

What is Escrow?

As a buyer or seller, you want to be certain all conditions of the sale have been met before property and money change hands. The technical definition of an escrow is a transaction where one party engages in the sale, transfer, or lease of real or personal property with another person who delivers a written instrument, money or other items of value to a neutral third person called an escrow agent or escrow holder. This third party holds the money or items for disbursement upon the happening of a specified event or the performance of a specified condition (that is, closing the real estate transaction).

Simply stated, the escrow holder impartially carries out the written instructions given by the principals. This includes receiving funds and documents necessary to comply with these instructions, completing or obtaining required forms, and handling final delivery of all items to the proper parties upon the successful completion of the escrow.

When all of the instructions have been carried out, the closing can take place. At this time, all outstanding funds are collected and fees—such as title insurance premiums, real estate commissions, termite inspection charges are paid. Title to the property is then transferred and appropriate title insurance is issued.

The following items represent a typical list of what an Escrow holder does and does not do:

The escrow holder:

- Serves as the neutral “stake holder” and the communications link to all parties in the transaction.
- Prepares escrow acceptance, and amendments, if any
- Requests a preliminary title search
- Complies with lender’s requirements
- Receives purchase funds from the buyer.
- Prepares or secures the deed or other documents related to escrow.
- Prorates taxes, interest, insurance and rents according to instructions.
- Secures releases of all contingencies or other conditions
- Records deeds and any other documents as instructed.
- Requests issuance of the title insurance policy.
- Closes escrow when all the instructions of buyer and seller have been carried out
- Disburses funds as authorized by instructions.
- Prepares final settlement statements for the parties accounting for the disposition of all funds deposited in escrow (these are useful in the preparation of tax returns.)

The escrow holder does not:

- Offer legal advice
- Negotiate the transaction
- Offer investment advice.

Buying or selling a home (or other piece of real property) usually involves the transfer of large sums of money. It is imperative that the funds and related documents from one party to another be handled in a neutral, secure and knowledgeable manner. The escrow process was developed for the protection of the buyer, seller and lender.



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