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ASSOCIATION OF FINANCIAL GUARANTY INSURERS

Unconditional, Irrevocable Guaranty ®

Testimony of

Séan W. McCarthy

Chair

Association of Financial Guaranty Insurers

To The

U.S. House of Representatives Financial Services Committee

Hearing On The

“Municipal Bond Turmoil: Impact on Cities, Towns, and States”

March 12, 2008

Chairman Frank, Ranking Member Bachus and Members of the Committee, thank you for the opportunity to appear before you this morning. I am Séan McCarthy. I speak to you in my capacity as Chair of the Association of Financial Guaranty Insurers (AFGI), an association of eleven insurers and reinsurers of municipal bonds, asset-backed securities and other structured financings (collectively, “securities”). I serve also as President and Chief Operating Officer of Financial Security Assurance Inc.

My intent this morning is to:

1. Provide information on the financial guaranty insurance industry, its benefits to issuers and investors, its regulation, and the commitment of its members to maintaining their Triple-A ratings.
2. Comment on the implications for financial guaranty insurers of the current credit deterioration of one class of assets a number of our members guaranteed – collateralized debt obligations (“CDOs”) of asset-backed securities (“ABS”) and CDOs of CDOs.
3. Review the reasons for the recent turmoil in the municipal market.

Before beginning, however, I would like to state that investors owning securities covered by financial guaranty insurance have an ironclad -- irrevocable, unconditional -- guaranty against default on payment of principal and interest. Since the inception of financial guaranty insurance, no holder of a security insured by an AFGI company has failed to receive payment of debt service when due, and that will not change.

Moreover, the financial guaranty industry has never requested, does not need, nor do we seek a federal government bailout.

Background:

Financial guaranty insurance provides an unconditional, irrevocable guaranty to pay principal and interest *when due* should the issuer of an insured security default on its obligation. The financial guaranty insurance policies generally do not allow for acceleration of debt payment except at the will of the insurer. Financial guaranty insurers are generally rated Triple-A, and limit their insurance to coverage of investment grade securities.

While most insurance is written in the primary market at the time a security is issued, there is a significant secondary market. In these cases, a dealer or broker will request insurance on a block of securities from an issue that was not originally insured. The process for insuring these securities is otherwise similar to that which occurs in the primary market.

Reinsurance also plays an important role in the financial guaranty industry. The primary insurers often “cede” a portion of their exposure, and a corresponding portion of

the premiums they collect, to a financial guaranty reinsurer. This allows the primary insurer to spread the risks it incurs – especially on a large issuances of securities.

Once a policy is in place, the insurer continually monitors the issuer. This surveillance function ensures early detection of any problems that might affect an issuer’s ability to meet its obligations.

In the event of a default, the insurance contract calls for payments of interest and principal to be made to the holder of the security without regard to acceleration, thus eliminating liquidity risk to the financial guaranty insurer. While payments to investors are thus secure, the insurer will often work with the issuer to “cure” the default, in order to minimize its own losses.

History, Growth and Regulation

The industry was established in 1971 to serve the U.S. municipal bond sector. Today, the industry serves both public infrastructure and asset-backed global markets. In 2007, the industry insured approximately 47 percent of new issue U.S. municipal bonds. The total net par outstanding on the debt insured by the industry is approximately \$2.3 trillion. Of that, the four largest primary insurance providers – Ambac, FGIC, FSA, and MBIA -- insure nearly \$2 trillion.

From 2001 through 2006, financial guaranty insurers insured --

- more than \$1 trillion of securities to fund schools, highways, airports, transit systems, hospitals, environmental systems and other projects;
- almost \$82 billion of securities to fund essential public projects outside the U.S.; and
- more than \$1 trillion of ABS to provide cost efficient funding to corporations and financial institutions around the world.

The industry adheres to strict investment-grade underwriting practices, meaning virtually all insured risks are rated Triple-B or higher. As a result the industry’s loss experience has been low. From inception until now, the industry has incurred only three basis points (three one-hundredths of one percent) in losses on net debt service. That is far different from banks, which had weighted average annual charge-offs on principal of 60 basis points from 1992 to 2006.

The financial guaranty insurance industry is heavily regulated and highly transparent. It operates under the strict risk-based capital standards and reserving requirements of Article 69 of the New York Insurance Law (“Article 69”).

Article 69 was enacted by New York in 1989. California enacted a very similar law the following year. Since then states have regulated with an even hand, proactively monitoring compliance with the strong provisions of those laws.

Also worth noting is that several insurers are owned by public companies subject to SEC regulation. Many insurers have U.K. subsidiaries regulated by the U.K. Financial Services Authority.

The major rating agencies, Standard & Poor's, Moody's, and Fitch, closely monitor the financial guaranty insurers, require ongoing information from the insurers, and issue frequent reports on the industry. In addition, both Standard & Poor's and Moody's review and rate every security that is wrapped by a financial guaranty insurer. Standard & Poor's and Moody's individual reviews of each transaction determines any additional capital that a financial guaranty insurer may need to maintain beyond that required under Article 69.

In this environment of strong regulation and conservative underwriting, the industry's claims-paying resources¹ have grown from \$10.9 billion in 1995 to \$48.8 billion in the first half of 2007.²

Article 69 requires that financial guaranty insurers be monoline, meaning that they may engage only in financial guaranty insurance and a few related lines of insurance. They may not write traditional property/casualty insurance or life insurance.

There has been some discussion that the term "monoline" originally meant that financial guaranty insurers could only insure municipal bonds. That is not correct. Article 69, from its enactment, has defined monoline financial guaranty insurance to include ABS – securities backed by income streams generated from consumer receivables, e.g., credit card receivables, auto loans and mortgage payments, and corporate risks.

Benefits Provided to Issuers and Investors

Financial guaranty insurance offers concrete benefits for issuers and investors.

Issuers can achieve higher ratings by attaching insurance to their securities. The higher ratings mean lower interest costs. Since their inception, financial guaranty insurers have saved U.S. state and local governments and their taxpayers more than \$40 billion in interest payments. They have increased the economic leverage and funding sources of both large and small government borrowers. For small municipal issuers, access to capital markets is only possible with financial guaranty insurance.

¹ Includes statutory capital, unearned premium reserves, installment premiums, soft capital facilities, and loss adjustment expense reserves.

² Source: S&P and company operating supplements and financial reports of MBIA, Ambac, FSA, FGIC, XLCA (SCA), CIFG, Radian, Assured and ACA. Reported financials for Radian, CIFG and XLCA (SCA) combine financial guaranty insurance and reinsurance.

As noted earlier, investors have an unconditional guaranty against default on payment of principal and interest. No holder of an insured security has failed to receive payment of debt service when due. Financial guaranty insurers also waive all defenses including fraud and non-payment of premium. Unlike a trustee, a financial guaranty insurer has capital at risk and, therefore, its interest aligns with holders of the insured securities.

Investors also benefit from the financial guaranty insurer's:

- assessment of issuers' credit risks – assessments individual investors are not as well-equipped to make;
- remediation in the case of default or issuer financial problems; and
- ongoing surveillance of insured issuers.

Examples of municipalities that have benefited from the industry's remediation efforts include Philadelphia; Washington, D.C.; Miami and Dade County, Florida; Troy and Schenectady, New York; and Los Angeles and Orange County, California. Currently, the industry is actively engaged with issuers affected by Hurricane Katrina.

Types of Insured Securities

There are two main categories of insured securities -- public finance and structured finance.

Public finance encompasses municipal bonds and infrastructure financings. U.S. municipal bonds are backed by tax and other state or municipal authority revenues and support essential infrastructure, such as transportation and healthcare. Municipal and investor-owned utilities also issue bonds. Additionally, particularly outside the U.S., many essential public infrastructure projects are financed through private finance initiative (PFI) or public-private partnership (PPP) transactions involving long-term government concessions to private developers and operators.

Structured finance securities include mortgage-backed securities and ABS that are backed by revenue streams including credit card and other consumer loan receivables and corporate risk.

In addition to providing financial guarantees, financial guaranty insurers also provide surety bonds and credit derivatives, including credit default swaps ("CDS"), whose terms mirror a financial guaranty insurance policy.³ There is little difference

³ "A credit default swap ("CDS"), a type of a credit 'derivative,' is a transfer of credit risk on a specific obligation from one counterparty to another. The buyer of a credit default swap receives credit protection against the occurrence of a specific risk (generally, a default of an underlying obligation), while the seller of the swap, in exchange for periodic premium payments, guarantees the payments under the terms of the

between the risks undertaken by insuring a CDS and issuing direct bond insurance, since in both cases the financial guaranty insurer is committing to make a stream of payments in the event of a default. As with insurance, these derivatives and CDS generally have pay-as you-go settlement terms, and there is no requirement to post collateral if the underlying credit deteriorates, thus eliminating liquidity risk. The industry was asked to insure CDSs because of the more favorable regulatory and accounting treatment received by investors.

Financial Guaranty Insurer Involvement in U.S. Residential Mortgage Backed Securities (RMBS) and CDOs of ABS

The current market dislocation results primarily from the insurance of CDOs of ABS and CDOs of CDOs that contained a high percentage of subprime mortgages.

