REPORT ON ASSOCIATION EXAMINATION

OF

FINANCIAL SECURITY ASSURANCE INC.

AS OF

DECEMBER 31, 1999

EXAMINER	STATE PARTICIPATING	ZONE
MELBA BOLIC, CFE	NEW YORK	NORTHEASTERN
JAMES O’SULLIVAN, CFE	MISSISSIPPI	SOUTHEASTERN

Honorable James H. Brown
Secretary, Southeastern Zone
Insurance Commissioner
State of Louisiana 70801

Honorable Neil D. Levin
Superintendent of Insurance
State of New York
Albany, New York 12257

Honorable George Dale
Commissioner of Insurance
State of Mississippi
Jackson, Mississippi 39201

Honorable Diane Kohen
Secretary – Treasurer, Northeastern Zone
Insurance Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

Sirs:

In accordance with your several instructions, an Association Examination has been made, as of December 31, 1999 into the financial condition and affairs of the Financial Security Assurance Inc. and the following report is thereon respectfully submitted.

Where the designations "Financial Security" or "Company" appear herein without qualification, they should be understood to mean Financial Security Assurance Inc.

REPORT ON EXAMINATION

OF

FINANCIAL SECURITY ASSURANCE INC.

AS OF

DECEMBER 31, 1999

EXAMINER	MELBA BOLIC
DATE OF REPORT	SEPTEMBER 29, 2000

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

September 29, 2000

Honorable Neil D. Levin
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 21531 dated May 2, 2000, attached hereto, I have made an examination into the financial condition and affairs of the Financial Security Assurance Inc. as of December 31, 1999, and submit the following report thereon.

The examination was conducted at the Company's home office located at 350 Park Avenue, New York, New York 10022.

Where the designations "Financial Security" or "Company" appear herein without qualification, they should be understood to indicate Financial Security Assurance Inc.

1. SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 1994. This examination covered the five-year period from January 1, 1995 through December 31, 1999. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The examination was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Reinsurance
Accounts and records
Financial statements

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

The Company was incorporated under the laws of New York on March 16, 1984. It commenced operations on September 23, 1985.

As of December 31, 1999, capital paid-up of $15,000,000 consisted of 500 issued and outstanding common shares with a par value of $30,000 per share.

A. Management

Pursuant to the Company's charter and by-laws, corporate powers shall be exercised by a board of directors consisting of not less than thirteen but not more than twenty-one members. As of December 31, 1999, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Russell B. Brewer II Darien, CT	Managing Director & Chief Underwriting Officer, Financial Security Assurance Inc.
Thomas F. Byrne Lynbrook, NY	Director Secondary Markets, Financial Security Assurance Inc.
Robert P. Cochran New York, NY	Chairman & Chief Executive Officer, Financial Security Assurance Inc.
John A. Harrison Darien, CT	Managing Director & Chief Financial Officer, Financial Security Assurance Inc.
Jeffrey S. Joseph Glen Ridge, NJ	Managing Director & Controller, Financial Security Assurance Inc.
Linda S. Kobrin Larchmont, NY	Managing Director, Financial Security Assurance Inc.

Name and Residence	Principal Business Affiliation
Edsel C. Langley, Jr. Short Hills, NJ	Managing Director & Treasurer, Financial Security Assurance Inc.
Sean W. McCarthy New York, NY	Executive Vice President & Chief Operating Officer, Financial Security Assurance Inc.
James T. Scanlon Upper Montclair, NJ	Managing Director, Financial Security Assurance Inc.
Jeffrey A. Slepoi Mountainside, NJ	Managing Director, Financial Security Assurance Inc.
Bruce E. Stern Bronxville, NY	General Counsel, Secretary & Managing Director, Financial Security Assurance Inc.
Roger K. Taylor New Canaan, CT	President, Financial Security Assurance Inc.
Jan I. Weiss Waccabuc, NY	Managing Director, Financial Security Assurance Inc.

The board met four times during each calendar year under examination. The minutes of all meetings of the board of directors held during the examination period were reviewed. The meetings were generally well attended and each of the directors had a satisfactory attendance record.

