



# QUARTERLY STATEMENT

AS OF SEPTEMBER 30, 2011  
OF THE CONDITION AND AFFAIRS OF THE

## FINANCIAL GUARANTY INSURANCE COMPANY

NAIC Group Code 0000 (Current Period), 0000 (Prior Period) NAIC Company Code 12815 Employer's ID Number 13-2710717

Organized under the Laws of New York State of Domicile or Port of Entry New York

Country of Domicile United States

Incorporated/Organized 04/10/1972 Commenced Business 07/01/1972

Statutory Home Office 125 Park Avenue (Street and Number), New York, NY 10017 (City or Town, State and Zip Code)

Main Administrative Office 125 Park Avenue (Street and Number), New York, NY 10017 (City or Town, State and Zip Code) 212-312-3000 (Area Code) (Telephone Number)

Mail Address 125 Park Avenue (Street and Number or P.O. Box), New York, NY 10017 (City or Town, State and Zip Code)

Primary Location of Books and Records 125 Park Avenue (Street and Number), New York, NY 10017 (City or Town, State and Zip Code) 212-312-2716 (Area Code) (Telephone Number)

Internet Web Site Address http://www.fgic.com

Statutory Statement Contact Nick Santoro (Name) 212-312-2716 (Area Code) (Telephone Number) (Extension) 212-312-3084 (Fax Number)

nick.santoro@fgic.com (E-Mail Address)

### OFFICERS

Name	Title	Name	Title
<u>John S. Dubel</u>	<u>Chief Executive Officer</u>	<u>A. Edward Turi III</u>	<u>General Counsel</u>
<u>Nick Santoro</u>	<u>Chief Financial Officer</u>		

### OTHER OFFICERS

### DIRECTORS OR TRUSTEES

<u>John S. Dubel</u>	<u>Robert L. Friedman</u>	<u>Daniel G. Helle</u>	<u>Robert B. Holland</u>
<u>Jeffrey P. Hughes</u>	<u>Thomas C. Wajnert</u>		

State of New York

County of New York

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The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

John S. Dubel  
Chief Executive Officer

A. Edward Turi III  
General Counsel

Nick Santoro  
Chief Financial Officer

- a. Is this an original filing? Yes [X] No [ ]
- b. If no,
1. State the amendment number \_\_\_\_\_
  2. Date filed \_\_\_\_\_
  3. Number of pages attached \_\_\_\_\_

Subscribed and sworn to before me this 21st day of November 2011

Camille A Taylor

**Camille A. Taylor**  
Notary Public, State of New York  
No. 43-OITA4994058  
Qualified in Richmond County  
Certificate Filed in New York County  
Commission Expires March 30, 2014

STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	1,018,808,746		1,018,808,746	541,753,697
2. Stocks:				
2.1 Preferred stocks .....	3,713,344		3,713,344	3,713,344
2.2 Common stocks .....	209,855	209,855	0	0
3. Mortgage loans on real estate:				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate:				
4.1 Properties occupied by the company (less \$ ..... encumbrances) .....			0	0
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....1,548,663 ), cash equivalents (\$ .....203,948 ) and short-term investments (\$ .....993,486,328 ) .....	995,238,939		995,238,939	1,312,221,107
6. Contract loans (including \$ .....premium notes)			0	0
7. Derivatives .....			0	0
8. Other invested assets .....	0		0	0
9. Receivables for securities .....			0	0
10. Securities lending reinvested collateral assets .....			0	0
11. Aggregate write-ins for invested assets .....	24,166,820	0	24,166,820	26,300,545
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	2,042,137,704	209,855	2,041,927,849	1,883,988,693
13. Title plants less \$ ..... charged off (for Title insurers only)			0	0
14. Investment income due and accrued .....	13,180,485		13,180,485	7,351,475
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....			0	0
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....	2,239,622		2,239,622	3,730,613
15.3 Accrued retrospective premiums .....			0	0
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	90,602		90,602	263,132
16.2 Funds held by or deposited with reinsured companies .....			0	0
16.3 Other amounts receivable under reinsurance contracts .....	76,412		76,412	76,412
17. Amounts receivable relating to uninsured plans .....			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon .....			0	0
18.2 Net deferred tax asset .....			0	0
19. Guaranty funds receivable or on deposit .....			0	0
20. Electronic data processing equipment and software .....			0	0
21. Furniture and equipment, including health care delivery assets (\$ .....)	2,768,687	2,768,687	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
23. Receivables from parent, subsidiaries and affiliates .....	573,695		573,695	1,624,815
24. Health care (\$ ..... ) and other amounts receivable .....			0	0
25. Aggregate write-ins for other than invested assets .....	2,256,360	789,597	1,466,763	1,888,094
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	2,063,323,567	3,768,139	2,059,555,428	1,898,923,234
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			0	0
28. Total (Lines 26 and 27)	2,063,323,567	3,768,139	2,059,555,428	1,898,923,234
<b>DETAILS OF WRITE-INS</b>				
1101. Other Invested Assets .....	24,166,820		24,166,820	26,300,545
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	24,166,820	0	24,166,820	26,300,545
2501. Cash Surrender Value of Life Insurance Policies .....	1,424,152		1,424,152	1,479,851
2502. Premium Taxes and State Income Tax Refunds .....	42,611		42,611	0
2503. Other Miscellaneous Receivables .....			0	408,243
2598. Summary of remaining write-ins for Line 25 from overflow page .....	789,597	789,597	0	0
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	2,256,360	789,597	1,466,763	1,888,094

## LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ ..... )	5,071,498,782	3,497,354,983
2. Reinsurance payable on paid losses and loss adjustment expenses		749,404
3. Loss adjustment expenses	45,093,433	44,202,062
4. Commissions payable, contingent commissions and other similar charges		0
5. Other expenses (excluding taxes, licenses and fees)	11,026,143	10,980,288
6. Taxes, licenses and fees (excluding federal and foreign income taxes)		306,059
7.1 Current federal and foreign income taxes (including \$ ..... on realized capital gains (losses))	893,938	933,028
7.2 Net deferred tax liability		0
8. Borrowed money \$ ..... and interest thereon \$ .....		0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ ..... and including warranty reserves of \$ ..... )	176,994,816	230,700,893
10. Advance premium		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	422,443	1,860,156
13. Funds held by company under reinsurance treaties		0
14. Amounts withheld or retained by company for account of others		0
15. Remittances and items not allocated		0
16. Provision for reinsurance		17,772,057
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Derivatives		0
21. Payable for securities	28,839,205	0
22. Payable for securities lending		0
23. Liability for amounts held under uninsured plans		0
24. Capital notes \$ ..... and interest thereon \$ .....		0
25. Aggregate write-ins for liabilities	403,338,548	321,148,197
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	5,738,107,308	4,126,007,127
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	5,738,107,308	4,126,007,127
29. Aggregate write-ins for special surplus funds	0	0
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock	300,000,000	300,000,000
32. Aggregate write-ins for other than special surplus funds	0	0
33. Surplus notes		0
34. Gross paid in and contributed surplus	439,880,671	439,880,671
35. Unassigned funds (surplus)	(4,433,432,551)	(2,981,964,564)
36. Less treasury stock, at cost:		
36.1 ..... shares common (value included in Line 30 \$ ..... )		0
36.2 ..... shares preferred (value included in Line 31 \$ ..... )		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	(3,678,551,880)	(2,227,083,893)
38. Totals (Page 2, Line 28, Col. 3)	2,059,555,428	1,898,923,234
<b>DETAILS OF WRITE-INS</b>		
2501. Contingency Reserves	403,338,548	321,148,197
2502. ....		
2503. ....		
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	403,338,548	321,148,197
2901. ....		
2902. ....		
2903. ....		
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0
3201. ....		
3202. ....		
3203. ....		
3298. Summary of remaining write-ins for Line 32 from overflow page	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)	0	0

## STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ 41,361,399 )	108,144,988	81,245,318	169,955,961
1.2 Assumed (written \$ 5,745,502 )	65,028,087	13,772,243	23,970,135
1.3 Ceded (written \$ (10,963,268) )	61,396,829	43,302,031	96,365,417
1.4 Net (written \$ 58,070,169 )	111,776,246	51,715,530	97,560,679
<b>DEDUCTIONS:</b>			
2. Losses incurred (current accident year \$ .....):			
2.1 Direct	1,501,413,579	442,419,179	910,477,214
2.2 Assumed		0	
2.3 Ceded	19,114,050	(1,676,572)	11,286,520
2.4 Net	1,482,299,529	444,095,751	899,190,694
3. Loss adjustment expenses incurred	19,319,409	5,546,809	43,931,918
4. Other underwriting expenses incurred	38,210,885	31,478,413	65,502,374
5. Aggregate write-ins for underwriting deductions	0	0	0
6. Total underwriting deductions (Lines 2 through 5)	1,539,829,823	481,120,973	1,008,624,986
7. Net income of protected cells	0	0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(1,428,053,577)	(429,405,443)	(911,064,307)
<b>INVESTMENT INCOME</b>			
9. Net investment income earned	26,413,397	29,074,992	45,271,855
10. Net realized capital gains (losses) less capital gains tax of \$	(3,539,828)	51,665,962	52,224,963
11. Net investment gain (loss) (Lines 9 + 10)	22,873,569	80,740,954	97,496,818
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ ..... amount charged off \$ .....)		0	0
13. Finance and service charges not included in premiums		0	0
14. Aggregate write-ins for miscellaneous income	16,167,192	8,469,379	23,163,053
15. Total other income (Lines 12 through 14)	16,167,192	8,469,379	23,163,053
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(1,389,012,816)	(340,195,110)	(790,404,436)
17. Dividends to policyholders		0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(1,389,012,816)	(340,195,110)	(790,404,436)
19. Federal and foreign income taxes incurred	402,148	(49,110)	(166,733)
20. Net income (Line 18 minus Line 19)(to Line 22)	(1,389,414,964)	(340,146,000)	(790,237,703)
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year	(2,227,083,893)	(1,281,420,411)	(1,281,420,411)
22. Net income (from Line 20)	(1,389,414,964)	(340,146,000)	(790,237,703)
23. Net transfers (to) from Protected Cell accounts		0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$	(16,314,019)	1,192,854	5,019,052
25. Change in net unrealized foreign exchange capital gain (loss)	1,862,514	(9,882,184)	(4,390,945)
26. Change in net deferred income tax		0	0
27. Change in nonadmitted assets	16,816,776	14,026,692	8,867,215
28. Change in provision for reinsurance	17,772,057	1,371,421	(12,386,768)
29. Change in surplus notes		0	0
30. Surplus (contributed to) withdrawn from protected cells		0	0
31. Cumulative effect of changes in accounting principles		0	0
32. Capital changes:			
32.1 Paid in		0	0
32.2 Transferred from surplus (Stock Dividend)		0	0
32.3 Transferred to surplus		0	0
33. Surplus adjustments:			
33.1 Paid in		329,410	329,410
33.2 Transferred to capital (Stock Dividend)		0	0
33.3 Transferred from capital		0	0
34. Net remittances from or (to) Home Office		0	0
35. Dividends to stockholders		0	0
36. Change in treasury stock		0	0
37. Aggregate write-ins for gains and losses in surplus	(82,190,351)	(72,339,476)	(152,863,743)
38. Change in surplus as regards policyholders (Lines 22 through 37)	(1,451,467,987)	(405,447,283)	(945,663,482)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	(3,678,551,880)	(1,686,867,694)	(2,227,083,893)
<b>DETAILS OF WRITE-INS</b>			
0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	0
1401. Other Income	11,813,097	155,288	380,804
1402. Salvage and Subrogation Income	4,354,095	8,314,091	22,782,249
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	16,167,192	8,469,379	23,163,053
3701. (Increase) / decrease in contingency reserve	(82,190,351)	(72,339,476)	(152,863,743)
3702. ....			
3703. ....			
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	(82,190,351)	(72,339,476)	(152,863,743)

## CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>Cash from Operations</b>			
1. Premiums collected net of reinsurance.....	58,123,448	44,699,611	83,067,808
2. Net investment income .....	21,640,492	40,272,086	56,226,360
3. Miscellaneous income .....	16,575,435	8,469,379	22,754,810
4. Total (Lines 1 to 3) .....	96,339,375	93,441,076	162,048,978
5. Benefit and loss related payments .....	(73,416,231)	3,605,148	10,311,646
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions .....	38,097,002	37,118,881	75,664,927
8. Dividends paid to policyholders .....	0	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses).....	441,238	(28,006,085)	(27,982,313)
10. Total (Lines 5 through 9) .....	(34,877,991)	12,717,944	57,994,260
11. Net cash from operations (Line 4 minus Line 10) .....	131,217,366	80,723,132	104,054,718
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds .....	54,226,860	736,871,506	826,510,414
12.2 Stocks .....	864,219	13,750,196	19,606,960
12.3 Mortgage loans .....	0	0	0
12.4 Real estate .....	0	0	0
12.5 Other invested assets .....	2,133,725	2,737,915	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	0	0	(26,399)
12.7 Miscellaneous proceeds .....	0	48,592,479	3,639,353
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	57,224,804	801,952,096	849,730,328
13. Cost of investments acquired (long-term only):			
13.1 Bonds .....	503,277,841	411,949	440,545
13.2 Stocks .....	0	0	0
13.3 Mortgage loans .....	0	0	0
13.4 Real estate .....	0	0	0
13.5 Other invested assets .....	0	8,836	5,390,760
13.6 Miscellaneous applications .....	3,197,617	0	257,030
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	506,475,458	420,785	6,088,335
14. Net increase (or decrease) in contract loans and premium notes .....	0	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	(449,250,654)	801,531,311	843,641,993
<b>Cash from Financing and Miscellaneous Sources</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes .....	0	0	0
16.2 Capital and paid in surplus, less treasury stock .....	0	329,409	329,409
16.3 Borrowed funds .....	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	0	0	0
16.5 Dividends to stockholders .....	0	0	0
16.6 Other cash provided (applied).....	1,051,120	(1,374,628)	(1,981,563)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) .....	1,051,120	(1,045,219)	(1,652,154)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	(316,982,168)	881,209,224	946,044,557
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	1,312,221,107	366,176,546	366,176,550
19.2 End of period (Line 18 plus Line 19.1) .....	995,238,939	1,247,385,770	1,312,221,107

## NOTES TO FINANCIAL STATEMENTS

### Organization and Background

Financial Guaranty Insurance Company, a New York stock insurance corporation (“FGIC”), is a wholly owned subsidiary of FGIC Corporation (“FGIC Corp.”). As used in these notes, the term “Company” refers to FGIC. The Company provided financial guaranty insurance and other forms of credit enhancement for public finance and structured finance obligations. In addition, FGIC UK Limited (“FGIC UK Ltd.”), a wholly owned United Kingdom insurance subsidiary of FGIC, was engaged in the business of writing financial guaranties in the United Kingdom and in other European Union member countries.

At September 30, 2011 and December 31, 2010, affiliates of the Blackstone Group L.P., the Cypress Group L.L.C. and CIVC Partners L.P. owned approximately 39.5%, 39.5% and 12% of FGIC Corp.’s common stock, respectively. As of September 30, 2011 and December 31, 2010, an affiliate of General Electric Capital Corp. owned 2,346 shares, or 100%, of FGIC Corp.’s senior participating mandatorily convertible modified preferred stock, and approximately 7.7% of FGIC Corp.’s outstanding common stock.

As of October 3, 2011, the functions and authority of (i) the New York State Insurance Department were transferred to the New York State Department of Financial Services and (ii) New York’s Superintendent of Insurance were transferred to New York’s Superintendent of Financial Services. References in these notes to (i) the “Department” shall refer to the New York State Insurance Department or the New York State Department of Financial Services and (ii) to the “Superintendent” shall refer to New York’s Superintendent of Insurance or New York’s Superintendent of Financial Services, in each case as the context shall require.

The September 30, 2011 quarterly statement should be read in conjunction with FGIC’s 2010 annual statement, including the notes therein.

*(Dollars in thousands)*

### **Note 1 - Summary of Significant Accounting Policies**

No significant changes from 2010 Notes to Financial Statements.

### **Note 2 - Accounting Changes and Correction of Errors**

None.

### **Note 3 - Business Combinations and Goodwill**

None.

### **Note 4 - Discontinued Operations**

None.

## NOTES TO FINANCIAL STATEMENTS

### Note 5 - Investments

The amortized cost and fair value of admitted investments in bonds, preferred stock and short-term investments are as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
<b>September 30, 2011</b>				
Obligations of states and political subdivisions	\$ 501,496	\$ 35,499	\$ –	\$ 536,995
Asset- and mortgage-backed securities	336,099	16,529	–	352,628
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	41,017	10,153	–	51,170
Debt securities issued by foreign governments	18,887	171	–	19,058
Corporate	121,310	4,242	–	125,552
Total bonds	1,018,809	66,594	–	1,085,403
Preferred stock	3,713	3,057	–	6,770
Short-term investments	993,486	15	(71)	993,430
Total	\$ 2,016,008	\$ 69,666	\$ (71)	\$ 2,085,603
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
<b>December 31, 2010</b>				
Obligations of states and political subdivisions	\$ 331,884	\$ 13,683	\$ –	\$ 345,567
Asset- and mortgage-backed securities	129,981	14,850	–	144,831
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	46,688	4,677	–	51,365
Debt securities issued by foreign governments	7,815	259	–	8,074
Corporate	25,386	2,036	–	27,422
Total bonds	541,754	35,505	–	577,259
Preferred stock	3,713	3,634	–	7,347
Short-term investments	1,297,861	4	–	1,297,865
Total	\$ 1,843,328	\$ 39,143	\$ –	\$ 1,882,471

The carrying values of the Company's investment in the equity of its subsidiaries were \$210 and \$16,089 at September 30, 2011 and December 31, 2010, respectively. Included in the change in net unrealized gains or losses for the nine months ended September 30, 2011 and 2010 were losses of \$16,314 and gains of \$2,940, respectively, related to the change in carrying values of the Company's investments in its subsidiaries. Investment in the equity of its subsidiaries was non-admitted due to the Company's surplus deficit.

