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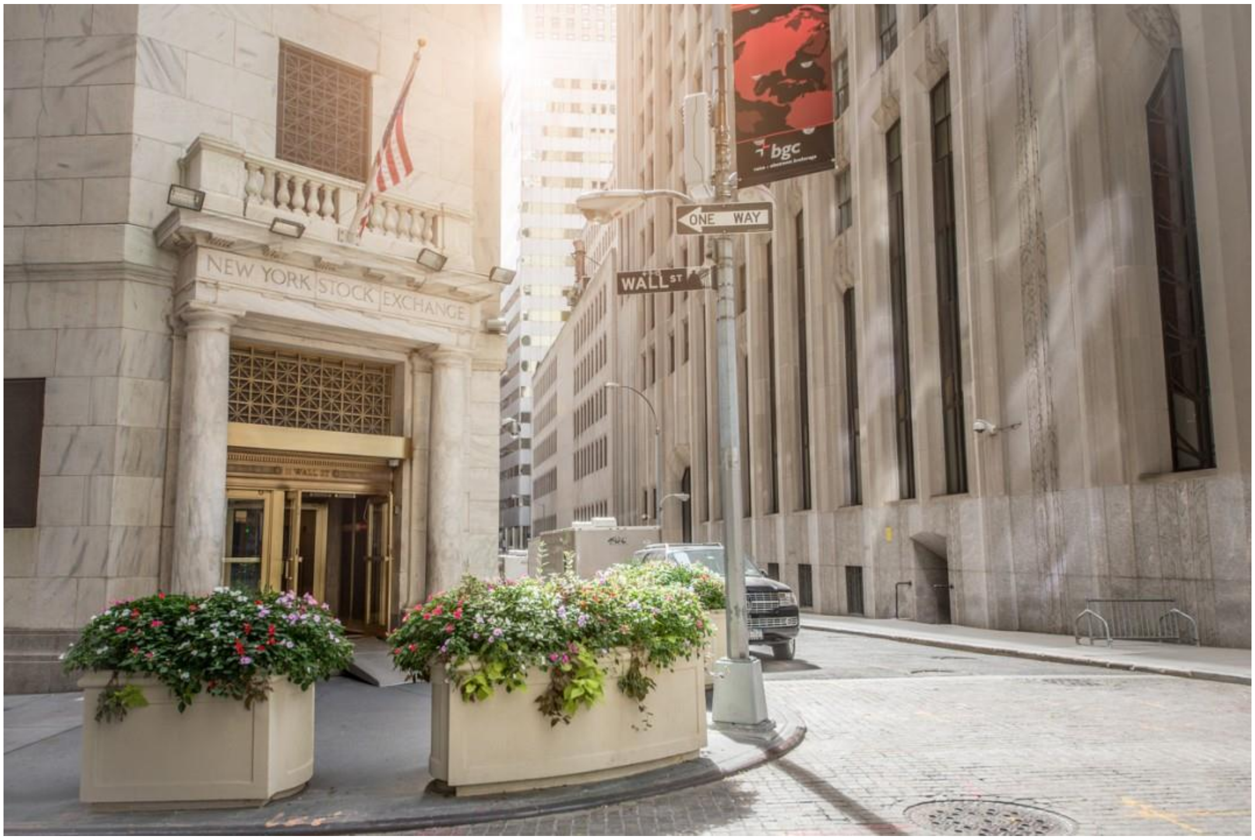
April 17, 2017

I've heard the term 'escrow' during closings—what is it?



When your money is "in escrow," that generally means that it's being held by an impartial third party until the completion of a deal, the better to safeguard it from any foul play on either side. For instance, in a rental, landlords are technically supposed to keep your security deposit in an escrow account—usually in a bank—until it's returned to you, to prevent it from getting mixed up or lost in their other money.

When you're closing on an apartment purchase, with the large amounts of money being moved around, there are a few different ways that escrow comes into play. Below, four of the most common scenarios in which you'll be putting your cash into escrow in the process of closing a deal:

The deposit

Though you'll eventually be parting with your entire planned down payment, when you first go into contract, you'll be expected to put a portion of it in escrow as your deposit. "When you go into contract on any transaction, the standard deposit is 10 percent, and that is held in escrow until closing," explains CORE agent Matthew Cohen. "And then at closing, you owe however much of the down payment is left."

So if you're putting down 20 percent, you'd owe the extra 10 percent, on top of the other 10 percent you've already put down. For the most part, this is fairly straightforward, unless you're buying with a non-contingency contract—meaning that you've agreed to the deal outright, rather than making it contingent on factors including your eventual approval for a mortgage. If you're buying as a noncontingency and the deal falls through, then you stand to lose that deposit money that's been sitting in escrow. (More details on that here.)

Otherwise, it's more or less just a chunk of your down payment that you part with sooner than the rest.

Maintenance charges in a co-op

While many co-ops require buyers to have a certain amount of post-closing cash liquidity up front—say, enough money in the bank to cover a year's worth of mortgage and maintenance payments—some boards take it a step further, and require you to put some months' worth of maintenance charges in escrow.

Often, this is a tactic used as a financial safeguard for the co-op if they're worried about a buyer's finances (for instance, if the buyer is a contract or freelance worker, without regular paychecks). "If the board is on the fence about the buyer, they might ask them to hold six to 12 months of maintenance charges in escrow," explains Cohen.

In this case, you can expect there to be an escrow attorney involved to hammer out the details of the deal. "It depends on the transaction, but I had a closing recently where an escrow attorney was brought in to put together an escrow agreement between the co-op and the buyer," says Cohen. "And the buyer had to basically give that money up front."

When repairs are needed

In this scenario, it's the seller who might be fronting the money, usually because a problem presented itself during the walk-through or inspection.

"If anything comes up, like an appliance that isn't working or some other repair that's needed, money will be held from the seller to make the buyer comfortable with closing," says Cohen. "And then, once the problem is fixed, the seller will get it back."

The idea is that this provides an insurance policy of sorts for you, the buyer, so that you'll have money to handle the problem in case upgrades or repairs aren't completed as promised once you've already closed on the contract.

With your mortgage lender

Yet another area in which you may be expected to part with some extra money ahead of time: Mortgage lenders often want buyers to pay several months of taxes and insurance costs, as a hedge in case you're unable to pay your mortgage for some reason. (Tax costs take precedent over mortgage payments, so if you stopped paying, the lender that held the lien would be out your mortgage payments *and* the tax money.)

Depending on how soon the next tax bill, says Everbank's Julie Teitel, your lender could want two to six months of taxes and insurance set aside and put into escrow.

However, on this front it may be possible to negotiate. "People don't realize that they should discuss this [with their lender], and ask to waive it," says Teitel. "There have been so many situations where people get to the closing and freak out because they don't want to pay it."

Instead, you should ask for your lender's policy on this, and whether or not you can get it waived. "Depending on the bank, there could be a fee," says Teitel. "We don't charge a fee, but if there is one, it's usually a quarter of a point."

Unsurprisingly, Teitel adds, fee or no, "you have to have good credit in order to waive it."
It can seem like a lot of money to part with up front—and indeed, it is—but it's all par for the course in a typical NYC apartment deal. For a comprehensive guide to other closing costs to watch out for, we've got one here.