



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsby
Superintendent

October 18, 2013

Michael C. Haines
Chief Financial Officer
Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017

Re: Statutory Accounting Guidelines for
Financial Guaranty Insurance Company (“FGIC”)

Dear Mr. Haines:

I write pursuant to the First Amended Plan of Rehabilitation for Financial Guaranty Insurance Company, dated June 4, 2013 (“FGIC Rehabilitation Plan”), which was approved on June 11, 2013 by order of the Supreme Court of the State of New York, New York County, in In the Matter of the Rehabilitation of Financial Guaranty Insurance Company, Index No. 401265/2012, an Insurance Law article 74 rehabilitation proceeding. The FGIC Rehabilitation Plan became effective on August 19, 2013 and the rehabilitation proceeding was terminated.

Pursuant to Section 3.3 of the FGIC Rehabilitation Plan, DFS has “the authority to take such further actions as may be necessary or appropriate in its sole and absolute discretion to carry out the purposes and effects of the” FGIC Rehabilitation Plan. This authority includes the discretion to issue certain Guidelines, as defined in the FGIC Rehabilitation Plan (see FGIC Rehabilitation Plan, Exhibit A, at A-9). Accordingly, pursuant to Section 3.3 of the FGIC Rehabilitation Plan, DFS hereby issues the following statutory accounting guidelines, which constitute “NYSDFS Guidelines” within the meaning of the FGIC Rehabilitation Plan, and which are binding on FGIC and shall be concurrently posted by FGIC on the Policyholder Information Center section of its website.¹

Guideline 1 For statutory accounting purposes for reporting periods ending on or after the Effective Date, FGIC shall record loss reserves at the applicable reporting date in an amount equal to the excess of (i) the amount of FGIC’s admitted assets minus FGIC’s minimum required statutory surplus to policyholders (the “Minimum Surplus Amount”) 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 sum, net of reinsurance, of (x) the total amount of all Policy Claims submitted to FGIC in accordance with the Rehabilitation Plan that are unpaid (excluding any portion of such Policy Claims that are being disputed by FGIC) and (y) the net present value of the total

¹ All capitalized terms not defined here shall have the same meanings as set forth in the FGIC Rehabilitation Plan.

amount of all Policy Claims that FGIC expects to receive in the future in accordance with the Rehabilitation Plan (using the prescribed statutory discount rate which is based upon the average rate of return on FGIC's admitted assets) (such sum is referred to as the "Claims Reserve"), (ii) the DPO for all Policies and (iii) the DPO Accretion for all Policies, *minus* an adjustment (the "Policy Revision Adjustment") in an amount that will permit FGIC to report a surplus to policyholders equal to the Minimum Surplus Amount.

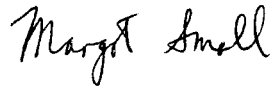
Guideline 2 For statutory accounting purposes for reporting periods ending on or after the Effective Date, the information set forth in the following table shall be included in the notes to FGIC's statutory financial statements as of each reporting date (whether in tabular or other presentation format):

	Current Reporting Date	Prior Year-End
	<i>In thousands</i>	
Claims Reserve	\$ x,xxx,xxx	\$ x,xxx,xxx
DPO	x,xxx,xxx	x,xxx,xxx
DPO Accretion	xx,xxx	xx,xxx
Total	x,xxx,xxx	x,xxx,xxx
Policy Revision Adjustment	(x,xxx,xxx)	(x,xxx,xxx)
Net balance at end of period	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

Guideline 3 For statutory accounting purposes for reporting periods ending on or after the Effective Date, FGIC shall calculate the Claims Reserve on a Policy-by-Policy basis for insured obligations as the sum, net of reinsurance, of (x) the total amount of all Policy Claims submitted to FGIC in accordance with the Rehabilitation Plan that are unpaid as of the reporting date (excluding any portion of such Policy Claims that are being disputed by FGIC) and (y) the net present value of the Policy Claims that FGIC expects to receive in the future in accordance with the Rehabilitation Plan determined as of such reporting date (using the prescribed statutory discount rate which is based upon the average rate of return on FGIC's admitted assets).

Guideline 4 For statutory accounting purposes for reporting periods ending on or after the Effective Date, FGIC shall estimate a loss adjustment expense reserve based on the ultimate future net cost, determined using internally developed estimates, of the efforts involved in managing and mitigating existing and future Policy Claims. Such loss adjustment expense reserve is not subject to a Policy Revision Adjustment.

Very truly yours,



Margot Small
Supervising Risk Management Specialist
Markets Division

cc: Matti Peltonen
Eugene Benger
Michael Campanelli