

1 CLOTHILDE V. HEWLETT
Commissioner
2 MARY ANN SMITH
Deputy Commissioner
3 SEAN M. ROONEY
Assistant Chief Counsel
4 MARLOU de LUNA (State Bar No. 162259)
Senior Counsel
5 Department of Financial Protection and Innovation
320 West 4th Street, Suite 750
6 Los Angeles, California 90013
Telephone: (213) 503-3360
7 Facsimile: (213) 576-7181

8 Attorneys for Complainant

9
10 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
11 OF THE STATE OF CALIFORNIA

12 In the Matter of:

) FILE NO.: 963-5088

13)
14)
15 THE COMMISSIONER OF FINANCIAL)
PROTECTION AND INNOVATION,)

) **NOTICE AND SUMMARY OF FINDINGS**
) **PURSUANT TO FINANCIAL CODE**
) **SECTION 17621**

16)
17 Complainant,)

18 v.)

19 REDWOOD ESCROW SERVICES INC.,)

20)
21 Respondent.)
22)
23)

24 TO: REDWOOD ESCROW SERVICES INC.
25 19131 Redwood Road, Suite E & F
26 Castro Valley, CA 94546

27 BANK OF THE WEST
3396 Castro Valley Blvd.
28 Castro Valley, CA 94546

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CORODATA
450 Charcot Ave.
San Jose, CA 95131

PLEASE TAKE NOTICE that the Commissioner of Financial Protection and Innovation (Commissioner) finds that:

1. The Department of Financial Protection and Innovation (DFPI) commenced a special remote examination of Redwood Escrow Services Inc. (Redwood Escrow) on May 23, 2023 following an email from Janet S. Carrera (Carrera), Redwood Escrow’s Escrow Manager, Vice President, and 50% owner of Redwood Escrow, that the company’s “bank accounts (trust and general) were hacked,” which resulted in the following findings:

a. On May 18, 2023, Anna Arvetis-Seoane (Seoane), President, Escrow Officer, and 50% owner of Redwood Escrow, received a phone call from an individual who claimed to be an employee of Bank of the West (BW). Seoane was told that BW was performing data migration to their system and told Seoane to log in to the Redwood Escrow online trust bank account. Seoane was instructed to input the security code that appeared on the screen as a second layer of protection and to stay logged in to Redwood Escrow’s online trust bank account. Seoane followed the instructions without verifying the caller’s identity or calling BW to inquire about possible data migration. Within 15 minutes of receiving the phone call, Redwood Escrow’s internet service was disconnected. Shortly after Redwood Escrow’s internet service was restored, it received six wire out confirmations from BW amounting to \$1,941,377.73, none of which were approved by either Seoane or Carrera.

b. The total amount hacked from Redwood Escrow’s trust account was \$1,941,377.73, of which \$80,570.00 was transferred from Redwood Escrow’s general bank account to its trust account, without authorization from either Carrera or Seoane. The list of funds transferred out of the Redwood Escrow trust account is as follows:

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<u>Date of Transfer</u>	<u>Amount</u>	<u>Beneficiary Bank</u>	<u>Beneficiary Party</u>
5/18/2023	\$ 84,350.00	Bank of America	VCA Appcrafters, LLC.
5/18/2023	\$301,238.00	Bank of America	Mattox M, LLC.
5/18/2023	<u>\$318,748.00</u>	Bank of America	JLJ Company, LLC.
Subtotal	\$704,336.00		
5/18/2023	\$350,938.00	Suntrust	CT Developing, LLC.
5/18/2023	\$398,534.34	Suntrust	EE Resource Securer, LLC.
5/18/2023	<u>\$487,569.39</u>	Truist Bank	AH Center Service, LLC.
Subtotal	\$1,237,041.73		
Total	<u>\$1,941,377.73</u>		

c. The fraudulent wire outs, described above, resulted in a trust account shortage. As of July 14, 2023, Redwood Escrow’s trust account shows a shortage of \$679,422.93, in violation of the California Escrow Law (Fin. Code, §§ 17000 et seq.) (Escrow Law), Financial Code section 17414, subdivision (a)(1).

d. Redwood Escrow failed to meet the liquidity and tangible net worth requirements mandated by section 17210 of the Financial Code wherein all licensees are required to maintain, at all times liquid assets in the amount of at least \$25,000.00 and a tangible net worth of at least \$50,000.00. The special examination found that following the fraudulent wire outs, the bank balance of Redwood Escrow’s trust and general accounts were approximately \$79.00 and \$0.36, respectively. As of July 31, 2023, Redwood Escrow had a liquid asset deficiency of \$33,464.36 and a tangible net worth deficiency of \$26,295.68.

e. Redwood Escrow failed to maintain its books and records in accordance with the Escrow Law in that it failed to maintain the financial statements and general ledgers for the general bank account current, in violation of California Code of Regulations, title 10, section 1732.3. The general ledger and financial statements should have been posted and prepared up to May 31, 2023.

