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FGIC Announces First Quarter 2010 Statutory-Basis Results Statutory Deficit Increases to \$1.64 Billion

May 14, 2010 – New York, NY – Financial Guaranty Insurance Company (“FGIC”) today announced a net loss of \$324.1 million for the quarter ended March 31, 2010. The net loss resulted primarily from loss and loss adjustment expenses of \$361.0 million (net of reinsurance) for the quarter. The loss and loss adjustment expense related principally to FGIC’s exposure to first and second-lien residential mortgage-backed securities (“RMBS”). The RMBS was insured by FGIC primarily in 2005, 2006 and 2007, and the RMBS performance continued to deteriorate during the first quarter. As of March 31, 2010, FGIC’s statutory deficit was \$1.640 billion and its capital impairment was \$1.707 billion, in each case reflecting an increase of \$358.6 million during the quarter.

As previously announced, due to FGIC’s statutory deficit and capital impairment, FGIC is subject to an order issued by the New York State Insurance Department (the “NYID”) pursuant to Section 1310 of the New York Insurance Law, requiring FGIC to suspend paying any and all claims effective November 24, 2009, and to take such steps as may be necessary to remove the impairment of its capital and to return to compliance with its minimum surplus to policyholders’ requirement by not later than June 15, 2010. FGIC is continuing its efforts to effectuate the Surplus Restoration Plan that it submitted to the NYID on March 25, 2010, including its participation in the offer to exchange certain RMBS and asset-backed securities insured by FGIC for cash and uninsured securities by Sharps SP I LLC, which is described in a separate press release issued today by Sharps SP I LLC. No assurance can be given that the transactions comprising FGIC’s Surplus Restoration Plan, including the offer to exchange referenced above, will be consummated on the terms contemplated or at all.

Financial Statements

Copies of FGIC’s statutory financial statements and its Annual and Quarterly Statements filed with the NYID can be found on FGIC's website at www.fgic.com.

Financial Guaranty Insurance Company
Statutory-Basis Balance Sheets
(Dollars in Thousands, except per share amounts)

	March 31, 2010	December 31, 2009
	(Unaudited)	
Admitted assets		
Fixed maturity securities, available for sale at amortized cost (fair value of \$1,381,724 in 2010 and \$1,309,393 in 2009)	\$ 1,302,039	\$ 1,235,501
Fixed maturity securities, available for sale at fair value (amortized cost of \$1,779 in 2010 and \$87,640 in 2009)	1,779	87,640
Preferred stock (fair value of \$8,322 in 2010 and \$6,853 in 2009)	3,713	3,713
Common stock	–	4,728
Other invested assets	24,406	25,672
Short-term investments, at cost, which approximates fair value	120,332	170,651
Cash and cash equivalents	324,797	195,525
Total cash and invested assets	1,777,066	1,723,430
Accrued investment income	17,725	17,575
Other assets	8,406	8,578
Receivable from parent and subsidiaries	3,734	2,757
Federal and foreign income tax receivable	–	26,997
Total admitted assets	\$ 1,806,931	\$ 1,779,337
Liabilities and capital and surplus		
Liabilities:		
Losses	\$ 2,952,601	\$ 2,597,687
Loss adjustment expenses	15,687	11,060
Unearned premiums	241,521	246,205
Provision for reinsurance	7,514	5,385
Contingency reserves	205,863	168,284
Accounts payable and accrued expenses	20,596	29,728
Federal and foreign income tax payable	1,023	114
Ceded balances payable	2,530	2,294
Total liabilities	3,447,335	3,060,757
Capital and surplus (deficit):		
Common stock, par value \$1,500 per share; 10,000 shares authorized, issued, and outstanding	15,000	15,000
Redeemable preferred stock, par value \$1,000 per share; 3,000 shares authorized, issued and outstanding	300,000	300,000
Paid-in surplus	439,770	439,551
Unassigned deficit	(2,395,174)	(2,035,971)
Total capital and deficit	(1,640,404)	(1,281,420)
Total liabilities and capital and deficit	\$ 1,806,931	\$ 1,779,337

