

# Three Common Pitfalls When Opening Legal Accounts – and How to Avoid Them

Legal deposit accounts are effective tools for managing, safeguarding and segregating the assets of individuals or businesses during a transaction. Each of these specialized financial accounts serves a unique role, has specific legal terms, and requires a knowledgeable banking partner to ensure they function efficiently and reliably for the parties they serve.

Creating and managing legal accounts can be burdensome for everyone if they aren't guided by a financial institution that understands the complex requirements of each account and how to set them up to operate as intended. They have very specific rules around what you can and can't do with them, and the penalties for breaking these rules can be severe.

Whether you're opening an IOLTA account for your practice or in need of an Escrow, Deposit Account Control Agreement, Receivership or Debtor in Possession, working with a banking partner that has a dedicated team of experts who handle these accounts is critical. When you understand the important competencies of in-house expertise and resources of potential banking partners before moving forward, you can avoid wasting time, money and unnecessary penalties.

## AVOID THREE COMMON PITFALLS

### 1) Using an off-the-shelf agreement.

With legal accounts, one size definitely doesn't fit all. Because each situation is unique, we recommend developing a customized account agreement that outlines the specific requirements and needs of the parties involved.

"It's important that a bank will allow an attorney to craft an agreement that's specific to the transaction rather than just provide a canned agreement out of its library of general

## Questions to consider for your bank partner:

- What's the process for opening a legal deposit account?
- How long will it take?
- What type of template or agreement is required?
- Who is the team that will review the agreement and be responsible for releasing funds when they're needed?
- What's the process for releasing funds when they are needed?
- Is branch staff knowledgeable when requests come in about these accounts?
- Who will be available to answer questions and work with me on an ongoing basis?

agreements,” says Abigail Kepple, President, Tax Credit Services at Enterprise Bank & Trust. “Ultimately, this will end up saving the client frustration in the long run when they need to complete a transaction.”

A customized agreement can also reduce the overall cost to the client or borrower, especially if they're working with a bank and an attorney that they have an existing relationship with and understand what's required.

“Our team knows what to look for in the document that's going to dictate what can and can't happen on that account,” says Kepple. “This ultimately provides customers with peace of mind that the account will be set up to serve their needs and they won't have to invest additional time and expense in redocumenting the agreement.”

Your bank partner should be able to provide examples of agreements so you don't have to start from scratch. That being said, customizing this agreement for your unique needs together with your banking partner is imperative.

## 2) Selecting an inexperienced bank partner.

Legal deposit accounts can be complex. Each account type has specific terms, requirements for how it should be set up and titled, what holds will be placed on the account and what's required before a user can authorize money being disbursed. It's also important to ensure the account is held by an entity who has the power to hold it.

“If the bank is not used to having a particular type of account or doesn't have prior knowledge of what's required, it can delay funds from being released from that account, which can ultimately cost that borrower or client money,” says Kepple.

Whether you have experience in dealing with these agreements or you're just starting out and think you've set up your accounting the wrong way, talk to a bank that has experience dealing with legal accounts.

## 3) Not taking the long view.

Opening a legal account is the foundation of an ongoing financial relationship. Even if the account will be limited to a specialized purpose for a fixed period of time, it needs to function efficiently and reliably for all parties for the life of the account.

“Our team focuses on all of the details to make sure the account is set up with all future transactions in mind,” says Kepple. “We get to know the people we're doing business with and provide personalized attention and advice when they need it from someone who knows their business.”



Enterprise has experience with a wide range of deposit account products. They have knowledgeable relationship managers and legal professionals who understand the nuances of each account type and how to effectively manage them for customers.



**John Sullivan**

Partner, Armstrong Teasdale LLP

We encourage you to speak with one of our relationship managers in the Legal Accounts team with Enterprise who can seamlessly open an account for you and provide yet another angle to your strategic advice. Together, we'll help you sort it all out.

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