

REPORT ON ORGANIZATION
OF THE
CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC.
AS OF
MAY 15, 2002

DATE OF REPORT

MAY 21, 2002

EXAMINER

RALPH BASIT

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

May 21, 2002

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 21861 dated May 7, 2002 attached hereto, I have made an examination on organization of CDC IXIS Financial Guaranty North America, Inc. and respectfully submit the following report thereon.

Whenever the terms "Company" or "CIFGNA" appears herein without qualification, they should be understood to indicate the CDC IXIS Financial Guaranty North America, Inc.

Whenever the designation the "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The examination comprised a verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the assets and liabilities. The records examined included the declaration of intention and charter, the certificate of incorporation, the by-laws, the corporate minutes book, and the stock register. Additionally, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

CDC IXIS Financial Guaranty North America, Inc. was incorporated on April 11, 2002. The declaration of intention and charter were filed and approved by this Department on April 11, 2002. The Company's office is located at 825 Third Avenue, New York, New York 10022.

The members of the board of directors of the Company as of May 15, 2002, were as follows:

<u>Name and Residence</u>	<u>Principal Affiliation</u>
James Aronoff Katonah, NY	Finance Consultant, CDC IXIS Financial Guaranty Services
Gerard Barbot Mareil Marly, France	President and Chief Operating Officer, CDC IXIS
Steve Berzin New York, NY	Private Investor
Jean-Jacques Bonnaud Neuilly sur Seine, France	President, Eurotitrisation

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Isabelle Bouillot Paris, France	Chairman of the Executive Board, CDC IXIS
Michael Freed New York, NY	Managing Director, CDC IXIS Financial Guaranty Services, Inc.
Steven Klein Montclair, NJ	Managing Director, CDC IXIS Financial Guaranty Services, Inc.
Paul Kwiatkoski Glen Ridge, NJ	Managing Director, CDC IXIS Financial Guaranty Services, Inc.
Robert Meyer Holmdel, NJ	President, Meyer Consulting Group
James O'Keefe Mount Kisco, NY	Managing Director, CDC IXIS Financial Guaranty Services, Inc.
Anthony Orsatelli Paris, France	Director of the Capital Markets and Financing Division, CDC IXIS
Jacques Rolfo New York, NY	Chief Executive Officer and President, CDC IXIS Financial Guaranty Services, Inc.
Charles E. Webster, Jr. New York, NY	Chief Risk Officer and Managing Director, CDC IXIS Financial Guaranty Services, Inc.

The principal officers of the Company as of May 15, 2002, were as follows:

<u>Name</u>	<u>Title</u>
Isabelle Bouillot	Chairwoman
Gerard Barbot	Vice Chairman
Jacques R. Rolfo	President, Chief Executive Officer
James O'Keefe	Managing Director and Treasurer
Michael Freed	Managing Director and Secretary
Steven Klein	Managing Director
Charles Webster, Jr	Managing Director

3. CAPITALIZATION AND SUBSCRIPTION

CDC IXIS Financial Guaranty North America, Inc. is wholly owned by CDC IXIS Financial Guaranty Services Inc. ("CIFG Services"). The Company has authorized capital of \$15,000,000 consisting of 10,000 shares of \$1,500 par value per share common shares. On May 9, 2002, the Company issued 10,000 shares of common stock to CIFG Services for consideration of \$100,000,000, consisting of \$15,000,000 of paid-in capital and \$85,000,000 of gross paid-in and contributed surplus.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par and market value totaling \$500,000 in an account in the name of the "Superintendent of Insurance of the State of New York in trust for the security of the policyholders of CDC IXIS Financial Guaranty North America, Inc. within the United States, its territories and possessions." The custodian is Brown Brothers Harriman & Co., located at 59 Wall Street, NY, New York 10005, and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

The Company's investments meet the minimum capital investment requirements of Section 1402 of the New York Insurance Law.

4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of May 15, 2002, as determined by this examination:

Assets

Bonds		\$68,950,964
Cash and short-term investments		<u>31,094,299</u>
Total assets		<u>\$100,045,263</u>

Liabilities

Other Expenses		<u>362,500</u>
Total liabilities		\$362,500

Capital and Surplus

Capital paid in	\$15,000,000	
Gross paid in and contributed surplus	85,000,000	
Unassigned funds (retained deficit)	<u>(317,237)</u>	
Surplus as regards policyholders		<u>99,682,763</u>
Total liabilities and surplus		<u>\$100,045,263</u>

5. CUSTODIAN AGREEMENT

The assets listed on the balance sheet are on deposit with Brown Brothers Harriman & Co. located at 59 Wall Street, New York, NY 10005. A review of the Company's custodian service agreement with Brown Brothers Harriman & Co. indicates that the agreement lacks the following protective covenants and/or provisions:

1. The custodian shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The custodian shall give the Company 60 days written notice of any material change in the form or amounts of such insurance or termination of this coverage.

