REPORT ON EXAMINATION

OF THE

CAPITAL MARKETS ASSURANCE CORPORATION

AS OF

DECEMBER 31, 1999

DATE OF REPORT	APRIL 20, 2001
EXAMINER	GLENDA M. GALLARDO

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

April 20, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21599 dated August 23, 2000 attached hereto, I have made an examination in to the condition and affairs of the Capital Markets Assurance Corporation as of December 31, 1999, and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 113 King Street, Armonk, New York 10504.

Wherever the designations "the Company" or "CapMAC" appear herein without qualification, they should be understood to indicate the Capital Markets Assurance Corporation. In addition, wherever the designations "MBIA Corp." or "parent company" appear herein without qualification, they should be understood to indicate the MBIA Insurance Corporation.

Whenever the term "Department" appears herein without qualification, it should be understood to mean the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covered the six year period from January 1, 1994 through December 31, 1999 and it was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, and loss and loss adjustment expense reserves.

The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF THE COMPANY

The Company was incorporated in 1938 under the laws of New York as the Jersey Insurance Company of New York. It was established to provide the means of transferring the corporate domicile of the New Jersey Insurance Company from Jersey City, New Jersey to New York.

In 1972, the Company's name was changed to Mohawk Insurance Company. In 1973, H.F. Ahmanson acquired control of the Company and its name was changed to National American Insurance Company of New York. On December 24, 1987, the Company was sold by Ahmanson Insurance Company, Inc. to CapMAC Holdings Inc., a Delaware insurance holding company and a wholly-owned subsidiary of Citibank (NY). Effective June 25, 1992, Citibank sold CapMAC Holdings Inc. to CapMAC Acquisition Corp, a newly formed corporation owned by a group of investors. On June 26, 1992, CapMAC Holdings Inc. was merged into CapMAC Acquisition Corp. Concurrently, the latter changed its name to CapMAC Holdings Inc.

On February 17, 1998, MBIA Inc., the parent company of MBIA Corp., consummated a merger with CapMAC Holdings Inc. Subsequent to the merger, MBIA Inc. made a capital contribution of CapMAC's outstanding common stock to MBIA Corp. the latter becoming the parent company of CapMAC.

Effective May 4, 1998, the Company amended its certificate of incorporation to reflect a change of location of the Company's principal office to Armonk, Westchester County; to amend Article V of such certificate regarding directors; and to reflect an increase in capital to $45,000,000, which consisted of 15,000,000 authorized shares with a par value of $3.00 per share.

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On May 29, 1998, the Department approved a Stock Redemption and Retirement Plan, (the "Plan"), submitted by the Company for approval pursuant to Section 1411(d) of the New York Insurance Law. The Plan allowed the Company to purchase 9,180,000 shares of its own common stock from its parent company for a total purchase price of $118,184,000. Following the repurchase, CapMAC retired and cancelled the repurchased shares. As a result, CapMAC's current capital stock amounts to $17,460,000, consisting of 5,820,000 shares issued and outstanding with a par value of $3.00 per share.

CapMAC is a financial guaranty insurance company whose specialization was writing insurance on asset-backed securities. Currently, the Company has discontinued writing new business.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. As of the examination date, the board of directors was comprised of thirteen members. The directors as of December 31, 1999 were as follows:

Name and Residence	Principal Business Affiliation
Joseph W. Brown Bedford Corners, NY	Chairman and Chief Executive Officer,* MBIA Insurance Corporation
W. Thacher Brown Devonj, PA	Managing Director* MBIA Insurance Corporation

