

Report for Special Master's Status Conference

October 30, 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 September 30, 2017

Total Assets:	\$3,755,547
Cash Assets:	\$ 660,580
Escrow Funds:	\$3,094,967
Non-Cash Assets:	\$ 0
Total Liabilities:	\$8,406,915
Negative Equity:	(\$4,651,368)

Asset Recovery through September 30, 2017

Premium Collected:	\$ N/A
Subrogation/Salvage:	\$ N/A
Reinsurance Collected:	\$ N/A
FF&E Sold:	\$ 11,664

Status and Activity Since Last Status Conference

Nancy Carroll Matters:

Criminal Prosecution: On August 14, 2017, Ms. Carroll entered a plea of guilty to the first-degree felony offense of Misapplication of Fiduciary Property in Excess of \$300,000. The guilty plea only involves her theft of money from William G. Williams and William Russell Williams. She does not waive her right to appeal, seeks to be sentenced only to community service, and requests a pre-sentencing report. The prosecutors expect to have a sentencing hearing near the end of the year, although it has not been set as of the date of this report.

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.

Escrow Funds: Escrow funds in the amount of \$3,094,967 are held in a receivership escrow account separate from the estate's operating funds.

Unclaimed Escrow Funds: On August 30, 2017, RLO approved the SDR's CBA for authority to interplead unclaimed escrow money from a guaranty file and let the interested parties determine proper ownership without further involvement by (and expense to) the estate. The interpleader application was filed in the Receivership Court on September 8, 2017. The application requests an award of reasonable and necessary attorney fees from the funds at issue to the SDR as an innocent stakeholder to cover legal expenses.

The SDR still holds \$179,369.56 in escrow funds for which no claim was filed with either the estate or TTIGA. The interpleader, described above, involves approximately \$66,000 from that account and is included in this total. Prior to the POC deadline, the SDR contacted or attempted to contact all parties who may have an interest in the unclaimed funds to urge them to file a claim. The future handling of these funds, to the extent unclaimed, is under consideration.

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

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: The trial setting for this case has been continued until May 7, 2018. A hearing was held before Judge Sulak on September 21, 2017, to confirm the postponement and extend the temporary injunction, which remains in effect. TTIGA and the Hafners joined in the SDR's motion.

The SDR and TTIGA are negotiating with the E&O carrier for Millennium Title and Millennium 1031 Exchange. The parties expect to agree to terms in the near future. 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.

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 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.

Escrow Security Bond: After extending the deadline not to file suit until August 31, 2017, the SDR filed suit against the ESB carrier on September 1, 2017. The suit was removed to federal district court in October. The SDR is negotiating with another creditor with alleged claims against the same policy.

Insurance/Bonds: The SDR’s claim on the \$50,000 Direct Operations bond has been approved by the bond company, subject to execution of a release. The SDR and the bond company are working on appropriate releases.

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 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 September 30, 2017, the SDR has referred all Millennium Title POCs that could possibly be covered claims to TTIGA, which, as noted below, has completed its POC processing. TTIGA received four late claims, all four of which were denied as untimely. One claim for a home owner’s insurance premium payment was ultimately paid out of escrow funds by the SDR. One was denied by the SDR, and two remain under consideration.

TTIGA Claims:

POCs: Through September 13, 2017, TTIGA received 491 POCs. Of those, 375 have been paid in whole or in part, 163 have been denied in whole or in part, and 11 that were “paid” have been reclassified as “rejected for failure to negotiate.” As of that date, TTIGA paid \$3,573,727. The association has paid out more in claims than is held by the SDR in the escrow funds account and not all of TTIGA’s claims payments are matched by an amount in escrow.

In August, counsel for Khan Property Holdings and Peniel Holdings sent letters to

TDI seeking “official review of and appeal from” TTIGA’s denial of their POCs. The SDR understands that the letters are under review. The SDR classified both claims as Class 5 claims with liability and amounts adjudicated.

SDR Claims:

POCs: As of September 30, 2017, 212 POCs had been filed or deemed filed with the SDR. As of that date, 164 claims that had been submitted to TTIGA and denied, in whole or in part, were deemed filed with the SDR. As of September 30, 2017, EMKAY had processed and issued notices of determination for 132 claims. The appeal deadline has expired for all those claims.

The SDR, estate counsel, and claims staff met in early October to review the remaining open claims. Determinations have been made on all but a small number of the remaining POCs, which have been pended because they are related to ongoing disputes with the claimants.

TTIGA POC: On August 24, 2017, TTIGA submitted a supplement to its POC. Therein, TTIGA asserts that its claim, to date, is \$4,046,511.17. The bulk of this figure consists of \$3,573,726.59 in covered claim payments for which it seeks reimbursement. The balance of the claim is for administrative expenses of the association which, as of that date, amounted to \$472,784.58.

Investor Appeals: The SDR denied POCs filed by investors in Ms. Carroll’s balloon promissory note investment program. These were primarily individuals who began investing with her before Millennium Title was established. Five of these claimants filed objections to (appeals of) the SDR’s determination. The objections all use the same form letter. The SDR is considering how to resolve these appeals.

Gardere Appeal: In the last quarter, the SDR declined to change the classification of the POC filed by the Gardere law firm, which provided pre-receivership legal services to Millennium Title and Ms. Carroll. In summary, the firm claims Class 1 (a)(1)(A) status for \$103,307.38 in unpaid legal fees and expenses, contending that they constitute “the actual and necessary costs of preserving or recovering the property of the insurer....” The objection, and any others not withdrawn, will be handled in the disputed claim process in the Receivership Court.

Other Appeals: Two other appeals not discussed above are small claims that were correctly disallowed. The most recent was filed by Lula Reeves with TTIGA on July 3, 2017, alleging unpaid property taxes. TTIGA immediately denied the claim as untimely. The SDR also denied it because it was late.

On August 7, 2017, Ms. Reeves submitted a letter appealing the denial of her POC by TTIGA and the SDR. On August 29, 2017, estate counsel asked that Ms. Reeves agree to withdraw her appeal within thirty days. Ms. Reeves refused, in writing, to

withdraw the appeal. Her objection, and any others not withdrawn, will be handled in the disputed claim process in the Receivership Court.

General Legal Activities

Litigation: There are no active third-party lawsuits involving the SDR or Millennium Title. However, Millennium Title was named in a lawsuit styled *Jury v. WFG* in Dallas County district court on August 30, 2017. Estate counsel sent Plaintiffs' counsel a written request to non-suit the company, and Millennium Title was dismissed from the lawsuit in September. No further action will be taken regarding the lawsuit, which remains pending against WFG.

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

Conclusion

Summary of Major Achievements:

- Continued work to adjudicate estate POCs.
- Pursued settlement negotiations in asset recovery litigation against former management and affiliates, and continued trial date.
- Negotiated with carrier and filed suit on claims under Escrow Security Bond.

Estate Goals to achieve prior to next Status Conference:

- Litigate or settle claims under Escrow Security Bond.
- Complete notices of adjudication of SDR title and non-title claims as to priority classification and attempt to resolve appeals.
- Pursue case against former management and affiliates, and settle as able.
- Pursue remaining bond and insurance claims.
- Enforce stay and permanent injunction.

Estate Closing Date of Receivership: Late 2018

Identification of Factors Affecting Closing Date and Final Distribution:

- Coordination/Cooperation with TTIGA.
- Processing Estate POCs and Appeals.
- Asset Recovery Litigation.