

Credit Opinion: CIFG Guaranty

CIFG Guaranty

Paris, France

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Aaa
Ult Parent: Caisse Nationale des Caisse d'Epargne Prevoy.	
Outlook	Stable
Bank Deposits	Aa2/P-1
Bank Financial Strength	B
Senior Unsecured	Aa2
Subordinate MTN -Dom Curr	Aa3
Jr Subordinate MTN -Dom Curr	Aa3
Preferred Stock	A1
Commercial Paper	P-1
Other Short Term -Dom Curr	P-1
CIFG Europe	
Outlook	Stable
Insurance Financial Strength	Aaa

Contacts

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Key Indicators

CDC IXIS Financial Guaranty (GAAP Statistics)[1]

	H1 2005	2004	2003	2002
Gross Par Written (\$mil)	5,775	12,742	10,086	2,352
Net Income (\$mil)	(2)	11	2	(8.0)
Expense Ratio (%)	75.1	77.4	127.2	nm
Loss Ratio (%)	10.0	10.0	10.0	9.7
Adjusted NPO (\$mil) [2]	28,592	24,728	12,354	2,308
Market Share (%) [3]	1.5	1.3	0.7	0.2
Hard Capital (\$mil)	811	891	643	492
Operating Leverage (Adjusted NPO / Hard Capital) (x)	35.3	27.7	19.2	4.7
Credit Quality Ratio (Expected Loss / Adjusted NPO) (bps) [4]	na	27.3	23.6	12.5
Tail Risk Ratio (99.9 % Losses / Adjusted NPO) (bps) [4]	na	141.0	157.2	248.0
Hard Capital Ratio (Hard Capital / 99.9 % Losses)(x) [4]	na	2.56	3.31	8.57
Total Capital Ratio(Total Capital / 99.99 % Losses)(x) [4]	na	2.28	2.69	6.36

[1] Figures for year 2003 and after are based on U.S. GAAP accounting. 2002 data are based on French GAAP accounting. Year-end exchange rates are used for balance sheet items, and the average exchange rates are used for income statement items. [2] Adjusted Net Par Outstanding reflects the haircuts assigned to reinsurance provided by non-Aaa reinsurers. [3] Total market share is based on total primary and reinsurance NPO rated by Moody's. [4] Credit Quality Ratio, Tail Risk Ratio, Hard Capital Ratio and Total Capital Ratio are Moody's model ratios. All results are as of calendar year-end.

Opinion

Credit Strengths

High quality insured portfolio, nominal liquidity needs

Strong risk adjusted capitalization

Strong parent helps franchise, reduces development risks, provides formal and informal support

Highly transparent risks and business strategy

Management's commitment to Aaa rating reflects sensitivity of franchise to rating

Credit Challenges

Mature US market and tight credit spreads could hurt demand for credit enhancement

Sensitivity of insurance portfolio to credit cycle with some large single risk exposures

Competitive disadvantage as a relatively new company with a modest capital base, CIFG needs to further establish acceptance and trading value

Rating Rationale

The Aaa ratings of the CIFG Group entities - CIFG, CIFG North America (CIFG NA), and CIFG Europe - are based on their conservative operational and financial strategy, their strong capital base relative to projected exposure and the support derived from their parent, the Caisse Nationale des Caisses d'Epargne (CNCE - rated Aa2).

CIFG Group is made up of three principal operating companies, but operates under one management team and follows unified operating guidelines. The companies' strong capitalization, combined with CIFG's extensive reinsurance and financial support of CIFG Europe and CIFG NA, warrants an analytical approach that considers the consolidated operations of the Group while assigning ratings to each member.

CIFG's capitalization is consistent with an Aaa rating given the expected credit characteristics of the Group's prospective book of business. The ratings also recognize management's conservative business plan that emphasizes European and US structured finance as well as US public finance and European infrastructure. The Group is committed to underwrite well priced, investment grade financial guaranty transactions and operates under strict underwriting guidelines and risk management policies. These guidelines and policies should, over time, generate a low risk, well-diversified book of business.

The firm's relatively modest capital base, it is the smallest of the Aaa rated guarantors, does however constrain its ability to pursue large transactions and could limit the sectors in which it participates. In an industry where average transaction size keeps increasing, CIFG's opportunities could be more limited than the larger Aaa competitors, making it more difficult for CIFG to establish itself as a proven broad-based provider of credit enhancement.

CIFG is overcoming regulatory issues that prevented its US subsidiary from acquiring the U.S. state insurance licenses. CIFG is now licensed in over 46 U.S. states and jurisdictions; it is not yet licensed in California.

Rating Outlook

Moody's stable outlook for CIFG factors in the expected continuing parental commitment to financial guaranty, completion of the licensing process in the US, and successful implementation of the business plan.

What Could Change the Rating - DOWN

- Failure to progress toward trading parity with the established guarantors
- Failure to significantly improve core profitability by 2007, and achieve 12% operating ROE over the longer term
- Failure to sustain a reasonable cushion above 1.3X hard and total capital ratios to absorb business strategy execution risks
- Evidence of any significant deterioration of the parent's rating and/or of parental support

- Insufficient progress developing risk and governance processes

Recent Developments/Results

In late 2004, CIFG Holding entered into a \$200 million, 20-year committed debt facility agreement with its parent CNCE to support its growth. The firm has already drawn \$90 million under the facility, most of which has been invested as equity in its financial guaranty business. At June 30, 2005 the Group had \$28.6 billion of net par outstanding in its insured portfolio.

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