

REPORT ON EXAMINATION

OF THE

ASSURED GUARANTY MORTGAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

DECEMBER 16, 2008

SENIOR EXAMINER

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

December 16, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
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 22811 dated August 12, 2008 attached hereto, I have made an examination into the condition and affairs of Assured Guaranty Mortgage Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation the "Company" appears herein without qualification, it should be understood to indicate Assured Guaranty Mortgage Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's office located at 1325 Avenue of the Americas, New York, NY 10019.

1. SCOPE OF EXAMINATION

The Department has performed a risk-focused examination of Assured Guaranty Mortgage Insurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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 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. An 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 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 Financial Condition Examiners Handbook of the NAIC:

- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Reinsurance
- Accounts and records
- Financial statements
- Loss experience
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Assured Guaranty Mortgage Insurance Company was formerly known as ACE Capital Mortgage Reinsurance Company and was incorporated under the laws of the State of New York on August 20, 1993. It commenced business on February 1, 1994 and exclusively provided mortgage guaranty reinsurance. Prior to April 28, 2004, the 100% ultimate owner of the Company was ACE Limited (“ACE”), a Cayman Islands holding company. The Company was acquired by ACE on December 30, 1999 from Capital Re Corporation.

ACE formed and incorporated Assured Guaranty Ltd. (“AGO”) in Bermuda in August 2003 for the purpose of becoming a holding company for ACE Limited’s (“ACE”) subsidiaries conducting ACE’s financial and mortgage guaranty businesses. On April 28, 2004, ACE and its subsidiaries completed an initial public offering of 49,000,000 of its 75,000,000 common shares of AGO. These shares are traded on the New York Stock Exchange under the symbol “AGO.”

Following the execution of the initial public offering, the ACE structure was reorganized. AGO novated, retro-ceded or sold the majority of its non-financial guaranty exposures and business to subsidiaries of ACE. The Company and its mortgage guarantee business was also retained by AGO, which was organized to operate through its wholly-owned subsidiaries. The principal operating subsidiaries are Assured Guaranty Corporation and Assured Guaranty Re. Ltd (“AG Re”).

AG Re is incorporated under the laws of Bermuda and is licensed as a class three insurer and a long-term insurer under the Insurance Act of 1978 and related regulations in Bermuda. AG Re owns Assured Guaranty Overseas US Holdings Inc., a Delaware corporation which is the 100 percent owner of Assured Guaranty Re Overseas Ltd. (“AGRO”), a Bermuda reinsurer. AGRO, in turn, owns the Company. AG Re and AGRO write business as direct reinsurers of third-party primary

insurers and as reinsurers/retrocessionaires of certain affiliated companies and also provide portfolio credit default swaps, where the counterparty is usually an investment bank.

In connection with the restructuring and the initial public offering, the Company's name was changed, in April 2004, to Assured Guaranty Mortgage Insurance Company from ACE Capital Mortgage Reinsurance Company.

Assured Guaranty US Holdings Inc., a subsidiary of AGO, repurchased 5,692,599 of Assured Guaranty Ltd's common shares from a subsidiary of ACE. On December 21, 2007, Assured Guaranty Ltd completed another sale of 12,483,960 of its common shares at a price of \$25.5 per share. As of December 31, 2007, ACE owns approximately 24% of Assured Guaranty Ltd's outstanding common shares.

At December 31, 2007, the Company's surplus was \$30,979,500, which consisted of \$41,115,272 in gross paid in and contributed surplus, \$1,007,985 in capital stock, and (\$11,143,757) in unassigned funds. The amounts reported for gross paid in and contributed surplus and for capital stock have not changed from the previous report on examination. The Company has 250,000 shares of common stock authorized with 30,545 issued and outstanding at a par value of \$33 per share.

A. Management

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 thirteen nor more than twenty five members. During the five-year examination period, the board met four times during each calendar year except in 2007 when the board met only once. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Howard Albert Short Hills, NJ	Chief Credit Officer, Assured Guaranty Mortgage Insurance Co. AG Intermediary Inc. Assured Guaranty Corp. AG Financial Products Inc.