Name and Residence	Principal Business Affiliation
Neil G. Budnick Stamford, CT	Vice Chairman and Chief Financial Officer,* MBIA Insurance Corporation
John B. Caouette Pound Ridge, NY	Vice Chairman, MBIA Insurance Corporation President, Capital Markets Assurance Corporation
Gary C. Dunton Ridgefield CT	President and Chief Operating Officer, MBIA Insurance Corporation
Margaret D. Garfunkel Scarsdale, NY	Managing Director,* MBIA Insurance Corporation
Louis G. Lenzi Roosevelt Island, NY	Managing Director, Deputy General Counsel and Assistant Secretary,* MBIA Insurance Corporation
Kevin D. Silva Manhasset, NY	Managing Director and Chief Administrative Officer, MBIA Insurance Corporation
Elizabeth B. Sullivan Patterson, NY	Director of the Internal Audit Unit,* MBIA Insurance Corporation
Christopher W. Tilley Larchmont, NY	Managing Director,* MBIA Insurance Corporation
Richard L. Weill Mt. Kisco, NY	Vice Chairman and Secretary* MBIA Insurance Corporation
Ram D. Werthein Westport, CT	Managing Director, General Counsel & Assistant Secretary, MBIA Insurance Corporation
Ruth M. Whaley Scarsdale, NY	Managing Director and Chief Risk Officer* MBIA Insurance Corporation

*This is the current position held by the officer.

Prior to the merger of CapMAC Holding and MBIA Inc., CapMAC's board of directors held quarterly meetings for each calendar year from 1994 through 1997. The review of the minutes of the board of directors' meetings indicated that such meetings were well attended by all members of the board.

From 1998 to present, all corporate action taken by the Company's board of directors was approved by unanimous written consents without holding a regular meeting. Effective June 18, 1998, Section 2.07, Action Without Meeting, of the Company's by-laws was amended to delete the language that specifically limited the use of this provision; thus, allowing the Company the use of such provision with no restriction.

Section 708(b) of the New York Business Corporation Law (BCL) permits corporate action, required or permitted to be taken by the board of directors or a committee thereof, to be taken without a meeting if all members of the board or committee consent in writing to the adoption of a resolution authorizing the action. When the Department allowed insurers to amend their by-laws to carry out the intention and use of Section 708(b), it also emphasized that the board of directors would be permitted to exercise such ability to act only in very limited emergency situations.

It is the Department's position that to give broader effect to this provision would conflict with the provisions in the Insurance Law governing meetings of the board, which purpose is to permit directors to make informed decisions about matters affecting the public interest based upon deliberations and an exchange of information and ideas at such meetings. By having amended its by-laws to delete the specific language of limitation that restricted the use of such provision, the Company is acting against the Department's determination.

It is recommended that the Company amend Section 2.07, Action Without Meeting of its by-laws to include the required specific language that would limit the use of Section 708(b) of the New York Corporation Business Law.

Further, although the Company's by-laws allow its directors to take action without a meeting, they also require that an annual meeting following the shareholders' meeting should be held and thereafter regular meetings should be held at least once every quarter. By not holding annual meetings or regular meetings, the Company appears to be acting in violation of its by-laws. It is recommended that the Company comply with its by-laws by holding annual and regular meetings of its board of directors as stated therein.

The review of the minutes of the board of directors' meetings that were held prior to the Company's acquisition indicated that the Company's investment transactions were authorized and approved by its board of directors. However, for years 1998 and 1999 none of the resolutions adopted and approved by members of the board through unanimous written consents refer to approvals of the Company's investment transactions. Section 1411(a) of the New York Insurance Law states the following:

> "No domestic insurer shall make any loan or investment…., unless authorized or approved by its board of directors or committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law, which requires that investments be approved and authorized by the Company's board of directors or any committee thereof.

Further, the Company responded affirmatively to Annual Statement General Interrogatory #25, which inquires if the purchase of investments is passed upon by the Company's board of directors or any subcommittee thereof. This response does not appear to be accurate since no evidence was presented to the examiner that the Company's directors approve the purchase or sale of investments. It is recommended that the Company exercise care when answering general interrogatories of its filed and sworn to annual statements.

As of December 31, 1999, the principal officers of the Company were as follows:

Name	Title
John Bernard Caouette	President
Gary Charles Dunton	Executive Vice President
Richard Leslie Weill	Executive Vice President
Neil George Budnick	Chief Financial Officer & Treasurer
Louis George Lenzi	General Counsel and Secretary
Elizabeth Breen Sullivan	Managing Director and Controller

B. Territory and Plan of Operation

As of December 31, 1999, the Company was licensed to transact business in all fifty states, Puerto Rico and Guam. The Company also issued insurance policies in Latin America, Asia and Europe. Currently, the Company has discontinued writing new business.

