Rating Action: Financial Guaranty Insurance Company

MOODY'S AFFIRMS Aaa INSURANCE FINANCIAL STRENGTH RATING OF FGIC

New York, December 18, 2003 -- Moody's Investors Service said today that it has affirmed the Aaa insurance financial strength rating of Financial Guaranty Insurance Corporation (FGIC) and has assigned a provisional senior debt rating of (P)Aa2 to the company's anticipated issuance of senior notes based on the offering's indicative terms and conditions. Moody's rating action follows the closing of FGIC's acquisition by a buyer group consisting of The PMI Group, Inc., The Blackstone Group, The Cypress Group, and CIVC Partners L.P. The seller, General Electric Capital Corporation, will retain a small equity interest in the company.

With the completion of this transaction, FGIC is set to expand its underwriting capabilities beyond the U.S. municipal and mortgage-backed markets into structured and international sectors in order to boost its equity returns. Moody's said that by penetrating into the structured and international markets, FGIC will assume somewhat higher levels of risk than it has historically, although these sectors are also likely to generate higher premium rates that should bolster the firm's returns and capital position over time. At the same time, this strategy should provide FGIC with more diversified sources of revenue growth in areas that leverage its core analytical competencies. FGIC's strategic plan is consistent with those employed by other major Aaa-rated financial guarantors.

FGIC will retain its strong foothold in US municipal underwriting, which currently is providing favorable underwriting opportunities for the financial guaranty industry, but is still viewed in the long term as a fully penetrated, slower growth and lower return market.

Moody's stated that FGIC will face some transition risk as it executes its upcoming investment in broader underwriting expertise and expanded risk management and surveillance capabilities. Furthermore, the rating agency observed that the return expectations and investment horizons of all members of the buyer group are not perfectly aligned. Specifically, the private equity firms investing in FGIC have medium-term investment horizons as compared to PMI's stated intention to maintain its investment in FGIC over the long-term. According to Moody's, this creates some uncertainty around the future ownership structure of the guarantor.

Despite this risk, it is clear that each member of the investor group has sound economic reasons for participating in the transaction and has demonstrated willingness to remain patient with the investment and ultimately, preserve the company's Aaa rating. As the lead strategic investor, PMI stands to gain substantial diversification benefits as it faces a mature market for its core mortgage insurance franchise. The private equity firms view their investment as an opportunity to obtain a strong, risk-adjusted return. The stockholders agreement further ensures that much of the diverging ownership risk is mitigated by balancing power among the owners and expressing terms and conditions that commit each shareholder to set and maintain a corporate strategy that is consistent with the firm's triple-A ratings. Also included in the agreement are certain prohibited actions, dividend restrictions and exit rights that are designed to preserve the firm's financial strength over time.

FGIC is a New York based financial guaranty insurance company with $204 billion in insured par outstanding. PMI Group has acquired a 42.2% stake in FGIC, private equity investors Blackstone and Cypress have each obtained a 23.1% stake, and CIVC has obtained a 7.0% stake. General Electric Capital Corporation will retain approximately a 4.5% stake in the company as well as hold $235 million in payment-in-kind participating preferred stock. Additional financing includes $250 million in senior debt, which results in financial leverage of about 15.6%. The transaction was valued at approximately $2.18 billion.

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