



# THE STATE BAR OF CALIFORNIA

Finance  
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## MEMORANDUM

**DATE:** February 24, 2011  
**TO:** Board of Governors  
**FROM:** Peggy Van Horn, Chief Financial Officer  
**SUBJECT:** Status of Claims Activities – Client Security Fund  
For the Year Ended December 31, 2010

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Attached for your review are a series of reports for the claims activities within the Client Security Fund for the year ended December 31, 2010. These reports include:

- Ten Years Comparison from 2001 to 2010
- Claims Activity for the year ended December 31, 2010
- Claims Aging Report
- Cumulative Claims Aging Report
- 24 Month Rolling Average of Claims Paid
- Analysis of New Claims Paid, Rejected or Withdrawn

For the year of 2010, a total of 3,875 new claims in the amount of \$23.2 million were filed. Comparing to the 3,028 claims for \$19.5 million filed in 2009, the number of claims and claim amounts filed in the past year increased by 28% and 19%, respectively, due to new claims related to loan modification fraud.

On a cash basis, total claims paid through the fiscal year 2010 are approximately \$3.3 million. Cash and investments available to pay future claims expenses are \$15.5 million as of December 31, 2010. As we discussed in the previous meeting, 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 33.67%. As of December 31, 2010, total claims submitted and outstanding are \$34.5 million. Based on this payout ratio, Finance has recorded a claims liability of approximately \$11.6 million in the 2010 year-end financial statements.

**THE STATE BAR OF CALIFORNIA  
CLIENT SECURITY FUND  
TEN YEARS COMPARISON  
2001-2010**

	2001		2002		2003		2004		2005		2006		2007		2008		2009		2010	
	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount	# of Claims	Amount
Claims outstanding, beg. of year	708	8,803,264	751	9,517,404	770	10,157,007	759	8,548,576	858	9,956,622	787	10,396,199	797	9,579,525	787	11,811,143	710	11,871,541	2,997	22,124,850
Prior year's outstdg. claim adj. inc.	(2)	110,553	5	29,491	(2)	55,611	(13)	109,900	(3)	90,040	(2)	241,984	-	69,048	-	107,497	-	15,532	-	100,260
New claims	1,114	11,900,739	1,300	14,166,217	1,200	12,221,905	1,321	13,681,482	1,318	11,558,645	1,314	10,916,591	1,013	12,927,446	825	11,290,084	3,028	19,469,661	3,875	23,231,936
<b>TOTAL CLAIMS</b>	<b>1,820</b>	<b>20,814,556</b>	<b>2,056</b>	<b>23,713,112</b>	<b>1,968</b>	<b>22,434,523</b>	<b>2,067</b>	<b>22,339,958</b>	<b>2,173</b>	<b>21,605,307</b>	<b>2,099</b>	<b>21,554,774</b>	<b>1,810</b>	<b>22,576,019</b>	<b>1,612</b>	<b>23,208,724</b>	<b>3,738</b>	<b>31,356,734</b>	<b>6,872</b>	<b>45,457,046</b>
Less: Processed Claims:																				
Paid	609	\$4,435,212	782	\$6,597,057	701	\$5,859,620	746	5,681,455	982	4,648,584	943	5,299,061	607	4,352,110	479	4,638,272	378	3,461,950	267	3,331,124
Rejected	68	2,903,338	39	2,580,784	39	2,585,959	39	1,701,671	50	2,535,698	24	1,799,629	42	2,066,308	57	2,196,878	52	1,930,226	138	2,869,032
Withdrawn	392	3,958,602	465	4,378,264	469	5,440,368	424	5,000,210	354	4,024,826	335	4,876,559	374	4,346,458	366	4,502,033	311	3,839,708	355	4,743,243
<b>TOTAL PROCESSED CLAIMS</b>	<b>1,069</b>	<b>11,297,152</b>	<b>1,286</b>	<b>13,556,105</b>	<b>1,209</b>	<b>13,885,947</b>	<b>1,209</b>	<b>12,383,336</b>	<b>1,386</b>	<b>11,209,108</b>	<b>1,302</b>	<b>11,975,249</b>	<b>1,023</b>	<b>10,764,876</b>	<b>902</b>	<b>11,337,183</b>	<b>741</b>	<b>9,231,884</b>	<b>760</b>	<b>10,943,399</b>
Claims outstanding, end of year	751	9,517,404	770	10,157,007	759	8,548,576	858	9,956,622	787	10,396,199	797	9,579,525	787	11,811,143	710	11,871,541	2,997	22,124,850	6,112	34,513,647
Claims outstanding inc./(dec.) over beginning balance	43	714,140	19	639,603	(11)	(1,608,431)	99	1,408,046	(71)	439,577	10	(816,674)	(10)	2,231,618	(77)	60,398	2,287	10,253,309	3,115	12,388,797
Claims payout ratio		33.75%		44.20%		45.26%		43.88%		43.79%		42.86%		42.45%		40.68%		39.38%		33.67%
Est. claims liab. at payout ratio		\$3,212,124		\$4,489,397		\$3,869,086		\$4,368,966		\$4,552,496		\$4,105,784		\$5,013,830		\$4,829,343		\$8,712,766		\$11,620,745
Estimated Decrease/(Increase) in Awards Payable Liability:		(553,538)		(1,277,273)		620,311		(499,880)		(183,530)		446,712		(908,046)		184,487		(3,883,423)		(2,907,979)