There has been unprecedented credit deterioration in the mortgage market that exceeded the most conservative historical loss expectations. Additionally, in the primary mortgage market, increased efforts by financial intermediaries and mortgage originators to introduce affordable products and facilitate homeownership have increased credit risk. Since the Great Depression, there has been no year-over-year decline in home prices for the entire U.S. (There have been only regional declines in successive years.)

The extent of the credit deterioration is reflected in the changes in rating agency requirements for a securitized subprime first-lien residential mortgage loan pool.

- In 2006, rating agencies' expected lifetime losses on pools to be 4.5% to 6% of the original pool balance.
 - By January 2008, rating agencies' expected loss on the same pools was 14% to 19%, depending on the transaction.
- In 2006, the financial guaranty insurer Triple-A "attachment point," ranged from 23% to 28%.
 - In January 2008, the rating agency Triple-A attachment point ranged from 36% to 42%.
- In 2006, the financial guaranty insurer attachment point at Triple-B was 8% to 10%.
 - In January 2008, the rating agency attachment point ranged from 14% to 22%.

obligation. Because under this arrangement the risk of default is transferred from the holder of the security to the seller of the swap in exchange for a premium, CDSs are often regarded as similar or equivalent to [financial guaranty] insurance." Letter to The Honorable Paul E. Kanjorski, Chairman, U.S. House of Representatives House Financial Services Subcommittee on Capital Markets, Insurance and government-Sponsored Enterprises, from Eric R. Dinallo, Superintendent of Insurance, State of New York Insurance Department, February 4, 2008, pg. 6.

In the CDO market, financial guaranty attachment at the Triple-A level means that insurers should be able to withstand high levels of collateral losses. However, high grade and so-called mezzanine CDOs of ABS ultimately contained a high percentage of subprime mortgage loans. With regard to credit performance, it can be expected that:

- potential collateral losses will be higher than the original assigned credit rating;
- diversity and correlation assumptions may be low; and
- embedded leverage will magnify the effects of poor collateral performance.

Financial guaranty insurer involvement in the U.S. RMBS and CDOs of ABS amounts to \$249 billion net part outstanding.

The sector and underlying rating distributions follow:

Sector distribution:

ABS/CDO High Grade	31%
ABS/CDO Mezzanine	8%
CMBS/CDO	22%
HELOC	26%
SUBPRIME	13%

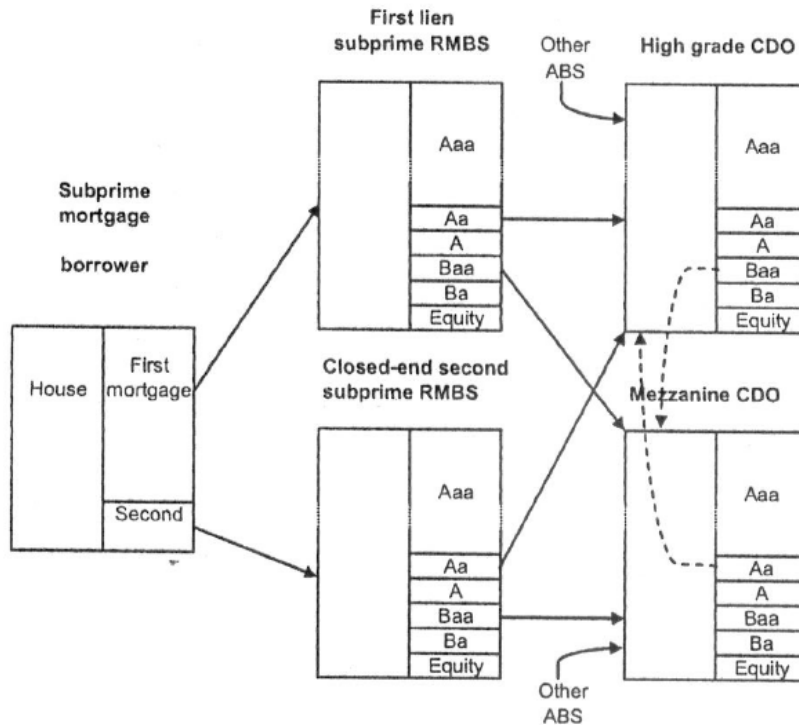
Underlying rating distribution:

SUPER AAA	28%
AAA	38%
AA	4%
A	7%
BBB	22%
BIG	1%

The allocation of subprime mortgage risks within CDOs is a key factor. To that end, it is important to understand the following points, which are illustrated by the graphic on the next page:

- subprime mortgage loans can be first mortgages, with a first lien on the property serving as collateral to the loan, or second mortgages (generally closed-end loans where the borrower receives a specified amount at closing) that are subordinated to the first mortgage;
- the loans are generally packaged by type into pools of collateral to form the basis of RMBS;

- different tranches of the RMBS, created with varying levels of priority on cash flows generated by the underlying pool, are then sold to third parties, with the AAA tranche having first priority, followed by the AA tranche, etc.;
- CDOs of ABS, in turn, may invest in tranches of RMBS transactions, as well as in other ABS, with Aa or higher tranches classified as “high grade” and Baa or higher tranches classified as “mezzanine”; and
- both types typically have a small allocation within the collateral pool that may be invested in lower-rated collateral.



In order to more fully understand the financial guaranty insurer involvement in the U.S. RMBS and CDO of ABS it is important to know the following:

- Under U.S. GAAP, insurance policies that are in CDS form typically must be marked to market through an insurer’s income statement under a recently adopted rule of the Financial Accounting Standards Board.
- Absent any claims under the guaranty, any decreases or increases to income due to marks will sum to zero by the time of each CDS’s maturity.
- The industry and rating agencies view the large, negative unrealized mark-to-market adjustments taken in the second half of 2007 as accounting requirements, not as measurements of capital adequacy. Capital adequacy is concerned with fundamental credit analysis and not mark-to-market losses.
- The mark-to-market accounting requirement has caused a problem of perception. The change in the accounting rules has created a misperception

regarding the industry's financial performance as spreads have widened. Mark-to-market losses are very different from actual credit losses.

Implications and Challenges for the Financial Guaranty Insurers That Have Exposure to this Asset Class (i.e., CDOs of ABS)

In the present situation, financial guaranty insurers are focused on maintaining their Triple-A capital levels and/or having their Triple-A ratings restored as soon as practical. In order to restore their Triple-A ratings, financial guaranty insurers facing potential downgrades can --

- reinsure well performing, capital-intensive insured financings;
- issue equity, debt, and/or hybrid securities;
- insure higher rated, less capital-intensive deals to limit incremental capital requirements; and
- run off from existing portfolios to generate significant incremental capital annually, and add to capital as exposure amortizes.

Already members of the industry have raised significant capital. Each company must take its own steps and make its own decisions consistent with its responsibilities to policyholders and holders of its insured bonds, and, in case publicly held companies, to its investors. And each company must work with regulators and interested governmental bodies.

This is not a systemic failure. The vast majority of projected credit losses are in a single asset class – CDOs of ABS and CDOs of CDOs which contain higher percentages of subprime residential mortgage loans.

The Recent Turmoil in the Municipal Bond Market

In recent weeks, the municipal bond market has undergone unusual turmoil as liquidity and credit concerns, including dislocation in the monoline industry, combined to cause the failure of auction rate bonds.

Over the course of the past five years, many state and local governments issued auction rate bonds in lieu of fixed rate bonds or variable rate debt obligations (“VRDOs”) that typically are accompanied by a direct-pay or standby letter of credit from a commercial bank. The market for auction rate securities was robust, particularly in high-tax states such as New York, New Jersey and California. In conjunction with the sale of auction rate bonds, the issuers often executed a floating-to-fixed interest rate swap contract whereby they were committed to pay a fixed rate. The counterparty, usually the investment bank that initially marketed the auction rate bonds (though not always), would typically agree to pay a variable rate in return, usually a percentage of LIBOR.

In the past, investment banks acting as remarketing agents usually took the auction rate bonds into inventory if a remarketing failed to garner enough interest to

preserve their client relationships. Over the past 90 days, however, the amount of inventory that could not be successfully remarketed has increased substantially, and the investment banks have let auctions fail with a resulting increase in the interest rates issuers were required to pay on the auction rate bonds.

Financial guarantors often were asked to guarantee the payment of debt service on auction rate bonds, and also frequently were asked to guarantee their net payments on the interest rate swap. In exchange for their guarantee, the financial guaranty insurers were paid a premium, similar to any other municipal debt obligation. In most cases, insurers will allow issuers to convert auction rate to fixed rate bonds or VRDOs. Issuers can face a financial impediment in converting auction rate bond issues that incorporated an interest rate swap because of the high termination fees some issuers would be required to pay the counterparty in today's interest rate environment.

Conclusion

The financial guaranty insurance business model remains viable if applied correctly. Not every financial guaranty insurer is under pressure. The viability of the model is also confirmed by the entry of Berkshire Hathaway into the business and recent investment in some financial guaranty insurance companies.

The industry's claims paying ability, as well as its conservative business model which requires it to pay losses only when due, should enable the industry to withstand deteriorating asset performance in the residential mortgage sector.

The unrealized mark-to-market adjustments that the financial guaranty insurers are required to take through their income statements on insurance policies issued in CDS form under U.S. GAAP accounting rules are obscuring the true performance of the industry, absent credit deterioration and given the financial guaranty insurers' intent to hold these contracts until maturity.

The recent turmoil in the municipal bond market is temporary and should abate.

