



Rating Action: CIFG Assurance North America, Inc.

Moody's downgrades CIFG to A1, from Aaa

New York, March 06, 2008 -- Moody's Investors Service has downgraded to A1, from Aaa, the insurance financial strength ratings of CIFG Guaranty, CIFG Europe and CIFG Assurance North America, Inc. (collectively "CIFG"). These rating actions reflect Moody's assessment of CIFG's weakened capitalization, impaired business opportunities, and uncertain strategic direction, as a result, in part, of its exposures to the US residential mortgage market. The rating outlook is stable.

IMPACT ON RATINGS OF INSURED OBLIGATIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are maintained at a level equal to the higher of a) the rating of the guarantor or b) the published underlying rating. Using this modified "credit substitution" approach, and following today's rating action, the Moody's-rated securities that are guaranteed or "wrapped" by CIFG are also downgraded to A1, except those with higher published underlying ratings.

A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

In the period since the initiation of Moody's rating review of CIFG, the rating agency has received limited requests from issuers for public underlying ratings on CIFG's wrapped securities. Moody's notes, however, that today's rating action could precipitate additional requests for public underlying ratings of CIFG wrapped securities, and that certain ratings on associated securities could be upgraded as a consequence, based on the modified credit substitution approach outlined above.

OVERVIEW OF RATING APPROACH

As outlined in Moody's Rating Methodology for Financial Guarantors, we have evaluated CIFG along five key rating factors: 1) franchise value and strategy, 2) insurance portfolio characteristics, 3) capital adequacy, 4) profitability, and 5) financial flexibility.

KEY RATING FACTORS -- BUSINESS AND FINANCIAL PROFILE

In Moody's opinion, CIFG's significant exposure to mortgage-related risk has material adverse consequences for its business and financial profile beyond the associated impact on capitalization, and affects our opinion about CIFG's other key rating factors.

Moody's believes that CIFG's significant exposure to the mortgage sector, especially ABS CDOs is indicative of a risk posture far greater than would be consistent with a Aaa rating going forward. The company's participation in several mezzanine ABS CDOs, in particular, contributed to this view. The rating agency noted that CIFG is implementing significant changes to its governance and risk management to address some of the shortcomings of its prior strategy.

Moody's added that CIFG, as the smallest and most recent entrant to the financial guaranty sector, has not yet established a market position on par with its larger competitors and that the ongoing credit stress at the firm significantly weakened its franchise, raising questions about the degree to which it will be able to regain market traction within a reasonable timeframe. CIFG's profitability is likely to remain weak over the near to intermediate

term, particularly given the losses that are likely to be generated by its insurance portfolio, the expected reduced issuance volume, and the limited in-force book of business, said Moody's.

In terms of financial flexibility, CIFG, like other financial guarantors, benefits from its ability to pay claims over an extended period of time, typically scheduled interest and principal at maturity. Moody's has also considered the potential for calls on liquidity at CIFG, given the expectation of increasing claims levels, in the context of available resources, and notes the firm has a high quality and liquid investment portfolio.

Moody's said that CIFG's two parents, Caisse Nationale des Caisses d'Epargne Prevoyance (CNCEP) and Banque Fédérale des Banques Populaires (BFBP), have demonstrated substantial support of CIFG through their \$1.5 billion capital injection in December 2007, but have recently taken a more guarded posture, ruling out further capital infusions at this time and assessing the attractiveness and feasibility of various strategic options for their subsidiary. The rating agency noted that the strategic direction ultimately pursued by CIFG may materially affect the credit profile of the firm, but that CNCEP and BFBP appear to be committed to favor options that would preserve CIFG's credit profile and that regulatory rules and other factors provide some additional comfort in that regard.

Although capitalization is not currently a constraint on the rating, Moody's believes that, short of a major strengthening in the firm's operations, meaningful gains in franchise value, and long term support from strong and committed parents, CIFG is unlikely to establish a credit profile consistent with a higher rating in the near term.

KEY RATING FACTORS -- CAPITAL ADEQUACY

To estimate capital adequacy, Moody's has applied its traditional portfolio risk model for determining stress losses on the non-mortgage related portion of CIFG's insured portfolio, and alternative stress tests for the mortgage and mortgage-related CDO exposure. For mortgage-related exposures, stress losses were estimated using assumptions consistent with a scenario where 2006 subprime first-lien mortgages realize an average of 21% cumulative pool losses, with other vintages and products stressed accordingly. Stress-level losses for RMBS transactions were assessed on a transaction-by-transaction basis, while loss estimates for ABS CDOs were derived using a stochastic simulation model which applied stress to specific underlying collateral tranches within the CDOs. Estimated tranche-level losses were computed based on the structure of those tranches (e.g., attachment and detachment points) and estimates of their performance relative to the average.

Losses estimated under the approach described above were present-valued to reflect estimates of the payout pattern that would emerge, based on the collateral type. For ABS CDOs, consideration was given to specific contractual features within associated CDS contracts. These factors resulted in aggregate present value discounts to principal loss estimates of approximately 8% for RMBS and 30% for ABS CDOs. Non-mortgage risks are discounted within the portfolio model based on estimates of payout patterns as well.

In comparing estimated stress losses to claims paying resources and associated rating levels, Moody's combines an estimated loss distribution for mortgage risks with one for non-mortgage risks, assuming a correlation between the two that ranges from 90% (for Aaa) down to 30% (for Baa3). Claims paying resources are then compared to the indicated capital need, at the target benchmark (1.3x required capital).

Based on the risks in CIFG's portfolio, as assessed by Moody's according to the approach outlined above, estimated stress-case losses would approximate \$2.7 billion. This compares to Moody's estimate of CIFG's claims paying resources of approximately \$3.0 billion, resulting in a total capital ratio of 1.12x, which exceeds the "minimum" Aaa level, but is short of the 1.3x Aaa "target" level by about \$500 million. Moody's further noted that in the most likely or "expected" scenario, CIFG's insured portfolio will incur lifetime losses of approximately \$760 million in present value terms, and that CIFG's current claims-paying resources cover this expected loss estimate by about 4.0x.

LIST OF RATING ACTIONS

The following ratings have been downgraded:

CIFG Guaranty -- insurance financial strength downgraded to A1, from Aaa;

CIFG Europe -- insurance financial strength downgraded to A1, from Aaa; and

CIFG Assurance North America, Inc. -- insurance financial strength downgraded to A1 from Aaa.

OVERVIEW OF CIGF

Established in 2001, CIFG Guaranty provides financial guarantees to issuers in the municipal and structured finance markets in the US and Europe through CIFG Assurance North America, Inc. and CIFG Europe. Caisse Nationale des Caisses d'Epargne Prévoyance (rated Aa2/P-1/B-) and Banque Fédérale des Banques Populaires (rated Aa2/P-1/B-) recently gained control of CIFG when they invested approximately \$1.5 billion in the financial guarantor, which was previously owned by their joint venture Natixis (rated Aa2/P-1/C).

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