The principal officers of the Company as of December 31, 1999 were as follows:

Name	Title
Robert P. Cochran	Chairman & Chief Executive Officer
Roger K. Taylor	President
Sean W. McCarthy	Executive Vice President & Chief Operating Officer
John A. Harrison	Managing Director & Chief Financial Officer
Russell B. Brewer II	Managing Director & Chief Underwriting Officer
Bruce E. Stern	General Counsel, Secretary & Managing Director

B. Territory and Plan of Operation

The Company is licensed to conduct business in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The following schedule shows direct premiums written in New York State compared to direct business written in the United States for the five years covered by this examination:

Calendar Year	New York State	Total United States	Percentage of Premiums Written in New York State
1995	$33,766,087	$ 95,704,700	35.28%
1996	$40,306,754	$148,174,324	27.20%
1997	$44,436,780	$190,408,433	23.34%
1998	$57,540,705	$307,416,550	18.72%
1999	$38,629,162	$299,591,265	12.89%

As of December 31, 1999, 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:

Paragraph	Kind of Insurance
16 (C,D,E,F)	Fidelity and surety
17 (A)	Credit
25	Financial guaranty

Operations are currently limited to the writing of financial guaranty insurance on asset backed, other corporate and municipal securities offered in domestic and foreign markets. The Company also reinsures financial guaranty insurance on municipal obligations.

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 41 and 69 of the New York Insurance Law, Financial Security is required to maintain a minimum surplus to policyholders of $66,400,000.

C. Reinsurance

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period accurately reflected its reinsurance transactions.

The examiner reviewed all assumed and ceded reinsurance contracts in effect as of the examination date. These contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

1. Assumed

During 1999, Financial Security assumed business from affiliates and non-affiliates in the amounts of $15,140,195 and $994,674, respectively.

Affiliates

Quota Share Reinsurance Pooling Agreement ("Pooling Agreement")

The Company and certain of its subsidiaries are parties to a quota share reinsurance pooling agreement dated July 1, 1986. The pooling agreement was restated on October 1, 1996, and amended on September 23, 1997 and November 1, 1998. The parties to the pooling agreement as of November 1, 1998 to present are Financial Security Assurance Inc., FSA Insurance Company ("FSAIC") and Financial Security Assurance International Ltd. ("FSAINT").

Pursuant to the pooling agreement, after reinsurance cessions to other reinsurers, the Company, FSAIC and FSAINT share in the net retained risk insured by each of these companies. The percentage of business shared is based on the companies' surplus to policyholders and contingency reserve as reported on the most recent filed statutory statements. During 1999, the Company's, FSAIC's and FSAINT's shares were approximately 59%, 21%, and 20% respectively.

Stop Loss Reinsurance Agreement

Effective November 3, 1998, the Company entered into a stop loss reinsurance agreement with its affiliate, Financial Security Assurance International Ltd. ("FSAINT"). Under this agreement, if FSAINT's cumulative net losses incurred exceed $25,000,000, the Company is responsible for 100% of the amount by which the sum of (1) FSAINT's annual net losses incurred plus (2) FSAINT's annual incurred expenses exceeds the sum of (a) 100% of FSAINT's annual net earned premium plus (b) the amounts deducted from FSAINT's contingency reserves during the calendar year to fund FSAINT's annual net losses incurred. The Company's maximum annual limit of liability is the sum of (i) the principal insured by FSAINT under the two largest transactions insured by FSAINT, plus (ii) 20% of the total principal insured, in both cases (i) and (ii) outstanding as of December 31 of the prior year and net of all reinsurance other than this stop loss reinsurance agreement.

The agreement covers business written on or after November 3, 1998. Pursuant to the agreement FSAINT pays the Company a premium of 12.5% of FSAINT's annual net earned premiums during the calendar year. During 1999, FSAINT paid the Company a premium of $36,135. The Company incurred no losses under this agreement in either 1998 or 1999.

The pooling and the stop loss reinsurance agreements were submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

Quota Share and Stop Loss Reinsurance Agreement

Effective April 27, 1994, the Company entered into a quota share and stop loss reinsurance agreement with its affiliate, Financial Security Assurance (U.K.) Ltd. ("FSAUK"). This agreement covers business written on or after April 27, 1994. The business assumed from FSAUK is shared with other affiliates pursuant to the pooling agreement mentioned above.

Under the quota share portion of the agreement, the Company assumes a proportionate share of the liabilities under each policy, contract or binder of insurance or reinsurance written by FSAUK. The proportionate share of liabilities to be assumed by the Company under this agreement is determined on April 1 of each year. During 1999, the Company assumed approximately 98% of FSAUK's liabilities.

