

Report for Special Master's Status

Conference April 24, 2017

R-558 Millennium Closing Services, L.L.C. d/b/a Millennium Title

SDR: CANTILO & BENNETT, L.L.P.
Primary Responsible Person: Susan E. Salch
Estate Counsel: Christopher Fuller
Receiver's Counsel: Kimberly M. Hammer
RLO Analyst: Vicente Aguillon

Background on Receivership

- Date of Permanent Injunction (Liquidation): January 25, 2016
- Date of Appointment of SDR: January 26, 2016
- Claims Filing Deadline: November 15, 2016
- States where Licensed: Texas
- Lines of Business: Title Agency
- Texas Guaranty Association Triggered: Texas Title Insurance Guaranty Association ("TTIGA")
- Date of Impairment: January 25, 2016
- Early Access Distributions: N/A

Statement of Assets and Liabilities as of March 31, 2017

Total Assets:	\$3,940,588
Cash Assets:	\$ 841,757
Escrow Funds:	\$3,098,681
Non-Cash Assets:	\$ 150
Total Liabilities:	\$9,404,805
Negative Equity:	(\$5,464,217)

Asset Recovery through March 31, 2017

Premium Collected:	\$ N/A
Subrogation/Salvage:	\$ N/A
Reinsurance Collected:	\$ N/A
FF&E Sold:	\$ 11,309

Status and Activity Since Last Status Conference

Nancy Carroll Matters:

Criminal Prosecution: The original criminal complaint was filed against Nancy Carroll a/k/a Nancy Jackson a/k/a Nancy Spinks in Tarrant County, Texas, on February 22, 2016. She was released on a \$50,000 bond in March 2016. She was ordered not to participate in any real estate business or practice law. On August 11, 2016, the State indicted Ms. Carroll for misapplication of fiduciary property that involved substantial risk of loss for William G. Williams and William Russell Williams. The court has not set a trial date.

A “Consultation Setting Plea Offer Acknowledgement” was filed by the District Attorney’s Office, which recommended that Ms. Carroll agree to a sentence of twenty (20) years in the Texas Department of Corrections, agree to an unspecified amount of restitution, and agree to surrender her law, real estate, and insurance licenses permanently. The offer remains open until May 15, 2017. The State filed its “Supplemental Disclosure of Documents, Items and Information Provided to Defendant” and produced data on hard drives and discs.

Carroll v. PTS of America: Ms. Carroll’s *pro se* lawsuit against the company that transported her from jail in Illinois to Texas remains pending. She claims her constitutional rights were violated during her transfer.

Bank Accounts: Millennium Title escrow funds are held in a receivership escrow account separate from the estate’s operating funds. TTIGA has requested the turnover of the escrow funds.

IT/Data: All pre-receivership records, both paper and electronic, have been preserved and are stored. The estate maintains access to the company’s data through a cloud-based server operated by Willow Bend Systems. Real estate transaction documents maintained in guaranty files (“GFs”) are accessible through the Ramquest system. The SDR will maintain access to the Ramquest system for the foreseeable future. There are only a handful of paper GF files. Before receivership, it was the company’s practice to scan all the closing documents into the Ramquest system and then shred the file after original documents were recorded and sent to the proper party. No documents were destroyed after the SDR was appointed.

Employees/Staffing: Wayne Norton, a consultant retained by the company during supervision, advises the SDR on title agency matters. He, along with a small staff of other professionals, research GFs and the Ramquest system to review and make recommendations on claims filed with TTIGA under its claims process (detailed below). Mr. Norton and his team also assist the SDR in reviewing Proofs of Claims (“POCs”) on title claims filed or deemed filed with the estate.

401(k) Plan: The SDR is now the administrator of the Millennium Title 401(k) plan. The SDR will make the necessary filings and begin the process to dissolve the plan while safeguarding the funds.

2015 and 2016 Form 1099 Filing: In the last quarter, the SDR's team worked with Ramquest representatives to create and submit hundreds of IRS Form 1099 filings for 2015 and 2016.

