



**TEXAS DEPARTMENT OF INSURANCE / FINANCIAL REGULATION DIVISION
FINANCIAL EXAMINATIONS / TITLE EXAMINATIONS**

**SUMMARY OF OPERATIONS FOR 4TH QUARTER, FY 2015
JUNE, 2015 – AUGUST, 2015
for presentation to the
Texas Title Insurance Guaranty Association Board of Directors
OCTOBER 26, 2015**

COMPLIANCE AUDITS AND ESCROW AUDIT REPORTS

| | Qtr | FY 15 | FY 14 | FY 13 | FY 12 | FY 11 | FY 10 |
|---|-----|-------|-------|-------|-------|-------|-------|
| Field audits completed | 81 | 308 | 286 | 340 | 343 | 300 | 322 |
| Field audit reports processed | 81 | 317 | 276 | 344 | 333 | 298 | 319 |
| Section 2651.151 audit reports received | 47 | 553 | 566 | 569 | 580 | 612 | 618 |
| Section 2651.151 audit reports reviewed | 33 | 542 | 565 | 558 | 576 | 604 | 608 |

Analysis of Title Insurance Agencies Licensed as of 8/31/15

| | | Breakdown of Comprehensive Audit Status | | | |
|----------------|----------------------|--|---|--|--|
| Region | # of agencies | Agencies audited within last 2 years | Agent's last audit was 2 - 3 years ago | Agent's last audit was over 3 years ago | # of (new) Agents Never Audited |
| NTX | 190 | 166 | 15 | 0 | 9 |
| CTX | 113 | 111 | 1 | 0 | 1 |
| WTX | 100 | 85 | 15 | 0 | 0 |
| HOU | 129 | 123 | 5 | 0 | 1 |
| STX | 35 | 30 | 4 | 0 | 1 |
| Totals: | 567 | 515 | 40 | 0 | 12 |
| | % of Total: | 90.8% | 7.1% | 0.0% | 2.1% |

REVISED Goal: In order to comprehensively audit every agent at least once every 2 years, we need to conduct 284 comprehensive audits per year, which amounts to 71 audits per quarter.

Last 12 months (9/1/14 – 8/31/15): 308 audits (24 over goal)

Last 3 months (6/1/15 – 8/31/15): 81 audits (10 over goal)

STATISTICAL REPORT LIMITED REVIEWS

Out of 81 comprehensive audits completed during the quarter, 8 (9.9%) included a limited review of the agent's latest statistical report. The following results were reported.

| | QTR | FY 15 | FY 14 | FY 13 | FY 12 | FY 11 |
|--|-----|-------|-------|-------|-------|-------|
| Number of statistical reports reviewed. | 8 | 159 | 180 | 238 | 178 | 152 |
| 1. No material discrepancies noted. | 8 | 155 | 172 | 228 | 170 | 147 |
| 2. Income and/or expense amounts reported in wrong categories. | 0 | 1 | 2 | 4 | 4 | 2 |
| 3. Total income and/or expense amounts reported didn't agree with agency's financial statements. | 0 | 3 | 6 | 6 | 4 | 3 |

Orders signed by Commissioner Mattax during quarter (6):

| DATE | Order # | AGENCY/PERSON | REASON | FINE AMT |
|---------|---------|--------------------------------------|--|------------------------------|
| 6/4/15 | 4002 | Tiago Title, LLC, Dallas | Failed to timely remit annual escrow audit rept. | \$1,200 |
| 6/25/15 | 4019 | Metropolitan Escrow & Title, Houston | Failed to timely remit annual escrow audit rept. | \$1,400 |
| 7/2/15 | 4039 | Rae'lene Kennedy, McKinney | Viol. of Sections 2652.201, 2651.202, & 2702.053 | Escrow officer lic. revoked. |
| 8/12/15 | 4081 | Angela Lawrence, San Antonio | Viol. of Sec.2652.201 & 2702.053 | EO lic. revoked |
| 8/21/15 | 4094 | LenderLive Title Agency, Dallas | Failed to timely remit annual escrow audit rept. | \$1,000 |
| 8/21/15 | 4095 | Floyd County Abstract, Floydada | Failed to timely remit annual escrow audit rept. | \$3,400 |

