REPORT ON EXAMINATION

OF THE

CIFG ASSURANCE NORTH AMERICA, INC

AS OF

DECEMBER 31, 2011

| | |
|---|---|
| DATE OF REPORT | MAY 23, 2013 |
| EXAMINER | MARIBEL C. NUÑEZ, C.P.C.U. |

TABLE OF CONTENTS

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 23, 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 30878 dated September 6, 2012, attached hereto, I have made an examination into the condition and affairs of CIFG Assurance North America, Inc. as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate CIFG Assurance North America, Inc.

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 850 Third Avenue, New York, New York 10022.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer, as of December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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
Fidelity bonds and other insurance
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
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

The Company was incorporated on March 5, 2003, as a surety insurer under the laws of the State of New York, as the Western Continental Insurance Company of New York. The Company was formed for the purpose of effectuating the re-domestication of Western Continental Insurance Company ("WCIC-TX"), a Texas insurer, from Texas to New York. Effective June 30, 2003, WCIC-TX merged with and into the Company, with the Company being the surviving entity. On August 31, 2003, the Company adopted the name CDC IXIS Financial Guaranty North America, Inc.

Effective February 23, 2005, the Company adopted its current name as the result of a restructuring at the Company's ultimate parent company level in June, 2004.

The Company is a wholly-owned subsidiary of CIFG Holding, Inc. ("CIFG Holding"), a Delaware holding company. CIFG Holding was originally incorporated in France in 2001; it re-domesticated to Bermuda on October 1, 2007, and re-domesticated to Delaware on December 18, 2009. CIFG Holding is owned by a consortium of shareholders.

Capital paid in is $15,000,000, consisting of 15,000 shares of common stock with $1,000 par value per share. Gross paid in and contributed surplus is $2,508,671,017. Gross paid in and contributed surplus has not changed since 2009.

Master Commutation Agreement – 2009

On January 21, 2009, the CIFG Group (which was comprised of CIFG Holding, CIFG Guaranty, Inc. ("CIFG Guaranty"), CIFG Europe, S.A, CIFG Services, Inc., and the Company) and its then shareholders, entered into a Master Commutation Agreement with credit default swap ("CDS") counterparties and bondholders holding approximately 98% of the gross par outstanding of designated multi-sector asset backed securities collateralized debt obligations ("ABS CDOs") and commercial real estate CDOs, ("CRE CDOs") insured credit derivative transactions. As part of the Master Commutation Agreement, the counterparties and the bondholders agreed to commute their anticipated insurance claims on the designated transactions in exchange for an aggregate cash payment of $1.3 billion and 90.1% of the equity of CIFG Holding. At the closing of the commutation transaction, the Company paid $1.1 billion to the counterparties and CIFG Guaranty paid $0.9 billion to the Company for its share of the commuted losses under the reinsurance agreement.

As part of the Master Commutation Agreement, the Company's former ultimate parents' combined ownership percentage in CIFG Holding was reduced to 9.9%; with a consortium of financial institutions, including Natixis, a French Société Anonyme (a public limited company), which had been issued financial guaranty contracts by the Company and/or CIFG Europe, assuming ownership of the remainder. Due to agreed-upon cutbacks in voting rights and other agreements among the new shareholders, a determination was made by the Department that no such financial institutions was currently deemed to exercise control of the Company for regulatory purposes.

In addition, CIFG Guaranty contributed capital of $190 million to the Company at the date of the Master Commutation Agreement. Following the commutation and related transactions, S&P upgraded the Company's insurer financial strength rating to "BB", and Moody's Investors Service ("Moody's") upgraded the Company's insurer financial strength rating "Ba3." On June 15, 2009, S&P lowered the Company's counterparty credit, financial strength, and financial enhancement ratings to "CC" due to continuing adverse development of the insured portfolio. At the request of the Company, its S&P rating was withdrawn on February 16, 2010. At the request of the Company, its Moody's rating was withdrawn in November 2009.

<u>Merger of the Company and CIFG Guaranty – 2010</u>

On September 29, 2010, the Company and its affiliate, CIFG Guaranty entered into a Merger agreement and other related agreements, which resulted in CIFG Guaranty merging into the Company, with the Company as the surviving entity. As part of the Merger, the existing reinsurance arrangements and all other inter-company agreements between the Company and CIFG Guaranty were terminated. In addition, as part of the Merger, CIFG Services, Inc., converted from a corporation to a limited liability company and changed its name to CIFG Services, LLC. As consequence, the Company became a wholly-owned subsidiary of CIFG Holding, Inc. and the parent company of CIFG Services and CIFG Europe.

