

A Friendly Guide To

Running an In-House Escrow Division

For California real estate brokers — in plain English



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Welcome!

If you're a California real estate broker thinking about setting up your own escrow operation inside your brokerage, this guide is for you. We wrote it to make a very technical subject feel a lot less scary.

You'll learn what's actually required, what's just a good idea, and what to watch out for — without drowning in legalese.

A quick note before we begin

This is a friendly starting point, not legal advice. Escrow touches people's money, so before you go live, please loop in a California attorney and a CPA who knows trust accounting. Think of this handbook as your roadmap — they're the tour guides.

What is an in-house escrow division?

When you sell or lease a property, someone has to sit in the middle and hold the money until the deal closes. That 'someone in the middle' is escrow.

Most California brokers who want to handle escrow in-house don't go out and get a separate escrow company license. Instead, they build an escrow division inside the brokerage they already run. It only handles escrows for the deals your own brokerage is working on — not for outside brokers or the general public.

How a broker-controlled escrow fits together



Your escrow only works on deals where your brokerage is also doing real estate work.

The 4 tests your deal must pass

California gives brokers a special lane called the 'broker exemption.' To stay in that lane, every deal you run through your escrow division needs to check all four of these boxes:

The 4 tests your deal must pass



You're in the deal
as agent or party



Real estate license
work is required



Escrow is part
of that same deal



Broker supervises
it directly

All four must be true.

If even one is missing, you're no longer protected by the broker exemption and you may need a full independent escrow license instead.

A simple way to remember it

If the escrow division mostly exists to support your own brokerage's deals, you're in the safe zone.

If it starts to look like a stand-alone business selling escrow services to the public, you've wandered out of the zone — and you probably need a different kind of license.

Red flags to watch for

These are the warning signs that tell you you've drifted outside the broker exemption. If any of these describe your plan, press pause and talk to a compliance professional.

- Handling escrows for unrelated brokerages as a regular service.
- Setting things up so the operation mostly serves multiple outside businesses.
- Running in-house escrows on deals where your brokerage isn't actually doing real estate work.
- Advertising the division as if it were a neutral, separately licensed escrow company.

Your 8-step roadmap

Here's the big picture of what you'll need to do, from deciding you want to do this all the way to opening your first real file:

1. Confirm that an in-house escrow division is the right fit (not a full independent company).
2. Double-check that the deals you plan to run will pass the 4 tests.
3. Decide if the division will live in your existing office or in a separate branch.
4. Decide whether you'll appoint someone to manage the division day-to-day.
5. Decide on a name — especially if you want the word 'Escrow' in it.
6. Open a proper trust bank account and pick your signers.
7. Build your bookkeeping system before you open — ledgers, reconciliation, closing statements.
8. Write down your house rules for supervision, file-opening, disbursements, advertising, and referrals.

Your optional choices

A few setup decisions are yours to make — but if you pick certain options, extra paperwork comes along with them. Here's a quick look:

A separate escrow office

If you run the escrow work out of a different physical office than your main brokerage, you'll need to file a branch office application (RE 203) with the DRE. It must be a real California address — not a P.O. box.

A dedicated division manager

You don't have to put anyone in charge of the division specifically, but it helps. If you do, write up a real contract describing their duties and file form RE 242 with the DRE. Even then, you (the responsible broker) are still on the hook for supervision.

Using 'Escrow' in the name

Branding the division as something like 'ABC Escrow Services' is fine, but the name has to include the phrase 'a non-independent broker escrow' on your license, your signs, your ads, and your website. You'll also need a fictitious business name statement with the county and a DRE update (RE 204 or 204A).

A separate trust account

Technically optional, but practically essential. A dedicated trust account keeps the escrow money cleanly separated from everything else and makes reconciling so much easier.

The Trust Account: the heart of everything

If there's one part of this whole operation to get right, it's the trust account. A weak setup here is the fastest way to find yourself in serious trouble. The good news: the rules are clear once you see them laid out.

Setting up the account

- Open it as a real trust account in your broker name (or your licensed DBA), marked 'as trustee.'
- Use a California bank or another approved depository.
- Never mix client money with the company's operating account.
- Turn off any automatic sweeps or transfers that could move trust money into company accounts.
- Withdraw your earned fees on time — don't let them sit in trust.

The commingling exceptions (from DRE Regulation 2835)

A clean trust account doesn't mean empty of broker money. The regulation allows two narrow exceptions:

- You may keep up to \$200 of your own money in the account to cover bank charges.
- When broker-earned funds are deposited (for example, a fee being paid out of escrow), you must withdraw your portion within 25 days.

Outside these exceptions, any mingling of broker and client funds is prohibited under Business and Professions Code § 10176(e).

Who can sign on the account

DRE Regulation 2834 spells this out. Signers can be:

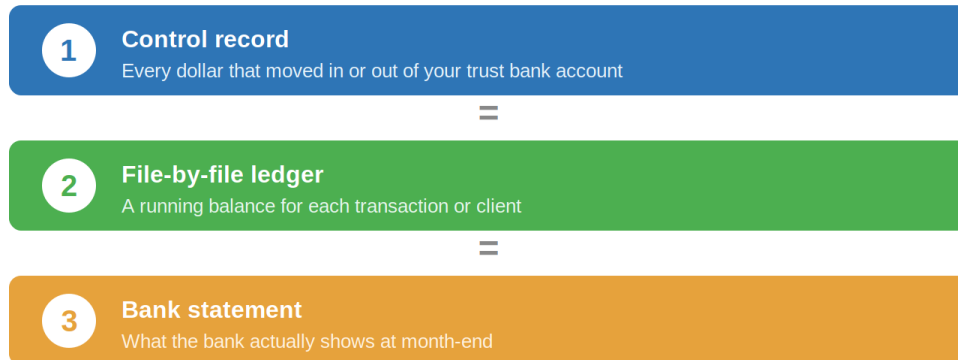
- The broker (or the broker-officer of a corporate broker).
- A salesperson licensed to the broker, with specific written authorization.
- A broker-associate with a written Section 2726 agreement.
- An unlicensed employee — but only if they have written authorization and are covered by a fidelity bond at least equal to the maximum amount of trust funds they could access at any time.

Important: delegating signing authority never transfers responsibility. Even if your office manager is the one moving money, you as the broker are still legally on the hook.

The 3 records that must always match

Think of your bookkeeping as three layers that must always tell the same story:

The 3 records that must always agree



DRE Regulation 2831.2 makes the monthly reconciliation a legal requirement, not a suggestion. Every single month in which there's any activity, you must reconcile the total of all beneficiary ledgers against the control record — and keep a dated record of the reconciliation showing the bank account name and number, each transaction or principal, and what you owe each one. If the three layers don't match, you stop everything and figure out why.

Timing matters

When you receive money into escrow, it needs to hit the trust account fast. For most broker trust funds, California gives you three business days — but when you're acting as the escrow holder under the broker exemption, the rule is stricter.

The rule, from DRE Regulation 2832(e)

A broker acting as escrow holder must place all funds received into the trust account — or deliver them to the owner or a neutral escrow — no later than the next business day after receiving them.

This is faster than the general three-business-day rule in Regulation 2832(a). When you wear the escrow hat, you move next-business-day or better.

On the way out, you need written authorization from the people whose money is being paid. And Regulation 2832.1 has a hard line: never let a trust account holding money for multiple parties dip below the total you owe everyone combined — not without written consent from every affected owner.

Best-practice habit

Make 'deposit today, post to the ledger today' your normal rhythm. It's much easier than catching up later — and the next-business-day rule gives you almost no breathing room.

Running each escrow file

Here's where the rubber meets the road. DRE Regulation 2950 lists ten specific acts that can get a broker-escrow in trouble. The list below covers all ten. Every one of these is a direct rule, not a suggestion — any of them can be grounds for disciplinary action against your license.

- Never accept escrow instructions with blanks to be filled in later (even if everyone's friendly about it).
- Never let anyone add to, delete from, or change signed instructions unless every person who already signed initials or signs the change.
- Give every signer an executed copy at the moment they sign — not 'later' or 'when it closes.'
- Keep books, records, and accounts in line with accepted accounting principles and good business practice.
- Keep your office, records, safes, files, and papers accessible for DRE audit and inspection at any time.
- Deposit every dollar of escrow money you receive no later than the close of the next full working day.
- Never withdraw or pay out escrow money without written instructions from the party whose money it is.
- If any licensee in the transaction has an ownership stake in your escrow (officer, partner, stockholder, owner), disclose that in writing to all parties.
- At closing, give every principal a written statement showing all receipts and disbursements and naming who received each one.
- Never deliver or record a document that transfers a party's title or interest in real property without that party's written consent.

