

## Prorations

To prorate is to divide and allocate an expense equally or proportionately according to time or use. Prorations are based on a 360-day year, 30-day month.

### Example:

Seller closes escrow on May 1 and has paid \$2,644 in property tax for the current tax year (July 1 – June 30). How much is seller refunded by escrow?  $\$2,644 \div 12 \text{ months} = \$222 \times 2 \text{ months (May \& June)} = \$444$ . The buyer would have to pay the \$444 into escrow.

### Example:

A 2-year homeowners insurance policy was purchased on February 1, 2007 for \$1,080. If the house will close escrow on July 16, 2008, what will the seller be refunded?

$\$1,080 \div 2 \text{ years (24 months)} = \$45 \text{ a month or } \$1.50 \text{ a day}$ . The seller will have used 17.5 months of the policy and will have a refund of 6.5 months or \$292.50. (195 days X \$1.50) or (6 months X \$45 + 15 days X \$1.50).

### Example:

Adele is buying a triplex from Juan. Juan has already collected rent from the tenants for the month of March. If the monthly rents are \$2,700 and the sale closes on March 18<sup>th</sup>. How much will Juan owe Adele for the prepaid rents? March 18 – 30 is 13 days.  $\$2,700 \div 30 = \$90 \times 13 = \$1,170$ .