



Escrow Overview

Northern Escrow provides comprehensive fund control for construction contracts. Following is an overview of the escrow company expectations and procedures.

New Account/Bond Submissions:

Upon set-up of the bonds, the bonding company forwards to Northern Escrow documentation necessary for file set-up. At that time, Northern Escrow will issue the following documentation for review and completion by the contractor:

1. Escrow Agreement – This is the agreement between the contractor, surety, and escrow company. We will only need to have this document signed once, and it will remain in place for future projects. The agreement is to be signed by an officer of the company and the signor must provide their official title. The **original** document must be returned to the escrow company before funds can be disbursed.
2. Letter to the Project Owner – This is the assignment notice to the project owner. Both copies of the letter must be signed by an officer of the company, including their title. One original signed document is to be returned to the escrow company - in most cases the faxed copy is acceptable. The other original signed document should be turned in to the owner with the bonds.
3. Project Breakdown and List of Material Suppliers/Subcontractors - This paperwork is used to provide the escrow company with a full breakdown of the project costs (without markup). The breakdown must be returned prior to the first draw. The List of Material Suppliers should include material cost estimates, including any items budgeted where a specific vendor has not yet been assigned. It should also include equipment rental costs specific to the project and fuel costs only if fuel is delivered to the site. The List of Subcontractors should include all budgeted work, even if a subcontractor has not been assigned. We will need to be provided with the pertinent pages of the signed subcontract agreements or quotes prior to disbursement to the specific subcontractor. Bank notes, overhead costs, payroll and incidentals are all paid by the contractor directly.
4. Disbursement Sheet – The contractor should keep copies of this form as it is used for each disbursement request we process.

Payment Processing:

For each disbursement the contractor will need to provide Northern Escrow with the following documentation:

1. Completed Disbursement Sheet – The vendor section is a listing of the total to be paid to each vendor. Retainage should be deducted if any is to be held – typically on subcontractors only. Multiple invoices from the same vendor should be listed as a total. The lower right section – contractor breakdown – needs to be completed with a rough breakdown of the funds to be paid back to the contractor. This section is where amount of labor, benefits, overhead, equipment, etc. are summarized for the period of the draw.
2. AIA G702-703 Application and Certificate for Payment or Progress Payment Estimate - The pay estimate, including the detailed breakdown of work performed, must be turned in for each draw.
3. Vendor Invoices – Northern Escrow will need to be provided with vendor invoices for each vendor listed on the disbursement sheet. For materials, we will need each material invoice in full – statements alone are not adequate. For subcontractors who do not provide bills, payments can be made based on line item work completed per their signed subcontract or quote. Signed subcontracts or quotes should be sent with the first draw for each subcontractor on the project.

Escrow Review Process:

With provided documentation, Northern Escrow will do a comprehensive review of vendor payments to ensure the contractor is paying for all materials and subcontracted work the owner is authorizing payment for. Subcontractors are expected to be paid to the same percentage complete as the project application.

Example:

Line for subcontracted work of \$200,000 shows paid \$100,000 or 50% complete. Subcontractor contract amount for work on this line is \$90,000, so subcontractor needs to be paid to 50% complete or \$45,000 (less retainage as held by owner).

Review of escrow documentation and issuance of checks usually takes between 24 and 48 hours, depending on work load. All checks, including those for vendors, are sent to the contractor via mail, but can be sent to them via overnight delivery at contractor's request. We can not pay vendors electronically. Contractors are responsible for verification of amounts and addresses on checks before they are sent to their vendors, as well as obtaining lien waivers as required by the project owners. Material waivers for previous payments will be required prior to processing of the next draw. Material waivers need to include the project name, dollar amount of payment, and paid through dates to match the owner's payment application. A sample lien waiver form is available upon request. The lien waiver form required by the project owner is acceptable.

Disbursement instructions can be sent in upon approval of payment applications by the project owner. Northern Escrow will attempt to preview all submissions ahead of funds receipt, if time allows.