As of the date of the examination, the Company was licensed to transact the following kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
16 (C, D, E, F)	Surety
25	Financial Guaranty Insurance

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 41 and 69 of the New York Insurance Law, Capital Markets Assurance Corp. is required to maintain a minimum surplus to policyholders of $66,000,000.

The volume of direct premiums written in New York during the examination period as a percentage to total premiums written in the United States is as follows:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Percentage of the Total United States Premiums Written in New York State
1994	$ 36,851,069	$ 43,598,316	84.52%
1995	$ 5,968,914	$ 32,621,778	18.30%
1996	$ 25,030,472	$ 41,386,691	60.48%
1997	$ 30,294,066	$ 46,640,451	64.95%
1998	$ 33,577,018	$ 46,120,240	72.80%
1999	$ 27,514,544	$ 37,995,341	72.42%

C. Reinsurance

As of the examination date, the Company reported in Schedule F-Part 1 a relatively minor volume of assumed reinsurance, which represents business assumed from prior periods.

Effective April 1, 1998, the Company and MBIA Corp. entered into a reinsurance agreement under which MBIA Corp. agreed to reinsure 100% of CapMAC's net portfolio exposure and its related contingency reserves, and unearned premium liability.

The Schedule F data as contained in the Company's Annual Statements filed for the years within the examination period was found to accurately reflect the reinsurance transactions with the exception of

Schedule F- Part 8, which contained certain information that was not reported according to annual statement instructions. This issue is explained further within this section.

As of the examination date, the Company was included as a reinsured party under MBIA Corp's reinsurance program. Management has indicated that the reason CapMAC is included in its parent company's reinsurance program is that in the future they may decide to reinsure portions of the outstanding debt exposure of any of the Company's existing insured policies. As of December 31, 1999, the Company did not have any reinsurance ceded under this program.

All ceded reinsurance contracts effected during the examination period were reviewed for form and content and were found to have the required standard clauses, including the insolvency clause required by Section 1308 of the New York Insurance Law.

The following is a description of reinsurance program in effect as of the examination date that covered the Company, MBIA Corp. and subsidiaries:

Treaty	Cession
Comprehensive Automatic Treaty* Reinsurance Agreement: 63% Authorized 37% Unauthorized	80 % participation through five reinsurers on domestic cessions and 74.75% on international cessions. The Company may cede a certain percentage of domestic and international insured issues that exceed a minimum par amount up to a specified maximum amount. *The remaining 20% cession for this treaty is ceded through the special risk facility as described below.

Treaty	Cession
Quota Share Agreement 100% Authorized	100% participation of the Company's domestic gross portfolio on the business classified as corporate utility debt guarantee insurance, debt service reserve fund surety bonds, investment grade asset-backed securities, guarantee insurance contracts, investment grade corporate debt, investment grade structured finance, municipal bond or municipal note insurance.
Stop Loss Reinsurance Agreement** 40% Authorized 60% Unauthorized	Reinsurers agree to indemnify the Company for their proportionate share of the Company's ultimate net loss in excess of the attachment point, which at 12/31/99 was $700,000,000. Coverage is provided with respect to the Company's net retained lines of all bonds classified by the Company as domestic or international asset-backed obligations, mortgage-backed obligations and pooled corporate obligations, which are in effect during the term of the agreement including any run-off period. Reinsurance participation is distributed among three reinsurers.

Special Risk Facility Reinsurance Agreement

This agreement provides coverage for all policies in force attaching on or after the effective date of the contract, which may be specifically accepted by the reinsurer in writing or accepted automatically through the reinsurer's participation in the comprehensive automatic treaty described above.

The Company may cede up to 90% of its liability under each policy subject to this agreement.

