

City Escrow, Inc.

Policies and Procedures

Revised: January, 2014

Licensing

1. Policy and Procedure: Maintain suitable licensing to provide escrow settlement services within the state of domicile, or intended business, for City Escrow, Inc. (The Company).

Purpose: State licensing provides assurance and accountability for the corporation conducting escrow settlement services ensuring the highest degree of protection of the public trust.

Procedures:

- a) Maintain applicable State License(s) for all business locations.
- b) Maintain compliance with all applicable licensing, registration, or state regulatory department or agency.
- c) Maintain fidelity insurance and surety bonding.
- d) Perform a regular annual audited report of the company's financial health be provided to the California Bureau of Business Oversight.
- e) Maintain clear financial requirements for liquidity, tangible/intangible net worth.
- f) Maintain preparedness for unannounced, in-person regulatory examinations by the appropriate licensing agency.

Insurance and Bonding

2. Policy and Procedure: Maintain appropriate level of professional liability insurance and fidelity bonding to help mitigate losses due to theft, embezzlement, misappropriation of trust funds in accordance with state requirements for licensed escrow settlement agents.

Purpose: Trust funds are held for the benefit of the principals to a real estate transaction and must be protected to safeguard the integrity of the escrow process. Fidelity and/or professional liability provide the consumer with assurance that they will be made whole in the event of a loss. These policies of insurance are written on the company as a whole, encompassing all operations and employees.

Procedures:

- a) The Company maintains professional liability insurance and fidelity bonding.
- b) The Company complies with requirements for fidelity coverage and/or surety bonds, as provided by state law.

Personnel/Employment

3. Policy and Procedure: Maintain appropriate written procedures and controls for background reporting and investigation of any/all personnel involved with the operations, processing and administration of the business of the escrow settlement agent.

Purpose: A system of verification provides a process to identify key character in the selection of individuals who will be employed by the company, determining they are adequately qualified.

Procedures:

- a) Provide a thorough application that requires all personal information necessary for the Department of Justice (DOJ) and Federal Bureau of Investigations (FBI) background clearances.
- b) Request and verify references, education and employment history.
- c) Establish and verify commensurate experience requirements based upon employment position and responsibilities.
- d) Condition employment upon the successful verification of all references, education and previous employment; clearance of the DOJ and FBI background reviews.
- e) Establish and encourage attendance of an escrow management training program, or other appropriate training programs.

Trust Accounting/Funds Handling Procedure

4. Policy and Procedure: Maintain a strong system of internal controls to safeguard trust funds.

Purpose: A system of internal controls allows the escrow settlement agent to effectively manage trust funds in a manner consistent with fiduciary and legal requirements. These processes and procedures ensure accurate records and help prevent instances of the loss of client trust funds. Where appropriate, escrow settlement agents may contract with subject matter experts to advise and implement certain procedures or protocols, or provide services consistent with these responsibilities.

Procedures:

- a) Escrow funds are held in specifically labeled trust accounts which are separate and distinct from operating, payroll and/or savings accounts.
- b) Escrow Trust Accounts are properly identified as "escrow" or "trust" accounts. Appropriate identification appears on all account-related documentation including bank statements, bank agreements, disbursement checks and deposit tickets.
- c) Escrow Trust Accounts are prepared with Trial Balances.
- d) Escrow Trust Accounts are reconciled regularly and exceptions resolved within a reasonable timeframe.
- e) On at least a daily basis, a reconciliation of the receipts and disbursements of the Escrow Trust Account is performed.
- f) On at least a monthly basis, Three-Way Reconciliation is performed reconciling the bank statement, check book and Trial Balances, listing all open balances.
- g) Segregation of duties is in place to help ensure the reliability of the reconciliation and reconciliations are conducted by someone other than those with signing authority.
- h) Results of the reconciliation are reviewed by management.
- i) Trust account reconciliation or daily banking duties are conducted by authorized employees only.
- j) Only those employees whose authority has been defined to authorize bank transactions may do so. Appropriate authorization levels are set by the Company and reviewed for updates on a regular basis.
- k) Utilize Positive Pay or Reverse Positive Pay, Automated Clearing House blocks and international wire blocks, if available.
- l) Ongoing training is conducted for employees in management of escrow funds and escrow accounting.
- m) All books and records are available for inspection by the appropriate regulatory agency without advance notice.
- n) There is an appropriate process to immediately report any/all escrow losses to the appropriate regulator.

