

REPORT ON EXAMINATION

OF THE

ASSURED GUARANTY MORTGAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 28, 2013

EXAMINER

IAN MARTIN

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

May 28, 2013

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30848 dated May 8, 2012, attached hereto, I have made an examination into the condition and affairs of Assured Guaranty Mortgage Insurance Company as of December 31, 2011, and submit the following report thereon.

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

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

The examination was conducted at the Company's office located at 31 West 52<sup>nd</sup> Street, New York, NY 10019.

## 1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Assured Guaranty Mortgage Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the four-year period from January 1, 2008 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Maryland, which was the coordinating state of the Assured Guaranty Group. The examination was performed concurrently with the examinations of the following insurers: Assured Guaranty Corp. (“AGC”), Assured Guaranty Municipal Corp. (“AGM”), Assured Guaranty Municipal Insurance Company (“AGMIC”), and Municipal and Infrastructure Assurance Corporation (now known as Municipal Assurance Corp. (“MAC”)).

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans

Territory and plan of operation  
Growth of Company  
Loss experience  
Reinsurance  
Accounts and records  
Statutory deposits  
Financial statements  
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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated under the laws of the State of New York on August 20, 1993 as the Capital Mortgage Reinsurance Company and commenced business on February 1, 1994. It was a subsidiary of Capital Re Corporation.

On December 30, 1999, the Company was acquired by ACE Limited (“ACE”), a Cayman Islands Holding Company. Effective March 7, 2000, the Company changed its name to ACE Capital Mortgage Reinsurance Company.

In August 2003, ACE formed Assured Guaranty Ltd. (“AGL”), a Bermuda holding company. On April 28, 2004, ACE and its subsidiaries completed an initial public offering (“IPO”) of 49 million of AGL’s 75 million common shares.

Following the execution of the IPO, ACE restructured its operations and AGL novated, retroceded or sold the majority of its non-financial guaranty business to subsidiaries of ACE. AGL currently provides, through its operating subsidiaries, credit protection products to the U.S. and international public finance, infrastructure and structured finance markets. AGL is the ultimate parent of the Company. In connection with the restructuring and the IPO, the Company adopted its current title in April 2004.

The Company has 250,000 authorized shares of common stock. At December 31, 2011, the Company’s paid in capital was \$1,007,985, which consisted of 30,545 issued and outstanding shares

of \$33 par value per share common stock, and its paid in and contributed surplus was \$48,115,272. During the examination period, paid in and contributed surplus increased by \$7,000,000, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2007	Beginning gross paid in and contributed surplus	\$41,115,272
2010	Surplus contribution	\$ 7,000,000
2011	Ending gross paid in and contributed surplus	<u>\$48,115,272</u>

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 or more than twenty five members. The Company reduced the minimum number of directors from thirteen to seven and minimum number of directors required to be residents in New York State from two to one effective January 9, 2013. The amended Charter was filed with the Department.

During the four year examination period the board met at least four times during each calendar year except in 2008 when it met only twice. At December 31, 2011, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Howard Wayne Albert Short Hills, NJ	Chief Risk Officer, Assured Guaranty Mortgage Insurance Company Assured Guaranty Corp. Assured Guaranty Municipal Corp. Assured Guaranty Municipal Insurance Company
Robert Adam Bailenson Cold Spring Harbor, NY	Chief Financial Officer, Assured Guaranty Mortgage Insurance Company Assured Guaranty Corp. Assured Guaranty Municipal Corp. Assured Guaranty Municipal Insurance Company
Richard James Bauerfeld Wilton, CT	Chief Surveillance Officer, Structured Finance Assured Guaranty Mortgage Insurance Company Assured Guaranty Municipal Corp.
Russell Brown Brewer II Darien, CT	Chief Surveillance Officer, Assured Guaranty Mortgage Insurance Company Assured Guaranty Corp. Assured Guaranty Municipal Corp. Assured Guaranty Municipal Insurance Company

Name and ResidencePrincipal Business Affiliation

Gon Ling Chow  
New York, NY

Deputy General Counsel, Corporate and Assistant  
Secretary,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.

