

# WHAT HAPPENS *in Escrow?*

## WHAT IS ESCROW AND WHY IS IT NEEDED?

Escrow is an arrangement in which a disinterested third party (an escrow holder), holds legal documents and disburses funds on behalf of a buyer and seller, and distributes them according to the buyer and seller's instructions.

People buying and selling real estate often open escrow for their protection and convenience. The buyer can instruct the escrow holder to disburse the purchase price only upon the satisfaction of certain prerequisites and conditions. The seller can instruct the escrow holder to retain possession of the deed to the buyer until the seller's requirements, including receipt of the purchase price, are met. Both rely on the escrow holder to faithfully carry out their mutually consistent instructions relating to the transaction and to advise them if any of their instructions are not mutually consistent or cannot be carried out.

Escrow is convenient for the buyer and seller because both can move forward separately but simultaneously in providing inspections, reports, loan commitments, funds, deeds, and many other items, using the escrow holder as the central deposit point. If the instructions from all parties to escrow are clearly drafted, fully detailed and mutually consistent, the escrow holder can take many actions without further consultation. This saves much time and facilitates a smooth closing of the transaction.



## IN SUMMARY

Escrow accounts are opened for protection and convenience by those who are selling or buying real estate. The escrow process was developed to help facilitate the sale or purchase of your home. The escrow holder accomplishes this by:

- Acting as the impartial "stakeholder," or depository of documents and funds.
- Processing and coordinating the flow of documents and funds.
- Keeping all parties informed of progress on the escrow.
- Responding to the lender's requirements.
- Securing a title insurance policy.
- Obtaining approvals of reports and documents from the parties as required.
- Prorating and adjusting insurance, taxes, rents, etc.
- Recording the deed and loan documents.
- Maintaining security and accountability of monies owed and owing.

## WHAT EACH PARTY DOES IN THE ESCROW PROCESS

### THE SELLER

- Deposits the executed deed to the buyer with the escrow holder.
- Deposits evidence of pest inspection and any required repair work, per the purchase and sale agreement.
- Deposits required documents such as addresses of mortgage holders, homeowner association contacts, and lien holders.

### THE BUYER

- Deposits the funds required, in addition to any borrowed funds, to pay the purchase price with the escrow holder.
- Deposits funds sufficient for home and title insurance.
- Approves any inspection reports, title insurance commitments, etc. called for by the purchase and sale agreement.
- Fulfills any other conditions specified in the escrow instructions.

### THE LENDER (IF APPLICABLE)

- Deposits proceeds of the loan to the purchaser.
- Directs the escrow holder on the conditions under which the loan funds may be used.

### THE ESCROW HOLDER

- Opens the order for title insurance.
- Obtains approvals from the buyer on title insurance report, pest and other inspections.
- Receives funds from the buyer and/or any lender.
- Prorates insurance, taxes, rents, etc.
- Disburses funds for title insurance, recording fees, real estate commissions, lien clearance, etc.
- Prepares a final statement for each party, indicating amounts to be disbursed for services and any further amounts necessary to close escrow.
- Records deed and loan documents, delivers the deed to the buyer, loan documents to the lender and funds to the seller, closing the escrow.