



What is Escrow

The Basics

OAK TREE
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Escrow Basics: Securing the Real Estate Transaction

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

What is Escrow?

You will hear the word “escrow” used often throughout your homebuying process. The basic meaning of escrow is that it is money held by an independent third party during the course of a transaction.

Who is the independent third party who holds the money?

In many states, the escrow agent is a licensed agent within a title insurance company. Some states require an attorney to be the escrow holder for a real estate deal, while other states and areas, such as Northern California, have escrow departments as part of the title company that handle the real estate closing and the disbursement of the funds.

Where is the money held?

In the case of a real estate transaction, the escrow agent or escrow holder has a depository account to deposit the monies for the deal, including your down payment on the property, the funds you provide to cover the closing costs and your lender’s disbursement of the mortgage monies. These monies are held in the

account while the transaction is being finalized. From that account, the escrow agent eventually disburses the money to all parties to the deal.

What kind of payments are made out of the escrow funds?

The escrow agent receives detailed instructions from the lender, concerning what must be paid at the time of closing. These payments could include:

- Payoff of all existing mortgages
- Payoff of all existing judgments or liens
- Payment of the balance of the sales price, after mortgages are paid, to the former owner
- Real estate broker fees and commissions
- Mortgage fees and commissions
- Closing costs
- Title, homeowners and mortgage insurance
- Taxes
- Recording fees

What are the other duties of an escrow or closing agent?

In addition to handling the money for the transaction, an escrow or closing agent is often in charge of working with the buyer, the seller and the real estate agents, and any lenders, to assure all of the documentation needed for the closing package has been submitted and is complete.



The agent often oversees the closing process and presents the documents to you for your signature.

After all documents have been signed and the transaction is complete, the closing agent provides you with copies of those documents, and returns a completed mortgage package containing them to the lender.

In addition, the agent records all pertinent documents with the county recorder's office, prepares a statement for all parties detailing the disbursement of funds, and requests the issuance of the title policy.

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