The Company, as the surviving entity to the Merger, assumed all of CIFG Guaranty's obligations under the pre-existing reinsurance and support arrangements with CIFG Europe. In addition, the Company issued a "Second-to-Pay Policy" to each beneficiary of financial guaranty policies issued by CIFG Europe that were reinsured by CIFG Guaranty immediately prior to the Merger, pursuant to which the Company guarantees the full and complete payment of any shortfall in amounts due from CIFG Europe that remain unpaid by CIFG Europe after all appropriate conditions to such payment have been satisfied.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a Board of Directors consisting in not less than seven, nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2011, the board of directors was comprised of the following seven members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Lawrence Paul English<br>Longboat Key, FL | Chief Executive Officer,<br>CIFG Assurance North America, Inc. |
| John Thomas Baily<br>Farmington, CT | Director,<br>Retired |
| Eugene Irwin Davis<br>Livingston, NJ | Chairman & Chief Executive Officer,<br>Pirinate Consulting Group, LLC |
| Gerald Leslie Gitner<br>Highland Beach, FL | Principal,<br>Cross Continental Capital, LLC |
| Richard George Holzinger<br>Norwalk, CT | Principal,<br>FTI Consulting, Inc. |
| Sharon Faybelle Manewitz<br>New York, NY | Principal,<br>sfmcapital Consulting |
| Heidi Schwarzbauer Steiger<br>New York, NY | Principal,<br>Topridge Associates |

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

| Name | Title |
|---|---|
| Lawrence Paul English | Chief Executive Officer |
| David Allan Buzen | President and Chief Financial Officer |
| Michael Stuart Knopf | General Counsel and Secretary |
| Stanislav Cotek | Treasurer |

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed in 48 states, the District of Columbia, U.S Virgin Islands, and Commonwealth of Puerto Rico; however, its license was suspended, placed on an order of impairment, or the Company voluntarily agreed to cease writing new business in sixteen states and the US Virgin Islands.

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) | 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, 69 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $66,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York since 2008:

| Calendar Year | New York State | Total Written | Premiums Written in New York State as a percentage of Total Direct Premiums Written |
|---|---|---|---|
| 2008 | $51,247,379 | $54,151,967 | 94.64% |
| 2009 | $25,805,611 | $26,959,418 | 95.72% |
| 2010 | $18,870,295 | $20,248,666 | 93.19% |
| 2011 | $34,081,858 | $35,219,306 | 96.77% |

The Company ceased writing new business in January 2008. However, due to the nature of the financial guaranty business, premiums are still being received from in-force business.

C. Reinsurance

Since January 2008, the Company has not had an active assumed reinsurance program. The premiums shown as assumed after that date represent legacy business and reflect the unique nature of how financial guaranty premiums are earned.

Ceded

Facultative Reinsurance Agreement

The Company's ceded reinsurance program consists of one master facultative reinsurance agreement with Assured Guaranty Municipal Corp ("AGM"), whereby the Company cedes to AGM the share of a risk(s) insured by the Company as specified and agreed to by the parties in a reinsurance memorandum.

Effective August 21, 2009, the Company entered into a quota share reinsurance agreement with Assured Guaranty Corp. ("AGC") whereby the Company cedes 100% of certain of its U.S. public finance contracts to AGC. This agreement was approved by the Department on January 20, 2009. Beginning in 2011, the Company and AGC jointly began the process of soliciting consents to transfer the Company's financial guaranty contracts to AGC through novation. From inception through December 31, 2011, approximately $4.4 billion in par exposure was novated to AGC and net par outstanding was reduced accordingly. The remaining ceded outstanding par exposure as of December 31, 2011 was approximately $6.4 billion.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risks as set forth in SSAP No. 62. Representations were made by an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

