

REPORT ON EXAMINATION

OF

SYNCORA GUARANTEE INC.

AS OF

DECEMBER 31, 2020

DATE OF REPORT

MARCH 11, 2022

EXAMINER

TEENA VARGHESE

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## Department of Financial Services

**KATHY HOCHUL**  
Governor

**ADRIENNE A. HARRIS**  
Superintendent

March 11, 2022

Honorable Adrienne A. Harris  
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 32185 dated January 12, 2021, attached hereto, I have made an examination into the condition and affairs of Syncora Guarantee Inc. as of December 31, 2020, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Syncora Guarantee Inc.

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

Due to the COVID-19 pandemic, the examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Syncora Guarantee Inc., a multi-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the four-year period from January 1, 2017 through December 31, 2020. 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, 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

A review was also made to ascertain what action was taken by the Company with regard to the 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

Syncora Guarantee Inc. was incorporated as a property and casualty insurer under the laws of the State of New York as The London Assurance of America, Inc. on July 25, 1991, and commenced business on January 1, 1992. Effective July 1, 2000, the business previously written by the Company, together with all its liabilities, was ceded to an affiliate pursuant to a reinsurance, assignment, and assumption agreement.

On February 22, 2001, all the outstanding shares of the Company were acquired by XL Reinsurance America, Inc. (“XL Re”), a New York domiciled insurer, which was ultimately controlled by XL Capital Ltd. (“XL Capital”), a Cayman Islands corporation. On the same date, the Company was merged with XL Capital Assurance, Inc., a wholly-owned subsidiary of XL Re, with the Company as the surviving entity. Simultaneous with the merger, the surviving company adopted the name XL Capital Assurance Inc.

On March 17, 2006, XL Capital formed Syncora Holdings Ltd. (“Syncora Holdings”) (formerly known as Security Capital Assurance Ltd.), a wholly-owned Bermuda holding company. On July 1, 2006, XL Capital contributed all of its ownership interests in its financial guarantee insurance and financial guarantee reinsurance operating businesses to Syncora Holdings. On August 4, 2006, Syncora Holdings completed an initial public offering (“IPO”). XL Capital sold common shares of Syncora Holdings directly to the public in a secondary offering concurrent with the IPO.

On August 4, 2008, the Company adopted its current title, Syncora Guarantee Inc. On September 4, 2008, Syncora Guarantee Ltd. merged with and into the Company, with the Company being the surviving entity.

Effective December 31, 2017, the Company’s wholly-owned subsidiary, Syncora Capital Assurance Inc. (“SCAI”) merged into the Company, with the Company being the surviving entity.

As of December 29, 2019, the Company had two direct non-insurance subsidiaries. It wholly owned Pike Pointe Holdings, LLC (“Pike Point”), a Delaware limited liability company that held certain infrastructure assets in the City of Detroit, and it held an 80% interest in Swap Financial Group LLC which provided consulting and advisory services on derivatives and associated financial instruments. On December 30, 2019, the Company transferred all of its ownership interests in Pike Pointe and Swap Financial Group LLC to Syncora Holdings Ltd.

On December 30, 2019, Syncora Holdings Ltd., sold Syncora Guarantee Inc. to Syncora FinanceCo LLC. (formerly known as Star Insurance Holdings, LLC), an entity organized by GoldenTree Asset

Management LP (“GTAM”), which is controlled by its general partner GoldenTree Asset Management, LLC.

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 19 members. The board meets at least four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following five\* members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jan-Michael Guerra New York, NY	Senior Research Analyst, GoldenTree Asset Management LP
Christopher Bryan Hayward** Bedford Corners, NY	President and Partner, GoldenTree Asset Management LP
Joseph Ali Naggar Princeton, NJ	Partner, GoldenTree Asset Management LP
Yadin Rozov** Rye, NY	Chief Executive Officer and President, Syncora Guarantee Inc.
Deeb Amin Salem New York, NY	Partner, GoldenTree Asset Management LP

\*Two additional directors were elected to the board and are pending Department review.

