



## **OLD REPUBLIC TITLE BULLETIN**

### **ALTA BEST PRACTICES UPDATE**

**From: Anne L. Anastasi, CLTP**

**Update #14, April 8, 2013**

#### **Title Policy Production, Delivery, Reporting and Remittance**

How do we keep our agents in the game? We provide relevant and meaningful information and tools like the focus of this Update.

The ALTA describes Best Practice #5 as:

*"Adopt and maintain written procedures related to title policy production, delivery, reporting and premium remittance to meet legal and contractual obligations".*

Regulatory and investor pressure on lenders to have appropriate and timely loan file documentation has raised concern about the time it takes the title industry to deliver the final title insurance loan policy. ALTA Best Practice #5 suggests that the final policy should be delivered within 30 days of settlement (if the terms of the commitment have been satisfied).

Many agents have started issuing instant policies or short form policies at the time of closing so that they can return the title policy with the mortgage package. Years ago we were reticent to do that because we felt that the lender needed the recording information on Schedule A, but recent times have proved that is not the case with many lenders. Why not just get the title policy done and send it with the loan package? And while you are at it, hand the owner's policy to the buyers. What a great customer service attribute.

Think about it, by the time you get through closing the information for Schedule A is complete, the Schedule B exceptions are inputted – just print it.

Electronic recordation of documents is now available in over 800 (of 3300) jurisdictions.

For those agents utilizing eRecording services, you can actually include the recording information on Schedule A and send the completed policy and the recorded mortgage with the loan package. Agents not utilizing eRecording should strongly consider adopting the technology as the benefits to all parties of the transaction are tremendous. We can help. We have relationships with eRecording service providers including our own eRecording experts at eRecording Partners Network (ePN). Contact [erecordingpartners.net](http://erecordingpartners.net) for more information.

eRecording or not, and this is a significant point, if you are including the final loan policy with the mortgage package get yourself a big piece of colored paper and in bold letters print, "**Final loan title policy and recorded mortgage enclosed**".

The second part of ALTA Best Practice #5 addresses policy reporting and remittances. ALTA states title policies should be reported and premiums remitted to the underwriter by the end of the month following disbursement.

Compliance with ALTA Best Practice #5 not only requires physical steps but also requires the creation of a written document that describes procedures including who does what in your office when it comes to preparing and delivering policies to the buyers and the lender, who does what when it comes to reporting policies and remitting premium to the underwriter. Include in your writing as much detail as possible to ensure that the system makes certain the ALTA Best Practice is met. If an agent is uncertain in such a writing, we have experts that can help with guidance and direction.

Information about all of the ALTA Best Practices is contained under the Agent Services tab at [www.Starslink.com](http://www.Starslink.com). Look for the drop down that says "Understanding the CFPB" and go to the "OR Bulletins" Bucket. Also remain on the lookout for future announcements about where to go for tools and templates to accommodate compliance with ALTA's Best Practices.

Questions and comments:

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<b>Policies and Procedures</b>
<b>Title Policy Production/Premium Remittance</b>

<b>Purpose</b>	Maintain written procedures related to title policy production, delivery, reporting and premium remittance to the insurer to help ensure <u>(insert name of entity/agency)</u> meets its legal and contractual obligations.
<b>Scope</b>	These policies and procedures are for all of <u>(insert name of entity/agency)</u> (hereafter referred to as "The Company") locations including all satellite offices. These procedures are to be followed by all employees and independent contractors where applicable.
<b>Procedures</b>	<p><i>[The Company should review its legal, contractual, and statutory requirements for policy delivery, reporting, and premium remittance and incorporate those requirements in these procedures.]</i></p> <p><b>Policy Inventory</b></p> <p>The Company receives its policy inventory directly from the insurer. A Policy Inventory Report is maintained to track and monitor all of the paper and/or electronic policy numbers allocated to The Company. When policies are issued to customers, they move into an 'issued' status within the Policy Inventory reports.</p> <p>The following items are included in the Policy Inventory report:</p> <ul style="list-style-type: none"> <li>• The date paper and/or electronic policies are received by or allocated to The Company</li> <li>• The file number associated with each policy number</li> <li>• Unused policies</li> <li>• Voided policies</li> <li>• Policy numbers assigned, but not yet reported to the insurer</li> <li>• Policy issued, but not yet reported to the insurer</li> </ul> <p>In addition to the Policy Inventory report, The Company has a tracking system that identifies files that have closed for which policies have not been issued.</p> <p>Paper policy stock is kept locked up. Electronic policy stock is limited to authorized users with login and passwords.</p> <p>Policy inventory duties have been clearly defined and are the responsibility of the <u>(insert function or role name)</u>. We are able to reconcile our policy inventory records with the Insurer's records.</p> <p><b>Policy Issuance</b></p> <p>Policies are issued to customers (lender and/or purchaser) within <u>(insert Company timeframe)</u> days after the transaction is disbursed. Electronic (or</p>