Under the stop loss portion of the agreement, the Company is responsible for 100% of the amount by which the sum of (1) FSAUK's annual net losses incurred plus (2) FSAUK's annual incurred expenses exceeds the sum of (a) 100% of FSAUK's annual net earned premium plus (b) the amounts deducted from FSAUK's contingency reserve during the calendar year to fund FSAUK's annual net losses incurred. The Company's maximum annual limit of liability is the sum of (i) the principal insured by FSAUK under the two largest transactions by FSAUK, plus (ii) 20% of the total principal insured, in both cases (i) and (ii) outstanding as of December 31 of the prior year and net of all reinsurance other than this stop loss reinsurance.

For the stop loss reinsurance provided by the agreement, FSAUK pays a premium of 12.5% of its annual net earned premium during the calendar year. During 1999, FSAUK paid the Company a premium of $20,133. During the examination period, the Company incurred no losses under this agreement.

The agreement was submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

Effective November 1998, the agreement was amended. The amendment was not submitted to the Department until June 16, 2000. Pursuant to Section 1505(d)(2) of the New York Insurance Law, the Company was required to notify the Superintendent in writing of its intention to amend the agreement at least 30 days prior to the effective date of the amendment.

It is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(2) of the New York Insurance Law.

2. Ceded

At December 31, 1999, the Company was a party to the following reinsurance agreements:

Type of Treaty	Coverage
Quota Share Municipal Bonds 46% Authorized 54% Unauthorized	6.5% quota share of each covered policy up to a maximum cession per single risk of $17.3 million. The Company could increase this percentage at its option to a quota share cession of 35% per covered policy up to a limit per single risk of $93.33 million. Maximum policy amount of $267 million.
Quota Share Non-Municipal Bonds 52% Authorized 48% Unauthorized	7.25% quota share of each covered policy up to a maximum cession per single risk of $14.5 million. The Company could increase this percentage at its option to a quota share cession of 14.5% per covered policy up to a limit per single risk of $29 million. Maximum policy amount of $200 million.

The Company also has four first loss treaties. These four treaties applied to the Company policies insuring certain qualifying U.S. mortgage-backed, U.S. auto loan-backed, U.S. multi-family housing and collateralized debt obligations. Under the treaties, each policy is divided into three loss layers equal to a certain percentage of total principal insured. The treaties provide approximately 70% quota share reinsurance for each of these loss layers (with the exception of the loss layer treaty for U.S. multi-family obligations which provides 56% quota share reinsurance on the first loss layer).

The treaties were entered into with authorized and unauthorized reinsurers as follows:

Mortgage-backed and Auto Loan-backed treaties	58% authorized and 42% unauthorized.
Multi-family treaty	37% authorized and 63% unauthorized.
Collateralized bond obligation treaty	55% authorized and 45% unauthorized.

In addition, the Company has a 50% authorized and 50% unauthorized combination quota share and aggregate excess of loss treaty. This treaty covers policies issued on or after November 30, 1999 through December 31, 2000 insuring qualifying emerging market collateralized debt obligations. The treaty reinsures (i) on a quota share basis 50% of qualifying transactions, and (ii) on an aggregate excess of loss basis 90% of the Company's net losses on qualifying transactions in excess of $50 million, up to a limit of liability of $200 million.

Additionally, the Company has in effect seven automatic facultative agreements with various authorized and unauthorized reinsurers. The Company at its option may allocate up to a specified amount for each reinsurer (ranging from $20 million to $100 million depending on the reinsurer) for each transaction, in exchange for which the Company agreed to cede in the aggregate a specified percentage of gross principal insured by the Company.

The Company also employed facultative reinsurance on various transactions during the examination period.

D. <u>Holding Company System</u>

The Company is 100% owned by Financial Security Assurance Holdings Ltd. ("FSAH"), a holding company domiciled in New York. At December 31, 1999, FSAH was owned 5.1% by MediaOne Capital Corporation, 20.7% by White Mountains Insurance Group, Ltd., 7.8% by The Tokio Marine and Fire Insurance Co. Ltd., 7.6% by XL Capital Ltd. and 58.8% by the public and employees.

Subsequent to the examination date, on July 5, 2000, Dexia Holdings, Inc., an indirect, wholly owned subsidiary of Dexia S.A. ("Dexia"), acquired all of the issued and outstanding shares of stock of FSAH. Dexia is a limited liability company organized under the laws of the Kingdom of Belgium.

