

Why Do I Need Escrow?

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Escrow can be confusing, especially if you are not familiar with the process. To ease the confusion that so often surrounds the escrow process, here are some answers to common escrow questions.

Q. What is escrow?

A. Escrow is an arrangement where a neutral third party, called an escrow holder, keeps funds and documents for a buyer and seller and distributes them based on the buyer's and seller's instructions.

Q. Why do I need escrow?

A. No matter what end of the deal you are on, you want the assurance that no property or funds will change hands until all of your directions have been followed.

Q. What types of transactions go through escrow?

A. Most transactions involve the purchase and sale of property, but escrow also covers mobile homes, businesses, and stock transfers. Basically, it is wise to have an escrow for any transaction that involves a substantial purchase.

Q. What should I do as a seller entering escrow?

A. Make sure to have information about your ownership available. This includes the original deed or title policy, and a current statement from the existing lender.

Q. What should I do as a buyer entering escrow?

A. Prior to entering escrow, have your loan set up or at least a pre-approval letter. If you need help finding a lender, consult your realtor. He or she will be knowledgeable about active lenders and financing programs.

Q. What happens at closing?

A. Once buyer and seller comply with all instructions and all required funds are deposited into escrow, the escrow holder may proceed with the closing of escrow. Close of escrow results when the property title is transferred, all documents are recorded in the County Hall of Records and all funds are disbursed as instructed.

Q. What do the closing fees include?

A. Fees vary greatly depending on the transaction. However, normal fees include lender fees from new and old loans, recording fees, title insurance policy premiums, documentary transfer taxes, prepaid taxes, insurance and escrow fees. Your escrow officer will provide you with an estimated itemized statement of all fees, prior to closing and a finalized statement at close of escrow.

Q. What is the fee for the escrow service?

A. It depends on the size and complexity of the transaction. Usually the escrow fee is divided based on an agreement reached between the interested parties.

Q. What if the transaction does not go through? What happens then?

A. When escrow fails to close, a written cancellation agreement is reached between the interested parties including the payment of fees, costs incurred and the balance of funds disbursed according to agreement.

For more helpful escrow tips visit the California Escrow Association Web site at <http://www.ceaescrow.org>.

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