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VIRTUAL ACCOUNT MANAGEMENT: A Smart Solution for the Next Generation of Escrow Processing

A new web-based solution from Sterling National Bank improves upon traditional processes by allowing the self-service opening of sub-accounts and real-time handling of escrow relationships.

Any business that uses escrow accounts knows the challenges that come along with managing a large number of them. While they can sometimes be onerous to set up and administer, being able to utilize them effectively and efficiently is key across a range of industries.

For example, property managers deal with security deposit funds from multiple tenants in multiple buildings, and law firms handling clients' funds must coordinate not just the deposited funds themselves, but varying requirements for interest earned on funds in lawyer trust accounts.

The Shortcomings of Traditional Escrow Workflows

"Cumbersome interaction between banks and bank customers is at the heart of the escrow frustrations faced by many of our clients," says Courtney Chung, Managing Director, Receivables Product and Billing for Sterling National Bank.

Many banks use conventional, physical Demand Deposit Accounts (DDA) to create sub-accounts for each escrow account for their clients. That means opening a large number of accounts, each one requiring the exchange of documentation or set-up instructions. Because the bank is using a core DDA system that was designed for operational accounts, there is cost and overhead in this process.

Industry Application: PROPERTY MANAGEMENT

Property management companies can be responsible for an enormous number of escrow accounts, based on the number of properties and tenants they have. Although Sterling's virtual system can be used and customized for any industry, property managers are such heavy users of escrow accounts that Sterling is creating a set of templates specifically designed for this industry. "The system will be pre-customized, so to speak, with categories adapted to the escrow needs for properties and buildings," says Chung.

“The time needed to complete this process can range from hours to weeks, and there is an inevitable lack of transparency as client and bank each works within their separate systems,” says Susan Hentze, Senior Managing Director, Enterprise Deposit Operations for Sterling National Bank.

The set-up process takes time. Bank clients naturally expect quick turnaround and may experience frustration at delays affecting their customers.

Streamlining the Process

Banks have begun to address the need to simplify the escrow process with digital self-service escrow administration systems, but so far rollout is uneven. Solutions provided by different banks are not uniform and do not necessarily address all parts of the process.

“In talking to our clients and colleagues and understanding the gaps and compromises that exist with existing escrow workflows, we wanted to identify a technology

platform that addresses key pain points on both sides of the transaction, while also ensuring a minimal learning curve for new users,” says Kathleen Stanley, Executive Managing Director, Verticals and Support at Sterling National Bank.

As Sterling evaluated how to meet the need for a virtual escrow management solution, the following functionality considerations were viewed as critical:

- ➔ **Sub-account set-up and maintenance** should be easy and under the client’s control. Operating account setup and maintenance would still need to be done by bank staff.
- ➔ **Transactions needed to be automatically routed** to the virtual sub-accounts following criteria defined by the client.
- ➔ **The system would need to be able to calculate** interest and tax reporting, interfacing with existing bank systems to facilitate this process.
- ➔ **Statements should be available** for the sub-accounts within the solution.
- ➔ **Required user roles** needed to be supported by client self-administration and enforced.
- ➔ **Access to the solution** had to be extensible, with ERP integration options allowing for file-based or API-based data exchanges or system linkages, such as accounting software.

Sterling’s Solution: Virtual Account Manager

In light of the foregoing, Sterling has introduced a state-of-the-art self-service tool called Virtual Account Manager. Via a web-based environment, Sterling clients can self-service their escrow accounts by having the ability to open, update, and close their sub-accounts. Only a single demand deposit account is needed as the individual escrow accounts are virtually defined using customer reference numbers that can be adapted to existing formats in client systems.

“This new tool allows our clients to increase their operational efficiencies by reducing onboarding times, reducing the time effort of reconciling account statements across multiple accounts, and increasing the potential for time and cost savings,” says Stanley.

The cloud-based solution offers a customizable dashboard, standard and custom reports, as well as transaction and tax statements. It also allows for interest-bearing and non-interest bearing relationships and includes a full suite of APIs that support straight-through-processing from many clients’ existing Enterprise Resource Planning (ERP) systems.

Clear Benefits for Banking Clients

Guided Onboarding and Setup. “During an initial session with the client, Sterling will set up the shell of the system and open an omnibus or “pool” account specifically for the escrow relationship, and then the client will open up their sub-accounts,” says Chung.

Industry Application: LAW FIRMS

Law firms leverage a highly specialized use of escrow accounts not found in other industries. Customer funds controlled by attorneys may be regulated by various IOLA and IOLTA state rules. Virtual Account Manager can be customized to address a law firm’s specific needs and applicable state requirements.

