

Financial Guaranty Insurance Company

Quarterly Operating Review

Third Quarter 2018





FGIC
Quarterly Operating Review
Third Quarter 2018

Company Profile

Financial Guaranty Insurance Company (the “Company” or “FGIC”), a wholly owned subsidiary of FGIC Corporation (“FGIC Corp.”), is a New York stock insurance corporation regulated by the New York State Department of Financial Services (the “NYSDFS”). The Company previously issued financial guaranty insurance policies insuring public finance, structured finance and other obligations, but it is no longer engaged in the business of writing new insurance policies. The Company is currently responsible for administering its outstanding policies in accordance with the Rehabilitation Plan (defined below), any NYSDFS Guidelines and applicable law.

On June 28, 2012, the Supreme Court of the State of New York (the “Rehabilitation Court”) issued an order pursuant to Article 74 of the Insurance Law (“Article 74”) placing FGIC in rehabilitation. On June 11, 2013, the Rehabilitation Court approved the First Amended Plan of Rehabilitation for FGIC, dated June 4, 2013, together with all exhibits and the plan supplement thereto (collectively, the “Rehabilitation Plan”). The Rehabilitation Plan became effective on August 19, 2013 (the “Effective Date”), whereupon FGIC’s rehabilitation proceeding terminated. Additional information about the Rehabilitation Plan is available at:

www.fgic.com/policyholderinfocenter

This Operating Review should be read in conjunction with the Statutory-Basis Financial Statements of FGIC and the Statutory Statements of FGIC filed with the NYSDFS. These can be accessed at

www.fgic.com/investorrelations/financialreports

Company Contact Information

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SELECTED STATUTORY FINANCIAL INFORMATION

(Dollars in Millions)

	September 30		Year Ended December 31		
	2018	2017	2017	2016	2015
SAP Statements of Operations:					
Premiums written, net of reinsurance	\$ 4.2	\$ 5.7	\$ 6.7	\$ 9.1	\$ 18.6
Net premiums earned	3.9	11.9	13.6	19.7	73.6
Loss reserve expense	(63.6)	(54.6)	(93.0)	(139.3)	(111.3)
Loss adjustment reserve expense	(2.1)	(8.4)	(16.4)	(19.5)	(7.5)
Operating expenses	(18.5)	(19.3)	(28.4)	(30.7)	(27.8)
Ceding commission income	0.1	0.1	0.1	0.1	0.1
Underwriting loss	(80.2)	(70.3)	(124.1)	(169.7)	(72.9)
Net investment income	60.6	66.1	87.9	89.0	78.4
Net realized capital gains (losses)	21.8	21.0	40.3	23.7	(2.7)
Other income	8.3	2.5	4.7	55.2	18.0
Income (loss) before federal and foreign income taxes	10.5	19.3	8.8	(1.8)	20.8
Federal and foreign income tax expense (benefit)	(9.8)	-	0.0	(4.5)	7.6
Net income	\$ 20.3	\$ 19.3	\$ 8.8	\$ 2.7	\$ 13.2
SAP Balance Sheets:					
Total cash and investments	\$ 2,351.6	\$ 2,454.0	\$ 2,316.4	\$ 2,459.4	\$ 2,329.8
Accrued investment income	19.3	22.9	21.4	22.4	21.0
Other assets	-	1.1	1.1	1.3	1.4
Reinsurance receivable	-	0.5	0.1	-	-
Receivable from parent and subsidiaries	0.4	0.6	1.1	0.5	0.6
Federal and foreign income tax receivable	4.1	1.6	0.1	2.1	1.8
Total assets	\$ 2,375.4	\$ 2,480.7	\$ 2,340.2	\$ 2,485.7	\$ 2,354.6
Claims Reserve ⁽¹⁾	\$ 1,415.0	\$ 1,652.4	\$ 1,518.2	\$ 1,311.6	\$ 1,362.4
DPO ⁽²⁾	1,458.8	1,740.0	1,484.7	1,678.3	1,700.5
DPO Accretion ⁽²⁾	194.6	167.4	172.0	128.8	80.4
Policy Revision Adjustment (PRA)	(1,330.0)	(1,580.7)	(1,331.1)	(1,169.0)	(1,247.4)
Loss Reserves ⁽¹⁾	\$ 1,738.4	\$ 1,979.1	\$ 1,843.8	\$ 1,949.7	\$ 1,895.9
Loss adjustment expenses	20.0	23.5	26.8	24.1	13.6
Unearned premiums	41.2	41.7	41.0	47.9	58.5
Contingency reserves	359.9	346.3	334.5	318.3	307.4
Other liabilities	149.5	23.7	27.7	79.3	12.6
Federal and foreign income tax payable	-	0.0	0.0	0.0	0.2
Total liabilities	2,309.0	2,414.3	2,273.7	2,419.3	2,288.2
Common stock	15.0	15.0	15.0	15.0	15.0
Redeemable preferred stock	300.0	300.0	300.0	300.0	300.0
Unassigned deficit	(248.6)	(248.6)	(248.6)	(248.6)	(248.6)
Total capital and surplus	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4
SAP Statements of Changes in Capital and Surplus:					
Balance at January 1	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4
Net income	20.3	19.3	8.8	2.7	13.2
Change in net unrealized gains	3.9	5.8	(5.5)	7.2	8.8
Change in net deferred income tax	(3.4)	-	24.5	-	-
Change in non-admitted assets	4.6	(0.1)	(11.6)	0.7	0.3
Change in contingency reserves	(25.4)	(28.0)	(16.2)	(10.8)	(19.4)
Other changes in capital and surplus	-	3.1	-	0.2	(2.9)
Balance at end of period	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4
Summary of Other Statutory Data:					
Net par in force	5,829.2	6,998.1	6,663.4	9,198.7	11,716.9
Net debt service in force	8,565.2	10,382.1	9,671.9	13,719.0	18,020.3