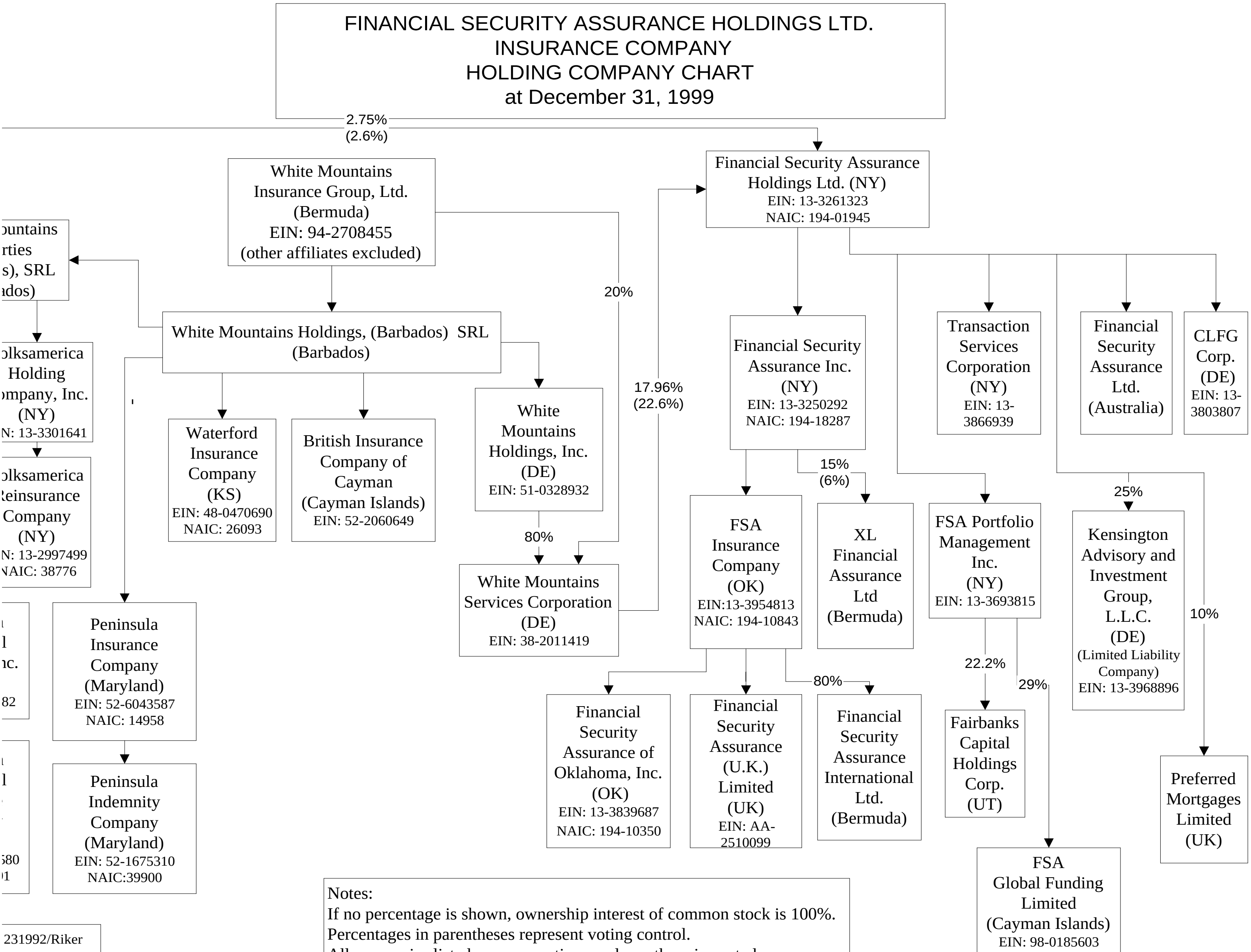
The Company is a member of the Financial Security Assurance Group, which consists of the Company and its subsidiary FSA Insurance Company ("FSAIC") and FSAIC's subsidiaries: Financial Security Assurance International Ltd. ("FSAINT"), Financial Security Assurance of Oklahoma, Inc. ("FSAO") and Financial Security Assurance (U.K.) Ltd., ("FSAUK").

During the period under examination FSAH made capital contributions to the Company in the amount of $221,273,880.

