REPORT ON EXAMINATION

OF

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

AS OF

DECEMBER 31, 2019

DATE OF REPORT	APRIL 30, 2021
EXAMINER	KEVIN MCNAMEE

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April 30, 2021

Honorable Linda A. Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32026 dated January 3, 2020, attached hereto, I have made an examination into the condition and affairs of National Public Finance Guarantee Corporation as of December 31, 2019, and submit the following report thereon.

Wherever the designation "the Company" or "National" appears herein without qualification, it should be understood to indicate National Public Finance Guarantee 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 remotely due to the Governor's Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of National Public Finance Guarantee Corporation, a multi-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the four-year period from January 1, 2016 through December 31, 2019. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The examination of the Company was performed concurrently with the examination of MBIA Insurance Corporation.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Significant subsequent events
Summary of recommendations

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

National Public Finance Guarantee Corporation was incorporated as Inland National Insurance Company under the laws of the State of Illinois on December 28, 1959 and began business on March 9,

1960. The name was changed on December 17, 1984, to Bond Investors Guaranty Insurance Company, which was a subsidiary of Bond Investors Group ("BIG").

Effective January 5, 1990, MBIA Inc. purchased all the outstanding shares of BIG. MBIA Inc. then contributed the stock of BIG to its subsidiary, Municipal Bond Investors Assurance Corporation, now known as MBIA Insurance Corporation ("MBIA Corp."). Subsequent to the contribution, BIG was liquidated, making MBIA Corp. the direct parent of the Company. The Company changed its name to MBIA Insurance Corporation of Illinois ("MBIA IL") on August 21, 1990.

On February 17, 2009, the Department approved a restructuring (also known as "Transformation") of MBIA Corp. As part of the restructuring, the stock of MBIA IL was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"), a wholly-owned subsidiary of MBIA Inc. National was capitalized with approximately $2.1 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which MBIA Inc. then contributed to National through National Holdings. Effective December 1, 2009, the Company re-domesticated from Illinois to New York, and changed its name to its current title.

In June 2009, a group of 18 domestic and international financial institutions commenced a legal proceeding (an Article 78 proceeding) challenging the actions of the Department in approving the restructuring of MBIA Corp., the related capitalization of National, and the reinsurance agreement in which MBIA Corp. ceded all of its U.S. public finance exposure to National. In March 2013, the Supreme Court of the State of New York dismissed the Article 78 proceeding, thereby upholding the Department's decision in approving the restructuring of MBIA Corp. Two of the financial institutions, Bank of America ("BoA") and Société Générale ("SocGen"), filed a notice of appeal of the judge's decision. The same group of financial institutions also sued MBIA Corp., National, and MBIA Inc. under New York debtor creditor law alleging that certain terms of the restructuring transactions constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. In May 2013, MBIA Inc., MBIA Corp. and National entered into various settlement agreements with BoA and SocGen. These settlements resolved all litigation related to the restructuring of MBIA Corp.

Due to the aforementioned litigation, and the low ratings given by the rating agencies, National did not write business. Subsequent to the legal settlements, on March 18, 2014, S&P Global Ratings ("S&P") upgraded its financial strength rating on National to AA- from A with a stable outlook. As such, in 2014, the Company began writing new business in the public finance sector.

On June 26, 2017, S&P downgraded the financial strength rating of National to A with a stable outlook. S&P's rating action was based on its view that "National's business risk profile is weaker than its peers, as National has struggled to gain wide market acceptance. . . the company's capital adequacy is very strong. . . " Due to the ratings downgrade, the Company ceased writing new financial guarantee business and went into run-off.

A. Corporate Governance

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 seven nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
Adam Bergonzi White Plains, New York	Managing Director and Chief Risk Officer, National Public Finance Guarantee Corporation
Brian Cooney Ossining, New York	Managing Director, National Public Finance Guarantee Corporation
William Fallon Rye, New York	President and Chief Executive Officer, National Public Finance Guarantee Corporation
Patricia Ferrari Bedford, New York	Managing Director, National Public Finance Guarantee Corporation
Daniel McManus Westfield, New Jersey	Managing Director, Chief Compliance Officer, General Counsel and Secretary National Public Finance Guarantee Corporation
Joseph Schachinger Eastchester, New York	Director, National Public Finance Guarantee Corporation
Christopher Young Stamford, Connecticut	Managing Director and Chief Financial Officer, National Public Finance Guarantee Corporation

As of December 31, 2019, the principal officers of the Company were as follows:

Name	Title
William Fallon	President and Chief Executive Officer
Christopher Young	Managing Director and Chief Financial Officer
Daniel McManus	Managing Director, Chief Compliance Officer, General Counsel and Secretary
Adam Bergonzi	Managing Director and Chief Risk Officer

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in all 50 states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands.