As stated at the outset, the industry has never requested, does not need, nor does it want a federal government bailout. The industry is committed to working with its regulators to manage through the current dislocation.

Attached to this testimony is a presentation and summaries of the financial statements of AFGI members that are primary financial guaranty insurers, which we would like to submit for the hearing record along with this statement.

We appreciate the Committee's interest in these important issues and look forward to continuing to work with the Committee.

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**Business Overview of Primary Bond Insurers and
Report on Involvement in U.S. Residential Mortgage-Backed Securities
and Collateralized Debt Obligations
of Asset-Backed Securities**

U.S. House of Representatives Committee on Financial Services

**Hearing on
Municipal Bond Turmoil: Impact on Cities, Towns, and States**

March 12, 2008

**Submitted with Testimony by the
Association of Financial Guaranty Insurers (AFGI)**

AFGI is a trade association of 11 insurers and reinsurers of municipal bonds and asset-backed securities.

Agenda

- **Business Overview of Primary Bond Insurers**
- **Bond Insurer Involvement in U.S. Residential Mortgage-Backed Securities (RMBS) and Collateralized Debt Obligations of Asset-Backed Securities (CDO of ABS) Sector**
- **Monoline Implications**
- **Appendix I: Rating Agency Timeline**
- **Appendix II: Profiles of Primary Bond Insurers**

Business Overview

Business Overview

Executive Summary

- **Financial guaranty is a pure credit business**
 - **Unconditional and irrevocable guaranty to pay scheduled principal and interest on U.S. municipal, public infrastructure and asset-backed securities; no acceleration**
 - **Product provides efficiency in capital markets**
 - **The closest equivalent to financial guaranty is an irrevocable long-term bank letter of credit**
- **Financial guaranty companies are generally rated AAA**
- **Policy forms also include surety bonds as well as credit derivatives, whose terms mirror a financial guaranty**
 - **No liquidity risk**
 - **No collateral posting**
 - **Pay-as-you-go settlement terms**
- **Financial guaranty companies take long-term credit risk**
 - **Cannot trade out of risk; hold to maturity, but may mitigate risk through reinsurance**
 - **Control of remedies and remediation is critical to loss mitigation**
- **Credit is principal driver of long-term profitability**
 - **Underwrite investment-grade risks only**
- **Industry is heavily regulated and transparent**
 - **New York State Insurance Department (or other state insurance departments)**
 - **Financial Services Authority in the U.K.**
 - **Rating agencies require ongoing information from the financial guarantors**

Business Overview

Monoline Financial Guaranty Insurance Industry Business Model

- Industry established in 1971 to serve U.S. municipal bond sector; today serves both public infrastructure and asset-backed global markets
- Monolines are specialized insurance companies – participants must operate solely as a separately structured and capitalized entity, providing guarantees of financial obligations only. No other insurance can be written.
 - Monolines do not originate securities or mortgages.
- Regulated by government agencies and rating agencies:
 - Insurance company operating under Article 69 of the New York State Insurance law
 - Three principal agencies: Moody's, Standard & Poor's and Fitch Ratings
- Investment-grade underwriting practice has resulted in low industry loss experience
 - Low probability/low severity/highly diverse credit portfolios
 - Withstand highly strenuous scenarios
 - Decidedly not a banking model
 - Since inception, industry has incurred only 3 bps in losses on net debt service. (Banks had weighted average annual charge-offs on principal of 60 bps from 1992 to 2006.)
- Total industry insured net par outstanding is approximately \$2.3 trillion, and approximately 50% of all U.S. municipal bonds are insured. The largest primary providers: AMBAC, FGIC, FSA & MBIA have nearly \$2.0 trillion in insured net par outstanding.
- From 2001-2006, monolines have insured:
 - More than \$1 trillion of U.S. municipal bonds to fund schools, highways, airports, transit systems, hospitals, environmental systems and other projects.
 - Almost \$82 billion of bonds to fund essential public projects outside of the U.S.
 - More than \$1 trillion of asset-backed bonds to provide cost efficient funding to corporates and financial institutions throughout the world.

Business Overview

Financial Guaranty Benefits

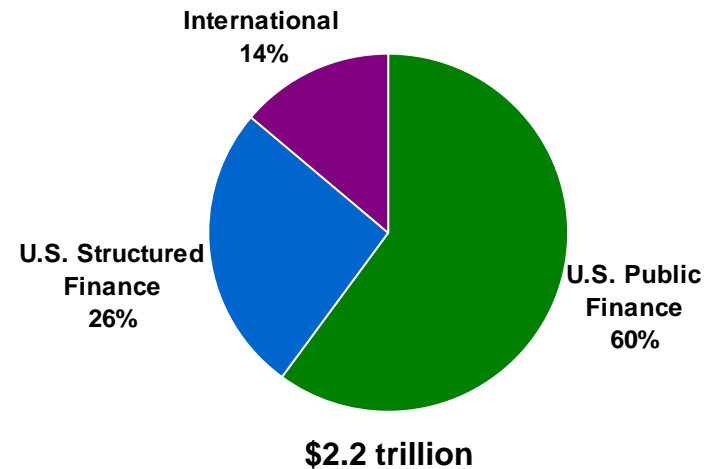
- **Benefits to Issuers:**
 - **Allows credit rating of the guarantor to be applied to the bonds**
 - **Reduced cost of funds - since inception, the financial guarantors have saved municipalities over \$40 billion.**
 - **Increased economic leverage through efficient structuring**
 - **Broader funding sources**
 - **Streamlined execution**
 - **In case of small municipal issuers, access to capital markets only possible through a financial guaranty.**
- **Benefits to Investors:**
 - **Default protection**
 - **Bond guarantor waives all defenses including fraud and non-payment of premiums**
 - **Enhanced liquidity**
 - **Reduced secondary-market price volatility, particularly if underlying issue is downgraded**
 - **Consolidated analysis, diligence and surveillance; exercise of remedies when necessary**
 - **Unlike a trustee, bond guarantor has capital at risk, therefore its interest aligns with those of bondholders.**

Business Overview

Types of Bonds Insured

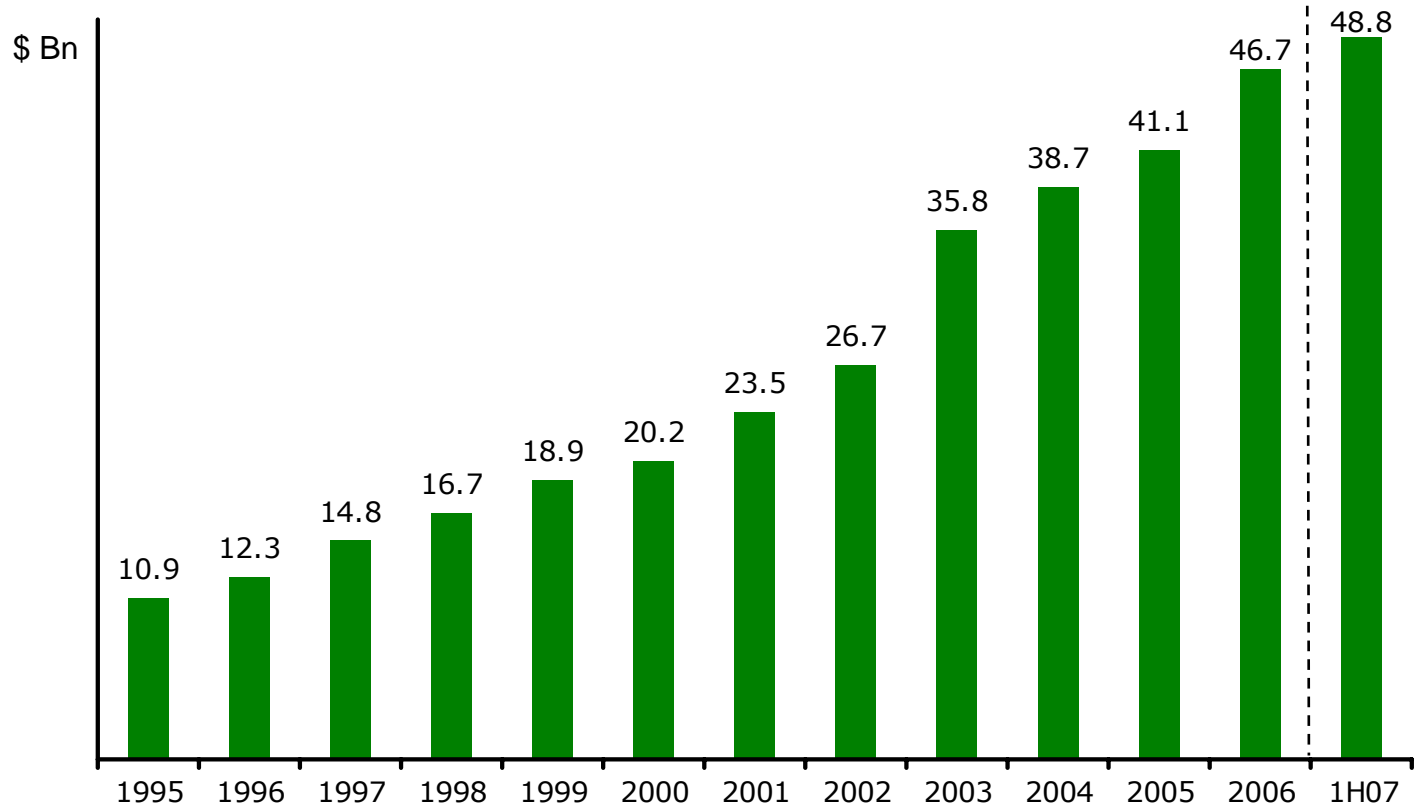
- All insured bonds are rated by rating agencies (“shadow rating”)
 - Needs to be rated investment grade by at least one rating agency
- Public finance bonds:
 - Backed by tax and other municipal authority revenues
 - Essential infrastructure (transportation, healthcare)
 - Municipal and investor-owned utilities
- Structured finance bonds
 - Mortgage-backed (MBS and home equity)
 - Asset-backed (consumer, franchise, future flows)
 - Pooled debt obligations (CDO, CLO, CBO)
 - Structured credit

Net Par Outstanding
As of December 31, 2006



Business Overview

Monoline Financial Guaranty Industry - Total Claims-Paying Resources*



At 6/30/07

Source: S&P and company operating supplements and financial reports of MBIA, AMBAC, FSA, FGIC, XLCA (SCA), CIFG, Radian, Assured & ACA. Reported financials for Radian, CIFG and XLCA (SCA) combine financial guaranty insurance and reinsurance.

