

Financial Guaranty Insurance Company

Quarterly Operating Review
Third Quarter 2016





FGIC
Quarterly Operating Review
Third Quarter 2016

Company Profile

Financial Guaranty Insurance Company (the “Company” or “FGIC”), a wholly owned subsidiary of FGIC Corporation (“FGIC Corp.”), is a New York stock insurance corporation regulated by the New York State Department of Financial Services (the “NYSDFS”). The Company previously issued financial guaranty insurance policies insuring public finance, structured finance and other obligations. The Company is currently responsible for administering its outstanding policies in accordance with the Rehabilitation Plan (defined below), any NYSDFS Guidelines and applicable law. The Company is no longer engaged in the business of writing new insurance policies.

On June 28, 2012, the Supreme Court of the State of New York (the “Rehabilitation Court”) issued an order pursuant to Article 74 of the Insurance Law (“Article 74”) placing FGIC in rehabilitation. On June 11, 2013, the Rehabilitation Court approved the First Amended Plan of Rehabilitation for FGIC, dated June 4, 2013, together with all exhibits and the plan supplement thereto (collectively, the “Rehabilitation Plan”). The Rehabilitation Plan became effective on August 19, 2013 (the “Effective Date”), whereupon FGIC’s rehabilitation proceeding terminated and FGIC resumed possession of its property and conduct of its business subject to the limitations described in the Rehabilitation Plan. Additional information about the Rehabilitation Plan is available at:

www.fgic.com/policyholderinfocenter

This Operating Review should be read in conjunction with the Statutory-Basis Financial Statements of FGIC and the Statutory Statements of FGIC filed with the NYSDFS. These can be accessed at www.fgic.com/investorrelations/financialreports

Company Contact Information

Investor Relations
(212) 312-2776
www.fgic.com

Financial Guaranty Insurance Company
521 Fifth Avenue
New York, NY 10175
(212) 312-3000
(800) 352-0001
www.fgic.com

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SELECTED STATUTORY FINANCIAL INFORMATION⁽¹⁾

(Dollars in Millions)