Asset Recovery Activity

Cost Sharing with TTIGA: The SDR and TTIGA continue to work under a cost sharing agreement similar to the agreements reached in prior title agency estates.

Nancy Carroll and Affiliates: Previously, in order to prevent a "race to the courthouse" and the related dissipation of assets, the SDR sought and received a temporary injunction against Ms. Carroll, a number of assumed named entities, her law firm, and her 1031 exchange company freezing all of their assets. The court order also required the banks holding accounts for Carroll, her affiliates, and associates to freeze the accounts, and turn over financial records.

The SDR's asset recovery lawsuit against Ms. Carroll, her family, certain former employees and affiliates, remains set for trial on September 25, 2017. The suit is brought on behalf of the estate's creditors pursuant to TEX. INS. CODE § 443.154(m). The former employee defendants are insureds under the E&O policies issued to Millennium Title and/or Carroll affiliate Millennium 1031 Exchange. TTIGA, as the assignee of covered title claims, intervened as a plaintiff.

The SDR's amended lawsuit asserts claims that should be covered by Millennium Title's E&O policy and Millennium 1031 Exchange's E&O policy. The SDR is not aware of a malpractice policy for the NJC Carroll law firm. In the lawsuit, the SDR is asserting claims on behalf of all creditors pursuant to its authority under section 443.154(m). To the extent that some creditors that claim to assert only "personal" (*i.e.*, fraud) claims, which are outside the scope of section 443.154(m), they would not be covered under the E&O policies. Only the SDR is authorized to assert all other claims. During the last quarter the SDR discussed the lawsuit with the E&O carrier.

All proceeds from litigation will be allocated pursuant to the requirements of the Insurer Receivership Act, including, but not limited to, TEX. INS. CODE § 443.301. The SDR anticipates that there will be a number of creditors who may not qualify for TTIGA coverage, but nevertheless have claims against the assets of the estate. Such creditors would participate in any distributions based on their priority under TEX. INS. CODE § 443.301.

Insurance/Bonds: The SDR is pursuing claims against the bonds and insurance policies involving Millennium Title. The SDR's claim under the \$500,000 Escrow Security Bond was denied by the carrier. The SDR is reviewing the estate's options. A different bond

company has approved the SDR's claim on the \$50,000 Direct Operations bond, subject to execution of a release. The SDR and the bond company are working on appropriate releases. The SDR is completing work necessary to file claims on the \$50,000 Escrow Officers bond, once the terms of the releases on the earlier bonds are agreed upon.

Claims Activities

Filing Deadline: The deadline for creditors to file claims with both the SDR and TTIGA was November 15, 2016. The SDR and TTIGA have agreed to treat claims filed by the deadline as timely filed with both in the event a covered claim is filed with the SDR, or a non-covered claim is filed with TTIGA. As of March 31, 2017, the SDR has referred seventeen (17) Millennium Title POCs to TTIGA as potentially covered claims.

TTIGA Claims:

POCs: TTIGA has largely completed processing POCs via its expedited claims processing system. Once a POC is submitted to TTIGA, it forwards the POC to the SDR's team of closing professionals who research the claim. This team, led by Wayne Norton, makes a recommendation to the SDR, who in turn sends the claim determination to TTIGA. It is then up to TTIGA to determine whether to pay the claimant.

Through April 10, 2017 (the date of the most recent report), TTIGA received 488 POCs. Of those, 359 have been paid in whole or in part, 144 have been denied in whole or in part, and the rest remain pending. As of that date, TTIGA has paid \$3,544,584. As noted above, the deadline for TTIGA POCs to be filed was also November 15, 2016.

Avondale v. TTIGA: This lawsuit seeking to appeal TTIGA's denial of a claim has been dismissed. TTIGA resolved the matter by paying the plaintiff the amount held in escrow by the SDR for this claimant in exchange for a dismissal of the lawsuit.

SDR Claims:

As of March 31, 2017, 205 POCs had been filed or deemed filed. As of that date, 146 claims that had been submitted to TTIGA and denied, in whole or in part, were deemed filed with the SDR. Fifty-eight new POCs were timely filed. Claims arising from title issues are being processed by Wayne Norton and his team. The SDR expects to meet with them in early June to adjudicate all title POCs.