- 2. The custodian shall furnish the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds held at the end of such quarter.
- 3. The custodian shall maintain records sufficient to verify the information that the Company is required to report in Schedule D of the Annual Statement blank of the New York Insurance Department.
- 4. The custodian shall furnish the Company with the appropriate affidavits in the form as may be acceptable to the Company and to the Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
- 5. Access shall be during the custodian's regular banking hours and specifying those persons who shall be entitled to examine on the custodian's premises securities held by the custodian's on their premises and their records regarding securities held, but only upon furnishing the custodian with written instructions to that effect from any specified authorized officer.
- 6. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

It is recommended that the Company amend its custodian agreement to incorporate the above provisions, in order to properly safeguard its assets.

6. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized by its declaration of intention and charter to transact the kinds of insurance described in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

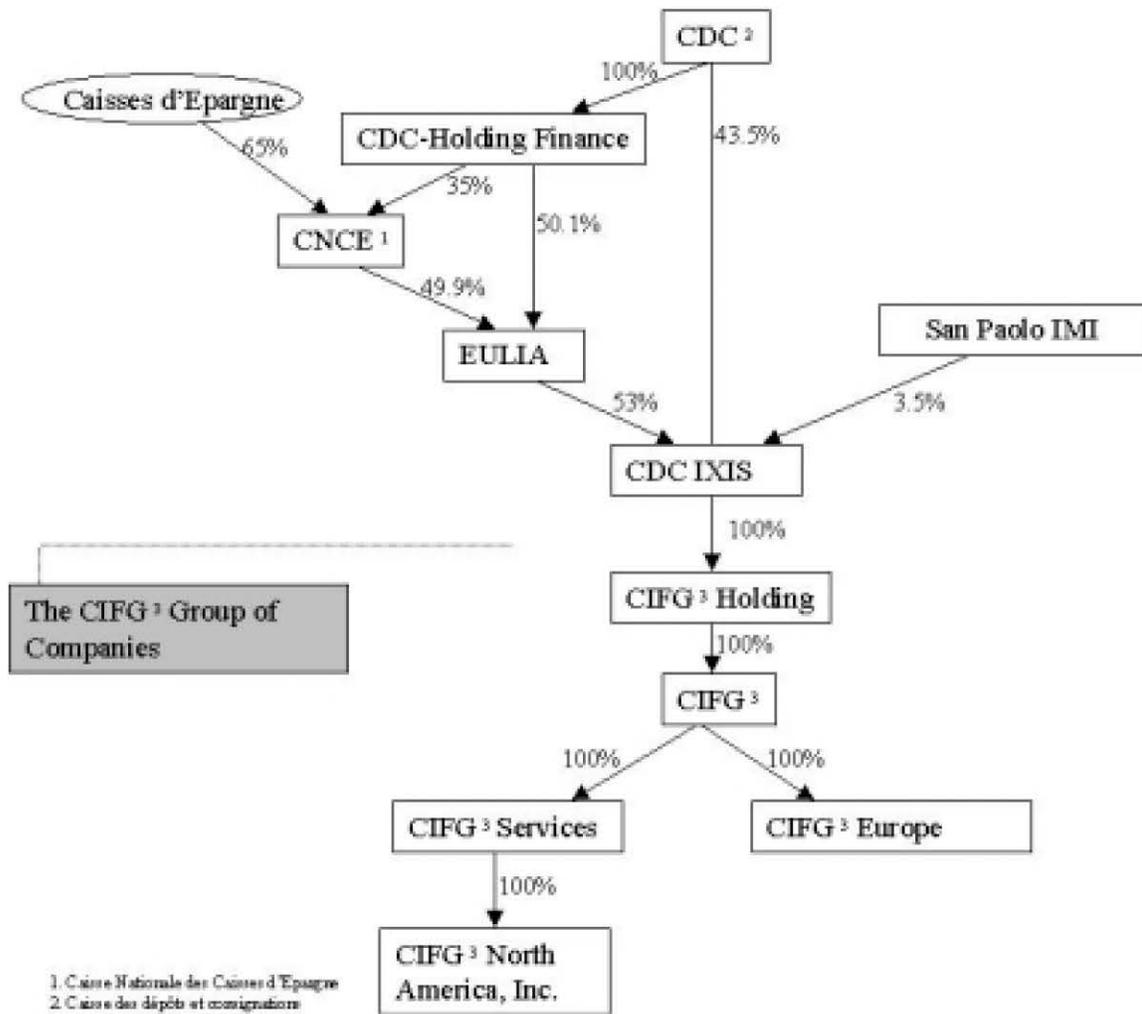
<u>Paragraph</u>	<u>Lines of Business</u>
16	Surety
17	Credit Insurance
22	Residual Value Insurance
25	Financial Guaranty Insurance
30	Substantially similar kinds of insurance to the above

Sections 4103 and 6902 of the New York Insurance Law provides that in order to be licensed to transact the foregoing kinds of insurance, the Company shall have an initial surplus to policyholders of \$80,100,000, including \$2,500,000 of capital and shall thereafter maintain a minimum surplus to policyholders of \$68,400,000. The Company has met these requirements.