*Includes Statutory Capital, Unearned Premium Reserves, Installment Premiums, Soft Capital Facilities, and Loss and Loss Adjustment Expense (LAE) Reserves.

Bond Insurer Involvement in U.S. Residential Mortgage-Backed Securities (RMBS) and Collateralized Debt Obligations of Asset-Backed Securities (CDO of ABS) Sector

Bond Insurer Involvement in U.S. RMBS and CDOs of ABS

Current Issues Related to Market Dislocation

Primary Mortgage Market

- Unprecedented credit deterioration in mortgage market exceeded the most conservative historical loss expectations
 - Since the Depression there has been no year-over-year decline in home prices for the entire U.S. (only regional declines).
- Increased activity by financial intermediaries and mortgage originators to introduce affordability products, which facilitated greater home ownership, increased credit risk.
- Mortgage deterioration was faster than projected.

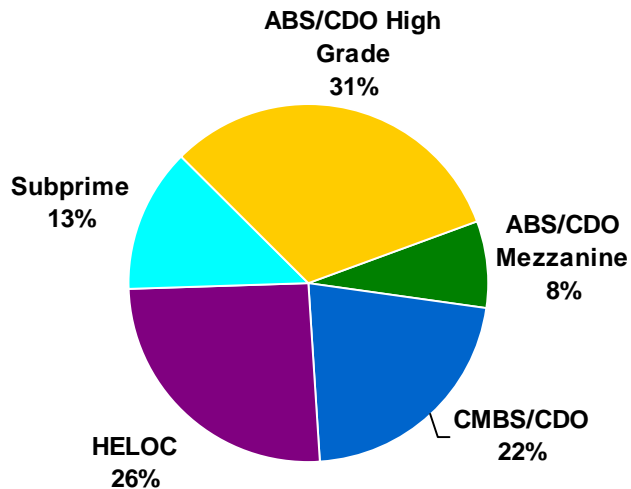
CDO Market

- High-grade and mezzanine CDOs of ABS ultimately contain a high percentage of subprime mortgage loans. Some observations about expected credit performance:
 - Potential for collateral losses are higher than the original assigned credit rating
 - Diversity and correlation assumptions may be low
 - Embedded leverage magnifies the effects of poor collateral performance.
- Attachment at Triple-A or higher levels will be able to withstand greater collateral losses.

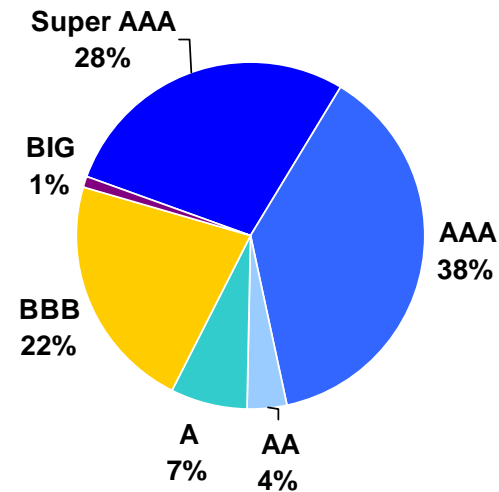
Bond Insurer Involvement in U.S. RMBS and CDOs of ABS

Industry Net Par Outstanding by Sector and Ratings Distribution

Sector Distribution



Underlying Ratings Distribution



**\$249 Billion
Net Par Outstanding**

Bond Insurer Involvement in U.S. RMBS and CDOs of ABS

First Lien Subprime RMBS Performance Expectations

Subprime First Lien Pool

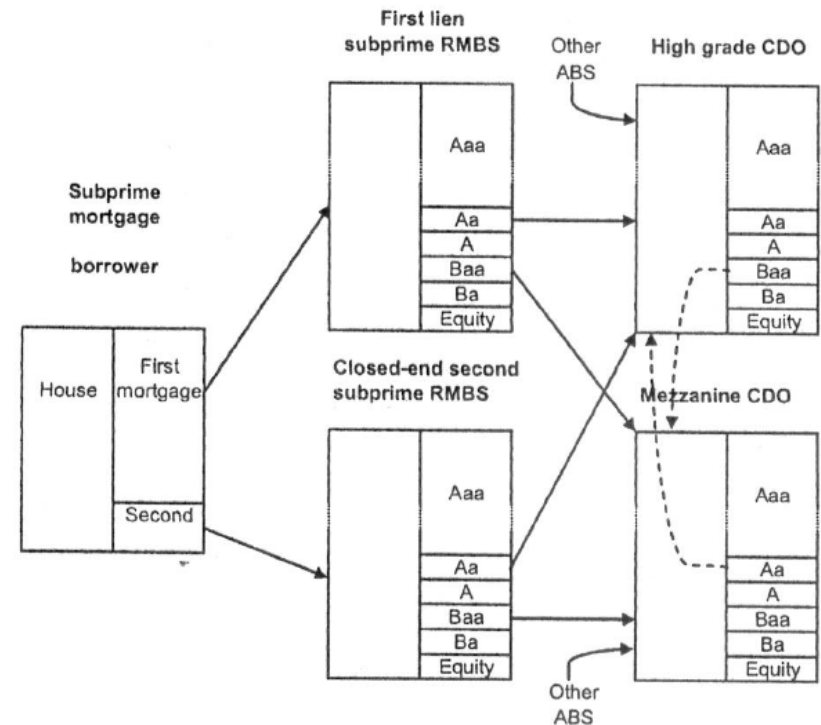
	<u>2006</u>	<u>January 2008</u>
Rating Agency Expected Losses	4.5%-6.0%	14.0%-19.0%
Monoline Attachment Point at AAA	23.0%-28.0%	36.0%-42.0%
Monoline Attachment Point at BBB	8.0%-10.0%	14.0%-22.0%

Based on rating agency information for vintages 2005 to 2007.

Bond Insurer Involvement in U.S. RMBS and CDOs of ABS

Allocation of Subprime Mortgage Risks in CDOs

- Subprime mortgage loans can be first mortgages, with a first lien on the property serving as collateral to the loan, or second mortgages (generally closed-end loans where the borrower receives a specified amount at closing) that are subordinated to the first mortgage.
- The loans are generally packaged by type into pools of collateral, forming the basis of RMBS.
- Different tranches, created with varying levels of priority on cash flows generated by the underlying pool, are then sold to third parties. The Aaa-rated tranche has first priority, followed by the Aa-rated tranche, etc.
- ABS CDOs, in turn, may invest in tranches of RMBS transactions, as well as in other ABS.
 - Classified as “high-grade”- Aa or higher tranches
 - Classified as “mezzanine”- Baa or higher tranches
- Both types typically have a small allocation within the collateral pool that may be invested in lower-rated collateral.



