MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor

RALPH S. TYLER
Commissioner

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February 1, 2008

The Honorable Paul E. Kanjorski
Chairman, Subcommittee on Capital Markets,
Insurance, and Government Sponsored Enterprises
2188 Rayburn House Office Building
Washington, D.C. 20515-3811

Dear Congressman Kanjorski:

Thank you for your letter of January 23, 2008. The questions you pose in your letter are of great importance to this agency and, more fundamentally, to consumers and to the industry we are charged with regulating. I wish to assure you of our cooperation as you proceed to consider these issues, and we stand ready to provide further or clarifying information as you may request.

A few prefatory comments may help to put our specific responses in context. The current problems in the economy involve the financial, credit, insurance, and housing markets. These problems are a reminder of the extraordinary complexity of the American economy and the fragmentation of the regulatory structure. No single agency at the state or federal level regulates all of the industries that drive financial services (nor would it be wise or practical for a single agency to do so) and yet the activities in the housing and mortgage industries, for example, impact the securities and insurance industries. Without seeking to avoid our responsibility for regulating the insurance industry, the problems that prompt your inquires are not, at their core, problems of insurance. Rather, they are problems born of failures in the mortgage industry and the related sharp decline in the housing market, for it is the collapse of mortgage-backed securities that has put financial guaranty insurers in jeopardy. Insurance regulation focuses on the solvency of insurance companies, relying heavily on others to evaluate the value underlying these securities. Traditional and accepted notions of the proper scope of insurance regulation would not extend to a separate evaluation of these values.

Further, as I know you understand, there is tension between the drive for innovation in the financial services industry, including insurance, and regulation. Innovation is obviously important to the strength and growth of the American economy. Regulation is no less important.

The task in which you are engaged of trying to figure out where regulatory authority should be located, what should be regulated, and how it should be regulated is exceedingly important and difficult. I am pleased to offer you my full assistance and support. Turning to your specific questions, they are answered below in the order in which you asked them.

Describe how bond insurers are regulated, especially with regard to solvency and capital requirements and how such regulation differs from other lines of insurance.

Insurance regulation is principally a state function. The solvency regulation of insurance companies rests primarily with the insurance regulators in each insurer's state of domicile. As the primary regulator, the state of domicile is responsible for monitoring the insurer's financial condition in order to protect the interests of the insurer's policyholders and creditors.

State insurance regulators have a broad range of tools to assist in solvency regulation. These tools include comprehensive laws and regulations governing the business of insurance, uniform quarterly and annual detailed financial statements, annual actuarial opinions, annual audited financial statements, ongoing financial analysis, periodic financial examinations, and market conduct investigations.

The financial surveillance process has evolved through the cooperative efforts of the various state insurance regulators, often through the National Association of Insurance Commissioners. In this regard, while the current structure is based on each state's having the appropriate procedures and resources in place to effectively regulate the financial solvency of its domestic insurers, it also encourages states to cooperate on matters of common interest. The current situation confronting the financial guaranty insurance industry is just such an example.

This financial surveillance process is applicable to financial guaranty insurers; however, there are notable differences between regulation in this area as compared to other insurance products due to the unique nature of the financial guaranty insurers:

- The capital adequacy of insurers is generally measured by the risk-based capital (RBC) concept, under which appropriate capital needs are determined based upon the unique risk profile of each insurer. The RBC formulas were not developed to apply to financial guaranty insurers due to the unique nature of financial guaranty business.

- A typical insurer issues policies of a relatively short duration, and recognizes losses incurred on those policies during the policy period. In contrast, financial guaranty policies are typically in force for many years (a mortgage, for example, may be for 30 years and, therefore, the guaranty insurance would be of equal duration). Losses on those policies are recognized when there is an event of default, which may occur years or even decades after a policy's inception. In order to help ensure that funds will be available to pay those claims when they arise, financial guaranty insurers are required to set aside a significant portion of the premiums they receive in a contingency reserve liability. This, too, is unlike other insurers.

- While all insurers are subject to limitations on the amount of exposure they can have to any one insurance risk, financial guaranty insurers' liability exposures are measured on a somewhat different basis. Specifically, financial guaranty insurers may not have unduly high risk exposure to any single issuer of securities (structured credit or municipal), and their aggregate exposure to municipal bonds for which the underlying rating is below investment grade is limited.

