



## Fitch Places FGIC on Rating Watch Negative After CDO & RMBS Review [Ratings](#)

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Fitch Ratings-New York-17 December 2007: Fitch Ratings has placed the following ratings of FGIC Corporation (FGIC Corp.) and subsidiaries Financial Guaranty Insurance Co. (FGIC) and FGIC UK Ltd. on Rating Watch Negative:

FGIC Corp.

–Long-term 'AA'.

–\$325 million of 6% senior notes due Jan. 15, 2034 'AA'.

Financial Guaranty Insurance Company

FGIC UK Ltd.

–Insurer financial strength 'AAA'.

This action follows the completion of the updated assessment by Fitch into FGIC's current exposure to structured finance collateralized debt obligations (SF CDOs) backed by subprime mortgage collateral and one CDO-Squared deal, as well as FGIC's exposure to residential mortgage-backed securities (RMBS). This review indicates that FGIC's capital adequacy under Fitch's Matrix financial guaranty capital model currently falls below guidelines for an 'AAA' IFS rating by more than \$1 billion, due to downgrades by Fitch in a number of FGIC's insured SF CDO's coupled with some deterioration in the company's RMBS portfolio, including second-lien mortgage securitizations.

If within the next four-to-six weeks, FGIC is able to obtain firm capital commitments, and/or put in place reinsurance or other risk mitigation measures in order to meet capital guidelines, Fitch would expect to affirm FGIC's ratings with a Stable Rating Outlook. If FGIC is unable to meet capital guidelines in the noted time frame, Fitch would expect to downgrade FGIC's ratings. In that event, Fitch anticipates downgrading FGIC's IFS rating no lower than one or two notches. FGIC and its investor group have presented plans to Fitch about bolstering FGIC's capital position to support an 'AAA' IFS rating. While the basics of the plan would appear to be sufficient to restore FGIC's 'AAA' rating and Stable Outlook, execution of the plan could be challenged by individual requirements at each of FGIC's primary investors.

Fitch's review has mainly centered on FGIC's \$12.8 billion exposure to SF CDOs and one CDO-squared as of Sept. 30, 2007. The majority of these transactions have been underwritten in the past two years, and backed by collateral of the vintages that have been most exposed to material credit deterioration according to Fitch. In addition, Fitch has factored in deterioration that has taken place or is expected to take place in FGIC's RMBS portfolio, with emphasis centered on the company's exposure to second-lien mortgage securitizations, which totaled \$19.1 billion at Sept. 30, 2007.

The SF CDOs insured by FGIC were in almost all cases originally rated 'AAA' by Fitch, Moody's Investor Services, and/or Standard & Poor's (a Division of the McGraw-Hill Companies, Inc.). In cases for which Fitch did not originally rate one of the insured SF CDO transactions, Fitch completed its own updated rating assessment, and used that assessment for purposes of its current capital modeling analysis.

Fitch's assessments indicate that a number of FGIC's insured SF CDOs and its CDO-Squared would now be rated well below the 'AAA' rating category, with a number of transactions falling to the 'BBB' or non-investment grade rating categories. This has been caused by existing and expected credit deterioration of the underlying subprime mortgages or other SF CDO collateral backing these transactions. In addition, existing downgrades to FGIC's RMBS portfolio as well as stresses that assume more deterioration could occur also had a noticeable contribution to the increase in simulated losses to Matrix's simulated losses at the 'AAA' rating stress.

It is important to note that the significant increase in modeled capital at FGIC reflect simulated losses at an 'AAA' confidence level, representing a tail value-at-risk (Tail-VaR) of 99.777%. The increased capital

