

Cause No. D-1-GV-13-000204

THE STATE OF TEXAS,	§	IN THE DISTRICT COURT OF
<i>Plaintiff</i>	§	
	§	
v.	§	TRAVIS COUNTY, TEXAS
	§	
SANTA FE AUTO INSURANCE	§	
COMPANY,	§	
<i>Defendant</i>	§	419TH JUDICIAL DISTRICT

APPLICATION TO APPROVE FIRST EARLY ACCESS DISTRIBUTION

TO THE HONORABLE JUDGE OF SAID COURT:

CANTILO & BENNETT, L.L.P., solely in its capacity as Special Deputy Receiver of Santa Fe Auto Insurance Company (the “SDR” and “Santa Fe” respectively), files this Application for Approval of First Early Access Distribution (“Application”).

I. INTRODUCTION

1.1 The SDR files this Application for authority to make an early access distribution to the insurance guaranty associations affected by the Santa Fe receivership (collectively, the “Affected Associations”). The SDR intends to make a distribution equal to the amounts paid by the Affected Associations for Class 1 claims to the extent those expenses exceed amounts already recovered by any association from statutory deposits.

II. AUTHORITY

2.1 The SDR is authorized to file this Application pursuant to TEX. INS. CODE § 443.303, which provides for early access distribution to insurance guaranty associations with the approval of this Court.

2.2 The subject matter of the Application is referred to the Special Master appointed in this proceeding in accordance with Paragraph III of the *Amended Order of Reference to Master* entered on April 5, 2013.

III. BACKGROUND

3.1 On March 8, 2013, the Court entered an *Order Appointing Rehabilitator and Permanent Injunction*, appointing the Texas Commissioner of Insurance as Rehabilitator of Santa Fe. Effective March 8, 2013, the Rehabilitator appointed CANTILO & BENNETT, L.L.P., as SDR of Santa Fe. On April 5, 2013, the Court entered an *Order Appointing Liquidator and Permanent Injunction* (the “Liquidation Order”), placing Santa Fe in liquidation and appointing the Commissioner as Liquidator of Santa Fe.

3.2 On August 5, 2013, the SDR filed its *Report Pursuant to TEX. INS. CODE § 443.303(c)*, reporting no distributable assets at that time. On April 28, 2014, the SDR filed its *Second Report Pursuant to TEX. INS. CODE §443.303(c)*, reporting no distributable assets at that time. Subsequently, the SDR recovered Santa Fe’s \$2,000,000 deposit held by the state of Texas.

IV. STATUTORY REQUIREMENTS

4.1 Pursuant to TEX. INS. CODE § 443.303, the SDR shall apply to the Court for approval to make early access payments to a guaranty association having obligations in connection with the liquidation on at least an annual basis, if distributable assets are available. However, distributions are not limited to a set timetable and the SDR may, at its sole and absolute discretion, seek a distribution at any time that it determines that an estate has distributable assets. Early access payments are not limited to the claims and expenses paid to date by a guaranty association; however, the SDR may not make a distribution to a guaranty association in excess of all anticipated claims of the guaranty association. Deposits or assets advanced to a guaranty association are treated as advances against distributions to be made under TEX. INS. CODE § 443.303.

4.2 TEX. INS. CODE § 443.303(c) provides:

Within 120 days after the entry of an order of liquidation by the receivership court, and at least annually after the entry of the order, the liquidator shall apply to the receivership court for approval to make early access payments out of the general assets of the insurer to any guaranty associations having obligations arising in connection with the liquidation or shall report that there are no distributable assets at that time based on financial reporting as required in Section 443.016. . . .

TEX. INS. CODE § 443.303(f) directs that an application for early access payments shall, based on the best information available to the SDR at the time, provide the following:

- (1) the amount reserved for the entire expenses of the liquidation through and after its closure and for distributions on claims, to the extent necessary and appropriate;
- (2) the computation of distributable assets and the amount and method of equitable allocation of early access payments to each of the guaranty associations; and
- (3) the most recent financial information filed with the National Association of Insurance Commissioners.

V. DISTRIBUTABLE ASSETS

5.1 TEX. INS. CODE § 443.303(a) defines “distributable assets” as all general assets of the receivership estate, less the necessary and appropriate amounts reserved for expenses of liquidation through and after closure and distributions on claims other than those of the guaranty associations. As of May 31, 2014, the date of the SDR’s most recent financial report filed with the Receivership Court, the cash assets of the receivership estate were \$7,269,603. Copies of the May 31, 2014, Statement of Assets and Statement of Liabilities are attached as Exhibits 1-A and 1-B, respectively. The amount reserved for the entire expenses of the liquidation through and after its closing is approximately \$4.5 million dollars. After adjustment for expenses of liquidation, the consideration of future collections by the estate, establishment of a prudent reserve and rounding, the SDR’s preliminary estimate for liquid “distributable assets” for the first early access distribution is \$2,777,574.82.