Name and ResidencePrincipal Business Affiliation

Robert Bailenson
Cold Spring Harbor, NY

Chief Accounting Officer,
Assured Guaranty Mortgage Insurance Co.
Assured Guaranty Ltd.
AG Intermediary Inc.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Overseas US Holdings Inc.
Assured Guaranty Corp.
Assured Guaranty US Holdings Inc.
AG Financial Products Inc.

Madlyn Boccio
New York, NY

Vice President, Controller,
Assured Guaranty Mortgage Insurance Co.
AG Intermediary Inc.
Assured Guaranty Corp.

Steve Donnarumma
Brooklyn, NY

Deputy Chief Credit Officer,
Assured Guaranty Ltd.
Chief Credit Officer,
Assured Guaranty Corp.
AG Financial Products Inc.

Dominic John Frederico
New Hope, PA

Chairman and Chief Executive Officer,
Assured Guaranty Mortgage Insurance Co.
AG Financial Products
Assured Guaranty US Holdings Inc.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Corp.
Assured Guaranty UK Ltd.
President, Chief Executive Officer,
Assured Guaranty Ltd.

John Gray
New York, NY

Managing Director,
Assured Guaranty Mortgage Insurance Co.
AG Financial Products Inc.
AG Intermediary Inc.
Assured Guaranty Corp.

James Michener
Smiths FL 05, Bermuda

General Counsel, Secretary,
Assured Guaranty Mortgage Insurance Co.
Assured Guaranty Ltd.
Assured Guaranty Re Ltd.
Assured Guaranty Re Overseas Ltd.
AG Intermediary Inc.
Assured Guaranty Overseas US Holdings Inc.
Assured Guaranty US Holdings Inc.
Assured Guaranty Corp.
AG Financial Products Inc.

Name and ResidencePrincipal Business Affiliation

Robert Mills
New Hope, PA

Chief Financial Officer,
Assured Guaranty Mortgage Insurance Co.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Overseas US Holdings Inc.
Assured Guaranty Corp.
Assured Guaranty Ltd.
AG Intermediary Inc.
Assured Guaranty US Holdings Inc.
AG Financial Products Inc.

Donald Paston
Livingston, NJ

Treasurer ,
Assured Guaranty Re Overseas Ltd.
Assured Guaranty US Holdings Inc.
Assured Guaranty Overseas US Holdings Inc.
Assured Guaranty Corp.
Assured Guaranty Mortgage Insurance Co.
AG Financial Products Inc.
AG Intermediary Inc.

Andrew Pickering
New York, NY

Chief Surveillance Officer,
Assured Guaranty Mortgage Insurance Co.
Assured Guaranty Ltd.
AG Intermediary Inc.
Assured Guaranty Corp.
AG Financial Products Inc.

Sabra Purtill
Mamaroneck, NY

Senior Vice President,
Assured Guaranty Ltd.
Assured Guaranty US Holdings Inc.
Assured Guaranty Corp.

Michael Schozer
New York, NY

President,
Assured Guaranty Mortgage Insurance Co.
AG Intermediary Inc.
Assured Guaranty Corp.
Assured Guaranty US Holdings Inc.
Assured Guaranty Overseas US Holdings Inc.
AG Financial Products Inc.

Elizabeth Zimmerman
New York, NY

Director, Senior Counsel, Secretary,
Assured Guaranty Mortgage Insurance Co.
AG Intermediary Inc.
Assured Guaranty US Holdings Inc.
Assured Guaranty Overseas US Holdings Inc.
Assured Guaranty Corp.

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 has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dominic Federico	Chairman and Chief Executive Officer
Michael Schozer	President
Elizabeth Zimmerman	Secretary
Ruth Cove	Assistant Secretary, Director, Counsel
Donald Paston	Treasurer
Robert Mills	Chief Financial Officer
James M. Michener	General Counsel
Ling Chow	Managing Director, Deputy General Counsel
Timothy Williams	Vice President
Rafi Warburg	Vice President
Madlyn Boccio	Vice President, Controller
Howard Albert	Managing Director, Chief Credit Officer
Robert Bailenson	Managing Director, Chief Accounting Officer
Steve Donnarumma	Managing Director, ABS/MBS Group Head
Jorge Gana	Managing Director
Jack Gray	Managing Director
Andrew Pickering	Managing Director, Chief Surveillance Officer
Benjamin Rosenblum	Director, Actuary

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in the State of New York and the District of Columbia. However, the Company only transacted business in the State of New York.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in paragraph 23 of Section 1113(a) of the New York Insurance Law, "Mortgage Guaranty Insurance."