Source: Moody's, September 2007

Bond Insurer Involvement in U.S. RMBS and CDOs of ABS

Unrealized Mark-to-Market Losses for Insured Derivative Portfolios

- **Under U.S. GAAP, insurance policies issued in credit default swaps form typically must be marked to market through the company's income statement.**
- **Absent any claims under the guaranty, any decreases or increases to income due to marks will sum to zero by the time of each contract's maturity.**
- **The industry and rating agencies view the large, negative unrealized mark-to-market adjustments taken in the third quarter of 2007 as accounting requirements. Capital adequacy is concerned with fundamental credit analysis and not mark-to-market losses.**
- **Perception problem: the accounting effect has created a misperception regarding the industry's financial performance as spread widening due to liquidity and credit deterioration have become rolled into one ball of confusion.**

Monoline Implications

Monoline Implications

- **The monoline financial guaranty business model is viable, as confirmed by Berkshire Hathaway's entrance to business.**
- **Our industry is facing unprecedented stress from a variety of sources:**
 - **Deteriorating asset performance in the residential mortgage sector**
 - **Declining confidence in the rating agencies and Triple-A ratings**
 - **Rating agencies recalibrating standards to maintain Triple-A ratings**
 - **Aggressive and vocal short-selling community**
- **It is imperative for financial guarantors to maintain the Triple-A-rated capital levels.**
 - **Insured portfolios were underwritten and structured to a remote loss standard and to provide portfolio granularity to mitigate correlation risk, avoid liquidity risk, and generally insulate financial guaranty companies from event risk.**
 - **New business production will continue to be underwritten at high attachment points to minimize losses, preserve capital and maintain franchises.**
- **Rating agency downgrades on existing transactions will require increased capital; one or more industry participants may be required to raise additional capital to maintain:**
 - **Triple-A ratings**
 - **Investor confidence**

Monoline Implications (Cont'd)

- **Capital can be raised through a variety of activities and sources:**
 - **Reinsure well-performing, capital-intensive insured financings**
 - **Issue equity, debt, and/or hybrid securities**
 - **Insure higher rated, less capital-intensive deals to limit incremental capital requirements**
 - **Run-off from existing portfolio**
 - **Earnings generate significant incremental capital annually**
 - **As exposure amortizes, capital is released**
- **Losses in the financial guaranty insurance industry are expected to be manageable.**
- **New York Insurance Department actively involved**
- **These turbulent market conditions present financial guarantors with a significant opportunity to increase profitable business production as a result of:**
 - **Increased perception of risk, versus real risk, in certain markets**
 - **Wider/widening credit spreads**
 - **More leverage to increase pricing and further strengthen structure**

Appendix I:

Rating Agency Timeline

Subprime Crisis: Timeline of Rating Agency Actions

- **July 10:** First large-scale rating agency downgrades of RMBS: Moody's and S&P
- **August 13:** Fitch downgrades \$13 Bn of RMBS.
- **September 25:** Moody's says guarantors' risk from subprime RMBS and ABS CDO potentially significant.
- **October:** Moody's, S&P and Fitch downgrade numerous tranches of subprime RMBS and ABS CDOs.
- **October 11:** Moody's downgrades \$33.4 Bn of 2006 first-lien subprime RMBS.
- **November 5:** Fitch details approach to assessing guarantor ABS CDO exposures and assigns probabilities that each may experience erosions in capital cushion.
- **November 7:** Moody's cuts ratings of \$33 Bn of SIV debt.
- **November 8:** Moody's announces plans to update opinion of financial guarantors and likelihood of rating actions.
- **November 9:** Moody's downgrades \$10.3 Bn of U.S. ABS CDOs linked to subprime mortgages.
- **November 12:** Fitch downgrades the ratings of \$37.2 Bn of global SF ABS CDOs.
- **November 22:** Fitch affirms CIFG's "AAA" rating with stable outlook following \$1.5Bn capital injection.
- **November 23:** Moody's comments on CIFG's announced capital plan- "...greatly reduces the risk of the firm falling below Moody's target capital ratios for a Aaa."
- **November 26:** Standard & Poor's announces reviewing bond insurers' subprime transactions.
- **December 1:** Moody's says it downgraded or put on review debt totaling \$119 Bn that was issued by SIVs.
- **December 5:** Moody's publishes comment & Q&A on monoline review process and re-assigns MBIA to "somewhat likely" to need more capital.
- **December 11:** Moody's comments on MBIA's \$1bn capital injection from Warburg Pincus- "...meaningfully enhanced financial flexibility, supports financial profile of the insurance subsidiary... provided important signal of market support for the franchise."
- **December 12:** Fitch places SCA (XLCA) on rating watch negative.
- **December 12:** Fitch affirms Assured Guaranty's ratings.
- **December 13:** Fitch places 3,375 XLCA-insured issues on rating watch negative.
- **December 14:** Moody's announces rating actions on financial guarantors and holds a teleconference: FGIC and XLCA put on review for downgrade; MBIA and CIFG ratings outlooks changed to negative. All others affirmed.

Subprime Crisis: Timeline of Rating Agency Actions (Cont'd)

- December 17: Fitch puts FGIC on negative watch after a review of its RMBS and ABS CDO portfolio.
- December 19: S&P takes rating actions on six bond insurers & holds teleconference: ACA to CCC/WatchDev; Ambac & Connie Lee to AAA/Negative; FGIC to AAA/Watchlist Neg; MBIA to AAA/Negative; XLCA to AAA/Negative. All others affirmed.
- December 19: Moody's places the debt ratings of XL Capital and the insurance strength of its subsidiaries on review for downgrade on pressure from its reinsurance of and investment in SCA.
- December 20: Fitch places MBIA on rating watch negative on CDO & RMBS review and says if MBIA is unable to raise about \$1Bn in 4-6 weeks in addition the Warburg Pincus \$1Bn, Fitch would expect to downgrade to AA+.
- December 21: Fitch places Ambac on rating watch negative on CDO & RMBS review – indicates that Ambac's capital adequacy falls below AAA guidelines by about \$1 Bn and if the company were unable to obtain capital, Fitch would expect to downgrade to AA+.
- December 21: S&P and Fitch reduce CDO ratings on transactions worth \$12.4 Bn – all securities previously rated AAA or AA remain investment grade.
- December 26: Fitch places 2005 insured RMBS issues on watch negative (64 Ambac, 35 FGIC, 19 SCA, 87 MBIA).
- January 9: Fitch states it expects to assign a 'AA' rating to MBIA's \$1Bn offering.
- January 9: Moody's rates MBIA's surplus notes Aa2, downgrades holding company to Aa3 due to structural subordination. Moody's also comments on MBIA's capital plan- "...capital plans, when fully implemented and absent further deterioration in the insured portfolio, would cover shortfall from Dec 14."
- January 11: S&P suspends its ratings on public finance and corporate transactions insured by ACA that do not have an underlying public rating from S&P.
- January 15: S&P revises its loss expectations for 2006 vintage subprime loans to 19% from 14% based on worsening delinquencies and U.S. housing market conditions.
- January 16: Moody's places Ambac on review for possible downgrade.
- January 16: Fitch affirms MBIA's AAA IFS rating with a stable outlook, removing Rating Watch Negative following the completion of MBIA's \$1Bn surplus note offering.
- January 17: Moody's announces MBIA's ratings are on review for downgrade.
- January 17: Moody's reported it downgraded \$23 Bn of structured finance CDOs in December, bringing total to \$76 Bn of SF CDOs downgraded in all of 2007.

Subprime Crisis: Timeline of Rating Agency Actions (Cont'd)

- **January 18:** Fitch downgrades Ambac two notches to AA with Watch Negative following the company's announcement that it chooses not to raise equity capital under current market conditions.
- **January 24:** Fitch downgraded XLCA to A with Watch Negative
- **January 24:** Fitch affirmed FSA at AAA with Stable outlook
- **January 30:** Fitch downgraded FGIC to AA with Watch Negative
- **January 30:** S&P downgraded, or placed on review, \$270 Bn, of U.S. RMBS securities backed by subprime, and \$264 Bn of global ABS CDO and CDO of CDO transactions.
- **January 31:** S&P downgraded FGIC to AA with Watch Developing
- **January 31:** S&P affirmed ACA at CCC with Watch Developing
- **January 31:** S&P affirmed Assured Guaranty at AAA with Stable outlook
- **January 31:** S&P affirmed Ambac at AAA with Watch Negative
- **January 31:** S&P affirmed CIFG at AAA with Negative outlook
- **January 31:** S&P affirmed FSA at AAA with Stable outlook
- **January 31:** S&P placed MBIA on Watch Negative
- **January 31:** S&P placed XLCA on Watch Negative
- **February 1:** Fitch placed \$139 Bn of U.S. subprime RMBS on Watch Negative on worsening mortgage performance.
- **February 5:** Fitch placed CIFG on Watch Negative
- **February 5:** Fitch placed MBIA on Watch Negative
- **February 7:** Moody's downgraded XLCA to A3 with Negative outlook
- **February 11:** Standard & Poor's cut ratings on \$7.65 billion in CDOs backed by RMBS, following credit deterioration and downgrades of the RMBS underlying the deals

Subprime Crisis: Timeline of Rating Agency Actions (Cont'd)

- February 14: Moody's downgraded FGIC to A3 on Review for Possible Downgrade, from AAA
- February 22: Moody's placed CIFG's AAA ratings on Review for Downgrade, from Negative Outlook
- February 22: S&P cut ratings on 114 tranches from 17 US CDO transactions affecting \$12.7 Bn in issuance
- February 25: S&P placed MBIA at AAA on Negative Outlook, from Watch Negative
- February 25: S&P affirmed Ambac at AAA on CreditWatch with Negative Implications
- February 25: S&P downgraded FGIC to A on CreditWatch with Developing Implications, from AA
- February 25: S&P downgraded XLCA to A- on CreditWatch with Negative Implications, from AAA
- February 25: S&P affirmed CIFG at AAA with Negative Outlook
- February 26: Moody's affirmed MBIA at AAA with Negative Outlook, from Review for Downgrade
- February 27: Fitch placed \$97 Bn of structured finance CDOs on Watch Negative due to worsening performance
- February 29: Moody's announced it is continuing its review of Ambac's Triple-A ratings
- February 29: S&P announced it may cut ratings on \$14 Bn on subprime debt and related CDOs
- March 4: Moody's announced it does not foresee a CDO recovery in '08 after downgrading 1,655 tranches of CDOs in '07
- March 4: Moody's placed XLCA's A3 ratings on Review for Possible Downgrade, from Negative Outlook
- March 6: Moody's downgraded CIFG to A3 Stable Outlook, from Aaa Review for Possible Downgrade
- March 7: Fitch downgraded CIFG to AA- negative outlook, from AAA negative outlook

