

REPORT ON EXAMINATION

OF THE

MUNICIPAL AND INFRASTRUCTURE ASSURANCE CORPORATION

AS OF

JUNE 30, 2012

DATE OF REPORT

MAY 28, 2013

EXAMINER

IAN MARTIN

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	6
	C. Reinsurance	7
	D. Holding company system	7
3.	Financial Statements	10
	A. Balance sheet	10
4.	Losses and contingency reserves	11
5.	Subsequent Events	11
6.	Compliance with prior report on examination	12
7.	Summary of comments and recommendations	12



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

May 28, 2013

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
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 30861 dated July 3, 2012 attached hereto, I have made an examination into the condition and affairs of Municipal and Infrastructure Assurance Corporation as of June 30, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Municipal and Infrastructure Assurance Corporation.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 31 West 52<sup>nd</sup> Street, New York, NY 10019.

## 1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Municipal and Infrastructure Assurance Corporation, a multi-state insurer. This is the first financial examination of the Company after the report on organization, which was conducted as of September 25, 2008. This examination covered the four-year period from September 26, 2008 through June 30, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Maryland, which was the coordinating state of the Assured Guaranty Group. The examination was performed concurrently with the examinations of the following insurers: Assured Guaranty Corp. (“AGC”), Assured Guaranty Mortgage Insurance Company (“AG Mortgage), Assured Guaranty Municipal Corp. (“AGM”), and Assured Guaranty Municipal Insurance Company (“AGMIC”).

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Territory and plan of operation

Growth of Company  
Loss experience  
Reinsurance  
Accounts and records  
Statutory deposits  
Financial statements  
Summary of recommendations

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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. **DESCRIPTION OF COMPANY**

Municipal and Infrastructure Assurance Corporation was incorporated and licensed under the laws of the State of New York on August 21, 2008. The Company was acquired on May 31, 2012 from Radian Asset Assurance Inc., by Assured Guaranty US Holdings Inc, an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), the ultimate holding company of the Assured Guaranty Group.

Capital paid in was \$2,500,000 consisting of 100,000 shares of \$25 par value per share common stock. Gross paid in and contributed surplus was \$72,500,000. The amount reported for Gross paid in and contributed surplus has not changed since the last examination.

### 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 or more than twenty-one members. Since the Company was acquired on May 31, 2012, actions taken by written consent on May 31, 2012 were reviewed. The number of directors was revised effective January 9, 2013 to not less than seven nor more than twenty-one. The number of directors that are required to be residents of New York State was also revised effective January 9, 2013 from two to one. The amended Charter was filed with the Department. At June 30, 2012, the board of directors was comprised of the following thirteen members:

Name and ResidencePrincipal Business Affiliation

Howard Wayne Albert  
Short Hills, NJ

Chief Risk Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Robert Adam Bailenson  
Cold Spring Harbor, NY

Chief Financial Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Richard James Bauerfeld  
Wilton, CT

Chief Surveillance Officer, Structured Finance,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Municipal Corp.

Russell Brown Brewer II  
Darien, CT

Chief Surveillance Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Gon Ling Chow  
New York, NY

Deputy General Counsel, Corporate and Assistant  
Secretary,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.

Deputy General Counsel, Corporate and Managing  
Director,  
Assured Guaranty Municipal Corp.

Assistant Secretary,  
Municipal and Infrastructure Assurance Corp.

Stephen Donnarumma  
Brooklyn, NY

Chief Credit Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Name and ResidencePrincipal Business Affiliation

Dominic John Frederico  
Palm Beach Gardens, FL

Chairman, President and Chief Executive Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Philip Richard Kastlelec  
New York, NY

Deputy General Counsel, Regulatory,  
Assured Guaranty Mortgage Insurance Company

Deputy General Counsel, Regulatory and Assistant  
Secretary,  
Assured Guaranty Municipal Corp.

Assistant Secretary,  
Municipal and Infrastructure Assurance Corp.