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 65 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,500,000.

The Company is in business to assume insurance from other mortgage guaranty insurance companies. The Company has not entered into any contracts assuming business since 2004.

C. Reinsurance

The Company writes no direct business and all of its business is assumed from other mortgage guaranty insurance companies. At December 31, 2007, the Company had five assumed reinsurance contracts for which it had potential exposure.

The Company is protected by retro-cession reinsurance coverage for four out its five assumed contracts. All of the coverage is provided by the Company's affiliate Assured Guaranty Re Ltd. This coverage is as follows:

<u>Type of Contract</u>	<u>Cession</u>
1998 GEMICO IHDA Excess of Loss	Aggregate limit of loss less retention of \$1,000,000.
1998 GEMICO WHEDA Excess of Loss	Aggregate limit of loss less retention of \$5,000,000.
2000 Triad Excess of Loss	\$76,000,000 excess of \$19,000,000 in run-off period.
2000 YorkSafe Excess of Loss	Cover reinsurer's maximum liability after net retained liability of 2,500,000.

In addition to the contract specific retrocession coverage indicated above the Company also entered into a stop loss agreement with its direct parent, AGRO. This agreement, which was approved by the Department, provides coverage for losses exceeding \$10,000,000, net of other reinsurance protection.

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.

The examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

The 2000 Triad Guaranty Insurance Corporation ("Triad") excess of loss agreement provided coverage for a 1999 agreement under which the Company provided excess of loss coverage to Triad. In 2004, the 1999 agreement was terminated and replaced by a new mortgage insurance stop loss excess of loss reinsurance agreement. The Company and Assured Guaranty Re Ltd ("Assured Re")

have treated the liability under the 2004 assumption agreement with Triad as ceded under the 2000 Triad excess of loss agreement. The Company has continued to pay Assured Guaranty Re Ltd premiums per the 2000 agreement. In effect the Company and Assured Guaranty Re Ltd have informally amended the terms of their 2000 agreement.

The examination review of the 2000 Triad excess of loss agreement indicated that the coverage provided by this contract was very specifically designed for the 1999 agreement the Company entered into with Triad. The 2000 agreement references an underlying agreement which is defined as follows:

“‘Underlying Agreement’ means the Mortgage Insurance Stop Loss Excess of Loss Reinsurance Agreement Final Placement Slip entered into between the Company and the Original Reinsured with an effective date of December 31, 1999 (attached hereto as Appendix A and incorporated herein, where applicable, by reference); provided, if the Company and the Original Reinsured enter into a formal contract incorporating the terms of such final placement slip, ‘Underlying Agreement’ shall mean such contract.”

It is recommended that the Company amend the 2000 Triad excess of loss agreement with Assured Re in order to formally state that this agreement provides coverage to the Company for its 2004 assumption agreement with Triad.

The Company’s informal amendment of its 2000 ceded reinsurance treaty with Assured Guaranty Re Ltd is a violation of Section 1505(d) which states in part:

“The following transactions between a domestic controlled reinsurer 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 such shorter period as he may permit, and he has not disapproved it within such period:...(2) reinsurance treaties or agreements...”

It is recommended that the Company submit all reinsurance agreements with affiliates to the Department for non-disapproval at least thirty days prior to their effective dates.

It is further recommended that the Company submit an amended 2000 Triad excess of loss reinsurance agreement to the Department for retroactive approval.

It should be noted that on November 3, 2008, the Company subsequently filed a proposed amendment of the 2000 excess of loss agreement with the Department for non-disapproval. On November 21, 2008, the Department indicated that it had no objection to the proposed amendment.