“Because sub-accounts are no longer separate DDAs, the platform itself is self-service. Clients have 24/7/365 anywhere access to the escrow application. They can open and maintain sub-accounts at their discretion, eliminating the need to request account opening from the bank and send supporting documents.”

SELF-SERVICE PLATFORM. Under manual escrow protocols, each sub-account represents a separate DDA. So, if a bank client has several new customers — such as initial earnest money deposits for real estate purchases, new property rental deposits, or attorneys opening new interest or trust accounts — each one requires the establishment of a new DDA account with the bank.

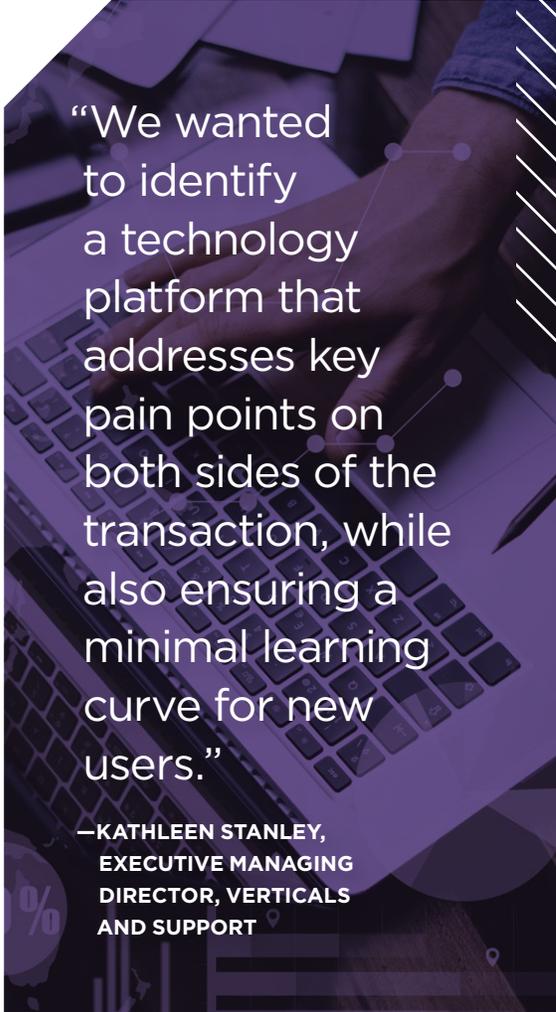
Using Sterling’s Virtual Account Manager, by contrast, those new customer transactions could occur at the client’s discretion after the escrow agent had already established a pool account with the bank. Rather than deal with a stream of administrative communications and paperwork, clients can simply open, update, or close individual sub-accounts under which customer-specific transactions are handled as they see fit.

With everything in one place at their fingertips, banking clients using this tool can also enjoy the added benefit of easy access to statements and other pertinent information in one consolidated dashboard.

FDIC PROTECTION. The FDIC, in many circumstances, considers funds deposited by a fiduciary or custodian on behalf of actual owners to be “pass-through” funds and generally insures them as if the actual owners had made the deposit. Sub-account holders in Sterling’s Virtual Account Manager receive FDIC coverage pursuant to FDIC insurance rules.

AUTO-MATCHING. One of the most powerful aspects of Sterling’s Virtual Account Manager is that the system automatically matches and posts transactions to sub-accounts across all payment channels: wire, ACH, and check deposit. This capability is unique to Sterling and can create major efficiencies—minimizing manual matching and exception work and ultimately simplifying the overall workflow for the client.

PROCESS EFFICIENCIES. All payments are processed through the pool account and then are pushed down to the sub-ledger at the client or customer level. Clients can reconcile their pool account to all the deposits within their sub-register system. Sterling expects that this more automated process will reduce the time needed for client sub-account opening by about 3-14 business days and account maintenance by at least one day. Naturally, the time savings will depend on individual situations. The workload is now also distributed where it makes sense and can be best administered.



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DIRECTOR, VERTICALS
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BETTER CLIENT EXPERIENCE. “The efficiencies inherent in the virtual escrow system are key in my mind. All the information is available when they are ready for it,” says Hentze. “Under the old style of manual processing, a lot of clients have to wait until they receive a statement at the end of the month to be able to reconcile their accounts. It’s a point of frustration for some of them. Using the dashboard of the new Virtual Account Manager system, reports and statements are available whenever they are needed, so clients can reconcile accounts whenever they want.”

To learn more about Sterling National Bank’s Virtual Account Manager solution, or to speak with a treasury management specialist about how to optimize your escrow processing strategy, call **212-575-8020** or visit **snb.com/vamgr**.



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