In early March, the SDR, estate counsel, and representatives from EMKAY conferred regarding the adjudication of non-title POCs. A total of 21 such POCs were determined to be Class 4 (employee wages) or Class 5 (general, non-government claims). Notice letters have been sent to eleven Class 5 claimants

stating that their claims have been adjudicated as to classification only, that the SDR does not anticipate that the estate will have sufficient funds to make distributions to Class 4 or lower priority claims, and that the claimants will be notified if the situation changes. The notice letters also inform the claimants of the forty-five (45) day deadline to object to the classification. The SDR expects the former employees to submit objections to the classification of their POCs.

Late Claims: There is one late claim arising because the claimant's counsel sent the form to the wrong address. The SDR expects at least one additional late claim may be submitted.

Unclaimed Escrow Money: The SDR holds \$180,222 in escrow funds for which no claim has been filed even though the claims team has notified the presumed owner of the funds (at least once) of the need to file a claim. There are 201 open items with amounts ranging from \$5.00 to \$66,298. Despite repeated e-mails, telephone calls and messages left over the course of several months, no claims to these funds were filed, even for the largest file holding \$66,298. The SDR will seek the turnover of all remaining funds to TTIGA in the next quarter.

Transaction Completion: The SDR has concluded its efforts to produce title insurance policies. Although some remain outstanding, the underwriters, after prodding by the SDR, have issued the majority of policies that were pending as of receivership. There are seven unissued policies, six with WFG and one with Alliant. Most of the unissued policies are subject to disputes between the purchasers and the underwriters. WFG has actually sued one consumer that had requested issuance (Peniel). The SDR will continue to direct the purchasers to deal directly with the underwriters.

Mispayment Recovery: During this quarter, the SDR and TTIGA determined that a claimant, Smart Advantage Solutions, LLC ("SAS"), had misrepresented that it had paid property taxes that went unpaid from a Millennium Title closing. Based upon that misrepresentation, the SDR recommended and TTIGA did pay SAS \$5,025.67 in April 2016. Subsequently, the party that actually did pay the taxes filed a POC and the misrepresentation was discovered. In February 2017, SDR counsel sent SAS and one of its principals a demand for repayment and a threat to file suit for both recovery of the money and fraud. In March 2017, the SDR recovered this mispayment.

General Legal Activities

Litigation: The only third-party lawsuit that was open in the last quarter has been abated. The lawsuit, filed by Scott Schambacher, was pending in Tarrant County district court. Underwriter WFG filed a petition in intervention in that case. In response to repeated refusals to voluntarily abate the case, the SDR filed an application to enforce the automatic stay and permanent injunction in receivership court. Faced with the SDR's application to enjoin pursuit of his case against Nancy Carroll and others, Scott Schambacher and intervenor WFG agreed to voluntarily abate the lawsuit.

Motions to Lift Stay: No motions for relief from the stay were filed in the last quarter.

Conclusion

Summary of Major Achievements:

- Completed all 2015 and 2016 IRS Form 1099 Filings.
- Assisted TTIGA with resolution of escrow account POCs.
- Pursued asset recovery litigation against former management and affiliates.
- Pursued claims on Escrow Security and Direct Operations bonds.

Estate Goals to achieve prior to next Status Conference:

- Seek transfer of remaining escrow money to TTIGA.
- Complete adjudication of SDR title and non-title claims as to priority classification.
- Continue case against former management and affiliates.
- Pursue remaining bond and insurance claims.
- Recover on ESB bond claim or file suit.
- Enforce stay and permanent injunction.
- Assist prosecutors.

Estate Closing Date of Receivership: Mid-2018

Identification of Factors Affecting Closing Date and Final Distribution:

- Coordination/Cooperation with TTIGA.
- Processing TTIGA and Estate POCs.
- Coordination/Cooperation with Criminal Prosecution.
- Asset Recovery.