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Yadin Rozov**	President and Chief Executive Officer
George David Wilkinson	Secretary and General Counsel
Mary Jane Constant	Chief Operating Officer

\*\*Mr. Yadin Rozov resigned effective November 26, 2021, and Mr. Christopher Hayward was appointed as President and Chief Executive Officer.

B. Territory and Plan of Operation

The Company stopped writing new business in January 2008. The Company was originally licensed to conduct financial guarantee insurance business throughout all 50 states as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. However, as of December 31, 2020, in 25 states or jurisdictions, the Company's license to conduct insurance business in that state or jurisdiction was suspended, revoked, expired, had an order of impairment against it, was voluntarily surrendered by the Company or the Company agreed to cease writing business in such state or jurisdiction, or the Company opted not to renew its license.

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:

<u>Paragraph</u>	<u>Line of Business</u>
16(C)(D)(E)(F)	Surety
25	Financial guaranty

Based upon 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 \$66,000,000.

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

	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2017	\$13,171,787	\$ 2,145,106	\$15,316,893
2018	\$11,057,574	\$(19,797,456)	\$ (8,739,882)
2019	\$10,550,241	\$ 294,388	\$10,844,629
2020	\$ 6,397,986	\$ 313,934	\$ 6,711,920

The premiums included in the table above reflect installment premiums on existing run-off businesses. In 2018, the Company and Assured Guaranty Municipal Corp. ("AGM") amended its Amended and Restated Master Facultative Reinsurance Agreement effective July 1, 2008, wherein the Company had assumed select business from AGM. The amendment, effective June 1, 2018, commutes this reinsurance and AGM re-assumed the business from the Company.

C. Reinsurance Ceded

Effective June 1, 2018, the Company ceded a majority of its business to Assured Guaranty Corp. (“Assured Guaranty”). Pursuant to the terms of the agreement, Assured Guaranty agreed to provide reinsurance on a 100% quota share basis to the Company of approximately \$12.1 billion of net par outstanding of the Company’s financial guaranty insurance policies, representing approximately 92% of the Company’s outstanding insured exposure. As consideration for the transaction, which also involved a commutation of a small book of business ceded to the Company by an Assured Guaranty affiliate which is included in the par outstanding numbers above, the Company paid approximately \$360 million and assigned over future installment premium for the reinsured policies. This agreement was subsequently amended to include an additional credit.

In connection with this reinsurance agreement, the Company and Assured Guaranty entered into a trust agreement, wherein, upon the occurrence of certain triggering events set forth in the reinsurance agreement, the trustee shall hold assets in security for the satisfaction of Assured Guaranty’s obligations.

Effective June 1, 2018, simultaneous with the execution of the aforementioned reinsurance agreement, the Company entered into an Administrative Services Agreement with Assured Guaranty. Based on the agreement, Assured Guaranty provides administrative services to the reinsured policies, including the administration of claims, complaints, billing and collections, and miscellaneous administrative services. This agreement was approved by the Department

The reinsurance agreement, amendment, and related documents were approved by the Department pursuant to Section 1308e(1)(A) of the New York Insurance Law.

The Company’s net reinsurance recoverables of \$138.7 million reported as of December 31, 2020, are related to the above ceded reinsurance agreement with Assured Guaranty, an authorized insurer.

The above ceded reinsurance agreement in effect as of the examination date was 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 found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that the ceded reinsurance agreement transfers both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No.



