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September 13, 2010

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Ms. Amy Starr
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Dear Brian and Amy:

Thank you for taking the time to meet with us on September 2, 2010. We appreciate having had the chance to speak with you and your colleagues about the impact of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") on financial guaranty insurers. We have attached a copy of our presentation for publication so that it may become part of the public record.

As we explained during our meeting, the distinctions between financial guaranty insurance and swaps or security-based swaps are such that we believe Congress intended to exclude municipal bond insurance policies, other financial guaranty insurance policies and surety bond policies from regulation as swaps or security-based swaps under the Dodd-Frank Act. As demonstrated in the materials we presented (and attached), this is consistent with the differing treatment of the two products in current accounting and financial reporting practices. The Financial Accounting Standards Board issued separate guidance on accounting for financial guaranty insurance (ASC 944, "Financial Services – Insurance") and accounting for credit default swaps (ASC 815, "Derivatives and Hedging"). In addition, financial guaranty and surety insurance have long been the subject of comprehensive regulation, in contrast with the unregulated derivatives markets that are the subject of Title VII. It is particularly noticeable that the Dodd-Frank Act charged the Federal Insurance Office with evaluating the merits of federal regulation of insurance, which is inconsistent with subjecting financial guaranty insurers, surety insurers or other insurers to federal regulation absent further Congressional action. In fact, House Financial Services Committee Chairman Barney Frank has stated publicly his intention to consider new legislation regarding the federal regulation of insurance in the near future.

Title VII's purpose is to establish a regulatory framework for the previously unregulated over-the-counter derivatives market, but not in a manner that would displace the existing state insurance regulatory framework. Since its adoption, New York Insurance Law Article 69 ("Financial Guaranty

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Insurance Corporations") has been the accepted regulatory standard overseeing this activity. In response to the financial crisis, the New York Insurance Department issued Circular Letter No. 19 (2008) (*'Best Practices' for Financial Guaranty Insurers*) in September 2008, specifically addressing the insurance of credit default swaps. For your reference, we have included a copy of Article 69 and the Circular Letter so that you can see the regulatory requirements for financial guaranty insurers that seek to issue new policies.

Further, if certain swap products utilized by financial guarantors are deemed subject to Title VII, we submit that margin and capital requirements should not be applied retroactively to financial guaranty insurers or their affiliated "transformers" that entered into credit default swap transactions. The application of retroactive capital or margin on private bilateral contracts that were specifically negotiated to exclude such capital and margin could be detrimental to the financial condition and liquidity of financial guarantors, and would also subordinate municipal bond policyholders (as well as other policyholders) to the credit default swap transaction counterparties. This reorganization of priority of payments could result in holders of municipal bonds forfeiting insurance claim payments for the benefit of other policyholders, i.e., large financial institution credit default swap counterparties, which would be counter to public policy. In addition, application of margin requirements to insured credit default swaps would be in direct conflict with the state law requirements under which financial guaranty insurers entered into these transactions. The application of capital requirements to financial guaranty insurance would entail federal regulation of insurance companies, an action which we submit the Dodd-Frank Act contemplates should be subject to further evaluation as discussed above.

As we discussed, the existing portfolios of insured credit default swaps are amortizing with no new policies having been written since early 2009, which is another factor to be considered in evaluating the merits of applying the new regulatory framework to these transactions.

We appreciate the opportunity to engage you and your colleagues in this dialogue, and welcome the chance to continue our discussion.

Sincerely yours,

J. M. Michener

James M. Michener
General Counsel

Enclosure

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