Financial Guaranty Insurance Company
Statutory-Basis Statements of Operations
(Unaudited) (Dollars in Thousands)

	Three Months Ended March 31	
	2010	2009
Premiums earned	\$ 27,496	\$ 34,365
Losses incurred	(357,668)	(303,782)
Loss adjustment expenses incurred	(3,323)	(4,221)
Other underwriting expenses incurred	(17,229)	(19,485)
Ceding commission income	668	708
Underwriting loss	<u>(350,056)</u>	<u>(292,415)</u>
Net investment income	16,076	20,834
Net realized capital gains (losses), net of tax of \$0 and \$2,149, for the three months ended March 31, 2010 and 2009, respectively	5,383	(3,992)
Net investment gain	<u>21,459</u>	<u>16,842</u>
Other income (expense)	4,588	(2,826)
Loss after capital gains (losses) and before all other federal and foreign income taxes	<u>(324,009)</u>	<u>(278,399)</u>
Federal and foreign income tax expense	77	2,232
Net loss	<u>\$ (324,086)</u>	<u>\$ (280,631)</u>

About FGIC

FGIC is a wholly owned subsidiary of FGIC Corporation, an insurance holding company. Please visit www.fgic.com.

Forward-Looking Statements

This press release contains “forward-looking statements” - that is, statements related to possible future events. Forward-looking statements often address expectations and beliefs as to future performance, results and business plans. You should not place undue reliance on forward-looking statements, because they speak only as of the date they are made and are necessarily subject to risks and uncertainties that could cause actual results and performance to differ materially from those expressed or implied by FGIC’s forward-looking statements. Among the factors that could cause FGIC’s actual results or performance to differ are, without limitation: (1) FGIC’s ability to consummate the transactions contemplated by the commitment and support agreement with certain counterparties to FGIC-insured credit default swaps (“CDS”), to close the offer to exchange and to successfully achieve the goals of the final surplus

restoration plan presented to the NYID, in each case, within the time frame and on the terms required by the NYID or otherwise; (2) FGIC's current negative policyholders' surplus and FGIC's ability to restore and maintain the statutory required minimum policyholders' surplus even if it closes the offer to exchange and other contemplated restructuring transactions; (3) the extent to which FGIC is able to pursue and achieve other strategic alternatives, either with or without the participation of potential investors and other third parties; (4) the results of other loss mitigation efforts; (5) a decision by the NYID or FGIC's other regulators to take further regulatory action such as rehabilitation or liquidation of FGIC by the NYID at any time due to FGIC's current failure to maintain the statutory required minimum policyholders' surplus or otherwise; (6) legislative and regulatory developments within the United States and abroad, including the effect of new pronouncements by accounting authorities; (7) fluctuations in the economic, credit, interest rate or other environments in the United States or abroad; (8) potential consequences of FGIC's continued suspension of claims payments or FGIC's inability to recommence claims payments such as the risk of defaults under FGIC-insured CDS, FGIC Corporation's and FGIC's revolving credit agreement and FGIC Corporation's senior notes indenture, non-payment of premiums and other amounts owed to FGIC and possible limitations on FGIC's rights under other agreements; (9) higher losses on FGIC-insured obligations due to deterioration in the performance of residential mortgage loans or otherwise; (10) possible defaults and/or additional ratings downgrades or other adverse actions with respect to mortgage-backed securities or other obligations insured by FGIC; (11) the commencement of new litigation or the outcome of current and new litigation; (12) further deterioration in general economic conditions, including as a result of the financial crisis as well as inflation, interest rates, foreign currency exchange rates and other factors and the effects of disruption or economic contraction due to catastrophic events or terrorist acts; and (13) other risks and uncertainties that have not been identified by FGIC at this time. Forward-looking statements are based upon FGIC's current expectations and beliefs concerning future events. FGIC undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.