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Financial Guaranty Insurance Co. 'BB' Rating Remains On CreditWatch Negative

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NEW YORK (Standard & Poor's) Aug. 29, 2008--Standard & Poor's Ratings Services said today the 'BB' financial strength rating on Financial Guaranty Insurance Co. (FGIC) remains on CreditWatch with negative implications. All other FGIC ratings as well as the ratings on parent company FGIC Corp. likewise remain on CreditWatch Negative.

"In our view, recent developments for FGIC are a mix of positives and negatives," said Standard & Poor's credit analyst Robert Green. The commutation of the company's \$1.9 billion exposure to a collateralized debt obligation of asset-backed security (CDO of ABS) transaction, Havenrock II Limited, has, we believe, positive economic benefits as the cost to FGIC of \$200 million is well below reserves that have been established for this credit.

Also, FGIC and MBIA Insurance Corp. (MBIA) have entered into a reinsurance arrangement whereby FGIC will cede \$184 billion of U.S. public finance exposure to MBIA. Assuming this transaction receives approval and closes in the third quarter, it should have positive implications for FGIC in terms of increasing capital and surplus as well reducing theoretical municipal capital modeling losses. Also, management has stated that the reinsurance treaty contains a cut-through provision whereby, covered policyholders can make claims directly against MBIA.

Notwithstanding the economic benefits of the Havenrock II commutation, adverse loss development for the company's residential mortgage-backed

securities book of business continues to affect statutory reserves, which have increased to \$2.2 billion in the second quarter, from \$1.8 billion in the prior quarter. Correspondingly, policyholder surplus has declined to \$286 million, slightly above the minimum regulatory capital amount of \$65 million. Capital below this amount could result in regulatory intervention.

Looking ahead, continued adverse loss development remains a possibility as Standard & Poor's modeled losses for FGIC's CDO of ABS and nonprime RMBS books of business are a multiple of the company's current reserves. Another development that, we believe, may also stress policyholder surplus in the near term is the potential bankruptcy of Jefferson County, Alabama. FGIC has \$1.2 billion of net par exposure to Jefferson County Sewer Revenue bonds.

Finally, in our opinion, FGIC's capital raising prospects remain poor, and overall financial flexibility is weak. We believe that the possibility of a restructuring whereby the company would be able to begin writing new business continues to be remote. Standard & Poor's will review these developments and issues in the next several weeks and make rating changes as we determine appropriate.

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