The maximum par value that the Company may cede to the reinsurer on either the automatic or facultative cessions is $100,000,000 of par value for any single issue. The Company must cede a certain minimum adjusted gross premium over the course of the first six years of this agreement to the reinsurer. Liability under this contract is ceded 100% to an unauthorized reinsurer.

Second Special Risk Facility Reinsurance Agreement

This Agreement provides coverage for all policies in force or attaching on or after August 1, 1998, specifically accepted by the reinsurer in writing or accepted automatically through the reinsurer's bound line on any applicable treaty reinsurance (i.e. comprehensive automatic treaty). The contract is subject to certain warranties that the Company has to satisfy throughout the six-year contract term such as the requirement of ceding to the reinsurer a pre-determined dollar amount of premium cessions and of ceding premiums, which distribution must follow specific percentages according to bond type.

Liability under this contract is ceded 100% to an unauthorized reinsurer.

Facultative Cessions

The Company also enters into facultative reinsurance arrangements from time to time primarily in connection with issues, which, because of their size, require additional capacity beyond its retention and treaty limits. Under these facultative arrangements, portions of the Company's liabilities are ceded on an issue-by-issue basis.

Special Per Occurrence Excess of Loss Reinsurance Agreement

This agreement is in effect until September 2004. Company officials ascertained that all obligations derived from such agreement for both the Company and reinsurers have been met.

Third Special Risk Facility and Semi-Automatic Facultative Reinsurance Agreements

Although these contracts are still in effect and have not been cancelled, it was indicated that the Company's premium cession requirements under both contracts have been fulfilled.