⁽¹⁾ See Notes on Page 4.

⁽²⁾ Capitalized terms which are defined in the Rehabilitation Plan and are used but not otherwise defined in this report have the meanings ascribed to them in the Rehabilitation Plan. Certain prior year amounts have been reclassified to conform to the 2018 presentation.



PROJECTED FUTURE INSTALLMENT PREMIUM

(Dollars in Millions)

**Future Installment
Premium Projected as
of September 30, 2018**

Three months ended:

December 31, 2018 1.1

Twelve months ended:

December 31, 2019 4.5

December 31, 2020 4.4

December 31, 2021 3.9

December 31, 2022 3.6

Five years ended:

December 31, 2027 13.4

December 31, 2032 8.6

December 31, 2037 6.0

December 31, 2042 2.7

December 31, 2047 0.7



INVESTMENT PORTFOLIO
(Dollars in Millions)

	September 30, 2018	December 31, 2017
Investments At Fair Value		
Long-term		
Municipal obligations	\$ 269.2	\$ 458.8
U.S. government obligations	195.4	287.4
Asset backed securities	382.4	322.3
Corporate ⁽¹⁾	942.5	896.8
High yield corporate	134.9	145.0
Total long-term	1,924.4	2,110.3
Cash equivalents	80.7	90.4
Common stock	140.1	149.8
Total	<u>\$ 2,145.2</u>	<u>\$ 2,350.5</u>

⁽¹⁾ Corporate includes a Surplus Note of \$8.867 reported separately on the Balance Sheet

Rating ⁽³⁾	September 30, 2018	December 31, 2017
AAA	15.1%	14.0%
AA	26.9%	34.5%
A	25.2%	23.1%
BBB	26.4%	21.5%
BIG	6.4%	6.9%
	<u>100.0%</u>	<u>100.0%</u>

⁽³⁾ Ratings represent lower of Moody's, S&P and Fitch



LOSS RESERVES AND POLICY CLAIM INFORMATION
(Dollars in Millions)

Loss Reserve Detail ⁽¹⁾	September 30, 2018	December 31, 2017
Claims Reserve	\$ 1,415.0	\$ 1,518.2
DPO	1,458.8	1,484.7
DPO Accretion	194.6	172.0
Total	<u>3,068.4</u>	<u>3,174.9</u>
Policy Revision Adjustment	<u>(1,330.0)</u>	<u>(1,331.1)</u>
Loss reserve at end of period	<u>\$ 1,738.4</u>	<u>\$ 1,843.8</u>

(1) In accordance with NYSDFS Guidelines, FGIC records loss reserves for any reporting period ending on or after the Effective Date in an amount equal to the excess at the applicable reporting date of (i) the amount of FGIC's admitted assets minus FGIC's Minimum Surplus Amount (currently \$66.4 million) over (ii) the sum of FGIC's statutory reserves excluding loss reserves (e.g., unearned premiums, contingency reserves, loss adjustment expense reserves) and other liabilities. The loss reserve amount comprises the total amount of (i) the Claims Reserve, (ii) the DPO for all policies and (iii) the DPO Accretion for all policies, minus the Policy Revision Adjustment.

See the Statutory-Basis Financial Statements of FGIC for additional information regarding the matters referred to in this table.

