

Understanding Sub Escrow

Sub-escrow is a service provided by your Title Company to ensure any liens against the property are paid in full, so a title policy can be issued as required. The title company will receive the loan proceeds from the lender and sometimes funds from the escrow company to pay off existing mortgages, property tax payments and any other liens against the property.

Here is how it works: The new lender sends the loan proceeds to the title company when the transaction is ready to close escrow. The sub-escrow department then calculates the amount needed to pay off prior mortgages, property tax liens that may be due, and any other monetary encumbrances against the property. The remaining funds are then disbursed to the escrow holder.

Why do you pay an escrow fee as well as a sub-escrow fee?

An escrow and a sub-escrow are two different functions in the transaction. The Escrow Company and Escrow Officer act as a neutral third party in the transaction, and charge an escrow fee for processing the transaction, which includes preparing escrow instructions, drawing documents, working with the lender, loan sign-up, and disbursing all items that are not . The Title Company receives the loan funds from the new Lender and charges a small sub-escrow fee for making sure all prior mortgages and any other liens are paid off. Any funds that remain are sent to the Escrow Company for final disbursement.

The sub-escrow charge is a rate that is filed with the California Department of Insurance, and is generally a charge to reimburse the title company for the processing the sub-escrow. Processing the sub-escrow includes, but is not limited to:

- Receipt of loan funds
- Coordinating with the Escrow Company on liens to be paid off
- Verify & update payoff demand figures with the payoff lender, if applicable
- Verify payment of property taxes, if applicable
- Calculate the payoffs on the day of closing
- Disburse all payoffs & net proceeds per instructions
- Provide a final accounting of all funds to the Escrow Company