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9 **IN THE SECOND JUDICIAL DISTRICT COURT OF THE STATE OF NEVADA**
10 **IN AND FOR THE COUNTY OF WASHOE**

11 STATE OF NEVADA, EX REL.) Case No. CV14-00807
12 COMMISSIONER OF INSURANCE, IN HIS)
13 OFFICIAL CAPACITY AS STATUTORY) Dept. No. B13
14 RECEIVER FOR DELINQUENT DOMESTIC)
15 INSURER,)
16) Plaintiff,)
17))
18 vs.)
19))
20 NATIONAL GUARANTY INSURANCE)
21 COMPANY, a Nevada Domiciled Property and)
22 Casualty Company,)
23))
24) Defendant)
25))

21 **THIRD STATUS REPORT**

22 Scott J. Kipper, Commissioner of Insurance (the "Commissioner") for the State of
23 Nevada in his capacity as Permanent Receiver of National Guaranty Insurance Company
24 ("NGIC" or the "Company"), and Regulatory Services Group ("RSG"), Receivership Manager
25 of NGIC, files this Third Status Report in the above-captioned receivership.

26 **INTRODUCTION AND HISTORICAL BACKGROUND**

27 NGIC is a Property and Casualty Company organized under the Nevada Insurance
28 laws. The company is a stock insurer as defined in Nevada Revised Statutes

1 (“NRS”) 694C.150. The company received its Certificate of Authority on July 26, 2013, after
2 re-domesticating from Arizona.

3 On May 6, 2014, the Nevada Insurance Commissioner was appointed as interim
4 Receiver of NGIC by the Second Judicial District Court of the State of Nevada.

5 Commissioner Kipper as Interim Receiver of NGIC retained David E. Wilson
6 and Regulatory Services Group as Receivership Manager. The Receivership Manager
7 was authorized to retain the services of Joseph B. Holloway, Jr. of INS Consultants, Inc.
8 as his Receivership Supervisor. As provided for by the Receivership Order, the Receiver
9 and Receivership Manager are authorized to conduct the business of NGIC and to
10 administer its affairs for the protection of all secured creditors, insureds, policyholders, and
11 general creditors.

12 On June 12, 2014, the Court appointed the Nevada Insurance Commissioner as
13 Permanent Receiver of NGIC, and an order of liquidation was issued. The Permanent
14 Receivership and Liquidation Order found NGIC to be insolvent and ordered NGIC liquidated
15 pursuant to Chapter 696B of NRS.

16 RECEIVERSHIP ADMINISTRATION

17 A. Notices of Liquidation and Motion to Modify the Claims Process

18 On October 23, 2014, Receiver filed a Motion to Modify the Claims Process Per
19 Recommendation of Receiver Pursuant to NRS 696B.330(4). The Receivership Manager
20 prepared and mailed notices of liquidation and the motion to modify the claims process to
21 all interested parties. The notice contained contact information for questions and where to
22 find copies of the liquidation order and motion to modify the claims process. The Receivership
23 Manager also published the notice of liquidation and the motion to modify the claims process
24 in two Nevada newspapers. Additionally, the Regulatory Services Group website was
25 updated with the notices. Essentially, the Receivership Manager is asking the Court to allow
26 the Receiver to forego the proof of claims process below the cost of administration level due
27 to a lack of funds in the estate. The hearing on the motion to modify the claims process is
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1 scheduled for January 26, 2015. As no opposition has been filed, a Supplement to the Motion
2 to Modify the Claims Process requesting an order approving the modification will be filed
3 immediately after the filing of this status report.

4 **B. Policyholder Related Claims**

5 NGIC had in excess of 600 claims with stated loss reserves in excess of \$6.5 million
6 at the date of liquidation. The Receivership Manager has worked with the Nevada Insurance
7 Guaranty Association ("NIGA") to transfer electronic UDS records to them in order for NIGA
8 to fulfill their statutory duties and pay these claims on behalf of NGIC. In addition, the
9 Receivership Manager provided NIGA with an external hard drive with images of all closed
10 NGIC claims.

