

November 24, 2008

Research Update:
**Financial Guaranty Insurance Co.
Ratings Cut To 'CCC'; Off
Credit Watch**

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Table Of Contents

Rationale

Outlook

Ratings List

Research Update:

Financial Guaranty Insurance Co. Ratings Cut To 'CCC'; Off CreditWatch

Rationale

On Nov. 24, 2008, Standard & Poor's Ratings Services lowered its financial strength and financial enhancement ratings on Financial Guaranty Insurance Co. (FGIC) to 'CCC' from 'BB'. We also removed the ratings from CreditWatch, where they had been placed with negative implications on June 6, 2008. The outlook is negative.

In addition, Standard & Poor's lowered to 'CC' from 'CCC' the issuer credit rating on parent company FGIC Corp. The outlook is negative.

Standard & Poor's current loss estimates for FGIC's exposure to 2005-2007 vintages of nonprime and second-lien mortgages and related collateralized debt obligations of asset-backed securities of almost \$5 billion remain in excess of the company's claims paying resources of about \$4.2 billion. In particular, the company's unearned premium reserve has declined by about \$1 billion, mostly due to FGIC's reinsurance transaction with MBIA Insurance Corp. whereby FGIC ceded about \$166 billion of well-performing municipal par exposure to MBIA.

While loss estimates have also declined due to commutation success for several transactions, we believe the potential for regulatory intervention remains. The 'CCC' financial strength rating is, in our view, more consistent with the current scenario of a financial guarantor very dependent upon commutations in order to meet its obligations. Also, continued adverse loss development remains a possibility, and additional stress could come in the near term from FGIC's \$1.2 billion exposure to troubled Jefferson County, Ala.'s sewer revenue bonds.

In addition, FGIC's risk profile has shifted in our opinion, and the company's insured portfolio has now become more concentrated and correlated, with structured finance insurance comprising a large majority of par in force. Remaining municipal exposure is of higher risk because the reinsurance agreement with MBIA did not accept non-investment-grade credits and some other higher-risk sectors.

Outlook

The negative outlook reflects the possibility of continued adverse mortgage loss development and capital reductions. Also, the remaining reduced capital resources are now leveraged relative to a higher-risk, mostly structured finance portfolio.

Ratings List

Downgraded; CreditWatch Action

	To	From
Financial Guaranty Insurance Co. FGIC UK Ltd.		
Counterparty Credit Rating	CCC/Negative/--	BB/Watch Neg/--
Financial Enhancement Rating		
Local Currency	CCC/--	BB/Watch Neg/--
Financial Strength Rating		
Local Currency	CCC/Negative/--	BB/Watch Neg/--
Financial Guaranty Insurance Co. Financial Program		
Local Currency	CCC/--	BB/Watch Neg/--
Grand Central Capital Trust Series I Preferred Stock (1 issue)	CC	B/Watch Neg
Grand Central Capital Trust Series II Preferred Stock (1 issue)	CC	B/Watch Neg
Grand Central Capital Trust Series III Preferred Stock (1 issue)	CC	B/Watch Neg
Grand Central Capital Trust Series IV Preferred Stock (1 issue)	CC	B/Watch Neg
Grand Central Capital Trust Series V Preferred Stock (1 issue)	CC	B/Watch Neg
Grand Central Capital Trust Series VI Preferred Stock (1 issue)	CC	B/Watch Neg
Downgraded		
	To	From
FGIC Corp.		
Counterparty Credit Rating		
Foreign Currency	CC/Negative/--	CCC/Negative/--
FGIC Corp.		
Senior Unsecured (2 issues)	CC	CCC

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and

risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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