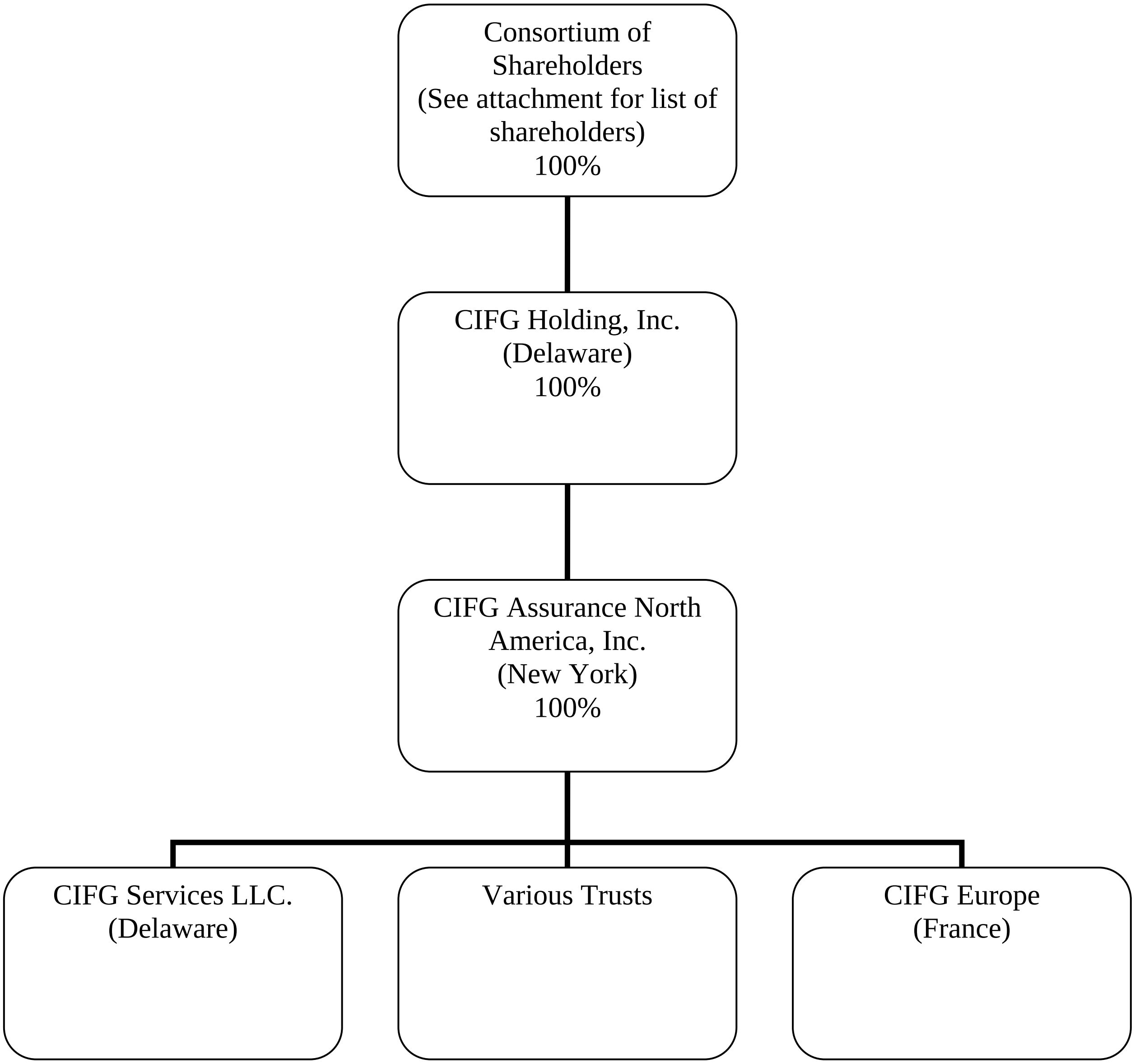
All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

## D. Holding Company System

The Company is a member of the CIFG Group. The Company is 100% owned by CIFG Holding Inc, a Delaware domiciled company.

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 a chart of the holding company system at December 31, 2011:


Consortium of Shareholders
(See attachment for list of shareholders)
100%
CIFG Holding, Inc.
(Delaware)
100%
CIFG Assurance North America, Inc.
(New York)
100%
CIFG Services LLC.
(Delaware)
Various Trusts
CIFG Europe
(France)

Consortium of Shareholders of CIFG Holding, Inc.