5.2 The SDR's preliminary estimate for "distributable assets" is based upon current projections of the receivership's future activities. The receivership reserves may change substantially due to unforeseen factors beyond the SDR's control.

VI. GUARANTY ASSOCIATION CLAIMS

6.1 Pursuant to TEX. INS. CODE § 443.252(d), all Affected Associations report their expense and loss payments and reserves on a monthly basis through the Uniform Data Standards ("UDS") protocol of the National Conference of Insurance Guaranty Funds (NCIGF). UDS is an electronic communication protocol that uses a series of defined computer file formats to permit guaranty associations to report insolvency-related claims to receivers electronically. Four Affected Associations - Georgia, Nevada, Texas, and Utah - have filed Proofs of Claim ("POCs") with the SDR. As of the date of this filing, Arkansas, Arizona, New Mexico and Oklahoma had not yet filed POCs but do report via UDS¹. In summary, the Affected Associations report as follows:

- a) Incurred Class 1 claims of \$2,913,098.66;
- b) Paid Class 2 claims of \$4,157,704.75; and
- c) Class 1 reserves of \$3,620,702.79 and Class 2 reserves of \$11,390,157.28, for a total of \$15,010,860.07 in reserves.

All reporting on behalf of the Affected Associations is subject to supplementation as additional expenses and claims payments are incurred.

6.2 At this time, the SDR seeks to make early access distributions on only paid Class 1 claims. It is not clear that estate assets will exceed the current and projected Class 1 claims of the Affected Associations so the SDR may not be able to make any distribution on Class 2

¹ All figures reflect totals reported by guaranty associations by June 30, 2014.

claims. The Schedule attached as Exhibit 2 sets out the paid Class 1 claims reported in the UDS reporting for each Affected Association as of June 30, 2014

6.3 The Nevada Insurance Guaranty Association (“NVIGA”) has recovered that state’s statutory deposit of \$310,000. New Mexico has appointed an ancillary receiver who has recovered that state’s special deposit in the amount of \$105,000. These recoveries exceed those associations’ paid Class 1 claims. Accordingly, no distribution will be made to NVIGA and New Mexico at this time. The recoveries are reflected in the SDR’s proposed distribution as credits to the associations in Nevada and New Mexico, respectively.

VII. PROPOSED DISTRIBUTION

7.1 The SDR proposes to distribute \$2,777,574.82 from the receivership estate as the first early access distribution to the Affected Associations in the amounts set out on Exhibit 2. The SDR agrees to make the distribution within thirty (30) business days after the date the Order is entered by the Receivership Court, unless an appeal or mandamus of the order is filed and/or an order of stay is entered and has not expired.

VIII. NOTICE

8.1 The SDR has served this Application to all known parties at interest and all individuals and entities identified by the SDR in the Certificate of Service including the Affected Associations, by e-mail and, as noted, by mail or overnight delivery to certain state and federal agencies. Further, this Application has been served in accordance with the provisions of TEX. INS. CODE § 443.303 (e), which states:

Notice of each application for early access payments, or of any report required pursuant to this section, must be given in accordance with Section 443.007 to the guaranty associations that may have obligations arising from the liquidation. Notwithstanding the provisions of Section 4443.007, the liquidator shall provide these guaranty associations with at least 30 days’ actual notice of the filing of the application and with a complete copy of the application prior to any action by the receivership court. Any guaranty association that may have obligations arising in connection with the liquidation has:

- (1) the right to request additional information from the liquidator, who may not unreasonably deny such request; and
- (2) the right to object as provided by Section 443.007 to any part of each application or to any report filed by the liquidator pursuant to this section.

The SDR provided the Affected Associations with a complete copy of the Application at least 30 days in advance of any action by the receivership court. The Application is set for submission before the Special Master on August 18, 2014. Special Master.

IX. OFFER OF PROOF AND VERIFICATION

9.1 This Application is verified by the affidavit and certification pursuant to TEX. INS. CODE § 443.017(b) of Susan E. Salch, designated representative of CANTILO & BENNETT, L.L.P., solely in its capacity as Special Deputy Receiver of Santa Fe Auto Insurance Company.

X. NOTICE OF ELECTRONIC SERVICE REQUIREMENT

10.1 All pleadings filed in response to this Application shall be served by e-mail on the undersigned counsel and all parties shown in the attached Certificate of Service.