Prior to 2010, the Company determined that it either did not have the intent to hold certain fixed income securities until their fair value exceeded their amortized cost or that it had the intent to sell its fixed income securities or it is more likely than not that the Company will be required to sell these securities before recovery of their amortized cost basis. The Company recorded other-than-temporary impairment losses of \$1,738 and \$3,545 on its fixed income securities for the three and nine months ended September 30, 2011, respectively. The Company recorded other-than-temporary impairment losses of \$167 and \$502 on its fixed

## NOTES TO FINANCIAL STATEMENTS

income securities for the three and nine months ended September 30, 2010, respectively. These losses are included in "Net realized capital gains or losses net of tax" in the Statements of Operations and represent the difference between the amortized cost basis and its fair value at the balance sheet date. Net realized capital gains or losses, net of tax, for the three and nine months ended September 30, 2010, includes \$602 and \$5,857, respectively, of a realized gain related to cash received on a cash equivalent previously impaired.

The amortized cost and fair value of the investment portfolio at September 30, 2011, by contractual maturity date, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year	\$ 19,450	\$ 19,919
Due after one through five years	174,533	182,278
Due after five years through ten years	263,348	275,517
Due after ten years	225,379	255,061
Asset- and mortgage-backed securities	336,099	352,628
<b>Total</b>	<b>\$ 1,018,809</b>	<b>\$ 1,085,403</b>

Net investment income of the Company was derived from the following sources.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
Income from bonds	<b>\$ 8,778</b>	\$ 7,359	<b>\$ 23,637</b>	\$ 36,473
Income from preferred stocks	<b>40</b>	213	<b>122</b>	636
Income from cash, cash equivalents and short-term investments	<b>2,269</b>	1,130	<b>4,023</b>	1,916
Total investment income	<b>11,087</b>	8,702	<b>27,782</b>	39,025
Investment expenses	<b>(481)</b>	(322)	<b>(1,368)</b>	(1,570)
Net investment income	<b>\$ 10,606</b>	\$ 8,380	<b>\$ 26,414</b>	\$ 37,455

For both the three and nine months ended September 30, 2011, proceeds from sales of investment in bonds carried at amortized cost were \$10,492. For the three and nine months ended September 30, 2010, proceeds from sales of investments in bonds carried at amortized cost were \$1,796 and \$749,867, respectively. For both the three and nine months ended September 31, 2011, gross realized gains of \$6 and gross realized losses of \$0 were realized on such sales. For the three and nine months ended September 30, 2010, gross realized gains of \$234 and \$46,649, respectively, and gross realized losses of \$0 and \$0, respectively, were realized on such sales.

Investments in bonds carried at amortized cost of \$23,789 and \$23,334 as of September 30, 2011 and December 31, 2010, respectively, were on deposit with various regulatory authorities, as required by law.

### **Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

None.

### **Note 7 - Investment Income**

No significant changes from 2010 Notes to Financial Statements.

### **Note 8 - Derivative Investments**

None.

## NOTES TO FINANCIAL STATEMENTS

### Note 9 – Income Taxes

The Company files a consolidated U.S. federal income tax return with FGIC Corp. The method of allocation between FGIC Corp. and FGIC is determined under a tax sharing agreement approved by FGIC Corp.’s and FGIC’s Board and the Department, and is based upon separate return calculations.

The following is a reconciliation of current federal income taxes computed on loss before provision for federal and foreign income taxes at the statutory rate and the provision for current federal income taxes.

	Nine Months Ended	
	September 30,	
	2011	2010
Income tax benefits computed on loss before provision for federal and foreign income taxes, at the statutory rate	\$ (486,154)	\$ (111,458)
Tax effect of:		
Tax-exempt interest	(4,271)	(7,856)
Change in valuation allowance	490,198	120,508
Other, net	629	(1,553)
Expense (benefit) provision for federal and foreign income taxes	\$ 402	\$ (359)

The composition of total tax expense (benefit) for the nine months ended September 30, 2011 and 2010 is as follows:

	Nine Months Ended	
	September 30,	
	2011	2010
Current:		
Federal	\$ (556)	\$ (401)
Foreign	958	42
Federal and foreign income tax expense (benefit)	\$ 402	\$ (359)

The changes in net deferred income taxes, inclusive of non-admitted assets, are comprised of the following:

	Nine Months Ended	
	September 30,	
	2011	2010
Increase in net deferred income tax assets	\$ –	\$ –
(Increase) in deferred tax liabilities	–	–
Change in net deferred income taxes	\$ –	\$ –

As of September 30, 2011, the Company had a domestic net operating loss (“NOL”) carryforward of \$5,475,660 for federal income tax purposes, which will be available (subject to the limitations discussed below) to offset future taxable income. If not used, the NOL will start expiring in 2027 through 2031 depending on the originating year.

FGIC’s ability to utilize its NOLs will be limited if an “ownership change” under Section 382 of the Internal Revenue Code (“Section 382”) were to occur. Section 382 limits the ability of a corporation that experiences an ownership change to utilize its NOLs and certain built-in losses after the ownership change. An ownership change is generally any change in ownership of more than 50 percentage points of a corporation’s stock over a rolling 3-year period. Generally under Section 382, upon an ownership change, the amount of taxable income that a corporation can offset by its “pre-change losses” (which include its NOLs) is restricted to an annual amount equal to the equity value of the corporation immediately prior to the ownership change multiplied by the long-term tax-exempt rate.

Notwithstanding Section 382’s restriction on a corporation’s use of NOLs, Section 382 provides significant relief to a corporation if an ownership change occurs in the context of a Chapter 11 case.

## NOTES TO FINANCIAL STATEMENTS

Specifically, Section 382(l)(5) of the Code provides that a corporation under the jurisdiction of a court in a Chapter 11 case is not subject to the general limitations imposed by Section 382 if historic stockholders and/or the corporation's "qualified creditors" own at least 50% of the total value and voting power of the corporation's stock after the ownership change occurs (the "Section 382(l)(5) Exception"). However, the legal application of the Section 382(l)(5) Exception to a situation where the parent is in a Chapter 11 case and the subsidiary, which generated most of the NOLs, is not in a Chapter 11 case is somewhat ambiguous. Further, if FGIC becomes deconsolidated from FGIC Corp. prior to FGIC Corp.'s ownership change in bankruptcy, FGIC's NOLs would not be protected by the Section 382(l)(5) Exception.

FGIC anticipates that it will experience an ownership change when its parent FGIC Corp. emerges from bankruptcy. This ownership change will occur because it is expected that the existing equity in FGIC Corp. will be eliminated and creditors of FGIC Corp. will acquire the equity of reorganized FGIC Corp., thereby changing the ultimate beneficial owners of FGIC. While FGIC Corp. and FGIC expect that they will qualify for the Section 382(l)(5) Exception, this result is not certain because certain factors are beyond FGIC's control. Should FGIC experience an ownership change for purposes of Section 382 and not qualify for the Section 382(l)(5) Exception, FGIC's ability to utilize its NOLs will be subject to an annual limitation in the future, which could result in a material increase in FGIC's U.S. federal income tax liability and materially reduce cash available.

The amount of federal income taxes incurred and available for recoupment in the event of future losses is \$0.

In accordance with SSAP 10R, the Company evaluates its deferred income tax asset to determine if valuation allowances are required. SSAP 10R requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. Management believes it is more likely than not that the amortization of the net unearned premium reserve, collection of future installment premiums on contracts already written, and income from the investment portfolio will not generate sufficient taxable income to realize the deferred tax asset that currently exists. Accordingly, a full valuation allowance was established against the Company's domestic net deferred tax asset of \$2,085,853 as of September 30, 2011. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

The following table presents the total of deferred tax assets and liabilities by tax character:

	September 30, 2011	December 31, 2010
Deferred tax assets:		
Ordinary income	\$ 2,074,922	\$ 1,583,078
Capital losses	13,018	14,176
Gross deferred tax asset	2,087,940	1,597,254
Valuation allowance	(2,085,853)	(1,595,852)
Adjusted deferred tax asset	2,087	1,402
Nonadmitted adjusted deferred tax asset	-	-
Total admitted gross deferred tax asset	2,087	1,402
Deferred tax liabilities:		
Ordinary income	(987)	(499)
Capital gains	(1,100)	(903)
Total gross deferred tax liability	(2,087)	(1,402)
Net admitted deferred tax asset	\$ -	\$ -

## NOTES TO FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset at September 30, 2011 and December 31, 2010 are presented below by tax component:

	September 30, 2011	December 31, 2010
Deferred tax assets:		
Premiums revenue recognition	\$ 14,963	\$ 15,995
Net operating loss carryforward	1,916,481	1,554,006
Impairment losses on investments	12,632	13,893
Losses – salvage and subrogation recoverable	125,816	–
Other	18,048	13,360
Gross deferred tax asset	2,087,940	1,597,254
Valuation allowance	(2,085,853)	(1,595,852)
Adjusted deferred tax asset	2,087	1,402
Nonadmitted adjusted deferred tax asset	–	–
Total admitted gross deferred tax asset	2,087	1,402
Deferred tax liabilities:		
Foreign currency	985	(787)
Other	1,102	(615)
Total gross deferred tax liability	2,087	(1,402)
Net admitted deferred tax asset	\$ –	\$ –

During the third quarter of 2008, the IRS commenced an examination of FGIC Corp.’s consolidated U.S. federal income tax returns for the years ended December 31, 2005, 2006, 2007 and 2008. The examinations (tax years 2005 – 2008) were completed in the first quarter of 2011. Upon completion of the audit, \$556 previously accrued for potential interest payments was released.

### **Note 10 – Parent, Subsidiaries and Affiliates**

No significant changes from 2010 Notes to Financial Statements.

### **Note 11 - Debt**

None.

### **Note 12 - Retirement Plans, Deferred Compensation and Other Postretirement Benefit Plans**

No significant changes from 2010 Notes to Financial Statements.

### **Note 13 - Capital and Surplus and Shareholders' and Policyholders' Dividend Restrictions**

FGIC was in a policyholders’ surplus deficit position of approximately \$3,678,552 and \$2,227,084 at September 30, 2011 and December 31, 2010, respectively. See Note 21 for further information.

In addition, as of September 30, 2011, FGIC’s aggregate net liability under its insured exposures continued to exceed the aggregate risk limit prescribed by the New York State Insurance Law (the “Insurance Law”) and FGIC’s insured exposure under certain individual policies continued to exceed the applicable single risk limits prescribed by the Insurance Law.

FGIC’s ability to pay dividends on its common stock and on its preferred stock to the holders thereof is subject to restrictions contained in the Insurance Law. Due to FGIC’s statutory earned surplus deficit at September 30, 2011, FGIC does not currently have the capacity to pay dividends on its common stock or preferred stock. See Note 21 below for additional information.

## NOTES TO FINANCIAL STATEMENTS

### Note 14 - Contingencies

Starting in July 2008, FGIC and various other bond insurers (and/or their affiliates) have been named as defendants in a series of individual and/or consolidated complaints filed by the following California governmental and non-profit entities: (i) County of Alameda; City and County of San Francisco; City of Los Angeles; Los Angeles Department of Water and Power; The Los Angeles World Airports; City of Oakland; City of Richmond; Redwood City; East Bay Municipal Utility District; City of Sacramento; Sacramento Suburban Water District; Sacramento Municipal Utility District; City of San Jose; City of Stockton; The Redevelopment Agency of the City of Stockton; The Public Financing Authority of the City of Stockton; County of Tulare; The Regents of the University of California; and The Redevelopment Agency of the City of San Jose (claims currently alleged in the Second Amended Consolidated Complaint filed August 23, 2011, in *County of Alameda et al. v. Ambac Financial Group, Inc., et al.* (the “Alameda Complaint”)); (ii) Contra Costa County; City of Riverside; The Redevelopment Agency of the City of Riverside; The Public Financing Authority of the City of Riverside; County of San Mateo; and The Jewish Community Center of San Francisco (“JCCSF”) (claims currently alleged in the Third Amended Consolidated Complaint filed October 21, 2011, in *Contra Costa County, et al. v. Ambac Financial Group, Inc., et al.* (the “Contra Costa Complaint”)) and (iii) The Olympic Club (claims currently alleged in the Fourth Amended Complaint filed October 21, 2011, in *The Olympic Club v. Ambac Financial Group, Inc., et al.* (the “Olympic Club Complaint”)). Plaintiffs JCCSF, County of San Mateo, The Redevelopment Agency of San Jose, Sacramento Suburban Water District and East Bay Municipal Utility District are also plaintiffs in *The Jewish Community Center of San Francisco, et al. v. Ambac Financial Group, Inc., et al.* (the “JCCSF Complaint”), though their claims are now alleged in the Alameda or Contra Costa Complaints as well. The Contra Costa Complaint, the JCCSF Complaint and the Olympic Club Complaint name the Rating Agencies (as defined below) as defendants as well; the Alameda Complaint does not. The Contra Costa Complaint, the Alameda Complaint and the JCCSF Complaint have been deemed part of a California state court coordination proceeding titled the *Ambac Bond Insurance Cases* in San Francisco Superior Court. The Olympic Club Complaint is not formally part of the coordination proceeding but is functionally coordinated with the *Ambac Bond Insurance Cases*.

In these actions, the plaintiffs make similar allegations that FGIC and the other bond insurer defendants (i) colluded with the credit rating agencies (Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services and Fitch Ratings, Inc. (the “Rating Agencies”)) to perpetuate a “dual rating system” used by the Rating Agencies, pursuant to which they rated the debt obligations of municipal bond issuers on a different (and allegedly less favorable) scale from the scale used to rate corporate debt obligations, in violation of the Cartwright Act (California’s antitrust statute) and (ii) engaged in unfair business practices in connection with the alleged Cartwright Act violations. In addition, plaintiffs whose bonds were insured by a bond insurer defendant also allege against such bond insurer with respect to such bond issues (a) breach of contract under the California Insurance Code for failure to disclose the extent of its exposure to residential mortgage-backed securities (“RMBS”) and collateralized debt obligations (“CDOs”), and (b) the fraudulent failure to disclose the extent of its exposure to RMBS and CDOs, including whether it met capital adequacy requirements set by the Rating Agencies. The four plaintiffs whose bonds were insured by FGIC have brought such claims against FGIC. In July 2011, following a hearing, the defendants’ demurrers were sustained as to certain claims but they were overruled as to the claims described in clauses (i), (ii) and (a) above, and the plaintiffs were allowed to re-plead the claims described in clause (b) above. FGIC and the other bond insurer defendants filed demurrers to these re-pled claims, which were heard and overruled on October 20, 2011.

In *City of Phoenix v. Ambac Financial Group, Inc., et al.* (United States District Court, District of Arizona, filed on or about March 11, 2010), FGIC, MBIA Insurance Corporation, and Ambac Assurance Corporation are named as defendants in a lawsuit in which the plaintiff asserts causes of action based principally on the defendants’ alleged violations of Arizona insurance law prohibiting unfair discrimination in the rate or amount of premium charged. FGIC filed an answer to the complaint in May 2010 and discovery is proceeding.

FGIC was named as a defendant, along with a number of other financial institutions and parties, in five purported class actions, *Hinds County, Mississippi v. Wachovia Bank N.A. et al.*, *Fairfax County, Virginia et al. v. Wachovia Bank N.A. et al.*, *Washington County, Tennessee v. Bank of America, N.A. et al.*, *Mayor and City Council of Baltimore v. Wachovia Bank N.A. et al.*, and *Central Bucks School District v. Wachovia Bank, N.A. et al.*, on behalf of all state, local and municipal government entities that purchased municipal guaranteed investment contracts (“GICs”) or derivative products from FGIC or the other defendants in the period from January 1, 1992 through December 31, 2006. The complaints were filed in federal court and allege, *inter alia*, various violations of federal antitrust laws by FGIC and other defendants

## NOTES TO FINANCIAL STATEMENTS

in connection with the offering and sale of municipal GICs and derivative products (the “Lead Cases”). FGIC was also named as a defendant, along with a number of other financial institutions and parties which also have been named as defendants, in four other similar actions filed in federal court, *City of Oakland, California v. AIG Financial Products Corp. et al.*, *City of Fresno, California v. AIG Financial Products Corp. et al.*, *County of Alameda, California v. AIG Financial Products Corp. et al.*, and *Fresno County Financing Authority v. AIG Financial Products Corp. et al.* (the “AIG Actions”). The Judicial Panel on Multidistrict Litigation issued an order transferring the Lead Cases and the AIG Actions to the Southern District of New York under the caption *In re Municipal Derivatives Antitrust Litigation* (MDL Docket No. 1950) for coordinated or consolidated pretrial proceedings. FGIC entered into tolling agreements with the plaintiffs in the Lead Cases in February 2009 and the AIG Actions in April 2009, pursuant to which FGIC was dismissed without prejudice as a defendant. The West Virginia Attorney General (the “WVAG”), which had previously filed a lawsuit in connection with its investigation of bidding practices in the market for municipal GICs and derivative products, amended its complaint in June 2010 to add FGIC and other parties as defendants. The complaint had previously been consolidated with the Lead Cases and the AIG Actions referred to above for coordinated or consolidated pretrial proceedings in the U.S. District Court for the Southern District of New York. In August 2010, FGIC filed its motion to dismiss the complaint. In October 2010, the WVAG filed its opposition motion and FGIC filed its reply. On April 29, 2011, the court dismissed the WVAG’s complaint against FGIC with prejudice.

