

Financial Guaranty Insurance Company

Annual Operating Review
2016





FGIC
Annual Operating Review
December 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, but it is no longer engaged in the business of writing new insurance policies. The Company is currently responsible for administering its outstanding policies in accordance with the Rehabilitation Plan (defined below), any NYSDFS Guidelines and applicable law.

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. 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

463 Seventh Avenue

New York, NY 10018

(212) 312-3000

(800) 352-0001

www.fgic.com



FGIC
Annual Operating Review
December 2016

Table of Contents

Selected Statutory Financial Information.	1
Projected Future Installment Premium	2
Investment Portfolio	3
Loss Reserves and Policy Claim Information.	4
Insured Exposure by Bond Type And Geography	5
RMBS Insured Exposure By Asset Class and Year of Closure.	6
Top Insured Exposures.	7
Structured Finance Servicers and Reinsurer Exposure.	8
Net Debt Service Amortization.	9



SELECTED STATUTORY FINANCIAL INFORMATION

(Dollars in Millions)

	Year Ended December 31		
	2016	2015	2014
SAP Statements of Operations:			
Premiums written, net of reinsurance	\$ 9.1	\$ 18.6	\$ 16.2
Net premiums earned	19.7	73.6	25.4
Loss reserve expense	(139.3)	(111.3)	(318.7)
Loss adjustment reserve (expense) release	(19.5)	(7.5)	52.2
Operating expenses	(30.7)	(27.8)	(27.6)
Ceding commission income (expense)	0.1	0.1	(1.8)
Underwriting loss	(169.7)	(72.9)	(270.5)
Net investment income	89.0	78.4	68.6
Net realized capital gains (losses)	23.7	(2.7)	(0.3)
Other income	55.2	18.0	96.4
Income (loss) before federal and foreign income taxes	(1.8)	20.8	(105.8)
Federal and foreign income tax expense (benefit)	(4.5)	7.6	3.5
Net income (loss)	<u>\$ 2.7</u>	<u>\$ 13.2</u>	<u>\$ (109.3)</u>
SAP Balance Sheets:			
Total cash and investments	\$ 2,459.4	\$ 2,329.8	\$ 2,498.2
Accrued investment income	22.4	21.0	19.0
Other assets	1.3	1.4	1.5
Receivable from parent and subsidiaries	0.5	0.6	0.6
Reinsurance receivable	0.0	-	-
Federal and foreign income tax receivable	2.1	1.8	-
Total assets	<u>\$ 2,485.7</u>	<u>\$ 2,354.6</u>	<u>\$ 2,519.3</u>
Claims Reserve ⁽¹⁾	\$ 1,311.6	\$ 1,362.4	\$ 2,577.8
DPO ⁽²⁾	1,678.3	1,700.5	823.8
DPO Accretion ⁽²⁾	128.8	80.4	42.7
Policy Revision Adjustment (PRA)	(1,169.0)	(1,247.4)	(1,425.4)
Loss Reserves ⁽¹⁾	\$ 1,949.7	\$ 1,895.9	\$ 2,018.8
Loss adjustment expenses	24.1	13.6	12.0
Unearned premiums	47.9	58.5	120.1
Contingency reserves	318.3	307.4	288.0
Other liabilities	79.3	12.6	14.0
Federal and foreign income tax payable	0.0	0.2	-
Total liabilities	2,419.3	2,288.2	2,452.9
Common stock	15.0	15.0	15.0
Redeemable preferred stock	300.0	300.0	300.0
Unassigned deficit	(248.6)	(248.6)	(248.6)
Total capital and surplus	<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
Net income (loss)	2.7	13.2	(109.3)
Change in net unrealized gains	7.2	8.8	16.9
Change in non-admitted assets	0.7	0.3	(1.2)
Change in contingency reserves	(10.8)	(19.4)	79.2
Other changes in capital and surplus	0.2	(2.9)	14.4
Balance at December 31,	<u>\$ 66.4</u>	<u>\$ 66.4</u>	<u>\$ 66.4</u>
Summary of Other Statutory Data:			
Net par in force	9,198.7	11,716.9	16,566.5
Net debt service in force	13,719.0	18,020.3	25,211.7

⁽¹⁾ See Notes on Page 4.

⁽²⁾ 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.

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

PROJECTED FUTURE INSTALLMENT PREMIUM

(Dollars in Millions)

**Future Installment
Premium Projected as
of December 31, 2016**

Twelve months ended:

December 31, 2017	7.9
December 31, 2018	7.8
December 31, 2019	7.1
December 31, 2020	6.6
December 31, 2021	6.1

Five years ended:

December 31, 2026	22.7
December 31, 2031	18.7
December 31, 2036	12.8
December 31, 2041	6.1
December 31, 2046	2.2
December 31, 2051	0.0



INVESTMENT PORTFOLIO
(Dollars in Millions)

	December 31, 2016	December 31, 2015
Investments At Fair Market Value		
Long-term		
Municipal obligations	\$ 638.3	\$ 856.8
U.S. government obligations	229.4	102.6
Foreign government obligations	-	20.2
Mortgage-backed securities	264.8	402.6
Corporate	881.8	773.8
High yield corporate	<u>165.2</u>	<u>73.2</u>
Total long-term	<u>2,179.5</u>	<u>2,229.2</u>
Short-term	79.8	75.3
Common stock	<u>131.1</u>	<u>57.3</u>
Total	<u><u>\$ 2,390.4</u></u>	<u><u>\$ 2,361.8</u></u>

Rating ⁽¹⁾	December 31, 2016	December 31, 2015
AAA	14.7%	12.5%
AA	34.6%	45.2%
A	25.9%	26.9%
BBB	17.0%	12.1%
BIG	<u>7.8%</u>	<u>3.3%</u>
	<u><u>100.0%</u></u>	<u><u>100.0%</u></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⁾	December 31, 2016	December 31, 2015
Claims Reserve	\$ 1,311.6	\$ 1,362.4
DPO	1,678.3	\$ 1,700.5
DPO Accretion	128.8	\$ 80.4
Total	<u>3,118.7</u>	<u>3,143.3</u>
Policy Revision Adjustment	<u>(1,169.0)</u>	<u>(1,247.4)</u>
Loss reserve at end of period	<u>\$ 1,949.7</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⁾	December 31, 2016
Submitted Claims under Rehabilitation Plan	\$ 3,259.0
Permitted Claims under Rehabilitation Plan	\$ 2,513.0
Claims Submitted; Review Pending	\$ 3.3

(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 December 31, 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 ⁽¹⁾	% of Total Net Par in Force
U.S. Public Finance			
Global Utilities	1,053.0	978.0	11%
Other Tax Backed	895.0	867.2	9%
Leases	700.0	600.0	7%
Project Finance	684.3	527.9	6%
General Obligation	585.8	577.0	6%
Water and Sewer	234.3	232.9	2%
Housing	91.7	91.5	1%
Other Public Finance	75.6	57.1	1%
Higher Education	19.0	19.0	0%
Total Public Finance	4,338.8	3,950.6	43%
U.S. Structured Finance			
RMBS	3,534.7	3,512.9	38%
Student Loan	250.0	250.0	3%
Other	1.3	1.3	0%
Total Structured Finance	3,786.0	3,764.2	41%
International			
Project Finance	1,098.1	1,098.1	12%
Utility	358.6	358.6	4%
Other	27.1	27.1	0%
Total International	1,483.9	1,483.9	16%
Total	9,608.6	9,198.7	100%

1) With respect to any FGIC-insured exposure, (i) gross par in force is based on the outstanding principal amount of such exposure, as of the date of determination, but, if such exposure has been the subject of any permitted policy claim paid by FGIC at the CPP in accordance with the Rehabilitation Plan, the gross par in force is reduced by the total amount of all such permitted policy claims relating to principal (without duplication of any other actual reductions), 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, and (ii) net par in force means the gross par in force for such exposure net of any related reinsurance.



RMBS INSURED EXPOSURE BY ASSET CLASS AND YEAR OF CLOSURE

Net Par in Force as of 12/31/16

(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 \$).	-	214.4	174.8	154.1	-	543.3
HELOC						
Number of Transactions.	1	7	6	5	1	20
Net Par in Force (in \$).	2.6	127.7	255.3	280.3	121.8	787.7
Closed end seconds						
Number of Transactions.	-	-	1	8	-	9
Net Par in Force (in \$).	-	-	137.4	848.2	-	985.6
Subprime (1st lien)						
Number of Transactions.	21	5	4	1	3	34
Net Par in Force (in \$).	84.1	134.6	254.8	50.7	672.0	1,196.2
Prime (1st lien)						
Number of Transactions.	1	-	-	-	-	1
Net Par in Force (in \$).	0.1	-	-	-	-	0.1
Total						
Number of Transactions.	23	16	17	19	4	79
Net Par in Force	\$ 86.8	\$ 476.7	\$ 822.2	\$ 1,333.3	\$ 793.9	\$ 3,512.9



TOP INSURED EXPOSURES

(Dollars in Millions)

Top 25 U.S. Public Finance Exposures		December 31, 2016		
Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount	Amount	Amount	% of Total ⁽¹⁾
Hudson Yards Infrastructure Corp, NY.....	\$ 700.0	\$ 600.0	600.0	6.5%
Yankee Ballpark LLC (NYC IDA).....	586.8	430.4	430.4	4.7%
Puerto Rico Highway Transportation.....	446.9	419.2	419.2	4.6%
Pacific Gas Electric Company.....	345.0	345.0	345.0	3.8%
Puerto Rico Infrass Fin Auth, PR, Spec Tax Rev.....	344.5	344.5	344.5	3.7%
Hawaiian Electric Company.....	265.0	215.0	215.0	2.3%
Puerto Rico Commonwealth GO.....	252.6	249.7	249.7	2.7%
Los Angeles USD, CA GO.....	207.9	207.9	207.9	2.3%
Detroit (City of), MI Water Rev.....	182.7	182.7	182.7	2.0%
Southern California Edison Power Company.....	135.0	110.0	110.0	1.2%
Dayton Power Light Company.....	100.0	100.0	100.0	1.1%
Green Stadco-New York Jets Stadium.....	97.5	97.5	97.5	1.1%
Puerto Rico Conv Ctr Dist Auth, PR Hotel Rev.....	97.1	97.1	97.1	1.1%
Nevada Power Company.....	92.5	92.5	92.5	1.0%
Detroit (City of) School District, MI GO.....	78.6	73.4	73.4	0.8%
Brooklyn Union Gas Company.....	55.0	55.0	55.0	0.6%
Indiana Michigan Power Co.....	50.0	50.0	50.0	0.5%
Illinois Housing Development Auth, IL Hsg.....	47.2	47.2	47.2	0.5%
Rancho Calif, CA Water Dist Rev.....	44.4	43.0	43.0	0.5%
Burbank RDA (Golden State Redev), CA.....	44.3	25.8	25.8	0.3%
New Orleans (City of), LA GO.....	44.3	43.7	43.7	0.5%
Fort Benning Family Hsg LLC 2007.....	20.0	20.0	20.0	0.2%
Dayton University, OH Mtg Rev.....	19.0	19.0	19.0	0.2%
Gulf Breeze, Florida 85B.....	11.9	11.9	11.9	0.1%
Connecticut Yankee MAC CMO's.....	11.0	10.8	10.8	0.1%
Total.....	\$ 4,279.2	\$ 3,891.4	3,891.4	42.3%

Top 15 U.S. Structured Finance Exposures		December 31, 2016		
Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount	Amount	Amount	% of Total ⁽¹⁾
MSAC 2007-NC4.....	453.2	453.2	453.2	4.9%
Terwin Mortgage Trust 2006-8SL.....	316.6	316.6	316.6	3.4%
SLM Private Credit Student Loan Trust 2006-B.....	250.0	250.0	250.0	2.7%
CWHEQ 2006-H.....	221.6	221.6	221.6	2.4%
Argent Mortgage Loan Trust 2005-W1.....	211.0	211.0	211.0	2.3%
Terwin Mortgage Trust 2005-13SL CES HELOC.....	137.4	137.4	137.4	1.5%
Terwin Mortgage Trust 2006-2HGS.....	135.9	135.9	135.9	1.5%
BARN 2007-1, Class N-1.....	126.0	126.0	126.0	1.4%
CWHEQ 2007-C.....	121.8	121.8	121.8	1.3%
Impac CMB Trust Series 2004-10.....	107.8	107.8	107.8	1.2%
CWHEQ 2006-S3.....	105.5	105.5	105.5	1.1%
CWHEQ 2006-S5.....	104.8	104.8	104.8	1.1%
CWHEQ Home Equity Loan Trust, Series 2006-S2.....	101.2	101.2	101.2	1.1%
BSABS 2007-SD3, Class A.....	92.8	92.8	92.8	1.0%
CWHEQ 2005-G.....	89.5	84.4	84.4	0.9%
Total.....	\$ 2,575.1	\$ 2,570.0	2,570.0	27.9%

Top 5 International Exposures		December 31, 2016		
Revenue Stream Name	Gross Par in Force		Net Par in Force	
	Amount	Amount	Amount	% of Total ⁽¹⁾
River Run Project (Canada).....	335.4	335.4	335.4	3.6%
Consort Healthcare (Birmingham) Limited.....	316.4	316.4	316.4	3.4%
ETSA Utilities Pty Ltd.....	267.0	267.0	267.0	2.9%
Consort Healthcare (Mid Yorkshire) Funding plc.....	207.4	207.4	207.4	2.3%
Praeco Pty Ltd (Australian Defence HQ).....	180.7	180.7	180.7	2.0%
Total.....	\$ 1,306.8	\$ 1,306.8	1,306.8	14.2%

⁽¹⁾ Represents percentage of total NPIF.



STRUCTURED FINANCE SERVICERS AND REINSURER EXPOSURE

(Dollars in Millions)

	December 31, 2016			
	Gross Par in Force		Net Par in Force	
	Amount		Amount	% of Total ⁽¹⁾
Ocwen Loan Servicing.	\$ 1,724.0		\$ 1,724.0	18.7%
Countrywide Home Loans.	1,044.3		1,022.5	11.1%
Specialized Loan Servicing LLC.	274.6		274.6	3.0%
Sallie Mae, Inc..	250.0		250.0	2.7%
Wells Fargo Bank, NA.	232.0		232.0	2.5%
JPMorgan Chase.	70.9		70.9	0.8%
CitiMortgage, Inc..	48.4		48.4	0.5%
Green Tree Servicing.	41.9		41.9	0.5%
Green Tree Servicing LLC.	33.7		33.7	0.4%
One West Bank.	22.4		22.4	0.2%
Total	\$ 3,742.1		\$ 3,720.3	40.4%

⁽¹⁾ Represents percentage of total NPIF.

Top Reinsurer Exposures **Ceded Par in Force - As of December 31, 2016**

Reinsurer	Reinsurer Rating ⁽²⁾	Ceded Par in Force	Public Finance	RMBS
Assured Guaranty Re Ltd	AA/Baa1	\$ 399.4	\$ 377.6	\$ 21.8
Assured Guaranty Corp...	AA/A3	\$ 10.2	10.2	0.0
Other.. . . .		0.3	0.3	-
Total		\$ 409.9	\$ 388.1	\$ 21.8

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



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

	December 31, 2016	
	Scheduled Net Debt Service Amortization	Ending Net Debt Service Outstanding
2017.....	\$ 1,164.4	\$ 12,554.5
2018.....	1,320.1	11,234.4
2019.....	911.6	10,322.7
2020.....	805.1	9,517.7
2021.....	834.6	8,683.0
2017-2021.....	5,035.9	8,683.0
2022-2026.....	2,975.2	5,707.8
2027-2031.....	1,494.9	4,213.0
2032-2036.....	1,563.4	2,649.6
After 2036.....	2,649.6	-
Total.....	<u>\$ 13,719.0</u>	

⁽¹⁾ Depicts expected amortization of the total insured portfolio (principal and interest), assuming no refundings or calls through the contractual maturity date as of December 31, 2016.