- One other difference in the regulation of financial guaranty insurers compared to other insurers that is somewhat unique to Maryland is that Maryland domestic financial guaranty insurers are not required to maintain their home offices in the State of Maryland (i.e., no physical office location is required). This is because legislation was enacted in Maryland exempting financial guaranty insurers from the requirement that they have offices in the State. Maryland's two domestic financial guaranty insurers are headquartered in New York City.

Outline the problems you presently perceive facing the bond insurance industry.

The most significant issues facing financial guaranty insurers have been triggered by downgrades by the Nationally Recognized Statistical Rating Organizations (rating agencies). The ability of financial guaranty insurers to write new business is dependent on their ratings from the rating agencies, since the ratings the insurers receive transfer to the investment vehicles they insure. Therefore, those insurers that have been identified for potential downgrades or been downgraded have seen their ability to write new business severely hampered. For example, on December 19, 2007, Standard & Poor's Corp. (S&P) lowered its financial strength and financial enhancement ratings on ACA Financial Guaranty Corporation (ACAFG), a Maryland domestic insurer, to "CCC," well below investment grade. This downgrade effectively suspended ACAFG's ability to write new business. At the same time, Maryland's other financial guaranty insurer, Assured Guaranty Corp., had its AAA financial strength and financial enhancement ratings affirmed by S&P.

Insurers downgraded or facing downgrades need to develop plans to address the rating agencies' actions. These plans could include raising additional capital, reducing their exposure to certain business, and revising their business models. Raising capital in the public capital markets may be challenging in the current environment. This, too, is a direct result of the perceptions regarding financial guaranty insurers' exposure to potential claims as discussed below, and the ratings agencies' actions discussed above. The actual capital needs of the various insurers is indeterminate, but certainly substantial. The adequacy of available private capital to meet these needs is uncertain.

In addition, certain financial guaranty insurers are faced with the perception in the capital markets of an increased potential for claims under their current business models. Financial guaranty insurers originally began by insuring the timely payment of principal and interest on bonds issued by municipalities. Historically, the insurers did a good job in this line of business, generating operating gains and experiencing few losses.

However, in the early 2000's financial guaranty insurers began expanding their product lines to include credit protection through insured credit default swaps in the institutional fixed income markets (structured credit insurance products). This business generally involves insured credit default swaps written on highly rated layers of risk associated with pools of assets that were either selected by the insurers or held within collateralized debt obligations (CDOs) of financial assets managed by third parties. The financial assets underlying the insured credit default swaps principally include corporate credits, asset-backed securities and mortgage-backed securities. This business, particularly that portion of which the underlying assets consist of subprime mortgage-backed securities, is the source of the current issues faced by certain financial guaranty insurers. The uncertainty concerning the ultimate performance of subprime mortgage-backed securities, and the resultant potential for future losses, is central to recent rating agency actions.

One Maryland domestic financial guaranty insurer, ACA Financial Guaranty Corporation (ACAFG), faces a unique challenge. Specifically, as the only A-rated financial guaranty insurer (prior to recent adverse rating actions), ACAFG was in a unique position in the marketplace. This A rating was part of ACAFG's niche business strategy that allowed it to serve portions of the public finance market that were not served by ACAFG's more highly-rated competitors. Due to its position in the marketplace, as part of its structured credit business, ACAFG and its affiliates were required to enter into agreements with the counterparties effectively requiring ACAFG to provide collateral to the counterparties in certain circumstances.

Because of S&P's December 19, 2007, downgrade of ACAFG's financial strength and financial enhancement ratings to CCC, ACAFG's affiliates were required, pursuant to pre-existing collateral agreements, to post collateral based on the fair value of the credit swaps as of the date of posting. The failure to post collateral would be an event of default, resulting in a termination payment in an amount approximately equal to the collateral call (well in excess of $1 billion). This termination payment would give rise to a claim under the related ACAFG insurance policy. Based on current fair values, neither ACAFG nor ACA Capital Holdings, its parent company, have the ability to post such collateral or make such termination payments.

ACA Capital Holdings and its direct and indirect subsidiaries, including ACAFG, entered into forbearance agreements with the counterparties. Under the agreements, the counterparties have temporarily waived all additional collateral posting requirements and termination rights relating to the rating of ACAFG under their respective transaction documents. While operating under the forbearance agreements, ACAFG is working closely with the counterparties to devise and implement a restructuring plan.

Significantly, neither of the two Maryland-domiciled financial guaranty insurers have incurred significant insurance claims, or believe that they will in the near future, from their structured credit business. These two insurers continue to meet or exceed all Maryland financial solvency requirements provided that, in the case of ACAFG, it continues to operate under the forbearance agreement noted above.