Privacy Policy

5. Policy and Procedure: Maintain a written privacy policy to safeguard non-public, personal information as required by local, state and federal law.

Purpose: The escrow settlement agent, along with assisting agencies/affiliated service providers, will be required to collect non-public, personal information involving the principals to the transaction. Such information is highly sensitive and is useful in establishing identity(ies), verifying financial information, confirming and processing liens, etc. Due to the sensitive nature of this information, adequate steps to safeguard must be implemented to protect against the misuse of such information. Such measures should reflect the complexity, size and scope of activities of the company. Any such procedures should be reviewed and revised on a regular basis.

Procedures:

- a) Restrict access to Non-public Personal Information to authorized employees. Said employees are subject to Section 2 of these Model Policies and Procedures.
- b) Prohibit or control the use of removable media.
- c) Use pragmatic measures when transmitting sensitive information. Secure methods are highly recommended, but may be impractical or cost-prohibitive depending on circumstances.
- d) Take reasonable steps to protect any network, including the restriction of access by authorized individuals only.
- e) Develop clear and concise guidelines for the appropriate collection and transmission of Non-public Personal Information.
- f) Implement a method of secure disposal of Non-public Personal Information. Any consideration should account for physical and digital media.
- g) Establish a disaster management plan.
- h) Implement a continuous program of training to help ensure compliance with Company's guidelines and protocols.
- i) Establish accountability criteria for all vendors/service providers, such as proof of insurance, bonding, etc.
- j) Regular auditing and oversight of personnel and procedures to help ensure compliance with Company's procedures and protocols.
- k) Adopt and maintain a process to report and address the misuse/abuse of personal, non-public information.
- l) The Company will provide disclosure to consumers and customers as to their privacy requirements.

Consumer Complaints

6. Policy and Procedure: Maintain written procedures for resolving consumer complaints.

Purpose: A process for receiving and addressing consumer complaints helps ensure reported instances of poor service or non-compliance do not go undiscovered.

Procedures:

- a) Consumer complaint intake, documentation and tracking.
- b) Standard procedures for logging and resolving consumer complaints helps ensure consumers provide the company with sufficient information to understand the nature and scope of the complaint.
- c) Set a single point of contact for consumer complaints.
- d) Establish procedures for forwarding complaints to appropriate personnel.

Definitions

Background Check: A background check is the process of compiling and reviewing both confidential and public information on an individual to be employed by the Escrow Settlement Agent. Required information includes previous employment, address(es), and criminal records. Background checks include a comprehensive review against the Department of Justice and the Federal Bureau of Investigation databases.

Company: The entity implementing these policies and procedures.

Department of Business Oversight (DBO): This is the regulating agency which oversees all licensed escrow companies throughout the State of California.

Escrow: The process of conducting a real estate transaction through the express services of a neutral third-party that acts in a fiduciary capacity for the seller, buyer or borrower. (This fiduciary duty does not extend to the lender, real estate agent or broker as they are not considered "principals" to the transaction).

Escrow Law: The body of regulations, statues and codes that govern the business of DBO licensed escrow companies.

Escrow Settlement Agent/Settlement Agent/Escrow Company: A licensed company that acts as a neutral third-party fiduciary to the principals in a real estate, business opportunity or commercial transaction per their mutual written instruction(s). (It should be noted that this fiduciary duty does not extend to any lender, real estate agent or broker, as they are not considered "principals" under current law).

Escrow Trust Account: A separate account established to hold funds in trust for the principals involved in a real estate transaction. These funds are held subject to a fiduciary capacity as established by written instructions.

Licensee(s): Escrow Settlement Agent, or any other business licensing requirement as required by state law.

Non-public Personal Information: Personally identifiable data that is typically provided by a customer on a form or application; information about a customer's transactions, or any other information about a customer which is otherwise unavailable to the general public. NPI includes first name or first initial and last name coupled with any of the following: Social Security Number, driver's license number, state-issued ID number, credit card number, debit card number, or other financial account numbers.

Positive Pay or Reverse Positive Pay: Any system by which the authenticity of a check is determined before payment is made by the financial institution against which the check is written.

