

LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

What is Escrow?

Escrow is a neutral third party that holds documents and money in a real estate transaction until all conditions of the sale or loan are complete. Escrow's responsibilities are to act as a referee during the home buying and refinance period. They make sure all parties involved are paid in full before the property title is transferred or updated. Escrow completes all the required forms and ensures the owner of the property is properly vested. They are also responsible for making sure loan documents are accurate and complete and delivers them to the title company for recording. Once the recording is complete, they disburse the remaining funds to the appropriate parties and escrow is then considered "closed".

During a purchase, both the buyer and the seller will pay fees to this company, so it is important to agree on which service to use. Therefore, your choice should be part of the offer. Since you do not buy a home every other week, you are probably unfamiliar with companies that provide this service. On a purchase, escrow plays a significant role and you will have a lot of contact with them. That is why it is important to choose a good escrow company. Your agent or mortgage broker will make a recommendation and you have the authority to accept this recommendation and include it in your offer, or make your own choice. The seller will also have a preference and this may be a point of negotiation. Remember, everything in real estate is negotiable.

During a refinance transaction your lender or broker will generally choose the escrow company on your behalf. You will have less interaction during a refinance than you would a purchase; they would typically only contact you when loan documents are ready to be signed or to obtain vesting or insurance information.

On a purchase, the escrow fee is a percentage of the sales price and will be much higher than a refinance. This is because escrow has many more responsibilities and there are more parties involved on a purchase. On a refinance the escrow fee is generally a set fee that is charged on each transaction. It can vary slightly from company to company.

As with a lender, broker or realtor, it is important to use an escrow company that you trust. If you are not familiar with any escrow companies, ask your trusted real estate professional to suggest one.