2. On May 22, 2023, the DFPI directed Redwood Escrow, by email addressed to Seoane, to cure the trust account shortage within 24 hours.

1 3. On or about May 23, 2023, Redwood Escrow reported the hacking incident
2 to the Escrow Agent Fidelity Corporation (EAFC). The EAFC, however, has since
3 confirmed that it will not cover the trust shortage in Redwood Escrow’s trust account.

4 4. Redwood Escrow also filed a claim with its insurance company concerning
5 the cyber theft to determine whether it could be reimbursed for the lost funds. Redwood
6 Escrow maintained an error and omission insurance coverage of about \$1,000,000.00. But
7 on or about June 27, 2023, the insurance company denied Redwood Escrow’s claim
8 because it did not have cyber security insurance coverage.

9 5. On May 24, 2023, the DFPI emailed a demand letter to Redwood Escrow to
10 open a new trust bank account and to replenish the trust account shortage by May 25. The
11 bank accounts in which the funds were taken have since been closed and new accounts have
12 been opened. However, Redwood Escrow indicated that it could not cure the shortage in
13 the trust account by the May 25th deadline. Thus far, the shortage in the trust account
14 remains at \$679,422.93.

15 6. In June 2023, Redwood Escrow recovered \$1,181,384.80 of the fraudulently wired
16 out funds:

- 17 a. \$318,748.00 and \$9,986.70 from Bank of America on June 7, 2023;
- 18 b. \$350,938.00 and \$14,206.81 from Truist Bank on June 20, 2023; and
- 19 c. \$487,505.29 from Truist Bank on June 30, 2023.

20 7. An email dated June 28, 2023 from Carrera stated that Redwood Escrow was
21 “not going to be able to recover” from the hacking incident and “will need to close down”
22 its office “within the next month or two.” To date, Redwood Escrow has closed its business
23 location at 19131 Redwood Road, Suite E&F, Castrol Valley, California 94546, but its
24 escrow agent license remains.

25 8. The DFPI has received several complaints against Redwood Escrow following the
26 hacking incident, one of which involved four escrows, described below, remains unresolved because
27 Redwood Escrow does not have the funds to issue refunds. The three escrows with balances due
28 involved three buyers. Redwood Escrow has informed the buyers and their real estate agents about

1 the hacking incident, the funds shortages in the trust account, and Redwood Escrow’s inability to
2 provide any refunds until it recovers additional missing funds.

3 a. Escrow no. 28701 – initial deposit of \$135,000.00, \$40,000.00 refunded,
4 with a remaining balance due of \$95,000.00.

5 b. Escrow no. 28702 – initial deposit \$140,000.00, \$40,000.00 refunded, with a
6 remaining balance due of \$100,000.00.

7 c. Escrow no. 28723 – initial deposit \$220,000, \$40,000.00 refunded, with a
8 remaining balance due of \$180,000.00.

9 9. Financial Code section 17621 provides in pertinent part:

10 Whenever it appears to the Commissioner that any escrow agent subject to
11 this division:

- 12 (a) Is in an insolvent condition;
- 13 (b) Is conducting escrow business in an unsafe and unauthorized manner;
- 14 (c) Has violated its charter or any law of the State of California . . .
- 15 (h) Has permitted its tangible net worth to be lower than the minimum
16 required by law;

17 . . .

18 the commissioner shall dispatch a written notice and summary of findings, as
19 referred to in Section 17415, to the principal officer of the escrow agent
20 involved or to its manager of record; and such escrow agent shall be afforded
21 a reasonable opportunity to comply or otherwise effect such remedies as the
22 commissioner may deem acceptable. However, should the escrow agent so
23 notified fail to comply within five days of receipt of the notice, or as soon as it
24 appears to the commissioner that no compliance is possible, or in the event
25 prompt delivery of the prescribed written notice is impossible, the
26 commissioner may forthwith take possession of the property and business of
27 such escrow agent and retain possession until such escrow agent resumes
28 business or its affairs be finally liquidated as provided in this chapter. The
escrow agent, with the consent of the commissioner, may resume business
upon such conditions as the commissioner may prescribe.

10. Based upon the foregoing, the Commissioner finds that Redwood Escrow Services,
Inc. has violated Financial Code sections 17414 subdivision (a)(1) and 17210, and California Code
of Regulations, title 10, section 1732.3.

11. Pursuant to Financial Code sections 17621 and 17630, it is also necessary that a

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conservator be appointed as specified in the accompanying Order Appointing Christy Kouch as Conservator Pursuant to Financial Code Section 17630.

Dated: September 11, 2023

CLOTHILDE V. HEWLETT
Commissioner of Financial Protection and Innovation



By _____
MARY ANN SMITH
Deputy Commissioner
Enforcement Division