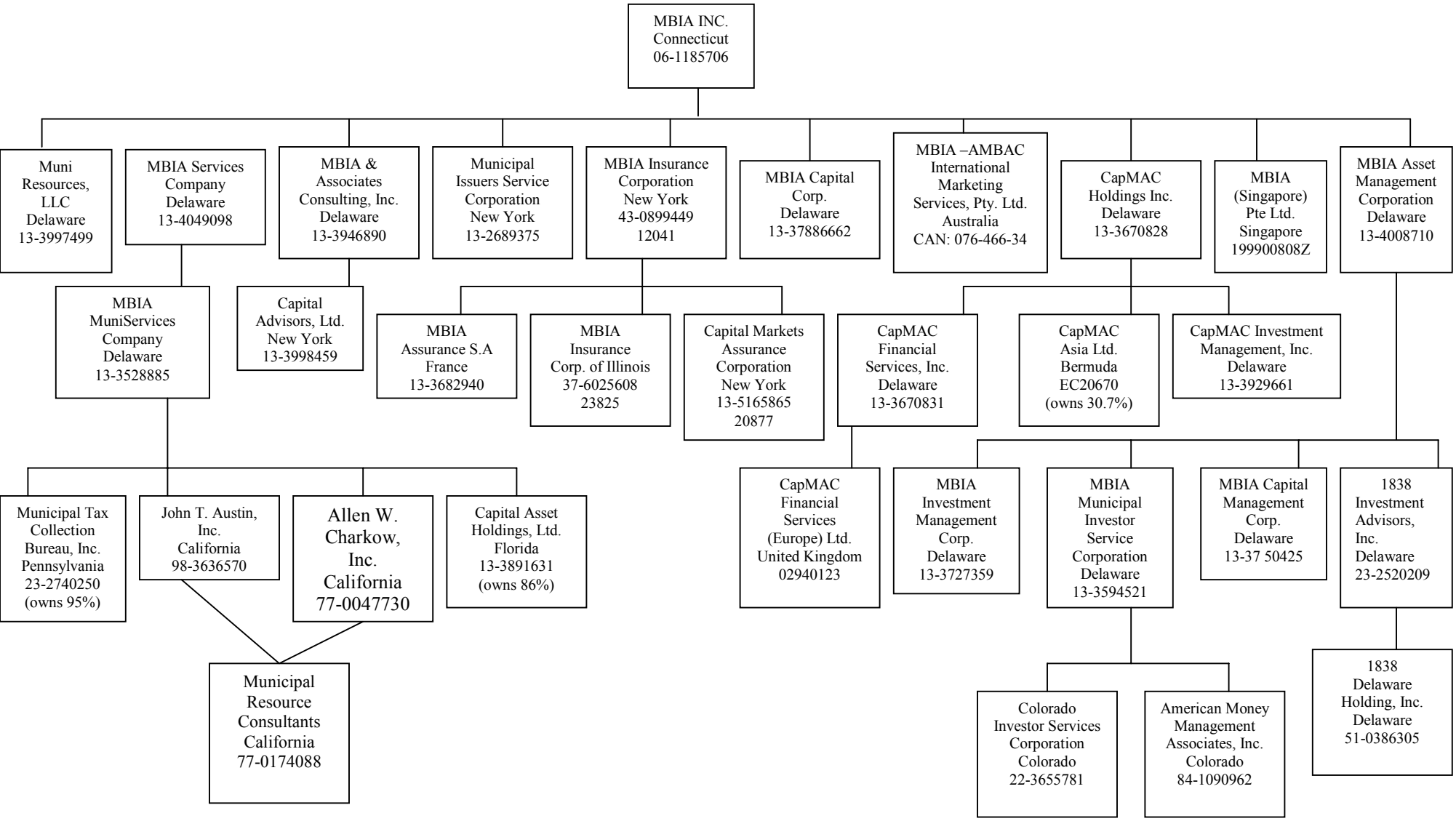
Schedule F Part-8

The captioned schedule is used to restate all balance sheet accounts to identify the net credit taken by an insurer for its ceded reinsurance. The examination review of the schedule disclosed that the Company reported all of its accounts that are subject to reinsurance gross of its ceded reinsurance with the exception of its contingency reserve account.

It is recommended that the Company restate its contingency reserve account to reflect the reinsurance credit taken on such liability.

D. Holding Company System

The Company is a wholly-owned subsidiary of MBIA Insurance Corp. As of December 31, 1999, the organization chart of the holding company system is as follows:


MBIA INC.
Connecticut
06-1185706
Muni Resources, LLC
Delaware
13-3997499
MBIA Services Company
Delaware
13-4049098
MBIA & Associates Consulting, Inc.
Delaware
13-3946890
Municipal Issuers Service Corporation
New York
13-2689375
MBIA Insurance Corporation
New York
43-0899449
12041
MBIA Capital Corp.
Delaware
13-37886662
MBIA –AMBAC International Marketing Services, Pty. Ltd.
Australia
CAN: 076-466-34
CapMAC Holdings Inc.
Delaware
13-3670828
MBIA (Singapore) Pte Ltd.
Singapore
199900808Z
MBIA Asset Management Corporation
Delaware
13-4008710
MBIA MuniServices Company
Delaware
13-3528885
Capital Advisors, Ltd.
New York
13-3998459
MBIA Assurance S.A
France
13-3682940
MBIA Insurance Corp. of Illinois
37-6025608
23825
Capital Markets Assurance Corporation
New York
13-5165865
20877
CapMAC Financial Services, Inc.
Delaware
13-3670831
CapMAC Asia Ltd.
Bermuda
EC20670
(owns 30.7%)
CapMAC Investment Management, Inc.
Delaware
13-3929661
Municipal Tax Collection Bureau, Inc.
Pennsylvania
23-2740250
(owns 95%)
John T. Austin, Inc.
California
98-3636570
Allen W. Charkow, Inc.
California
77-0047730
Capital Asset Holdings, Ltd.
Florida
13-3891631
(owns 86%)
Municipal Resource Consultants
California
77-0174088
CapMAC Financial Services (Europe) Ltd.
United Kingdom
02940123
MBIA Investment Management Corp.
Delaware
13-3727359
MBIA Municipal Investor Service Corporation
Delaware
13-3594521
MBIA Capital Management Corp.
Delaware
13-37 50425
1838 Investment Advisors, Inc.
Delaware
23-2520209
Colorado Investor Services Corporation
Colorado
22-3655781
American Money Management Associates, Inc.
Colorado
84-1090962
1838 Delaware Holding, Inc.
Delaware
51-0386305

The Company is party to the following inter-company agreements:

Tax Allocation Agreement

CapMAC's parent company, MBIA Corp., is party to a tax allocation agreement with MBIA Inc. and its subsidiaries. The agreement states that any existing and future subsidiary of MBIA Corp. would automatically become a participant of the agreement. CapMAC became party to the agreement when it became a subsidiary of MBIA Corp. When reviewing the provisions of the agreement, it was noted that certain provisions were not followed.