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

December 31, 2010

**YEAR TO DATE ACTIVITIES**

	<b>\$1-2500</b>		<b>\$2,501 - 5,000</b>		<b>\$5,001 - 10,000</b>		<b>\$10,001 - 25,000</b>		<b>\$25,001 - 49,999</b>		<b>\$50,000</b>		<b>\$50,001 - 100,000</b>		<b>TOTAL</b>	
	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>	<b>#</b>	<b>Amount</b>
<b>Prior Years' Claims</b>	995	\$1,596,259.99	1,235	\$4,304,318.48	347	\$2,573,533.46	188	\$3,174,405.28	73	\$2,487,193.28	157	\$7,889,400.00	2	\$200,000.00	2,997	\$22,225,110.49
<b>New Claims '10</b>	1,297	\$2,279,984.04	1,799	\$6,223,547.02	411	\$2,902,016.41	195	\$3,130,418.60	65	\$2,248,159.63	83	\$4,150,000.00	25	\$2,297,809.80	3,875	\$23,231,935.50
<b>Paid Claims '10</b>	(74)	(\$127,405.34)	(64)	(\$255,371.70)	(47)	(\$358,889.21)	(32)	(\$543,718.94)	(18)	(\$540,865.24)	(32)	(\$1,504,873.12)	0	\$0.00	(267)	(\$3,331,123.55)
<b>Rejected Claims '10</b>	(31)	(\$61,034.70)	(23)	(\$103,820.00)	(27)	(\$235,043.59)	(19)	(\$356,079.84)	(9)	(\$391,527.05)	(26)	(\$1,434,526.88)	(3)	(\$287,000.00)	(138)	(\$2,869,032.06)
<b>Withdrawn Claims '10</b>	(77)	<u>(\$107,814.55)</u>	(88)	<u>(\$345,709.40)</u>	(69)	<u>(\$510,291.87)</u>	(62)	<u>(\$1,029,697.92)</u>	(18)	<u>(\$621,728.99)</u>	(38)	<u>(\$1,900,000.00)</u>	(3)	<u>(\$228,000.00)</u>	(355)	<u>(\$4,743,242.73)</u>
<b>Claims Outstanding</b>	2,110	<u>\$3,579,989.44</u>	2,859	<u>\$9,822,964.40</u>	615	<u>\$4,371,325.20</u>	270	<u>\$4,375,327.18</u>	93	<u>\$3,181,231.63</u>	144	<u>\$7,200,000.00</u>	21	<u>\$1,982,809.80</u>	6,112	<u>\$34,513,647.65</u>
<b>New claims % to total</b>	33.47%	9.81%	46.43%	26.79%	10.61%	12.49%	5.03%	13.47%	1.68%	9.68%	0.00%	17.86%	0.65%	9.89%	97.86%	100.00%
<b>Claims paid % to total</b>	27.72%	3.82%	23.97%	7.67%	17.60%	10.77%	11.99%	16.32%	6.74%	16.24%	11.99%	45.18%	0.00%	0.00%	100.00%	100.00%
<b>Claims rejected or withdrawn % to total</b>	21.91%	2.22%	22.52%	5.91%	19.47%	9.79%	16.43%	18.20%	5.48%	13.31%	12.98%	43.80%	1.22%	6.77%	100.00%	100.00%
<b>Claims outstanding % to total</b>	34.52%	10.37%	46.78%	28.46%	10.06%	12.67%	4.42%	12.68%	1.52%	9.22%	2.36%	20.86%	0.34%	5.75%	100.00%	100.00%