In addition, FGIC was named as a defendant, along with a number of other financial institutions and parties, in lawsuits filed in California state court by the Cities of Los Angeles, Stockton and San Diego, California and the Counties of San Mateo and Contra Costa, California (the “State Court Actions”), alleging, *inter alia*, that FGIC and other defendants violated state antitrust law and common law by engaging in illegal bid-rigging and market allocation, thereby depriving the plaintiffs of competition in the awarding of municipal GICs and derivative products. The State Court Actions have been removed to federal court and ordered transferred to the Southern District of New York for proceedings before the court in which the Lead Cases are pending. In amended complaints filed in September 2009, the plaintiffs in the State Court Actions have dropped FGIC as a defendant.

In *Wilson v. JP Morgan Chase & Co., et al.* (Circuit Court of Jefferson County, Alabama, filed on or about June 17, 2008), FGIC and a number of other defendants were named in a purported class action case on behalf of customers that paid for sewer service within Jefferson County, Alabama, since January 1, 1993. The complaint alleges, *inter alia*, that the Jefferson County Commissioners, in a conspiracy with several individuals, financial companies, law firms and bond insurers, refinanced certain fixed-rate debt with a combination of variable rate and auction rate securities that were hedged by interest rate swaps. These transactions, the complaint alleges, were purportedly done to facilitate the payment of fees to several bond brokers and financial advisors that in turn were paid to certain County officials. With respect to the bond insurers, including FGIC, the most recent amended complaint alleges, *inter alia*, that the bond insurers were undercapitalized and failed to make payments to certain bondholders in the wake of the County’s default on the bonds. The plaintiffs seek rescission of the bonds and a declaration “that payments pursuant to all contracts for insurance and reinsurance be honored and payment thereunder be used for the use and benefit of the rate payers to the Jefferson County sewer system.” FGIC’s and the other defendants’ motions to dismiss the complaint for lack of standing were denied in January 2011. On February 24, 2011, FGIC and the other defendants filed petitions with the Alabama Supreme Court for a writ of mandamus to reverse that ruling.

In *The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al.* (United States District Court for the Northern District of Alabama, filed on or about September 17, 2008), FGIC, along with other plaintiffs, sued Jefferson County and the County Commissioners for appointment of a receiver. Jefferson County filed counterclaims against FGIC alleging that FGIC negligently maintained its portfolio by insuring overly risky residential mortgage-backed securities which led to ratings downgrades that caused damage to Jefferson County, and that FGIC breached a purported contractual obligation to provide investment grade insurance. In June 2009, the federal district court judge abstained from appointing a receiver and indicated that such matters should be heard in state court. In March 2010, by agreement of the parties, the court dismissed the remaining claims made by FGIC and the counterclaims against FGIC, without prejudice.

On January 13, 2010, FGIC Credit Products LLC (“Credit Products”) terminated credit default swap (“CDS”) transactions with respect to more than \$3.5 billion in notional amount of reference obligations which were outstanding under the ISDA Master Agreement dated July 14, 2005 (the “SG Master Agreement”) between Credit Products and Société Générale on account of Société Générale’s failure to pay certain amounts as required by the terms of such CDS transactions. At that time Credit Products had honored all obligations that it was required to honor, and owed no amounts to Société Générale, pursuant to the terms of the transaction.

## NOTES TO FINANCIAL STATEMENTS

On January 20, 2010, Société Générale filed a complaint against FGIC and Credit Products in the U.S. District Court for the Southern District of New York (*Société Générale v. Financial Guaranty Insurance Co., et al.*, 10 Civ. 0472 (NRB)), alleging breach of contract and requesting a declaratory judgment finding that Credit Products' termination of such CDS transactions was ineffective. On February 4, 2010, Société Générale filed an amended complaint, adding the allegation that FGIC, as credit support provider for Credit Products, had repudiated its obligations under the related insurance policies, resulting in an "Insurer Default" under the SG Master Agreement, which would permit Société Générale to receive a settlement amount based on market values of the CDS transactions. On February 22, 2010, Société Générale filed a second amended complaint, adding allegations that FGIC is liable to Société Générale for the causes of action brought against Credit Products because FGIC is Credit Products' "alter ego," or alternatively that FGIC had tortiously interfered with the SG Master Agreement and related CDS transactions. On March 17, 2010, FGIC and Credit Products filed a motion to dismiss all of Société Générale's claims. On April 9, 2010, Société Générale filed its opposition to such motion to dismiss. On April 23, 2010, FGIC and Credit Products filed their reply to Société Générale's opposition.

On February 4, 2010, Société Générale also gave FGIC and Credit Products notice of its purported designation of an early termination date, which purportedly would require a mark-to-market termination payment from Credit Products, in respect of such CDS transactions, which Société Générale alleges were in effect at such time (but which FGIC and Credit Products claim have been terminated due to the default by Société Générale). On March 2, 2010, Société Générale gave FGIC and Credit Products notice of its early termination payment calculation, which purportedly would require a mark-to-market termination payment from Credit Products in the aggregate amount of approximately \$1.477 billion with respect to such disputed CDS transactions. Credit Products has notified Société Générale that no "Insurer Default" has occurred and that Société Générale is not entitled to designate an early termination date. By Notices of Nonpayment dated March 5, 2010, Société Générale submitted to FGIC claims under the various FGIC policies in the aggregate amount of approximately \$1.477 billion based on Credit Products' purported nonpayment of the disputed mark-to-market termination payments. FGIC has notified Société Générale that at no time has FGIC repudiated or disavowed its obligations under its policies, that Société Générale's purported termination of the CDS transactions on the basis of a supposed repudiation by FGIC was ineffective, that no amounts are due to Société Générale under the CDS transactions, and as a result Société Générale's claims under the FGIC policies are improper. As a result of the termination of such CDS transactions by Credit Products as described above, FGIC significantly reduced its related loss reserves as of December 31, 2010 but, as required by statutory accounting practices applicable to insurance disputes and related litigation, has not eliminated such reserves.

On July 7, 2011, Société Générale, Credit Products and FGIC entered into a Settlement and Commutation Agreement (the "Settlement Agreement") in connection with the litigation described above. The Settlement Agreement provides for, among other things, the settlement of such litigation, the termination of the subject CDS transactions and the related FGIC policies and the mutual release of FGIC, Credit Products and Société Générale from all related claims and liability in consideration of a cash commutation payment by FGIC to Société Générale, subject in each case to, among other conditions, approval by the Department or applicable judicial approval of such settlement, termination and release. If these conditions are not satisfied prior to May 31, 2012, Société Générale will have the option to terminate the Settlement Agreement. On July 11, 2011, based on a joint stipulation filed by the parties, the court dismissed the above litigation without prejudice to the parties' ability to refile the action should the Settlement Agreement be terminated.

In *Museum Associates, dba Los Angeles County Museum of Art v. Financial Guaranty Insurance Co.* (United States District Court for the Central District of California, filed on or about November 4, 2008), plaintiff alleges, *inter alia*, that it incurred increased interest costs in respect of its FGIC-insured auction rate securities as a result of misrepresentations by FGIC concerning its exposure to securities backed by residential mortgages and the risk of a downgrade of FGIC's credit ratings. The case has been stayed voluntarily by the parties until February 15, 2012 with the court's approval.

In *Louisiana Stadium and Exposition District v. Financial Guaranty Insurance Co. (In re Merrill Lynch Auction Rate Securities Litigation)*, No. 09 MD 2030 (LAP) (S.D.N.Y.) (originally filed in the United States District Court for the Eastern District of Louisiana and in the Civil District Court for the Parish of Orleans, Louisiana on February 22, 2009 and February 29, 2009, respectively, and then removed and transferred to the S.D.N.Y. as part of a multidistrict litigation) and now pending on appeal as *Louisiana Stadium & Exposition District v. Financial Guaranty Insurance Co.*, No. 10-2030-cv (2d Cir.), plaintiff alleges, *inter alia*, fraud, misrepresentation and breach of contract concerning FGIC's failure to disclose the risks associated with its exposure to the subprime mortgage market and failure to disclose the risk of a downgrade of FGIC's ratings in connection with plaintiff's issuance of auction rate securities. In May 2010,

## NOTES TO FINANCIAL STATEMENTS

the court granted with prejudice FGIC's motion to dismiss all causes of action. The plaintiff has appealed that decision, which appeal has been briefed and argued.

In April 2009, a monoline insurance company (the "Ceding Company") from which FGIC has assumed certain risks under a facultative reinsurance agreement demanded arbitration to resolve certain disputes relating to the reinsurance agreement. FGIC is disputing the Ceding Company's purported termination of the reinsurance agreement and demand for a \$46 million termination payment from FGIC. At the Ceding Company's request, the arbitration panel ordered FGIC to post a letter of credit in the amount of \$46 million to secure any potential award, although the arbitration panel has not made any findings on the merits of the matter. At the Ceding Company's request, the arbitration panel has extended the deadline for FGIC to post this letter of credit. The arbitration panel remains in place, but the parties have informally agreed to a stay of the proceedings.

In *Countrywide Home Loans, Inc., et al. v. Financial Guaranty Insurance Co., et al.* (N.Y. Supreme Court, Index No. 103872/2010, filed on March 24, 2010), Countrywide Home Loans, Inc. (together with its predecessors and successors in interest, "Countrywide") and certain of its affiliates filed a petition pursuant to Article 78 of the New York Civil Practice Law and Rules, naming the Department, the Superintendent and FGIC as respondents, seeking (i) to declare null and void the 1310 Order (as defined below in Note 21) and (ii) to order FGIC to immediately re-commence payment of claims. In *Countrywide Home Loans, Inc., et al. v. Financial Guaranty Insurance Co.* (N.Y. Supreme Court, Index No. 600757/10, filed on March 24, 2010), Countrywide sued FGIC for breach of contract and breach of the duty of good faith and fair dealing. On July 25, 2011, FGIC, Countrywide and the Department filed with the court a stipulation removing the Article 78 proceeding from the court's calendar, with leave to make application to the court to restore the case to its calendar. No filings by FGIC or the Department will be due unless the case is restored to the calendar.

FGIC has received various regulatory inquiries and requests for information. FGIC has responded to a subpoena issued by the U.S. Department of Justice in November 2006 in connection with its investigation of bidding practices in the market for municipal GICs and derivative products. FGIC also has responded to subpoenas issued by the Attorneys General of the States of Connecticut and Florida relating to their investigations of similar matters. FGIC has executed a tolling agreement with the Attorneys General of Connecticut, Florida and 18 other states removing FGIC from these investigations.

In addition, FGIC has responded to a subpoena from the Connecticut Attorney General with respect to an investigation into municipal bond rating practices employed by the Rating Agencies. The focus of the investigation appears to be the disparity in ratings with respect to municipal credits, on the one hand, and corporate credits, on the other. The Connecticut Attorney General has sought information from FGIC with respect to communications between the credit rating agencies and the financial guaranty insurance industry (acting through the Association of Financial Guaranty Insurers, the industry trade association) in relation to a proposal by Moody's Investors Service, Inc. to implement a corporate equivalency rating system with respect to municipal credits. By letter dated November 3, 2011, the Connecticut Attorney General informed FGIC that it had concluded its investigation into municipal bond rating practices. FGIC has also received a document preservation letter from the Attorney General of the State of California relating to its investigation of the credit rating practices for municipal bonds issued by the State of California and its related entities.

In addition, FGIC is involved from time to time in various routine legal proceedings.

It is not possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse results in any such proceedings could have a material and adverse impact on FGIC's business, results of operations, and financial condition. The outcome of some of these legal proceedings and other contingencies could require FGIC to take or refrain from taking actions which could adversely affect its business or could require FGIC to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources away from implementing loss mitigation efforts that are vital to FGIC's ability to continue as a going concern.

In addition to the lawsuits described above, FGIC has asserted, and from time to time may assert, claims in legal or arbitration proceedings against third parties to recover losses already incurred by FGIC or to mitigate future losses that FGIC may incur. The amount of losses that FGIC may recover or mitigate as a result of these proceedings is uncertain, although, in the event of favorable outcomes or settlements, such amount could be material to FGIC's results of operations, financial position, profitability or cash flows.

## NOTES TO FINANCIAL STATEMENTS

In *Financial Guaranty Insurance Co. v. IKB Deutsche Industriebank AG* (2009 Folio 1532, filed on or about December 14, 2009), FGIC and FGIC UK Ltd. filed a complaint against IKB Deutsche Industriebank AG (“IKB”) and others in the High Court of Justice, Queen’s Bench Division, Commercial Court, in London, England (the “London Action”), seeking to recover damages caused to FGIC and FGIC UK through a fraudulent scheme devised and perpetrated by IKB, which induced FGIC UK to enter into a commitment agreement to provide financial guarantees to Havenrock II Limited, a special purpose vehicle created by IKB covering up to \$1.875 billion of losses on a \$2.5 billion reference portfolio of asset-backed securities (“ABS”). Previously, FGIC filed suit in the New York Supreme Court, seeking recovery of damages and rescission of the commitment agreement, and IKB filed a suit in Dusseldorf, Germany seeking a declaratory judgment; both of those suits were subsequently withdrawn in favor of the current action in London. Discovery and related matters are proceeding. In September 2011, a settlement agreement was signed and effectuated by FGIC, FGIC UK Ltd., IKB and others, pursuant to which, among other things, the London Action was dismissed.

In *Financial Guaranty Insurance Co. v. Countrywide Home Loans, Inc.* (N.Y. Supreme Court, Index No. 650736/2009, filed on December 11, 2009) (the “Countrywide Litigation”), FGIC sued Countrywide, alleging fraud and negligent misrepresentation by Countrywide and its affiliates in the origination of several RMBS transactions that closed in 2006 and 2007, and breach of contract in connection with Countrywide’s failure to repurchase certain mortgage loans as provided by the operational agreements for those RMBS transactions, as well as a number of other RMBS transactions that closed in the period from 2004 to 2005. FGIC’s complaint in the Countrywide Litigation alleges damages to FGIC in excess of \$1 billion. In February 2010, Countrywide filed a motion to dismiss certain of FGIC’s claims in its initial complaint. On April 30, 2010, FGIC filed an amended complaint adding Countrywide Financial Corp., Countrywide Securities Corporation, Countrywide Bank, FSB, and Bank of America Corporation (“BAC”) as defendants. On June 15, 2010, Countrywide’s motion to dismiss was generally denied by the court, but granted with respect to FGIC’s claims based on negligent misrepresentation and the breach of the covenant of good faith. On August 6, 2010, Countrywide filed with the Appellate Division, First Department of the New York Supreme Court a notice of appeal with respect to that portion of the court’s order denying Countrywide’s motion to dismiss certain FGIC claims. On August 13, 2010, FGIC filed with the Appellate Division a cross-appeal with respect to that portion of the court’s order dismissing FGIC’s claims based on negligent misrepresentation and the breach of the covenant of good faith. On October 20, 2011, FGIC and Countrywide jointly filed a stipulation withdrawing the appeal and the cross-appeal.

On June 3, 2011, BAC filed a motion for the severance of FGIC’s successor liability claim against BAC from FGIC’s other claims in this case, and the consolidation of the successor liability claim with similar claims that currently form parts of three other cases brought by bond insurance companies against Countrywide and BAC. On October 31, 2011, the court denied BAC’s motion insofar as it applied to discovery, but held in abeyance the motion insofar as it applies to trial of the successor liability claim, until final submission of summary judgment motions on the successor liability claim in FGIC’s or any of the other bond insurance companies’ cases. On November 3, 2011, BAC filed a notice of appeal of the court’s decision to the Appellate Division of the N.Y. Supreme Court. On November 7, 2011, BAC moved for, and the Appellate Division granted, a temporary stay of discovery on the successor liability claim.

### **Note 15 - Leases**

No significant changes from 2010 Notes to Financial Statements.

### **Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk**

None.

### **Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

None.

### **Note 18 - Gains or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans**

None.

### **Note 19 - Direct Premiums Written by Managing General Agents/Third Party Administrators**

None.

## NOTES TO FINANCIAL STATEMENTS

### Note 20 – Fair Value Measurement

No significant changes from 2010 Notes to Financial Statements.

### Note 21 - Other Items

#### Recent Developments

Since the fourth quarter of 2007, the Company has incurred significant losses on its policies relating to certain RMBS and to certain collateralized debt obligations of asset-backed securities (“ABS CDOs”) backed primarily by subprime RMBS, which have resulted in a substantial reduction of FGIC’s statutory policyholders’ surplus over time. As a result, FGIC is in a policyholders’ surplus deficit position of approximately \$3,678,552 as of September 30, 2011. Under the Insurance Law, FGIC, as a financial guaranty insurance company also licensed to transact credit insurance and surety, must maintain policyholders’ surplus of at least \$66,400. Given such policyholders’ surplus deficit, (i) New York’s Superintendent of Financial Services could seek court appointment as rehabilitator or liquidator of FGIC at any time or (ii) in the exercise of its fiduciary duties, the FGIC Board of Directors (the “FGIC Board”) may request the Superintendent to seek, and in such event it is likely that the Superintendent would seek, such court appointment.

Due to the adverse developments described above, FGIC and FGIC UK Ltd. voluntarily ceased writing financial guaranty policies concerning new or additional risks in January 2008. On July 1, 2009, FGIC UK Ltd. filed a voluntary variation of permission with the U.K. Financial Services Authority (“UK FSA”), its principal regulator, to remove its ability to write new insurance contracts. This filing was approved on July 10, 2009. Neither FGIC nor FGIC UK Ltd. currently has any plans to recommence writing new financial guaranty business. The Company’s financial strength and credit ratings were downgraded during 2008 and 2009 and subsequently withdrawn by Moody’s Investor Services Inc. (March 2009), Standard & Poor’s Rating Services (April 2009) and Fitch Ratings Inc. (November 2008).

