

ESCROW EXPLAINED

WHAT ARE PRORATIONS?



In a real estate transaction, there are usually expenses and payments that must be “prorated” (or properly distributed or divided proportionately) so that the parties are equitably responsible for amounts owed during their respective ownership of the property.

For example, the seller is the beneficial owner of the property until the close of escrow, when ownership and possession is delivered to the buyer. Naturally, there are some items or expenses that have been prepaid by the seller. In order to equitably reconcile these prepaid items or recurring costs in connection with the property, the escrow holder may be instructed by the parties to prorate those expenses.

Examples of these items/expenses include:

- ▶ **Property Taxes**
- ▶ **Rental Income**
- ▶ **Security Deposits**
- ▶ **Property Insurance**
- ▶ **Interest**
- ▶ **Homeowner Association Dues**

**The items are usually prorated using the date of the close of escrow and some other "paid to" date.*

For example, if a seller paid \$300 in homeowner association dues for the month of May and escrow were scheduled to close on May 15th, the escrow officer, if instructed, would likely prorate said dues from the close of escrow to June 1st.

This proration would result in a credit (reimbursement) to the seller for the period of time they are no longer the owner of the property, and a debit to the buyer for the period of time that they have been the owner of the property and responsible for the dues.

If you are a buyer or borrower and obtaining a loan, you will most likely pay a proration of mortgage interest in connection with, and as a requirement of, your new loan. If you have questions regarding the prorations of items on your estimated or final closing statement, your escrow officer will be able to help you.