Policy Claim Detail ⁽²⁾	September 30, 2018
Submitted Claims under Rehabilitation Plan	\$ 3,589.4
Permitted Claims under Rehabilitation Plan	\$ 2,847.6
Claims Submitted; Review Pending	\$ 5.1

(2) These amounts represent Policy Claims which were submitted to and Permitted by FGIC in accordance with the Rehabilitation Plan, regardless of the actual amount of the applicable Policy Claim submitted to FGIC, from the Effective Date of the Rehabilitation Plan through September 30, 2018.

Refer to the Rehabilitation Plan for additional information.



INSURED EXPOSURE BY BOND TYPE AND GEOGRAPHY

(Dollars in Millions)

	Gross Par in Force ⁽¹⁾	Net Par in Force ⁽¹⁾	% of Total Net Par in Force
U.S. Public Finance			
Tax Backed ⁽²⁾	866.5	838.6	14%
Project Finance	655.1	506.1	9%
General Obligation	320.4	313.3	5%
Water and Sewer ⁽²⁾	180.0	180.0	3%
Investor-Owned Utilities	10.5	10.5	0%
Housing	33.2	33.2	1%
Higher Education	12.1	12.1	0%
Total Public Finance	2,077.8	1,893.8	32%
U.S. Structured Finance			
RMBS	2,545.5	2,534.0	43%
Student Loan	206.8	206.8	4%
RV/Marine	0.6	0.6	0%
Total Structured Finance	2,752.9	2,741.4	47%
International			
Project Finance	1,097.5	1,097.5	19%
Investor-Owned Utilities	86.3	86.3	2%
Toll Road	10.2	10.2	0%
Total International	1,194.0	1,194.0	21%
Total	6,024.7	5,829.2	100%

1) With respect to any FGIC-insured exposure, (i) gross par in force is based on the outstanding principal amount of such exposure, as of the date of determination, but, if such exposure has been the subject of any permitted policy claim paid by FGIC at the CPP in accordance with the Rehabilitation Plan, the gross par in force is reduced by the total amount of all such permitted policy claims relating to principal (without duplication of any other actual reductions), not merely by the CPP portion thereof paid in cash, since the Rehabilitation Plan prohibits future policy claims for that principal amount or interest thereon, and (ii) net par in force means the gross par in force for such exposure net of any related reinsurance.

2) Certain insured exposures were reclassified from prior reporting periods.



RMBS INSURED EXPOSURE BY ASSET CLASS AND YEAR OF CLOSURE

Net Par in Force as of 9/30/18

(Dollars in Millions)

	Pre-2004	2004	2005	2006	2007	Total
Alt-A (1st lien)						
Number of Transactions.	-	4	6	5	-	15
Net Par in Force (in \$).	-	156.8	151.7	129.7	-	438.2
HELOC						
Number of Transactions.	-	7	6	4	1	18
Net Par in Force (in \$).	-	70.0	137.9	154.8	66.5	429.2
Closed end seconds						
Number of Transactions.	-	-	-	8	-	8
Net Par in Force (in \$).	-	-	-	644.9	-	644.9
Subprime (1st lien)						
Number of Transactions.	21	3	4	1	3	32
Net Par in Force (in \$).	64.3	95.2	202.1	42.6	617.5	1,021.6
Prime (1st lien)						
Number of Transactions.	1	-	-	-	-	1
Net Par in Force (in \$).	0.1	-	-	-	-	0.1
Total						
Number of Transactions.	22	14	16	18	4	74
Net Par in Force	\$ 64.3	\$ 322.0	\$ 491.6	\$ 972.0	\$ 684.0	\$ 2,534.0



TOP INSURED EXPOSURES

(Dollars in Millions)

Top 15 U.S. Public Finance Exposures

September 30, 2018

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
Yankee Ballpark LLC (NYC IDA)	\$ 558.9		\$ 409.9	7.0%
Puerto Rico Highway Transportation	415.5		387.8	6.7%
Puerto Rico Infras Fin Auth, PR, Spec Tax Rev.	335.5		335.5	5.8%
Puerto Rico Commonwealth GO.	206.1		204.0	3.5%
Detroit (City of), MI Water Rev.	178.8		178.8	3.1%
Puerto Rico Conv Ctr Dist Auth, PR Hotel Rev.	97.1		97.1	1.7%
Green Stadco-New York Jets Stadium.	96.2		96.2	1.7%
Detroit (City of) School District, MI GO.	72.1		67.7	1.2%
New Orleans (City of), LA GO.	40.8		40.3	0.7%
Fort Benning Family Hsg LLC 2007.	19.2		19.2	0.3%
Illinois Housing Development Auth, IL Hsg.	12.2		12.2	0.2%
Dayton University, OH Mtg Rev.	12.1		12.1	0.2%
The York Water Company.	10.5		10.5	0.2%
Adelanto Improvement Agency, CA.	8.5		8.5	0.1%
Boca Raton Comm Rdv Agy, FL (PST Tax Incr).	6.6		6.4	0.1%
Total.	\$ 2,070.1		\$ 1,886.2	32.4%