James Michael Michener  
Smith's, Bermuda, FL-05

General Counsel and Secretary,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Robert Bruce Mills  
New Hope, PA

Chief Operating Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Donald Hal Paston  
Livingston, NJ

Treasurer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company  
Municipal and Infrastructure Assurance Corp.

Andrew Hoyt Pickering  
New York, NY

Senior Managing Director, Risk Management,  
Assured Guaranty Municipal Corp.

Bruce Elliot Stern  
Bronxville, NY

Executive Officer, Government and Corporate  
Affairs,  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Municipal and Infrastructure Assurance Corp.

As of June 30, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dominic John Frederico	Chairman, President and Chief Executive Officer
James Michael Michener	Secretary and General Counsel
Donald Hal Paston	Treasurer
Robert Adam Bailenson	Chief Financial Officer
Laura Ann Bieling	Controller
Russell Brown Brewer II	Chief Surveillance Officer
Stephen Donnarumma	Chief Credit Officer
Robert Bruce Mills	Chief Operating Officer
John Mahlon Ringler	Assistant Vice President, Regulatory Reporting
Benjamin Gad Rosenblum	Chief Actuary

B. Territory and Plan of Operation

As of June 30, 2012, the Company was licensed to write business in 37 states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kind of insurance as defined in paragraph 25 (Financial Guaranty) of Section 1113(a) of the New York Insurance Law.

Section 1102(b) of the New York Insurance Law states: “No corporation organized under any law of this state shall do an insurance business outside this state unless so authorized pursuant to the provisions of this chapter or exempted by the provisions of this chapter from such requirement.” However, a review of the Company’s certificates of authority reveals inconsistencies with the lines of business that the Company is licensed to write in New York State to lines of business it is licensed to write in other states.

It is recommended that the Company amend its certificates of authority from other states to reflect the lines of business that it is licensed to write in New York State, in order to be in compliance with Section 1102(b) of the New York Insurance Law; provided, however, that in a state in which financial guaranty insurance is not a mono-line of insurance, it is recognized that the Company’s certificate of authority will authorize it to write the line(s) of business under which financial guaranty insurance has historically been transacted in such state.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$65,000,000.

As of the examination date, the Company has not commenced writing insurance business.

