

What is Escrow?

Understanding Escrow

An escrow is an arrangement in which a neutral third party (the escrow agent) assembles and processes all of the components of a real estate transaction (including legal documents), records the transaction, and ultimately, disburses and distributes funds according to the buyer's and seller's instructions. Your transaction is typically closed by an Escrow Officer or Limited Practice Officer (LPO).

People buying and selling real estate often open an escrow for their protection and convenience. Both the buyer and seller rely on the escrow agent to carry out their mutually consistent instructions relating to the transaction and to advise them if any of their instructions are not mutually consistent or cannot be carried out. If the instructions from all parties to an escrow are clearly drafted, the escrow officer can take many actions on behalf of the buyer and seller without further consultation. This saves much time and facilitates the closing of the transaction.

Typical roles in the Escrow process

The Seller/Agent

- Delivers a fully executed Purchase & Sale Agreement to the escrow agent.
- Executes the paperwork necessary to close the transaction.
- Deposits evidence of pest inspection and any required paperwork, per the Purchase & Sale Agreement.

The Buyer/Agent

- Deposits funds required to close (in addition to the purchase price) with the escrow agent.
- Approves any inspection reports, commitment for title insurance, or other items as called for by the Purchase & Sale Agreement.
- Fulfills any other conditions specified in the escrow instructions.

The Lender (when applicable)

- Deposits proceeds of the loan.
- Directs the escrow agent of the conditions under which the loan funds may be used.

The Escrow Agent

- Obtains the order for title insurance.
- Obtains approvals from the buyer(s) on pest inspections, the commitment for title insurance, and any other inspections that are called for in the Purchase & Sale Agreement.
- Obtains any required payoffs/release documents to clear title.
- Receives funds from the buyer and/or lender.
- In most cases, prepares vesting document and excise tax affidavit on seller's behalf.
- Prorates insurance, taxes, rents, etc.
- Prepares a final statement (often referred to as the "HUD Statement" or "Settlement Statement") for each party, indicating amounts paid in conjunction with the closing of your transaction.
- Oversees the signing of your loan documents.
- Forwards deed to the county for recording.
- Once the proper documents have been recorded, the escrow agent will disburse and distribute funds to the proper parties. Quote,

In Summary

Some of the escrow officer's responsibilities include:

- Process and coordinate the flow of documents and funds.
- Keep all parties informed of progress to the escrow.
- Oversee signing of loan/closing documents.
- Obtain approvals of reports and documents from the parties as required.
- Prorate and adjust insurance, taxes, rents, etc.
- Record the deed and loan documents.
- Prepare a final statement outlining funds received and to be disbursed in conjunction with your transaction.

Escrow is the process that assembles and processes all the components of a real estate transaction. The sale is officially closed when the new deed is recorded, thus transferring ownership from the seller to the buyer. The escrow agent is a neutral third party acting on behalf of the buyer and seller under the guidelines set forth by the State of Washington Dept. of Financial Institutions.

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