



THE STATE BAR OF CALIFORNIA

FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

MEMORANDUM

DATE: November 8, 2010
TO: Board of Governors
FROM: Peggy Van Horn, Chief Financial Officer
SUBJECT: Status of Claims Activities – Client Security Fund
Through the Quarter Ended September 30, 2010

Each quarter, the Office of Finance prepares a series of reports to evaluate the financial condition of the Client Security Fund. These reports include:

- Claims Activity for the quarter ended September 30, 2010
- Claims Aging Report
- Cumulative Claims Aging Report
- 24 Month Rolling Average of Claims Paid
- Analysis of New Claims Paid, Rejected or Withdrawn

Through the end of September, 3,164 new claims in the amount of \$18.9 million were filed. By comparison, 1,360 claims in the amount of \$12 million were filed through the third quarter of 2009. Both the number of claims and claim amounts filed in the past twelve month has significantly increased - 133% and 58%, respectively, due in large part to new claims related to loan modification fraud.

On a cash basis, total claims paid through the third quarter of fiscal year 2010 are approximately \$1.8 million. Cash and investments available to pay future claims expenses are \$15.8 million as of September 30, 2010. As we discussed in the previous quarter, an actuarial study performed by Milliman in July of this year estimates that this cash balance will be sufficient to fund claims through 2019.

For financial statement purposes, the Office of Finance accrues a liability based on a rolling 24 month historical claims payout ratio, currently 36.35%. As of September 30, 2010, total claims submitted and outstanding are \$35.3 million. Based on this payout ratio, Finance has recorded a claims liability of approximately \$12.8 million in the September financial statements.

THE STATE BAR OF CALIFORNIA
 CLIENT SECURITY FUND
 STATUS ON CLAIMS ACTIVITIES

September 30, 2010

YEAR TO DATE ACTIVITIES

| | \$1 - 2500 | | \$2,501 - 5,000 | | \$5,001 - 10,000 | | \$10,001 - 25,000 | | \$25,001 - 49,999 | | \$50,000 | | \$50,001 - 100,000 | | TOTAL | |
|--|-----------------------|-----------------------|----------------------------|-----------------------|-----------------------------|-----------------------|------------------------------|-----------------------|------------------------------|-----------------------|-----------------|-----------------------|-------------------------------|-----------------------|--------------|------------------------|
| | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount | <u>#</u> | Amount |
| Prior Years' Claims | 995 | \$1,596,259.99 | 1,235 | \$4,303,778.48 | 347 | \$2,573,533.46 | 188 | \$3,140,215.74 | 73 | \$2,487,193.28 | 157 | \$7,889,400.00 | 2 | \$200,000.00 | 2,997 | \$22,190,380.95 |
| New Claims '10 | 1,064 | \$1,875,768.18 | 1,477 | \$5,092,924.82 | 328 | \$2,319,254.96 | 152 | \$2,476,018.30 | 57 | \$1,990,469.72 | 67 | \$3,350,000.00 | 19 | \$1,778,500.00 | 3,164 | \$18,882,935.98 |
| Paid Claims '10 | (47) | (\$80,197.30) | (38) | (\$148,886.75) | (24) | (\$160,957.21) | (13) | (\$167,301.18) | (7) | (\$202,958.99) | (22) | (\$1,044,764.05) | 0 | \$0.00 | (151) | (\$1,805,065.48) |
| Rejected Claims '10 | (2) | (\$9,299.20) | (4) | (\$22,820.00) | (7) | (\$79,111.41) | (7) | (\$147,876.91) | (2) | (\$111,821.33) | (13) | (\$744,635.95) | (1) | (\$100,000.00) | (36) | (\$1,215,564.80) |
| Withdrawn Claims '10 | (50) | (\$68,895.19) | (43) | (\$171,731.36) | (51) | (\$381,783.25) | (40) | (\$635,420.92) | (12) | (\$414,228.99) | (20) | (\$1,000,000.00) | (1) | (\$100,000.00) | (217) | (\$2,772,059.71) |
| Claims Outstanding | 1,960 | <u>\$3,313,636.48</u> | 2,627 | <u>\$9,053,265.19</u> | 593 | <u>\$4,270,936.55</u> | 280 | <u>\$4,665,635.03</u> | 109 | <u>\$3,748,653.69</u> | 169 | <u>\$8,450,000.00</u> | 19 | <u>\$1,778,500.00</u> | 5,757 | <u>\$35,280,626.94</u> |
| New claims % to total | 33.63% | 9.93% | 46.68% | 26.97% | 10.37% | 12.28% | 4.80% | 13.11% | 1.80% | 10.54% | 0.00% | 17.74% | 0.60% | 9.42% | 97.88% | 100.00% |
| Claims paid % to total | 31.13% | 4.44% | 25.17% | 8.25% | 15.89% | 8.92% | 8.61% | 9.27% | 4.64% | 11.24% | 14.57% | 57.88% | 0.00% | 0.00% | 100.00% | 100.00% |
| Claims rejected or withdrawn % to total | 20.55% | 1.96% | 18.58% | 4.88% | 22.92% | 11.56% | 18.58% | 19.64% | 5.53% | 13.19% | 13.04% | 43.75% | 0.79% | 5.02% | 100.00% | 100.00% |
| Claims outstanding % to total | 34.05% | 9.39% | 45.63% | 25.66% | 10.30% | 12.11% | 4.86% | 13.22% | 1.89% | 10.63% | 2.94% | 23.95% | 0.33% | 5.04% | 100.00% | 100.00% |