Active cases in Financial, Enforcement & Fraud:

| | Active cases at 6/1/15 | Cases referred Qtr. 15-4 | Cases cleared Qtr. 15-4 | Active cases at 8/31/15 |
|--|------------------------|--------------------------|-------------------------|-------------------------|
| Financial Program | | | | |
| Confidential Supervision | 0 | 0 | 0 | 0 |
| Receivership | 2 | 0 | 0 | 2 |
| Troubled title agents | 7 | 0 | 3 | 4 |
| Enforcement | | | | |
| Miscellaneous violations of the TIC | 2 | 6 | 0 | 8 |
| Rebating | 2 | 0 | 2 | 0 |
| License revocation (agent and/or escrow officer) | 3 | 3 | 2 | 4 |
| Late escrow audit rept. &/or stat rept. &/or guaranty fees | 5 | 2 | 5 | 2 |
| Fraud Unit | | | | |
| Misappropriation of fiduciary funds | 28 | 0 | 0 | 28 |
| Total | 49 | 11 | 12 | 48 |

RESULTS OF COMPLIANCE AUDITS DURING QUARTER

Listed below are audit findings for June through August of 2015, the 4th quarter of the State's fiscal year 2015. Numbers represent the number of agencies where the infraction occurred, not the number of times it occurred.

| VIOLATION OR DISCREPANCY | QTR | YTD |
|--------------------------|-----|-----|
|--------------------------|-----|-----|

INSOLVENCY

| | | |
|---|---|----|
| Financial statements indicated agent was insolvent or had cash flow problems. | 2 | 14 |
|---|---|----|

ABSTRACT PLANT

| | | |
|---|---|---|
| Abstract plant not in compliance with Section 2601.004 and Procedural Rule P-12. | 1 | 8 |
| Agency personnel unable to retrieve instrument information. Unable to verify legal plant. | 0 | 1 |

TEXAS INSURANCE CODE

| | | |
|---|----|----|
| § 101.102 – Conducted unauthorized business of insurance. | 1 | 4 |
| Section 2502.051 (formerly Art. 9.30) – Gave/received thing of value for referral of title insurance business. | 0 | 1 |
| Section 2704.001 (formerly Art. 9.34) – Policy not based on evidence from a legal abstract plant and/or no attempt made to contact out-of-county agents for title evidence. | 0 | 0 |
| Section 2704.001 (Art. 9.34) – Issued policies for property in county where not licensed. | 2 | 18 |
| Section 2704.001 (formerly Art. 9.34) – Signed commitments not maintained as part of complete evidence of insurability or countersigned policies not maintained. | 10 | 30 |
| Section 2651.002 (formerly Art. 9.36) – Agent used an unlicensed name or dba name. | 2 | 5 |
| Section 2651.301 (formerly Art. 9.37B) – Misappropriation or conversion to own use of money belonging to another person. | 1 | 1 |
| Section 2651.301 (formerly Art. 9.37B) – Failed to maintain separate escrow account (commingled escrow & operating funds). | 9 | 30 |
| Section 2651.101 and/or 2652.101 (formerly Art. 9.38 and/or 9.45) – No agency/escrow officer bond or insufficient bond. | 1 | 9 |

| VIOLATION OR DISCREPANCY | QTR | YTD |
|--|------------|------------|
| Section 2651.151 (formerly Art. 9.39) – Annual escrow audit report prepared incorrectly or contained material inaccuracies or other problems. | 4 | 22 |
| Section 2652.001 (formerly Art. 9.41) – Unlicensed person acting as an escrow officer. | 9 | 34 |
| Section 2602.151 (formerly Art. 9.48) and Administrative Rule G-1 – Failure to collect Policy Guaranty Fee or failure to maintain the policy fees in an escrow account. | 2 | 2 |
| Section 2602.103 (Art. 9.48) – Failure to produce requested files or other records. | 0 | 0 |
| Section 2702.053 (formerly Art. 9.53) – Actual receipts and/or disbursements not in agreement with settlement statement or premium split not disclosed. | 43 | 157 |

BULLETINS

| | | |
|---|----|-----|
| Title Bulletin No. 152 – Policy dates incorrect. | 2 | 3 |
| Title Bulletin No. 160 – All parties receiving portions of the real estate commission not disclosed on settlement statement. | 26 | 110 |

PROCEDURAL RULES

| | | |
|---|----|----|
| P-18: Commitment not issued as required in rule or commitment incomplete. | 0 | 5 |
| P-21: Schedule D of commitment not in file or premium split not disclosed on commitment. | 21 | 97 |
| P-22: No T-00's in files or T-00's incorrect or incomplete. | 16 | 61 |
| P-27 (“Good Funds”) violations: Unauthorized checks over \$1,500. Receipts not deposited timely or not received and posted before disbursements made. | 10 | 27 |
| P-35: Verbal or written guaranty, affirmation, indemnification, or certification issued. | 2 | 9 |
| P-61: Failure to issue title policy timely. | 6 | 13 |
| P-62: Operated in county for which not licensed. | 0 | 0 |