Name of Title Company  
Address or Website of Title Company



	<p>manual) logs (attached) are maintained within the software system to monitor all orders that have closed and disbursed in which final policies have not been issued.</p> <p>If The Company does not perform the settlement/closing, the order is tracked and monitored by <b>(insert function or role name)</b> to help ensure the documents are received <b>(insert Company timeframe)</b> after disbursement.</p> <p>If a short-form lender's policy is issued, it can be delivered immediately after disbursement; however, monitoring procedures are still in place to help ensure the necessary documents are recorded.</p> <p><b>Premium Remittance and Policy Reporting</b></p> <p>In accordance with contractual or statutory obligations on a <b>(insert frequency such as weekly, monthly)</b> basis, The Company reports to the insurer all title insurance policies (including endorsements), premiums and other fees as contractually obligated. Reporting is performed using the attached policy register report that has been approved by the insurer or via electronic upload through the insurer's electronic reporting web-based system. Physical copies of the policies are emailed (or mailed) to the insurer.</p> <p>A policy register report is maintained by each office that performs policy production.</p> <p>Premium remittance duties have been clearly defined and are the responsibility of the <b>(insert function or role name)</b>. We are able to reconcile the premiums and fees we charged to our customers with the premiums and fees remitted to the insurer.</p>
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<b>Contact Officer</b>	<i>Provide the position title and name of person(s)</i>
<b>Date Approved</b>	<i>Day Month Year</i>
<b>Date of Commencement</b>	<i>Day Month Year</i>
<b>Amendment Dates</b>	<i>List the dates the policy has been amended (Day Month Year)</i>
<b>Date for Next Review</b>	<i>Month Year</i>
<b>Related References and Links</b>	<ul style="list-style-type: none"> <li>• <i>Reference where the Policy Register report is kept.</i></li> <li>• <i>Reference where the Policy Inventory report is kept.</i></li> <li>• <i>Document links to any specific state policy issuance timeliness regulations for example:</i> <ul style="list-style-type: none"> <li>• <a href="http://www.sos.mo.gov/adrules/csr/current/20csr/20c500-7.pdf">http://www.sos.mo.gov/adrules/csr/current/20csr/20c500-7.pdf</a> Refer to 20 CSR 500-7.090</li> <li>• <a href="http://www.sos.ne.gov/rules-and-regs/regsearch/Rules/Insurance_Dept_of/Title-210/Chapter-34.pdf">http://www.sos.ne.gov/rules-and-regs/regsearch/Rules/Insurance_Dept_of/Title-210/Chapter-34.pdf</a> Refer to Title 210, Chapter 34 006.09</li> </ul> </li> </ul>

Name of Title Company  
Address or Website of Title Company

**Policy Register Report (aka Renitance Report)**

The Company Name (insert your company logo as well)

Date Updated: 8/24/2024

Report Period:

Objectives: 1. To document problems and fees paid by endorser.  
2. To ensure policies are issued to the customer timely.

Certification: I, \_\_\_\_\_

certify that this is a true and correct report of all transactions of this Agency for the

Underwrite: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

File Number	Title Product	Property Type	Property State	Prop County	Settlement Date	Policy Issuance Date	Policy Issuance Policy #	Owner's Policy #	Lender's Policy #	Owner's Policy Date	Lender's Policy Date	Owner's Insurance	Lender's Insurance	Owner's Premium Per HUD	Lender's Premium Per HUD	Owner's Net	Lender's Net	Total HUD Due	Total HUD Due	Endorsement	Endorsement	CPL per HUD	CPL per HUD	Total Balance Due/UD
83764271	Refinance	Residential	AL	Montgomery	12/2012	12/10/2012	3 mo		80252812248	NA	12/7/12	na	\$150,000.00	na	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$17000

This includes represents a report generated by the database and is not intended to be a true and correct report of all transactions of this Agency for the Underwrite. It is intended to be a true and correct report of all transactions of this Agency for the Underwrite. Any information is not intended to be a true and correct report of all transactions of this Agency for the Underwrite.