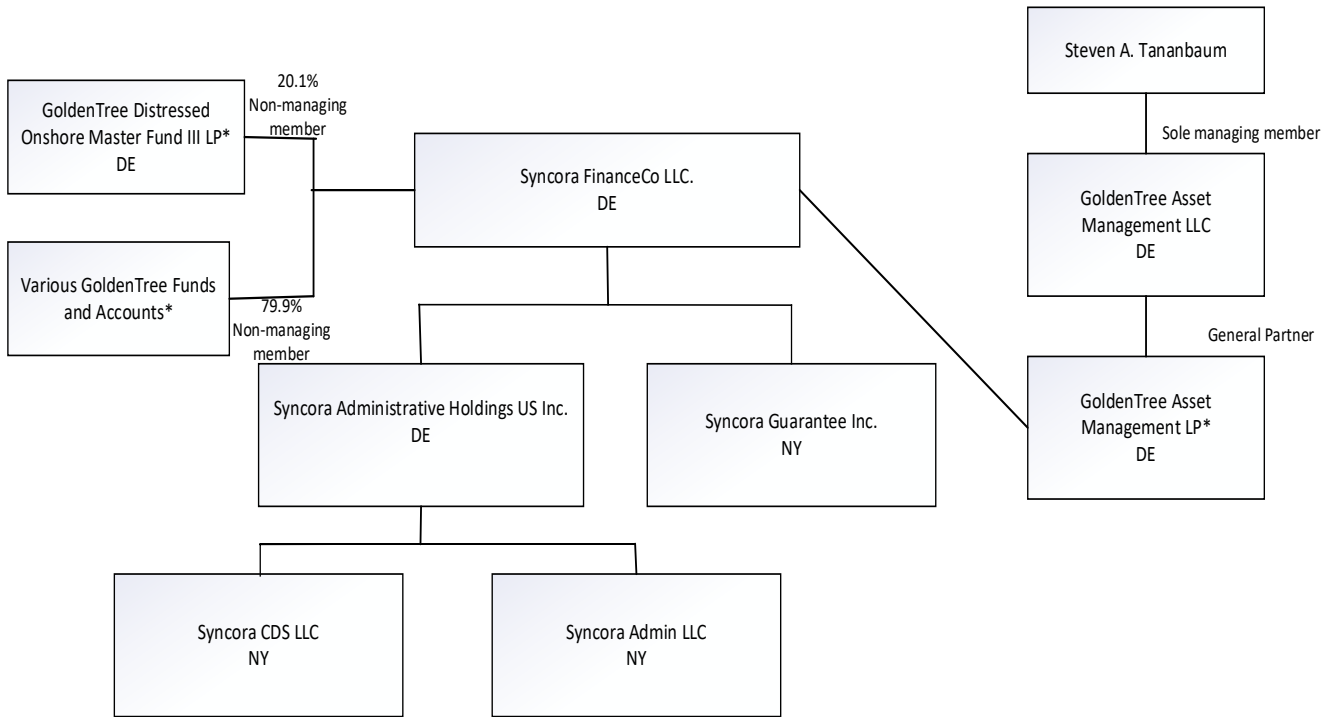
62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and General Counsel pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a wholly-owned subsidiary of Syncora FinanceCo LLC, an entity organized by GoldenTree Asset Management LP, a Delaware limited liability company. GoldenTree Asset Management LP is controlled by GoldenTree Asset Management LLC, which in turn is controlled by Steven A. Tananbaum, an individual.

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 unabridged chart of the holding company system at December 31, 2020:



\*All non-managing members of SyncoraFinanceCo LLC. are funds and accounts managed by GoldenTree Asset Management LP. With the exception of GoldenTree Distressed Onshore Master Fund III LP, each such fund and account owns less than 10% of the equity securities of Syncora FinanceCo LLC.

## Holding Company Agreements

At December 31, 2020, the Company was party to the following agreements with other members of its holding company system:

### Investment Advisory Agreement

Effective January 1, 2020, the Company entered into an investment advisory agreement with GTAM, whereby GTAM provides investment advisory services to the Company. For the year ended December 31, 2020, the Company incurred costs under this agreement in the amount of \$1,426,393. This agreement was approved by the Department on December 10, 2020, pursuant to Section 1505(d)(3) of the New York Insurance Law.