	September 30		December 31		
	2016	2015	2015	2014	2013
SAP Statements of Operations:					
Premiums written, net of reinsurance	\$ 7.3	\$ 10.1	\$ 18.6	\$ 16.2	\$ 46.6
Net premiums earned	15.4	69.7	73.6	25.4	95.9
Loss reserve (expense) release	(50.0)	(79.4)	(111.3)	(318.7)	2,467.5
Loss adjustment reserve (expense) release	(19.3)	(4.0)	(7.5)	52.2	(39.8)
Operating expenses	(20.7)	(20.4)	(27.8)	(27.6)	(51.0)
Ceding commission income (expense)	0.1	0.2	0.1	(1.8)	0.1
Underwriting (loss) income	(74.5)	(33.9)	(72.9)	(270.5)	2,472.7
Net investment income	65.0	56.7	78.4	68.6	51.8
Net realized capital gains (losses)	21.2	(1.5)	(2.7)	(0.3)	(38.3)
Other income	8.7	15.5	18.0	96.4	23.5
Income (loss) before federal and foreign income taxes	20.4	36.8	20.8	(105.8)	2,509.7
Federal and foreign income tax (benefit) expense	(5.7)	7.3	7.6	3.5	0.9
Net income (loss)	<u>\$ 26.1</u>	<u>\$ 29.6</u>	<u>\$ 13.2</u>	<u>\$ (109.3)</u>	<u>\$ 2,508.8</u>
SAP Balance Sheets:					
Total cash and investments	\$ 2,403.4	\$ 2,316.8	\$ 2,329.8	\$ 2,498.2	\$ 1,981.7
Accrued investment income	23.6	21.5	21.0	19.0	15.1
Other assets	1.2	1.4	1.4	1.5	1.7
Receivable from parent and subsidiaries	0.4	0.3	0.6	0.6	0.8
Reinsurance receivable	0.0	-	-	-	-
Federal and foreign income tax receivable	3.9	-	1.8	-	-
Total assets	<u>\$ 2,432.5</u>	<u>\$ 2,340.0</u>	<u>\$ 2,354.6</u>	<u>\$ 2,519.3</u>	<u>\$ 1,999.3</u>
Claims Reserve ⁽²⁾	\$ 1,381.1	\$ 1,405.6	\$ 1,362.4	\$ 2,577.8	\$ 3,429.9
DPO ⁽³⁾	1,743.3	1,734.2	1,700.5	823.8	-
DPO Accretion ⁽³⁾	119.2	67.7	80.4	42.7	-
Policy Revision Adjustment (PRA)	(1,316.2)	(1,342.0)	(1,247.4)	(1,425.4)	(2,062.5)
Loss Reserves ⁽²⁾	\$ 1,927.4	\$ 1,865.5	\$ 1,895.9	\$ 2,018.8	\$ 1,367.4
Loss adjustment expenses	27.1	11.6	13.6	12.0	42.4
Unearned premiums	50.4	60.4	58.5	120.1	122.5
Contingency reserves	337.3	321.3	307.4	288.0	367.2
Provision for reinsurance	-	-	-	-	24.3
Other liabilities	23.9	14.3	12.6	14.0	9.1
Federal and foreign income tax payable	0.0	0.5	0.2	-	-
Total liabilities	2,366.1	2,273.6	2,288.2	2,452.9	1,932.9
Common stock	15.0	15.0	15.0	15.0	15.0
Redeemable preferred stock	300.0	300.0	300.0	300.0	300.0
Unassigned deficit	(248.6)	(248.6)	(248.6)	(248.6)	(248.6)
Total capital and surplus	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>
SAP Statements of Changes in Capital and Surplus:					
Balance at January 1,	\$ 66.4	\$ 66.4	\$ 66.4	\$ 66.4	\$ (2,610.9)
Net income (loss)	26.1	29.6	13.2	(109.3)	2,508.8
Change in net unrealized gains	4.8	6.5	8.8	16.9	15.2
Change in non-admitted assets	(0.7)	(0.7)	0.3	(1.2)	2.0
Change in contingency reserves	(29.9)	(33.3)	(19.4)	79.2	176.6
Other changes in capital and surplus	(0.3)	(2.0)	(2.9)	14.4	(21.3)
Correction of prior year retained earnings	-	-	-	-	(4.1)
Balance at end of period	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>
Summary of Other Statutory Data:					
Net par in force	9,764.4	12,314.2	11,716.9	16,566.5	20,152.7
Net debt service in force	14,515.3	18,716.0	18,020.3	25,211.7	30,250.0

⁽¹⁾ Certain prior year amounts have been reclassified to conform to the 2016 presentation.

⁽²⁾ See Notes on Page 4.

⁽³⁾ Capitalized terms which are defined in the Rehabilitation Plan and are used but not otherwise defined in this report have the meanings ascribed to them in the Rehabilitation Plan.

PROJECTED FUTURE INSTALLMENT PREMIUM

(Dollars in Millions)

**Future Installment
Premium Projected as
of September 30, 2016**

Three months ended:

December 31, 2016	2.2
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Twelve months ended:

December 31, 2017	7.6
December 31, 2018	7.7
December 31, 2019	7.0
December 31, 2020	6.5

Five years ended:

December 31, 2025.	24.7
December 31, 2030.	19.5
December 31, 2035.	14.4
December 31, 2040	7.4
December 31, 2045.	2.9
December 31, 2050	0.2



INVESTMENT PORTFOLIO
(Dollars in Millions)

	September 30, 2016	December 31, 2015
Investments At Fair Market Value		
Long-term		
Municipal obligations	\$ 700.0	\$ 856.8
U.S. government obligations	132.1	102.6
Foreign government obligations.	-	20.2
Mortgage backed securities	338.1	402.6
Corporate.	953.6	773.8
High Yield Corporate	162.4	73.2
Total long-term.	2,286.2	2,229.2
Short-term	97.6	75.3
Common Stock	113.3	57.3
Total.	<u>\$ 2,497.1</u>	<u>\$ 2,361.8</u>

