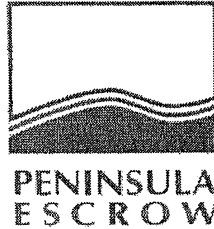


# What Is An Escrow

## And Why Is It Needed?



Any escrow is an arrangement in which a disinterested third party, called an escrow holder, holds legal documents and funds on behalf of a buyer and seller, and distributes them according to the buyer's and seller's instructions. People buying and selling real estate often open an escrow for their protection and convenience. The buyer can instruct the escrow holder to disburse the purchase price only upon the satisfaction of certain prerequisites and conditions. The seller can instruct the escrow holder to retain possession of the deed to the buyer until the seller's requirements, including receipt of the purchase price, are met. Both rely on the escrow holder to carry out faithfully 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.

An escrow is convenient for the buyer and seller because both can move forward separately but simultaneously in providing inspections, reports, loan commitments and funds, deeds and many other items, using the escrow holder as the central depositing point. If the instructions for all parties to an escrow are clearly drafted, fully detailed and mutually consistent, the escrow holder can take many actions on their behalf without further consultation. This saves much time and facilitates the closing of the transaction.

Who may hold escrow?

The escrow holder must be a disinterested third party. In California, the escrow holder may be a title company, a licensed independent escrow company or an escrow division of a real estate company. There are two important reasons for selecting an established escrow company. One is that real estate transactions require a tremendous amount of technical experience and knowledge to handle properly. The other is that the escrow holder will generally be responsible for safeguarding and accurately distributing the purchase price in accordance with instructions handed them. Escrow officers with established firms are experienced and trained in real estate procedures, title insurance, taxes, deeds, and federal and state regulations.

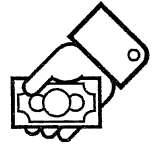
Impartiality

An escrow officer must remain completely impartial throughout the entire escrow process. He or she will normally adopt a courteous but rather formal manner when dealing with parties to the escrow, keeping conversation to the matters at hand in the escrow. This formal behavior is meant for the benefit of all concerned, because the escrow officer must follow the instructions of both parties without bias.

Escrow Instructions

Escrow instructions are written documents, signed by the principals to the transaction, which direct the escrow officer to perform specific steps to be completed prior to the close of escrow. Typical instructions would include the following:

- The method by which the escrow holder is to receive and hold the purchase price to be paid by the buyer
  - The conditions under which a lapse of time or breach of a purchase contracts provision will terminate the escrow without a closing.
  - The instructions and authorization to the escrow holder to disburse funds for recording fees, title insurance policy, real estate commissions, and any other closing costs incurred through escrow
  - Instructions as to the prorating of insurance and taxes
- Instruction to the escrow holder on the payment of prior liens and charges against the property and distribution of the net sale proceeds



Because the escrow holder can only follow the instructions as stated, and may not exceed them, it is extremely important that the instructions be stated clearly and complete in all details.

What each party does in the escrow process

The Seller:

- Executes all escrow instructions
- Deposits the executed deed to the buyer with escrow holder

Deposits or causes to be deposited other documents as required by the Purchase Agreement or the escrow instructions. This may include, but not necessarily limited to, all documents to transfer and/ or clear title to the buyer, evidence of termite inspection with the Notice of Completion, home warranty contract, city requirements (if any) and Federal and/or State requirements.

The Buyer:

- Executes all escrow instructions
- Approves any inspection reports, preliminary report of title, etc. as called for in the Purchase Agreement or escrow instructions
- Executes any Deed of Trust necessary to secure the loan(s) on the property

Deposits funds for the down payment, plus funds required to pay costs and causes may borrowed money to be deposited with escrow holder to complete the purchase price.