| Equity Ownership – Shareholders of CIFG Holding, Inc. | Percentage | CIFG Holding Class O Shares |
|---|---|---|
| | | |
| Bank of America, N.A | 1.86% | 186,020 |
| Bayerische Landesbank, New York Branch | 0.34% | 33,958 |
| BNP Paribas | 6.38% | 637,576 |
| BPCE | 0.66% | 66,316 |
| Credit Agricole | 12.14% | 1,213,541 |
| Canadian Imperial Bank of Commerce, London Branch | 5.94% | 594,159 |
| Continental Casualty Company | 0.10% | 10,187 |
| Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank International”, London Branch | 1.87% | 186,546 |
| Deutsche Bank AG London Branch | 11.50% | 1,150,183 |
| Dresdner Bank AG Grand Cayman Branch | 0.93% | 92,951 |
| FSA Asset Management L.L.C | 0.24% | 23,548 |
| HSBC Bank PLC | 0.24% | 23,622 |
| HSBC Bank USA, N.A | 2.21% | 221,217 |
| MBIA Inc. | 0.09% | 9,040 |
| Merrill Lynch, Pierce, Fenner and Smith Incorporated | 16.95% | 1,695,135 |
| Morgan Stanley Senior Funding, Inc. | 5.69% | 569,264 |
| Natixis | 6.81% | 680,541 |
| Nordea Bank Finland Plc | 0.58% | 57,564 |
| PHL Variable Insurance Company | 0.05% | 4,754 |
| Phoenix Life Insurance Company | 0.02% | 2,037 |
| Quatro-PmX Funding, Ltd. Paramax Capital Markets LLC | 1.12% | 112,441 |
| Selective Insurance Company of America | 0.03% | 3,396 |
| Selective Way Insurance Company | 0.03% | 3,396 |
| Société Générale | 2.89% | 288,704 |
| Twins Participations | 9.90% | 990,000 |
| UBS AG London Branch | 11.44% | 1,143,904 |
| | | |
| Total Equity Ownership | 100.00% | 10,000,000 |

At December 31, 2011, the Company was party to the following agreements with other members of its holding company system:

Capital Maintenance Agreement

Effective September 28, 2001, the Company and CIFG Europe entered into a Capital Maintenance Agreement, whereby the Company agrees to maintain CIFG Europe's French statutory capital at €20 million.

Administrative Services and Property Agreement

Effective April 30, 2002, the Company and CIFG Services LLC ("CIFG Services") entered into an administrative services and property agreement, whereby CIFG Services provides the following general services to the Company: surveys and underwriting expenses; audit of insured's records; salaries and benefits; payroll taxes; employee health & welfare plans; pensions; travel and expenses; insurance; rent and rent items; equipment; printing and stationary; postage, telephone and telegraph exchange and express; legal and auditing; surveillance and remediation; and other miscellaneous services. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Tax Sharing and Payment Agreement

Pursuant to a tax sharing and payment agreement, the Company files consolidated federal income tax returns with its parent, CIFG Holding, Inc., and its affiliates. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Merger Related Reinsurance Transactions

Effective September 29, 2010, CIFG Guaranty merged with and into the Company, with the Company as the surviving entity. Prior to the merger, CIFG Guaranty assumed business from CIFG Europe pursuant to an excess of loss agreement covering losses in excess of €20 million and a facultative reinsurance agreement whereby CIFG Guaranty assumed from CIFG Europe, on a facultative basis, up to 100% of financial guaranty risks as specified on individual facultative slips. As a result of the merger, the business previously assumed by CIFG Guaranty became the assumed obligations of the Company. As part of the merger, the Company entered into the following arrangements:

Assumption Reinsurance and Novation Agreement

Pursuant to this agreement, certain financial guaranty policies previously written by CIFG Europe and assumed by CIFG Guaranty pursuant to the excess of loss agreement (which became assumed obligations of the Company upon the merger) have been novated to the Company. The novation has no effect on the Company's aggregate par outstanding because those policies, which were previously treated as assumed par exposure, have been transferred and recorded as direct par exposure.

Second-to-Pay Policy

As part of the merger, the Company issued a "Second-to-Pay Policy" to a trust in favor of each beneficiary of financial guaranty policies issued by CIFG Europe that were reinsured by CIFG Guaranty immediately prior to the merger. Pursuant to the Second-to-Pay Policy, the Company guarantees the full and complete payment of any shortfall in amounts due from CIFG Europe that remain unpaid by CIFG Europe after all appropriate conditions to such payment have been satisfied.