All of the other reinsurance agreements with affiliates were found to be in compliance with Article 15 of the New York Insurance Law.

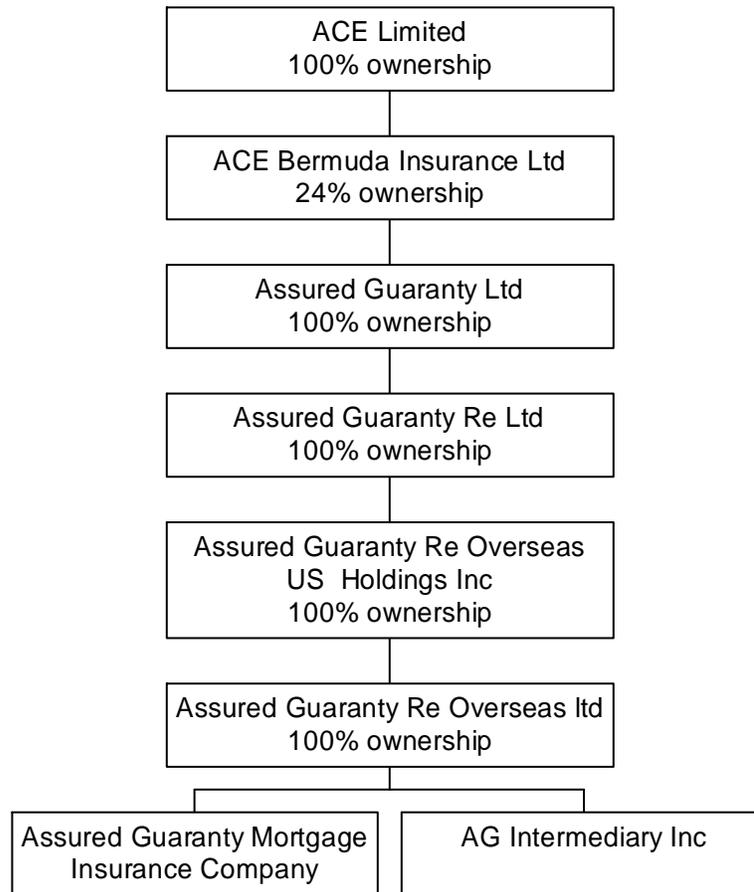
D. Holding Company System

Assured Guaranty Mortgage Insurance Company (“Company”) is a New York domiciled company which is a wholly-owned subsidiary of Assured Guaranty Re Overseas Ltd. (“AGRO”). AGRO is a Bermuda domiciled reinsurance company which is 100% owned by Assured Guaranty Overseas US Holdings Inc., a Delaware domiciled holding company.

Assured Guaranty Overseas US Holdings Inc. is a wholly-owned subsidiary of Assured Guaranty Re Ltd, a Bermuda domiciled reinsurance company. Assured Guaranty Re Ltd is in turn owned by Assured Guaranty Ltd., a publicly traded holding company incorporated in Bermuda. Assured Guaranty Ltd.’s common shares are traded on the New York Stock Exchange under the symbol AGO. ACE Bermuda Insurance Ltd owned approximately 24% of the shares of Assured Guaranty Ltd. as of December 31, 2007. ACE Bermuda Insurance Ltd. is ultimately owned by ACE Limited.

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 organization chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation

Effective August 1, 2000, the Company is a part of the tax allocation agreement within the ACE Limited Group of Companies. Under the agreement, each company agreed to be included in consolidated federal tax return and pay its proportionate share of the consolidated return that would have been paid if it said company had filed on a separate return basis. The Company entered into the agreement under the name ACE Capital Mortgage Reinsurance Company which was changed to Assured Guaranty Mortgage Insurance Company on April 26, 2004.

This agreement has not been updated since 2000. It is recommended that the Company submit an addendum, to the tax allocation agreement, updating the names and participating companies.