On November 24, 2009, the Department issued an order pursuant to Section 1310 of the Insurance Law requiring FGIC, effective that day, to suspend paying any and all claims and prohibiting FGIC from writing any new policies. Accordingly, FGIC immediately suspended all claims payments. FGIC had previously ceased writing any new policies in January 2008. Such Department order (as modified by the Supplemental Order Pursuant to Insurance Law §1310 dated March 25, 2010) is referred to herein as the “1310 Order”. The 1310 Order also directed FGIC to submit a plan to the Superintendent to eliminate the impairment of FGIC’s policyholders’ surplus by January 5, 2010. The 1310 Order requires FGIC to take such steps as may be necessary to remove the impairment of its capital and to return to compliance with its minimum policyholders surplus’ requirement by no later than June 15, 2010, or such subsequent date as the Superintendent deems appropriate. FGIC may only operate in the ordinary course of business and as necessary to effectuate its plan to eliminate FGIC’s policyholders’ surplus deficit. The 1310 Order does not limit in any way the Superintendent’s ability to seek rehabilitation or liquidation of FGIC at any time.

FGIC formulated a comprehensive restructuring plan to fulfill the requirements set forth in the 1310 Order and with a view to remediate its RMBS, ABS CDO and other exposures, mitigate FGIC’s potential existing exposure for claims based on mark-to-market termination payments with respect to certain CDS transactions insured by FGIC or FGIC UK Ltd., remove its capital impairment and return FGIC to compliance with the applicable minimum policyholders’ surplus requirement. FGIC submitted an initial surplus restoration plan to the Department on December 22, 2009 and subsequently submitted an amended and restated surplus restoration plan (as so amended and restated, the “Surplus Restoration Plan” or the “Plan”). The Department acknowledged that FGIC would continue its efforts to effectuate the amended and restated Surplus Restoration Plan and the transactions contemplated therein or attendant thereto on March 25, 2010.

The Surplus Restoration Plan included the following three key loss mitigation components: (i) remediating a substantial portion of FGIC’s exposure to RMBS and ABS insured by FGIC in the primary market and for which it has established statutory loss reserves, including by the consensual “stripping” of FGIC insurance on all or a substantial portion of such RMBS and ABS through the offer to exchange launched by Sharps SP I LLC (“Sharps”) on March 25, 2010 (as amended, amended and restated, modified, supplemented or extended from time to time, the “Offer”) or through various other consensual remediation transactions; (ii) commuting, terminating, restructuring or reinsuring a substantial portion of FGIC’s remaining exposure to ABS CDOs and to certain other obligations for which it has established statutory loss reserves, including RMBS insured by FGIC in the secondary market, through consensual transactions; and (iii) mitigating FGIC’s existing exposure for claims based on mark-to-market termination payments under

## NOTES TO FINANCIAL STATEMENTS

CDS insured by FGIC or FGIC UK Ltd., pursuant to consensual transactions with the counterparties to such CDS, including pursuant to the transactions that had been contemplated by certain agreements with the counterparties to certain of such CDS and related transactions.

FGIC reached definitive agreements or agreements in principle with certain CDS counterparties or other policy beneficiaries to effectuate the loss mitigation transactions described in clauses (ii) and (iii) of the preceding paragraph (the “Other Restructuring Transactions”). However, the Other Restructuring Transactions were conditioned upon, among other things, the successful closing of the Offer.

On October 25, 2010, Sharps announced that it did not receive sufficient participation from eligible holders in the Offer to satisfy the conditions necessary to complete the Offer. The Offer was not extended beyond the October 22, 2010 expiration date. Consequently, the Offer terminated in accordance with its terms, and none of the eligible FGIC-insured securities tendered under the Offer were accepted. As a result, the conditions for successfully effectuating the Surplus Restoration Plan have not been satisfied. Furthermore, since the Offer did not successfully close, the agreements relating to the Other Restructuring Transactions either terminated in accordance with their terms or have conditions to closing that can not be satisfied.

Since September 2010, as a consequence of the inability to gain the necessary level of participation in the Offer, FGIC has been engaged in discussions with the Department and starting in November 2010, the steering committee for an advisory group of policyholders regarding potential alternative surplus restoration plans to restore FGIC’s statutory surplus and to restructure FGIC in a manner that is fair and equitable to its policyholders and other creditors. Recent alternative surplus restoration plan discussions have focused on, among other things, restoring FGIC to statutory solvency through a rehabilitation proceeding, and FGIC has also been engaged in discussions with counsel for the New York Liquidation Bureau and the financial advisor retained by such counsel regarding such a potential plan since May 2011 and September 2011, respectively (such plan and any other alternative surplus restoration plan that may be developed are referred to collectively as the “Alternative Surplus Restoration Plan”). FGIC has also been engaged in discussions with CDS counterparties to negotiate new or amended agreements regarding certain Other Restructuring Transactions, which would be included in, and would be completed as part of and subject to the successful effectuation of, the Alternative Surplus Restoration Plan. The Alternative Surplus Restoration Plan, if successfully effectuated, would be expected to restore FGIC to statutory solvency and to provide for (i) FGIC’s policy obligations to be modified in a manner that is fair and equitable to its policyholders, (ii) the moratorium on the payment of claims pursuant to the 1310 Order to be lifted and (iii) FGIC to execute a run-off of its business in which it will be obligated to pay its policy and other obligations as modified by, and strictly in the manner and priority provided for under, the Alternative Surplus Restoration Plan. See Note 21, Description of Continuing Risks and Uncertainties and Assessment of the Company’s Ability to Continue as a Going Concern, for a description of the risks and uncertainties relating to the Alternative Surplus Restoration Plan.

On August 3, 2010 (the “Petition Date”), FGIC Corp. filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code (the “Chapter 11 Case”). The Chapter 11 Case was assigned to the Honorable Stuart M. Bernstein, United States Bankruptcy Judge for the Southern District of New York (“Bankruptcy Court”). On September 7, 2010, an official committee of unsecured creditors was appointed. None of the subsidiaries or affiliates of FGIC Corp., including FGIC, are subject to the Chapter 11 Case.

On the Petition Date, FGIC Corp. filed with the Bankruptcy Court a Plan of Reorganization (the “Reorganization Plan”), along with a Disclosure Statement (the “Disclosure Statement”). The purpose of the Disclosure Statement was to provide creditors of FGIC Corp. with adequate information to make an informed judgment about the Reorganization Plan. FGIC Corp has not yet asked the Bankruptcy Court to approve the Disclosure Statement and, therefore, FGIC Corp. has not yet submitted the Reorganization Plan to its creditors for a vote. See Note 21, Description of Continuing Risks and Uncertainties and Assessment of the Company’s Ability to Continue as a Going Concern, for a description of the risks and uncertainties for FGIC relating to the Chapter 11 Case.

On June 30, 2011, FGIC and FGIC UK Ltd. entered into a Deed of Termination pursuant to which they mutually agreed to terminate the Reinsurance Agreement dated March 31, 2004 and the Excess of Loss Reinsurance Agreement dated March 31, 2004 under which FGIC had provided reinsurance on financial guarantees or policies written by FGIC UK Ltd., and to release each other from all present and future claims and liabilities under or in connection with such agreements. Pursuant to the Deed of Termination, FGIC was relieved of its reinsurance obligations in respect of approximately \$8.0 billion of par exposure and was permitted to retain 100% of all premiums (net of ceding commissions) previously paid to FGIC. As a result,

## NOTES TO FINANCIAL STATEMENTS

FGIC recognized premiums of approximately \$51 million in June 2011, which amount is included in "Premiums Earned" in the Statement of Income for the nine months ended September 30, 2011.

### **Description of Continuing Risks and Uncertainties and Assessment of the Company's Ability to Continue as a Going Concern**

As of September 30, 2011, FGIC continues to report a deficit in policyholders' surplus and to be out of compliance with the \$66,400 minimum policyholders' surplus requirement under the Insurance Law (and in the absence of a successful effectuation of the Alternative Surplus Restoration Plan, FGIC will continue to report such a deficit and non-compliance). As a result, (i) the Superintendent could seek court appointment as rehabilitator or liquidator of FGIC at any time or (ii) in the exercise of its fiduciary duties, the FGIC Board may request the Superintendent to seek, and in such event it is likely that the Superintendent would seek, such court appointment. There can be no assurance that, in connection with any such appointment, the Superintendent would seek to effectuate the Alternative Surplus Restoration Plan. Any such appointment of the Superintendent as rehabilitator or liquidator of FGIC could have a material adverse impact on FGIC's business, results of operations and financial condition.

There can be no assurance that (i) an agreement will be reached on the terms of the Alternative Surplus Restoration Plan or the transactions that are intended to form part of the Alternative Surplus Restoration Plan, (ii) the Alternative Surplus Restoration Plan and the transactions contemplated thereby will receive all required regulatory and judicial approvals, or (iii) the transactions contemplated by the Alternative Surplus Restoration Plan will be consummated or the Alternative Surplus Restoration Plan will otherwise be successfully effectuated. Even if the Alternative Surplus Restoration Plan were to be successfully effectuated, there can be no assurances provided regarding the Company's future financial condition or possible future intervention by the Department. As a result of uncertainties associated with the aforementioned factors and continuing risks such as those described below, management has concluded that there is substantial doubt about the ability of the Company to continue as a going concern. The Company's financial statements as of September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010 are prepared assuming the Company continues as a going concern and do not include any adjustment that might result from its inability to continue as a going concern.

In addition, the Company continues to be materially exposed to certain other significant risks and uncertainties that could materially adversely affect its results of operations, financial condition and liquidity, including the following:

The Company continues to be materially exposed to risks associated with any continuing deterioration in the U.S. residential housing and mortgage markets and the global credit markets, which have led to erosion in the quality of assets and in the collection of cash flows from assets within structured securities that the Company has guaranteed and may worsen, spread to, or negatively impact other sectors of the economy to which the Company has material business exposure, including collateralized loan obligations ("CLOs"). The extent and duration of any continued deterioration of these markets is unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed. In addition to exposure to general economic factors, including those as a result of the recent financial crisis, FGIC is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guaranty products. Businesses and municipalities are facing financial difficulties due to the current economic and financial crisis. In addition, catastrophic events or terrorist acts could adversely affect the ability of public sector issuers to meet their obligations with respect to securities insured by the Company and the Company may incur material losses due to these exposures if the economic stress caused by these events is more severe than it currently foresees. Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's remaining insured portfolio, including the remaining CDS contracts insured by the Company, requires the use and exercise of significant judgment by management, including estimates regarding the likelihood of occurrence and amount and timing of a loss on a guaranteed obligation and any related expected recoveries. However, there remains a considerable amount of uncertainty relating to risks in home prices, credit markets and the economy as a whole, and there is no historical precedent for the current housing and mortgage market conditions. Small changes in assumptions underlying these estimates could result in significant changes in FGIC's loss expectations. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, are expected to occur over many years in the future. Examples of these events include changes in the level of interest rates, home prices and consumer costs, unemployment rates and general economic conditions, government programs, credit deterioration of guaranteed obligations, and changes in the value of specific assets supporting guaranteed obligations. Both qualitative and quantitative factors are used in making

## NOTES TO FINANCIAL STATEMENTS

such estimates. Any estimate of future losses and claims is subject to the inherent limitation on management's ability to predict the accurate course of future events. It should therefore be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. See Note 25 for further information.

FGIC-insured CDS contracts have provisions that may give certain counterparties the right to require mark-to-market termination payments under the CDS, which payments are guaranteed by FGIC, following any payment default by FGIC under the policy guaranteeing the CDS or following the occurrence of certain events that are outside FGIC's control. Specifically, it would be an event of default under certain of the CDS contracts insured by FGIC if FGIC is insolvent within the meaning of the CDS contracts and under most of such CDS contracts if FGIC should be placed into rehabilitation or liquidation by the Superintendent. It would be an event of default under all of the CDS contracts insured by FGIC UK Ltd. if FGIC or FGIC UK Ltd., as applicable, should be placed into rehabilitation or liquidation. In addition, some CDS contracts insured by FGIC (or, in limited cases, FGIC UK Ltd.) contain certain cross default event of default provisions, meaning that certain defaults by FGIC (or, in limited cases, FGIC UK Ltd.) relating to payments due on its debt or other policies may trigger an event of default under such CDS contracts. Such termination payments are generally calculated either based on "market quotation" or "loss" (each as defined in the Master Agreement published by the International Swaps and Derivatives Association, Inc.). If FGIC were able to consummate the Other Restructuring Transactions as part of a successful effectuation of the Alternative Surplus Restoration Plan, this would mitigate existing exposure FGIC or FGIC UK Ltd. may have to pay claims based on mark-to-market termination payments with respect to the subject CDS contracts as a result of events that have occurred or may occur prior to such consummation, including, without limitation, events relating to the 1310 Order or, if applicable, a FGIC rehabilitation or liquidation proceeding. If such Other Restructuring Transactions are not consummated, the aggregate amount of claims based on termination payments that may be asserted against FGIC would significantly exceed its available claims paying resources and liquidity funds and, accordingly, would result in an increase in FGIC's policyholders' surplus deficit and have a material adverse effect on FGIC's financial position, results of operations and solvency.

There can be no assurance if or when claim payments by FGIC will recommence or whether due and unpaid amounts under FGIC's policies will ever be paid in full. Any continued suspension of FGIC's ability to make claim payments or other delay in its commencement of claim payments or payment in full in cash of due and unpaid amounts under its policies (as well as, among other things, any appointment of the Superintendent as rehabilitator or liquidator of FGIC) could have a number of material adverse consequences, including, but not limited to, (i) litigation for breach of contract and various other causes of action, (ii) the loss of access and control rights under certain FGIC-insured transactions that FGIC has used to obtain additional information concerning its insured exposures and to direct or otherwise control remediation activities, (iii) subordination or withholding of certain premium and/or reimbursement payments, and (iv) the assertion of claims for mark-to-market termination payments by counterparties to FGIC or FGIC UK Ltd.-insured CDS contracts, as described above. There can be no assurance there would not be other material adverse consequences for FGIC if FGIC is unable to recommence claims payments or if there is other delay in its commencement of claims payments or payment in full in cash of due and unpaid amounts under its policies. FGIC has received notices from trustees on the underlying trusts in certain transactions asserting that FGIC is in default with respect to its obligations relating to such transactions as a result of the suspension of claims payments and reserving the applicable trustee's rights in connection with such default and, in some cases, asserting that such trustee is withholding certain amounts otherwise payable to FGIC or that FGIC no longer has control rights in relation to the underlying trusts.

FGIC's ability to pay dividends on its common stock and on its preferred stock to the holders thereof is subject to restrictions contained in the Insurance Law. Due to FGIC's statutory earned surplus deficit at September 30, 2011, FGIC is prohibited by the Insurance Law from paying dividends on its common stock or preferred stock. Even if the Alternative Surplus Restoration Plan were to be successfully effectuated, FGIC would not be permitted to pay dividends or other distributions on its common stock or preferred stock.

As a result of not paying dividends, the holders of FGIC's preferred stock could become entitled to add two additional directors to FGIC's Board. This event could create instability and general uncertainty regarding FGIC as a whole, with resulting management and policy changes, and increased scrutiny by the Department and FGIC's stakeholders, which could lead the Superintendent to commence rehabilitation or liquidation proceedings. This event also could cause FGIC to become deconsolidated from FGIC Corp. for federal tax purposes. If FGIC becomes deconsolidated from FGIC Corp. prior to FGIC Corp.'s anticipated ownership change in bankruptcy, FGIC's NOLs (as defined in Note 9 above) would not be

## NOTES TO FINANCIAL STATEMENTS

protected by the 382(l)(5) exception and would be severely limited following such ownership change. In addition, following any such deconsolidation, FGIC Corp. would no longer be permitted to utilize FGIC's NOLs to shelter FGIC Corp.'s income. See Note 9 for further information regarding FGIC's NOL limitations if FGIC or FGIC Corp. experiences an ownership change.

The effects of FGIC Corp.'s Chapter 11 Case are uncertain, but may include, among other consequences, a change of control of FGIC, changes in the composition of the Board of Directors of FGIC Corp. and the FGIC Board, and management and policy changes at FGIC Corp. and FGIC. Any attempt by creditors of FGIC Corp. or others involved in the Chapter 11 Case to enforce a claim or judgment against FGIC or to interfere in FGIC's operations could result in the Superintendent seeking to commence rehabilitation or liquidation proceedings against FGIC. Any change of control at FGIC Corp. and correspondingly, FGIC, could create instability and general uncertainty regarding FGIC as a whole, with resulting management and policy changes, including FGIC's use of its NOLs, and increased scrutiny by the Department and FGIC's stakeholders, which could lead the Superintendent to commence rehabilitation or liquidation proceedings. Further, under the Insurance Law, any change of control of FGIC requires the Superintendent's prior approval.

FGIC has been named as a defendant in various lawsuits, and is subject to various governmental inquiries. FGIC also faces the risk of litigation due to the suspension of claims payments. It is not possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse results in any such proceedings could have a material and adverse impact on FGIC's business, results of operations, and financial condition. The outcome of some of these legal proceedings and other contingencies could require FGIC to take or refrain from taking actions which could adversely affect its business or could require FGIC to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources away from implementing loss mitigation efforts that are vital to FGIC's ability to continue as a going concern. See Note 14 for further information.