## Policy Inventory

Title Company Name (insert your company logo as well)

Date Updated: xx/xx/xxxx

Objective: 1. To actively monitor all title policy forms (used and un-used).

Date		Date	Date	Date	Date	Date	Date	Date
Policy allocated to								Policy Reported to
Agency	Policy #	File/Order #	of Commitment	Closed	Disbursed	Recorded	Policy Issued	U/W
6/1/2013	OX2468542	9764208	8/1/2013	9/1/2013	9/4/2013	9/4/2013	9/5/2013	10/5/2013
6/1/2013	OX2468543	9764209	8/3/2013	9/3/2013	9/3/2013	9/3/2013	9/4/2013	
6/1/2013	OX2468544	9764210	8/5/2013	9/5/2013	9/5/2013	9/5/2013		
6/1/2013	OX2468545	9764211	8/7/2013	9/7/2013	9/10/2013			
6/1/2013	OX2468546	9764212	8/10/2013					
6/1/2013	OX2468547	9764213						
6/1/2013	OX2468548	9764214						
6/1/2013	SF9876543							
6/1/2013	SF9876544							
6/1/2013	SF9876545							
6/1/2013	SF9876546							

Note: From the data above, personnel will know the status of each policy allocated to the agent from the U/W.

This template represents a sample document that can be downloaded and manipulated to fit the desires of the user. The use of this document does not guarantee customer or regulator acceptance or compliance with the American Land Title Association's Best Practices, nor any guarantee of customer relationships. Any representation by Old Republic Title Insurance Group is not intended to and does not constitute legal advice.





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 RECORDING & PRICING PROCEDURES      TITLE POLICY PROCEDURES      PROFESSIONAL LIABILITY INSURANCE      RESOLVING CONSUMER COMPLAINTS  
 ASSESSMENT

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## Implementing ALTA's Best Practices

Dodd-Frank Wall Street Reform & Consumer Protection Act and the [Consumer Financial Protection Bureau \(CFPB\)](#) are pushing the mortgage lending industry to take a new look at the traditional relationship between lenders and title insurance agents. At this point, no one can say with any certainty what the outcome will be. One thing is certain, Old Republic Title remains agency focused. Our success depends on our network of committed agents who have earned the right to issue Old Republic Title policies by meeting the high standards that we have set for YOU, our agents.

Our goal is to "keep our agents in the game" by helping you prepare for any possible additional lender and regulatory scrutiny that may lie ahead. Please click the tabs above or below to explore the resources we have created.

### ALTA'S Best Practices Version 2.0

ALTA Best Practices Framework

ALTA Best Practices Framework

Assessment Procedures

Version 2.0  
 Published July 18, 2013



Page 1 of 1  
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- **LICENSING** - Establish & Maintain current license(s) as required to conduct the business of title insurance and settlement services.
- **ESCROW/TRUST ACCOUNTS** - Adopt & maintain appropriate written procedures & controls for Escrow/Trust Accounts.
- **PRIVACY & INFORMATION SECURITY** - Adopt & maintain a written privacy and information security program to protect Non-public Personal Information as required by local, state and federal law.
- **RECORDING & PRICING PROCEDURES**- Adopt standard real estate settlement procedures and policies that helps ensure compliance with Federal and State Consumer Financial Laws as applicable to the Settlement Process.
- **TITLE POLICY PROCEDURES** - Adopt & maintain written procedures related to title policy production, delivery, reporting and premium remittance.
- **PROFESSIONAL LIABILITY INSURANCE** - Maintain appropriate professional liability insurance and fidelity coverage.
- **RESOLVING CONSUMER COMPLAINTS** - Adopt & maintain procedures for resolving consumer complaints.



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 POLICY & PROCEDURE BOOK**



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- ②  [SAMPLE - Recording & Pricing Procedures](#)
- ③  [SAMPLE - Recording Log](#)



[Tools and Reference Materials](#)

Interpretation of compliance with ALTA's Best Practices may vary from party to party. The use of these source documents does not guarantee customer or regulator acceptance or compliance with the American Land Title Association's Best Practices, nor any guarantee of customer relationships.