Section 4(b) of the agreement states that each subsidiary of MBIA Corp. shall pay the Company an amount equal to the federal income taxes shown as due on the separate return of such subsidiary reduced by any prepaid amounts made by the subsidiary. Such payments shall be made on or before the date on which the consolidated federal income tax return for the group is filed. It was noted however, that the Company was not reimbursed until after the filing of the tax returns.

Section 4(c) of the agreement which related to payment of installments of estimated federal income taxes, requires that each subsidiary shall pay the Company an amount equal to the amount of the installment due which such subsidiary would have been required to pay as an estimated payment of federal income taxes on such date as if such subsidiary were filing a separate federal income tax return. The review disclosed that MBIA Corp. is the only entity that makes the estimated payments throughout the taxable year.

Further, the agreement as written does not specifically name all the participating entities that are party to the agreement, nor does it provide how balances between MBIA Corp. and entities other than the Company's subsidiaries should be settled.

Based on the foregoing, it is recommended that the Company comply with Section 4(b) and (c) of the tax allocation agreement. It is further recommended that the tax allocation agreement be revised to specifically indicate the names of all the participating entities and their direct responsibilities.

Investment Manager

For years 1998 and 1999, the Company's investment portfolio was handled by MBIA Capital Management Corporation ("CMC"), one of the Company's affiliates. CMC provides investment management services to several companies of the MBIA Group. It should be noted however, that the Company does not have in place an agreement with CMC that sets forth each party's obligations and details the bases under which the fee payable to CMC for rendering the services is to be calculated.

It is recommended that the Company establish a written investment agreement with its affiliate CMC. This agreement should be written in a manner that is in compliance with Section 1505(a) and be submitted to the Department pursuant to Section 1505(d) of the New York Insurance Law.

Loan to MBIA Assurance

In late 1998, CapMAC made a loan to an affiliated company, MBIA Assurance. The loan was made to facilitate the purchase of CapMAC's French subsidiary, CapMAC Assurance by MBIA Assurance. It was noted that this loan was not approved by CapMAC's board of directors as required by Section 1411(a) of the New York Insurance Law, which states the following:

> "No domestic insurer shall make any loan or investment…, unless authorized or approved by its board of directors or committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

Further, the loan transaction was subject to Section 1505(d)(1) of the New York Insurance Law, which states that:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:
>
> (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer's admitted assets at last year-end;"

The Company failed to notify the Department of the intention to enter into this transaction. It is recommended that the Company comply with Section 1411(a) and Section 1505(d)(1) of the New York Insurance Law.

Sale of CapMAC Assurance

On January 1, 1999, the Company sold 100% of its interest in the assets and liabilities of its French subsidiary, CapMAC Assurance to MBIA Assurance, the French subsidiary of the parent company. This transaction was subject to Section 1505(c) of the New York Insurance Law, which states the following:

> "The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets at last year-end".

The Company did not request prior approval before selling its subsidiary. It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law whenever its transactions with members of its holding company group subject to such section involve more than 5% of its admitted assets at last year-end.

Subsequent to the completion of the field examination, the Company submitted to the Department the required notifications of the above transactions.

Management Agreement

Effective January 31, 2000, the Company entered into a management agreement with its parent company, MBIA Corp. The agreement was established to provide CapMAC with administrative services that include accounting, legal, information technology, and investment management among others.

The agreement was submitted to the Department for review and non-approval as required by Section 1505(d)(3) of the New York Insurance Law.