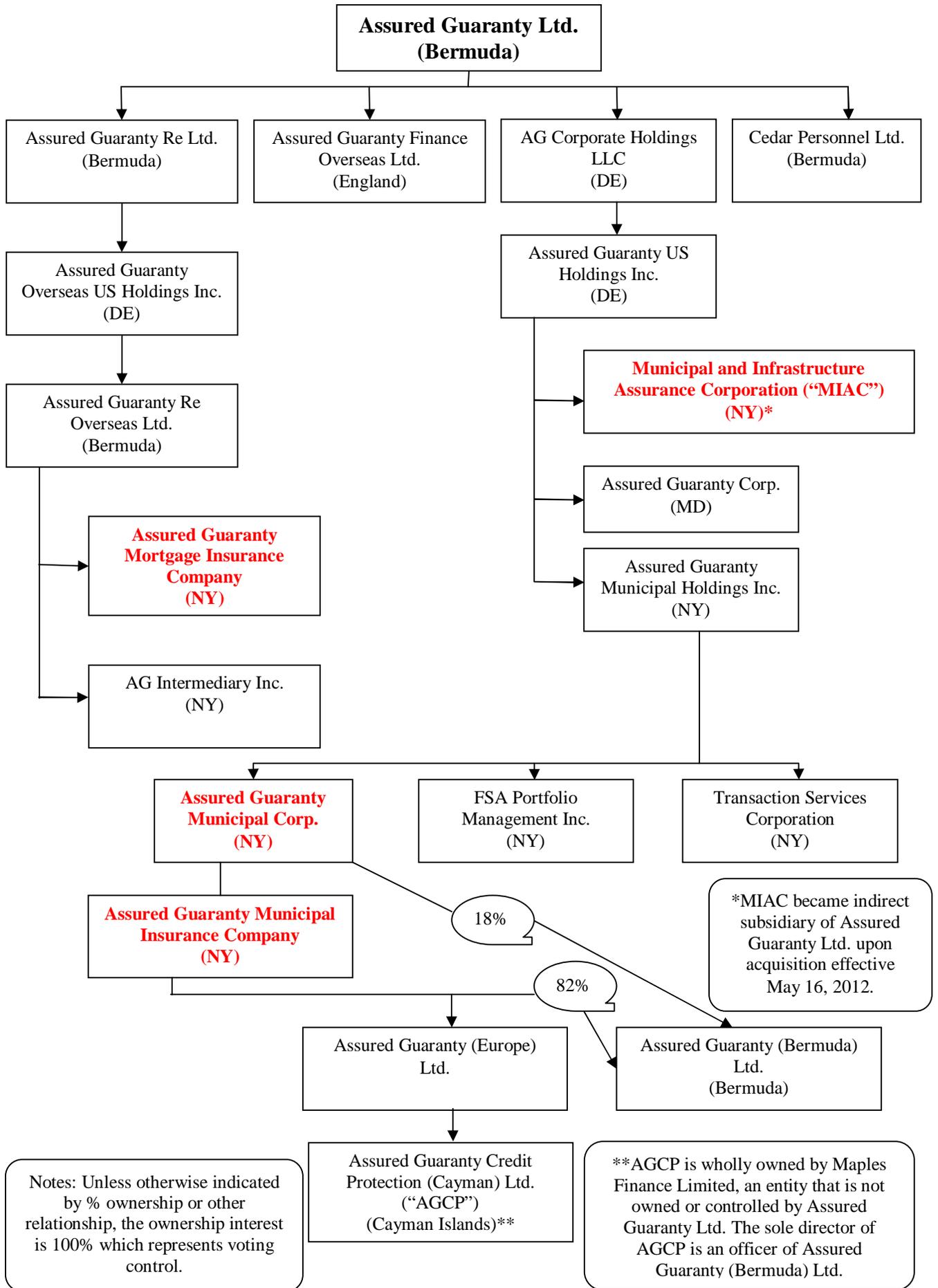
C. Reinsurance

The Company had no assumed or ceded reinsurance program in place.

D. Holding Company System

The Company is a member of the Assured Guaranty Group. The Company is 100% owned by Assured Guaranty US Holdings Inc., a Delaware company, which is ultimately controlled by AGL, a Bermuda based publicly traded holding company (NYSE: AGO) with worldwide operations.

The following is an abridged chart of the holding company system at June 30, 2012:



At June 30, 2012, the Company was party to the following agreements with other members of its holding company system:

#### Tax Allocation Agreement

Effective June 1, 2012, the Company entered into a tax allocation agreement with other members of the Assured Guaranty Group. The agreement provides for the allocation among the companies, of the consolidated federal tax liability of the Assured Guaranty Group with the intent that each company contributes its fair share to the taxes payable by the group and that each company be compensated for the reduction or the tax benefit resulting from its inclusion in the group. As of the examination date, the Company had not filed the agreement with the Department. The Company subsequently filed the agreement with the Department on February 7, 2013.

