

# WHAT YOU NEED TO KNOW ABOUT SUB-ESCROWS



## WHAT IS A SUB-ESCROW?

In a sub-escrow, the escrow company performs a lesser role than in a full escrow transaction. This limited role includes accepting lender loan funds and paying off all loans, liens, judgments and taxes as disclosed on the preliminary title commitment. After all liens have been paid (including title insurance, recording fees, and sub-escrow fees) the balance of the funds held by the title company are wired to the full escrow company. The full escrow company then disburses these remaining funds as proceeds, credit card payments, broker's fees, real estate commissions, hazard insurance, etc.

## WHO REQUIRES THE SUB-ESCROW ON A TRANSACTION?

Typically, a sub-escrow is required when a lender requires a closing protection letter (CPL). *Please read further for a definition of a closing protection letter.* To insure the lender as to the matters in the CPL, the title company requires the sub-escrow be completed. In most instances, if a CPL is not required by the lender, there is no need for a sub-escrow. However, occasionally a lender requires sending the funds to a title company only. In this instance, the sub-escrow would be the lender requirement. The sub-escrow requirement in the previously mentioned instances applies whenever the title company and the escrow company are not the same, whether they are an independent escrow company or a different title company's escrow department. When the same company is used for title and escrow there is no need for a sub-escrow.

## IS THERE A FEE FOR SUB-ESCROWS AND WHO PAYS THAT FEE?

Yes, there is a fee for a sub-escrow. These fees can range from \$80-\$250. Some title companies will charge a lower fee for a sub-escrow, but will charge additional fees for mailing payoffs, processing wires, etc. So, do your homework when choosing a title company! Usually the buyer pays the sub-escrow fee if they choose the escrow company. However, this is negotiable by the parties involved.

## CLOSING PROTECTION LETTER (CPL)

A document issued by title insurance underwriters that indemnifies a third party, generally a lender, as to one of its policy-issuing agent's escrow practices. In other words, title companies insure title but this letter also extends certain assurances as to an agent's behavior in closing real estate transactions.

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