

# WHAT IS ESCROW

## AND WHAT ESCROW DOES FOR YOU



### 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 time and facilitates a smooth closing of the transaction.

### WHAT EACH PARTY DOES IN THE ESCROW PROCESS

#### THE SELLER

- Deposits the executed deed to the buyer with the escrow holder.
- Deposits evidence of inspections and any repair work as required, 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

- Act as the (neutral) impartial third party or depository of documents and funds.
- Secure a title insurance policy and work to clear matters of record
- Process and coordinate the flow of documents
- Fulfill lender requirements and keep all parties informed of progress on the escrow.
- Prepare final statements for each party, which include a detailed accounting summary of prorated insurance, taxes, rents, etc.
- Facilitate signing of final closing documents for all parties
- Deliver executed documents to lender for review
- Record deed and loan documents, (deliver the deed to the buyer) - insure conveyance of title, loan documents to the lender and funds to the seller, closing the escrow.
- Disburses funds for title insurance, recording fees, real estate commissions, lien clearance, etc.



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