In addition, the Company entered into two surplus note agreements with FSAH pursuant to Section 1307 of the New York Insurance Law in the amounts $70,000,000 and $50,000,000 respectively. The Company cannot make payments of principal or interest unless such payments are approved in advance by the Superintendent of Insurance pursuant to Section 1307 of the New York Insurance Law.

As a member of a holding company system, the Company files registration statements pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an organizational chart of the holding company system as of December 31, 1999 showing the relationship of the Company with its parent and subsidiaries:



Notes:
If no percentage is shown, ownership interest of common stock is 100%.
Percentages in parentheses represent voting control.
All companies listed are corporations, unless otherwise noted.

As of December 31, 1999, in addition to the reinsurance agreements mentioned in Item 2C, the Company has the following agreements with members of its holding company system:

Trust Agreement

Effective December 31, 1999, Financial Security entered into a Trust Agreement with its affiliate FSAINT and Bankers Trust Company, Bahamas branch, as the Trustee. The agreement was entered into in conjunction with the quota share reinsurance pooling agreement mentioned in Item 2C and conforms with Department's Regulation 114.

Tax Allocation Agreement

On January 1, 1996, the Company entered into a tax allocation agreement among various affiliated members of the Financial Security Assurance Group. The agreement complies with the requirements of the Department's Circular Letter 33 (1979).

Net Worth Maintenance Agreements:

1. On April 27, 1994, the Company entered into a net worth maintenance agreement with its subsidiary FSAUK. Under this Agreement the Company agrees to maintain FSAUK's amount of assets in excess of liabilities at 10,000,000 Pounds Sterling as determined under the laws of the United Kingdom or such greater amount required by the Insurance and Friendly Societies Division of the Financial Services Authority, subject to certain limits.

2. On December 31, 1999, the Company entered into a net worth maintenance agreement with its subsidiary FSAIC. Under this Agreement the Company agreed to maintain FSAIC's surplus to policyholders of $66,400,000, subject to certain limits.

3. On November 3, 1998, the Company entered into a net worth maintenance agreement with its subsidiary FSAINT. Under this Agreement the Company agrees to maintain FSAINT's minimum shareholders equity required under the laws of Bermuda, subject to certain limits.

During the period under examination, January 1, 1995 through December 31, 1999, the Company made no contributions to its subsidiaries under the aforementioned net worth maintenance agreements.

Agreements for Cooperative and Joint Use of Personnel, Property and Services

The Company has in effect as of December 31, 1999, various agreements among its parent, affiliates and subsidiaries for cooperative and joint use of personnel, property and services. The parties to the agreement provide each other with personnel, property, equipment and services, as available, with respect to administrative, underwriting, accounting, legal, marketing, program development, claims, electronic data processing, compliance and surveillance, and reinsurance as will enable them to conduct an insurance business and other corporate functions. The Company that provides the services charges costs (direct and indirect) and expenses for providing such services.

Service Agreement

On January 1, 1996, the Company entered into a service agreement with its affiliate company, Transactions Service Corporation ("TSC"). Under this agreement, TSC performs certain loss avoidance and asset management services for transactions subject to financial guaranty insurance policies and other insurance policies or guaranties issued or reinsured from time to time by the Company. The Company reimburses actual expenses incurred by TSC for its services.

The Department approved all of the aforementioned agreements pursuant to Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law states in part:

> "Any amount (except an amount upon which an instrument has been issued which upon its face is non-negotiable by the insured) payable to a resident of this state on or because of a policy of insurance other than life insurance…shall be deemed abandoned property if unclaimed for three years by the person entitled thereto…such abandoned property shall be reported to the comptroller…on or before the first day of April in each succeeding year."

The Company did not file abandoned property reports with the Office of the New York State Comptroller for the years under examination. Management indicated that during the period under examination no property was abandoned. Insurance companies which neither hold nor owe abandoned property are nevertheless required to submit abandoned property reports pursuant to the provisions of the New York Abandoned Property Law.

Subsequent to the examination period, on June 15, 2000, the Company filed the appropriate reports with the State Comptroller.

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the requisite abandoned property reports with the Office of the New York State Comptroller on a yearly basis.

A. Fidelity Bond

According to the NAIC Financial Condition Examiners Handbook, the Company's suggested minimum amount of fidelity insurance as of December 31, 1999, was $1,750,000. The examination of the corporate insurance policies revealed that the Company was carrying $1,500,000 in fidelity bond insurance as of December 31, 1999. Effective June 14, 2000, the Company increased their fidelity bond insurance to $2,000,000.