Rating ⁽¹⁾	September 30, 2016	December 31, 2015
AAA	16.2%	12.5%
AA	32.2%	45.2%
A	27.0%	26.9%
BBB.	17.4%	12.1%
BIG.	7.2%	3.3%
	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Ratings represent lower of Moody's, S&P and Fitch



LOSS RESERVES AND POLICY CLAIM INFORMATION
(Dollars in Millions)

Loss Reserve Detail ⁽¹⁾	September 30, 2016	December 31, 2015
Claims Reserve	\$ 1,381.1	\$ 1,362.4
DPO	1,743.3	\$ 1,700.5
DPO Accretion	119.2	\$ 80.4
Total	<u>3,243.6</u>	<u>3,143.3</u>
Policy Revision Adjustment	<u>(1,316.2)</u>	<u>(1,247.4)</u>
Loss reserve at end of period	<u>\$ 1,927.4</u>	<u>\$ 1,895.9</u>

(1) In accordance with NYSDFS Guidelines, FGIC records loss reserves for any reporting period ending on or after the Effective Date in an amount equal to the excess at the applicable reporting date of (i) the amount of FGIC's admitted assets minus FGIC's Minimum Surplus Amount (currently \$66.4 million) over (ii) the sum of FGIC's statutory reserves excluding loss reserves (e.g., unearned premiums, contingency reserves, loss adjustment expense reserves) and other liabilities. The loss reserve amount comprises the total amount of (i) the Claims Reserve, (ii) the DPO for all policies and (iii) the DPO Accretion for all policies, minus the Policy Revision Adjustment.

See the Statutory-Basis Financial Statements of FGIC for additional information regarding the matters referred to in this table.

Policy Claim Detail ⁽²⁾	September 30, 2016
Submitted Claims under Rehabilitation Plan	\$ 3,246.8
Permitted Claims under Rehabilitation Plan	\$ 2,502.0
Claims Submitted; Review Pending	\$ 6.7

(2) These amounts represent Policy Claims which were submitted to and Permitted by FGIC in accordance with the Rehabilitation Plan, regardless of the actual amount of the applicable Policy Claim submitted to FGIC, from the Effective Date of the Rehabilitation Plan through September 30, 2016.

Refer to the Rehabilitation Plan for additional information.



INSURED EXPOSURE BY BOND TYPE AND GEOGRAPHY

(Dollars in Millions)

	Gross Par in Force ⁽¹⁾	Net Par in Force ⁽²⁾	% of Total Net Par in Force
U.S. Public Finance			
Global Utilities	1,053.0	978.0	10%
Other Tax Backed	895.0	867.2	9%
Leases	700.0	600.0	6%
Project Finance	684.3	527.9	5%
General Obligation	593.0	584.2	6%
Water and Sewer	517.0	515.7	5%
Other	128.1	108.5	1%
Housing	102.0	101.8	1%
Total Public Finance	4,672.4	4,283.2	44%
U.S. Structured Finance			
RMBS	3,708.7	3,685.1	38%
Student Loan	250.0	250.0	3%
Other	7.6	7.6	0%
Total Structured Finance	3,966.3	3,942.7	40%
International			
Project Finance	1,148.5	1,148.5	12%
Utility	362.9	362.9	4%
Other	27.1	27.1	0%
Total International	1,538.6	1,538.6	16%
Total	10,177.2	9,764.4	100%

1) The Company's insured exposure amounts reflect the gross par in force ("GPIF") of the insured securities. The GPIF is based on the outstanding principal amount of the insured securities as of the date of determination, but, in the case of insured exposures that have been the subject of post-11/24/09 Permitted Policy Claims paid by FGIC at the CPP in accordance with the Rehabilitation Plan, the GPIF is reduced by the total Permitted amount of such Policy Claims relating to principal (to the extent the actual outstanding principal amount of the insured securities has not already been reduced by such total amount), not merely by the CPP portion thereof paid in cash, since the Rehabilitation Plan prohibits future Policy Claims for that principal amount or interest thereon. Accordingly, the GPIF may differ from the actual outstanding principal amount of the applicable insured securities.

