

April 22, 2009

Research Update:
**Financial Guaranty Insurance Co.
Ratings Lowered To 'CC' From
'CCC' Then Withdrawn**

Primary Credit Analyst:

Robert E Green, New York (1) 212-438-2013; robert_green@standardandpoors.com

Secondary Credit Analyst:

David Veno, New York (1) 212-438-2108; david_veno@standardandpoors.com

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Research Update:

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Rationale

On April 22, 2009, Standard & Poor's Ratings Services lowered its counterparty credit, financial strength, and financial enhancement ratings on Financial Guaranty Insurance Co. (FGIC) to 'CC' from 'CCC' and assigned a negative outlook.

Standard & Poor's subsequently withdrew the ratings on FGIC and its 'CC' counterparty credit rating on the holding company, FGIC Corp., because of our expectation that timely and comprehensive financial information will no longer be available.

Recently released GAAP financial statements for both FGIC and FGIC Corp. contain a statement from the independent auditor that there is substantial doubt regarding the company's ability to continue as a going concern. The issuance of this opinion results in an event of default by FGIC Corp. under the terms of the company's revolving credit agreement. There is \$46 million outstanding under the facility, and FGIC Corp., though it is attempting to secure a waiver, does not have the resources to repay this amount in full if it were to become due on an accelerated basis. In addition, because FGIC is in a negative earned surplus position, it is not able to pay dividends to FGIC Corp.

FGIC's capital and surplus totaled \$505.5 million as of Dec. 31, 2008. In the fourth quarter of 2008, the conversion of the company's contingent capital facility into \$300 million in FGIC preferred shares supplemented surplus. Nevertheless, given our current loss estimate of \$4.8 billion relative to about \$3.0 billion in statutory reserves plus claims paid for FGIC, capital and surplus could fall below the \$65 million minimum statutory requirement, which could trigger regulatory intervention. Also, following the MBIA reinsurance transaction, whereby FGIC ceded \$188 billion of municipal business, FGIC's insured portfolio is especially concentrated. At year-end 2008, about 83% of the total insured portfolio was in the structured finance and international sectors.

Outlook

The negative outlook reflected the possibility that additional losses incurred, as suggested by our RMBS and CDO of ABS loss estimate, could result in capital and surplus below the minimum statutory requirement of \$65 million. The negative outlook on holding company FGIC Corp. reflected the independent auditor's issuance of a going concern opinion, which triggered an event of default on the company's revolving credit facility.

Ratings List

Downgraded

| | To | From |
|---|----------------|-----------------|
| Financial Guaranty Insurance Co. FGIC UK Ltd. | | |
| Counterparty Credit Rating | CC/Negative/-- | CCC/Negative/-- |
| Financial Enhancement Rating Local Currency | CC/--/-- | CCC/--/-- |
| Financial Strength Rating Local Currency | CC/Negative/-- | CCC/Negative/-- |
| Financial Guaranty Insurance Co. Financial Program | | |
| Local Currency | CC/--/-- | CCC/--/-- |

Ratings Affirmed

| | | |
|--|----------------|--|
| FGIC Corp. | | |
| Counterparty Credit Rating Foreign Currency | CC/Negative/-- | |
| Senior Unsecured | CC | |

Ratings Withdrawn

| | To | From |
|---|----|----------------|
| Financial Guaranty Insurance Co. FGIC UK Ltd. | | |
| Counterparty Credit Rating | NR | CC/Negative/-- |
| Financial Enhancement Rating Local Currency | NR | CC/--/-- |
| Financial Strength Rating Local Currency | NR | CC/Negative/-- |
| Financial Guaranty Insurance Co. Financial Program | | |
| Local Currency | NR | CC/--/-- |
| FGIC Corp. | | |
| Counterparty Credit Rating Foreign Currency | NR | CC/Negative/-- |
| Senior Unsecured | NR | CC |

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