Section 7 of the agreement states:

“The fees will be paid by the Client within thirty (30) days from the delivery of an invoice to the Client...All fees shall be payable no later than March 15th of the year immediately following the year they are earned, provided that an invoice has been provided at least five (5) days prior to such date.”

Exhibit 2 of the agreement states:

“In consideration of the services rendered under the Agreement, the Manager shall be entitled to an annual management fee, paid on a quarterly basis in arrears, of 0.45% of the market value of assets under its management as calculated in accordance with the Manager’s written valuation policy.”

The examination review noted that the settlements were not made within 30 days of the invoice and payments were not made quarterly. The invoice was sent to the Company on January 12, 2021, and the Company paid the net amount to GTAM on July 16, 2021. It is recommended that the Company comply with the settlement terms of its investment advisory agreement.

### Service Agreements

Effective January 1, 2020, the Company entered into a service agreement with GTAM, whereby GTAM provides the Company with general services, certain office overhead, information technology services, legal services, human resource services, and other items. Under the terms of the agreement, the costs of the aforementioned services are charged to the Company at a fixed rate. For the year ended December 31, 2020, the Company incurred costs under this agreement in the amount of \$3,883,342. This

agreement was approved by the Department on December 10, 2020, pursuant to Section 1505(d)(3) of the New York Insurance Law.

Section 3 of the agreement states:

“GTAM shall submit to SGI, within thirty (30) days following the end of each quarter (or such other period as the Parties may agree), a written statement of the amount owed by SGI in that quarter (or such other period as the Parties may agree), and SGI shall pay to GTAM within fifteen (15) days following receipt of such written statement the amount set forth in the statement. SGI shall not provide advance payment to GTAM.”

Exhibit B of the agreement states:

“SGI shall pay to GTAM an annual services fee equal to \$3,883,342.00 (the “Services Fee”), payable on a quarterly basis.”

The examination review noted that there was no written statement and that payments were not made quarterly as required in Exhibit B of the agreement. It is recommended that the Company comply with the terms of its GTAM service agreement, wherein GTAM is the provider of services.

Effective January 1, 2020, the Company entered into a service agreement with GTAM, whereby the Company provides GTAM with surveillance services, risk management services, liability management services, and other items. Under the terms of the agreement, the costs of the aforementioned services are charged to GTAM based on actual time spent. For the year ended December 31, 2020, the Company charged GTAM \$299,113 under this agreement. This agreement was approved by the Department on December 10, 2020, pursuant to Section 1505(d)(3) of the New York Insurance Law.

Section 3 of the agreement states:

“SGI shall submit to GTAM, within thirty (30) days following the end of each quarter (or such other period as the Parties may agree), a written statement of the amount owed by GTAM in that quarter (or such other period as the Parties may agree), and GTAM shall pay to SGI within fifteen (15) days following receipt of such written statement the amount set forth in the statement.”

The examination review noted that the settlements were not in accordance with the agreement. The statement was provided by the Company to GTAM on January 22, 2021, and the Company paid the net amount to GTAM on July 16, 2021. It is recommended that the Company comply with the terms of its service agreement with GTAM, wherein the Company is the provider of services.

### Tax Sharing Agreement

Effective January 1, 2020, the Company entered into a tax sharing agreement with Syncora FinanceCo LLC. Based on the agreement, Syncora FinanceCo LLC is responsible for the timely and accurate preparation and filing of the consolidated federal income tax return and any consolidated or combined state and/or local income or franchise tax returns. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return liability bears to the sum of the separate return liabilities of all affiliates that are members of the consolidated group.

The examination review noted that the Company did not obtain approval from the Department for the tax allocation agreement. Additionally, the tax allocation agreement was not approved by the board of directors and did not have the required provisions as per Department Circular Letter No. 33 (1979). The tax allocation agreement went into effect on January 1, 2020.

Section 1505(d)(3) of the NYIL states:

“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 with regard to reinsurance treaties or agreements at least forty-five days prior thereto, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period: . . .