2) The Company's insured exposure amounts reflect the net par in force ("NPIF") of the insured securities, which is the GPIF net of any related reinsurance.



RMBS INSURED EXPOSURE BY ASSET CLASS AND YEAR OF CLOSURE

Net Par in Force as of 9/30/16

(Dollars in Millions)

	Pre-2004	2004	2005	2006	2007	Total
Alt-A (1st lien)						
Number of Transactions.	-	4	6	5	-	15
Net Par in Force (in \$).	-	222.2	186.0	156.7	-	565.0
HELOC						
Number of Transactions.	1	7	6	5	1	20
Net Par in Force (in \$).	3.0	138.0	275.9	306.3	129.5	852.6
Closed end seconds						
Number of Transactions.	-	-	1	8	-	9
Net Par in Force (in \$).	-	-	138.3	877.1	-	1,015.4
Subprime (1st lien)						
Number of Transactions.	24	5	4	1	3	37
Net Par in Force (in \$).	107.1	145.1	267.0	51.3	680.9	1,251.5
Prime (1st lien)						
Number of Transactions.	2	-	-	-	-	2
Net Par in Force (in \$).	0.6	-	-	-	-	0.6
Total						
Number of Transactions.	27	16	17	19	4	83
Net Par in Force	\$ 110.7	\$ 505.3	\$ 867.3	\$ 1,391.4	\$ 810.4	\$ 3,685.1



TOP INSURED EXPOSURES

(Dollars in Millions)

Top 25 U.S. Public Finance Exposures

September 30, 2016

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
Hudson Yards Infrastructure Corp, NY.....	\$ 700.0		\$ 600.0	6.1%
Yankee Ballpark LLC (NYC IDA).....	586.8		430.4	4.4%
Puerto Rico Highway Transportation.....	446.9		419.2	4.3%
Pacific Gas Electric Company.....	345.0		345.0	3.5%
Puerto Rico Infrast Fin Auth, PR, Spec Tax Rev.....	344.5		344.5	3.5%
Detroit (City of), MI Water Rev.....	330.7		330.7	3.4%
Hawaiian Electric Company.....	265.0		215.0	2.2%
Puerto Rico Commonwealth GO.....	252.6		249.7	2.6%
Los Angeles USD, CA GO.....	207.9		207.9	2.1%
Southern California Edison Power Company.....	135.0		110.0	1.1%
Detroit, MI Sewer Disposal Rev.....	134.7		134.7	1.4%
Dayton Power Light Company.....	100.0		100.0	1.0%
Green Stadco-New York Jets Stadium.....	97.5		97.5	1.0%
Puerto Rico Conv Ctr Dist Auth, PR Hotel Rev.....	97.1		97.1	1.0%
Nevada Power Company.....	92.5		92.5	0.9%
Detroit (City of) School District, MI GO.....	78.6		73.4	0.8%
Illinois Housing Development Auth, IL Hsg.....	57.4		57.4	0.6%
Brooklyn Union Gas Company.....	55.0		55.0	0.6%
Indiana Michigan Power Co.....	50.0		50.0	0.5%
New Orleans (City of), LA GO.....	47.6		46.9	0.5%
Burbank RDA (Golden State Redev), CA.....	46.8		27.3	0.3%
Rancho Calif, CA Water Dist Rev.....	44.4		43.0	0.4%
Banning (City of) Comm RDA, CA Ref TABs (Merged).....	25.3		25.3	0.3%
Fort Benning Family Hsg LLC 2007.....	20.0		20.0	0.2%
Dayton University, OH Mtg Rev.....	19.0		19.0	0.2%
Total.....	\$ 4,580.3		\$ 4,191.6	42.9%

Top 15 U.S. Structured Finance Exposures

September 30, 2016

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
MSAC 2007-NC4.....	458.5		458.5	4.7%
Terwin Mortgage Trust 2006-8SL.....	319.2		319.2	3.3%
SLM Private Credit Student Loan Trust 2006-B.....	250.0		250.0	2.6%
CWHEQ 2006-H.....	236.1		236.1	2.4%
Argent Mortgage Loan Trust 2005-W1.....	220.9		220.9	2.3%
Terwin Mortgage Trust 2005-13SL CES HELOC.....	138.3		138.3	1.4%
Terwin Mortgage Trust 2006-2HGS.....	137.4		137.4	1.4%
CWHEQ 2007-C.....	129.5		129.5	1.3%
BARN 2007-1, Class N-1.....	126.0		126.0	1.3%
CWHEQ 2006-S3.....	111.2		111.2	1.1%
CWHEQ 2006-S5.....	111.1		111.1	1.1%
Impac CMB Trust Series 2004-10.....	110.8		110.8	1.1%
CWHEQ Home Equity Loan Trust, Series 2006-S2.....	107.2		107.2	1.1%
CWHEQ 2005-G.....	97.1		91.6	0.9%
BSABS 2007-SD3, Class A.....	96.4		96.4	1.0%
Total.....	\$ 2,649.6		\$ 2,644.2	27.1%

Top 5 International Exposures

September 30, 2016

Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
River Run Project (Canada).....	344.3		344.3	3.5%
Consort Healthcare (Birmingham) Limited.....	341.2		341.2	3.5%
ETSA Utilities Pty Ltd.....	265.1		265.1	2.7%
Consort Healthcare (Mid Yorkshire) Funding plc.....	224.4		224.4	2.3%
Praeco Pty Ltd (Australian Defence HQ).....	180.3		180.3	1.8%
Total.....	\$ 1,355.3		\$ 1,355.3	13.9%

⁽¹⁾ Represents percentage of total NPIF.



STRUCTURED FINANCE SERVICERS AND REINSURER EXPOSURE

(Dollars in Millions)

Top 10 Structured Finance Servicers

September 30, 2016

	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
Ocwen Loan Servicing.	\$ 1,770.9		\$ 1,770.9	18.1%
Countrywide Home Loans.	1,115.9		1,092.3	11.2%
Specialized Loan Servicing LLC.	277.2		277.2	2.8%
Sallie Mae, Inc..	250.0		250.0	2.6%
Wells Fargo Bank, NA.	244.4		244.4	2.5%
JPMorgan Chase.	73.3		73.3	0.8%
CitiMortgage, Inc..	48.4		48.4	0.5%
Green Tree Servicing.	45.6		45.6	0.5%
Green Tree Servicing LLC.	37.0		37.0	0.4%
One West Bank.	27.8		27.8	0.3%
Total	\$ 3,890.6		\$ 3,867.0	39.6%

⁽¹⁾ Represents percentage of total NPIF.

Top Reinsurer Exposures

Ceded Par in Force - As of September 30, 2016

Reinsurer	Reinsurer Rating ⁽²⁾	Ceded Par in Force	Public Finance	RMBS
Assured Guaranty Re Ltd	AA/Baa1	\$ 402.2	\$ 378.6	\$ 23.6
Assured Guaranty Corp.	AA/A3	\$ 10.3	10.3	0.0
Other.		0.3	0.3	-
Total		\$ 412.8	\$ 389.2	\$ 23.6

⁽²⁾ S&P/Moody's ratings from individual company websites.



NET DEBT SERVICE AMORTIZATION ⁽¹⁾
(Dollars in Millions)

	September 30, 2016	
	Scheduled Net Debt Service Amortization	Ending Net Debt Service Outstanding
2016.	\$ 305.1	\$ 14,210.2
2017.	1,140.8	13,069.3
2018.	1,322.0	11,747.3
2019.	925.4	10,822.0
2020.	836.8	9,985.1
2016-2020.	4,530.1	9,985.1
2021-2025.	3,390.8	6,594.3
2026-2030.	1,859.5	4,734.8
2031-2035.	1,607.9	3,127.0
After 2035.	3,127.0	-
Total.	\$ 14,515.3	

⁽¹⁾ Depicts expected amortization of the total insured portfolio (principal and interest), assuming no refundings or calls through the contractual maturity date as of September 30, 2016.