Deputy General Counsel, Corporate and Managing  
Director,  
Assured Guaranty Municipal Corp.

Stephen Donnarumma  
Brooklyn, NY

Chief Credit Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company

Dominic John Frederico  
Palm Beach Gardens, FL

Chairman, President and Chief Executive Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company

Philip Richard Kastellec  
New York, NY

Deputy General Counsel, Regulatory,  
Assured Guaranty Mortgage Insurance Company

Deputy General Counsel, Regulatory and Assistant  
Secretary,  
Assured Guaranty Municipal Corp.

James Michael Michener  
Smith's, Bermuda, FL-05

General Counsel and Secretary,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company

Robert Bruce Mills  
New Hope, PA

Chief Operating Officer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company

Donald Hal Paston  
Livingston, NJ

Treasurer,  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Corp.  
Assured Guaranty Municipal Corp.  
Assured Guaranty Municipal Insurance Company

Andrew Hoyt Pickering  
New York, NY

Senior Managing Director, Risk Management,  
Assured Guaranty Municipal Corp.

Name and ResidencePrincipal Business Affiliation

Bruce Elliot Stern  
Bronxville, NY

Executive Officer, Government and Corporate Affairs,  
Assured Guaranty Corp.  
Assured Guaranty Municipal 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 had an acceptable record of attendance.

The Company's By-laws require that the Company hold an annual meeting of its stockholders on the Monday following the first Friday in May to elect directors and transact any business within its powers. The Company's By-laws also require that the Company hold four regularly scheduled board meetings per year; one of which is required to be held one hour after its annual stockholders' meeting. However, the Company was unable to provide minutes of any stockholders' meetings for the period under examination. In addition, for the years 2008 and 2009, the Company did not hold its board of directors meetings in accordance with the schedule stipulated in its By-laws.

It is recommended that the Company hold its annual stockholders' meetings and boards of directors' meetings in accordance with the schedule stipulated in its By-laws and maintain minutes for the meetings.

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

<u>Name</u>	<u>Title</u>
Dominic John Frederico	Chairman, President and Chief Executive Officer
James Michael Michener	Secretary, General Counsel
Donald Hal Paston	Treasurer
Howard Wayne Albert	Chief Risk Officer
Robert Adam Bailenson	Chief Financial Officer
Laura Ann Bieling	Controller
Russell Brown Brewer II	Chief Surveillance Officer
Stephen Donnarumma	Chief Credit Officer
Robert Bruce Mills	Chief Operating Officer
John M Ringler	Assistant Vice President, Regulatory Reporting
Benjamin Gad Rosenblum	Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in New York and District of Columbia and is also accredited as a reinsurer in California and Illinois. However, the Company only transacted business in the State of New York. As of the examination date, the Company was authorized to transact the kind of insurance as defined in paragraph 23 of Section 1113(a) of the New York Insurance Law, "Mortgage Guaranty Insurance."

Based on the line of business for which the Company is licensed and its current capital structure, and pursuant to the requirements of Article 13, 41 and 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 and is currently in the process of running off its existing book of business.

C. Reinsurance

The Company wrote no direct business and all of its business was assumed from other mortgage guaranty insurance companies. At December 31, 2011, the Company had no assumed reinsurance contracts for which it had significant potential exposure. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

At December 31, 2011, the Company had no active ceded reinsurance agreements in place. It was running off business retroceded to Assured Guaranty Re Ltd. ("AG Re"), an unauthorized affiliated company. However, the amount of such outstanding business assumed and retroceded by the Company to AG Re is insignificant and is deemed immaterial for this report. The retrocession agreements with AG Re were non-disapproved in accordance with Article 15 of the New York Insurance Laws.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

During the period covered by this examination, the Company terminated a reinsurance agreement with a reinsured because of the reinsured's alleged breach of the terms of the agreement. The matter went to arbitration and the arbitration panel concluded that the reinsured breached a covenant in the agreement. The Company and the reinsured subsequently settled the matter.