PRAYER

WHEREFORE, PREMISES CONSIDERED, CANTILO & BENNETT, L.L.P., solely in its capacity as Special Deputy Receiver of Santa Fe Auto Insurance Company, respectfully prays that this Court enter an order:

1. Granting the Application in all respects;
2. Authorizing the Special Deputy Receiver to distribute \$2,777,574.82 from the assets of the receivership estate to the Affected Associations as an early access distribution pursuant to TEX. INS. CODE § 443.303 as set out in Exhibit 2;
3. Ordering that the recoveries of the Nevada statutory deposit and the New Mexico special deposit shall be treated as advances against distributions to be made to those states' insurance guaranty associations under TEX. INS. CODE § 443.303;

4. Authorizing the SDR to make the early access distribution within thirty (30) business days after the date the Order is entered by the Receivership Court, unless an appeal has been filed or an order staying the distribution has been entered and not yet expired;
5. Ordering the Affected Guaranty Associations to return to the Special Deputy Receiver any amount of the early access distribution that may be required to pay secured creditors and other claims as provided in TEX. INS. CODE § 443.303(g);
6. Authorizing the Special Deputy Receiver to take any actions necessary to implement the Order;
7. Finding that the Order is not intended to and shall not create any third party beneficiaries;
8. Finding that the Order constitutes a final judgment fully resolving all issues relating to the Application, provided that this Court shall retain jurisdiction to issue further orders pursuant to TEX. INS. CODE Chapter 443; and
9. Granting the SDR such other and further relief to which it may be justly entitled.

Respectfully submitted,

FULLER LAW GROUP

By: /s/Christopher Fuller
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**ATTORNEY FOR CANTILO & BENNETT,
LLP, SPECIAL DEPUTY RECEIVER OF
SANTA FE AUTO INSURANCE COMPANY**

CERTIFICATE OF SERVICE

I certify that on July 15, 2014, a true and correct copy of this Application was served pursuant to the Amended Order of Reference, the Court's order requiring electronic service, the Texas Rules of Civil Procedure and TEX. INS. CODE ANN. SEC. 443.007(d) on the following by electronic mail, except as specifically noted.

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Christopher Fuller

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/s/Christopher Fuller

Christopher Fuller

APPLICANT'S NOTICE OF SUBMISSION

Pursuant to the terms of the Amended Order of Reference to Master entered by the District Court in this cause, the *Special Deputy Receiver's Application for Approval of First Early Access Distribution* is set for submission before the Special Master, Tom Collins, on August 18, 2014.

The Special Master has asked that the following rules be provided you:

1. Any objection must be filed with the Travis County District Clerk at least three (3) calendar days before the submission date.
2. A copy of any objection shall be served by email by such date on:
 - (a) The Special Master's Docket Clerk, Ms. Deona Sokol at specialmasterclerk@tdi.texas.gov;
 - (b) The undersigned counsel, Christopher Fuller at cfuller@fullerlaw.org; and
 - (c) All interested parties, including those listed on the Applicant's Certificate of Service.
3. The objecting party shall coordinate with the SDR's counsel and the Docket Clerk [specialmasterclerk@tdi.texas.gov] to obtain an oral hearing setting for argument on the Application and Objection, and complete and attach an "Objecting Party's Notice of Oral Hearing" to the objection.
4. The written objection must specifically list all reasons for objection with supporting references to and discussion of statutory and case authorities. Reasons not stated in writing will not be considered orally.
5. Failure to file timely a written objection before the Special Master constitutes a waiver of the right to object to the Special Master's recommendation to the District Court.
6. Any Acknowledgment of Notice and Waiver to be filed by the Guaranty Association or other interested party should be filed at least three (3) calendar days before the submission or hearing date.

/s/Christopher Fuller
Christopher Fuller

**SPECIAL DEPUTY RECEIVER'S CERTIFICATION PURSUANT TO
TEX. INS. CODE ANN. § 443.017(b)
AFFIDAVIT OF SUSAN E. SALCH**

State of Texas

County of Travis

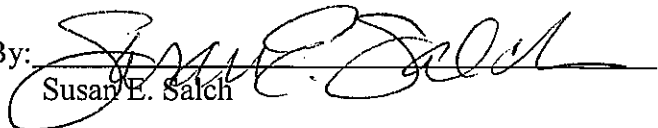
BEFORE ME, the undersigned authority appeared Susan E. Salch, who after being by me duly sworn, stated the following under oath:

1. My name is Susan E. Salch. I am competent to make this affidavit. The statements of fact set forth herein are true and correct, and are within my personal knowledge.

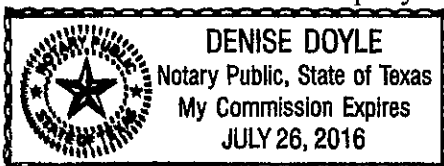
2. I am a partner in CANTILO & BENNETT, L.L.P., solely in its capacity as Special Deputy Receiver of Santa Fe Auto Insurance Company (the "SDR" and "SFAIC" respectively). I am duly authorized to make this Certification and Affidavit on behalf of the SDR.