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

Paragraph	Line of Business
16 (C, D, E, F, G and H)	Fidelity and surety
17 (A)	Credit
25	Financial guaranty

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 $66,400,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2016	$7,631,468	$11,407,468	$19,038,936
2017	$3,481,198	$ 9,552,637	$13,033,835
2018	$ 0	$11,394,693	$11,394,693
2019	$ 0	$11,943,770	$11,943,770

Effective January 1, 2009, as part of Transformation, National reinsured the entire U.S. public finance portfolio of MBIA Corp. During the examination period, 100% of National's assumed written premiums arise from the quota share reinsurance agreement with MBIA Corp. As stated previously, subsequent to legal settlements, in the first quarter of 2014, National received a financial strength ratings upgrade from S&P to AA-. With a AA- rating, National was able to commence writing business. However, on June 26, 2017, S&P downgraded the financial strength rating of National to A. With the ratings downgrade, the Company was no longer able to issue financial guarantees, and ceased writings.

The financial guarantees provided by the Company included unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event the Company has the right at its discretion to accelerate insured obligations upon default or otherwise, upon the Company's acceleration.

C. Reinsurance Ceded

Due to its run-off status, the Company's reinsurance as of December 31, 2019 relates to legacy business.

D. Holding Company System

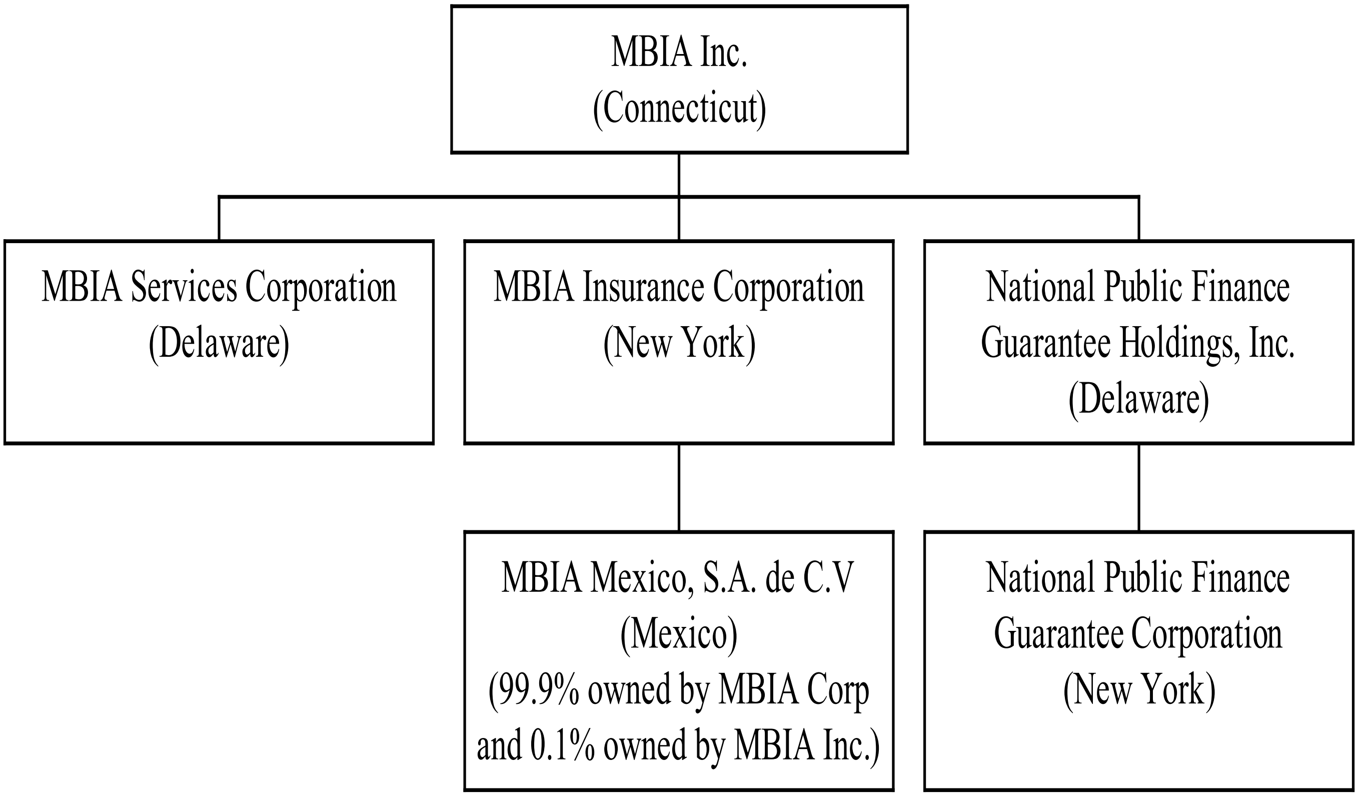
The Company is a wholly-owned subsidiary of MBIA Inc., a publicly traded insurance holding corporation. MBIA Inc. operates within the financial guarantee insurance industry and manages its business within three operating segments:

- U.S. public finance insurance;
- corporate;
- international and structured finance insurance.