11 **C. Lindsay General Insurance Agency Bankruptcy**

12 NGIC has a \$5 million receivable on its books from Lindsay General Insurance Agency
13 ("Lindsay"), an affiliate. Lindsay filed for bankruptcy protection on February 7, 2013. NGIC
14 has filed a claim for the \$5 million debt but is not likely to recover a material amount from the
15 filing of their claim. Lindsay is trying to re-organize and emerge from bankruptcy as an
16 insurance lead generation company. Their plan of re-organization has not been approved by
17 the Court, and the Receivership Manager continues to monitor the case. The counsel for
18 NGIC has withdrawn due to a conflict. The Receivership Manager will not actively pursue this
19 case due to the cost of litigation. It has filed a claim in the bankruptcy and will await the
20 submission and approval of a plan of re-organization with the Bankruptcy Court.

21 **D. Preference Transactions**

22 The Receivership Manager has reviewed the transactions that occurred within one year
23 of the petition for the appointment of a receiver for NGIC in accordance with NRS 696B.412.
24 The Receivership Manger has made a recommendation to the Nevada Attorney General's
25 Office to pursue a preference claim against the former President of NGIC for expenses paid
26 by the Company for the formation of a new insurance company, "Clarity Insurance Company",
27 being formed by the former President of NGIC. The total amount of the preference payments
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1 that likely will be pursued is \$73,000.

2 **E. Voidable Sale of Mortgage Loans**

3 The Receivership Manager has reviewed the transactions that occurred within four
4 months of the petition (and up to two years for officers and directors) for the appointment
5 of a receiver for NGIC in accordance with NRS 696B.410(1)&(2). The Receivership Manger
6 has made a recommendation to the Nevada Attorney General's Office to pursue a voidable
7 preference claim against the former President of NGIC for selling mortgage loans with
8 a statutory value of \$2,114,837 for \$900,000. The Receivership Manager will seek
9 to either unwind this transaction or file an action seeking damages against the former
10 President of NGIC.

11 **F. Financial Analysis**

12 At September 30, 2014, NGIC had liquid assets of \$479,261 and liabilities in excess of
13 \$6,000,000. The Receiver incurred \$149,000 in operating expenses during the third quarter of
14 2014. Based on the financial condition of NGIC, the Receiver petitioned the Receivership
15 Court on October 23, 2014, to forego the expense of a "proof of claim" process. The hearing
16 on this motion is scheduled for January 26, 2015. Additionally, due to the lack of funds in
17 NGIC, the Receivership Manager will attempt to complete their remaining tasks by the end of
18 the second quarter of 2015 and ask for a closing order at that point.

19 **I. CONCLUSION**

20 In compliance with the Court's instructions for a status report regarding the affairs
21 of the Companies, the Receivership Manager has submitted the aforementioned report
22 and remains available to present further on any matters in this report as the Court may
23 deem necessary.

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AFFIRMATION

Pursuant to NRS 239B.030, the undersigned does hereby affirm that the preceding document, *Third Status Report*, filed in case number CV14-00807, does not contain the social security number of any person.

DATED: January 7, 2015

Respectfully submitted:

Scott J. Kipper, Commissioner of Insurance
of the State of Nevada, in his Official Capacity as
Statutory Receiver of Delinquent Domestic Insurer

By: /s/ Joseph B Holloway, Jr
INS Consultants, Inc.
Regulatory Services Group
Receivership Supervisor

Respectfully submitted by:

ADAM PAUL LAXALT
Attorney General

By: /s/ Richard Paili Yien
RICHARD PAILI YIEN
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CERTIFICATE OF SERVICE

I hereby certify that I am an employee of the State of Nevada, Office of the Attorney General, and that on this 7th day of January 2015, I filed a copy of the foregoing **THIRD STATUS REPORT** via Second Judicial District Court's eflex filing system, and, by mailing, at Carson City, Nevada, a true and correct copy in first class mail, postage prepaid, fully addressed to:

David E. Wilson
CEO, SDIC
Conservation and Liquidation Office
100 Pine Street, 26th Floor
San Francisco, CA 94111

Bruce W. Gilbert
Executive Director
Nevada Insurance Guaranty Association
3821 W. Charleston Blvd., Suite 100
Las Vegas, NV 89102-1859

and via interoffice mail to:

Scott Kipper, Commissioner of Insurance
Attn: Terri Verbrugghen
1818 E. College Parkway, Ste. 103
Carson, City, NV 89706

 /s/ Anne Goldy
An Employee of the
Office of the Attorney General