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## **OLD REPUBLIC TITLE BULLETIN**

### **ALTA BEST PRACTICES UPDATE**

**From: Anne L. Anastasi, CLTP**

**Update #12, March 12, 2013**

ALTA's Best Practice #4 addresses two more of the important elements that our title and/or settlement agents employ every day; recording and pricing procedures. To be compliant with ALTA's Best Practices title agents should have policies and procedures in place assuring that documents are delivered to the appropriate authorities in an expedited manner and that the consumer is charged appropriate title insurance and settlement rates in accordance with regulatory and contractual requirements. And as we have stated previously, the procedures should be reduced to writing so that when asked the agent can produce its guidelines. The written policies should also include steps taken to train and monitor staff members.

**Recording Procedures:** ALTA writes that "Companies [need to] review their legal and contractual requirements to determine their obligations for recording documents and incorporate these requirements in their procedures."

It is suggested that the recording policy include:

Timely recording: Documents should be submitted for recording/filing within two days of disbursement. In areas where documents are handled by attorneys who are not insuring agents the policy should reflect a time frame that is appropriate for the area.

E-Recording: Electronic recording should be utilized wherever available.

**Rejections:** The policy should reflect the method used in the operation to handle the immediate attention paid to rejected documents.

**Tracking and Verification:** The written policy should reflect the steps taken by the operation to track the delivery and status of the documents and the verification method used (if any).

**Pricing Procedures:** It is suggested documented pricing policies and procedures include the methods used by the agent to ensure that the consumer is charged the appropriate rates and fees. ALTA suggests the utilization of rate manuals and online calculators. It is likely that the agent's software platform includes a rate calculator. The written policy should mention the methods used to select appropriate rates and fees throughout the title insurance production and mortgage loan settlement process. The written policy should go further to describe the systems in place when it comes to determining whether or not the consumer qualifies for a discounted rate (where applicable). And importantly, the written policy should include the operations procedure to review and audit files for the appropriateness of the charges and the timely refund of overpayments to consumers.

The information in this bulletin along with Bulletins #10 and #11, can serve as a starting point for the agent to adapt their internal procedures in a manner of a written policy. In addition, Old Republic Title offers various applications and tools that will help keep our agents in the game when it comes to Best Practices. These included the rate calculators found on StarsLink and within our EzJacket/EzRemit applications as well as the services and guidance from eRecording Partners Network our electronic recording software company. Stay tuned for additional information on how we can help keep our agents in the game!

Questions and comments:

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<b>Policies and Procedures</b>
<b>Document Recordation / Title &amp; Settlement Pricing</b>

<b>Purpose</b>	Document recordation and rate/pricing procedures and policies to assist <b>(insert name of entity/agency)</b> in compliance with applicable contractual obligations and Federal and State Consumer Financial Laws.
<b>Scope</b>	These policies and procedures are for all of <b>(insert name of entity/agency)</b> (hereafter referred to as "The Company") locations including all satellite offices. These procedures are to be followed by all employees and independent contractors where applicable.
<b>Procedures</b>	<p><i>[The Company should review its legal, contractual, and statutory requirements and incorporate those requirements in these procedures.]</i></p> <p><b>Pricing Procedures</b></p> <p>The Company utilizes rate manuals and online calculators, as appropriate to help ensure correct fees are being charged for title insurance policy premiums, state-specific fees and endorsements.</p> <p>Employees are aware of contractual and statutory rate and pricing requirements. Title insurance policy premiums, state specific fees and endorsements are calculated in accordance with the title insurance underwriter or regulatory or promulgated rate manual through The Company's software and/or through the use of title insurance underwriter rate calculators. All applicable rate discounts, such as Simultaneous Issue, Reissue, Refinance, and Substitution rates are calculated in accordance with the requirements in the rate manual.</p> <p>When rate change bulletins are received, <b>(insert function or role name)</b> will communicate these rate changes to the appropriate parties and will test the accuracy of such changes and report the results to Company Management.</p> <p>Throughout the year a representative sample of closed files is subject to a post-closing review by <b>(insert function or role name)</b> to conclude if fees were correctly charged.</p> <p><b>Recording Procedures</b></p> <p>Submit or ship documents for recording to the county recorder (or equivalent) or the person or entity responsible for recording within 2 business days of settlement.</p> <p>After review of county specific recording requirements documents are submitted for recordation by <b>(insert function or role name)</b>. When available and economically feasible, document recordation will be processed electronically via E-recording. When E-recordings cannot be utilized or are</p>