It is recommended that the Company maintain the minimum amount of fidelity bond insurance suggested by the NAIC on a yearly basis.

G. Accounts and Records

The Company reported as of December 31, 1999, a liability in the amount of $1,500,000 for accrued interest on surplus notes with its holding company Financial Security Assurance Holdings Ltd. Section 1307 of the New York Insurance Law requires that the loan and the interest shall not be part of the legal liabilities of the Company. The examiner did not change the financial statements included in this report due to the immateriality of the amount involved.

It is recommended that the Company comply with the reporting provisions of Section 1307 of the New York Insurance Law and not report the interest on such loans as part of its legal liabilities.

A. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	.18 to 1
Liabilities to liquid assets (cash and invested Assets less investments in affiliates)	74.41%
Premiums in course of collection to Surplus as regards policyholders	1.16%

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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 12,848,024	3.83%
Other underwriting expenses	148,608,585	44.32
Net underwriting gain	173,872,218	51.85
Premiums earned	$335,328,827	100.00%

A. **FINANCIAL STATEMENTS**

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. The statement is the same as the balance sheet filed by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,364,206,187			$1,364,206,187
Stocks:				
Preferred stocks	8,000,000			8,000,000
Common stocks	384,831,700	$(23,969,407)	$4,374,563	356,487,730
Cash and short-term investments	208,941,524			208,941,524
Other invested assets	62,660,014			62,660,014
Receivables for securities	39,484,735			39,484,735
Foreign currency options	36,537			36,537
Premiums and agents' balances in course of collection	(37,323,122)			(37,323,122)
Reinsurance recoverable on loss and loss adjustment expenses	(195,290)			(195,290)
Electronic data processing equipment	1,014,669			1,014,669
Interest, dividends and real estate income due and accrued	19,340,842			19,340,842
Furniture, equipment and supplies	3,753,078		3,753,078	
Miscellaneous receivables	15,186,667		464,130	14,722,537
Other assets	4,061,262		1,634,860	2,426,402
Prepaid expenses	55,625,775		55,625,775	
Total assets	$2,129,624,578	$(23,969,407)	$65,852,406	$2,039,802,765

Liabilities

Losses	$16,738,174
Loss adjustment expenses	180
Other expenses (excluding taxes, licenses and fees)	29,676,395
Taxes, licenses and fees	4,011,369
Federal and foreign income taxes	5,349,329
Unearned premium	472,876,765
Funds held by Company under reinsurance treaties	193,384,145
Payable to parent, subsidiaries and affiliates	2,144,210
Payable for securities	130,802,592
Contingency reserve	353,928,919
Miscellaneous liability	9.794,821
Accrued interest payable on surplus notes	1,500,000
Total liabilities	$1,220,206,899
Common capital stock	$15,000,000
Surplus notes (Section 1307 loans)	120,000,000
Gross paid in and contributed surplus	526,814,880
Unassigned funds	157,780,986
Surplus as regards policyholders	$819,595,866
Total liabilities and surplus	$2,039,802,765

NOTE 1: The Internal Revenue Service has completed its audits of the consolidated income tax returns filed on behalf of the Company through tax year 1996. All material adjustments, if any, made subsequent to the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax year 1997 have yet to commence. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

NOTE 2: No liability appears in this balance sheet for a loan for $120,000,000. This loan was granted pursuant to Section 1307 of the New York Insurance Law. Payment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $475,223,338 during the five-year examination period, January 1, 1995, through December 31, 1999 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$335,328,827
Deductions:		
Losses and loss adjustment expenses incurred	$12,848,024	
Other underwriting expenses incurred	148,608,585	
Total underwriting deductions		161,456,609
Net underwriting gain		$173,872,218
Investment Income		
Net investment income earned	$343,718,056	
Net realized capital gains	26,175,685	
Net investment gain		369,893,741
Other Income		
Miscellaneous income	$ 14,152,127	
Total other income		14,152,127
Net income before federal and foreign income taxes		$557,918,086
Federal and foreign income taxes incurred		130,644,706
Net income		$427,273,380