7. HOLDING COMPANY SYSTEM

CDC IXIS Financial Guaranty North America, Inc. is one hundred percent owned by CDC IXIS Financial Guaranty Services, Inc. ("CIFG Services"). The Company's ultimate parent is Caisse des Depots et Consignations ("CDC"). The following is the holding company system organizational structure:

Organizational Structure



The Company is a party to the following agreements with its parent.

(1) Administrative Services and Property Agreement

The Company is a party to an administrative services and property agreement, effective April 30, 2002, with its immediate parent company CDC IXIS Financial Guaranty Services, Inc. The agreement was effective April 30, 2002 and states that CIFG Services will provide claims payment and adjustment, credit analysis, underwriting, sales, marketing, portfolio surveillance, accounting, finance, technology information, and administrative services to the Company. The agreement also stipulates that CIFG Services will provide facilities and information technology to the Company. The agreement was approved by the Company's board of directors and non-disapproved by the New York Insurance Department.

(2) Tax Allocation Agreement

Additionally, the Company is also party to a tax allocation agreement with CIFG Services, effective April 30, 2002, wherein the parties agree to file consolidated federal income tax statements. The agreement was approved by the Company's board of directors and non-disapproved by the New York Insurance Department.

(3) Facultative Reinsurance Agreement

The Company also is a party to a facultative reinsurance agreement with CDC IXIS Financial Guaranty ("CIFG"). The agreement provides that the Company may cede as much as seventy-five percent (75%) of the Company's net exposure of financial guaranty insurance writings. The agreement was approved by the Company's board of directors and non-disapproved by the New York Insurance Department.

In addition, CIFG has signed a letter of support in which CIFG shall ensure that the Company maintains a surplus to policyholders at all times in an amount not less than eighty million US dollars (\$80,000,000) in the aggregate.

8. CONCLUSION

Based on the foregoing examination, it is concluded that the Company issued 10,000 shares of capital stock, with a par value of \$1,500 per share, for a consideration of \$100,000,000. Of the total consideration received, \$15,000,000 was classified as common capital stock and \$85,000,000 was classified as gross paid in and contributed surplus.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Custodian Agreement</u>	
It is recommended that the Company amend its custodian agreement to incorporate the required provisions in order to properly safeguard its assets.	6

Respectfully submitted,

_____/S/_____
Ralph Basit
Senior Insurance Examiner

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

RALPH BASIT, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Ralph Basit

Subscribed and sworn to before me

this _____ day of _____ 2002

AFFIDAVIT OF CAPITAL AND SURPLUS

Jacques R. Rolfo, President and Chief Executive Officer of CDC IXIS Financial Guaranty North America, Inc., and Michael Freed, Secretary of CDC IXIS Financial Guaranty North America, Inc. (the "Company"), duly sworn, depose and say under oath that, on the date of the organizational examination of the Company:

1. They are the above-described officers of the Company.
2. The Company's capital and surplus equals One Hundred Million Dollars (\$100 million) consisting of US Treasury Notes in the amount of Sixty-Eight Million Nine Hundred Fifty Thousand Nine Hundred Sixty-Four Dollars (\$68,950,964), Money Market funds in the amount of Twelve Million Dollars (\$12,000,000), Time Deposits in the amount of Nine Million Dollars (\$9,000,000), Commercial paper in the amount of Eight Million Dollars (\$8,000,000), and Cash in the amount of Two Million Ninety-Four Thousand Two Hundred Ninety-Nine Dollars (\$2,094,299) less Three Hundred Sixty-Two Thousand Five Hundred Dollars (\$362,500) in expenses.
3. No part of the Capital and Surplus has been withdrawn, pledged, or in any way impaired.
4. No part of the Capital and Surplus is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
5. There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any other person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it.
6. Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan or disposition of the Capital and Surplus, or any part or portion thereof, which is not in strict conformity in all respect with the provisions of the Insurance Law of the State of New York.
7. The Capital and Surplus is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.

STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

15/

Jacques Di Rollo
President, Chief Executive Officer

15/

Michael Freed
Secretary

Subscribed and sworn to
Before me this 16 day of
May, 2002

15/

Notary Public, State of New York

ANDREW N. HARRIS
Notary Public, State of New York
No. 019A6064600
Qualified in Queens County
Commission Expires Oct. 1, 2005

Appointment No. 21861

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Ralph Basit

as proper person to examine into the affairs of the

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INCORPERATED

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

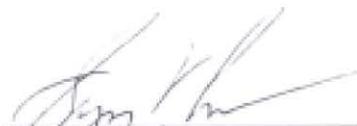
CORPORATION

with such other information as he 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 7th day of May, 2002





GREGORY V. SERIO
Superintendent of Insurance

