

What is Escrow? How does it work?



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Escrow is an impartial third party in which documents and funds are deposited by buyers, sellers and lenders to facilitate the closing for a real estate transaction. As a fiduciary player in the transaction, escrow is required to follow mutual written instructions from all parties.

Escrow will coordinate with the buyer, seller and lenders to obtain required signatures on all documents, work closely with the title officer to clear liens and encumbrances against the property, and record the documents with the county.

Why Do I Need an Escrow?

An escrow assures all parties to a transaction that no funds are delivered and no documents are recorded until all conditions in the transaction have been met.

How Do I Open an Escrow?

Opening an escrow is the first step in the closing process. Generally, to open an escrow, the parties to a transaction deliver to an escrow company the earnest money check and the purchase and sale agreement, which outlines the transaction and provides the closing date, contingencies and financing details. Anyone involved in a transaction can "open the escrow", but generally your real estate agent will do so. In the case of a for-sale-by-owner or FSBO, the buyer, the seller or both may open the escrow.

Who Sets the Closing Date?

The buyer or seller may select the closing date, but both buyer and seller must agree to it. The purchase and sale agreement may state the closing date as "Closing to occur on or before August 20th, 2010." In most cases, closing occurs 30, 60 or 90 days from the date a purchase and sale agreement is signed.

What Do Closing Costs Include?

The closing costs will include title search fees, taxes, notary fees, loan fees, escrow fees, recording fees, reconveyance fees, the real estate sales commission, and other miscellaneous charges.

Who Chooses the Escrow Company?

The parties involved in the transaction decide which escrow company will close the transaction. Although it is very common for your real estate agent to recommend an escrow closer, the parties have the right to choose an escrow closer they feel is competent and experienced. The law prohibits escrow companies from paying referral fees to real estate agents, to protect the parties' right to select their own escrow closer.



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