(3) rendering of services on a regular or systematic basis”

Department Circular Letter No. 33 (1979) states:

“Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so.

(1) Every domestic insurer which is a party to a consolidated federal income tax filing must have a definitive written agreement, approved by its board of directors, governing its participation therein.”

It is recommended that the Company notify the Department at least thirty days prior to entering into related party agreements as required by Section 1505(d)(3) of the New York Insurance Law and Department Circular Letter No. 33 (1979). Subsequent to the examination, on May 20, 2021, the Company submitted the tax allocation agreement to the Department for approval.

It is further recommended that the Company ensure that the tax allocation agreement is approved by the Company's board of directors and has the required provisions as required by Department Circular Letter No. 33 (1979).

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2020, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	0%
Adjusted liabilities to liquid assets	-27%
Two-year overall operating	0%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$(215,137,140)	(244.31)%
Other underwriting expenses incurred	137,017,689	155.60
Net underwriting gain (loss)	<u>166,178,220</u>	<u>188.71</u>
Premiums earned	<u>\$ 88,058,769</u>	<u>100.00%</u>

F. Accounts and Records

Non-compliance with Department Regulation 118, Part 89.4 - Awareness Letters

The Company did not obtain awareness letters from the Company's CPA firm for 2017 through 2019. Department Regulation 118, Part 89.4 states:

"The company shall obtain a letter from the CPA, and file a copy with the superintendent, stating that the CPA is aware of the provisions of the insurance law and the regulations thereunder of the state of domicile that relate to accounting and financial matters and affirming that the CPA will express his or her opinion on the financial statements in terms of their

conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as the CPA may believe appropriate.”

It is recommended that the Company require the independent certified public accountant to provide an awareness letter on an annual basis pursuant to Department Regulation 118, Part 89.4. It is noted that the Company obtained an awareness letter from its CPA for its audit as of December 31, 2020.

#### Audit Committee Members

The Company’s audit committee members changed since the last examination. The Company did not notify the Department regarding the change in audit committee members until June 4, 2021.

Part 89.12(e) of Department Regulation 118 states:

“The Company shall provide written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include the reason for the change.”

It is recommended that the Company comply with Department Regulation 118, Part 89.12(e) and timely notify the Department regarding changes in its audit committee members.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

#### Assets

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$390,304,705	\$ 0	\$390,304,705
Common stocks	37,228,321	0	37,228,321
Cash, cash equivalents and short-term investments	145,893,124	0	145,893,124
Derivatives	11,832	0	11,832
Other invested assets	5,081,047	0	5,081,047
Receivables for securities	586,709	0	586,709
Investment income due and accrued	4,948,016	0	4,948,016
Uncollected premiums and agents' balances in the course of collection	1,668,535	0	1,668,535
Current federal and foreign income tax recoverable and interest thereon	1,375,000	0	1,375,000
Receivables from parent, subsidiaries and affiliates	299,113	0	299,113
Bank of NY/Mellon - Indemnification	3,894,048	0	3,894,048
U.S. bank – escrow	739,217	0	739,217
Account receivable	468,150	448,369	19,781
Premium tax refund	<u>92,699</u>	<u>0</u>	<u>92,699</u>
Total assets	<u>\$592,590,516</u>	<u>\$448,369</u>	<u>\$592,142,147</u>



Liabilities, Surplus, and Other FundsLiabilities

Losses and loss adjustment expenses	\$(161,300,550)
Other expenses (excluding taxes, licenses, and fees)	3,758,772
Taxes, licenses, and fees (excluding federal and foreign income taxes)	59,413
Unearned premiums	10,982,166
Ceded reinsurance premiums payable (net of ceding commissions)	1,479,472
Payable to parent, subsidiaries, and affiliates	5,309,735
Derivatives	108,221
Payable for securities	7,312,492
Mandatory contingency reserve for adverse losses	<u>5,000,000</u>
 Total liabilities	 \$(127,290,279)