Appendix II: Profiles of Primary Bond Insurers

Ambac Assurance Corporation

General Information

Date Established	1970
Headquarters	New York
Other Offices	London, Mexico City, Milan, Sydney, Tokyo, Bermuda
Ratings	AA Fitch – Rating Watch Negative Aaa Moody's – Review for Downgrade AAA S&P – Rating Outlook Negative
Ownership Structure	Subsidiary of Ambac Financial Group, Inc. (listed on NYSE)
Principal U.S. Regulators	Wisconsin Insurance Department, New York Insurance Department and other state insurance regulators. SEC

Statutory Financial Information (12/31/07)

Statutory Capital and Reserves	\$10.6 billion
Total Claims-Paying Resources	\$14.5 billion
Guaranteed Net Par Outstanding	\$524.0 billion
U.S. Municipal Net Par Outstanding	\$281.0 billion

GAAP Financial Information (Holding Company)

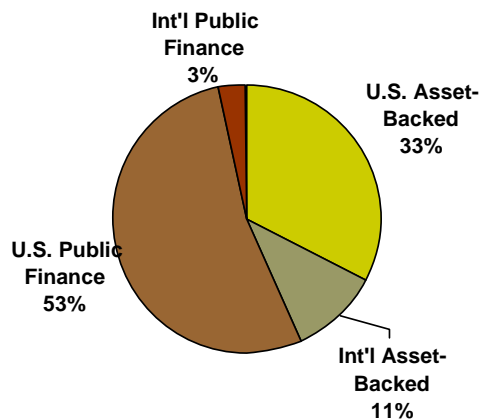
2007 Net Income	(\$3,229.9) million
2007 Net Operating Income	(\$23.7) million
2006 Net income (Loss)	\$875.9 million
2006 Net Operating Earnings	\$828.7 million
2007 Mark to Market Adjustment for Insured Derivatives	(\$6,016.3) million

Share Price

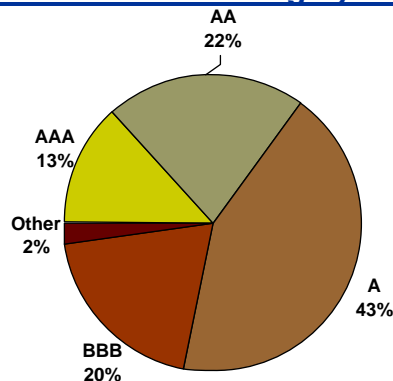
As of 3/6/08	Date	Amount
52-Week High	5/18/07	\$96.10
52-Week Low	1/17/08	\$4.50
Year-End Market Cap	12/31/07	\$2,617 million
Recent Market Cap	3/6/08	\$760 million

Ambac Assurance Corporation (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



As of 12/31/07

Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

California State – GO	3,109.4
New Jersey Transportation Trust Fund Authority – Transportation System	2,162.2
Washington State – GO	1,878.9
Bay Area Toll Authority, CA Toll Bridge Revenue	1,838.1
MTA, NY, Transportation Revenue (Farebox)	1,723.8
California Department of Water Resources, Power Supply	1,693.9
NYS Thruway Authority, Highway and Bridge Revenue	1,487.9
New Jersey Economic Development Authority – School Facilities Construction	1,439.9
New Jersey Turnpike Authority Revenue	1,373.8
Massachusetts Commonwealth – GO	1,327.1

Ambac Assurance Corporation (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 12/31/07)

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	1,516	0.29	2007 Senior ABS CDO	5,997	1.14
2006 Subprime RMBS	1,026	0.20	2005 Mezzanine ABS CDO	79	0.02
2007 Subprime RMBS	576	0.11	2006 Mezzanine ABS CDO	0	0.00
2005 Senior ABS CDO	6,384	1.22	2007 Mezzanine ABS CDO	2,897	0.55
2006 Senior ABS CDO	12,993	2.48			

Assured Guaranty Ltd.

General Information

Date Established	1985
Headquarters	Bermuda
Other Offices	New York, London, Australia
Ratings	Assured Guaranty Corp.: AAA/Aaa/AAA Assured Guaranty Re: AA/Aa2/AA
Ownership Structure	Publicly-traded on NYSE
Principal U.S. Regulators	Maryland

Statutory Financial Information (12/31/07)

Consolidated Statutory Capital and Reserves	\$3.0 billion
Total Claims-Paying Resources	\$4.4 billion
Guaranteed Net Par Outstanding	\$200.3 billion
U.S. Municipal Net Par Outstanding	\$81.9 billion

GAAP Financial Information (Holding Company)

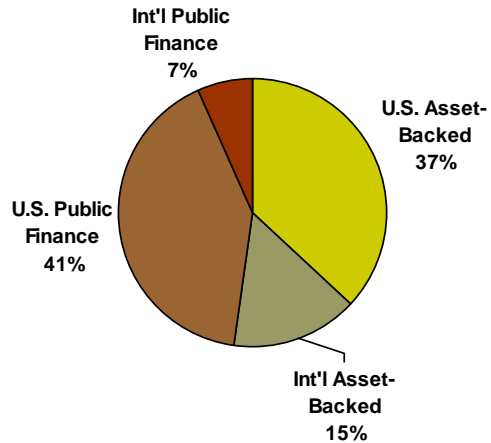
2007 Net Income	\$(303.3) million
2007 Net Operating Income	\$178.0 million
Fourth Qtr 2007 Net income (Loss)	\$(260.1) million
Fourth Qtr 2007 Net Operating Earnings	\$37.0 million
Fourth Quarter 2007 After-Tax Mark to Market Adjustment for Insured Derivatives	\$(302.9) million

Share Price

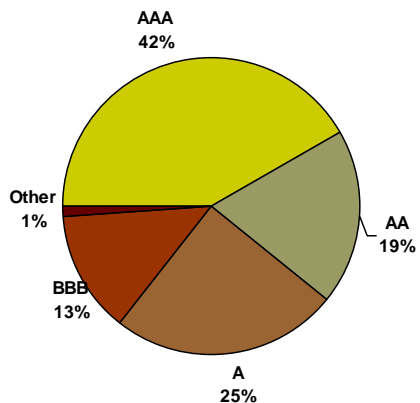
As of 3/6/08	Date	Amount
52-Week High	5/4/07	\$31.99
52-Week Low	11/5/07	\$13.34
Year-End Market Cap	12/31/07	\$2,123 million
Recent Market Cap	3/6/08	\$ 1,989 million

Assured Guaranty Ltd. (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

State of California GO & Leases	1,311
City of Chicago GO & Leases	913
New York City GO & Leases	894
Puerto Rico GO & Leases	822
State of Washington GO	803
Denver International Airport System	765
Los Angeles Unified School District	749
State of NJ GO & Leases	687
Massachusetts GO & Bay Transportation	685
State of NY GO & Leases	676

As of 12/31/07

Assured Guaranty Ltd. (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 12/31/07)

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	3,818	1.91	2007 Senior ABS CDO	0	0.00
2006 Subprime RMBS	1,928	0.96	2005 Mezzanine ABS CDO	0	0.00
2007 Subprime RMBS	663	0.03	2006 Mezzanine ABS CDO	0	0.00
2005 Senior ABS CDO	0	0.00	2007 Mezzanine ABS CDO	0	0.00
2006 Senior ABS CDO	0	0.00			

General Information

Date Established	2001
Headquarters	Hamilton, Bermuda
Other Offices	New York, San Francisco, Paris & London
Ratings	AAA -S&P Aaa Moody's stable outlook AA – Fitch negative outlook
Ownership Structure	Privately Held
Principal U.S. Regulators	New York

Notes to CIFG financial information:

- Capital contribution of \$1.5 billion made in December 2007 is not reflected in these balances.
- The financial statements are stated in Euros. The translation of Euros in U.S. dollars is presented solely for the convenience of the reader of the financial statements, using the observed exchange rate at December 31, 2006 of \$1.31435 to €1.00. This convenience translation should not be construed as representation that the euro amounts have been, could have been or could in the future be, converted to U.S dollars at this rate or any rate of exchange.
- CIFG NA, CIFG Europe and CIFG Guaranty are combined for purposes of calculating claims paying resources. Amounts are considered pro-forma since the CIFG Group does not file combined U.S. statutory statements.