#### Service Agreement

Effective June 1, 2012, the Company was party to a services agreement with certain of its affiliates. Pursuant to the agreement, AGC, an affiliate of the Company, provides a staff of professional insurance and financial services executives, administrative and clerical personnel and payroll services to the participating companies in the Assured Guaranty Group. In addition, AGM provides office space and equipment to the participating companies in the Assured Guaranty Group. Expenses are allocated directly where appropriate based upon an allocation of employee time and corresponding office overhead. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and non-disapproved by the Department on July 6, 2012.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of June 30, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$33,313,988	\$ 0	\$33,313,988
Cash, cash equivalents and short-term investments	42,257,008	0	42,257,008
Receivables for securities	7,597,360	0	7,597,360
Investment income due and accrued	102,625	0	102,625
Current federal and foreign income tax recoverable and interest thereon	35,699	0	35,699
Net deferred tax asset	5,600,334	4,480,267	1,120,067
Total Assets	<u>\$88,907,014</u>	<u>\$4,480,267</u>	<u>\$84,426,747</u>
<u>Liabilities, surplus and other funds</u>			<u>Examination</u>
Losses and loss adjustment expenses			\$ 0
Payable to parent, subsidiary and affiliates			4,673
Payables for securities			8,184,593
Miscellaneous liability			<u>954</u>
Total liabilities			<u>\$8,190,220</u>
<u>Surplus and Other Funds</u>			
Common capital stock		\$ 2,500,000	
Gross paid in and contributed surplus		72,500,000	
Unassigned funds (surplus)		<u>1,236,527</u>	
Surplus as regards policyholders			<u>\$76,236,527</u>
Total liabilities, surplus and other funds			<u>\$84,426,747</u>

Note: The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

#### 4. LOSSES AND CONTINGENCY RESERVES

The examination liabilities for losses and contingency reserves are \$0 and \$0, respectively, as of December 31, 2011. These are the same as the amounts reported by the Company in its June 30, 2012 filed quarterly statement.

#### 5. SUBSEQUENT EVENTS

##### Name Change

The Company changed its name to Municipal Assurance Corp. (“MAC”) effective January 9, 2013. The amended license, Charter and By-laws reflecting the Company’s change of name were approved and processed by the Department.

##### Increased Capital

Effective as of April 19, 2013, the Company increased its paid in capital to \$15,000,000 consisting 100,000 shares of \$150 par value per share common stock. The amended charter and reflecting the increase in the Company’s paid in capital was approved and processed by the Department.

##### Restructuring Plan

AGL has proposed an internal reorganization, which includes the capitalization of the Company and certain related transactions. As part of this reorganization, AGMIC is expected to merge with and into AGM, with AGM continuing as the surviving company, and Assured Guaranty (Bermuda) Ltd. is also expected to cease to exist. Following completion of the entire reorganization transaction, AGM and/or AGC will indirectly own 100% of the Company. The proposed reorganization, including the foregoing transactions, is subject to regulatory approval which is pending.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Bank Account</u>	4
	It was recommended that the Company amend the name on the account to reflect its correct title.	
	The Company has complied with this recommendation.	
B	<u>Service Agreement</u>	8
	It was recommended that the Company file the agreement as required by Section 1505 of New York Insurance Department Law.	
	The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	Territory and Plan of Operation	6
	It is recommended that the Company amend its certificates of authority from other states to reflect the lines of business that it is licensed to write in New York State, in order to be in compliance with Section 1102(b) of the New York Insurance Law; provided, however, that in a state in which financial guaranty insurance is not a mono-line of insurance, it is recognized that the Company's certificate of authority will authorize it to write the line(s) of business under which financial guaranty insurance has historically been transacted in such state.	

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Ian Martin  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

Ian Martin, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Ian Martin

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2013

APPOINTMENT NO. 30861

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Ian Martin**

as a proper person to examine the affairs of the

**MUNICIPAL AND INFRASTRUCTURE ASSURANCE CORPORATION**

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

**CORPORATION**

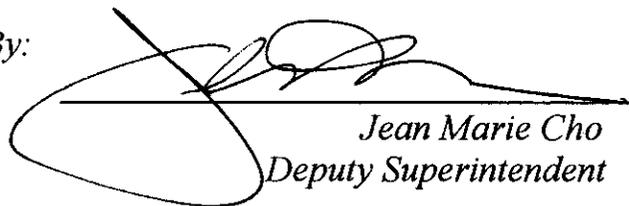
with such other information as he shall deem requisite.

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

this 3rd day of July, 2012

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services

By:

  
Jean Marie Cho  
Deputy Superintendent