D. Holding Company System

The Company is a wholly-owned subsidiary of Assured Guaranty Re Overseas Ltd. ("AGRO"), 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 AG Re, a Bermuda domiciled reinsurance company, which in turn is wholly-owned by AGL, a publicly traded holding company incorporated in Bermuda. AGL's common shares are traded on the New York Stock Exchange under the Symbol, "AGO."

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 Department of Financial Services Insurance Law and Department Regulation 52

The following is an abridged chart of the holding company system at December 31, 2011:



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

Tax Allocation Agreement

Effective August 1, 2000, the Company entered into the Agreement Concerning Filing of Consolidated Federal Tax Returns (“tax allocation agreement”) with certain affiliates within the Assured Guaranty Group. Under the agreement, each company agreed to be included in consolidated federal tax return and pay its proportionate share of the consolidated liabilities that would have been paid if said company had filed on a separate return basis. The Company entered into the agreement under the name ACE Capital Mortgage Reinsurance Company. The Company subsequently attached an acknowledgement with the agreement to reflect the current name of the Company and other participating companies.

Service Agreement

Effective January 1, 2010, the Company with other affiliates in the Assured Guaranty Group entered into a service agreement with AGC, an affiliated company domiciled in Maryland. Pursuant to the agreement, AGC provides a staff of professional insurance, financial services executives, administrative and clerical personnel and payroll services to the participating companies in the Assured Guaranty Group. In addition, AGM provides office space and equipment to the participating companies in the Assured Guaranty Group. The agreement and a subsequent amendment were filed with the Department pursuant to Section 1505 of the New York Insurance Law and non-disapproved by the Department on June 22, 2011 and July 6, 2012, respectively.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.01%
Liabilities to liquid assets (cash and invested assets and accrued income less investments in affiliates and other invested assets)	37%
Premiums in course of collection to surplus as regards policyholders	N/A*

\*As of December 31, 2011, the Company reported no premiums in course of collection, which is the numerator for this ratio.

With the exception of the ratio denoted with the asterisk, 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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$15,087,454	4,110.35%
Other underwriting expenses incurred	2,022,891	551.11
Net underwriting loss	<u>(16,743,285)</u>	<u>(4,561.46)</u>
Premiums earned	<u>\$ 367,060</u>	<u>100.00%</u>

F. Accounts and Records

Timely Settlement of Federal Tax Recoverable

The Company did not settle timely its 2011 federal tax recoverable in accordance with SSAP No. 10R paragraph 13 of the NAIC Accounting Practices and Procedures Manual and Article 3 of the tax allocation agreement.

SSAP No. 10R paragraph 13 states:

“Amounts owed to a reporting entity pursuant to a recognized transaction shall be treated as a loan or advance, and nonadmitted, pursuant to SSAP No. 25, to the extent that the recoverable is not settled within 90 days of the filing of a consolidated income tax return, or where a refund is due the reporting entity’s parent, within 90 days of the receipt of such refund.”

It is recommended that the Company settle intercompany tax recoverable in a timely manner in accordance with the accounting practices and procedures specified in the NAIC Accounting Practices and Procedures Manual and the terms of the tax allocation agreement.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

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

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$40,703,029	\$ 0	\$40,703,029
Cash, cash equivalents and short-term investments	3,295,604	0	3,295,604
Investment income due and accrued	364,158	0	364,158
Current federal and foreign income tax recoverable and interest thereon	4,702,200	0	4,702,200
Net deferred tax asset	<u>286,133</u>	<u>286,133</u>	<u>0</u>
Total Assets	<u>\$49,351,124</u>	<u>\$286,133</u>	<u>\$49,064,991</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 0
Other expenses			16,830
Taxes, licenses and fees			(375)
Current federal and foreign income taxes			0
Unearned premiums			4,293
Ceded reinsurance premiums payable			208,711
Payable to parent, subsidiaries and affiliates			82,819
Contingency reserve			<u>16,317,770</u>
Total liabilities			\$16,630,048
Common capital stock		\$ 1,007,985	
Gross paid in and contributed surplus		48,115,272	
Unassigned funds (surplus)		<u>(16,688,312)</u>	
Surplus as regards policyholders			<u>\$32,434,945</u>
Total liabilities, surplus and other funds			<u>\$49,064,993</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2004. The Internal Revenue Service has not completed the audit of tax returns covering tax years in this exam period. 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

