

**Securities Division  
NC Department of the Secretary of State**

**Escrow FAQs for the NC PACES Act (Crowdfunding)**

These FAQs provide guidance on the securities registration exemption allowed under the North Carolina PACES Act. These FAQs are not legal advice. You should consult with an attorney who specializes in securities matters if you need legal advice regarding a securities offering.

**NOTE:** You may find it helpful to read the General FAQs before you read these FAQs. The General FAQs talk about the NC PACES Act and some basics of crowdfunding.

**Escrow FAQs Table of Contents**

1. [What is “escrow”?](#)
2. [Why is escrow required in NC PACES securities offerings?](#)
3. [What is an escrow agreement?](#)
4. [Who has to have an escrow account and agreement?](#)
5. [Are there any requirements for escrow accounts?](#)
6. [Does NC PACES have special requirements for escrow agreements too?](#)
7. [Who can be an escrow agent under NC PACES?](#)
8. [Does an NC PACES escrow account have to be an interest-bearing account?](#)
9. [Who can see the escrow agreement?](#)
10. [If there is a change in the escrow agreement, does the issuer have to inform investors?](#)
11. [When can an escrow agent release the funds in the escrow account?](#)
12. [Does anyone get notified when investor funds released from the escrow account?](#)

**Escrow FAQs**

**1. What is “escrow”?**

Escrow protects money when one party to a deal has some conditions it must meet before it is entitled to receive the money. The party that pays the money gives the money to a neutral third party. The neutral third party holds the money in an escrow account. The third party doesn't release the money until the conditions are met.

[Return to top](#)

**2. Why is escrow required in NC PACES securities offerings?**

Escrow protects the investor. The issuer can't access the money until certain conditions are met. All investor funds are collected in one place.

Escrow protects the issuer. The issuer will not get the money until the escrow agent has verified that the funds have cleared.

[Return to top](#)

**3. What is an escrow agreement?**

An escrow agreement is a contract that describes how an escrow account will work. Each business using the NC PACES exemption has to enter into an escrow agreement.

[Return to top](#)

#### **4. Who has to have an escrow account and agreement?**

Every issuer raising funds using the NC PACES exemption. The issuer's escrow agreement has to direct investor funds to an escrow account. The funds raised from the investors have to be deposited in the escrow account.

[Return to top](#)

#### **5. Are there any requirements for escrow accounts?**

Yes. An issuer raising capital using NC PACES must direct investor funds to an escrow account that:

- is FDIC insured,
- is a segregated account for each NC PACES securities offering, and
- is maintained by an escrow agent.

Lawyers have to comply with additional escrow account requirements.

There are additional escrow account requirements in the NC PACES Act and rules.

[Return to top](#)

#### **6. Does NC PACES have special requirements for escrow agreements too?**

Yes. Escrow agreements have to include all the contract terms and useful information like:

- the name of the escrow agent,
- the bank or depository institution where the account will be,
- when and how the issuer can access the money, and
- when and how investors can get their money back.

There are additional escrow account requirements in the NC PACES Act and rules. There may also be things that the bank or depository institution requires in its escrow agreements.

[Return to top](#)

#### **7. Who can be an escrow agent under NC PACES?**

Any of the following can serve as an escrow agent:

- A bank or depository institution,
- A registered securities broker-dealer, and
- A lawyer:
  - licensed in North Carolina,
  - in good standing with the NC State Bar, and
  - with at least one law office physically located in North Carolina.

[Return to top](#)

#### **8. Does an NC PACES escrow account have to be an interest-bearing account?**

No. The escrow agent is not required to pay interest to an investor. The escrow agreement will include information about whether the escrow account is interest-bearing or not.

[Return to top](#)

#### **9. Who can see the escrow agreement?**

An issuer using the NC PACES exemption to raise money has to include a copy of the escrow agreement:

- In the disclosure document it gives to prospective investors and investors, and
- In the documents it files with us.

[Return to top](#)

**10. If there is a change in the escrow agreement, does the issuer have to inform investors?**

Yes. The issuer has to submit an amendment for any material changes to the disclosure documents, which includes the escrow agreement, to:

- the investors, and
- to us.

[Return to top](#)

**11. When can an escrow agent release the funds in the escrow account?**

The answer depends on whether you're asking about releasing funds to the issuer or to the investors.

An escrow agent will release money in the escrow account to the **issuer** when the funds raised are at least 20% of the goal for the NC PACES securities offering.

An escrow agent will release money in the escrow account to the **investor** when:

- The minimum amount set by the issuer isn't met by the deadline or
- The investor asks for the money back before the issuer raises at least 20% of its goal for the NC PACES securities offering.

[Return to top](#)

**12. Does anyone get notified when investor funds released from the escrow account?**

Yes. An escrow agent and the issuer are required to file written notices of release of funds from the escrow account with us, and the issuer must also send a notice to the investors.

[Return to top](#)