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

**As of December 31, 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			(1)	(50,000.00)	0	0.00	(1)	(50,000.00)	0	0.00
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			(4)	(52,350.00)	(11)	(257,201.70)	(15)	(309,551.70)	19	283,743.20
2007	120	2,097,111.34			(17)	(206,042.16)	(45)	(806,120.95)	(62)	(1,012,163.11)	58	1,084,948.23
2008	217	3,909,832.43			(50)	(616,593.77)	(50)	(927,289.16)	(100)	(1,543,882.93)	117	2,365,949.50
2009	2619	15,364,003.10			(119)	(1,501,887.59)	(186)	(2,724,494.51)	(305)	(4,226,382.10)	2314	11,137,621.00
2010			3875	23,231,935.50	(74)	(860,250.03)	(200)	(2,822,168.47)	(274)	(3,682,418.50)	3601	19,549,517.00
<b>TOTAL</b>	<b><u>2997</u></b>	<b><u>22,225,110.49</u></b>	<b><u>3875</u></b>	<b><u>23,231,935.50</u></b>	<b><u>(267)</u></b>	<b><u>(3,331,123.55)</u></b>	<b><u>(493)</u></b>	<b><u>(7,612,274.79)</u></b>	<b><u>(760)</u></b>	<b><u>(10,943,398.34)</u></b>	<b><u>6112</u></b>	<b><u>34,513,647.65</u></b>
<b>Average</b>		\$7,416		\$5,995		\$12,476		\$15,441		\$14,399		\$5,647

Estimated Claim Payout Ratio: **33.67%**  
Estimated Claim Liability: **\$11,620,745**

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

**As of December 31, 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			(1)	(50,000.00)	0	0.00	(1)	(50,000.00)	0	0.00
2004-2005	7	260,868.72			(3)	(94,000.00)	(1)	(75,000.00)	(4)	(169,000.00)	3	91,868.72
2004-2006	41	854,163.62			(7)	(146,350.00)	(12)	(332,201.70)	(19)	(478,551.70)	22	375,611.92
2004-2007	161	2,951,274.96			(24)	(352,392.16)	(57)	(1,138,322.65)	(81)	(1,490,714.81)	80	1,460,560.15
2004-2008	378	6,861,107.39			(74)	(968,985.93)	(107)	(2,065,611.81)	(181)	(3,034,597.74)	197	3,826,509.65
2004-2009	2,997	22,225,110.49			(193)	(2,470,873.52)	(293)	(4,790,106.32)	(486)	(7,260,979.84)	2,511	14,964,130.65
2004-2010			<b>3,875</b>	<b>23,231,935.50</b>	<b>(267)</b>	<b>(3,331,123.55)</b>	<b>(493)</b>	<b>(7,612,274.79)</b>	<b>(760)</b>	<b>(10,943,398.34)</b>	<b>6,112</b>	<b>34,513,647.65</b>
Claims Pending on	0			6,112								

Net Asset in Client Security Fund :

As of	12/31/2009	<b>2,678,821</b>
As of	12/31/2010	<b>2,322,315</b>

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

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

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

Period of: JAN.09 through DEC.10

Month Covered	PAID CLAIMS			REJECTED / WITHDRAWN CLAIMS			PROCESSED			
	Amount	Mo. Ave. Payout Ratio	24 Mo. Rolling Average	Cumulative Paid Total	Amount	Cum. Rej/ Withdrawn Total	% To Total	Amount	Cumulative Total Amount	Total Percentage
JAN.09	11,380	42.73%		11,380	15,253	15,253	57.27%	26,633	26,633	100.00%
FEB.09	7,410	1.74%		18,790	418,864	434,117	98.26%	426,274	452,907	100.00%
MAR.09	154,885	20.16%		173,675	613,480	1,047,597	79.84%	768,365	1,221,272	100.00%
APR.09	398,024	42.07%		571,699	548,053	1,595,650	57.93%	946,077	2,167,349	100.00%
MAY.09	287,574	40.71%		859,273	418,900	2,014,550	59.29%	706,474	2,873,823	100.00%
JUN.09	504,153	44.37%		1,363,426	632,213	2,646,763	55.63%	1,136,366	4,010,189	100.00%
JUL.09	349,652	26.92%		1,713,078	949,088	3,595,851	73.08%	1,298,740	5,308,929	100.00%
AUG.09	77,845	19.17%		1,790,923	328,228	3,924,079	80.83%	406,073	5,715,002	100.00%
SEPT.09	284,251	44.90%		2,075,174	348,793	4,272,872	55.10%	633,044	6,348,046	100.00%
OCT.09	671,289	62.88%		2,746,463	396,347	4,669,219	37.12%	1,067,636	7,415,682	100.00%
NOV.09	218,385	28.56%		2,964,848	546,234	5,215,453	71.44%	764,619	8,180,301	100.00%
DEC.09	497,104	47.27%		3,461,952	554,483	5,769,936	52.73%	1,051,587	9,231,888	100.00%
JAN.10	2,500	1.42%		3,464,452	173,595	5,943,531	98.58%	176,095	9,407,983	100.00%
FEB.10	106,392	15.62%		3,570,844	574,536	6,518,067	84.38%	680,928	10,088,911	100.00%
MAR.10	162,881	31.55%		3,733,725	353,414	6,871,481	68.45%	516,295	10,605,206	100.00%
APR.10	158,270	43.87%		3,891,995	202,460	7,073,941	56.13%	360,730	10,965,936	100.00%
MAY.10	334,727	33.60%		4,226,722	661,577	7,735,517	66.40%	996,304	11,962,239	100.00%
JUN.10	308,843	52.70%		4,535,565	277,183	8,012,700	47.30%	586,026	12,548,265	100.00%
JUL.10	177,043	28.57%		4,712,608	442,587	8,455,287	71.43%	619,630	13,167,895	100.00%
AUG.10	186,118	19.50%		4,898,726	768,420	9,223,707	80.50%	954,538	14,122,433	100.00%
SEPT.10	368,292	40.82%		5,267,018	533,852	9,757,559	59.18%	902,144	15,024,577	100.00%
OCT.10	31,045	2.21%		5,298,063	1,373,317	11,130,876	97.79%	1,404,362	16,428,939	100.00%
NOV.10	491,751	60.38%		5,789,814	322,632	11,453,508	39.62%	814,383	17,243,322	100.00%
DEC.10	1,003,262	34.22%		6,793,076	1,928,701	13,382,209	65.78%	2,931,963	20,175,285	100.00%
	<b><u>6,793,076</u></b>		<b>33.67%</b>		<b><u>13,382,209</u></b>			<b><u>20,175,285</u></b>		