Name of Title Company  
Address or Website of Title Company

	<p>not available and when The Company does not utilize an employee, documents will be shipped for recording. The Company ships documents using <b>(insert carrier name(s))</b>, tracks all packages and maintains tracking information for <b>(insert period of time)</b> months.</p> <p><b>Timely responses to recording rejections and verify recording is filed of record.</b></p> <p>The Company maintains a Recording Log to monitor all recordings. After documents are sent for recordation, The Company maintains contact with the appropriate personnel and parties to resolve any problems. The Company updates the Recording Log with information about outstanding recordings and rejected recordings, status and resolution. After documents are recorded, detailed information such as book, page, instrument number, time and date are included in the transaction file. Each week <b>(insert function or role name)</b> reviews and signs off on the Recording Log.</p>
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<b>Contact Officer</b>	<i>Provide the position title and name of person(s)</i>
<b>Date Approved</b>	<i>Day Month Year</i>
<b>Date of Commencement</b>	<i>Day Month Year</i>
<b>Amendment Dates</b>	<i>List the dates the policy has been amended (Day Month Year)</i>
<b>Date for Next Review</b>	<i>Month Year</i>
<b>Related References and Links</b>	<ul style="list-style-type: none"> <li>• <i>Reference where Recording Log is kept.</i></li> <li>• <i>Reference where the Rate Manuals are kept.</i></li> <li>• <i>Reference where the Post-Closing Reviews are kept.</i></li> </ul>







# MISSISSIPPI VALLEY TITLE INSURANCE COMPANY

A MEMBER OF THE OLD REPUBLIC TITLE INSURANCE GROUP

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## THREE-WAY ESCROW ACCOUNT RECONCILIATION

A three-way reconciliation is an accounting concept that is unique to the land title industry. Accordingly, many accountants and bookkeepers are not familiar with the concept of how to prepare a three-way escrow account reconciliation. This memorandum will explain the concept of a three-way escrow account reconciliation and how to prepare a three-way reconciliation.

### TRADITIONAL TWO-WAY BANK RECONCILIATION

A traditional two-way bank reconciliation reconciles your bank balance to your book (or check register) balance. To perform a traditional two-way bank reconciliation you start with your ending bank statement balance and add any outstanding deposits<sup>1</sup> and subtract any outstanding checks<sup>2</sup>. You may also have to make adjustments for items like interest and bank charges that have not been recorded in your check register. Your reconciled bank balance should match your book (or check register) balance. The following is an example of a traditional two-way bank reconciliation.

#### Example 1

#### Traditional Two-Way Reconciliation for Month End June 25, 2009

Bank Balance	11,063.23
Less: Outstanding Checks	(15,046.23)
Plus Outstanding Deposits	13,661.85
Book Balance / Reconciled Bank Balance	9,678.85

<sup>1</sup> Outstanding deposits are deposits that have been recorded in the check register, but that have not yet cleared the bank. Outstanding deposits should clear the bank within three business days. Any deposit outstanding for longer than 3 days should be immediately investigated. One deposit slip should be used per file. A three-way reconciliation will be much easier to perform if each deposited item that is booked in the accounting system can be matched to a particular escrow file.

<sup>2</sup> Outstanding checks are checks that have been recorded in the check register, but that have not yet cleared the bank. Prompt investigation should be made of any outstanding checks. An outstanding check to the recorder's office often indicates that a deed of trust or some other instrument has not been recorded.



### ESCROW TRIAL BALANCE

The critical third component of a three-way escrow account reconciliation is known as an escrow trial balance. The escrow trial balance is sometimes referred to as a liability listing. The funds you hold in your escrow account are held in a fiduciary capacity and are liabilities of your firm. At any point in time, you should be able to identify which of your clients own the money in your escrow account. Preparing an escrow trial balance will enable you to identify which clients own the money in your escrow account.

If you are not using computer software to maintain your escrow account records, you will need to create an accounting ledger that has a page for each escrow file. This page will be similar to the disbursement worksheet that most attorneys use to prepare disbursement checks for a closing. The main difference is that the disbursement worksheet is prepared in advance of closing. The escrow trial balance is created as checks are written and deposits are made. Each time a check is written or a deposit is made, that item would be posted both to the check register and to the trial balance ledger for the particular file. The following is an example of a ledger sheet for File 164251 for the John and Jane Doe closing.

#### Example 2 File 164251 - John and Jane Doe

Date	Payor/ Payee	Deposits	Disbursements	Balance
2/8/2004	John Doe	263.46		263.46
2/8/2004	First National Lender	121,000.00		121,263.46
2/8/2004	First National Lender		1,809.53	119,453.93
2/8/2004	Allan A. Attorney		570.00	118,883.93
2/8/2004	Mississippi Valley Title Insurance Company		558.00	118,325.93
2/8/2004	Prior Mortgage Company		118,308.93	17.00

A ledger sheet similar to the above should be prepared for each escrow file. As you can see, the column on the right is a running balance for the particular file. Thus, at any point in time you know how much money in the escrow account is associated with each particular escrow file.

At the end of each month you should prepare an escrow trial balance report. An escrow trial balance report is a listing of all escrow files with a balance. At a minimum, the listing should include the file number, date the file was opened and the balance in each file. The following is an example of an escrow trial balance report for the month ending June 25, 2009.



**Example 3**  
**Escrow Trial Balance Report for Month End June 25, 2009**

File Number	Date	Balance
164251	2/08/2004	17.00
164288	6/20/2009	5,000.00
164348	6/25/2009	(34,200.00)
164355	6/18/2009	8,250.00
164358	6/15/2009	20,611.85
164360	6/17/2009	10,000.00
<b>Total</b>		<b>9,678.85</b>

The escrow trial balance report should be critically reviewed by the attorney each month. Notice that File 164251 for the John and Jane Doe Closing is carried forward from Example 2 and included as the first line of the Escrow Trial Balance Report for Month End June 25, 2009 (Example 3). Every file with either a positive or negative balance is included on the Escrow Trial Balance Report. The total of the escrow trial balances for all open files should equal the book (or check register) balance.

**OBSERVATIONS**

Each month the attorney should critically review all escrow files with balances to determine what needs to be done to close out the file. The following are some observations from a critical review of the above examples.

- The total of the Escrow Trial Balance Report (Example 3) equals the Book Balance and the Reconciled Bank Balance (Example 1). These three numbers should match on each report.
- File 164251 from Examples 2 and 3 shows a positive balance of \$17.00. Files with a positive balance should be reviewed to ascertain why the file has not been closed. In this case, the recording fee to the county recorder's office was not paid and the insured mortgage did not get recorded.
- File 164348 from Example 3 reflects a negative balance of 34,200.00. All files with a negative balance should be reviewed immediately to ascertain why the file has a negative balance. The shortage should be immediately funded from the operating account.
  - ▶ The negative balance of \$34,200.00 occurred because a client's check for \$38,000.00 was incorrectly recorded on the deposit slip and in the check register for \$3,800.00.
  - ▶ Notice from Example 1 that this account reconciled perfectly to a positive balance on the traditional two-way reconciliation despite the fact that File 164348 was short



\$34,200.00. The only way to catch errors of this sort is to perform a three-way escrow account reconciliation.

- ▶ This simple clerical error cost a closing attorney \$34,200.00. The error was caught too late for the bank to fix the mistake.

### COMPUTER SOFTWARE

Computer software makes the job of preparing a three-way escrow account reconciliation much easier. The one key thing to remember when using computer software to maintain your escrow account records is that the data entered into the computer must be accurate and every entry into the software must contain a file number. Failing to include the correct file number with each entry into the computer will result in reports that don't accurately reflect the status of the account. The old adage "garbage in, garbage out" applies when making accounting entries in a computer software program.

Various vendors sell software that can be used to maintain your escrow accounting records. Mississippi Valley Title Insurance Company does not endorse any particular vendor. However, we will note that if you do not currently use a computer software package and cost is an important factor in your consideration in selecting a computer software package, you might consider purchasing Quickbooks.

Quickbooks can be purchased in any office supply store for approximately two hundred dollars. For thirty dollars, you can purchase the book *Trust Accounting Using Quickbooks* by Lynette Benton. This book can be purchased on the internet at [www.attorneystechnology.com](http://www.attorneystechnology.com). This website also offers online training as well.

Attorneys with a larger volume of closings should consider a software package that is tailored to the real estate closing business. SoftPro, Landtech, RamQuest, Title Express and DisplaySoft are examples of software packages that are tailored to the real estate closing business.

### THIRD PARTY RECONCILIATION COMPANY

If you don't have the time or inclination to prepare a monthly three-way escrow account reconciliation, you should consider hiring a company to do the work for you. Escrow PROS is a company that specializes in preparing three-way reconciliations of its clients escrow accounts. Escrow PROS employs former title insurance auditors and has significant experience in preparing three-way reconciliations that meet or exceed the standards of all title insurance underwriters. For a complete description of the services offered by Escrow PROS, please visit their website at [www.escrowprosllc.com](http://www.escrowprosllc.com).

Even if the attorney hires a third party reconciliation company to prepare the three-way escrow account reconciliation, the attorney should still critically review the escrow trial balance report each month to investigate files with either a positive or negative balance. The attorney should also review the outstanding check list and the outstanding deposit list. The careful review of these items each month is the key to quality control for a real estate closing business.

#### **AUDIT PREPARATION**

To comply with Mississippi Valley Title Insurance Company's guidelines, a three-way reconciliation of the escrow account should be prepared monthly and a paper copy should be maintained and available for our auditors to review.

#### **COMMENTS OR QUESTIONS**

For comments or questions, please feel free to contact Brad Jones at 601-969-0222 or 1-800-647-2124 or Alden Cranford at 601-906-1255 in our Madison, Mississippi office or Judy Maxwell at 205-682-2770 or 1-800-843-1688 in our Birmingham, Alabama office.





# MISSISSIPPI VALLEY TITLE INSURANCE COMPANY

A MEMBER OF THE OLD REPUBLIC TITLE INSURANCE GROUP

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## THREE-WAY ESCROW ACCOUNT RECONCILIATION

A three-way reconciliation is an accounting concept that is unique to the land title industry. Accordingly, many accountants and bookkeepers are not familiar with the concept of how to prepare a three-way escrow account reconciliation. This memorandum will explain the concept of a three-way escrow account reconciliation and how to prepare a three-way reconciliation.

### TRADITIONAL TWO-WAY BANK RECONCILIATION

A traditional two-way bank reconciliation reconciles your bank balance to your book (or check register) balance. To perform a traditional two-way bank reconciliation you start with your ending bank statement balance and add any outstanding deposits<sup>1</sup> and subtract any outstanding checks<sup>2</sup>. You may also have to make adjustments for items like interest and bank charges that have not been recorded in your check register. Your reconciled bank balance should match your book (or check register) balance. The following is an example of a traditional two-way bank reconciliation.

#### Example 1

#### Traditional Two-Way Reconciliation for Month End June 25, 2009

Bank Balance	11,063.23
Less: Outstanding Checks	(15,046.23)
Plus Outstanding Deposits	13,661.85
Book Balance / Reconciled Bank Balance	9,678.85

<sup>1</sup> Outstanding deposits are deposits that have been recorded in the check register, but that have not yet cleared the bank. Outstanding deposits should clear the bank within three business days. Any deposit outstanding for longer than 3 days should be immediately investigated. One deposit slip should be used per file. A three-way reconciliation will be much easier to perform if each deposited item that is booked in the accounting system can be matched to a particular escrow file.

<sup>2</sup> Outstanding checks are checks that have been recorded in the check register, but that have not yet cleared the bank. Prompt investigation should be made of any outstanding checks. An outstanding check to the recorder's office often indicates that a deed of trust or some other instrument has not been recorded.



### ESCROW TRIAL BALANCE

The critical third component of a three-way escrow account reconciliation is known as an escrow trial balance. The escrow trial balance is sometimes referred to as a liability listing. The funds you hold in your escrow account are held in a fiduciary capacity and are liabilities of your firm. At any point in time, you should be able to identify which of your clients own the money in your escrow account. Preparing an escrow trial balance will enable you to identify which clients own the money in your escrow account.

If you are not using computer software to maintain your escrow account records, you will need to create an accounting ledger that has a page for each escrow file. This page will be similar to the disbursement worksheet that most attorneys use to prepare disbursement checks for a closing. The main difference is that the disbursement worksheet is prepared in advance of closing. The escrow trial balance is created as checks are written and deposits are made. Each time a check is written or a deposit is made, that item would be posted both to the check register and to the trial balance ledger for the particular file. The following is an example of a ledger sheet for File 164251 for the John and Jane Doe closing.

