



Fitch Downgrades FGIC to 'BBB'; Outlook Negative

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Fitch Ratings-New York-26 March 2008: Fitch Ratings has downgraded the following ratings on FGIC Corporation (FGIC Corp.) and its financial guaranty insurance subsidiaries Financial Guaranty Insurance Company (FGIC) and FGIC UK Ltd. to the following:

FGIC
FGIC UK Ltd.
--Insurer financial strength (IFS) to 'BBB' from 'AA'.

FGIC Corp.
--Long-term Issuer to 'BB' from 'A';
--\$325 million of 6% senior notes due Jan. 15, 2034 'BB' from 'A'.

Fitch has also removed the affected ratings from Rating Watch Negative, where they were originally placed on Dec. 17, 2007. The Rating Outlook is Negative.

The downgrade on FGIC is based on Fitch's updated assessment of the company's capital position, a review by Fitch of FGIC's updated business plan, consideration of various qualitative ratings factors, and an update on Fitch's current views of U.S. subprime related risks.

Fitch believes that FGIC's \$5 billion claims paying resources as of Sept. 30, 2007 is commensurate with capital guidelines for a 'BBB' IFS rating. In addition, Fitch believes the claims paying resources fall below the agency's targeted 'AAA', 'AA', and 'A' IFS ratings ranges by the following amounts:

--'AAA' capital shortfall of \$5.1 to \$5.3 billion;
--'AA' capital shortfall of \$3.1 to \$3.5 billion;
--'A' capital shortfall of \$800 million to \$1.7 billion.

Fitch notes that FGIC's future business plans include a focus on its traditional lower-risk global municipal finance and infrastructure businesses, while avoiding the more riskier structured finance business lines. FGIC has proposed to the New York Insurance Department a restructuring of its operations calling for the establishment of a newly licensed insurance entity that will focus solely on global municipal finance and infrastructure. In the interim, with the loss of its top credit ratings from all three of the major global rating agencies, an inability to date to raise new external capital, and a recognition that the company could fall below prescribed regulatory minimum capital requirements under New York State Insurance law, FGIC has decided to cease underwriting new financial guaranty business for a period of time to preserve capital. The suspension of new underwritings should help improve FGIC's capital position as the company will benefit from the amortization of existing insured obligations, some of which exhaust a material amount of targeted capital resources.

Going forward, Fitch believes that it will be very difficult to stabilize the ratings of FGIC until the company can both raise external capital and more effectively limit the downside risk from its SF CDOs through reinsurance or other risk mitigation initiatives. Fitch does not anticipate removing the Negative Rating Outlook over the near-to-intermediate-term until the risk of loss on the SF CDOs portfolio can be more definitively quantified.

Furthermore, future rating actions will likely depend on clarification of FGIC's long-term management and leadership direction, and demonstration that management can successfully execute its strategic business plans. These qualitative business, management and franchise-related factors will take on added consideration in future ratings reviews.

Favorably, Fitch notes that FGIC maintains solid liquidity, as the company would not be expected to pay a majority of its future claims, particularly on SF CDOs, for many years into the future. In addition, FGIC is subject to few collateral posting or termination provisions that could effectively accelerate the draw on its existing capital resources.

FGIC has recently filed suit in Supreme Court of the State of New York against several parties, alleging they fraudulently induced FGIC to enter into a commitment to issue a financial guaranty policy. The financial guaranty policy would cover the risk of losses on a large SF CDO, known as Havenrock II, which is deteriorating rapidly. Projected losses on the Havenrock II transaction account for a material percentage of the aggregate SF CDO losses Fitch expects FGIC will incur. Via the lawsuit, FGIC is seeking to terminate its commitment. While Fitch is not in a position to opine on the validity or merits of the existing legal dispute, Fitch notes that a ruling in FGIC's favor could positively impact the company's capital position and credit ratings in the future. Fitch believes it could be several years before the dispute is settled.

Fitch notes that the downgrade today incorporates the agency's updated analysis of FGIC's \$12.9 billion gross exposure to SF CDOs, and the implications this analysis has on Fitch's view of FGIC's overall capital adequacy position. Fitch currently believes that expected losses on FGIC's SF CDO portfolio will ultimately fall within a range of \$2.8 to \$3.8 billion. These totals reflect Fitch's current estimates of the range of future losses that FGIC would be expected to incur over the life of these transactions, stated on a present value basis. The range of outcomes reflects the unknown magnitude of residential mortgage losses on SF CDOs insured by FGIC. From a present value perspective, Fitch discounts the expected future loss rates by 5% over a two-year period for CDO-squareds, five years for mezzanine SF CDOs and seven years for high-grade SF CDOs.

Fitch's analysis of expected losses includes an assumption that underlying cumulative loss rates on residential mortgages supporting outstanding subprime residential mortgage-backed securities (RMBS) pools will average 21% in the 2006 vintage year and 26% for the 2007 vintage year. These assumed cumulative loss rates are consistent with those currently used by Fitch for its ratings of outstanding RMBS transactions.

Given Fitch's current projected loss estimates for 2006-2007 vintage subprime RMBS, it is expected that a high percentage of the underlying tranches that were originally rated below 'AAA' will potentially default and suffer significant losses. This development is expected to result in losses elevating high into the capital structure for many SF CDOs. Only those RMBS and SF CDO transactions from the 2006-2007 vintages that maintained very healthy levels of initial subordination are expected to avoid experiencing losses in the future.

Fitch believes for modeling purposes that its expected loss estimates for SF CDOs fall approximately to an 'A' level ratings stress. Accordingly, in order to address the necessary level of capital to support a financial guarantor at the highest rating levels, expected losses are further stressed to arrive at 'AA' and 'AAA' capital thresholds. This is done to capture the risk that losses could grow higher than expected due to a more severe downturn in the economy, sharper than expected declines in home prices, higher than expected loan defaults, or other adverse developments beyond expectations. These additional stresses were included in the capital targets highlighted above.

Fitch's assessment of FGIC's capital adequacy also incorporated existing deterioration to the company's insured RMBS portfolio, particularly transactions backed by prime second-lien mortgages, which totaled approximately \$19.1 billion as of Sept. 30, 2007 or subprime RMBS transactions. Given current market conditions, many of these transactions have come under considerable ratings pressure, which increases capital requirements, and several transactions are ultimately expected to result in claims. Stress related to both SF CDOs and RMBS were largely responsible for FGIC Corp. posting in the fourth quarter of 2007, loss and loss adjustment expenses (LAE) expense of \$1.2 billion. In addition to the loss and LAE expense, FGIC also took a \$751 million permanent impairment against its SF CDO written via credit derivative execution.

Fitch will comment on the impact of the downgrade of FGIC's IFS rating on the ratings of securities insured by FGIC in a separate release.

FGIC Corp. is a U.S. holding company whose primary operating financial guaranty subsidiaries are FGIC and FGIC U.K Ltd. For Dec. 31, 2007, FGIC Corp. reported consolidated assets under Generally Accepted Accounting Principles of \$6.4 billion and shareholders' equity of approximately \$584 million. On an aggregated basis, net par outstanding for FGIC totaled \$314 billion as of Dec. 31, 2007.

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