Surplus and Other Funds

Common capital stock	\$ 15,000,000
Preferred capital stock	200,000,000
Unassigned funds (surplus)	589,412,926
Treasury stock - shares preferred	<u>(84,980,500)</u>
 Surplus as regards policyholders	 <u>719,432,426</u>
 Total liabilities, surplus, and other funds	 <u>\$592,142,147</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2017 through 2020. 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 income for the examination period as reported by the Company was \$58,432,701, as detailed below:

### Underwriting Income

Premiums earned		\$ 88,058,769
Deductions:		
Losses and loss adjustment expenses incurred	\$(215,137,140)	
Other underwriting expenses incurred	<u>137,017,689</u>	
Total underwriting deductions		<u>(78,119,451)</u>
Net underwriting gain or (loss)		\$166,178,220

### Investment Income

Net investment income earned	\$(199,222,995)	
Net realized capital gain	<u>31,329,349</u>	
Net investment gain or (loss)		(167,893,646)

### Other Income

Default interest forbearance fees and other	\$ 3,877,874	
HCC settlement	4,250,000	
Distribution from Pike sale of police headquarters	14,000,000	
Receipt of MacQuarie settlement	<u>38,000,000</u>	
Total other income		<u>60,127,874</u>
Net income before federal and foreign income taxes		\$ 58,412,448
Federal and foreign income taxes incurred		<u>(20,253)</u>
Net income		\$ <u>58,432,701</u>

### C. Capital and Surplus

Capital paid in is \$15,000,000 consisting of 2,000 shares of \$7,500 par value per share common stock and 2,000 shares of \$120 par value per share preferred stock with a liquidation preference of \$100,000 per share. The Company also holds 1,658 shares of its preferred shares as treasury stock, an increase of 1,003 treasury shares during the examination period. There was no gross paid in and contributed surplus.

Surplus as regards policyholders decreased \$468,851,847 during the four-year examination period January 1, 2017, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2016			\$1,188,284,273
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 58,432,701		
Net unrealized capital gains or losses		\$ 6,378,128	
Change in net unrealized foreign exchange capital gain or loss	15,935,212		
Change in net deferred income tax		1,259,098	
Change in nonadmitted assets	13,655,603		
Change in surplus notes		556,158,169	
Dividends to stockholders		1,299,236	
Change in treasury stock		84,980,500	
Mandatory contingency reserves for adverse losses	96,837,085		
Unrealized gain or loss derivative asset		49,999	
Transfer of unrealized loss on risk management derivative to realized loss	5,563,000		
Transfer of investment not including in the sale of Syncora Guarantee		9,053,928	
Net unrealized FX on derivatives	<u>0</u>	<u>96,390</u>	
Total gains and losses	\$190,423,601	\$659,275,448	
Net increase (decrease) in surplus			<u>(468,851,847)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			\$ <u>719,432,426</u>

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2020, as reported by the Company			\$719,432,426
	<u>Surplus Increase</u>	<u>Surplus Decrease</u>	
Bonds non-admitted		\$108,644,408	
Net increase (or decrease) in surplus			<u>(108,644,408)</u>
Surplus at December 31, 2020, per report on examination			<u>\$610,788,018</u>

4. BONDS

The examination admitted asset for the captioned items of \$281,660,297 is \$108,644,408 less than the \$390,304,705 reported by the Company in its filed annual statement as of December 31, 2020.

The examination adjustment was due to the Company investing more than the allowed amount in foreign investments.

Section 1407(a)(7) of the New York Insurance Law states, in part:

“Foreign investments... shall not exceed the greatest of (i) twelve percent of the insurer's admitted assets as shown by its last statement on file with the superintendent, (ii) fifteen percent of the insurer's invested assets as shown by its last statement on file with the superintendent, or (iii) one and one-half times the amount of its reserves and other obligations under its insurance and reinsurance contracts on risks resident or located in such foreign countries and subdivisions thereof.”