### Business Restructuring

During the fourth quarter of 2008, the Company initiated a workforce reduction and incurred a restructuring charge of \$19,905 that was included in "Other underwriting expenses incurred" in the Statements of Operations. During the fourth quarter of 2008, \$2,709 of involuntary termination benefits and \$2,137 of other restructuring related charges were paid. The Company did not incur additional expense during the nine months ended September 30, 2011 and 2010, in relation to a further work force reduction. The terms of the workforce reduction including the involuntary termination benefits to be received by affected employees, were communicated by the Company in the fourth quarter of 2008. For the nine months ended September 30, 2010 \$2,917 of involuntary termination benefits was paid. The Company paid all of the balance as of December 31, 2010.

In connection with the workforce reduction, the Company ceased using approximately 50% of its leased office space in the fourth quarter of 2008. Accordingly, the Company recorded a liability of \$1,391 in the fourth quarter of 2008, representing the Company's liability for the remaining lease term reduced by estimated sublease rentals. During the year ended December 31, 2009, the Company ceased using an additional 25% of its leased office space. In February 2010, the Company subleased approximately two-thirds of its unused office space for the remainder of its lease term. The liability will be adjusted in future periods to reflect revisions to estimated cash flows related to the remaining one-third of unused office space. The liability is recorded as a component of "Accounts payable and accrued expenses" on the Balance Sheet at September 30, 2011 and the corresponding expense is recorded in "Other underwriting expenses incurred" in the Statements of Operations. For the nine months ended September 30, 2011 and 2010, the Company incurred additional expense of \$666 and \$737, respectively, as it increased the liability due to adjustments to estimated net cash flows. The Company also recorded a write-off of leasehold improvements in the amount of \$9,498 in the fourth quarter of 2008 related to the vacated office space. For the nine months ended September 30, 2010, the Company recorded a further write-off of leasehold improvements of \$899. The charges for the write-off of leasehold improvements were included in "Other underwriting expenses incurred" in the Statements of Income.

Amounts incurred in connection with developing and seeking to effectuate the Surplus Restoration Plan and the Alternative Surplus Restoration Plan have been and will continue to be expensed as incurred.

## NOTES TO FINANCIAL STATEMENTS

### Note 22 - Events Subsequent

None.

### Note 23 - Reinsurance

No significant changes from 2010 Notes to Financial Statements.

### Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

None.

### Note 25 - Change in Incurred Losses and Loss Adjustment Expenses

Activity in the reserve for losses and loss adjustment expenses (LAE) is summarized as follows:

	September 30, 2011	December 31, 2010
Net balance at beginning of period	\$3,541,557	\$ 2,608,747
Incurred related to:		
Current year	117,829	(3,080)
Prior years	1,383,790	946,202
Total incurred	1,501,619	943,122
Recovery/(Paid) related to:		
Current year	-	-
Prior years	73,416	(10,312)
Total recovery/(paid)	73,416	(10,312)
Net balance at end of period	\$ 5,116,592	\$ 3,541,557

Reserves for incurred losses and LAE attributable to the insured bond portfolio have increased to \$5,116,592 at September 30, 2011 from \$3,541,557 at December 31, 2010. The increase in net loss was mainly attributable to a change in the interest rate assumptions used to project future interest liabilities and receipts with respect to the CDOs, together with a decrease in the statutory discount rate. Losses and loss adjustment expense reserves were discounted at 2.63% and 3.45% at September 30, 2011 and December, 31 2010, respectively. Losses and loss adjustment expense reserves at September 30, 2011, relate predominantly to RMBS and CDO transactions net of anticipated recoveries.

As of September 30, 2011, the Company has received, but as a result of the 1310 Order, has not paid \$1,764,819 in claims which is included in "Losses" on the Balance Sheet.

The Company recorded an incurred loss, net of reinsurance, of \$47,651 and \$51,795 on its guarantees of sewer revenue warrants issued by Jefferson County, Alabama ("Jefferson County guarantees") for the three and nine months ended September 30, 2011, respectively. At September 30, 2011 and December 31, 2010, the loss reserve, net of reinsurance, was \$86,132 and \$34,578, respectively. The estimated incurred losses were necessarily based upon estimates and subjective judgments about the outcomes of future events, including the County's Chapter 9 bankruptcy filing on November 9, 2011. The incurred losses will be adjusted as additional information becomes available and differences between estimated and actual results may be material. At September 30, 2011, the net principal outstanding on the Jefferson County guarantees was \$1,171,129.

FGIC's liability in RMBS, ABS and other securitization transactions is governed by the structure of the waterfall of cash flows in the transaction documents. In certain cases, these transaction documents are subject to interpretation. Loss reserves have been established based on the impact that the performance of the underlying collateral has on FGIC's duty to support the cash flows of the transaction. If the Company identifies credit impairment, a provision for loss and loss adjustment expense is recorded. At each reporting date, loss reserves are evaluated and may be adjusted to reflect the impact of any loss mitigation efforts, including the purchase of, or the effective removal of insurance coverage on, FGIC insured securities by FGIC, that have yielded results that are probable and estimable. The Company believes that the reserve for estimated losses as of September 30, 2011, is adequate to cover expected future net claims. However, the

## NOTES TO FINANCIAL STATEMENTS

establishment of the appropriate level of reserves is an inherently uncertain process involving numerous estimates and subjective judgments by management.

Small changes in the assumptions underlying these estimates could result in significant changes in the Company's loss expectations. At present, there remains a considerable amount of uncertainty relating to risks in real estate prices, credit markets and the economy as a whole, and there is no historical precedent for the current conditions. There can be no assurance that the Company's estimates of probable and estimable losses are accurate. Accordingly, there can be no assurance that actual claims paid by the Company will not exceed or be less than its reserves at September 30, 2011, and it is possible that they could significantly exceed those reserves. Additionally, further deterioration in the performance of RMBS, ABS CDOs and other obligations the Company insures could lead to the establishment of additional loss reserves and further loss or reduction to income. The Company's loss and loss adjustment expense reserve reflect the impact of transactions closed prior to the issuance date of the financial statements; however it does not reflect the potential impact, if any, of additional ongoing commutation, settlement and restructuring efforts by the Company. There can be no assurance that any loss mitigation efforts will be successful, and it is not possible to predict the magnitude of any benefit that might be derived from any such efforts that are successful.

The Company evaluates the portfolio of insured financial obligations on a regular basis to determine if there has been credit deterioration. The Company evaluates such factors as rating agency downgrades, significant changes in a specific industry or specific events impacting a particular credit, such as a negative credit event, performance below expectations, breaches of representations, warrants, covenants or deal triggers, changes of management, regulatory changes, material litigation or other legal issues. Based on the evaluation of these criteria the Company assigns credits to risk ratings categories, which then determines the level of on-going monitoring and surveillance efforts required, and whether loss reserves are recognized.

The Company uses the following risk categories to define and monitor insured financial obligations:

### **Risk Category 1 – Performing Credits**

Transactions are performing with no expectation of loss. Financial strength of the transaction would enable it to withstand volatility in performance without risk of non-payment on timely debt service. Transactions are considered to be investment grade by the Company. Although rating changes may occur, it is not expected that a downgrade would be to below investment grade.

### **Risk Category 2 – Watchlist Credits under heightened surveillance**

Credits in this category typically would be considered marginal investment grade or higher rated “non-investment grade”. Credits in this risk category have been determined to require heightened surveillance, taking into account the totality of circumstances surrounding the particular credit, but have not deteriorated to the level that they would be considered impaired and require a loss reserve.

### **Risk Category 3 – Watchlist Credits experiencing credit deterioration**

Credit deterioration has occurred and there is substantial uncertainty as to the credit's ability or willingness to pay its debt service obligations in a timely manner. Credits in this category typically would have suffered sustained negative trends or would have been the subject of a significant adverse event, but are currently not in payment default. Credits in this category have been determined to be impaired, and there is an increased probability of default.

### **Risk Category 4 – Watchlist Credits currently or likely to be in payment default**

Credits that have deteriorated to the point where payment default on their debt service obligations has occurred or is probable and the ultimate loss can be reasonably estimated. Reserves are established on a case basis and are inclusive of any anticipated recoveries. Insured credits in this category would be consistent with the lowest or in-default credit ratings. Credits in risk category 4 are reviewed and updated on at least a quarterly basis for any change in status.

## NOTES TO FINANCIAL STATEMENTS

The following table is a breakdown, as of September 30, 2011, of the Company's portfolio of insured financial obligations in risk category 4.

	<b>Risk Category 4</b>
Number of policies	151
Remaining weighted-average contract period (in years)	26
Insured contractual payments outstanding:	
Principal	\$ 16,126,755
Interest	3,188,276
Total	\$ 19,315,031
Gross loss reserves	\$ 8,940,477
Less:	
Gross projected recoveries	(1,396,396)
Discount, net	(2,043,349)
Gross loss reserves, net of discount	\$ 5,500,732
Unearned premiums	\$ 14,525
Reinsurance recoverable on paid losses reported in the balance sheet	\$ 91

The Company's insured financial obligations are structured to provide for rights and remedies in order to mitigate claim loss exposure. Loss mitigation activities may include making repurchase claims or pursuing other claims for breaches of representations and warranties by the originator or others, obtaining appraisals of collateral or reviews of loan files, enforcing collateral provisions and covenants of the servicer or others, more frequent meetings with the issuer or servicer, evaluating the financial position of the originator or servicer, renegotiation of financial covenants, triggers, or terms of servicing, enforcing rights to remove and replace the servicer, evaluation of restructuring plans or bankruptcy proceedings, and in some cases, litigation or arbitration as and where appropriate.

Loss adjustment expenses incurred, excluding reinsurance, were \$(43,325) and \$(29,876) for the three and nine months ended September 30, 2011, respectively. Loss adjustment expenses incurred, excluding reinsurance, were \$40,484 and \$46,362 for the three and nine months ended September 30, 2010, respectively. The loss adjustment expenses for the nine months ended September 30, 2011 and 2010 relate primarily to projected litigation on certain RMBS transactions (see Note 14). The incurred expenses for the quarter were offset by settlement recoveries. The liability for loss adjustment expenses, net of reinsurance, was \$45,093 and \$44,202 at September 30, 2011 and December 31, 2010, respectively.

"Other Invested Assets" includes FGIC insured securities in the amount of \$23,845 and \$25,990 at September 30, 2011 and December 31, 2010, respectively and is reflected at the lower of amortized cost or fair value of FGIC insured securities purchased adjusted for the estimated value associated with FGIC's credit enhancement that were purchased as part of loss mitigation efforts.

### **Note 26 – Inter-company Pooling Arrangements**

None.

### **Note 27 - Structured Settlements**

None.

### **Note 28 - Health Care Receivables**

None.

### **Note 29 - Participating Policies**

None.

### **Note 30 - Premium Deficiency Reserves**

None.

## NOTES TO FINANCIAL STATEMENTS

### Note 31 - High Deductibles

None.

### Note 32 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

No significant changes from 2010 Notes to Financial Statements.

### Note 33 - Asbestos/Environmental (Mass Tort) Reserves

None.

### Note 34 - Subscriber Savings Accounts

None.

### Note 35 - Multiple Peril Crop Insurance

None.

### Note 36 – Financial Guaranty Insurance

No significant changes from 2010 Notes to Financial Statements.

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes [ ] No [X]
- 1.2 If yes, has the report been filed with the domiciliary state? ..... Yes [ ] No [ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [ ] No [X]
- 2.2 If yes, date of change: .....
3. Have there been any substantial changes in the organizational chart since the prior quarter end? ..... Yes [ ] No [X]  
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [X]
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? ..... Yes [ ] No [ ] NA [X]  
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2007
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/2004
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 05/29/2007
- 6.4 By what department or departments?  
New York Department of Financial Services.....
- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? ..... Yes [ ] No [ ] NA [X]
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? ..... Yes [X] No [ ] NA [ ]
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes [X] No [ ]
- 7.2 If yes, give full information:  
Please see user footnote below.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [X] No [ ]
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
Blackstone Alternative Asset Management L.P. (BAAM)	New York, NY					Yes
Blackstone Communications Advisors I L.L.C. (BCOM)	New York, NY					Yes
Blackstone Debt Advisors L.P.	New York, NY					Yes
Blackstone Distressed Securities Advisors L.P.	New York, NY					Yes
Blackstone Management Partners III L.L.C.	New York, NY					Yes
Blackstone Management Partners IV L.L.C.	New York, NY					Yes
Blackstone Management Partners L.P.	New York, NY					Yes
Blackstone Mezzanine Advisors L.P.	New York, NY					Yes
Blackstone Mezzanine Advisors II L.P.	New York, NY					Yes
Blackstone Real Estate Advisors III L.P.	New York, NY					Yes
Blackstone Real Estate Advisors International LLC	New York, NY					Yes
Blackstone Real Estate Advisors International II	New York, NY					Yes
Blackstone Real Estate Advisors IV L.L.C.	New York, NY					Yes
Blackstone Real Estate Advisors L.P.	New York, NY					Yes
Blackstone Real Estate Advisors Europe L.P.	New York, NY					Yes
Blackstone Management Partners L.L.C.	New York, NY					Yes
Blackstone Management Partners L.L.C. (India)	New York, NY					Yes
Blackstone Asia Advisors L.L.C.	New York, NY					Yes
Blackstone Fund Services India Private Limited	New York, NY					Yes
Blackstone Real Estate Advisors V L.P.	New York, NY					Yes
BREA L.P.	New York, NY					Yes

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES GENERAL

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
Blackstone Strategic Alliance Advisors L.L.C.....	New York, NY.....					Yes.....

## GENERAL INTERROGATORIES

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?..... Yes  No
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:  
.....

9.2 Has the code of ethics for senior managers been amended?..... Yes  No

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).  
.....

9.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes  No

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).  
.....

### FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?..... Yes  No

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:.....\$ .....39,263

### INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) ..... Yes  No

11.2 If yes, give full and complete information relating thereto:  
.....

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: .....\$ .....0

13. Amount of real estate and mortgages held in short-term investments: .....\$ .....0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? ..... Yes  No

14.2 If yes, please complete the following:

		1 Prior Year-End Book/Adjusted Carrying Value		2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds .....	\$	.....	\$	.....
14.22 Preferred Stock .....	\$	.....	\$	.....
14.23 Common Stock .....	\$	0	\$	0
14.24 Short-Term Investments .....	\$	.....	\$	.....
14.25 Mortgage Loans on Real Estate .....	\$	.....	\$	.....
14.26 All Other .....	\$	.....	\$	.....
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$	0	\$	0
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above ..	\$	.....	\$	.....

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? ..... Yes  No

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes  No   
If no, attach a description with this statement.

## GENERAL INTERROGATORIES

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?.....

Yes  No

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
State Street Bank and Trust Company.....	225 Liberty Street, New York, NY 10281.....

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? .....

Yes  No

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
Depository Trust Company.....	MacKay..Shields..LLC.....	9..West..57th..Street..New..York..NY 10019.....

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? .....

Yes  No

17.2 If no, list exceptions:

.....

Footnote to 7.2:

As of November 11, 2011, 30 state insurance departments have suspended or revoked FGIC's certificate of authority or taken, or indicated that they intend to take, substantially similar action (OH, FL, VA, NH, MS, NC, AK, MI, WA, CT, AR, ID, WV, MO, SC, OR, AL, KY, IN, ND, NV, WY, LA, CO, CA, MA, TN, IA IL and GA).





STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**

Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, etc.	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama	AL L	2,771	142,500		0	156,648,426	82,326,803
2. Alaska	AK L	25,543	25,683		0		0
3. Arizona	AZ L		0		0		0
4. Arkansas	AR L		0		0		0
5. California	CA L	1,034,265	1,060,111		0		0
6. Colorado	CO L		0		0		0
7. Connecticut	CT L		0		0		0
8. Delaware	DE L		0		0		0
9. District of Columbia	DC L		0		0		0
10. Florida	FL L	147	18,935		0	2,831,727	1,690,460
11. Georgia	GA L	175,486	281,736		0		0
12. Hawaii	HI L		0		0		0
13. Idaho	ID L		0		0		0
14. Illinois	IL L	94,301	100,195		0		0
15. Indiana	IN L	74,577	74,391		0		0
16. Iowa	IA L	93	48		0		0
17. Kansas	KS L	134	55		0		0
18. Kentucky	KY L		0		0		0
19. Louisiana	LA L	322,996	325,278		0		0
20. Maine	ME L	131	54		0		0
21. Maryland	MD L		0		0		0
22. Massachusetts	MA L	597	288		0		0
23. Michigan	MI L	3,780	4,498		0		0
24. Minnesota	MN L	781	383		0		0
25. Mississippi	MS L		0		0		0
26. Missouri	MO L	68	36		0		0
27. Montana	MT L		0		0		0
28. Nebraska	NE L	27	14		0		0
29. Nevada	NV L	228,496	47,990		0		0
30. New Hampshire	NH L		0		0		0
31. New Jersey	NJ L	311,831	313,192		0		0
32. New Mexico	NM L		0		0		0
33. New York	NY L	32,585,042	48,008,962	(10,539,815)	(681,264)	5,092,543,416	3,059,340,198
34. No. Carolina	NC L	56	29		0		0
35. No. Dakota	ND L		0		0		0
36. Ohio	OH L	337	125		0		0
37. Oklahoma	OK L		0		0		0
38. Oregon	OR L		0		0		0
39. Pennsylvania	PA L	356	126		0		0
40. Rhode Island	RI L	7,921	9,662		0		0
41. So. Carolina	SC L		672		0		0
42. So. Dakota	SD L		0		0		0
43. Tennessee	TN L		0		0		0
44. Texas	TX L	201,654	215,641		0	2,376,136	2,136,969
45. Utah	UT L	189	88		0		0
46. Vermont	VT L	15	8		0		0
47. Virginia	VA L		0		0		0
48. Washington	WA L	93	49		0		0
49. West Virginia	WV L		0		0		0
50. Wisconsin	WI L		0		0		0
51. Wyoming	WY L	67	28		0		0
52. American Samoa	AS N		0		0		0
53. Guam	GU N		0		0		0
54. Puerto Rico	PR L		0		0		0
55. U.S. Virgin Islands	VI L		0		0		0
56. Northern Mariana Islands	MP N		0		0		0
57. Canada	CN N		0		0		0
58. Aggregate Other Alien	OT XXX	6,289,645	8,683,255	0	0	0	0
59. Totals	(a) 53	41,361,399	59,314,032	(10,539,815)	(681,264)	5,254,399,705	3,145,494,430
<b>DETAILS OF WRITE-INS</b>							
5801. United Kingdom	XXX	612,666	1,163,431		0		0
5802. Australia	XXX	2,432,700	2,095,682		0		0
5803. Turkey	XXX	1,712,281	3,398,943		0		0
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	1,531,998	2,025,199	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	6,289,645	8,683,255	0	0	0	0

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART**

**NONE**

**PART 1 - LOSS EXPERIENCE**

Line of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire			0.0	0.0
2. Allied lines			0.0	0.0
3. Farmowners multiple peril			0.0	0.0
4. Homeowners multiple peril			0.0	0.0
5. Commercial multiple peril			0.0	0.0
6. Mortgage guaranty			0.0	0.0
8. Ocean marine			0.0	0.0
9. Inland marine			0.0	0.0
10. Financial guaranty	108,144,988	1,501,413,579	1,388.3	544.5
11.1 Medical professional liability - occurrence			0.0	0.0
11.2 Medical professional liability - claims made			0.0	0.0
12. Earthquake			0.0	0.0
13. Group accident and health			0.0	0.0
14. Credit accident and health			0.0	0.0
15. Other accident and health			0.0	0.0
16. Workers' compensation			0.0	0.0
17.1 Other liability occurrence			0.0	0.0
17.2 Other liability - claims made			0.0	0.0
17.3 Excess Workers' Compensation			0.0	0.0
18.1 Products liability - occurrence			0.0	0.0
18.2 Products liability - claims made			0.0	0.0
19.1,19.2 Private passenger auto liability			0.0	0.0
19.3,19.4 Commercial auto liability			0.0	0.0
21. Auto physical damage			0.0	0.0
22. Aircraft (all perils)			0.0	0.0
23. Fidelity			0.0	0.0
24. Surety			0.0	0.0
26. Burglary and theft			0.0	0.0
27. Boiler and machinery			0.0	0.0
28. Credit			0.0	0.0
29. International			0.0	0.0
30. Warranty			0.0	0.0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0.0	0.0
35. TOTALS	108,144,988	1,501,413,579	1,388.3	544.5
<b>DETAILS OF WRITE-INS</b>				
3401.				
3402.				
3403.				
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0.0	0.0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0.0	0.0

**PART 2 - DIRECT PREMIUMS WRITTEN**

Line of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire	0		0
2. Allied lines	0		0
3. Farmowners multiple peril	0		0
4. Homeowners multiple peril	0		0
5. Commercial multiple peril	0		0
6. Mortgage guaranty	0		0
8. Ocean marine	0		0
9. Inland marine	0		0
10. Financial guaranty	13,518,484	41,361,399	59,314,032
11.1 Medical professional liability - occurrence	0		0
11.2 Medical professional liability - claims made	0		0
12. Earthquake	0		0
13. Group accident and health	0		0
14. Credit accident and health	0		0
15. Other accident and health	0		0
16. Workers' compensation	0		0
17.1 Other liability-occurrence	0		0
17.2 Other liability - claims made	0		0
17.3 Excess Workers' Compensation	0		0
18.1 Products liability - occurrence	0		0
18.2 Products liability - claims made	0		0
19.1,19.2 Private passenger auto liability	0		0
19.3,19.4 Commercial auto liability	0		0
21. Auto physical damage	0		0
22. Aircraft (all perils)	0		0
23. Fidelity	0		0
24. Surety	0		0
26. Burglary and theft	0		0
27. Boiler and machinery	0		0
28. Credit	0		0
29. International	0		0
30. Warranty	0		0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0
35. TOTALS	13,518,484	41,361,399	59,314,032
<b>DETAILS OF WRITE-INS</b>			
3401.			
3402.			
3403.			
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0

STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2008 + Prior	2,931,526		2,931,526	(72,503)		(72,503)	4,557,364			4,557,364	1,553,335	0	1,553,335
2. 2009	597,044		597,044	(914)		(914)	463,719			463,719	(134,239)	0	(134,239)
3. Subtotals 2009 + prior	3,528,570	0	3,528,570	(73,417)	0	(73,417)	5,021,083	0	0	5,021,083	1,419,096	0	1,419,096
4. 2010	12,987		12,987	1		1	7,496			7,496	(5,490)	0	(5,490)
5. Subtotals 2010 + prior	3,541,557	0	3,541,557	(73,416)	0	(73,416)	5,028,579	0	0	5,028,579	1,413,606	0	1,413,606
6. 2011	XXX	XXX	XXX	XXX		0	XXX	88,013		88,013	XXX	XXX	XXX
7. Totals	3,541,557	0	3,541,557	(73,416)	0	(73,416)	5,028,579	88,013	0	5,116,592	1,413,606	0	1,413,606
8. Prior Year-End Surplus As Regards Policy-holders	(2,227,084)										Col. 11, Line 7 As % of Col. 1 Line 7	Col. 12, Line 7 As % of Col. 2 Line 7	Col. 13, Line 7 As % of Col. 3 Line 7
											1. 39.9	2. 0.0	3. 39.9
													Col. 13, Line 7 As a % of Col. 1 Line 8
													4. (63.5)

## SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of **NO** to the specific interrogatory will be accepted in lieu of filing on "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter **SEE EXPLANATION** and provide an explanation following the interrogatory questions.

	<u>RESPONSE</u>
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	.....SEE EXPLANATION.....
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	.....NO.....
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	.....NO.....
4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?	.....NO.....

**Explanation:**

1. Company is a United States entity.

2.

3.

4.

**Bar Code:**



Company is a United States entity.

**OVERFLOW PAGE FOR WRITE-INS**

PQ002 Additional Aggregate Lines for Page 02 Line 25.

\*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2504. Prepaid Expenses.....	789,597	789,597	0	0
2597. Summary of remaining write-ins for Line 25 from Page 02	789,597	789,597	0	0

OVERFLOW PAGE FOR WRITE-INS

PQ010 Additional Aggregate Lines for Page 10 Line 58.  
 \*SCT

	1 Active Status	2 Current Year To Date	3 Prior Year To Date	4 Current Year To Date	5 Prior Year To Date	6 Current Year To Date	7 Prior Year To Date
5804. Brazil.....	XXX	949,526	1,084,417		0		0
5805. Mexico.....	XXX	445,697	446,063		0		0
5806. Italy.....	XXX	136,775	494,719		0		0
5807.....	XXX		0		0		0
5808.....	XXX		0		0		0
5809.....	XXX		0		0		0
5810.....	XXX		0		0		0
5811.....	XXX		0		0		0
5812.....	XXX		0		0		0
5813.....	XXX		0		0		0
5814.....	XXX		0		0		0
5815.....	XXX		0		0		0
5816.....	XXX		0		0		0
5817.....	XXX		0		0		0
5818.....	XXX		0		0		0
5819.....	XXX		0		0		0
5820.....	XXX		0		0		0
5821.....	XXX		0		0		0
5822.....	XXX		0		0		0
5823.....	XXX		0		0		0
5824.....	XXX		0		0		0
5825.....	XXX		0		0		0
5826.....	XXX		0		0		0
5827.....	XXX		0		0		0
5828.....	XXX		0		0		0
5829.....	XXX		0		0		0
5830.....	XXX		0		0		0
5831.....	XXX		0		0		0
5832.....	XXX		0		0		0
5833.....	XXX		0		0		0
5834.....	XXX		0		0		0
5835.....	XXX		0		0		0
5836.....	XXX		0		0		0
5837.....	XXX		0		0		0
5838.....	XXX		0		0		0
5839.....	XXX		0		0		0
5840.....	XXX		0		0		0
5841.....	XXX		0		0		0
5842.....	XXX		0		0		0
5843.....	XXX		0		0		0
5844.....	XXX		0		0		0
5845.....	XXX		0		0		0
5846.....	XXX		0		0		0
5847.....	XXX		0		0		0
5848.....	XXX		0		0		0
5849.....	XXX		0		0		0
5850.....	XXX		0		0		0
5851.....	XXX		0		0		0
5852.....	XXX		0		0		0
5853.....	XXX		0		0		0
5854.....	XXX		0		0		0
5855.....	XXX		0		0		0
5856.....	XXX		0		0		0
5857.....	XXX		0		0		0
5858.....	XXX		0		0		0
5859.....	XXX		0		0		0
5860.....	XXX		0		0		0
5861.....	XXX		0		0		0
5862.....	XXX		0		0		0
5863.....	XXX		0		0		0
5864.....	XXX		0		0		0
5865.....	XXX		0		0		0
5866.....	XXX		0		0		0
5867.....	XXX		0		0		0
5868.....	XXX		0		0		0
5869.....	XXX		0		0		0
5870.....	XXX		0		0		0
5871.....	XXX		0		0		0
5872.....	XXX		0		0		0
5873.....	XXX		0		0		0
5874.....	XXX		0		0		0
5875.....	XXX		0		0		0
5876.....	XXX		0		0		0
5877.....	XXX		0		0		0
5878.....	XXX		0		0		0
5879.....	XXX		0		0		0
5880.....	XXX		0		0		0
5881.....	XXX		0		0		0
5882.....	XXX		0		0		0
5883.....	XXX		0		0		0
5884.....	XXX		0		0		0
5885.....	XXX		0		0		0
5886.....	XXX		0		0		0
5887.....	XXX		0		0		0
5888.....	XXX		0		0		0
5889.....	XXX		0		0		0
5890.....	XXX		0		0		0
5891.....	XXX		0		0		0
5892.....	XXX		0		0		0
5893.....	XXX		0		0		0
5894.....	XXX		0		0		0
5895.....	XXX		0		0		0
5897. Summary of remaining write-ins for Line 58 from Page 10	XXX	1,531,998	2,025,199	0	0	0	0

**SCHEDULE A - VERIFICATION**

**Real Estate**

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book/adjusted carrying value, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition	0	0
2.2 Additional investment made after acquisition	0	0
3. Current year change in encumbrances	0	0
4. Total gain (loss) on disposals	0	0
5. Deduct amounts received on disposals	0	0
6. Total foreign exchange change in book/adjusted carrying value	0	0
7. Deduct current year's other than temporary impairment recognized	0	0
8. Deduct current year's depreciation	0	0
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8)	0	0
10. Deduct total nonadmitted amounts	0	0
11. Statement value at end of current period (Line 9 minus Line 10)	0	0

**SCHEDULE B – VERIFICATION**

**Mortgage Loans**

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book value/recorded investment excluding accrued interest, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition	0	0
2.2 Additional investment made after acquisition	0	0
3. Capitalized deferred interest and other	0	0
4. Accrual of discount	0	0
5. Unrealized valuation increase (decrease)	0	0
6. Total gain (loss) on disposals	0	0
7. Deduct amounts received on disposals	0	0
8. Deduct amortization of premium and mortgage interest points and commitment fees	0	0
9. Total foreign exchange change in book value/recorded investment excluding accrued interest	0	0
10. Deduct current year's other than temporary impairment recognized	0	0
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	0
12. Total valuation allowance	0	0
13. Subtotal (Line 11 plus Line 12)	0	0
14. Deduct total nonadmitted amounts	0	0
15. Statement value at end of current period (Line 13 minus Line 14)	0	0

**SCHEDULE BA – VERIFICATION**

**Other Long-Term Invested Assets**

	1 Year To Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book/adjusted carrying value, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition	0	0
2.2 Additional investment made after acquisition	0	0
3. Capitalized deferred interest and other	0	0
4. Accrual of discount	0	0
5. Unrealized valuation increase (decrease)	0	0
6. Total gain (loss) on disposals	0	0
7. Deduct amounts received on disposals	0	0
8. Deduct amortization of premium and depreciation	0	0
9. Total foreign exchange change in book/adjusted carrying value	0	0
10. Deduct current year's other than temporary impairment recognized	0	0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	0
12. Deduct total nonadmitted amounts	0	0
13. Statement value at end of current period (Line 11 minus Line 12)	0	0

**SCHEDULE D – VERIFICATION**

**Bonds and Stocks**

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	561,555,799	1,353,703,967
2. Cost of bonds and stocks acquired	532,117,046	440,545
3. Accrual of discount	1,556,426	2,938,747
4. Unrealized valuation increase (decrease)	(14,898,226)	5,024,456
5. Total gain (loss) on disposals	27,858	52,505,714
6. Deduct consideration for bonds and stocks disposed of	51,668,076	846,117,374
7. Deduct amortization of premium	2,612,530	3,298,177
8. Total foreign exchange change in book/adjusted carrying value	193,111	(3,387,510)
9. Deduct current year's other than temporary impairment recognized	3,539,461	254,569
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	1,022,731,947	561,555,799
11. Deduct total nonadmitted amounts	209,855	16,088,758
12. Statement value at end of current period (Line 10 minus Line 11)	1,022,522,092	545,467,041

STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a).....	1,857,968,593	1,578,574,156	1,442,988,418	(4,661,189)	1,827,340,656	1,857,968,593	1,988,893,142	1,817,014,605
2. Class 2 (a).....	27,410,832	0	200,000	(5,040,151)	21,348,222	27,410,832	22,170,681	21,365,489
3. Class 3 (a).....	0	0	0	0	0	0	0	0
4. Class 4 (a).....	0	0	0	0	0	0	0	0
5. Class 5 (a).....	0	0	0	0	0	0	0	0
6. Class 6 (a).....	1,435,200	0	0	0	1,435,200	1,435,200	1,435,200	1,438,650
7. Total Bonds	1,886,814,625	1,578,574,156	1,443,188,418	(9,701,340)	1,850,124,078	1,886,814,625	2,012,499,023	1,839,818,744
<b>PREFERRED STOCK</b>								
8. Class 1.....	0	0	0	0	0	0	0	3,713,344
9. Class 2.....	0	0	0	0	0	0	0	0
10. Class 3.....	3,713,344	0	0	0	3,713,344	3,713,344	3,713,344	0
11. Class 4.....	0	0	0	0	0	0	0	0
12. Class 5.....	0	0	0	0	0	0	0	0
13. Class 6.....	0	0	0	0	0	0	0	0
14. Total Preferred Stock	3,713,344	0	0	0	3,713,344	3,713,344	3,713,344	3,713,344
15. Total Bonds & Preferred Stock	1,890,527,969	1,578,574,156	1,443,188,418	(9,701,340)	1,853,837,422	1,890,527,969	2,016,212,367	1,843,532,088

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$.....638,040,522 ; NAIC 2 \$.....5,880,000 ; NAIC 3 \$.....0 ; NAIC 4 \$.....0 ; NAIC 5 \$.....0 ; NAIC 6 \$.....0

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**SCHEDULE DA - PART 1****Short-Term Investments**

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999	993,486,328	XXX	994,109,978	162,913	1,271,472

**SCHEDULE DA - VERIFICATION****Short-Term Investments**

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	1,297,860,962	170,651,226
2. Cost of short-term investments acquired .....	2,909,696,118	4,408,606,055
3. Accrual of discount.....	215,873	0
4. Unrealized valuation increase (decrease).....	0	0
5. Total gain (loss) on disposals.....	0	(729,054)
6. Deduct consideration received on disposals.....	3,213,289,322	3,279,788,932
7. Deduct amortization of premium.....	1,010,178	762,015
8. Total foreign exchange change in book/adjusted carrying value.....	21,154	(84,599)
9. Deduct current year's other than temporary impairment recognized.....	8,279	31,719
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	993,486,328	1,297,860,962
11. Deduct total nonadmitted amounts.....	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	993,486,328	1,297,860,962

Schedule DB - Part A - Verification

**NONE**

Schedule DB - Part B- Verification

**NONE**

Schedule DB - Part C - Section 1

**NONE**

Schedule DB - Part C - Section 2

**NONE**

Schedule DB - Verification

**NONE**

**SCHEDULE E-VERIFICATION**

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	204,084	186,376,721
2. Cost of cash equivalents acquired.....	324,863,410	54,084
3. Accrual of discount.....	0	0
4. Unrealized valuation increase (decrease).....	(136)	0
5. Total gain (loss) on disposals.....	0	0
6. Deduct consideration received on disposals.....	324,863,410	186,226,721
7. Deduct amortization of premium.....	0	0
8. Total foreign exchange change in book/adjusted carrying value.....	0	0
9. Deduct current year's other than temporary impairment recognized.....	0	0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	203,948	204,084
11. Deduct total nonadmitted amounts.....	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	203,948	204,084