Principal(s): The buyer, seller, borrower in a real estate transaction or other escrow transaction. This does NOT include a lender, real estate broker/agent or attorney.

Settlement: Also referred to as the "closing". This is the process of completing a real estate transaction in accordance with written instructions of the principals. In California, closing occurs upon the recordation of the Grant Deed, mortgage(s), leases and other required instruments. A final accounting is made and disbursements are issued per the instructions of the principals.

Three-Way Reconciliation: A method of accounting wherein the daily balances are compared against the bank record, and verified by a secondary party/individual. This method of accountability is a safeguard against loss, theft or misappropriation of funds. This requires the escrow trial balance, the book balance and the reconciled bank balance to be compared. If all three parts do not agree, the differences are noted as exceptions which must be immediately cleared.

Trial Balance: A list of all open individual escrow ledger record balances at the end of the reconciliation period.

City Escrow, Inc.

EMPLOYEE SUPPLEMENTAL POLICIES AND PROCEDURES

Welcome to City Escrow, Inc. (CE)

Please take a few minutes to familiarize yourself with this document. It highlights the standards of operations and procedures of our escrow employees.

Client Privacy:

CE is required to ensure the privacy of a client's personal information, Do not provide the social security numbers or principals in your transaction to outside parties. Documents containing confidential information must be destroyed or shredded at the end of each business day using bins provided for this purposes.

Accommodation Documents, Recording, and Title Insurance:

CE does not permit employees to prepare any kind of legal document without written instructions that are part of a legitimate escrow transaction. Do not record any documents without title insurance or accept an escrow for which title insurance will not be obtained.

Automatic Cancellation:

CE does not permit automatic cancellations. If the parties want to cancel an escrow, they must sign mutual cancellation instructions before any funds can be disbursed. Please consult Management if you have any questions regarding the preparation of cancellation instructions.

Closing Funds:

Deposits up to \$100,000.00 may be deposited by Cashier's Check or by wire transfer.

Deposits in excess of \$100,000.00 must be deposited by wire transfer only.

Demands for Commission:

Should CE receive a written request from a real estate broker or agent requesting a commission to be paid who is not authorized in the escrow file, forward the request to the Seller, and ask the Seller for instructions regarding the payment. It is not the Escrow Officer to determine whether or not a commission has been earned or due. Do not discuss a file with any broker or agent who does not represent a party in the escrow transaction.

Double Escrows:

In the event a property is bought and sold concurrently (double escrow), please call Escrow Operations for the approval of the transaction. If approved, the appropriate language for both files (purchase and re-sale) will be provided, and Escrow Operations will monitor the transaction from start to finish.

Employee Transaction:

CE employees are not authorized to process an escrow in which the employee or a member of the employee's family is a principal. Escrow Operations will assign an escrow office to process the escrow. The escrow instructions must disclose that one of the parties is an employee or related to an employee.

E-Signatures:

We will accept e-signatures on the **CAR form of Purchase Contract and on Commission Instructions** which are approved electronically by a real estate broker.

FAX Signatures:

We recognize the convenience of fax signatures and the necessity for accepting them at certain times. Original signatures are always preferred over a fax signature. If you must accept a fax signature, whenever possible follow up with the signer to obtain the original signature.

Government-Issued Documents:

Employees may not sign any government-issued documents, including applications for building inspections, requests for reports of residential property records, certifications or affidavits as to compliance with conservation or retrofitting standards, or any other form or application relating to municipal requirements. The Sellers of the property must sign these documents consenting to an inspection of the property or certifying compliance.

Holding Funds:

Funds held in escrow after close of escrow should be discouraged and, in some circumstances refused. If you must hold funds, complete and accurate instructions are very important. Please use the appropriate Streamline clause covering Funds Held in Escrow, if you have any doubt about how the instruction should be prepared, please contact Escrow Operations.

Homeowner's Associations:

After you have received signed Escrow Instructions by all parties and the Buyer's deposit, order the Association documents from the association or management company. The title company does not have access to all the documents which the Buyer must receive a current budget, special assessment, architectural guidelines and any existing lawsuits.

Indemnification:

Employees are not authorized to indemnify any person, partnership, corporation, title company or any other entity.

Insurance:

The fax or Email to the insurance agent of the Request for Insurance must include a copy of the Lender's Instructions requirements so that the agent can comply with Lender's request to issue the Evidence of Insurance.