Surplus as regards policyholders increased \$1,455,445 during the four-year examination period January 1, 2008 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$ 367,060
Deductions:		
Losses and loss adjustment expenses incurred	\$15,087,454	
Other underwriting expenses incurred	<u>2,022,891</u>	
Total underwriting deductions		<u>17,110,345</u>
Net underwriting gain or (loss)		\$(16,743,285)

Investment Income

Net investment income earned	\$ 7,196,915	
Net realized capital gain	<u>(537,798)</u>	
Net investment gain or (loss)		<u>6,659,117</u>
Net income before federal and foreign income taxes		\$( <u>10,084,168</u> )
Federal and foreign income taxes incurred		<u>(4,868,319)</u>
Net Income		\$ <u>(5,215,849)</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2007			\$30,979,500
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 0	\$5,215,849	
Net unrealized capital gains or (losses)		1,500	
Change in net deferred income tax		84,015	
Change in nonadmitted assets	84,015		
Surplus adjustments paid in	7,000,000		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>327,206</u>	
Net increase (decrease) in surplus	<u>\$7,084,015</u>	<u>\$5,628,570</u>	<u>\$ 1,455,445</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$32,434,945</u>

**4. LOSSES AND CONTINGENCY RESERVES**

The examination liabilities for losses and contingency reserves are \$0 and \$16,317,770, respectively, as of December 31, 2011. These are the same as the amounts reported by the Company in its 2011 filed annual statement. The contingency reserves are established per Section 6502(a) of the New York Insurance Law.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<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
This recommendation is no longer applicable.	
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
This recommendation is no longer applicable.	
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
This recommendation is no longer applicable.	
B. <u>Holding Company System.</u>	
It is recommended that the Company submit an addendum, the tax allocation agreement, updating the names and participating companies.	12
The Company subsequently filed an acknowledgement with the Department reflecting the current company names and participating companies.	
C. <u>Accounts and Records</u>	
i It is recommended that the Company include in all future contracts written to engage CPA firms, the provision required by Department Regulation 118.	14
The Company has complied with this recommendation.	
ii It is recommended that the Company amend the custodian agreement to incorporate all the protective covenants included in the NAIC Financial Condition Examiners Handbook.	16
The Company has complied with this recommendation.	

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended that the Company hold its annual stockholders' meetings and boards of directors' meetings in accordance with the schedule stipulated in its by-laws and maintain minutes for the meetings.	6
B.	<u>Accounts and Records</u>	
	It is recommended that the Company settle intercompany tax recoverable in a timely manner in accordance with the accounting practices and procedures specified in the NAIC Accounting Practices and Procedures Manual and the terms of the tax allocation agreement.	11

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Ian Martin  
Senior Insurance Examiner

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

Ian Martin, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Ian Martin

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2013

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

*Ian Martin*

as a proper person to examine the affairs of the  
**ASSURED GURANTY MORTGAGE INSURANCE COMPANY**  
and to make a report to me in writing of the condition of said  
**COMPANY**

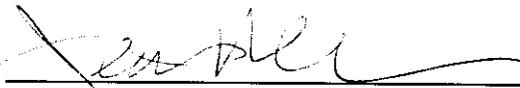
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name  
and affixed the official Seal of the Department  
at the City of New York

this 8th day of May, 2012

BENJAMIN M. LAWSKY  
Superintendent of Financial Services

By:

  
\_\_\_\_\_  
Jean Marie Cho  
Deputy Superintendent