Services and Reimbursement

Effective April 1, 2006, the Company was party to a services and reimbursement agreement with certain of its affiliates. Pursuant to the agreement, Assured Guaranty Corporation (“AGC”), an affiliate of the Company, provides office space, equipment and services to the Company. Assured Guaranty Re Overseas Ltd. pays AGC for office space and services provided to the Company by AGC.

This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Investment Advisory Services Agreement with Ace Asset Management Inc., and Ace Capital Title Reinsurance Company

The captioned agreement was terminated on April 28, 2004.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	36%
Premiums in course of collection to surplus as regards policyholders	N/A*

*As of December 31, 2007, the Company reported no agents' balances in course of collection, which is the numerator in this ratio calculation.

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ (55,317)*	(1.25)%
Other underwriting expenses incurred	3,794,262	86.03
Net underwriting gain	<u>671,498</u>	<u>15.22</u>
Premiums earned	<u>\$4,410,443</u>	<u>100.00%</u>

* The Company had very little loss activity during the examination period. The loss and loss adjustment expenses incurred is negative for the examination period due to a significant reduction in case reserves reported by a ceding company in 2004.

F. Accounts and Records

Engagement Letter

The written contracts by which the Company engaged its certified public accountants ("CPA") firm for the year 2003-2007 did not contain the provisions required by the Department Regulation 118, Part 89.2 which states in part:

"Every insurer subject to this Part shall retain an independent certified public accountant (CPA) who agrees by written contract with such insurer to comply with the provisions of section 307(b) of the Insurance Law, this Part and the Code of Ethics and Professional Conduct adopted by the American Institute of Certified Public Accountants (AICPA). Such contract must specify that:

(a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together

with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;

(b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and

(c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications for a period of not less than five (5) years in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 89.2(a) of this Part was submitted to the superintendent.”

It is recommended that the Company include in all future contracts written to engage CPA firm, the provisions required by Department Regulation 118.

Custodian Agreement

The Company's management answered affirmatively to the following question of the General Interrogatory section of the Annual Statement as of December 31, 2007.

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, G-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook.”

The Company then indicated in item 26.01 that its agreement, with the Bank of New York, complied with the requirements of the NAIC Financial Conditions Examiners Handbook. complete the following:

However, the examination review indicated that the Company's custodian agreement with the Bank of New York did not contain some of the protective covenants set forth in Part III of Section 3 of

the 2007 NAIC Financial Condition Examiners Handbook. Paragraph 2 of sub-section G of this section requires that custodial agreements contain the following protective covenants:

2a. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation, or administrative action otherwise require a stricter standard (Section 2.b. sets forth an example of such a stricter standard), the bank or trust company shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian

2b. If domiciliary state law, regulation, or administrative action requires a stricter standard of liability for custodians of insurance company securities than that set forth in Section 2.a., then such stricter standard shall apply. An example of a stricter standard that may be used is that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction

2c. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced

2d. The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control

2e. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability

2f. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;

2g. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company;

2h. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

2i. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.

2j. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;

2k. The custodian shall secure and maintain insurance protection in an adequate amount.

2l. The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A US custodian must hold all other securities.

It was noted that the custodian agreement with Bank of New York did not include provisions 2a, 2b, 2c, 2e, 2f, 2h, 2i, 2j and 2k.

It is recommended that the Company amend the custodian agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Non-admitted Assets</u>	<u>Net Admitted Asset</u>
Bonds	\$46,796,655		\$46,796,655
Preferred stocks	126,500		126,500
Common stocks	12,535		12,535
Cash and cash equivalents	1,334,143		1,334,143
Receivables for securities	97		97
Investment income due and accrued	481,139		481,139
Net deferred tax asset	<u>370,148</u>	<u>\$370,148</u>	<u>0</u>
Total assets	<u>\$49,121,217</u>	<u>\$370,148</u>	<u>\$48,751,069</u>
 <u>Liabilities, surplus and other funds</u>			
Liabilities			
Losses			\$ 124,864
Other expenses			14,373
Taxes, licenses and fees			(250)
Current federal and foreign income taxes			822,323
Unearned premiums			172,215
Ceded reinsurance premiums payable			382,134
Payable to parent, subsidiaries and affiliates			265,345
Contingency reserve			<u>15,990,565</u>
Total liabilities			\$17,771,569
 <u>Surplus and Other Funds</u>			
Surplus and other funds			
Common capital stock		\$ 1,007,985	
Gross paid in and contributed surplus		41,115,272	
Unassigned funds (surplus)		<u>(11,143,757)</u>	
Surplus as regards policyholders			<u>30,979,500</u>
Total liabilities, surplus and other funds			<u>\$48,751,069</u>

