

What is Proration?

Proration refers to the method of allocating expenses like property taxes, interest, insurance premiums, and rental income between the buyer and seller based on their respective periods of ownership or the closing date. This process is a common practice in real estate transactions, ensuring that costs are fairly divided according to the time each party owns the property. For a deeper understanding, visit [What is Proration in Real Estate Contracts?](#)

How Proration Works in Real Estate Transactions

In the realm of buying and selling property, proration primarily applies to ad valorem taxes—taxes based on the assessed value of the property. Typically, these taxes are payable at the year's end. However, if a property transaction occurs before the tax payment deadline, the seller is responsible for the taxes up until the sale date, and the buyer assumes responsibility from that point forward. This arrangement ensures that each party only pays for their period of ownership. [More details can be found at Proration in Real Estate Transactions.](#)

For instance, if a sale concludes before the tax notices are issued (usually around October 1st), the seller is billed for the taxes from January 1st to the sale date, while the buyer receives a credit for the same period. This credit then offsets the taxes the buyer owes for the entire year, effectively making them responsible only for the period after they took ownership. [Learn more about how this affects property taxes at Understanding Property Tax Proration.](#)

Title companies play a crucial role in this process, using the most accurate information available to calculate prorations before the official tax amounts are announced. After the tax figures are released, title companies adjust the prorations accordingly and ensure taxes are paid directly to the authorities, facilitating a smooth issuance of mortgagee title policies. Insights into seller and buyer prorations can be explored further at [Know About Real Estate Seller Proration](#) and [Know About Real Estate Buyer Proration.](#)

Proration in Loan Assumption Closings

Loan assumption transactions, where a new buyer takes over the existing mortgage, involve multiple prorations, including taxes, interest, and escrow accounts. It's important to note that most insurance companies do not permit the transfer of the seller's policy to the buyer. As a result, the buyer must secure a new insurance policy at closing, while the seller may cancel their existing policy and obtain a refund for the unused portion.

During a loan assumption closing, the buyer assumes the escrow account, which is adjusted to ensure it has sufficient funds. Prorations for taxes and mortgage interest are handled similarly, with the buyer receiving a credit for the period they were not yet the owner, ensuring fairness in the allocation of costs. For methods on how to calculate proration in real estate, [visit Calculate Proration in Real Estate.](#)

Key Takeaways

- Proration ensures equitable distribution of property-related expenses between buyers and sellers.
- It is most commonly applied to ad valorem taxes, with title companies using prior year's taxes to estimate amounts before official figures are available.
- In loan assumption transactions, prorations extend to taxes, interest, and escrow accounts, with specific adjustments made to accommodate the new ownership.

Proration is a fundamental concept in real estate transactions, promoting fairness and clarity in the division of expenses related to property ownership.

For a seamless and efficient way to manage your real estate transactions, consider using BlueNotary. Our innovative platform simplifies the closing process, ensuring that prorations and other critical details are handled with precision and care. [Start your journey with BlueNotary today.](#)

