Moody's Investors Service

Global Credit Research
Rating Action
19 DEC 2008

Rating Action: Financial Guaranty Insurance Company

Moody's downgrades FGIC to Caa1; outlook is negative

New York, December 19, 2008 -- Moody's Investors Service has downgraded to Caa1, from B1, the insurance financial strength (IFS) ratings of the main operating subsidiaries of FGIC Corporation, including Financial Guaranty Insurance Company and FGIC UK Limited (collectively "FGIC"). In the same rating action, Moody's downgraded to Ca from B3 the ratings on FGIC's contingent capital securities, Grand Central Capital Trusts I-VI, and downgraded to Ca from Caa2 the senior debt ratings of the holding company, FGIC Corporation. Today's rating action concludes a review for possible downgrade that was initiated on October 24, 2008 and reflects Moody's expectation of higher mortgage-related losses arising from FGIC's insured portfolio and the constrained liquidity and financial flexibility of the holding company. The rating outlook is negative.

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of a) the rating of the guarantor (if rated at the investment grade level), or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). In accordance with rating agency policy, following Moody's June 20, 2008 rating action on FGIC which lowered its rating to below the investment grade level, Moody's withdrew ratings on FGIC wrapped securities for which there was no published underlying rating. Should the guarantor's rating subsequently move back into the investment grade range, or should the agency subsequently publish the associated underlying rating (for non-structured securities), Moody's would reinstate previously withdrawn ratings on those wrapped instruments. For wrapped structured finance securities, as announced on November 10, 2008, Moody's is in the process of reinstating previously withdrawn ratings by looking to the current underlying rating on the security, regardless of whether the underlying rating is published or not. For further information, please see Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

According to Moody's, today's rating action is the result of FGIC's substantial exposure to US second lien, subprime and other residential mortgage products, and Moody's expectation for materially higher losses on these exposures as reflected in continued adverse delinquency trends. The rating agency currently estimates an expected loss for FGIC's insured portfolio of $3.9 billion, which compares to claims paying resources of approximately $4 billion as of the end of the third quarter of 2008. The rating and negative outlook reflect the possibility of even greater than expected losses in extreme stress scenarios, with losses possibly reaching sectors beyond mortgage related exposures as corporate and other consumer credits face a more challenging economic environment. These factors have significantly weakened FGIC's risk-adjusted capital adequacy position despite its recent public finance reinsurance transaction with MBIA and FGIC's continued counterparty negotiations to reduce its exposures to poorly performing ABS CDOs.

The Caa1 rating for FGIC UK reflects the explicit support provided by FGIC's quota share and excess of loss reinsurance policies. Moody's notes that FGIC recently terminated its net worth maintenance agreement with FGIC UK.

FGIC recently exercised its option to issue $300 million of non cumulative preferred stock to Grand Central Capital Trusts I-VI, with proceeds used to support the regulatory capital position of FGIC. The Ca ratings on FGIC's contingent capital securities and on the senior debt of the holding company reflect the subordination of these securities to policyholder claims and the absence of unrestricted dividend capacity at FGIC. Moody's believes that FGIC Corporation maintains sufficient liquidity to service its debt obligations over the near term, although its longer term ability to pay debt service will likely depend upon receiving regulatory approval to upstream dividends from FGIC. Moody's considers this unlikely absent a marked improvement in FGIC's regulatory capital and risk position.

The last rating action was on October 24, 2008 when the ratings of FGIC were placed under review for possible downgrade.

The principal methodology used in rating FGIC was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating FGIC can also be found in the Credit Policy & Methodologies directory.

LIST OF RATING ACTIONS

The following ratings have been downgraded:

Financial Guaranty Insurance Company -- insurance financial strength to Caa1 from B1;

FGIC UK Limited -- insurance financial strength to Caa1 from B1;

Grand Central Capital Trusts I-VI -- contingent capital securities to Ca from B3; and

FGIC Corporation -- senior unsecured debt to Ca from Caa2.

OVERVIEW OF FGIC CORPORATION

FGIC Corporation is a holding company whose primary operating subsidiaries, Financial Guaranty Insurance Corporation and FGIC UK Limited, provide credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. FGIC Corporation is privately owned by an investor group consisting of The PMI Group, GE and private equity firms Blackstone, Cypress and CIVC.

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commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."