

California Mortgage Partners



What is Escrow?

Escrow is the depositing of funds and documents by the parties with a neutral third party for delivery upon completion of the terms of the escrow instructions. The word escrow is derived from the French word 'escroue' meaning a scroll or roll of writing.

When the parties deliver documents and money to the Escrow Officer to be held for further delivery until certain conditions have been met, we say the documents are held "in escrow". We may also say the parties have "opened an escrow". Each of the principals of the escrow (seller, buyer, lender) will give to the escrow holder written instructions setting out the conditions under which further delivery is to be made. These instructions are usually typed by the Escrow Officer or the Escrow Assistant from information supplied by the principals or from a contract signed before they arrived at the escrow office.

The Purpose of an Escrow

The common use of an escrow is to enable the parties in a real estate transaction to deal with each other with less risk, since the escrow holder acts as:

- Custodian for funds and documents.
- A clearing house for payment of all demands, (downpayment, closing costs, etc)
- An agency to perform the clerical details for the settlement of the accounts between the parties



Typical Escrow Transaction

Typically, an escrow begins with the ESCROW OFFICER opening the order for title work. Based on the information provided, the title company prepares either a preliminary report or a commitment. A preliminary report provides the customer with the conditions on which the title insurer will issue a policy. It reflects publicly recorded documents which the insurer will except or exclude from coverage and therefore provides a guide to matters to be cleared prior to close. A commitment (issued prior to the close of escrow) additionally specifies the requirements which must be met in order to issue the requested insurance.

Upon escrow's receipt of the preliminary report, an analysis is made to determine the necessary action and documents required to complete the transaction: demands for satisfaction of liens not acceptable to buyer and/or lender; documents for recording; instructions and requirements of the new lender.

In most areas, buyers and sellers instructions prepared for signature from the information gathered. When all the title and financial requirements are met, and instructions from all parties can be fully complied with, the escrow is said to be in perfection and can close. Then the financial settlement takes place, the documents are recorded and the title insurance policies are issued.

Who Pays?

In a purchase transaction, the total escrow fee is usually split evenly between the buyer and seller.

Refinances are paid entirely by the borrower but it is a lesser amount than a purchase transaction.

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