RATE RULES

| | | |
|---|----|----|
| Incorrect premium charged (violation of one or more rate rules). | 13 | 56 |
| R-1: Unauthorized fee charged for closing (or tax search) in addition to premium. | 1 | 11 |
| R-2: Premium remittances to underwriters not timely or amounts incorrect. | 6 | 18 |
| R-2: Premium collected in installments or premium not collected at all. | 0 | 1 |
| R-8: Refinance credit not given or not calculated correctly. | 2 | 4 |

MINIMUM ESCROW ACCOUNTING PROCEDURES & INTERNAL CONTROLS

| | | |
|---|---|----|
| #1 - Monthly escrow trial balances not prepared or not prepared timely. | 8 | 19 |
| #1 - Testing proved escrow trial balances unreliable. | 0 | 1 |
| #1 - Escrow trial balances not prepared correctly. | 4 | 15 |
| #2 - Three-way reconciliations not prepared or not prepared timely or portions of records not available. | 4 | 11 |
| #2 - Escrow trial balances and/or book balances and/or reconciled bank balances not in agreement. Differences unreconciled. | 2 | 3 |
| #2 - Bank reconciliations, book balances, or three-way reconciliations prepared incorrectly. | 4 | 17 |
| #3 – Reconciliations not approved by management or reviewed by another employee. | 1 | 8 |
| #4 - Accounting duties not segregated sufficiently and reconciliations not reviewed by manager or owner. | 2 | 4 |
| #5 - Only one signature on escrow checks when agency's size required two signatures. | 2 | 5 |
| #6 - Records did not include copies of all checks, invoices, deposit slips and receipt items. | 9 | 34 |
| #7A - Invested escrow accounts not styled correctly. | 0 | 6 |
| #7B - No written authorization to invest escrow funds. | 1 | 2 |
| #7C - Invested escrow account used agent's tax ID number instead of that of beneficiary. | 0 | 1 |

| VIOLATION OR DISCREPANCY | QTR | YTD |
|--|------------|------------|
| #7D – No control ledger for invested escrow accounts. Interest not posted timely. | 0 | 1 |
| #8 - Guaranty files used name identification instead of unique numbers. Same file number used for more than one transaction. | 3 | 4 |
| #9 - Escrow bank accounts not styled as “escrow” or “trust”. | 10 | 33 |
| #10 - No management approval for disbursements made on accounts open for more than six months or no review for disposition of funds. | 5 | 18 |
| #12 - No management approval for transfers of funds between guaranty files and/or transfers not documented in the files. | 0 | 0 |
| #13 - Seller not properly notified of NSF checks. | 0 | 1 |
| #14 - Guaranty file number not displayed on all escrow checks, deposit tickets or other documents. | 1 | 7 |
| #15 – Disbursement sheets missing, incomplete or incorrect. | 17 | 71 |
| #16 - Every disbursement not supported by invoice or sufficient other evidence. | 30 | 122 |
| #17 - Escrow receivables not cleared timely. | 5 | 23 |
| #18 – Settlement statement changes not initialed or supported adequately or contained white-out corrections. | 0 | 0 |
| #19 – Signed, pre-numbered receipts not issued for cash. | 3 | 8 |
| #20 – Images of checks did not meet requirements. | 11 | 19 |
| #21 – Escrow bank account not maintained at a financial institution in Texas. | 0 | 2 |

AGENCY

| | | |
|--|---|----|
| Agent breached fiduciary responsibility to buyer and seller by engaging in “self-dealing”. | 1 | 4 |
| Failed to disclose affiliated business arrangement as required by RESPA § 3500.15. | 5 | 13 |

ESCROW ACCOUNTING

| | | |
|---|----|-----|
| Material escrow funds irregularity or irregularities [i.e., escrow bank account overdrawn, receipt posted but never actually received or check-clearing date problems]. | 3 | 6 |
| Deposits and/or disbursements not booked in appropriate month. | 6 | 20 |
| Receivable(s) created by depositing into one bank account and disbursing from another account. | 5 | 8 |
| Reconciling items not posted timely and/or not cleared timely and/or not supported by adequate documentation. | 3 | 14 |
| Pattern of posting errors. | 4 | 19 |
| Signature on checks not on bank signature card or previous employees still on bank signature card. | 2 | 6 |
| Outstanding checks not cleared timely. | 43 | 133 |
| Deposit-in-transit list and/or outstanding check list prepared incorrectly. | 12 | 51 |

GUARANTY FILES

| | | |
|--|----|----|
| Original legal documents found in guaranty files after title policies issued. | 0 | 0 |
| Legal documents not recorded timely with county clerk or evidence of timely recording not in file. | 14 | 62 |
| Cash or disbursement check found in file. | 1 | 1 |
| Funds not disbursed or escheated to state. | 19 | 80 |