Statutory Financial Information

<i>Pro-Forma</i> Statutory Capital and Reserves (3/31/2007)	\$1.0 billion
Total Claims-Paying Resources (3/31/2007)	\$1.4 billion
Guaranteed Net Par Outstanding (9/30/2007)	\$90.9 billion
U.S. Municipal Net Par Outstanding (9/30/2007)	\$23.9 billion

GAAP Financial Information (Holding Company)

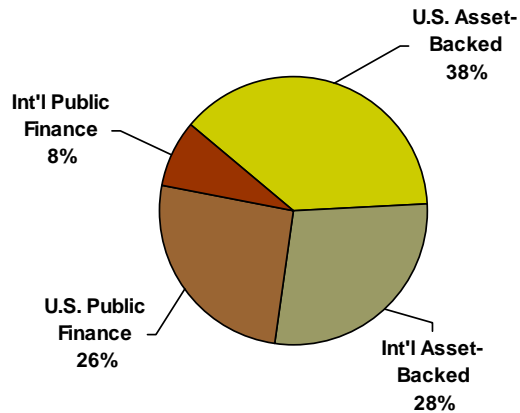
2006 Net Income	\$31.0 million
2006 Net Operating Income	\$17.7 million
Third Qtr 2007 Net income (Loss)	Not available
Third Qtr 2007 Net Operating Earnings	Not available
Third Quarter 2007 Mark to Market Adjustment for Insured Derivatives	Not available

Share Price

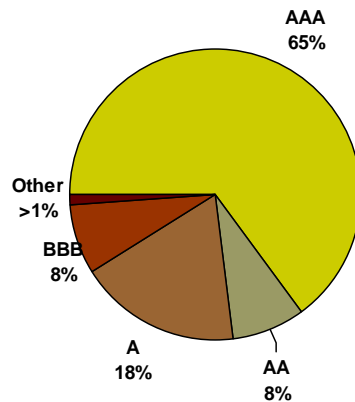
	Date	Amount
52-Week High	00/00/00	Not applicable
52-Week Low	00/00/00	Not applicable
Year-End Market Cap	12/31/07	Not applicable
Recent Market Cap		Not applicable

CIFG Holding, Ltd. (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



As of 9/30/07

Largest U.S. Municipal Risks (Net Par in \$ Millions)

Chicago Board of Education	617,450
New Jersey State General Obligation and Appropriation Credits	598,810
New York City General Obligation	551,883
California State General Obligation	532,085
Miami-Dade County, FL	508,423
New York State General Obligation	501,535
High Speed Railway Funding, Infrastructure Spa (Italy)	479,265
Commonwealth of Puerto Rico General Obligation and Appropriation Credits	458,538
MTA Transportation Revenue Bonds	440,000

CIFG Holding, Ltd. (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 9/30/07)

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	1,453.	1.60	2007 Senior ABS CDO	0.	0.00
2006 Subprime RMBS	361.	0.40	2005 Mezzanine ABS CDO	727.	0.80
2007 Subprime RMBS	0.	0.00	2006 Mezzanine ABS CDO	3,998.	4.39
2005 Senior ABS CDO	400.	0.44	2007 Mezzanine ABS CDO	722.	0.79
2006 Senior ABS CDO	1,198.	1.32			

Financial Guaranty Insurance Company (FGIC)

General Information

Date Established	1983
Headquarters	New York
Other Offices	London, England Sydney, Australia
Ratings	AA Fitch-Rating Watch Negative Aaa Moody's-Review for possible downgrade AA S&P-Credit Watch with developing implications
Ownership Structure	Privately Held
Principal U.S. Regulators	NY State Insurance Dept.; other state insurance regulators For non U.S. subsidiaries: Financial Services Authority in U.K.; Australian Securities & Investments Commission in Australia

Statutory Financial Information (9/30/07)

Statutory Capital and Reserves	\$4.0 billion
Total Claims-Paying Resources	\$5.1 billion
Guaranteed Net Par Outstanding	\$314.8 billion
U.S. Municipal Net Par Outstanding	\$224.3 billion

GAAP Financial Information (Holding Company)

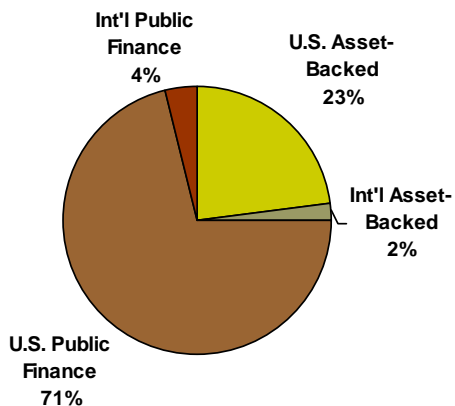
2006 Net Income	\$247.8 million
2006 Net Operating Income	\$247.1 million
Third Qtr 2007 Net income (Loss)	\$(65.3) million
Third Qtr 2007 Net Operating Earnings	\$68.7 million
Third Quarter 2007 Mark to Market Adjustment for Insured Derivatives	\$(206.2) million

Share Price

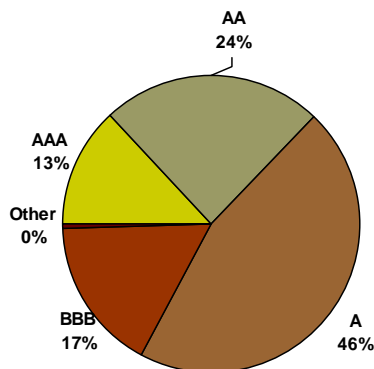
As of 00/00/00	Date	Amount
52-Week High	00/00/00	NOT APPLICABLE
52-Week Low	00/00/00	NOT APPLICABLE
Year-End Market Cap	00/00/00	NOT APPLICABLE
Recent Market Cap	00/00/00	NOT APPLICABLE

Financial Guaranty Insurance Company (FGIC) (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



As of 9/30/07

Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

California State GO	1,369.9
Jefferson County, AL Sewer Rev	1,196.3
Golden State Tobacco Securitiz Corp, CA Lease	1,150.5
Puerto Rico Commonwealth GO	1,131.8
New Jersey Trans Trust Fund Auth	1,065.6
Massachusetts Commonwealth GO	1,060.2
Miami-Dade County, FL Aviation Rev	1,052.8
Los Angeles USD, CA GO	1,052.0
Port Authority of NY and NJ	1,042.4
Double-Wrap Muni Portfolio(DWMP)	1,041.7

Financial Guaranty Insurance Company (FGIC) (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 9/30/07)

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	3,489.3	1.11	2007 Senior ABS CDO	4,958.3	1.57
2006 Subprime RMBS	414.4	0.13	2005 Mezzanine ABS CDO	289.5	0.09
2007 Subprime RMBS	2,152.4	0.68	2006 Mezzanine ABS CDO	2,224.5	0.71
2005 Senior ABS CDO	1,801.4	0.57	2007 Mezzanine ABS CDO	0	0.00
2006 Senior ABS CDO	1,660.0	0.53			

Financial Security Assurance Inc.

General Information

Date Established	1985
Headquarters	New York
Other Offices	San Francisco, Dallas, Mexico City, London, Madrid, Paris, Sydney, Tokyo, Bermuda
Ratings	AAA Fitch Aaa Moody's AAA S&P AAA R&I
Ownership Structure	Subsidiary of Dexia S.A.
Principal Regulators	NY Insurance Dept.; other state insurance regulators; SEC (for holding co.). For non-U.S. subsidiaries: Financial Services Authority in U.K.; Financial Services Authority in Japan; Secretaría de Hacienda y Crédito Público in Mexico

Statutory Financial Information (12/31/07)

Statutory Capital and Reserves	\$5.1 billion
Total Claims-Paying Resources	\$6.7 billion
Guaranteed Net Par Outstanding	\$426.5 billion
U.S. Municipal Net Par Outstanding	\$255.4 billion

The table above does not reflect Dexia's February 2008 contribution of \$500 million of additional capital.

GAAP Financial Information (Holding Company)

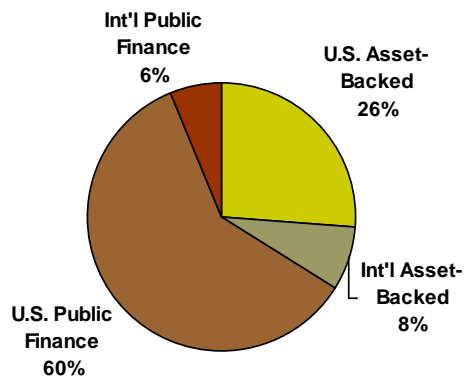
2007 Net Income	\$(65.7) million
2007 Net Operating Income	\$378.0 million
Fourth Qtr 2007 Net income (Loss)	\$(91.9) million
Fourth Qtr 2007 Net Operating Earnings	\$94.3 million
Fourth Quarter 2007 Mark to Market Adjustment for Insured Derivatives	\$(188.6) million

Share Price

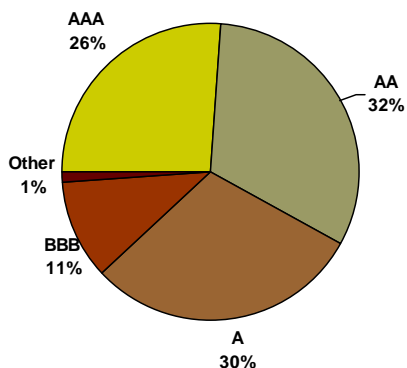
	Date	Amount
52-Week High	00/00/00	NOT APPLICABLE
52-Week Low	00/00/00	NOT APPLICABLE
Year-End Market Cap	12/31/07	NOT APPLICABLE
Recent Market Cap	00/00/00	NOT APPLICABLE

Financial Security Assurance Inc. (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

Commonwealth of Massachusetts G.O.	1,261.6
New York City Municipal Water Finance Authority, Water and Sewer Revenue Bonds	1,253.5
Port Authority of NY and NJ, Consolidated Bonds	1,250.2
Massachusetts School Building Authority Dedicated Sales Tax Revenue Bonds	1,182.9
Los Angeles Unified School District, CA, G.O.	1,113.4
New Jersey Transportation Trust Fund Authority Transportation System Bonds	1,105.9
State of California, G.O.	1,092.0
New York City, NY, G.O.	1,071.2
Metropolitan Transportation Authority, NY, Transportation Revenue Bonds	1,041.6
Houston Combined Utility System, TX, First Lien Revenues	1,038.6

As of 12/31/07

Financial Security Assurance Inc. (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 12/31/07)*

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	579	0.14	2007 Senior ABS CDO	0	0.00
2006 Subprime RMBS	125	0.03	2005 Mezzanine ABS CDO	0	0.00
2007 Subprime RMBS	2,999	0.70	2006 Mezzanine ABS CDO	0	0.00
2005 Senior ABS CDO	300	0.07	2007 Mezzanine ABS CDO	0	0.00
2006 Senior ABS CDO	0	0.00			

* Includes transactions previously wrapped by other monolines.

