



SCOTT LYLE REALTORS

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What Is Escrow?

Escrow is a process that provides for a fair and equitable transfer of property from one person to another.

By Broderick Perkins

Escrow opens when the buyer and seller sign a sales contract, commonly called a real estate purchase agreement and receipt of deposit. The contract, along with any additional instructions, serves as instructions for the escrow officer.

Escrow assures that the lender releases the home purchase funds at or about the same time that the deed is recorded to reflect new ownership.

Escrow includes depositing, with a neutral third party, funds, documents and instructions necessary to complete the transfer.

Because the real estate transaction involves large sums of money and reams of documentation, escrow is not always a predestined, step-by-step process, but can become a confusing end game of details, nit picking and overlapping procedures.

It requires preparation, attention to detail, and desire from both sides to close the deal. Regional custom will dictate who (the buyer or the seller) chooses the neutral third party and who that third party will be. A neutral third party can be an escrow officer from an escrow company, someone from a title company or from a title and escrow company. Some regional areas use title and escrow attorneys. Custom and market conditions also dictate which escrow costs the buyer or seller pays. The amount typically totals about 1 to 2 percent of the cost of the home.

Choosing an escrow officer is much like choosing any real estate professional. Get several referrals from trusted people, then compare services, cost and convenience.

Your escrow officer opens escrow by assigning your escrow an account number and collecting the contract and other instructions, the buyer's deposit and perhaps additional proceeds or documents related to the transaction. Deposits are either applied to the purchase price, or returned should the deal fall through.

The buyer orders title insurance, to protect him or her against blemishes on the title, and he or she orders a preliminary title search to determine if there are any claims against the title. The contract and escrow instructions likely contain contingencies for home insurance, flood insurance, home inspections, financing, repairs and other tasks either the buyer or seller must complete before the transaction can progress. Each time a contingency is met, the buyer or seller signs off with a contingency release form or letter copied to all parties, including the escrow officer.





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At some point, parties will receive a preliminary title report which summarizes the condition of the title, including easements and liens, claims and encumbrances against the property. The seller must resolve any claims against the title, or they could stall the deal.

The title company may check once again and produce a final report to be sure existing claims have been removed and that no claims have been filed since escrow opened.

Once the loan is funded, contingencies are released, the title is cleared, the buyer inspects the property and decides how to take title, only a few loose ends must be tied before close of escrow.

Remaining paperwork to sign a few days before close includes the buyer's grant deed, any final escrow instructions or contingency releases, the settlement sheet of disbursements, title reports, the deed of trust lender forms, inspection reports, tax statements -- and a rental agreement if the seller will live in the home for some time after escrow closes.

Escrow closes and the deal is sealed when the escrow office records a new deed in the buyer's name, the seller gets paid for the home, and all other monies are disbursed.

Money may be held in escrow after the close to pay contractors for unfinished work.

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