



Escrow Agreement



Knowledge Series 2, Episode 6

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What is an Escrow Agreement

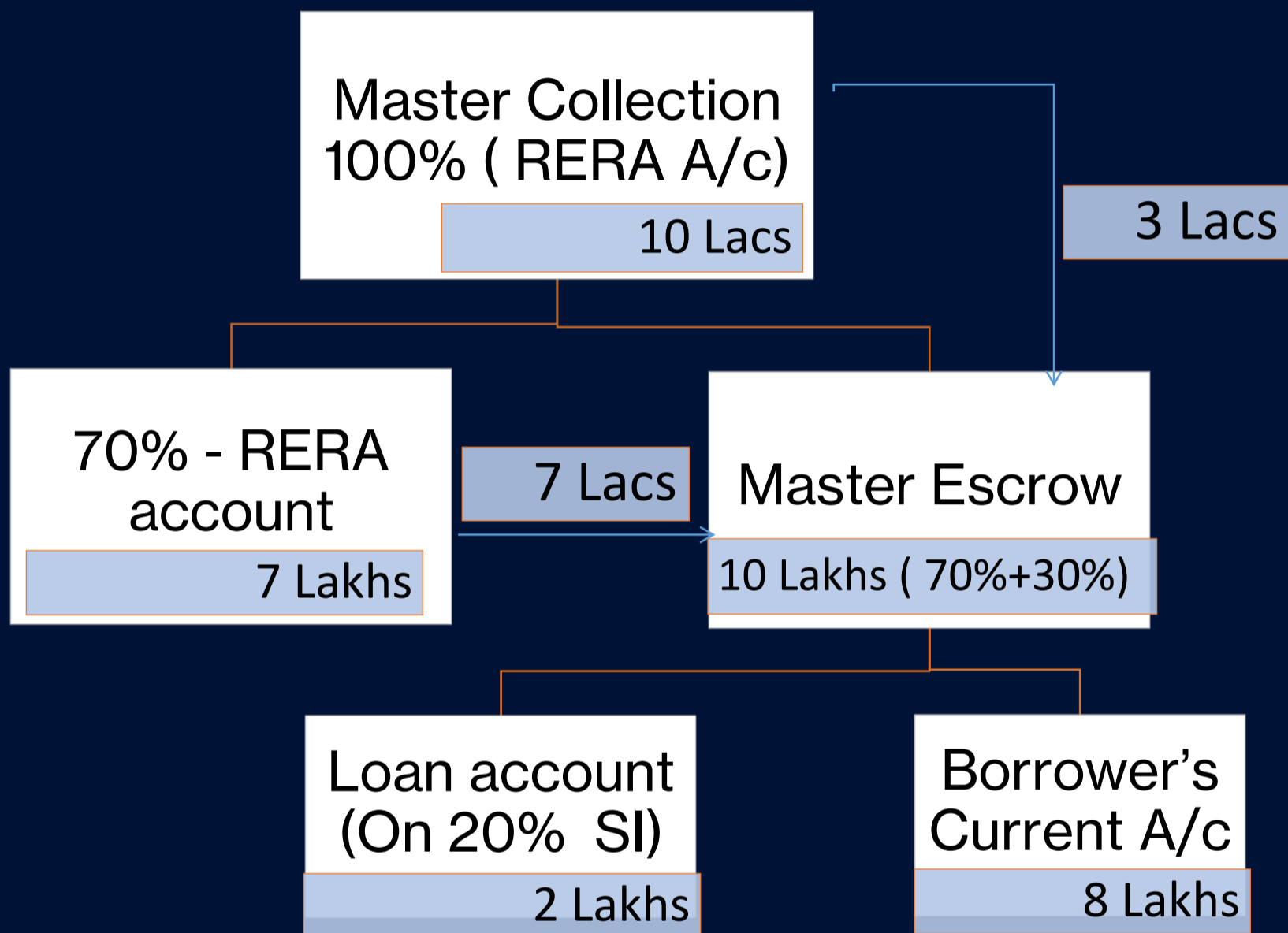
- Escrow Agreement is a tripartite document executed between lender, borrower and escrow agent (Banks/FI's)
- It is executed for opening an escrow account (similar to current account) which is controlled and monitored by a lender.
- These accounts are operated by an escrow agent on the instructions of the lender to protect its interests.

Why Escrow Agreement is executed ?

- On execution of escrow agreement, security perfection is created on the project receivables which is a part of the security set offered to lender.
- These accounts are opened to ensure that project receivables are held in control as per the terms of lending and regulatory guidelines and not misused by the borrowers.
- It is a crucial agreement which ensures 100% project receivables (present and future) are deposited in a designated account.

Escrow Mechanism

For example, where 10 lakhs is amount received for under construction project & lender SI is 20%



Note :

1. 100% collection A/c and 70% A/c are RERA accounts but form a part of Escrow agreement.
2. From 70% A/c, funds are transferred to Master Escrow A/c on issue of Certificates as per RERA requirement whereas 30% funds are directly deposited to the escrow A/c.

Borrower & Lenders Obligation

<u>Borrower's Obligation</u>	<u>Lender's Obligation</u>
To intimate customers to deposit the cheques in designated accounts	The amounts lying in transaction accounts shall never be treated as assets of the Escrow bank
To route 100% collection in lenders escrow account. If 100% collection isn't routed in escrow A/c, then SI needs to be paid, to the extent of short fall in routing into Loan Repayment A/c	To utilize the funds to adjust interest / principal obligation without prior consent of borrower. (Only in case EOD is not triggered)

Lender's Recourse in Case of a Shortfall

The Lender has an option to take a call on situation resulting to Event of Default but in many cases, lenders ask to deposit shortfall in the loan repayment account.

Let's understand the above situation using the example given below:

Sr. No.	Particulars	Amt in Crs.
1	Total Collection	10.00
2	Routed in Escrow A/c	8.00
3	Shortfall in Routing (1-2)	2.00
4	Current Standing Instruction	25 %
5	Amount to be deposited in Loan Repayment A/c (3*4)	0.50

In Banking or Insurance,
Trust is the Only Thing
You Have to Sell.

- Patrick Dixon

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more knowledge



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