



TEXAS DEPARTMENT OF LICENSING & REGULATION

P.O. Box 12157 • Austin, Texas 78711 • www.tdlr.texas.gov
SERVICE CONTRACT PROVIDERS FUNDED RESERVE AND SECURITY DEPOSIT
FINANCIAL SECURITY CALCULATION FORM

Name of Service Contract Provider as registered in Texas (“Provider”)

TDLR Registration number

Your company elected to meet its financial security requirements for its service contracts issued in the State of Texas by providing a funded reserve account and a security deposit. Verify the funded reserve account and security deposit meet the minimum requirements under Texas Occupations Code §1304.151 and §1304.152 (statute) and 16 Texas Administrative Code §77.42 (rules).

Provide detailed information on all items below:

1. **Reporting period** is from: _____ to _____ a 12 month period.

(No later than the end of the previous calendar quarter.)

2. **Computation for Provider’s Funded Reserve Account**

a. Total number of contract months remaining on contracts in force in Texas on the last day of the reporting period. (Contracts expiring on or before the 15th of the month should be counted as 0. Contracts expiring after the 15th day of the month should be counted as 1 month for the final contract month.)

Answer: # _____

b. Determine the prorated monthly contract charge. (The aggregate actual contract costs to the consumer are divided by the aggregate number of months in the contact terms of “in force” contracts.)

Answer: \$ _____

c. Determine the Gross Consideration (Multiply a times b) or otherwise defined as “Unearned Premium” Or “Deferred Services Liabilities” Or “Deferred Service Contract Revenue” in the liability section of the Balance Sheet

Answer: \$ _____

d. Multiply the answer in c by 40%*

Answer: \$ _____

*If you are a residential service contract provider financially qualifying using a reimbursement insurance policy from a captive insurer under Occ. Code § 1304.157, use 25% in place of 40% and check here

e. All claims paid (no reserves, Incurred But Not Reported [IBNR], or adjusting expenses) for last day of reporting period

Answer: \$ _____

f. Subtract the claims paid in e from the amount in d.

$(40\% \times c) - e =$

Answer: \$ _____

3. **Attach a copy of the Provider’s Funded Reserve Account** showing a minimum amount calculated in 2.f. The funded reserve account must (1) be kept separate from the provider’s operating accounts; and (2) not be used for any purpose other than to cover the provider’s obligations under its service contracts that are issued and outstanding in Texas.

a. The account will be named “(Provider’s name) Texas Service Contracts Funded Reserve Account.”

b. Funded Reserve Accounts will consist of liquid assets only.*

4. **Computation for Provider’s Financial Security Deposit:** The Company is required to provide a security deposit in addition to the funded reserve account. The company is required to place in trust with the TDLR’s executive director a financial security deposit.

a. If you are a new SCP registered on or after 9/1/2011, you must maintain a minimum of \$250,000 financial security deposit.

b. If you are renewing an existing SCP registration that was in effect on 8/31/2011 or addressing the “Transition,” in §1304.1521, the Financial Security Deposit for service contracts issued before 9/1/2012 must be the greater of:

i. \$25,000, or

ii. 5% of 2.e. which is:

\$ _____

iii. The greater of 4 b i or 4 b ii is:

\$ _____

- c. If you are renewing an existing SCP registration for contracts sold on or after 9/1/2012, you must maintain a minimum of \$250,000.

5. **Provide TDLR with a copy of the current Financial Security Deposit** in the amount of 4.b.

- a. The financial security deposit options are outlined in §1304.151 and §1304.1521 of the statute and §77.42(c) of the rules for new and existing SCPs.
- b. If letters of credits (LOC) are used, TDLR provides the wording at SCP forms website, <http://www.license.state.tx.us/scp/scpforms.htm>
- c. Surety bonds
 - i. May **NOT** be used as a security deposit for SCPs applying to operate in Texas on or after 9/1/2011.
 - ii. May be used only by existing SCPs in “Transition” and for their contracts written prior 9/1/2012.
 - iii. If surety bonds are used, TDLR provides the prescribed wording at SCP forms website, <http://www.license.state.tx.us/scp/scpforms.htm>
- d. If Securities, CDs, Cash Equivalents are used, the funds will be:
 - i. In a separate account from the Funded Reserve Account; AND
 - ii. Designated “**(Provider’s name) For the Benefit of Texas Department of Licensing and Regulation.**” This designation means: the account has been assigned to the Executive Director and may not be reassigned without written authorization from the Executive Director; the account is payable in whole or in part to the Executive Director upon request; and the purpose of the account is to ensure the service contract provider’s compliance with the Texas Service Contract Regulatory Act and rules.
 - iii. Cash may be deposited with TDLR’s executive director
 - iv. Financial Security Deposit Accounts will consist of liquid assets only.*

6. **Information on contracts in force in Texas**

- a. Total Gross Sales or Gross Premium Income in Texas in reporting period
\$ _____
- b. Total number of contracts sold in reporting period in Texas as of the last day of the reporting

7. _____ is an officer/controlling person of the Service Contract Provider
(Name of person providing the above information)

and certifies all the information reflected in or attached is true and correct.

Signature: _____ Title: _____ Date: _____

* Funded reserves and Financial Security Deposits may be maintained in the following liquid assets only:
(1) in cash or savings deposits, time deposits, certificates of deposit, NOW accounts or money market accounts in solvent banks, savings and loan associations and credit unions and branches thereof, organized under the laws of the United States of America or its states; or
(2) in investment grade notes, bonds, bills or other evidences of indebtedness or obligations of the United States of America or of a state or unit of local government or in a money market mutual fund which invests in the securities listed in this paragraph. The term "investment grade" shall mean a security rated BBB and above by a nationally recognized securities rating organization such as Standard & Poor's.

For more information regarding administration of Service Contract Providers (SCP) by TDLR go to our SCP Program website, <http://www.tdlr.texas.gov/scp/scp.htm>.