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
CLAIMS AGING REPORT**

As of September 30, 2010

(By Year)

| Year Claim Filed | Gross Claims Prior Year | | Current Year | | Claims Paid | | Claims Rejected or Withdrawn | | Total Claims Processed | | Claims Outstanding | |
|------------------|-------------------------|-----------------------------|--------------------|-----------------------------|---------------------|------------------------------|------------------------------|------------------------------|------------------------|------------------------------|--------------------|-----------------------------|
| | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT |
| 2004 | 1 | 50,000.00 | | | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 1 | 50,000.00 |
| 2005 | 6 | 210,868.72 | | | (2) | (44,000.00) | (1) | (75,000.00) | (3) | (119,000.00) | 3 | 91,868.72 |
| 2006 | 34 | 593,294.90 | | | (3) | (52,850.00) | (8) | (132,201.70) | (11) | (185,051.70) | 23 | 408,243.20 |
| 2007 | 120 | 2,097,111.34 | | | (15) | (201,042.16) | (23) | (397,045.95) | (38) | (598,088.11) | 82 | 1,499,023.23 |
| 2008 | 217 | 3,890,142.89 | | | (40) | (471,994.40) | (29) | (588,745.74) | (69) | (1,060,740.14) | 148 | 2,829,402.75 |
| 2009 | 2619 | 15,348,963.10 | | | (80) | (918,888.15) | (127) | (1,867,432.26) | (207) | (2,786,320.41) | 2412 | 12,562,642.69 |
| 2010 | | | 3164 | 18,882,935.98 | (11) | (116,290.77) | (65) | (927,198.86) | (76) | (1,043,489.63) | 3088 | 17,839,446.35 |
| TOTAL | <u>2997</u> | <u>22,190,380.95</u> | <u>3164</u> | <u>18,882,935.98</u> | <u>(151)</u> | <u>(1,805,065.48)</u> | <u>(253)</u> | <u>(3,987,624.51)</u> | <u>(404)</u> | <u>(5,792,689.99)</u> | <u>5757</u> | <u>35,280,626.94</u> |
| Average | | \$7,404 | | \$5,968 | | \$11,954 | | \$15,761 | | \$14,338 | | \$6,128 |

Estimated Claim Payout Ratio: **36.35%**
Estimated Claim Liability: **\$12,824,508**

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
CUMULATIVE CLAIMS AGING REPORT**

As of **September 30, 2010**

(Cumulative)

YEAR TO DATE

| Year Claim Filed | Gross Claims Prior Years | | Current Year | | Claims Paid | | Claims Rejected or Withdrawn | | Total Claims Processed | | Claims Outstanding | |
|---|-----------------------------|---------------|-----------------|----------------------|----------------|-----------------------|------------------------------------|-----------------------|------------------------------|-----------------------|-----------------------|----------------------|
| | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT |
| 2004 Only | 1 | 50,000.00 | | | 0 | - | 0 | 0.00 | 0 | 0.00 | 1 | 50,000.00 |
| 2004-2005 | 7 | 260,868.72 | | | (2) | (44,000.00) | (1) | (75,000.00) | (3) | (119,000.00) | 4 | 141,868.72 |
| 2004-2006 | 41 | 854,163.62 | | | (5) | (96,850.00) | (9) | (207,201.70) | (14) | (304,051.70) | 27 | 550,111.92 |
| 2004-2007 | 161 | 2,951,274.96 | | | (20) | (297,892.16) | (32) | (604,247.65) | (52) | (902,139.81) | 109 | 2,049,135.15 |
| 2004-2008 | 378 | 6,841,417.85 | | | (60) | (769,886.56) | (61) | (1,192,993.39) | (121) | (1,962,879.95) | 257 | 4,878,537.90 |
| 2004-2009 | 2,997 | 22,190,380.95 | | | (140) | (1,688,774.71) | (188) | (3,060,425.65) | (328) | (4,749,200.36) | 2,669 | 17,441,180.59 |
| 2004-2010 | | | 3,164 | 18,882,935.98 | (151) | (1,805,065.48) | (253) | (3,987,624.51) | (404) | (5,792,689.99) | 5,757 | 35,280,626.94 |
| Claims Pending on September 30, 2010 | | | | 5,757 | | | | | | | | |
| Net Asset in Client Security Fund : | | | | | | | | | | | | |
| | As of | 12/31/2009 | | 2,678,821 | | | | | | | | |
| | As of | 9/30/2010 | | 2,917,357 | | | | | | | | |

*The number of rejected claims only reflects those claims that were 100% rejected or withdrawn.

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND**

**24 MONTH ROLLING AVERAGE
OF CLAIMS PAID RATIO**

Period of: OCT.08 through SEPT.10

PAID CLAIMS

| Month Covered | Amount | Mo. Ave. Payout Ratio | 24 Mo. Rolling Average | Cumulative Paid Total |
|----------------------|-------------------------|------------------------------|-------------------------------|------------------------------|
| OCT.08 | 380,744 | 50.26% | | 380,744 |
| NOV.08 | 78,814 | 19.99% | | 459,558 |
| DEC.08 | 945,674 | 43.44% | | 1,405,232 |
| JAN.09 | 11,380 | 42.73% | | 1,416,612 |
| FEB.09 | 7,410 | 1.74% | | 1,424,022 |
| MAR.09 | 154,885 | 20.16% | | 1,578,907 |
| APR.09 | 398,024 | 42.07% | | 1,976,931 |
| MAY.09 | 287,574 | 40.71% | | 2,264,505 |
| JUN.09 | 504,153 | 44.37% | | 2,768,658 |
| JUL.09 | 349,652 | 26.92% | | 3,118,310 |
| AUG.09 | 77,845 | 19.17% | | 3,196,155 |
| SEPT.09 | 284,251 | 44.90% | | 3,480,406 |
| OCT.09 | 671,289 | 62.88% | | 4,151,695 |
| NOV.09 | 218,385 | 28.56% | | 4,370,080 |
| DEC.09 | 497,104 | 47.27% | | 4,867,184 |
| JAN.10 | 2,500 | 1.42% | | 4,869,684 |
| FEB.10 | 106,392 | 15.62% | | 4,976,076 |
| MAR.10 | 162,881 | 31.55% | | 5,138,957 |
| APR.10 | 158,270 | 43.87% | | 5,297,227 |
| MAY10 | 334,727 | 33.60% | | 5,631,954 |
| JUN.10 | 308,843 | 52.70% | | 5,940,797 |
| JUL.10 | 177,043 | 28.57% | | 6,117,840 |
| AUG.10 | 186,118 | 19.50% | | 6,303,958 |
| SEPT.10 | 368,292 | 40.82% | | 6,672,250 |
| | <u>6,672,250</u> | | 36.35% | |

