

ESCROW PRORATIONS

While debits and credits on the closing settlement statements are fairly straightforward and understandable, “Prorations” tend to confuse many buyers and sellers. Prorating is dividing equally or proportionately the financial amount based on the time of ownership, and no actual checks or cash are issued between the parties.

It is standard and customary to prorate items on settlement statements such as taxes, interest, water utilities, rent, security deposits on account, homeowners association dues and reserves based upon the respective periods of ownership by the buyer and seller. The most common date used to calculate prorations in Colorado is the date of closing, which is also the date of ownership conveyance from seller to buyer. It is also important to note that the buyer is charged any amounts for the day of closing recognizing that transfer of ownership to them. If prorations are to be made based upon some other criteria such as date of possession, this must be identified and agreed upon by all parties in the Contract to Buy and Sell Real Estate as approved by the Colorado Real Estate Commission.

Prorating applies to any charges incurred on the specified property prior to the sale, and those which cover a period of time following the sale. When they are prepaid by the seller, a credit is then given to the seller for the period of time the buyer owns the property from date of closing to the date of the next payment due.

In example—the seller pays the monthly homeowners association (HOA) dues and it is confirmed on the HOA status letter received by the closing agent. The seller then receives a credit on the closing settlement statement from the date of closing through the end of that monthly assessment period while the buyer is debited that same amount.

If the buyer pays the charges at the time of purchase, then a credit is given to the buyer for the period prior to closing during which the seller owned the property, and the seller is debited.

So a few things to note include:

- Prorations are based on the number of days in the month or assessment period (i.e. 28 days, 30 days or 31 days as appropriate)
- Annual calculations are typically based on a 365 day calendar year
- Debit refers to the amount the escrow account is charged in the proration
- Credit refers to the amount the escrow account is paid or increased in the proration

Closers are happy to review this information in advance of closing with parties of the transaction as needed to ensure your closing goes smoothly. If you have questions about prorations or calculations on your specific transaction, please contact your closer for any further explanation and assistance.

Guardian Title is committed to provide you with an outstanding closing experience. Please contact us with your title and escrow needs. We appreciate your business!

