

Pillar #2 – Escrow Trust Accounting

Effective Date	Approved By (<i>Manager</i>):	Approval Date
June 1, 2015	Lisa Hannah Walker	June 19, 2015

Applicable Parties:

Employees, Temporary Employees, Service Providers (Vendors, Contractors, Couriers, and 3rd parties) responsible for escrow and settlement functions for the Company.

Supporting Documentation

- Company Tracking Log
- Employee Tracking Log
- Bank Account Information Sheet
- Bank Roles & Responsibilities
- Bank Account Checklist
- New Hire Checklist
- Termination Checklist

Revision History:

Version Number	Revision Date	Approved By	Summary of Changes

PO 2.01 – Escrow Trust Accounting Policy

The Company maintains appropriate written procedures and controls for open (active and inactive; escrow and non-escrow) bank accounts.

PR 2.01 – Escrow Account Control Procedures

The Company maintains Escrow Account Controls in a single location using the Bank Account Checklist. These controls are reviewed, updated, and approved by management annually and upon an employee new hire or termination.

Funding checks are restrictively endorsed "for deposit only" to the escrow trust account immediately upon receipt.

PR 2.02(a) – Escrow Account Authorizations Procedure

The Company maintains Escrow Account Authorizations in a single location using the Bank Information Worksheet, Bank Account Checklist for each account and Roles & Responsibilities Checklist. These authorizations are reviewed, updated, and approved by management annually and upon an employee new hire or termination.

PR 2.02(b) – Wire Procedure

- 1) Wiring instructions are received in writing including but not limited to the Name and Address of bank receiving the wire transfer and the ABA/Transit Routing number of receiving bank.
- 2) Wire is initiated by an authorized user from a secure system.
- 3) Wire is approved by an authorized user from a secure system (authorized user must be different than authorized user in step 2). PIN numbers are used to verify authorization Wires over \$500,000.00 require a second verification by Lisa Hannah Walker.
- 4) Federal Reference Number verified and imaged into file.

PR 2.02(c) – Check Maintenance Procedure

- 1) Access to and release of check stock
- 2) Check stock maintained in a secure location
- 3) Sign in / sign out log for check stock.

PR 2.02(d) – Check Signing Procedure

Only authorized signers are permitted to sign, stamp, or use an electronic signature to issue checks on behalf of the Company. **SIGNATURE STAMPS AND ELECTRONIC SIGNATURES ARE NOT USED, ALL CHECKS HAVE LIVE SIGNATURES.**

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A segregation of duties is maintained to minimize the ability to tamper with checks for both preparers and signers.

PR 2.02(e) – Check Voiding Procedure

- 1) Identify checks to be voided due to misprint or incorrect information.
- 2) Mark "Void" across face of check.
- 3) Remove signature block from check.
- 4) Place a stop payment in the event the physical check was ever outside of company control (e.g. check was sent to vendor).
- 5) If the check has been lost or stolen, verify with the bank that the check has not cleared.
- 6) Voided checks are scanned into the digital file as well as the master voided check file and shredded.
- 7) Only authorized individuals are permitted to void checks.

PR 2.02(f) – Background Check Procedure

At hire, a background check will be performed for all employees who have access to escrow trust accounts or funds, unless prohibited by law.

- 1) Order background check.
- 2) Background check results are reviewed and then approved or denied by management.
- 3) At least every three years the Company obtains background checks going back five years which are reviewed and then approved or denied by management.
- 4) Place evidence (invoice/documentation) in a single location such as the employee file.

PR 2.03(a) – Segregation of Duties for Reconciliations

Reconciliations are not performed by an employee with rights to issue or sign checks, wire funds or issue receipts.

PR 2.03(b) – Management Review of Reconciliation

Reconciliation(s) are reviewed by management and are accessible electronically by the Company's contracted underwriter(s).

PR 2.03(c) – Two-Way Reconciliation Procedure

The Company performs a Two-Way Reconciliation daily on the next business day using the steps below:

- 1) Transactional information is processed at close of business.
- 2) Reports are created and book balance is updated.

