

THE ESCROW PROCESS



You may have already heard phrases such as “the house fell out of escrow”, or “we’re waiting for escrow to close.” So just what is escrow anyway? And what does it mean to a home buyer or seller?

Simply stated, escrow is the involvement of an impartial third party in a real estate transaction. This neutral third party acts as an intermediary between the buyer and seller, and also collects and remits funds as instructed. Buyer’s funds are deposited with the escrow company, which then remits to the seller on the buyer’s behalf. The basic concept of escrow is to ensure that both the buyer and the seller are protected during any real property transaction. Not only is “escrow” the concept of a third party receiving and disbursing funds, but it also includes other valuable transaction services. In order to facilitate the transfer of property from one owner to another, the best escrow companies will:

- Prepare, review and/or revise escrow instructions.
- Determine the legal ownership and status of the property through a “title search.”
- Request a beneficiary’s statement if a debt is to be assumed by the buyer.
- Confirm that the buyer is “qualified” and meets the lender’s requirements.
- Confirm property meets requirements imposed by the lender and/or buyer.

- Prorate all related financial matters (e.g., taxes, insurance) involved in the ownership transfer.
- Ensure all legal documentation is complete, including recording deed.
- Comply with time limits imposed in instructions.
- “Close” escrow when all instructions (buyers, seller’s and lender’s) have been fulfilled.
- Disburse funds as instructed, including all related fees (title fees, commissions, if any, payoffs, etc.).
- Prepare final statement for all concerned parties.

Escrows in California are performed by banks, savings & loans, and title companies as well as independent escrow firms which are licensed by the state of California, and their records are open to inspection by the Corporation Commissioner. In addition, escrow companies furnish the state with annual audits of their books, and all escrow funds must be kept in trust accounts. Thus, the state helps ensure that escrow companies are properly managed and truly act as impartial parties to any real property transaction.

Escrow companies are generally held liable if any instructions are violated during the course of an escrow. No changes may be made to any escrow instructions if changing them would be detrimental to any party involved. It is possible to change instructions once a property has “entered escrow” however, but only by mutual agreement. Finally, all escrows have clearly defined time limits. If, for some reason, all instructions cannot be carried out by the end of the time limit, all parties involved are entitled to the return of documents, fees, funds and other related materials. They also may mutually agree to extend the time period by changing the instructions.

The term “escrow” has come to mean “neutral protection” for the seller, the lender and the buyer. All parties involved in the transfer of real property are impartially protected during the transaction, and are serviced by professionals intent on ensuring a smooth, trouble-free sale. Look for an escrow company that clearly defines its services, and which lists all fees and charges “up front.”

Escrow is an indispensable necessity in today’s marketplace. If you need further explanations during the process, always consult your escrow officer. The escrow company is, indeed, a neutral third party, and its job is to make sure all sale conditions are met quickly and efficiently.

Choosing your escrow company

Ideally, you should ask your real estate agent to recommend two or three different escrow companies, then you would choose. If you don’t have an agent, you’ll find escrow companies listed in the yellow pages of your phone book under either Real Estate Escrow or Real Estate Title Insurance.

In most cases, escrow companies work together with title insurance companies so you can kill two birds with one stone by selecting both the escrow and the title insurance company at the same time.