## E. Accounts and Records

### I. Permitted Practices

The Department did not object to the Company's proposed accounting for Purchased Insured Bonds whereby (1) the consideration paid to acquire the Purchased Insured Bonds be accounted for as a current claim payment, (2) the anticipated cash flows received on the Purchased Insured Bonds in excess of all anticipated future insured claim payments (Residuals or Bond Residuals) are treated as salvage, and (3) paid losses and loss adjustment expenses ("LAE") for the applicable Purchased Insured Bond may be partially or completely offset by both the treatment of refunded claim payments and Residuals received as salvage. The Department did not object to the treatment of Residuals and the present value of future refunded claim payments as salvage. As a result, for each Purchased Insured Bond, the Company has reduced its corresponding unpaid losses and LAE by a salvage offset for both the present value of future refunded claim payments and Residuals as of December 31, 2011 and December 31, 2010.

In addition, the Department approved a waiver of New York State Insurance Law to allow the Company to treat its entire investment in subsidiary as an admitted asset not subject to the statutory limitations.

II. <u>Legal Matters</u>

The Company is involved in a number or legal proceedings, both as plaintiff and defendant. The Company can provide no assurance that the ultimate outcome of these legal proceedings will not cause a loss nor have material adverse effect on the Company's policyholders' surplus and liquidity position.

III. <u>Going Concern Issue</u>

The Company's ability to maintain adequate statutory surplus can not be assured. The Company still has significant exposure to various asset classes that are dependent on economic environment in the U.S. and Europe. Due to credit deterioration experienced in the insured portfolio over the past several years, future material adverse development and increases in the Company's unpaid losses and LAE reserves could adversely impact the Company's surplus and ultimate ability to pay claims as they come due.

In addition, the Company continues to be exposed to certain significant risks and uncertainties that may affect its financial and liquidity position. These relate to, among other things, (i) the potential for future adverse loss development on its insured obligations, (ii) the failure to receive payments on its Purchased Insurance Bonds, and (iii) the resolution of various litigation matters.

## 3. FINANCIAL STATEMENTS

### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

| Assets | Assets | Examination Assets Not Admitted | Net Admitted Assets |
|---|---|---|---|
| Bonds | $589,542,708 | $0 | $589,542,708 |
| Common stocks | 48,270,854 | 0 | 48,270,854 |
| Cash, cash equivalents and short-term investments | 56,147,863 | 0 | 56,147,863 |
| Investment income due and accrued | 5,087,078 | 0 | 5,087,078 |
| Uncollected premiums and agents' balances in the course of collection | 1,169,973 | 178,203 | 991,770 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 6,410,034 | 0 | 6,410,034 |
| Net adjustment in assets and liabilities due to foreign exchange rates | 182,029 | 182,029 | 0 |
| Salvage recoverable on insured bonds | 599,503 | 0 | 599,503 |
| Other Assets | 410,099 | | 410,099 |
| Totals | $707,820,141 | $360,232 | $707,459,909 |

| | Examination |
|---|---|
| Losses | $(24,890,790) |
| Loss adjustment expenses | 5,738,500 |
| Commissions payable, contingent commissions and other similar charges | 9,929 |
| Other expenses (excluding taxes, licenses and fees) | 286,729 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | (125,532) |
| Unearned premiums | 37,665,530 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 326,541 |
| Amounts withheld or retained by company for account of others | 111,397 |
| Remittances and items not allocated | 251,784 |
| Payable to parent, subsidiaries and affiliates | 7,368,017 |
| Deferred ceding commission | 4,588,414 |
| Contingency reserves | 91,508,235 |
| Deferred commitment fees | 165,326 |
| Total liabilities | $123,004,080 |
| Common capital stock | $15,000,000 |
| Gross paid in and contributed surplus | 2,508,671,017 |
| Unassigned funds (surplus) | (1,939,215,187) |
| Surplus as regards policyholders | $584,455,830 |
| Total liabilities, surplus and other funds | $707,459,909 |

Note: The Internal Revenue Service has completed its audits of the Company's ultimate parent consolidated Federal Income Tax returns through tax year 2010. No material adjustments arose from said audits. 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 were $(24,890,790) and $91,508,235, respectively, as of December 31, 2011. These were the same as the amounts reported by the Company in its 2011 filed annual statement.

In addition to case reserves, the Company is required to establish and maintain contingency reserves for the protection of insureds and claimants against the effect of excessive losses occurring during adverse economic cycles. The amount required for these reserves depends on the type of bonds being insured and are established pursuant to the provisions of Section 6903(a) of the New York Insurance Law.