Schedule A - Part 2

**NONE**

Schedule A - Part 3

**NONE**

Schedule B - Part 2

**NONE**

Schedule B - Part 3

**NONE**

Schedule BA - Part 2

**NONE**

Schedule BA - Part 3

**NONE**

STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator (a)
0599999 - Total	Bonds - U.S. Governments					0	0	0	XXX
EC8772-78-1	France Government Bond O.A.T. 4.000% 0	D	09/23/2011	Caisse Despots		14,527,151	14,380,739	157,078	1FE
ED1030-35-9	France Government Bond O.A.T. 4.000% 1	D	09/23/2011	Caisse Despots		5,362,072	5,058,934	181,937	1FE
1099999 - Total	Bonds - All Other Governments					19,889,222	19,439,673	339,016	XXX
882722-J5-1	Texas State 2.894% 10/01/18		07/26/2011	Depfa First Albany Securities		3,500,000	3,500,000	0	1FE
93974B-MU-3	Washington St 5.000% 01/01/18		07/29/2011	Country Wide		225,208	200,000	889	1FE
1799999 - Total	Bonds - U.S. States, Territories and Possessions					3,725,208	3,700,000	889	XXX
167485-YC-9	Chicago Illinois 5.000% 12/01/21		07/08/2011	Raymond James		6,228,840	6,000,000	35,000	1FE
873465-TY-4	Tacoma Washington 5.000% 12/01/21		07/26/2011	National Financial Services		1,948,800	1,750,000	14,097	1FE
2499999 - Total	Bonds - U.S. Political Subdivisions of States, Territories and Possessions					8,177,640	7,750,000	49,097	XXX
176553-ES-0	Citizens Ppty Ins Corp FLA 5.000% 06/0		07/11/2011	First Union		2,369,961	2,215,000	13,228	1FE
29270C-MA-0	Energy Northwest Wash Elec Rev 5.000%		07/20/2011	Raymond James		3,259,944	3,005,000	10,017	1FE
3128M8-U8-5	FHLMC Pool # G00607 4.500% 06/01/41		07/25/2011	UBS AG		12,427,438	11,949,460	14,937	1
3128MC-Z5-7	FHLMC Pool # G14164 3.500% 05/01/26		07/25/2011	Morgan Stanley		7,638,747	7,441,093	10,852	1
3128P7-RA-3	FHLMC Pool # C91381 4.000% 07/01/31		07/25/2011	Various		12,829,738	12,459,185	13,844	1
312945-ZG-6	FHLMC Pool # A97043 4.500% 02/01/41		07/25/2011	Morgan Stanley		5,103,704	4,908,145	6,135	1
3132GA-HX-9	Federal Home Loan Gold 30 Yr Pool # U604		07/25/2011	Greenwich Capital		14,436,621	13,897,474	17,372	1
3138A4-Y5-8	FNMA Pool # AH3431 3.500% 01/01/26		07/25/2011	Bank of America		1,880,350	1,832,532	2,672	1
3138A6-D8-0	FNMA Pool # AH4626 3.500% 02/01/26		07/25/2011	Barclays Capital Inc.		3,901,434	3,808,019	5,553	1
3138A6-ZA-1	FNMA Pool # AH5236 3.500% 01/01/26		07/25/2011	Various		11,522,922	11,248,734	16,404	1
3138AA-AM-3	FNMA Pool # AH8111 3.000% 03/01/26		09/12/2011	UBS AG		3,698,250	3,561,897	5,343	1
31412N-6G-6	FNMA Pool # 930671 4.500% 03/01/39		07/25/2011	Greenwich Capital		8,255,871	7,913,370	9,892	1
31412P-5L-1	FNMA Pool # 931551 4.500% 07/01/39		07/25/2011	Greenwich Capital		13,896,736	13,320,220	16,650	1
31416C-EZ-5	FNMA Pool # 995752 4.500% 05/01/39		07/25/2011	Greenwich Capital		12,921,752	12,385,685	15,482	1
31416W-U5-9	FNMA Pool # AB1503 3.000% 09/01/25		09/12/2011	UBS AG		2,488,101	2,394,924	3,592	1
31416X-JD-3	FNMA Pool # AB2059 3.500% 01/01/26		07/25/2011	Bank of America		12,956,196	12,626,718	18,414	1
31416Y-5G-9	FNMA Pool # AB3546 4.000% 09/01/31		09/12/2011	Wells Fargo Bank		12,597,397	11,926,530	15,902	1
31417Y-4C-8	FNMA Pool # MA0818 4.000% 08/01/31		07/25/2011	Morgan Stanley		12,809,689	12,447,922	13,831	1
31418D-KG-6	FNMA Pool # MA3894 4.000% 09/01/31		09/12/2011	Barclays Capital Inc.		12,610,039	11,965,049	15,953	1
342816-WZ-4	Florida St Mun Pwr Agy Rev 5.250% 10/0		07/22/2011	National Financial Services		3,652,577	3,330,000	56,333	1FE
452252-CZ-0	Illinois St Toll Hwy Auth 5.000% 01/01		07/13/2011	National Financial Services		7,454,857	7,075,000	16,705	1FE
491189-FC-5	Kentucky Asset 3.165% 04/01/18		07/18/2011	Various		5,371,899	5,350,000	50,293	1FE
57583U-BZ-0	Massachusetts St Dev Fin Agy 4.618% 04		07/20/2011	Depfa First Albany Securities		6,409,178	6,140,000	63,010	1FE
645918-AX-1	New Jersey Economic Dev Auth 5.250% 03		07/25/2011	National Financial Services		2,932,209	2,725,000	58,417	1FE
649902-5X-7	New York St Dorm Auth 5.000% 03/15/20		07/19/2011	First Union		4,043,869	3,470,000	482	1FE
798136-PC-5	San Jose Calif Arpt Rev 5.500% 03/01/2		07/20/2011	Raymond James		5,207,150	5,000,000	110,000	1FE
88283L-CQ-7	Texas St Transn Commn 5.000% 04/01/20		07/27/2011	National Financial Services		1,569,766	1,395,000	23,250	1FE
88283L-EL-6	Texas St Transn Commn 5.000% 04/01/21		07/28/2011	National Financial Services		2,216,936	1,950,000	32,771	1FE
88786P-BR-9	Tippecanoe Cnty Ind Sch Bldg 5.060% 07		07/21/2011	Municenter Broadcort Cap		1,412,928	1,280,000	1,979	1FE
3199999 - Total	Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of ...					207,876,261	199,021,955	639,313	XXX
07388Y-AE-2	Bear Stearns 2007-PW16 A4 5.715% 06/11		07/01/2011	Greenwich Capital		0	0	(240)	1Z*
141781-AX-2	Cargill Inc. 6.000% 11/27/17		08/12/2011	Credit Suisse First Boston		6,202,118	5,180,000	69,067	1FE
14912L-4D-0	Caterpillar Financial Service MTN 7.05		08/11/2011	Goldman Sachs		6,245,434	4,870,000	129,704	1FE
23305X-AB-7	DBUS Mortgage Trust Series 2011-LC2A Cl.		07/07/2011	Deutsche Bank		5,017,188	5,000,000	5,173	1FE
24422E-QV-4	John Deere Capital Corp MTN 5.750% 09/		08/16/2011	Various		6,249,011	5,183,000	131,007	1FE
59156R-AR-9	Met Life Inc. 6.817% 08/15/18		08/12/2011	Goldman Sachs		6,358,380	5,250,000	1,988	1FE
828807-CC-9	Simon Property Group LP 4.200% 02/01/1		08/11/2011	Barclays Capital Inc.		6,283,251	5,850,000	10,238	1FE
89417E-AF-6	Travellers Companies Inc. 5.900% 06/02		08/12/2011	Goldman Sachs		5,791,550	5,000,000	61,458	1FE
92344S-AK-6	Cellco Part/Veri Wireless 8.500% 11/15		08/11/2011	Goldman Sachs		6,234,593	4,625,000	99,373	1FE
92936C-AC-3	WF-RBS Comm Mtge Trust Series 2011-C4 Cl.		07/21/2011	Raymond James		5,049,910	5,000,000	3,838	1Z*
92936G-AA-8	Wells Fargo DB Series 2011 BXR Class A		07/28/2011	National Financial Services		5,999,778	6,000,000	10,376	1Z*
29268B-AB-7	Enel Finance Intl. NV Private Placement	F	08/17/2011	Chase		6,328,620	6,000,000	163,542	1FE
3899999 - Total	Bonds - Industrial, Misc.					65,759,832	57,958,000	685,524	XXX
4199999 - Total	Bonds - Credit Tenant Loans					0	0	0	XXX
4899999 - Total	Bonds - Hybrid Securities					0	0	0	XXX
5599999 - Total	Bonds - Parent, Subsidiaries, Affiliates					0	0	0	XXX
8399997 - Total	Bonds - Part 3					305,428,163	287,869,628	1,713,839	XXX
8399999 - Total	Bonds					305,907,644	287,869,628	1,713,839	XXX

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STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22	
										11	12	13	14	15								
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Indicator (a)	
0599999	Bonds - U.S. Governments					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
EC8772-78-1	France Government Bond 0.A.T. 4.000% 0	D	07/06/2011	Caisse Despots		9,497,090	9,537,810	10,046,530	0	0	(2,390)	0	(2,390)	0	9,491,676	(122,409)	5,413	(116,996)	80,264	04/25/2013	1FE	
ED1030-35-9	France Government Bond 0.A.T. 4.000% 1	D	07/06/2011	Caisse Despots		564,660	538,263	571,332	0	0	(125)	0	(125)	0	564,246	(6,961)	414	(6,548)	15,278	10/25/2013	1FE	
692435-BK-4	U K Conversion Loan 9.000% 07/12/11	D	07/12/2011	Maturity		1,135,992	1,135,992	1,410,449	1,160,512	0	(35,754)	0	(35,754)	107,623	1,135,992	(96,389)	0	(96,389)	100,708	07/12/2011	1FE	
1099999	Bonds - All Other Governments					11,197,741	11,212,065	12,028,311	1,160,512	0	(38,269)	0	(38,269)	107,623	11,191,914	(225,759)	5,827	(219,932)	196,250	XXX	XXX	
1799999	Bonds - U.S. States, Territories and Possessions					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
476575-2N-4	Jersey City NJ 5.380% 09/01/16		09/01/2011	Redemption 100.0000		725,000	725,000	750,955	0	0	(25,955)	0	(25,955)	0	725,000	0	0	0	19,503	09/01/2016	1FE	
2499999	Bonds - U.S. Political Subdivisions of States, Territories and Possessions					725,000	725,000	750,955	0	0	(25,955)	0	(25,955)	0	725,000	0	0	0	19,503	XXX	XXX	
31283K-6E-3	Federal Home Loan Gold 15 Yr Pool # G117		09/01/2011	Paydown		46,350	46,350	45,799	45,865	0	485	0	485	0	46,350	0	0	0	1,568	10/01/2020	1	
3128K8-NW-2	Federal Home Loan Gold 30 Yr Pool # A475		09/01/2011	Paydown		117,112	117,112	112,501	112,640	0	4,472	0	4,472	0	117,112	0	0	0	4,003	11/01/2035	1	
3128KY-6A-2	Federal Home Loan Gold 30 Yr Pool # A680		09/01/2011	Paydown		3,318	3,318	3,398	3,396	0	(78)	0	(78)	0	3,318	0	0	0	144	10/01/2037	1	
3128KY-6C-8	Federal Home Loan Gold 30 Yr Pool # A680		09/01/2011	Paydown		1,961	1,961	2,009	2,008	0	(46)	0	(46)	0	1,961	0	0	0	85	10/01/2037	1	
3128KY-RB-7	Federal Home Loan Gold 30 Yr Pool # A676		09/01/2011	Paydown		5,102	5,102	5,226	5,221	0	(120)	0	(120)	0	5,102	0	0	0	221	10/01/2037	1	
3128M1-CR-8	Federal Home Loan Gold 15 Yr Pool # G119		09/01/2011	Paydown		114,098	114,098	110,541	110,920	0	3,178	0	3,178	0	114,098	0	0	0	3,819	04/01/2021	1	
3128M8-U8-5	FHLNC Pool # 600607 4.500% 06/01/41		09/01/2011	Paydown		53,093	53,093	55,217	0	0	(2,124)	0	(2,124)	0	53,093	0	0	0	199	06/01/2041	1	
3128MC-Z5-7	FHLNC Pool # G14164 3.500% 05/01/26		09/01/2011	Paydown		41,006	41,006	42,096	0	0	(1,089)	0	(1,089)	0	41,006	0	0	0	120	05/01/2026	1	
3128MJ-FQ-8	Federal Home Loan Gold 30 Yr Pool # G081		09/01/2011	Paydown		82,407	82,407	82,800	82,792	0	(385)	0	(385)	0	82,407	0	0	0	3,262	01/01/2037	1	
3128P7-RA-3	FHLNC Pool # C91381 4.000% 07/01/31		09/01/2011	Paydown		42,203	42,203	43,459	0	0	(1,255)	0	(1,255)	0	42,203	0	0	0	141	07/01/2031	1	
31292J-BG-4	Federal Home Loan Pool # CO1839 5.000%		09/01/2011	Paydown		213,554	213,554	207,981	208,225	0	5,328	0	5,328	0	213,554	0	0	0	7,220	05/01/2034	1	
312945-ZG-6	FHLNC Pool # A97043 4.500% 02/01/41		09/01/2011	Paydown		15,778	15,778	16,407	0	0	(629)	0	(629)	0	15,778	0	0	0	59	02/01/2041	1	
312968-JE-1	Federal Home Loan Gold 15 Yr Pool # B156		09/01/2011	Paydown		191,964	191,964	189,564	190,102	0	1,862	0	1,862	0	191,964	0	0	0	5,655	07/01/2019	1	
31297B-3N-0	Federal Home Loan Gold 30 Yr Pool # A244		09/01/2011	Paydown		10,313	10,313	10,575	10,562	0	(249)	0	(249)	0	10,313	0	0	0	407	07/01/2034	1	
31297U-AZ-3	Federal Home Loan Gold 30 Yr Pool # A381		09/01/2011	Paydown		118,933	118,933	118,431	118,439	0	493	0	493	0	118,933	0	0	0	4,243	09/01/2035	1	
3132GA-HX-9	Federal Home Loan Gold 30 Yr Pool # U604		09/01/2011	Paydown		45,318	45,318	47,076	0	0	(1,758)	0	(1,758)	0	45,318	0	0	0	170	03/01/2041	1	
31371L-CB-3	FNMA Conventional Loan Pool # 254866 5		09/01/2011	Paydown		74,591	74,591	76,013	75,540	0	(949)	0	(949)	0	74,591	0	0	0	2,451	09/01/2018	1	
31371L-JS-9	FNMA Conventional Loan Pool # 255073 5		09/01/2011	Paydown		171,250	171,250	175,183	174,975	0	(3,725)	0	(3,725)	0	171,250	0	0	0	6,226	02/01/2034	1	
31371L-M4-8	FNMA Conventional Loan Pool # 255179 5		09/01/2011	Paydown		194,910	194,910	197,864	197,692	0	(2,782)	0	(2,782)	0	194,910	0	0	0	7,102	04/01/2034	1	
31371L-MZ-9	FNMA Conventional Loan Pool # 255176 4		09/01/2011	Paydown		163,655	163,655	163,016	163,052	0	604	0	604	0	163,655	0	0	0	4,933	04/01/2019	1	
31371L-QV-4	FNMA Conventional Loan Pool # 255268 5		09/01/2011	Paydown		174,251	174,251	170,439	170,588	0	3,663	0	3,663	0	174,251	0	0	0	5,976	07/01/2034	1	
31371L-VD-8	FNMA Conventional Loan Pool # 255412 6		09/01/2011	Paydown		191,662	191,662	191,722	191,690	0	(28)	0	(28)	0	191,662	0	0	0	7,610	10/01/2034	1	
3138A4-Y5-8	FNMA Pool # AH3431 3.500% 01/01/26		09/01/2011	Paydown		17,257	17,257	17,707	0	0	(450)	0	(450)	0	17,257	0	0	0	50	01/01/2026	1	
3138A6-D8-0	FNMA Pool # AH4626 3.500% 02/01/26		09/01/2011	Paydown		35,357	35,357	36,224	0	0	(867)	0	(867)	0	35,357	0	0	0	103	02/01/2026	1	
3138A6-ZA-1	FNMA Pool # AH5236 3.500% 01/01/26		09/01/2011	Paydown		98,237	98,237	100,631	0	0	(2,395)	0	(2,395)	0	98,237	0	0	0	287	01/01/2026	1	
31391C-5F-8	FNMA Conventional Loan Pool # 663346 5		09/01/2011	Paydown		23,782	23,782	23,740	23,731	0	51	0	51	0	23,782	0	0	0	871	09/01/2017	1	

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STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
31391D-PG-2	FNMA Conventional Loan Pool # 663823 5		09/01/2011	Paydown		1,341	1,341	1,339	1,339	.0	.3	.0	.3	.0	1,341	.0	.0	.0	.48	12/01/2017	1
31400F-XS-1	FNMA Conventional Loan Pool # 686589 5		09/01/2011	Paydown		.477	.477	.476	.476	.0	.1	.0	.1	.0	.477	.0	.0	.0	.18	02/01/2018	1
31402C-4H-2	FNMA Conventional Loan Pool # 725424 5		09/01/2011	Paydown		96,373	96,373	96,900	96,864	.0	(.491)	.0	(.491)	.0	96,373	.0	.0	.0	3,527	04/01/2034	1
31402C-WR-9	FNMA Conventional Loan Pool # 725256 5		09/01/2011	Paydown		69,791	69,791	69,682	69,675	.0	.117	.0	.117	.0	69,791	.0	.0	.0	2,506	02/01/2034	1
31402D-KH-2	FNMA Conventional Loan Pool # 725796 5		09/01/2011	Paydown		10,210	10,210	10,176	10,175	.0	.35	.0	.35	.0	10,210	.0	.0	.0	.371	09/01/2019	1
31402D-P7-9	FNMA Conventional Loan Pool # 725946 5		09/01/2011	Paydown		127,139	127,139	126,305	126,316	.0	.823	.0	.823	.0	127,139	.0	.0	.0	4,679	11/01/2034	1
31402H-YG-0	FNMA Conventional Loan Pool # 729811 5		09/01/2011	Paydown		96,389	96,389	99,191	98,324	.0	(1,935)	.0	(1,935)	.0	96,389	.0	.0	.0	3,203	01/01/2019	1
31402O-SZ-5	FNMA Conventional Loan Pool # 735036 5		09/01/2011	Paydown		120,060	120,060	119,169	119,182	.0	.878	.0	.878	.0	120,060	.0	.0	.0	4,431	12/01/2034	1
31402O-WA-5	FNMA Conventional Loan Pool # 735141 5		09/01/2011	Paydown		107,197	107,197	103,705	103,815	.0	3,382	.0	3,382	.0	107,197	.0	.0	.0	3,945	01/01/2035	1
31402R-D2-2	FNMA Conventional Loan Pool # 735521 5		09/01/2011	Paydown		32,514	32,514	32,433	32,427	.0	.87	.0	.87	.0	32,514	.0	.0	.0	1,191	03/01/2020	1
31403C-ZZ-3	FNMA Conventional Loan Pool # 745192 5		09/01/2011	Paydown		18,625	18,625	18,563	18,562	.0	.64	.0	.64	.0	18,625	.0	.0	.0	684	06/01/2020	1
31403E-FQ-5	FNMA Conventional Loan Pool # 746375 5		09/01/2011	Paydown		125,547	125,547	129,078	128,036	.0	(2,489)	.0	(2,489)	.0	125,547	.0	.0	.0	4,427	10/01/2018	1
31403J-YU-4	FNMA Conventional Loan Pool # 750523 5		09/01/2011	Paydown		8,928	8,928	9,181	9,109	.0	(181)	.0	(181)	.0	8,928	.0	.0	.0	284	01/01/2019	1
31403K-SM-6	FNMA Conventional Loan Pool # 751224 5		09/01/2011	Paydown		9,915	9,915	10,150	10,106	.0	(192)	.0	(192)	.0	9,915	.0	.0	.0	364	02/01/2034	1
31403N-HV-2	FNMA Conventional Loan Pool # 753644 5		09/01/2011	Paydown		29,002	29,002	30,058	29,802	.0	(800)	.0	(800)	.0	29,002	.0	.0	.0	1,057	11/01/2018	1
31403R-KJ-6	FNMA Conventional Loan Pool # 755497 5		09/01/2011	Paydown		6,032	6,032	6,018	6,016	.0	.16	.0	.16	.0	6,032	.0	.0	.0	232	11/01/2018	1
31403V-ED-7	FNMA Conventional Loan Pool # 758932 5		09/01/2011	Paydown		31,714	31,714	32,611	32,354	.0	(640)	.0	(640)	.0	31,714	.0	.0	.0	1,013	01/01/2019	1
31403W-BU-0	FNMA Conventional Loan Pool # 759751 5		09/01/2011	Paydown		42,423	42,423	42,913	42,881	.0	(458)	.0	(458)	.0	42,423	.0	.0	.0	1,736	01/01/2034	1
31403X-YW-9	FNMA Conventional Loan Pool # 761325 5		09/01/2011	Paydown		11,384	11,384	11,348	11,347	.0	.37	.0	.37	.0	11,384	.0	.0	.0	432	04/01/2019	1
31404A-G5-7	FNMA Conventional Loan Pool # 762620 5		09/01/2011	Paydown		25,113	25,113	25,729	25,696	.0	(582)	.0	(582)	.0	25,113	.0	.0	.0	938	12/01/2033	1
31404B-3G-5	FNMA Conventional Loan Pool # 764099 5		09/01/2011	Paydown		5,408	5,408	5,434	5,432	.0	(24)	.0	(24)	.0	5,408	.0	.0	.0	180	03/01/2034	1
31404B-QD-7	FNMA Conventional Loan Pool # 763752 5		09/01/2011	Paydown		35,982	35,982	35,965	35,959	.0	.23	.0	.23	.0	35,982	.0	.0	.0	1,268	01/01/2034	1
31404K-FX-5	FNMA Conventional Loan Pool # 770682 5		09/01/2011	Paydown		146,931	146,931	147,643	147,593	.0	(662)	.0	(662)	.0	146,931	.0	.0	.0	4,916	04/01/2034	1
31404V-VP-0	FNMA Conventional Loan Pool # 780122 5		09/01/2011	Paydown		6,786	6,786	6,637	6,645	.0	140	.0	140	.0	6,786	.0	.0	.0	226	05/01/2034	1
31405A-TF-0	FNMA Conventional Loan Pool # 783650 5		09/01/2011	Paydown		169,789	169,789	162,891	163,156	.0	6,633	.0	6,633	.0	169,789	.0	.0	.0	5,824	06/01/2034	1
31405F-4E-9	FNMA Conventional Loan Pool # 788421 5		09/01/2011	Paydown		1,655	1,655	1,650	1,650	.0	.5	.0	.5	.0	1,655	.0	.0	.0	.64	09/01/2019	1
31405F-4M-1	FNMA Conventional Loan Pool # 788428 5		09/01/2011	Paydown		8,749	8,749	8,720	8,719	.0	.30	.0	.30	.0	8,749	.0	.0	.0	320	09/01/2019	1
31406G-YR-4	FNMA Conventional Loan Pool # 809920 5		09/01/2011	Paydown		99,000	99,000	99,882	99,807	.0	(807)	.0	(807)	.0	99,000	.0	.0	.0	4,041	03/01/2035	1
31407H-F7-6	FNMA Conventional Loan Pool # 830990 6		09/01/2011	Paydown		84,044	84,044	83,539	83,544	.0	500	.0	500	.0	84,044	.0	.0	.0	3,511	08/01/2035	1
31407H-PD-2	FNMA Conventional Loan Pool # 831220 6		09/01/2011	Paydown		159,530	159,530	161,574	161,483	.0	(1,952)	.0	(1,952)	.0	159,530	.0	.0	.0	6,655	01/01/2036	1
31407X-NV-9	FNMA Conventional Loan Pool # 843804 6		09/01/2011	Paydown		6,890	6,890	6,952	6,950	.0	(60)	.0	(60)	.0	6,890	.0	.0	.0	277	11/01/2035	1
31410B-2S-2	FNMA Conventional Loan Pool # 884685 6		09/01/2011	Paydown		6,702	6,702	6,769	6,765	.0	(63)	.0	(63)	.0	6,702	.0	.0	.0	268	04/01/2036	1
31410C-OT-2	FNMA Conventional Loan Pool # 885266 6		09/01/2011	Paydown		52,263	52,263	52,786	52,758	.0	(495)	.0	(495)	.0	52,263	.0	.0	.0	2,090	05/01/2036	1

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STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22	
										11	12	13	14	15								
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)	
31410E-MG-0	FNMA Conventional Loan Pool # 886959 6		09/01/2011	Paydown		90,723	90,723	90,355	90,354	0	369	0	369	0	90,723	0	0	0	3,769	06/01/2036	1	
31410G-AF-0	FNMA Conventional Loan Pool # 888406 5		09/01/2011	Paydown		146,172	146,172	138,384	138,595	0	7,577	0	7,577	0	146,172	0	0	0	4,860	08/01/2036	1	
31411H-RS-1	FNMA Conventional Loan Pool # 908697 6		09/01/2011	Paydown		225,187	225,187	227,439	227,282	0	(2,095)	0	(2,095)	0	225,187	0	0	0	9,285	08/01/2036	1	
31412N-6G-6	4.500% 03/01/39 FNMA Pool # 930671		09/01/2011	Paydown		103,069	103,069	107,530	0	0	(4,461)	0	(4,461)	0	103,069	0	0	0	387	03/01/2039	1	
31412P-5L-1	4.500% 07/01/39 FNMA Pool # 995752		09/01/2011	Paydown		119,528	119,528	124,702	0	0	(5,173)	0	(5,173)	0	119,528	0	0	0	448	07/01/2039	1	
31416C-EZ-5	4.500% 05/01/39 FNMA Pool # AB2059		09/01/2011	Paydown		148,979	148,979	155,427	0	0	(6,448)	0	(6,448)	0	148,979	0	0	0	559	05/01/2039	1	
31416X-JD-3	3.500% 01/01/26 FNMA Pool # MA0818		09/01/2011	Paydown		137,437	137,437	141,024	0	0	(3,586)	0	(3,586)	0	137,437	0	0	0	401	01/01/2026	1	
31417Y-4C-8	4.000% 08/01/31 New York State Dorm Auth		09/01/2011	Paydown		58,987	58,987	60,701	0	0	(1,714)	0	(1,714)	0	58,987	0	0	0	197	08/01/2031	1	
649836-5C-3	Rev Ref-City Un. South Carolina Hsg Fin & Dev AMT- Ser A		07/01/2011	Maturity	100.0000	1,650,000	1,650,000	1,692,323	1,662,426	0	(12,426)	0	(12,426)	0	1,650,000	0	0	0	94,875	07/01/2011	1FE	
83712D-KU-9	Call 100.0000		07/01/2011	Call	100.0000	80,000	80,000	71,054	71,355	0	8,645	0	8,645	0	80,000	0	0	0	4,400	07/01/2034	1FE	
3199999	Total - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of ...					6,761,449	6,761,449	6,810,024	5,830,414	0	(17,166)	0	(17,166)	0	6,761,449	0	0	0	250,832	XXX	XXX	
07388Y-AE-2	Bear Stearns 2007-PW16 A4 5.715% 06/11 DBUS Mortgage Trust Series 2011-LC2A Cl.		07/01/2011	Basis Adjustment		0	(3,250,000)	(29,593)	0	0	0	0	0	0	(27,641)	0	27,641	27,641	0	05/01/2017	12*	
23305X-AB-7	Morgan Stanley Capital I 2005-H06 A2A		07/01/2011	Basis Adjustment		0	(6,000,000)	(47,955)	0	0	0	0	0	0	(48,572)	0	48,572	48,572	0	06/01/2016	1FE	
61745M-6D-0	US Bank NA Minnesota 6.375% 08/01/11 Union Pacific Railroad		09/01/2011	Paydown		140,130	140,130	136,575	140,130	0	0	0	0	0	140,130	0	0	0	4,868	08/13/2042	12*	
90333W-AA-6	5.082% 01/02/29 WF-RBS Comm Mte Trust Series 2011-C3 Cl.		08/01/2011	Maturity	100.0000	1,000,000	1,000,000	1,088,930	1,009,733	0	(9,733)	0	(9,733)	0	1,000,000	0	0	0	63,750	08/01/2011	1FE	
90783V-AA-3	5.082% 01/02/29 WF-RBS Comm Mte Trust Series 2011-C3 Cl.		07/02/2011	Redemption	100.0000	12,989	12,989	12,423	12,440	0	549	0	549	0	12,989	0	0	0	660	01/02/2029	1	
92935V-AE-8	Series 2011-C3 Cl.		07/01/2011	Basis Adjustment		0	(10,000,000)	(172,406)	0	0	0	0	0	0	(171,577)	0	171,577	171,577	0	11/01/2020	1FE	
3899999	Total - Bonds - Industrial and Miscellaneous					1,153,119	(18,096,881)	987,974	1,162,303	0	(9,184)	0	(9,184)	0	905,329	0	247,790	247,790	69,278	XXX	XXX	
4199999	Total - Bonds - Credit Tenant Loans					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
4899999	Total - Bonds - Hybrid Securities					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
5599999	Total - Bonds - Parent, Subsidiaries and Affiliates					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
8399997	Total - Bonds - Part 4					19,837,309	601,633	20,577,264	8,153,229	0	(90,573)	0	(90,573)	107,623	19,583,692	(225,759)	253,617	27,858	535,861	XXX	XXX	
8399999	Total - Bonds					19,837,309	601,633	20,577,264	8,153,229	0	(90,573)	0	(90,573)	107,623	19,583,692	(225,759)	253,617	27,858	535,861	XXX	XXX	
8499999	Total - Preferred Stocks - Industrial and Miscellaneous					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
8599999	Total - Preferred Stocks - Parent, Subsidiaries and Affiliates					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
8999997	Total - Preferred Stocks - Part 4					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
8999999	Total - Preferred Stocks					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9099999	Total - Common Stocks - Industrial and Miscellaneous					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9199999	Total - Common Stocks - Parent, Subsidiaries and Affiliates					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9299999	Total - Common Stocks - Mutual Funds					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9399999	Total - Common Stocks - Money Market Mutual Funds					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9799997	Total - Common Stocks - Part 4					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9799999	Total - Common Stocks					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9899999	Total - Preferred and Common Stocks					0	XXX	0	0	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
9999999	Totals					19,837,309	XXX	20,577,264	8,153,229	0	(90,573)	0	(90,573)	107,623	19,583,692	(225,759)	253,617	27,858	535,861	XXX	XXX	

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

E05.2

Schedule DB - Part A - Section 1

**NONE**

Sch. DB - Pt. A - Sn. 1 - Footnote (a)

**NONE**

Schedule DB - Part B - Section 1

**NONE**

Sch. DB - Pt. B - Sn. 1 - Footnotes

**NONE**

Schedule DB - Part D

**NONE**

Schedule DL - Part 1

**NONE**

Schedule DL - Part 2

**NONE**



STATEMENT AS OF SEPTEMBER 30, 2011 OF THE FINANCIAL GUARANTY INSURANCE COMPANY

**SCHEDULE E - PART 2 - CASH EQUIVALENTS**

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
0199999 - U.S. Governments - Issuer Obligations					0	0	0
0299999 - U.S. Governments - Residential Mortgage-Backed Securities					0	0	0
0399999 - All Other Governments - Commercial Mortgage-Backed Securities					0	0	0
0499999 - All Other Governments - Other Loan-Backed and Structured Securities					0	0	0
0599999 - Total - U.S. Government Bonds					0	0	0
0699999 - All Other Governments - Issuer Obligations					0	0	0
0799999 - All Other Governments - Residential Mortgage-Backed Securities					0	0	0
0899999 - All Other Governments - Commercial Mortgage-Backed Securities					0	0	0
0999999 - All Other Governments - Other Loan-Backed and Structured Securities					0	0	0
1099999 - Total - All Other Government Bonds					0	0	0
1199999 - U.S. States, Territories and Possessions - Issuer Obligations					0	0	0
1299999 - U.S. States, Territories and Possessions - Residential Mortgage-Backed Securities					0	0	0
1399999 - U.S. States, Territories and Possessions - Commercial Mortgage-Backed Securities					0	0	0
1499999 - U.S. States, Territories and Possessions - Other Loan-Backed and Structured Securities					0	0	0
1799999 - Total - States, Territories and Possessions Bonds					0	0	0
1899999 - U.S. Political Subdivisions - Issuer Obligations					0	0	0
1999999 - U.S. Political Subdivisions - Residential Mortgage-Backed Securities					0	0	0
2099999 - U.S. Political Subdivisions - Commercial Mortgage-Backed Securities					0	0	0
2199999 - U.S. Political Subdivisions - Other Loan-Backed and Structured Securities					0	0	0
2499999 - Total - U.S. Political Subdivisions Bonds					0	0	0
2599999 - U.S. Special Revenue - Issuer Obligations					0	0	0
2699999 - U.S. Special Revenue - Residential Mortgage-Backed Securities					0	0	0
2799999 - U.S. Special Revenue - Commercial Mortgage-Backed Securities					0	0	0
2899999 - U.S. Special Revenue - Other Loan-Backed and Structured Securities					0	0	0
3199999 - Total - Special Revenue Bonds					0	0	0
3299999 - Industrial and Miscellaneous - Issuer Obligations					0	0	0
3399999 - Industrial and Miscellaneous - Residential Mortgage-Backed Securities					0	0	0
3499999 - Industrial and Miscellaneous - Commercial Mortgage-Backed Securities					0	0	0
3599999 - Industrial and Miscellaneous - Other Loan-Backed and Structured Securities					0	0	0
3899999 - Total - Industrial and Miscellaneous Bonds					0	0	0
3999999 - Credit Tenant Loans - Issuer Obligations					0	0	0
4099999 - Credit Tenant Loans - Commercial Mortgage-Backed Securities					0	0	0
4199999 - Total - Credit Tenant Loans					0	0	0
4299999 - Hybrid Securities - Issuer Obligations					0	0	0
4399999 - Hybrid Securities - Residential Mortgage-Backed Securities					0	0	0
4499999 - Hybrid Securities - Commercial Mortgage-Backed Securities					0	0	0
4599999 - Hybrid Securities - Other Loan-Backed and Structured Securities					0	0	0
4899999 - Total - Hybrid Securities					0	0	0
4999999 - Parent, Subsidiaries and Affiliates Bonds - Issuer Obligations					0	0	0
5099999 - Parent, Subsidiaries and Affiliates Bonds - Residential Mortgage-Backed Securities					0	0	0
5199999 - Parent, Subsidiaries and Affiliates Bonds - Commercial Mortgage-Backed Securities					0	0	0
5299999 - Parent, Subsidiaries and Affiliates Bonds - Other Loan-Backed and Structured Securities					0	0	0
5599999 - Total - Parent, Subsidiaries and Affiliates Bonds					0	0	0
7799999 - Total - Issuer Obligations					0	0	0
7899999 - Total - Residential Mortgage-Backed Securities					0	0	0
7999999 - Total - Commercial Mortgage-Backed Securities					0	0	0
8099999 - Total - Other Loan-Backed and Structured Securities					0	0	0
8399999 - Total - Bonds					0	0	0
8499999 - Sweep Accounts					0	0	0
JP Morgan Cash Collateral Money Market.....		09/30/2011.....	0.000.....	10/01/2011.....	150,000.....	.....	.....
State Street Operating Cash.....		09/30/2011.....	0.000.....	10/01/2011.....	53,948.....	.....	.....
8599999 - Other Cash Equivalents					203,948	0	0
<b>8699999 Total Cash Equivalents</b>					<b>203,948</b>	<b>0</b>	<b>0</b>

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