

What is Escrow?

Understanding the Escrow Process

An escrow is an arrangement in which a neutral third party (the escrow agent) assembles and processes many of the components of a real estate transaction, records the transaction, and ultimately, disburses and distributes funds according to the buyers', sellers' and lenders' instructions. Your transaction is typically closed by an Escrow Officer. People buying and selling real estate usually open an escrow for their protection and convenience. Both the buyer and seller rely on the escrow agent to carry out their written instructions relating to the transaction and to advise them if any of their instructions are not mutually consistent or cannot be carried out. If the instructions from all parties to an escrow are clearly drafted, the escrow officer can proceed on behalf of the buyer and seller without further consultation. This saves much time and facilitates the closing of the transaction.

Typical Roles in the Closing Process

The Seller/Agent

- Delivers a fully executed Purchase Sale Agreement to the escrow agent.
- Executes the paperwork necessary to close the transaction.

The Buyer/Agent

- Deposits collected funds required to close (in with the escrow agent).
- Approves the commitment for title insurance, or other items as called for by the Purchase Sale Agreement.
- Executes the paperwork and loan documents necessary to close the transaction.

The Lender

- Deposits loan documents to be executed by the buyer.
- Deposits the loan proceeds.
- Directs the escrow agent of the conditions under which the loan funds may be used

The Escrow Agent

- Clears Title
- Obtains title insurance
- Obtains payoffs and release documents for underlying loans on the property
- Receives funds from the buyer and/or lender.
- Prepares vesting document affidavit on seller's behalf.
- Prorates insurance, taxes, rents, etc.
- Prepares a final statement (often referred to as the "HUD Statement" or "Settlement Statement") for each party, indicating amounts paid in conjunction with the closing of your transaction.
- Forwards deed to the county for recording.
- Once the proper documents have been recorded, the escrow agent will distribute funds to the proper parties.

In Summary

Escrow is the process that assembles and processes many of the components of a real estate transaction. The sale is officially closed when the new deed is recorded and funds are available to the seller, thus transferring ownership from the seller to the buyer. The escrow agent is a neutral third party acting on behalf of the buyer and seller.