- 3) Electronic daily banking is imported and available.
- 4) If reconciliation software is utilized, authorized employees access by secure login.
- 5) Bank and book transactions are matched.
- 6) Outstanding check balance is updated with paid and adjustments applied.
- 7) All check numbers are in sequential order. Voided checks are maintained with signature blocks removed.
- 8) Exception items are identified (including deposits in transit)
- 9) Verify that adjusted book and bank balances are equal.
- 10) In the event that adjusted book and bank balances reveal a shortage, the account is funded from an operating account within 5 days of completion of reconciliation.
- 11) In the event the adjusted book and bank balances reveal bank fees or charges assessed, the account is funded from an operating account within 30 days of completion of reconciliation.
- 12) Reconciliation and exception page(s) are signed by Management once approved.
- 13) Exception page items are resolved immediately after being identified.
- 14) Bank information, reconciliation, transaction reports, outstanding check list, and all other supporting documents are imaged and stored for electronic verification.

PR 2.03(d) – Three-Way Reconciliation Procedure

The Company performs monthly Three-Way Reconciliation within ten (10) business days of the closing date of the bank statement using the steps below.

- 1) Transactional information is processed at close of business for the previous month.
- 2) Reports are created, book and trial balance is updated.
- 3) Electronic daily banking is imported and available.
- 4) If reconciliation software is utilized, authorized employees access by secure login.
- 5) Bank and book transactions are matched.
- 6) Outstanding check balance is updated with paid and adjustments applied.
- 7) All check numbers are in sequential order. Voided checks are maintained with signature blocks removed.
- 8) Exception items are identified (including deposits in transit)

- 9) Verify that adjusted book/bank balances and trial balances are equal.
- 10) In the event that adjusted book and bank balances reveal a shortage, the account is funded from an operating account within 5 days of completion of reconciliation.
- 11) In the event the adjusted book and bank balances reveal bank fees or charges assessed, the account is funded from an operating account within 30 days of completion of reconciliation.
- 12) Reconciliation and exception page(s) are signed by Management once approved.
- 13) Exception page items are resolved immediately after being identified.
- 14) Bank information, reconciliation, transaction reports, outstanding check list, trial balance and all other supporting documents are imaged and stored for electronic verification.

PR 2.03(e) – Cancelled Check and Disbursement Register Procedure

The Company performs periodic reviews of checks going back into escrow, paid to cash or employees, transferred between accounts, suspicious payees, multiple checks to the same payees, and any other questionable disbursements.

PR 2.04(a) – Outstanding Check Procedure

- 1) Identify all outstanding checks.
- 2) Identify high-risk outstanding checks.
 - a. Recording, tax, flood/hazard insurance premium checks over 30 days
 - b. Underwriter premium/payments that are outstanding over 60 days
 - c. Any check over \$5,000.00
- 3) Research to ensure check was disbursed properly; if yes, make immediate contact with the payee. If contact is unsuccessful, escalate to management for further direction.
- 4) Document the contact with the payee and result.
- 5) Research and update address information if required.
- 6) If response is received, void and reissue check to payee.

PR 2.04(b) – Unclaimed Property Procedure

All Unclaimed Property processing is performed by an employee that does not have rights to issue, sign, and wire funds or issue receipts.

- 1) If you are unable to identify or locate the owner of the funds, void check and hold the funds per state requirements.

- 2) As required, prepare state Unclaimed Property report and escheat to state per state requirements.

Note: The National Association of Unclaimed Property Administrators (NAUPA) has links to each state government office which you may find useful.

Website: <https://www.unclaimed.org>

PR 2.04(c) – Outstanding File Balance Procedure

The Company identifies, researches, and resolves the following significant items as applicable:

- 1) Outstanding balances over \$10,000 over 10 days old
- 2) Outstanding mortgage payoffs over 10 days old
- 3) Escrow Trust Account with aggregate short over \$10,000

The explanation for each outstanding file balance is documented and updated monthly. Report unresolved significant items to management.

PR 2.05(a) – Escrow Account Employee Training

Training is conducted for all applicable parties in the management of escrow funds and escrow accounting annually. At hire and annually all identified applicable parties are provided with a copy of the “Best Practices Pillar #2 – Escrow Trust Accounting” policy and procedures or when software, processes, industry standards or underwriter guidelines are updated.

Training completion and policy delivery is maintained on the Tracking Log.