MBIA Inc.'s public finance insurance portfolio is managed through National; its corporate segment is managed through MBIA Inc. and several of its subsidiaries, including its service company, MBIA Services Corporation; its international and structured finance insurance business is primarily managed through MBIA Corp. and subsidiary MBIA Mexico. MBIA Inc.'s operating subsidiaries are running off their portfolios.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2019:



Holding Company Agreements

At December 31, 2019, the Company was party to the following agreements with other members of its holding company system:

Repurchase and Reverse Repurchase Agreement ("Asset Swap") with MBIA Inc.

In the first quarter of 2009, the Company entered into an agreement with MBIA Inc. whereby the Company held securities under agreements to resell and under agreements to repurchase up to $2.0 billion based on the fair value of the securities borrowed by MBIA Inc. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement contracts, and the agreements reset on a quarterly basis. As of December 31, 2019, the notional amount of the Asset Swap was below 5% of the Company's admitted assets. The Asset Swap was approved by the Department in connection with Transformation.

Master Services Agreement with MBIA Services Corporation ("MSC")

Effective January 1, 2010, and subsequently amended, the Company is party to a Master Services Agreement with MSC (formerly known as Optinuity Alliance Resources Corporation). Per the terms of the agreement, MSC provides at cost support services such as management, legal, accounting, treasury, and information technology for all business written or reinsured and all other authorized activities of the Company. Allocation of costs for shared services shall be in accordance with Department Regulation 30. This agreement supersedes the Master Services Agreement, effective February 17, 2009, with MBIA Corp.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with members of its holding company system effective January 1, 1987. The agreement was amended and restated effective September 8, 2011, to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter 33(1979).

MBIA Advances Agreement

The MBIA Advances Agreement, effective January 22, 2016, permits the Company to make advances to MBIA Inc. and other MBIA group companies that are party to the agreement at a rate per annum equal to LIBOR plus 0.25%. The agreement also permits other affiliates to make advances to the Company or MBIA Corp. at a rate per annum equal to LIBOR minus 0.10%. Advances by the Company cannot exceed 3% of its net admitted assets as of the last quarter end. There were no amounts drawn under the agreement for the entire examination period.

Sub-lease Agreement with MBIA Corp.

Effective May 2014, the Company entered into a sublease agreement with MSC and MBIA Corp., wherein the Company, as sub-landlord, subleases office space to MSC and MBIA Corp. Per the terms of the sub-lease agreement, MSC and MBIA Corp. pay rent equal to their proportionate share of the fixed annual rent, additional rent, and tenant improvement costs specified in the prime lease held by the Company.

All agreements subject to Section 1505 of the New York Insurance Law were filed with the Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2019, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$2,355,868,027	$ 0	$2,355,868,027
Preferred stocks (stocks)	533,580	0	533,580
Common stocks (stocks)	490,105,108	490,105,108	0
Cash, cash equivalents and short-term investments	294,431,941	0	294,431,941
Other invested assets	50,647,084	0	50,647,084
Receivables for securities	2,241,525	0	2,241,525
Investment income due and accrued	15,381,849	0	15,381,849
Amounts recoverable from reinsurers	568	0	568
Current federal and foreign income tax recoverable and interest thereon	32,734,644	0	32,734,644
Net deferred tax asset	2,617,212	0	2,617,212
Electronic data processing equipment and software	15,884	15,884	0
Furniture and equipment, including health care delivery assets	8,419,303	8,419,303	0
Receivables from parent, subsidiaries and affiliates	919,981	0	919,981
Other assets	3,128,182	19,134	3,109,048
Prepaid expenses	150,216	150,216	0
Premium tax receivable	77,504	0	77,504
Total assets	$3,257,272,609*	$498,709,646*	$2,758,562,963*

*Rounding difference of $1

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses		$(169,227,273)
Other expenses (excluding taxes, licenses and fees)		10,246,795
Unearned premiums		410,948,944
Amounts withheld or retained by company for account of others		163,597
Payable to parent, subsidiaries and affiliates		462,602
Payable for securities		9,086,045
Contingency reserves		484,931,477
Securities sold under agreement to repurchase		120,586,500
Other liabilities		55,447
Total liabilities		$ 867,254,134
Surplus and other funds		
Common capital stock	$ 15,000,000	
Gross paid in and contributed surplus	574,441,225	
Unassigned funds (surplus)	1,301,867,604	
Surplus as regards policyholders		1,891,308,829
Total liabilities, surplus and other funds		$2,758,562,963

Note: The Internal Revenue Service has not conducted an audit of the Company's consolidated Federal Income Tax return for the period under examination. 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.