Legal Description:

Legal description must be referenced on the face of the Grant Deed, Trust Deed and any other documents requiring same, and the complete legal description must be attached to the documents, before being signed, or sending them to the Lender and/or title company.

Banking Receipts:

When preparing receipts for checks payable to the Real Estate Company/Broker and endorsed over to **CE**, the receipts must be made to the Real Estate Company/Broker for the benefit of the Buyer. Receipts should not be issued to the Buyer.

If CE should receive a check from a Third Party, the receipt must be made payable to the party whose name is on the check for the benefit of (fbo) the party in the escrow who will be receiving the credit for the deposit. A Third Party Instruction is also required to be signed by Third Party, Buyer and Seller.

Multiple Checks for Deposit:

Should we receive multiple checks (2 or more) that are less than \$10,000.00 each, we must complete and submit to **IRS** Form 8300 within ten (10) days of the receipt of the deposit. Please inform the client that the Form will be submitted to **IRS** and obtain their social security number and current mailing address. Should you have any questions in completing the form, please contact Escrow Operations. Please mail the form via certified Mail.

Notary Service:

If you are a Notary Public, you may perform notary services in **CE** files, Invoices must be submitted in the escrow file for payment at closing, as a courtesy to our clients, fees should not be excessive.

Notification of Escrow Loss:

Please immediately inform your Manager and Escrow Operations when a loss occurs or seems possible on an escrow file by the end of the business. Do not collect the escrow fee until sufficient funds have been received to pay all costs to balance the file. Do not reduce the escrow fee to cover the shortage without management's approval.

Property Information Form:

No escrow can close unless the property owner has completed and signed the Seller's or Borrower Property Information form.

Title Company:

Always prepare written closing instructions to the title company, to include:

The types of policies and amounts of coverage, items in the preliminary title which will show as exceptions to coverage, instructions for the payment of property taxes and a copy of the Lender's Instructions.

Obtain a completed and signed Preliminary Change of Ownership for each deed in the escrow. Inform the parties that failure to provide the completed PCOR form may result in penalties. Employees may not sign any government-issued documents, include the PCOR. If the information cannot be obtained by the parties, then the escrow file should be noted accordingly.

Review the Grant Deed, check the mailing address in the upper left corner of the document to be sure that the future tax statement will be mailed to correct address of the new property owner.

Do not make any payoffs as shown on the preliminary title report, please request the title company to make these payoffs.

Closing:

Obtain approvals from Seller's and Buyer's on the Estimated Closing Statement, prior to closing.

Checks for bill payments should be mailed to the complete addresses provided in your instructions, together with Account Numbers. Do not hand these checks to the parties for delivery.

The 1099'S entries for Gross Proceeds (Box 2) and the Buyer's part of real estate tax (Box 5) must be divided and reported according to the percentages shown on the completed 1099-S Input Forms. If the percentages are missing from the 1099's Input Forms, all Sellers should be advised that the 1099-S Forms will be submitted to IRS showing the entire Gross Proceeds and the full amount of the Buyer's part of real estate tax for each Seller, unless we are not provided with corrected forms.

A Check Register must be printed and filed when funds are disbursed at closing and afterwards.

The amount of any title company "holds funds" in connection with a payoff must be shown on the Closing Statement as a line item so that the Statements correctly

reflect the transaction at closing. There is always the possibility that the funds held will not be deposited into the file after closing and the party proceeds will have been overstated.

Short Sales:

For "Short Sale" transaction, a special environment in RBJ Training which may be used for preparing estimated settlement statement before a Real Estate Purchase Contract is received.

Instructions:

A written instruction is required for every action in an escrow.

Keep a legible copy of the purchase contract filed in Green Folders.

Original signatures are required on an instruction to disburse funds from the escrow.

The Prior Release of funds instruction must be notarized by all parties signing the instruction.

Amend the closing date of escrow if the date is changed to a date other than the date originally stated in the

Real Estate Purchase Agreement or Supplemental Instructions.

Take an instruction from the Seller to withhold funds to the Internal Revenue Service or State Franchise State Tax Board.

Whenever the Terms of the Transaction block changes an amendment should be prepared showing the new amounts. The Lender, Rate and Term clause for the new loan(s) does not suffice the change in the amended Terms of Transaction block.