A quick reality check

If you walked through your last ten files, could you show a DRE auditor every signed instruction, every written disbursement authorization, every closing statement, and every reconciliation — within a few minutes?

If the answer is 'probably, somewhere' — your filing system needs work before you go live.

Referrals, incentives, and keeping it clean

This is one of those areas where well-meaning brokers get themselves into real trouble. California and federal law both take a dim view of hidden incentives to steer business to a particular escrow. The rule is simple: your escrow division has to compete on its merits, not on kickbacks.

No hidden incentives, please



No referral fees
for sending deals to
escrow, title, or pest



No bonus splits
for using the
in-house escrow



No forced use
clients must be
free to choose

Clients may pick your in-house escrow — but that choice must feel truly optional.

For federally related mortgage transactions on 1–4 unit properties, RESPA Section 8 adds another layer of protection against referral fees for any settlement service.

Your first 90 days

Once you've decided to do this, here's a reasonable pace for getting up and running:

Your first 90 days, at a glance



Pro tip

Don't open your first real file until the trust account, the ledgers, and the reconciliation template are all working together. Practice on a fake file first — it's much cheaper to find problems on paper than on a live transaction.

A quick note on the RE 890 annual report

Under Business and Professions Code § 10141.6, if in any calendar year your broker-controlled escrow activity reaches 5 or more transactions OR \$1,000,000 or more in dollar volume, you're required to file the Escrow Activity Report (form RE 890) online within 60 days after year-end.

When the time comes, you'll file electronically through the DRE's Escrow Activity Reporting System at <https://ears.dre.ca.gov>. For background and FAQs, the DRE also maintains an overview page at <https://dre.ca.gov/Licensees/EscrowActivityReporting.html>. Questions can go to the DRE Mortgage Loan Activities section at (877) 373-4542.

A simple habit that keeps this easy

Keep a running log of every escrow you handle — date, file number, dollar amount. Check it at year-end. If you didn't hit 5 escrows or \$1M, you're done. If you did, you already have everything you need to file in under an hour.

Master checklist

Before you open your doors, walk through this list one more time:

- I've confirmed we're running a broker-controlled division (not an independent company).
- I know which kinds of transactions we will and won't accept.
- I picked the office structure and filed RE 203 if needed.
- I appointed a manager and filed RE 242 if applicable.
- I handled the DBA paperwork (county + DRE) if we're using one.
- If the DBA uses 'Escrow,' it includes 'a non-independent broker escrow.'
- The trust account is open and set up correctly.
- Authorized signers are named in writing.
- A fidelity bond is in place if any unlicensed employee is a signer.
- Control record, file ledgers, and monthly reconciliation templates are ready.
- Escrow instructions, disbursement, and closing statement templates exist.
- Our written supervision and authority matrix is done.
- The team is trained and has run at least one mock file.
- A log exists to track escrows and dollar volume against the RE 890 threshold (5 escrows or \$1,000,000).

The Essentials – Handbook Summary

Some fast answers to the decisions you'll make most often:

If you want to...	Then usually...
Run escrow from the same office as your brokerage	No extra branch filing is needed.
Open a dedicated escrow office somewhere else	File RE 203 for a new branch office.
Put someone in charge of the division	Write a contract and file RE 242.
Use a separate brand name for the division	File county FBNS, then update your DRE license.
Use the word 'Escrow' in that name	Add 'a non-independent broker escrow' in ads and on signs.
Handle 5+ escrows or \$1M+ in a year	File the RE 890 online within 60 days of year-end.
Handle escrows for outside brokerages as a business	Stop — talk to DFPI about independent escrow licensing.

One last thing

This handbook is here to make a complex area feel approachable — not to replace professional advice. Before you launch, have an attorney review your entity structure, your trust account paperwork, and your disclosures. Have a CPA or compliance pro check your books.

Then take a breath, run a practice file, and go help people close deals with confidence. You've got this.

Disclaimer

This guide is an operational overview and is not legal, tax, or compliance advice. Escrow, trust accounting, RESPA, and advertising rules can create civil, administrative, and sometimes criminal exposure. Please involve qualified California counsel and a compliance advisor before implementing any of this.