The review of the service fee charged to CapMAC pursuant to the management agreement indicated that the fee was based on a time study conducted by Company's personnel. However, no documentation supporting the study was kept. The Company was therefore not in compliance with Department Regulation 30, Part 106.6, which requires insurers to keep records on the method and bases followed in allocating joint expenses.

It is recommended that the Company comply with Department Regulation 30, Part 106.6.

Further, it was noted that the management fee that was paid to MBIA Corp. for calendar year 2000 was reported in the Allowance to Managers and Agents line of the Underwriting & Investment Exhibit Part-4 Expenses, as a one-line item. This allocation does not conform to the classification requirements of Regulation 30, Part 105.4 which provides that expenses of management where one insurance company has been appointed manager for another should not be included in the Allowance to Managers and Agents line. Furthermore, the annual statement instructions for the Underwriting & Investment Exhibit Part 4-

Expenses, state that a company that pays an affiliated entity for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items such as salaries, rent, postage, etc., as if the costs had been borne directly by the company.

It is recommended that the Company comply with Regulation 30, Part 105.4. It is also recommended that the Company comply with the annual statement instructions when completing its Underwriting and Investment Exhibit Part-4 Expenses, and allocate its management fee to the appropriate expense items.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written to Surplus as regards policyholders	*
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	9.0%
Premiums in course of collection to Surplus as regards policyholders	6.28%

*This ratio was not calculated because the Company has currently discontinued writing new business. Further, the Company is ceding 100% of its business is to MBIA Corp. and third party reinsurers. The remaining ratios fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the six-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$ 0	0%
Loss adjustment expenses incurred	0	0
Other underwriting expenses incurred	123,699,492	82.74
Net underwriting gain	25,799,690	17.26
Premiums earned	$ 149,499,182	100.00%

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law states in part:

> "Any amount (except an amount upon which an instrument has been issued which upon its face is non-negotiable by the insured) payable to a resident of this state on or because of a policy of insurance other than life insurance… shall be deemed abandoned property if unclaimed for three years by the person entitled thereto… such abandoned property shall be reported to the comptroller on or before the first day of April in each succeeding year."

During the examination period, the Company did not file abandoned property reports with the New York State Comptroller as required by Sections 1315 and 1316 of the New York Abandoned Property Law which mandates such reports be submitted by April 1st each year as stated above.

It is recommended that the Company annually submit abandoned property reports to the State Comptroller in accordance with Section 1316 of the New York Abandoned Property Law.

G. Accounts and records

i. Notes to Financial Statements

In the 1999 Notes to Financial Statement-Item 5E, the Company reported to be a party to an expense allocation agreement with members of its holding company group. This statement is inaccurate because the expense allocation agreement in effect between MBIA Inc., MBIA Corp., and other members

of the holding company group does not name CapMAC as one of the participating parties to the agreement.

It is recommended that the Company ensure that the financial statement disclosures made in its filed and sworn to annual statements are accurately stated. It is further recommended that the Company be included in the expense allocation agreement that is currently in effect between MBIA Inc., MBIA Corp, and other members of the holding company group.

ii. Disaster Recovery Plan

The Company does not have in place a disaster recovery plan that would outline procedures to follow in order to restore processing systems in the event of a disastrous occurrence.

This plan should enable the Company to respond effectively to an incident that may disrupt normal business activities and system processing. Once this plan is formalized, the Company should perform periodic testing to ensure that formulated procedures will operate as intended. It is recommended that the Company establish and implement a disaster recovery plan.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet reported by the Company in its filed annual statement:

Assets	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$73,644,264	$	$	$73,644,264
Cash and short term-investments	2,258,669			2,258,669
Other invested assets	693,518			693,518
Premiums and agents' balances in course of collection (after deducting ceded balances of $2,202,511)	3,592,927		585,002	3,007,925
Electronic data processing equipment	709,443			709,443
Interest, dividends and real estate income due and accrued		1,289,702		1,289,702
Receivable from parent, subsidiaries and affiliates	15,058,967			15,058,967
Prepaid expenses & other non-admitted assets	3,434,555		3,434,555	
Receivable for investments sold	146,366			146,366
Total assets	$99,538,709	$1,289,702	$4,019,557	$96,808,854