THE STATE BAR OF CALIFORNIA
 CLIENT SECURITY FUND
 ANALYSIS OF NEW CLAIMS PAID, REJECTED
 OR WITHDRAWN, ESTIMATED
 CLAIMS LIABILITY PER ACTIVE
 ATTORNEY

September 30, 2010

| | <u>1st Qtr</u> | <u>2nd Qtr.</u> | <u>3rd Qtr.</u> |
|---------------------------------------|----------------|-----------------|-----------------|
| Beginning Balance | 2997 | 4416 | 5163 |
| Add: Reinstated Claims | | | |
| New Claims | 1514 | 857 | 793 |
| Less: Paid / Rejected or Withdrawn | 95 | 110 | 199 |
| TOTAL | 4416 | 5163 | 5757 |
| CLAIMS OUTSTANDING AMT. | 28,017,614 | 31,666,356 | 35,280,627 |
| # Of Active Attorneys | 168,378 | 167,993 | 169,286 |
| Cost Per Active Attorney | \$166 | \$188 | \$208 |
| ESTIMATED CLAIMS LIAB. | | | |
| Claims Payout Ratio | 38.07% | 38.02% | 36.35% |
| Estimated Claim Amount * | \$10,666,306 | \$12,039,549 | \$12,824,508 |
| # of Active Attorneys | 168,378 | 167,993 | 169,286 |
| Cost per Active Attorney | \$63 | \$72 | \$76 |
| CLAIM ACTIVITIES IN %: | | | |
| NEW CLAIMS - YTD | | | |
| 1 - 2,500 | 12.61% | 10.94% | 9.93% |
| 2,501 - 5,000 | 35.54% | 30.66% | 26.97% |
| 5,001 - 10,000 | 13.38% | 13.54% | 12.28% |
| 10,001 - 25,000 | 10.59% | 12.13% | 13.11% |
| 25,001 - 49,999 | 10.75% | 10.99% | 10.54% |
| 50,000 | 8.27% | 12.50% | 17.74% |
| 50,001 - 100,000 | 8.85% | 9.24% | 9.42% |
| CLAIMS PAID - YTD | | | |
| 1 - 2,500 | 10.05% | 5.32% | 4.44% |
| 2,501 - 5,000 | 18.43% | 10.10% | 8.25% |
| 5,001 - 10,000 | 18.09% | 8.69% | 8.92% |
| 10,001 - 25,000 | 14.63% | 11.46% | 9.27% |
| 25,001 - 49,999 | 20.40% | 5.16% | 11.24% |
| 50,000 | 18.40% | 59.28% | 57.88% |
| 50,001 - 100,000 | 0.00% | 0.00% | 0.00% |
| REJ./WDRAWN - YTD | | | |
| 1 - 2,500 | 1.25% | 1.31% | 1.96% |
| 2,501 - 5,000 | 3.34% | 4.26% | 4.88% |
| 5,001 - 10,000 | 8.33% | 6.53% | 11.56% |
| 10,001 - 25,000 | 24.04% | 17.13% | 19.64% |
| 25,001 - 49,999 | 17.64% | 10.45% | 13.19% |
| 50,000 | 45.39% | 55.87% | 43.75% |
| 50,001 - 100,000 | 0.00% | 4.46% | 5.02% |
| CLAIMS O/S-CUM. - YTD | | | |
| 1 - 2,500 | 8.81% | 9.19% | 9.39% |
| 2,501 - 5,000 | 24.24% | 25.34% | 25.66% |
| 5,001 - 10,000 | 12.15% | 12.84% | 12.11% |
| 10,001 - 25,000 | 12.86% | 13.22% | 13.22% |
| 25,001 - 49,999 | 10.73% | 11.35% | 10.63% |
| 50,000 | 28.20% | 24.00% | 23.95% |
| 50,001 - 100,000 | 3.00% | 4.05% | 5.04% |
| NET ASSET, END OF PERIOD | \$6,564,564 | \$4,542,768 | \$2,917,357 |

*Based upon 24 month rolling weighted average of claims paid ratio (See page 4)