

# WHAT IS AN ESCROW?

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## *WHAT is an Escrow?*

In terms of a real property transaction, it is the delivery by the seller and buyer of legal instruments and money to a third person (escrow agent) for further delivery upon performance of certain conditions specified by written instructions of the parties.

## *WHO are Parties to an Escrow?*

The seller and buyer are the PRINCIPALS in the escrow. The third party is the escrow agent. In addition, the principals may include other parties in the escrow by virtue of instructions and requirements of the principals, including a lender making a loan on the property, lienholders, contract vendors, etc. It may be necessary to receive documents and money from these other parties along with their instructions. Although the Broker Realtor is a party to the earnest money agreement, she/he is not a principal in the escrow except where she/he is also one of the sellers or buyers.



## *WHEN is an Escrow Required?*

An escrow is required when the seller and buyer per the terms of their earnest money agreement specify that the transaction will be closed in escrow. Most lenders require that its loans be closed in escrow by a neutral third party.

## *WHY use an Escrow?*

- To assure that the provisions of the earnest money agreement are carried out per the agreement of the parties
- To assure that the rigid body of rules peculiar to real property transactions is carefully observed
- To provide a financially responsible and impartial custodian who holds the funds and documents and makes concurrent delivery of same when terms and conditions of the transaction have been performed
- To obtain a proper title search and title policy to assure the buyer and lender that title to the property is in the condition that the buyer bargained for and that lender requires
- To provide and prepare necessary documents of conveyance and escrow instructions for the transaction
- To provide for the payment of all liens and encumbrances that are to be paid and cleared on closing and those that do not appear on the title reports, i.e., utilities that may be a lien
- To provide a trained agent to perform all of the escrow accounting functions (prorates, adjusting accounts, payment of commissions, fees, taxes, etc.)
- To provide a closing statement to the parties on closing showing the disposition of the funds involved