Radian Asset Assurance Inc.

General Information

Date Established	1985
Headquarters	New York
Other Offices	Philadelphia (Corporate HQ of Parent), London
Ratings	Aa3 (Moody's) AA (S&P) A+ (Fitch)*
Ownership Structure	Subsidiary of Radian Group Inc.
Principal U.S. Regulators	NY Insurance Dept; other state insurance regulators; SEC (for Parent Company). For London: Financial Services Authority

•Fitch currently rates Radian Asset A+ with an evolving outlook. Radian Group Inc. formally requested that Fitch withdraw its rating of all Radian Group Inc entities on 9/5/07.

Statutory Financial Information (9/30/07)

Statutory Capital and Reserves	\$1.6 billion
Total Claims-Paying Resources	\$3.1 billion
Guaranteed Net Par Outstanding	\$112.8 billion
U.S. Municipal Net Par Outstanding	\$55.1 billion

GAAP Financial Info (Radian Asset Assurance Inc.)

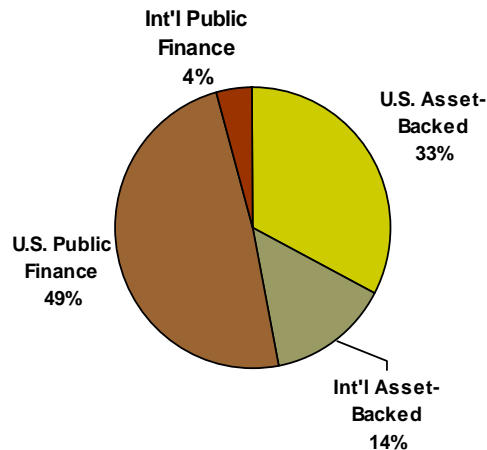
2006 Net Income (FY'06)	\$127.3 million
2006 Net Operating Income (FY'06)	\$72.5 million
Third Qtr 2007 Net income (Loss)	(\$152.4 million)
Third Qtr 2007 Net Operating Income	\$12.6 million
Third Quarter 2007 Mark to Market Adjustment for Insured Derivatives	(\$255.6 million)

Share Price (Radian Group Inc. – NYSE: RDN)

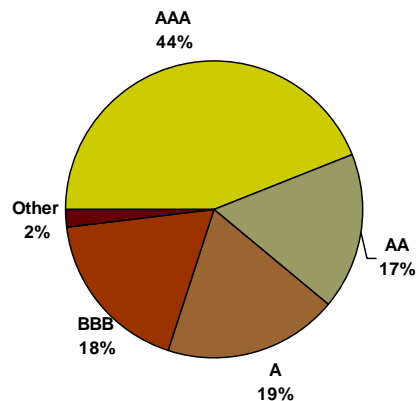
As of 3/6/08	Date	Amount
52-Week High	5/23/07	\$63.95
52-Week Low	3/6/08	\$5.30
Year-End Market Cap	12/31/06	\$4,280.5 million
Recent Market Cap	3/6/08	\$458.3 million

Radian Asset Assurance Inc. (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

New York, NY – G.O.	\$	818
California – G.O.		800
Port Authority of New York & New Jersey		604
Chicago, IL – G.O.		578
Washington – G.O.		450
Massachusetts – G.O.		417
Los Angeles Unified School District, CA		414
Massachusetts School Building Authority		359
New Jersey Transportation Trust Fund Authority		358
Metropolitan Transportation Authority, NY		352

As of 9/30/07

Radian Asset Assurance Inc. (Cont'd)

Selected Current Exposures (Net Par Outstanding as of 9/30/07)—Direct Exposures only

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	0	0.00	2007 Senior ABS CDO	0	0.00
2006 Subprime RMBS	0	0.00	2005 Mezzanine ABS CDO	0	0.00
2007 Subprime RMBS	0	0.00	2006 Mezzanine ABS CDO	0	0.00
2005 Senior ABS CDO	150	0.13	2007 Mezzanine ABS CDO	0	0.00
2006 Senior ABS CDO	510.8	0.45			

Security Capital Assurance

General Information

Date Established	2006
Headquarters	Bermuda
Other Offices	New York; Connecticut; California; London; Singapore; Madrid
Ratings	XLCA and XLFA: AAA by Standard & Poor's Ratings Service A3 by Moody's Investors Service A by Fitch Ratings
Ownership Structure	Holding company of primary financial guarantee insurer (XLCA) and reinsurer (XLFA)
Principal U.S. Regulators	NY Insurance Dept.; SEC (for holding co.). For non-U.S. subsidiaries: Financial Services Authority in U.K

All information current as of February 11, 2008

Statutory Financial Information (9/30/07)

Statutory Capital and Reserves	\$2.6 billion
Total Claims-Paying Resources	\$3.5 billion
Guaranteed Net Par Outstanding	\$154.2 billion
U.S. Municipal Net Par Outstanding	\$59.6 billion

GAAP Financial Information (Holding Company)

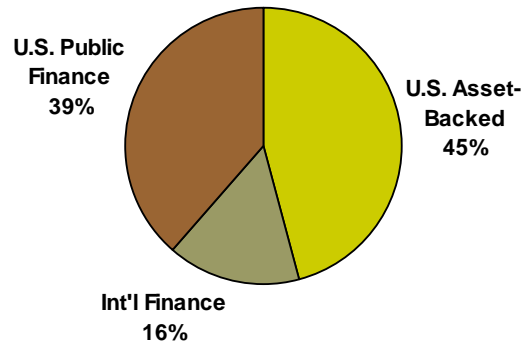
2006 Net Income	\$117.4 million
2006 Net Operating Income	\$141.9 million
Third Qtr 2007 Net income (Loss)	\$(89.9) million
Third Qtr 2007 Net Operating Earnings	\$46.0 million
Third Quarter 2007 Mark to Market Adjustment for Insured Derivatives	\$(143.0) million

Share Price

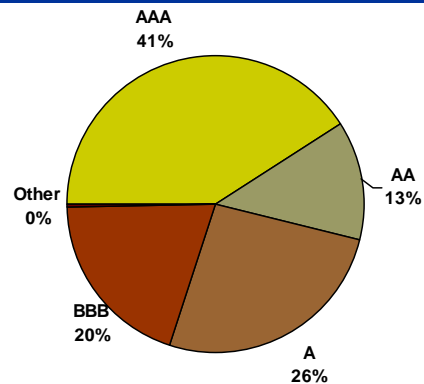
As of 2/11/08	Date	Amount
52-Week High	05/23/07	\$ 33.88
52-Week Low	1/18/08	\$ 1.65
Year-End Market Cap	12/31/07	\$251 million
Recent Market Cap	2/11/08	\$ 132 million

Security Capital Assurance (Cont'd)

Net Par Outstanding by Sector



Net Par Outstanding by Rating



Ten Largest U.S. Municipal Risks (Net Par in \$ Millions)

State of New Jersey – Ann'l Appr.	858
City of New York - GO	857
State of Texas - GO	833
Jefferson Co., AL – Wtr/Swr Rev.	811
East Bay MUD, CA – Wtr/Swr Rev.	755
State of California - GO	737
State of New York – Ann'l Appr.	721
Commonwealth of Mass. - GO	690
State of Wisconsin – Ann'l Appr.	689
State of Florida – GO	625

As of 9/30/07

Security Capital Assurance (Cont'd)


Selected Current Exposures (Net Par Outstanding as of 9/30/07)

Vintage and Type	\$MM	% of Total Insured Portfolio	Vintage and Type	\$MM	% of Total Insured Portfolio
2005 Subprime RMBS	307.7	0.20	2007 Senior ABS CDO	6842.9	4.44
2006 Subprime RMBS	0	0.00	2005 Mezzanine ABS CDO	0	0.00
2007 Subprime RMBS	1,366.5	0.89	2006 Mezzanine ABS CDO	0	0.00
2005 Senior ABS CDO	948.6	0.62	2007 Mezzanine ABS CDO	0	0.00
2006 Senior ABS CDO	7095.8	4.60			

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: SEAN W. MCCARTHY	2. Organization or organizations you are representing: I AM TESTIFYING ON BEHALF OF THE ASSOCIATION OF FINANCIAL GUARANTY INSURERS (AFGI).
3. Business Address and telephone number: 31 W. 52 ND ST. NEW YORK, NY 10019 212.339.3485	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2005 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2005 related to the subject on which you have been invited to testify?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
	
7. Signature:	

Please attach a copy of this form to your written testimony.