Liabilities		Company
Losses and loss adjustment expenses		$
Other expenses		2,713,106
Taxes, licenses & fees		(22,635)
Federal and foreign income taxes (excluding deferred taxes)		1,504,269
Amounts withheld or retained by company for account of others		257,290
Bank overdraft		98,438
Total liabilities		$4,550,468
Common capital stock	$17,460,000	
Gross paid in and contributed surplus	57,540,000	
Unassigned surplus	17,258,386	
Surplus as regards policyholders		$92,258,386
Total liabilities and surplus		$96,808,854

NOTE: The Internal Revenue Service has completed its audits of the Company's federal income tax returns for the year 1997. All material adjustments if any, made subsequent to date of the examination and arising from said audits are reflected in the financial statements included in this report. Audits covering tax years 1998-1999 are currently in progress. The examiner is unaware of any potential exposure of the company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus to policyholders decreased $54,204,439 during the six-year examination period detailed as follows:

Underwriting Income		
Premiums earned		$149,499,182
Deductions:		
Other underwriting expenses incurred	$123,699,492	
Total underwriting deductions		123,699,492
Net underwriting gain		$25,799,690
Investment Income		
Net investment income earned	$74,122,127	
Net realized capital gains	5,047,475	
Net investment gain		79,169,602
Other Income		
Miscellaneous income	$2,637,239	
Total other income		2,637,239
Net income before dividends to policyholders and federal & foreign income taxes		$107,606,531
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$107,606,531
Federal & foreign income taxes incurred		20,506,310
Net income		$87,100,221

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1993, per report on examination			$146,462,825
	Gains in Surplus	Losses in Surplus	
Net income	$87,100,221	$	
Change in non-admitted assets		1,278,221	
Change in foreign exchange		824,918	
Capital paid in	29,865,000		
Surplus paid in	29,135,000		
Dividends to stockholders		1,000,000	
Cession of contingency reserve to MBIA Corp.		80,583,970	
Stock repurchase and retirement		119,337,360	
Purchase of tax & loss bonds	693,518		
Change in accounting method	2,026,291		
Total gains and losses	$148,820,030	$203,024,469	
Net decrease in surplus as regards policyholders			$(54,204,439)
Surplus as regards policyholders, December 31, 1999, per report on examination			$92,258,386

4. LOSSES AND LOSS ADJUSTMENTS EXPENSES

As of the examination date, the Company reported no liability under this caption. This was due to the fact that on April 1, 1998, the Company entered into a reinsurance agreement with MBIA Corp. whereby 100% of the net unearned premium, loss reserves and related contingency reserve were ceded to the parent company.

5. MARKET CONDUCT ACTIVITIES

A review of the Company's market conduct activities was not performed due to the limited nature of the scope of the examination.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three comments and recommendations as follows: (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Tax Sharing Agreement	
	It is recommended that Company formally add CapMac Management Services Corporation to the tax sharing agreement, and submit such addendum to this Department as required by Department Circular Letter No. 33 (1979).	9
	This recommendation is not longer applicable.	
B.	Conflict of Interest	
	It is recommended that the Company establish a formal conflict of interest policy and require annual disclosure to the board of directors of any potential conflict. It is also recommended that the Company accurately complete the general interrogatories to the annual statement.	10
	The Company complied with this recommendation.	
C.	Contingency Reserve	
	It is recommended that the Company determine the investment grade of an asset-backed security as required by Section 6901(n) of the New York Insurance Law.	14
	The Company complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Respectfully submitted,

/S/
Glenda Gallardo
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

GLENDA GALLARDO, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

/S/
Glenda Gallardo

Subscribed and sworn to before me
this _____ day of _____ 2001.

Appointment No 21599

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Glenda Gallardo

as proper person to examine into the affairs of the

Capital Markets Assurance Corporation

and to make a report to me in writing of the condition of the said

Corporation

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 23 rd *day of* August, 2000

NEIL D. LEVIN
Superintendent of Insurance