Rating Action: Financial Guaranty Insurance Company

MOODY'S COMMENTS ON THE SALE OF FGIC FOLLOWING ANNOUNCEMENT OF ACQUISITION BY BUYER GROUP

New York, August 04, 2003 -- Moody's Investors Service said today that it does not anticipate any adverse changes in the rating or rating outlook of Financial Guaranty Insurance Company (FGIC) based on the rating agency's understanding of the terms and conditions pertaining to the planned acquisition of FGIC by an investor group consisting of The PMI Group, Inc., The Blackstone Group, The Cypress Group and CIVC Partners L.P. Moody's statement followed the announcement made earlier today that the investor group has signed a definitive agreement to acquire FGIC from General Electric Capital Corporation (GE). A formal affirmation of FGIC's Aaa insurance financial strength rating will be subject to Moody's review of the finalized terms, conditions and documentation pertaining to the transaction.

According to Moody's, FGIC is expected to undergo a strategic redirection that will expand the company's underwriting capability and boost its returns while still retaining a strong foothold in sectors in which it already has an established franchise. In recent years, FGIC has focused primarily on insuring certain sectors of the U.S. municipal bond market as well as mortgage-backed securities. While this strategy has produced an insured portfolio with the lowest risk of any financial guarantor, it has also resulted in returns that have lagged the industry.

Moody's said that, following closure of the acquisition, FGIC is expected to expand its underwriting into structured and international sectors in a manner consistent with the strategies being executed by other Aaa-rated financial guaranty companies. On average, these sectors contain higher levels of risk as compared to the traditional U.S. municipal bond market, although they also generate higher premium rates which should improve the firm's returns and bolster its capital position over time. At the same time, this expansion strategy should provide FGIC with strong and diverse sources of revenue growth in areas that leverage its core analytical competencies, although the company will have to build its underwriting capabilities in areas where it does not currently have in-house expertise, which will require a significant investment by the firm.

According to Moody's, each member of the investor group has sound economic reasons for participating in the transaction. As the lead strategic investor, PMI stands to gain substantial diversification benefits as it faces industry-wide challenges within its core mortgage insurance franchise. Blackstone, Cypress and CIVC, which are private equity investors, view FGIC as an ideal opportunity to realize solid, risk adjusted returns. Moody's believes, however, that these private equity firms have medium-term investment horizons, which diverges from PMI Group's long-term holding horizon. Furthermore, PMI Group is not acquiring a controlling interest in FGIC, which creates some uncertainty regarding the future ownership structure of the guarantor.

According to Moody's, the draft stockholders agreement among the investing firms mitigates much of the risk associated with these factors by balancing power among the buyer group and expressing terms and conditions that commit each shareholder to set and maintain a strategic direction for FGIC that is consistent with the maintenance of the firm's triple-A ratings. Also included in the draft agreement are certain prohibited actions, dividend restrictions and exit rights which are designed to preserve the firm's financial strength over time.

FGIC is a New York based financial guaranty insurance company with $202 billion in insured par outstanding and an insurance financial strength rating of Aaa. According to the agreement signed today, PMI will acquire a 42% stake in FGIC, while Blackstone and Cypress will each obtain a 23% stake in the company, and CIVC will obtain a 7% stake. GE will retain a 5% stake and hold $235 million in payment-in-kind participating preferred stock. Additional financing will include $225 million in senior debt, leading to financial leverage of about 15%. The transaction, which is expected to close in the fourth quarter of this year, is valued at about $2.16 billion, including GE's equity stake and its pre-closing dividend of approximately $260 million.

New York
Jack Dorer
Senior Vice President
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Matthew Noll
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653