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A Sleeping Giant Awakens

Post-GE, FGIC Seeks Aggressive Approach

By Helen Chang

With new management and strategy in place, **Financial Guaranty Insurance** Co. continues to move away from the conservative approach to underwriting it took when it was owned by **General Electric** Co.

This quarter, as the bond insurer completes its reorganization and additional hiring, it will take a more aggressive, return-driven approach to underwriting, beginning with forays into the housing and health care sectors and structured finance, company officials said.

New underwriting teams, split into the Eastern and Western regions of the U.S., and tax-backed and global utilities groups, will be "realigned" on a sector basis. "It's a way of delegating authority down by demographic and bond type," **Jeff Fried**, FGIC's director of public finance, said in an interview yesterday.

FGIC's 105-person staff will grow by six to 10 people, who come from a variety of companies, including investment banks, Fried said. The strategy is to create a "heterogeneous" culture and approach to underwriting, he added.

Fried himself arrived at FGIC in December from **Ambac Financial Group** Inc. A former managing director, Fried left to join FGIC with three other Ambac officials, including former vice chairman **Howard Pfeffer** and former managing directors **Tom Adams** and **Tim Travers**. The four joined former Ambac vice-chairman **Frank Bivona**, who became CEO of FGIC in August.

For years, underwriters at FGIC clung to the GE model of conservative underwriting, and the firm billed itself as having "the safest book on the street." FGIC's new emphasis is on sectors the company shied away from under GE, such as health care, structured markets, and international markets.

Its expansion into these areas will likely increase its underwriting volume and earnings, Fried said. For all of 2003, the company insured $76.8 million in health care deals, according to Thomson Financial.

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FGIC's past pursuit of low-risk transactions — including tax-supported bonds, water and sewer utilities in the municipal bond sectors, and the mortgage-backed sector in structured transactions — meant below-industry-average returns, according to **Moody's Investors Service**. Those returns ultimately prompted GE to sell the company, Moody's said.

FGIC expects by the end of this quarter to be active in the health care, military and student housing, and student loan sectors. From its U.K. office, FGIC will also develop its international business in public-private partnership transactions.

Other sectors FGIC plans to enter are muni electric utilities, investor-owned utilities, California leases, federal leases, and project finance or public-private partnerships. Business in 501(c)3 and private higher education sectors will be retained, according to the company.

FGIC estimates that by 2007 municipal will make up 65% of its portfolio, a significant decline from 91% in 2002. Also by 2007, structured finance will represent 32%, and corporate and international non-structured transactions will total 3%.

The company, which on Feb. 13 posted its 2003 earnings, described last year — during which the $2.2 billion sale of FGIC by GE to a group of investors led by **PMI Group** Inc. was finalized — as "momentous." Profitability has increased over the last year, with public finance premiums written increasing as par insured has declined. Premiums written in public finance increased 13% last year to $224.3 million from $198.3 million in 2002. And structured finance premiums written rose 5% to $36.0 million in 2003 from $34.3 million in 2002, according to its earnings release.

Net income dipped 16% last year to $182.7 million from $217.0 million in 2002, due to smaller gains on its investment portfolio and expenses relating to its sale from GE to the group of investors led by PMI. Barring these non-operating items, net income rose by 4%,

FGIC faces some competition in the sectors in which it plans to increase activities, said **Seth Glasser**, a **Barclays** PLC corporate bond insurance analyst. But, he added, there is a lot of business out there that has not yet been absorbed by the three other major monolines. ❑

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