Losses for a total of 144 different assets covering 21 distinct sectors, and representing $14.9 billion of the Company's total exposure of $27.6 billion were individually evaluated. It was found that surveillance methodologies and loss modeling utilized by the Company were adequate for a company in runoff.

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 bonds insured or swap counterparties, 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) against the Company. In addition, the value of its investment portfolio could change and have material adverse affect.

## 5. SUBSEQUENT EVENTS

I. Workforce Reduction

In January 2012, CIFG Services initiated a workforce reduction, which resulted in the payment of termination benefits, legal and other fees. The expenses incurred in conjunction with the workforce reduction were accrued by CIFG Services. Under the management services agreement with CIFG Services, the Company has accrued its proportionate share of those expenses of approximately $300,000 as of December 31, 2011.

II. Accelerated Earned Premium

At September 30, 2012, the Company had approximately $1.4 million in accelerated earned premium due for U.S. Public Finance transactions with refunding activity. In addition, certain policyholders who are also shareholders of CIFG Holding, agreed to the early termination of the Company's financial guaranty contracts. As a result of these early terminations, the Company received unpaid installment premium of approximately $3.4 million. The payments received were recorded as premium revenue. None of these early terminated policies had unpaid losses and loss adjustment expense reserves at the time of the termination.

II. Counterparty Settlement

On July 2, 2012, the Company settled a contractual dispute with a counterparty who is a shareholder of CIFG Holding for approximately $3.7 million, whereby the counterparty made a cash payment to the Company and subsequently transferred its ownership in CIFG Holding common stock to the Company. The Company has recorded approximately $3.7 million as a reduction to incurred losses in the statutory statement of income. However, the recognition of the recovery recorded for the CIFG Holding common stock in the statutory statement of income has been reduced in surplus with the establishment of the non-admitted asset in the same amount.

IV. Counterparty Termination Agreement

On June 20, 2012, the Company entered into a termination transaction with a counterparty who is a shareholder of CIFG Holding, including both U.S. and European credits, some of which were recently novated from CIFG Europe to the Company. There were approximately six credits that were terminated in this settlement transaction of which one was non-performing and the other five credits were performing. The counterparty and the Company agreed to a net settlement for these terminations, whereby the Company paid a net claim payment of approximately $464 thousand to the counterparty.

V. Student Loan Transactions

As of September 30, 2012, the Company determined that certain insured student loan structured finance transactions had deteriorated from prior periods and required unpaid losses and LAE reserves. These transactions showed continued deterioration given that the economy remains sluggish and the high unemployment rate is a sensitive variable in the Company's loss models. The Company established unpaid losses and loss adjustment expense reserves on five student loan transactions of approximately $252.3 million, which was reflected as an incurred loss in the statutory statement of income. The Company subsequently eliminated these reserves through commutation, as described below.

VI. Counterparty Commutation

On February 20, 2013, the Company, New Generation Funding Trust 104, New Generation Funding Trust 105, New Generation Funding Trust 122, New Generation Funding Trust 149, New Generation Funding Trust 152, and New Generation Funding Trust 157, collectively the "Transformer," and a counterparty who is a shareholder of CIFG Holding entered into a termination agreement for structured finance transactions with student loans as the underlying collateral. The policies that were commuted were student loan transactions with loss reserves, a category 5 high watch deal and a category 3 performing transaction. The commutation package totaled $845 million in long-duration par. The Company paid the counterparty $125 million and released approximately $245 million in loss reserves, resulting in a $120 million surplus gain. In addition, the Company purchased a $43 million educational funding bond from the counterparty for $8.5 million.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no exceptions significant enough to warrant inclusion in this Report.

Respectfully submitted,

____________________________
Maribel C. Nuñez, C.P.C.U
Senior Insurance Examiner

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

Maribel C. Nuñez, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____________________________
Maribel C. Nuñez

Subscribed and sworn to before me

this__________ day of ____________________, 2013.

*APPOINTMENT NO.* ***30878***

*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:*

***Maribel Nunez***

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*as a proper person to examine the affairs of the*

***CIFG ASSURANCE NORTH AMERICA, INC.***

*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 6 day of September, 2012*

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

*By:*

*Jean Marie Cho*
*Deputy Superintendent*

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
EXCELSIOR