

Fitch Downgrades CIFG to 'AA-'; Remains on Rating Watch Negative [Ratings](#)

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Fitch Ratings-New York-07 March 2008: Fitch Ratings has downgraded the following Insurer Financial Strength (IFS) ratings for CIFG Guaranty and affiliates:

CIFG Guaranty

CIFG Assurance North America, Inc.

CIFG Europe

--IFS to 'AA-' from 'AAA'.

The ratings remain on Rating Watch Negative, where they were first placed on Feb. 5, 2008. All obligations insured by CIFG may be affected by this action. Fitch's policy is to downgrade insured transactions to the higher of the underlying rating of the insured transaction if rated by Fitch or the rating of the insurer (Fitch will issue a separate press release on the CIFG-insured issues affected by this rating action later today).

This action on CIFG Guaranty (CIFG) and its affiliates is based on Fitch's view that CIFG's shareholders may be less willing to provide further capital support to CIFG in the future than in the past. Unquestioned capital support from large, strong shareholders has been a key qualitative aspect of CIFG's 'AAA' IFS rating historically, and played a tangible role in Fitch's maintenance of CIFG's 'AAA' rating following deterioration in CIFG's insured portfolio due to subprime exposures. The strong parental support provided through its shareholders Caisse Nationale des Caisses d'Epargne et Prevoyance (CNCE) and Banque Federale des Banques Populaires (BFBP) was demonstrated in late-2007 when the ownership group provided a capital infusion of \$1.5 billion into CIFG to meet its prior modeled capital shortfall.

Though its analysis is ongoing, Fitch believes CIFG will likely need considerably more capital resources to support an 'AAA' IFS rating when the agency completes its updated review of CIFG's capital position, which was first discussed on Feb. 5, 2008. The ratings remain on Rating Watch Negative as future rating actions will hinge on the outcome of Fitch's assessment of CIFG's capital position, combined with a further analysis of CIFG and its parent companies' long-term commitment to the financial guaranty industry, as well as updated analysis of CIFG's franchise and competitive business positioning. Fitch believes it is highly probable CIFG's ratings will be downgraded further, in the near-term, after these analyses are completed.

Fitch's updated review of CIFG and several of its financial guaranty competitors, which is still on-going, is centering on its exposure to structured finance collateralized debt obligations (SF CDOs). Based on updated loss assumptions and the speed with which adverse information on underlying mortgage performance is becoming available, Fitch believes both simulated capital model losses and expected losses will increase materially for CIFG because of the company's significant SF CDO exposure within its insured portfolio, which was \$9.2 billion as of Sept. 30, 2007. Higher cumulative loss levels on subprime mortgage bonds will potentially have a greater impact on CIFG, given this guarantor's greater concentration of mezzanine SF CDOs, which were originally backed by underlying collateral rated 'BBB'.

The review will also consider a number of qualitative considerations such as CIFG's future business and competitive

position, which Fitch views as challenged, as well as recent and future changes in management, governance and ownership.

CIFG Guaranty, CIFG Assurance North America, Inc. and CIFG Europe are subsidiaries of CIFG Holding. CIFG Holding is directly owned by Banque Federale des Banques Populaires and Caisse Nationale des Caisses d'Epargne et Prevoyance, two large French banking groups.

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