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FAQ

WHAT IS AN ESCROW ACCOUNT?

In Mergers & Acquisitions (M&A), an escrow account is a common tool used to reduce financial risk and protect both parties during a deal. Think of it as a neutral holding place for money until all conditions of the transaction are satisfied. Here's how it works in practice:

Security for the Buyer
Buyers often ask sellers to set aside a portion of the purchase price in escrow. This ensures money is available if unexpected issues arise—like a breach of warranties or undisclosed liabilities.

Protection for the Seller
Escrow isn't just for buyers. It also reassures sellers that the buyer will meet their obligations. If the buyer defaults, the seller can claim against the account.

Risk Management
Escrow helps manage potential risks such as tax disputes or pending legal matters. By setting aside funds, both sides have a safety net to cover future claims without derailing the deal.

Third-Party Oversight
Escrow accounts are managed by neutral third parties (banks or law firms) who hold the funds securely and release them only according to the agreed terms.

In short: An escrow account creates trust. It gives buyers confidence, sellers peace of mind, and both sides a way to navigate risks without jeopardizing the transaction.

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info@magnusbusinessgroup.com
805-259-4795
30961 Agoura Rd. Suite 225
Westlake Village, CA 91361