NOTE: The Internal Revenue Service has not audited the Company's tax returns covering tax years 2003 through 2007. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$9,623,020 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$4,410,443
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Deductions:

Losses incurred	\$ (55,317)	
Other underwriting expenses incurred	<u>3,794,262</u>	

Total underwriting deductions		<u>3,738,945</u>
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Net underwriting gain or (loss)		\$671,498
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Investment Income

Net investment income earned	\$9,997,081	
Net realized capital gain	<u>1,792,614</u>	

Net investment gain or (loss)		11,789,695
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Other Income

Aggregate write-ins for miscellaneous income	<u>\$ 205,630</u>	
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Total other income		<u>205,630</u>
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Net income before federal and foreign income taxes		\$12,666,823
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Federal and foreign income taxes incurred		<u>(1,809)</u>
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Net income		<u>\$12,668,632</u>
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C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31,2002			\$21,356,480
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$12,668,632		
Net unrealized capital gains or (losses)	1,500		
Change in net unrealized foreign exchange capital gain (loss)		\$ 535	
Change in net deferred income tax	370,148		
Change in non-admitted assets		370,148	
Change in provision for reinsurance	4,434,716		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>7,481,293</u>	
Total gains and losses	<u>\$17,474,996</u>	<u>\$7,851,976</u>	
Net increase (decrease) in surplus			<u>9,623,020</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$30,979,500</u>

4. LOSSES AND CONTINGENCY RESERVES

The examination liability for losses and contingency reserves are \$124,864 and \$15,990,565, respectively. These are the same as the amounts reported by the Company as of December 31, 2007. The contingency reserve was established per Section 6502(a) of the New York Insurance Law.

This examination reviewed the Company's contingency reserve figure and found it to be accurate. This examination did not perform an analysis of the Company's loss reserves for the purposes of determining the reasonableness of the Company's reported figures. Instead the examination determined that the Company would neither be made insolvent nor impaired based on a worst case scenario. This determination is based on the assumption that all of the Company's retro-ceded losses would be collectible. The ceded contracts have been placed within the established and well-rated Assured Guaranty Group. As of November 20, 2008, Moody's investor services assigned Aa3 insurance financial strength ratings to Assured Guaranty Re Ltd and AGRO.

The examination determined that the Company's maximum net exposure at the examination date was \$10,000,000. The Company is already reserved for this with a contingency reserve of \$15,990,565 and a loss reserve of \$124,684. In the event that the Company needed to increase its loss reserve liability by \$10,000,000 the Company would still be solvent. In addition, the Company's surplus would not be impaired.

The \$124,864 reserve figure relates entirely to two assumed contracts with Genworth Insurance Mortgage Corporation ("GEMICO"). The reserve is undiscounted and is net of any anticipated salvage and subrogation. The Company has retrocession agreements in place for each of the GEMICO assumed contracts; the first (GEMICO IHDA) of which provides stop loss protection after \$1,000,000 and the second (GEMICO WHEDA) providing stop loss protection after \$5,000,000. The Company's records indicate that its gross potential exposure at December 31, 2007, under the GEMICO WHEDA contract, is \$2,251,704. The Company's records indicate that its gross potential exposure under the GEMICO IHDA contract is \$573,636.

The Company is currently disputing a claim from Triad Guaranty Insurance Corporation ("Triad"). Effective January 1, 2004, the Company reinsured this private mortgage insurer under a mortgage insurance stop loss excess of loss reinsurance agreement. Under the agreement, the Company agreed to cover the reinsured's aggregate mortgage guaranty insurance losses in excess of a \$25 million retention and subject to a \$95 million limit. Coverage under the agreement is triggered when the reinsured's combined loss ratio exceeds 100 percent and its risk to capital ratio exceeded 25 to 1.

