

Report for Special Master’s Status Conference

January 29, 2018

**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 December 31, 2017

Total Assets:	\$3,967,179
Cash Assets:	\$ 872,212
Escrow Funds:	\$3,094,967
Non-Cash Assets:	\$ 0
Total Liabilities:	\$8,396,797
Negative Equity:	(\$4,429,618)

Asset Recovery through December 31, 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 January 3, 2018, Ms. Carroll was sentenced to ten years in prison and ordered to pay \$8.6 million in restitution to her victims. Neither TTIGA, nor the SDR, were named as victims. Ms. Carroll agreed to the plea on the eve of the scheduled January 3, 2018, sentencing hearing.

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.

Carroll v. PTS of America: Ms. Carroll's pro se lawsuit against the company that transported her from jail in Illinois to Texas was dismissed shortly before her sentencing.

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 involving an entity named HBAM Properties, LLC and others, and then 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 district clerk's office was slow to produce the citations to serve the various parties named in the interpleader action, but finally did so when prodded by the estate's subcontractor. All parties have now been served, but only one has made an appearance and that party does not assert a claim to the funds. The SDR is researching the estate's options and reaching out to counsel for the named parties to learn why no one claims the money.

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. Following the settlement described below, the SDR and TTIGA will pursue their claims against the remaining defendants.

The SDR and TTIGA have reached an agreement with the E&O carrier for Millennium Title and Millennium 1031 Exchange. The parties are working on the settlement documents. 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 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.

Escrow Security Bond: The SDR filed suit against the ESB carrier in state district court. The Lloyd’s syndicates removed the case to federal court, and the SDR filed a motion to remand. Before the court could consider the issue, the parties settled all claims under the policy in question. A portion of the settlement proceeds were paid to a third party that was also a named insured under the policy. The SDR received the settlement funds in December, and the case has been dismissed with prejudice.

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. 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 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 which 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 unadjudicated. Each filed a timely appeal of the SDR’s determination.

SDR Claims:

POCs: The SDR continues working on the POC process. As of the date of this report, there are 12 unadjudicated POCs.

As of December 31, 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 the date of this report, the SDR has processed and issued notices of determination for 200 claims. For 184 of those, the deadline to object has passed with no appeal filed or the appeals were withdrawn. Nine objections (appeals) remain open as of December 31, 2017. Two appeals were voluntarily withdrawn. Keith and Leigh Ann Hafner both appealed the denial of their POCs. Mr. Hafner’s appeal was untimely. The SDR expects both will be resolved in the asset recovery litigation. One POC was withdrawn, and one was closed administratively.

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. The bulk of this figure consists of \$3,573,727 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 \$472,786.

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, using the same, or substantially the same, form letter. The SDR is considering how to resolve these appeals.

Gardere Appeal: The Gardere law firm withdrew its appeal of the classification of its POC.

Other Appeals: Two other appeals not discussed above are small claims that were correctly disallowed. The SDR has filed an application to approve the SDR's denial of the POC filed by Lula Reeves, which is set for submission on January 29, 2018. In response to an appeal by Zennith Realty, the SDR requested that it provide a formal assignment establishing its right to a real estate commission. The Zennith Realty POC was denied because the claimant had submitted a hand-written document. Zennith Realty did not provide the assignment or otherwise respond by the deadline in the SDR's request. The SDR is reviewing the estate's options regarding resolving the claim.

General Legal Activities

Litigation: There are no active third-party lawsuits involving the SDR or Millennium Title.

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

Conclusion

Summary of Major Achievements:

- Settled claims under Escrow Security Bond.
- Continued work to adjudicate estate POCs.

Estate Goals to achieve prior to next Status Conference:

- 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.
- Prepare and file tax returns.

Estate Closing Date of Receivership: Late 2018

Identification of Factors Affecting Closing Date and Final Distribution:

- Processing Estate POCs and Appeals.
- Asset Recovery Litigation.
- Federal Waiver of Claims.