**Example 2**  
**File 164251 - John and Jane Doe**

Date	Payer / Payee	Deposits	Disbursements	Balance
2/8/2004	John Doe	263.46		263.46
2/8/2004	First National Lender	121,000.00		121,263.46
2/8/2004	First National Lender		1,809.53	119,453.93
2/8/2004	Allan A. Attorney		570.00	118,883.93
2/8/2004	Mississippi Valley Title Insurance Company		558.00	118,325.93
2/8/2004	Prior Mortgage Company		118,308.93	17.00

A ledger sheet similar to the above should be prepared for each escrow file. As you can see, the column on the right is a running balance for the particular file. Thus, at any point in time you know how much money in the escrow account is associated with each particular escrow file.

At the end of each month you should prepare an escrow trial balance report. An escrow trial balance report is a listing of all escrow files with a balance. At a minimum, the listing should include the file number, date the file was opened and the balance in each file. The following is an example of an escrow trial balance report for the month ending June 25, 2009.



**Example 3**  
**Escrow Trial Balance Report for Month End June 25, 2009**

File Number	Date	Balance
164251	2/08/2004	17.00
164288	6/20/2009	5,000.00
164348	6/25/2009	(34,200.00)
164355	6/18/2009	8,250.00
164358	6/15/2009	20,611.85
164360	6/17/2009	10,000.00
<b>Total</b>		<b>9,678.85</b>

The escrow trial balance report should be critically reviewed by the attorney each month. Notice that File 164251 for the John and Jane Doe Closing is carried forward from Example 2 and included as the first line of the Escrow Trial Balance Report for Month End June 25, 2009 (Example 3). Every file with either a positive or negative balance is included on the Escrow Trial Balance Report. The total of the escrow trial balances for all open files should equal the book (or check register) balance.

**OBSERVATIONS**

Each month the attorney should critically review all escrow files with balances to determine what needs to be done to close out the file. The following are some observations from a critical review of the above examples.

- The total of the Escrow Trial Balance Report (Example 3) equals the Book Balance and the Reconciled Bank Balance (Example 1). These three numbers should match on each report.
- File 164251 from Examples 2 and 3 shows a positive balance of \$17.00. Files with a positive balance should be reviewed to ascertain why the file has not been closed. In this case, the recording fee to the county recorder's office was not paid and the insured mortgage did not get recorded.
- File 164348 from Example 3 reflects a negative balance of 34,200.00. All files with a negative balance should be reviewed immediately to ascertain why the file has a negative balance. The shortage should be immediately funded from the operating account.
  - ▶ The negative balance of \$34,200.00 occurred because a client's check for \$38,000.00 was incorrectly recorded on the deposit slip and in the check register for \$3,800.00.
  - ▶ Notice from Example 1 that this account reconciled perfectly to a positive balance on the traditional two-way reconciliation despite the fact that File 164348 was short



\$34,200.00. The only way to catch errors of this sort is to perform a three-way escrow account reconciliation.

- ▶ This simple clerical error cost a closing attorney \$34,200.00. The error was caught too late for the bank to fix the mistake.

### COMPUTER SOFTWARE

Computer software makes the job of preparing a three-way escrow account reconciliation much easier. The one key thing to remember when using computer software to maintain your escrow account records is that the data entered into the computer must be accurate and every entry into the software must contain a file number. Failing to include the correct file number with each entry into the computer will result in reports that don't accurately reflect the status of the account. The old adage "garbage in, garbage out" applies when making accounting entries in a computer software program.

Various vendors sell software that can be used to maintain your escrow accounting records. Mississippi Valley Title Insurance Company does not endorse any particular vendor. However, we will note that if you do not currently use a computer software package and cost is an important factor in your consideration in selecting a computer software package, you might consider purchasing Quickbooks.

Quickbooks can be purchased in any office supply store for approximately two hundred dollars. For thirty dollars, you can purchase the book *Trust Accounting Using Quickbooks* by Lynette Benton. This book can be purchased on the internet at [www.attorneystechnology.com](http://www.attorneystechnology.com). This website also offers online training as well.

Attorneys with a larger volume of closings should consider a software package that is tailored to the real estate closing business. SoftPro, Landtech, RamQuest, Title Express and DisplaySoft are examples of software packages that are tailored to the real estate closing business.

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