Capital and Surplus Account

	Increases in Surplus	Decreases in Surplus	
Surplus as regards policyholders, per report on examination as of December 31, 1994			$344,372,528
Net income	$427,273,380		
Net unrealized capital losses	35,639,752		
Change in non-admitted assets		$ 55,018,501	
Change in contingency reserve		271,638,829	
Surplus notes – Section 1307 loans	120,000,000		
Paid in surplus	221,273,880		
Dividends to stockholders		37,000,000	
Tax and loss bonds	34,693,656		
Total increases and decreases	$838,880,668	$363,657,330	
Net increase to surplus as regards policyholders			$475,223,338
Surplus as regards policyholders, per report on examination as of December 31, 1999			$819,595,866

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $16,738,174 and $180 for losses and loss adjustment expenses, respectively, is the same as the liability reported by the Company in its 1999 filed annual statement. The Company establishes a case basis reserve for the present value of an estimated loss when, in management's opinion, the likelihood of a future loss is probable and determinable at the balance sheet date. Pursuant to Section 6903(b) of the New York Insurance Law, financial guaranty companies are allowed to discount their loss reserves by a rate equal to the average rate of return on the admitted assets of the insurer as of the day of the calculation of such reserves. As of the examination date, the discount to account for time value of money included as a reduction in the Company's loss reserves was $3,964,000. The Company discounted its loss reserves at rates that range from 5.2% to 6.1%.

In addition to case reserves, Financial Security is required to establish and maintain contingency reserves for the protection of insureds and claimants against the effect of excessive losses occurring during adverse economic cycles. The amounts required for these reserves depend on the types of bonds being insured and are established according to Section 6903(a) of the New York Insurance Law. As of December 31, 1999, Financial Security reported contingency reserves of $353,928,919.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which Financial Security conducts its business and fulfills its contractual obligations to policyholders and claimants.

The review was directed at practices of the Company in the following major areas:

A. Sales and advertising materials

B. Underwriting

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	It was recommended that the Company include all subsidiaries and affiliates in its organizational chart in Schedule Y of the annual statement. The Company complied with this recommendation.	8
B.	It was recommended that the Company amend its custodial service agreement with Morgan Guaranty Trust Company of New York to include Bankers Blanket Bond Insurance, which is a necessary safeguard and protective covenant. The Company complied with this recommendation.	11
C.	It was recommended that the Company review its internal control methods to prevent disbursement of checks over $50,000 without two authorized signatures as set forth in its corporate banking resolution with Morgan Guaranty Company of New York. The Company complied with this recommendation.	11

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Reinsurance	5-11
	Regarding the quota share and stop loss reinsurance agreement with its affiliate Financial Security Assurance (U.K.) Ltd., it is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(2) of the New York Insurance Law.	
B.	Abandoned Property Law	15
	It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the requisite abandoned property reports with the Office of the New York State Comptroller on a yearly basis.	
C.	Fidelity Bonds	16
	It is recommended that the Company maintain the minimum amount of fidelity bond insurance suggested by the NAIC on a yearly basis.	
D.	Accounts and Records	16
	It is recommended that the Company comply with the reporting provisions of Section 1307 of the New York Insurance Law and not report the interest on Section 1307 loans as part of its legal liabilities.	

Respectfully submitted,

Melba Bolic

MELBA BOLIC, CFE
Associate Insurance Examiner

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

MELBA BOLIC, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Melba Bolic

MELBA BOLIC, CFE

Subscribed and sworn to before me Camille A. Taylor
this 28 day of MARCH 2001.

CAMILLE A. TAYLOR
Notary Public, State of New York
No. 43-4994058
Qualified in Richmond County
Certificate Filed in New York County
Commission Expires March 30, 2002

State of New York
County of New York

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

James F. O'Sullivan, BEING DULY SWORN, STATES AS FOLLOWS:

1. I have authority to represent the State of Mississippi in the examination of Financial Security Assurance Inc.

2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

3. I have reviewed the examination work papers and examination report and the examination of Financial Security Assurance Inc. was performed in a manner consistent with the standards and procedures required by the State of Mississippi.

The affiant says nothing further.

James F. O'Sullivan
Examiner's Signature

Subscribed and sworn before me by James F. O'Sullivan on this 3rd day of May 2001.

Minerva Gordian
Notary Public

My commission expires 5/31/2002 [date].

MINERVA GORDIAN
Notary Public, State of New York
No. 01GO5870819
Qualified in Bronx County
Commission Expires May 31, 2002

Appointment No *21531*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Melba Bolic

as proper person to examine into the affairs of the

Financial Security Assurance Inc.

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

Corporation

with such other information as she 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 2nd *day of* *May 2000*

NEIL D. LEVIN
Superintendent of Insurance