In April 2008, the Company notified Triad that it was terminating the agreement because of Triad's breach of the terms of the agreement. Triad notified the Company that it considers the agreement to remain in effect and that the two coverage triggers under the agreement apply as of April 1, 2008. In a letter dated May 5, 2008, Triad demanded arbitration against the Company and was seeking a declaration that the agreement remains in effect, and alleged compensatory and other damages. The Company's position is that it has no liability under the Triad contract.

As indicated in the reinsurance section (Section 2C) of this report, there is a retrocession agreement in place which specifically covers the Triad assumed contract. This agreement provides the Company with \$76 million in Coverage after a retention of \$19 million. There is also a retrocession agreement in place providing stop loss coverage to the Company after its losses under all assumed contracts reaches \$10 million. In effect the Company's maximum net loss assuming a worst case scenario in the Triad arbitration would be \$10 million.

Other than the GEMICO and Triad assumptions the Company has two other assumed contracts in place under which it has potential liability at December 31, 2007. The first of these is with Yorksafe Insurance Company Limited (“Yorksaf”). As indicated in the reinsurance section (section 2C) the Company has a retrocession agreement in place providing stop loss protection should the Company’s losses exceed 2.5 million dollars. Company records indicate that its gross potential exposure under the Yorksafe agreement, at December 31, 2007, was \$7,733,865. At September 30, 2008, the Company’s records indicated that its maximum gross exposure under this contract was \$1,453,838. There were no claims reported to the Company under this contract as of the date of this report.

The second of these assumed contracts is a 2000 assumption agreement with Gan Insurance Limited. While there is no specific retrocession agreement in place for this agreement, the Company would be protected by its retrocession agreement with AGRO providing a general stop loss protection for the Company of \$10,000,000. Company records indicate that its gross potential exposure, at December 31, 2007, was \$18,241,848. There were no claims reported to the Company under this contract as of the date of this report. Coverage on this contract expires at December 31, 2009.

In summary, at December 31, 2007, the Company has liabilities established, considering both loss and contingency reserves, that exceed its maximum potential exposure after reinsurance. The only material claim in place comes from the Company’s Triad assumed contract. The Company’s total net exposure is \$10,000,000 while it has \$16,115,429 in liabilities established. This liability is made up of \$15,990,565 in contingency reserves and \$124,864 in loss reserves.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Contingent Commissions payable</u>	
It is recommended that the Company report the undiscounted amount for this liability in future statements filed by this Department.	19
In 2003, all reinsurance contracts which carried a provision for contingent commissions expired, and the liability has been zero for each annual statement since the prior exam.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Company amend the 2000 Triad excess of loss agreement with Assured Re in order to formally state that this agreement provides coverage to the Company for its 2004 assumption agreement with Triad.	9
ii. It is recommended that the Company submit all reinsurance agreements with affiliates to the Department for non-disapproval at least thirty days prior to their effective dates.	9
iii. It is further recommended that the Company submit an amended 2000 Triad excess of loss reinsurance agreement to the Department for retroactive approval.	9
B. <u>Holding Company System</u>	
It is recommended that the Company submit an addendum, to the tax allocation agreement, updating the names and participating companies.	12
C. <u>Accounts and Records</u>	
i. It is recommended that the Company include in all future contracts written to engage CPA firm, the provisions required by Department Regulation 118.	14
ii. It is recommended that the Company amend the custodian agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.	16

Respectfully submitted,

_____/s/_____
Wei Cao
Senior Insurance Examiner

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

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

_____/s/_____
Wei Cao

Subscribed and sworn to before me
this _____ day of _____, 2009.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Wei Cao

as proper person to examine into the affairs of the

ASSURED GUARANTY MORTGAGE INSURANCE COMPANY

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

Company

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 12th day of August, 2008



A handwritten signature in black ink, appearing to read "Eric Dinallo", written over a horizontal line.

ERIC R. DINALLO

Superintendent of Insurance