Top 15 U.S. Structured Finance Exposures

September 30, 2018

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
MSAC 2007-NC4.	426.6		426.6	7.3%
Terwin Mortgage Trust 2006-8SL.	302.0		302.0	5.2%
SLM Private Credit Student Loan Trust 2006-B.	206.9		206.9	3.5%
Argent Mortgage Loan Trust 2005-W1.	169.7		169.7	2.9%
CWHEQ 2006-H.	133.9		133.9	2.3%
Terwin Mortgage Trust 2006-2HGS.	127.2		127.2	2.2%
BARN 2007-1, Class N-1.	126.0		126.0	2.2%
Impac CMB Trust Series 2004-10.	78.2		78.2	1.3%
CWHEQ 2007-C.	66.5		66.5	1.1%
BSABS 2007-SD3, Class A.	64.9		64.9	1.1%
New Century HEL Trust 2004-A (FRMS).	58.7		58.7	1.0%
CWHEQ 2006-S5.	55.7		55.7	1.0%
CWHEQ 2006-S3.	54.3		54.3	0.9%
CWHEQ Home Equity Loan Trust, Series 2006-S2.	52.9		52.9	0.9%
MASTR 2006-AB1.	52.2		52.2	0.9%
Total.	\$ 1,975.7		\$ 1,975.7	33.9%

Top 5 International Exposures

September 30, 2018

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
River Run Project (Canada).	330.5		330.5	5.7%
Consort Healthcare (Birmingham) Limited.	328.1		328.1	5.6%
Consort Healthcare (Mid Yorkshire) Funding plc.	216.8		216.8	3.7%
Praeco Pty Ltd (Australian Defence HQ).	168.0		168.0	2.9%
Premier Transmission Ltd.	86.4		86.4	1.5%
Total.	\$ 1,129.8		\$ 1,129.8	19.4%

⁽¹⁾ Represents percentage of total NPIF.



STRUCTURED FINANCE SERVICERS AND REINSURER EXPOSURE

(Dollars in Millions)

Top 10 Structured Finance Servicers

September 30, 2018

	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
Ocwen Loan Servicing.	\$ 1,432.2	\$	1,432.2	24.6%
Countrywide Home Loans.	573.8		562.3	9.6%
Sallie Mae, Inc.	206.9		206.9	3.5%
Wells Fargo Bank, NA.	202.1		202.1	3.5%
Specialized Loan Servicing LLC.	127.7		127.7	2.2%
JPMorgan Chase.	55.4		55.4	1.0%
Select Portfolio Servicing, Inc.	47.1		47.1	0.8%
CitiMortgage, Inc.	39.2		39.2	0.7%
Green Tree Servicing.	26.0		26.0	0.4%
Green Tree Servicing LLC.	20.0		20.0	0.3%
Total	\$ 2,730.6	\$	2,719.1	46.6%

⁽¹⁾ Represents percentage of total NPIF.

Top Reinsurer Exposures

Ceded Par in Force - As of September 30, 2018

Reinsurer	Reinsurer Rating ⁽²⁾	Ceded Par in Force	Public Finance	RMBS
Assured Guaranty Re Ltd	AA \$	188.2 \$	176.7 \$	11.5 \$
Assured Guaranty Corp.	AA \$	7.2	7.2	0.0
Other.		0.1	0.1	-
Total	\$	195.5 \$	184.0 \$	11.5 \$

⁽²⁾ S&P ratings from company website.



NET DEBT SERVICE AMORTIZATION ⁽¹⁾

(Dollars in Millions)

	September 30, 2018	
	Scheduled Net Debt Service Amortization	Ending Net Debt Service Outstanding
2018.....	\$ 206.8	\$ 8,358.4
2019.....	888.8	7,469.6
2020.....	765.2	6,704.4
2021.....	740.9	5,963.5
2022.....	661.4	5,302.1
2018-2022.....	3,263.0	5,302.1
2023-2027.....	1,398.8	3,903.3
2028-2032.....	1,157.5	2,745.7
2033-2037.....	1,737.8	1,007.9
After 2037.....	1,007.9	-
Total.....	\$ 8,565.2	

⁽¹⁾ Depicts expected amortization of the total insured portfolio (principal and interest), assuming no refundings or calls through the contractual maturity date as of September 30, 2018.