposit - 1 month of prorates).
3. **Closing on June 1:** You will make three payments (August 1, September 1, and October 1) before the tax bill comes in, so you need to deposit 11 months of taxes into your escrow account (11 months at closing + 3 months of payments = 14 months by October). Additionally, you’ll owe your seller one month of prorates, leading to a total of 12 months due at closing (11 months escrow deposit + 1 month prorates).

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A Helpful Shortcut

Notice a pattern? Your prorates and escrow deposit will typically add up to between 11 and 12 months of taxes due at closing. However, if you close during the “hold and pay” window in September or early October, expect to pay 15 to 16 months of taxes at closing, with some refunded later. Don’t worry; the title company will handle the math for you and the seller.

Common Question: Taxes at Closing vs. Monthly Payments

You might wonder, “If I pay a year of taxes at closing, does that mean my mortgage payment won’t include taxes for the first year?” While it seems logical, the answer is no. Even though you’ve paid a full year of taxes (and insurance) at closing, your mortgage payment will still include taxes and insurance from the very first payment.
Think of your escrow account as a savings account. You contribute to this account throughout the year, and taxes and insurance are paid out when they come due. If you stop contributing after your initial deposit at closing, your account may not have enough funds to cover future tax payments.

You can think of it this way: the taxes you pay at closing cover this year’s taxes, while your monthly mortgage payments contribute toward next year’s taxes.

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Annual Escrow Review

Lastly, let's talk about the annual escrow review. Each year (typically in January or February), you'll receive a statement detailing your escrow account's activity from the past year. It outlines the estimated payments that went in and the actual payments made for taxes and insurance.

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Because these costs can fluctuate, your lender will perform a quick calculation to adjust your monthly payment accordingly. Typically, this means you should budget for a 5% increase in your tax and insurance portion of the payment. However, if you've made significant changes to your property or insurance plan, you might see a larger adjustment.

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