It is recommended that the Company comply with the investment limitations of Section 1407(a)(7) of the New York Insurance Law.

Subsequent to the examination date, the Company non-admitted a portion of its bond holdings to comply with Section 1407(a)(7) of the New York Insurance Law.

## 5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$(161,300,550) is the same as reported by the Company as of December 31, 2020. The liability is negative because expected recoveries from previously paid claims exceed expected case base losses. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial standards of practice and statutory accounting principles, including SSAP No. 60. The Department found the case reserves to be adequate.

The Department utilized the assistance of an independent financial advisory firm that specializes in complex assets to review the adequacy of the Company's modeling, assumptions, and surveillance policies and procedures as of December 31, 2020. The firm reviewed all obligors insured by the Company with emphasis on those structured finance obligors and public finance obligors for which the Company had case reserves or deemed the obligor required further scrutiny. The Company's underwriting, surveillance, modeling, and modeling assumptions are adequate.

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). In addition, the value of its investment portfolio could change and have a material adverse effect.

## 6. MANDATORY CONTINGENCY RESERVES

Pursuant to Section 6903(a) of the New York Insurance Law, the Company is required to establish and maintain contingency reserves for the protection of policyholders and claimants against the effect of excessive losses that may occur during adverse economic cycles. As of December 31, 2020, the Company reported a contingency reserve of \$5,000,000.

**7. UNEARNED PREMIUM RESERVE**

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 that are applicable to the unexpired risk on policies in force. As of December 31, 2020, the Company reported an unearned premium reserve of \$10,982,166.

**8. 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 and 2021, 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 not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

## 9. 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>
<p>A. <u>Corporate Governance</u>            It was recommended that the Company retain signed statements from each of its board of directors confirming that each member has received and read the Report on Examination in accordance with Section 312(b) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	4
<p>B. <u>Accounts and Records</u>            It was recommended that the Company comply with the settlement terms of its intercompany service agreement.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	12

## 10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. It is recommended that the Company comply with the terms of its investment advisory agreement.	9
ii. It is recommended that the Company comply with the terms of its service agreement with GTAM, wherein GTAM is the provider of services.	10
iii. It is recommended that the Company comply with the terms of its service agreement with GTAM, wherein the Company is the provider of services.	10
iv. It is recommended that the Company notify the Department at least thirty days prior to entering into related party agreements as required by Section 1505(d)(3) of the New York Insurance Law and Department Circular Letter No. 33 (1979). Subsequent to the examination, on May 20, 2021, the Company the tax allocation agreement to the Department for approval.	11
v. It is further recommended that the Company ensure that the tax allocation agreement is approved by the board of directors and has the required provisions as required by Department Circular Letter No. 33 (1979).	12
B. <u>Accounts and Records</u>	
i. It is recommended that the Company require the independent certified public accountant to provide an awareness letter on an annual basis pursuant to Department Regulation 118, Part 89.4. It is noted that the Company obtained an awareness letter from its CPA for its audit as of December 31, 2020.	13
ii. It is recommended that the Company comply with Department Regulation 118, Part 89.12(e) and timely notify the Department regarding changes in its audit committee members.	13
C. <u>Bonds</u>	
It is recommended that the Company comply with the investment limitations of Section 1407(a)(7) of the New York Insurance Law. Subsequent to the examination date, the Company non-admitted a portion of its bond holdings to comply with Section 1407(a)(7) of the New York Insurance Law.	18



Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

*APPOINTMENT NO. 32185*

*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:*

***Teena Varghese***

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

***Syncora Guarantee Inc.***

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

***COMPANY***

*with such other information as she 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 12th day of January, 2021*

***LINDA A. LACEWELL***  
*Superintendent of Financial Services*

*By:*

*Joan L. Riddell*

\_\_\_\_\_  
*Joan Riddell*  
*Deputy Bureau Chief*