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

December 31, 2010

	<u>1st Qtr</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>
Beginning Balance	2997	4416	5163	5757
Add: Reinstated Claims				
New Claims	1514	857	793	711
Less: Paid / Rejected or Withdrawn	95	110	199	356
<b>TOTAL</b>	4416	5163	5757	6112
<b>CLAIMS OUTSTANDING AMT.</b>	\$28,017,614	\$31,666,356	\$35,280,627	\$34,513,648
# Of Active Attorneys	168,378	167,993	169,286	169,222
Cost Per Active Attorney	\$166	\$188	\$208	\$204
<b>ESTIMATED CLAIMS LIAB.</b>				
Claims Payout Ratio	38.07%	38.02%	36.35%	33.67%
Estimated Claim Amount *	\$10,666,306	\$12,039,549	\$12,824,508	\$11,620,745
# of Active Attorneys	168,378	167,993	169,286	169,222
Cost per Active Attorney	\$63	\$72	\$76	\$69
<b>CLAIM ACTIVITIES IN %:</b>				
<b>NEW CLAIMS - YTD</b>				
1 - 2,500	12.61%	10.94%	9.93%	9.81%
2,501 - 5,000	35.54%	30.66%	26.97%	26.79%
5,001 - 10,000	13.38%	13.54%	12.28%	12.49%
10,001 - 25,000	10.59%	12.13%	13.11%	13.47%
25,001 - 49,999	10.75%	10.99%	10.54%	9.68%
50,000	8.27%	12.50%	17.74%	17.86%
50,001 - 100,000	8.85%	9.24%	9.42%	9.89%
<b>CLAIMS PAID - YTD</b>				
1 - 2,500	10.05%	5.32%	4.44%	3.82%
2,501 - 5,000	18.43%	10.10%	8.25%	7.67%
5,001 - 10,000	18.09%	8.69%	8.92%	10.77%
10,001 - 25,000	14.63%	11.46%	9.27%	16.32%
25,001 - 49,999	20.40%	5.16%	11.24%	16.24%
50,000	18.40%	59.28%	57.88%	45.18%
50,001 - 100,000	0.00%	0.00%	0.00%	0.00%
<b>REJ./WDRAWN - YTD</b>				
1 - 2,500	1.25%	1.31%	1.96%	2.22%
2,501 - 5,000	3.34%	4.26%	4.88%	5.91%
5,001 - 10,000	8.33%	6.53%	11.56%	9.79%
10,001 - 25,000	24.04%	17.13%	19.64%	18.20%
25,001 - 49,999	17.64%	10.45%	13.19%	13.31%
50,000	45.39%	55.87%	43.75%	43.80%
50,001 - 100,000	0.00%	4.46%	5.02%	6.77%
<b>CLAIMS O/S-CUM. - YTD</b>				
1 - 2,500	8.81%	9.19%	9.39%	10.37%
2,501 - 5,000	24.24%	25.34%	25.66%	28.46%
5,001 - 10,000	12.15%	12.84%	12.11%	12.67%
10,001 - 25,000	12.86%	13.22%	13.22%	12.68%
25,001 - 49,999	10.73%	11.35%	10.63%	9.22%
50,000	28.20%	24.00%	23.95%	20.86%
50,001 - 100,000	3.00%	4.05%	5.04%	5.75%
<b>NET ASSET, END OF PERIOD</b>	\$6,564,564	\$4,542,768	\$2,917,357	\$2,322,315

\*Based upon 24 month rolling weighted average of claims paid ratio (See page 5)