3. I certify that the exhibits, books, accounts, records, papers, correspondence, and/or other records and documents attached hereto were produced pursuant to TEX. INS. CODE ANN. § 443.017, are either true and correct copies of records of the insurer and were received from the custody of the insurer or found among its effects or were created by and filed with the Receiver's office in connection with the receivership of this delinquent insurer, and are held by the Special Deputy Receiver in its official capacity.

4. I have read the foregoing Application and the facts stated therein are true and correct based on my personal knowledge, my review of estate records and my consultation with my staff and subcontractors.

By: 
Susan E. Salch

SUBSCRIBED AND SWORN TO BEFORE ME on July 15, 2014, by Susan E. Salch, on behalf of CANTILO & BENNETT, L.L.P., solely in its capacity as Special Deputy Receiver of Santa Fe Auto Insurance Company.




Notary Public

R-554

**Santa Fe Auto Insurance Company
Statement of Net Assets**

**For the Period Ending
05/31/14**

Line		05/31/14
Cash		
1	Cash	
	Cash - Unrestricted	7,269,603
	APF Funds (Loan proceeds)	
Investments		
2	Short-Term Investments	
3	Bonds	
4	Stocks - Preferred & Common	
5	Investments in Subsidiaries, Controlled or Affiliated Entities	
6	Mortgage Loans	
7	Real Estate	
8	Policy Loans	
9	Other Invested Assets	
Restricted Assets		
10	Statutory Deposits	130,242
11	Funds held by or deposited with Reinsured Companies	
12	Restricted - Other	
Reinsurance Receivable		
13	Reinsurance Recoverables on Paid Losses & LAE (net of allowance)	
14	Reinsurance Recoverables on Unpaid Losses & LAE (net of allowance)	
15	Reinsurance Recoverables on UEP & Contingent Commissions	
Other Receivables		
16	Salvage & Subrogation Recoveries	
17	Premiums Due from Agents & Policyholders	
18	Receivable from Parents, Subsidiaries & Affiliates	
19	Receivable from Guaranty Associations - Early Access Payments	416,391
20	Other Receivables	
Other Assets		
21	FF&E	
22	Other Assets	
	Total Assets	7,816,236

**Exhibit
1-A**

R-554

Santa Fe Auto Insurance Company
Statement of Net Liabilities

For Period Ending
05/31/14

Line		05/31/14
1	Secured Claims	
2	APF Loan	
3	Special Deposit Claims	
Administrative Claims - Class 1		
4	Administrative Claims - State/Receiver	
	Special Deputy Receiver, Subcontractors Fees & Expenses	56,669
	Liquidation Oversight	2,300
	Special Master's Fees	
5	Administrative Claims - Guaranty Assns	
	Administrative Expense Paid	
	Administrative Expense Reserves	
6	LAE - Guaranty Assns	
	LAE Paid	
	LAE Reserves	
Policy Claims - Class 2		
7	Loss Claims - Guaranty Assns	
	Loss Claims Paid	6,810,378
	Loss Claims Reserves	15,399,418
8	Loss Claims - Other	
	Other Loss Claims Paid	
	Other Loss Claims Reserves	303,278
9	LAE - Other	
10	Unearned & Advance Premium Claims - GA	242,993
11	Unearned & Advance Premium Claims - Other	
Other Liabilities		
12	Class 3 Claims	
13	Class 4 Claims	
14	Class 5 General Unsecured Creditor Claims	630,200
15	Class 5 Reinsurance Related Unsecured Claims	7,483,000
16	Class 6 Claims	
17	Class 7 Claims	
18	Class 8 Claims	
19	Class 9 Claims	
20	Class 10 Interest	
21	Class 11 Claims	
22	Other Liabilities	
	Total Liabilities	30,928,236
23	Total Equity/(Deficit) Excess (Deficiency) of Assets over Liabilities	(23,112,000)
	Total Liabilities & Equity	7,816,236

Exhibit
1-B

UDSC EXPENSE PAYMENT REPORTS BY STATE AS OF 5/31/2014 AND PROPOSED DISTRIBUTION

State	Reporting From	Reporting To	Expense Payments	Proposed Distribution
AR	20130531	20140531	\$22,616.05	\$22,616.05
AZ	20130501	20140531	\$127,010.09	\$127,010.09
GA	20130522	20140531	\$121,163.94	\$121,163.94
NM *	20130531	20140531	\$15,268.84	\$0.00
NV *	20130503	20140531	\$120,255.00	\$0.00
OK	20130508	20140531	\$163,818.95	\$163,818.95
TX	20130411	20140531	\$2,332,767.67	\$2,332,767.67
UT	20130619	20140531	\$10,198.12	\$10,198.12
Total:			\$2,913,098.66	\$2,777,574.82

* Nevada and New Mexico have recovered statutory deposits in excess of the current reported expense payments.

The amounts above will be credited against those recoveries.