B. Statement of Income

The net loss for the examination period as reported by the Company was $118,082,275, as detailed below:

Underwriting Income		
Premiums earned**		$ 686,881,153
Deductions:		
Losses and loss adjustment expenses incurred	$1,102,207,775	
Other underwriting expenses incurred	212,528,392	
Total underwriting deductions		1,314,736,167
Net underwriting gain or (loss)		$(627,855,014)
Investment Income		
Net investment income earned	$442,410,103	
Net realized capital gain	73,978,644	
Net investment gain or (loss)		516,388,747
Other Income		
Miscellaneous expense	$ (3,684,400)	
Total other income		(3,684,400)
Net income after dividends to policyholders but before federal and foreign income taxes		$(115,150,667)
Federal and foreign income taxes incurred		2,931,608
Net loss		$(118,082,275)

**The Company recognizes and measures scheduled earned premium over the period of the contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium.

C. Capital and Surplus

Surplus as regards policyholders decreased $586,233,848 during the four-year examination period January 1, 2016 through December 31, 2019, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2015			$2,477,542,677
Net income		$ 118,082,275	
Net unrealized capital gains or (losses)	$ 46,828,179		
Change in net deferred income tax		371,067,535	
Change in nonadmitted assets		91,149,847	
Dividends to stockholders		477,872,736	
Allocation of surplus to contingency reserves	425,110,367	0	
Total gains and losses	$471,938,546	$1,058,172,393	
Net increase (decrease) in surplus			(586,233,847)
Surplus as regards policyholders as reported by the Company as of December 31, 2019			$1,891,308,829*

*Rounding difference of $1

No adjustments were made to surplus as a result of this examination. Common capital stock paid in of $15,000,000 is comprised of 500,000 shares par value $30 authorized, issued and outstanding as of December 31, 2019. Gross paid in and contributed surplus is $547,441,226.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned item of $(169,227,273) is the same as reported by the Company at December 31, 2019. For a financial guaranty insurer, this loss liability represents the case basis reserves net of salvage that is established for insured transactions. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the Statement of Statutory Accounting Principles No. 60 of the NAIC Accounting Practices and Procedures Manual. The analysis found the case reserves to be adequate.

The Capital Markets Division utilized the assistance of an independent financial advisory firm that specializes in complex assets to review the adequacy of the Company's loss modeling, assumptions, and surveillance policies and procedures as of December 31, 2019, to determine the Company's adequacy of loss reserves. The firm reviewed all public finance obligors insured for which the Company had reserves or the Company deemed that the obligor required further scrutiny. Based on this review, the Capital Markets Division found the surveillance processes, modeling, and modeling assumptions to be adequate.

Pursuant to Section 6903(a) of the New York Insurance Law, the Company is required to establish and maintain a contingency reserve for the protection of policyholders and claimants against the effect of excessive losses occurring during adverse economic cycles. As of the examination date, the Company reported a contingency reserve of $484,931,477.

In addition, the Company maintains an unearned premium reserve in accordance with Section 6903(c) of the New York Insurance Law. Unearned premiums represent the portion of premiums which are applicable to the unexpired risk on policies in force. As of December 31, 2019, the Company reported an unearned premium reserve of $410,948,944.

The Company's estimate of reserves for losses on its exposures is based on certain assumptions. Changes in such assumptions could materially adversely affect such reserve estimates, including those as a result of more adverse macroeconomic conditions, the bankruptcies of issuers of insured bonds, and the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, these exposures may result in significant increases in claims beyond that assumed in the Company's reserve estimates (that may or may not result in an increase in such loss reserves). In rare cases, these conditions could result in the required reserves exceeding the invested assets.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has been no significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its operations and financial position. The Department continues to monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_______________/S/________________
Kevin McNamee
Associate Insurance Examiner

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

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

___________/S/____________
Kevin McNamee

Subscribed and sworn to before me

this_________ day of __________________, 2021.

APPOINTMENT NO. 32026

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Linda A. Lacewell**, 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:*

Kevin McNamee

as a proper person to examine the affairs of the

National Public Finance Guarantee Corporation

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

COMPANY

with such other information as he shall deem requisite.

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

this 3rd day of January, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief