What is ESCROW

What is escrow and why is it needed

What is 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 LPO (Limited Practice Officer) in Washington State.

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 any amendments to 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 Purchase & Sale Agreement

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), 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 (commonly 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 loan documents.
- Forwards deed to the county for recording.

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.
- Respond to lender's requirements.
- Oversee signing of loan/closing documents.
- 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 functions as the facilitator of all the components of a real estate transaction. The transaction 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 Department of Financial Institutions.

First American Title™

The Closing Process and Responsibilities

Executed Purchase & Sale Agreement

Agreement is executed between the buyers and sellers

Buyer completes their Loan Application

Purchase & Sale Agreement is sent to First American Title to open escrow

Lender	Escrow	Title Insurance
• Credit Report	• Place title order if necessary	• Complete title search and examination

• Verification of;
   - Buyer's funds
   - Employment
	• Review Title	• Verify legal description

• Underwriter	• Work with the title company to clear up any issues	• Issue title commitment

• Loan Approval	• Determine status of;
	   - Homeowners dues
	   - Commissions
	   - Taxes
	   - Liens
	   - Mortgages
		• Work with escrow to clear any title issues

• Mortgage Insurance (if necessary)	• Prepare Closing Statement, Escrow Instructions, Excise Tax Affidavit and other documents as needed	
	• Oversee the signing of the closing documents	
	• Collect funds to close	
	• Coordinate recording of Documents	
• Wire funds	• Disburse funds	• Issue Policies

The Glossary of Real Estate Terms

CLOSE OF ESCROW The date the documents are recorded and title passes from seller to buyer. On this date, the buyer becomes the legal owner, and title insurance becomes effective and funds are available to the Seller.

EARNEST MONEY Down payment made by a purchaser of real estate as evidence of good faith; a deposit or partial payment.

FEE SIMPLE An estate under which the owner is entitled to unrestricted powers to dispose of the property, and which can be left by will or inherited. Commonly, a synonym for ownership.

LEGAL DESCRIPTION A description of land recognized by law, spelling out the exact boundaries of the entire piece of land. It should so thoroughly identify a parcel of land that it cannot be confused with any other.

QUIT CLAIM DEED A deed operating as a release or intended to pass any title, interest or claim which the grantor may have in the property, but not containing any warranty of title in the grantor.

RECONVEYANCE Release of the lien of a deed of trust or trust deed.

SURVEY A depiction on a map by a surveyor of real property which delineates the boundaries of a parcel of land. An ALTA survey additionally delineates location of all improvements, encroachments, easements and other matters affecting the title to the property in question. A survey may be required by a title insurance company, depending on the type of coverage chosen.

VESTING The names, status and manner in which title of ownership is held with a fixed or determinable interest in a particular parcel of real property; also that portion of a title report or policy setting forth the above.

WAIVE To voluntarily and intentionally relinquish a known right, claim or privilege.

WARRANTY DEED A deed used in many states to convey fee title to real property.