Examine the implications of these problems for the entities and products that you regulate, as well as the broader economy.

The insurance of bonds issued by municipalities has historically been and remains a potentially stable and profitable line of business for the financial guaranty insurers. The introduction of structured credit insurance products has resulted in significant uncertainty in the bond insurance marketplace due to the nature of these products.

State regulators need to and are working together to carry out their regulatory responsibilities to ensure the financial viability of insurers. It is crucial that regulators continue to work with their domestic financial guaranty insurers to ensure that management is capable of developing and implementing plans as needed to address the current issues.

Since the municipal bond insurance market has provided, and still does provide, an important service to the debt financing activity of the country's municipalities, it is important that this market remains active and viable. Failure of this market could have a significant adverse impact on municipalities' ability to issue debt instruments. This would mean that the costs of financing would increase and the resultant increased cost would be passed on to citizens and consumers either in the form of increased borrowing costs or, if these costs could not be met, through the loss of public goods and services.

As previously noted, much of the recent focus on financial guaranty insurers stems from the uncertainty concerning the ultimate performance of subprime mortgage-backed securities, and the resultant potential for future losses from those securities. While this has implications for financial guaranty insurers, the subprime mortgage situation has impacted other types of insurers. For example, mortgage guaranty insurers, which insure the payment of mortgages by borrowers, have experienced significant losses related to defaults on subprime mortgages. In addition, title insurers, which insure that clean title to properties is held by current owners, have experienced increased losses, indicating a possible degradation in the quality of work performed in originating mortgages. Also, it has been reported that insurers offering directors' and officers' insurance may incur significant claims attributable to the subprime situation. Furthermore, while the exposure does not appear to be overly significant, many insurers have mortgage-backed securities, including those backed by subprime mortgages, in their investment portfolios.

These issues point to the broader issue of the quality of mortgages being originated and the impact poorly underwritten subprime mortgages have had throughout the U.S. economy. Certainly the recent downturn in stock market performance has been fueled by losses reported by large originators of and investors in subprime mortgages, and the significant uncertainty surrounding these loans. Given the wide range of entities reporting exposure to and losses from these instruments, it seems clear that much of this problem originated within the mortgage loan origination industry, which is not within the scope of state insurance regulation.

Detail the steps you are taking to monitor developments in the bond insurance marketplace and protect the solvency of insurers.

Beginning with a routinely scheduled financial examination of Assured Guaranty Corp. in 2002, we became aware of what was at the time the relatively new structured credit insurance business. At the time, this was a small but growing business for the company.

By the time of a routinely scheduled examination of ACA Financial Guaranty Corp. (ACAFG) in 2004, structured credit business had become a significant product line. At that time, this agency began a now years-long dialogue with the New York Insurance Department (NYID) and the Wisconsin Department of Insurance (WDI) to better understand these products, the insurance of them, and regulation of the industry. There were also discussions with credit analysts in the bond insurance group at S&P.

The NYID had been approached by the trade association for the financial guarantors with a proposal to modernize its laws governing financial guaranty insurers. This modernization was completed and enacted by the New York legislature in late 2004. Concurrently, ACAFG approached this agency with a request to similarly modernize parts of the Maryland regulations governing financial guaranty insurers to allow them a fair competitive environment and better accommodate their business model. These regulation changes were adopted in June 2006. It should also be noted that in early 2007, the NAIC likewise modernized its model law for financial guaranty insurance through a working group on which Maryland participated.

The exposure to securitized subprime mortgage loans began at approximately the conclusion of our 2004 examination of ACAFG. In the following several years (2004 to present), this exposure increased at a tremendous rate. As issues began to emerge regarding the subprime mortgage market, the next routinely scheduled financial examination (as of December 31, 2006) of AGC began in mid-2007. As we gained an understanding of AGC's exposure in this regard, we began to query ACAFG concerning their exposure. It quickly became apparent that ACAFG's exposure was much more significant, and we began planning for a limited-scope examination of ACAFG. We held several discussions with staff from the NYID regarding this issue. Our limited-scope examination of ACAFG began in November 2007.

As these events were unfolding, we undertook a review of the subprime mortgage market. Also, we were (and are) continually reviewing materials generated by S&P, other rating agencies, and the financial media, related to the subprime mortgage market, the financial guaranty insurance industry generally, and the Maryland-domiciled companies in particular. Communication with and from the NAIC and its Securities Valuation Office (SVO) was directed at determining the impact of the crisis in the subprime mortgage market not only on the financial guaranty insurers, but also on other insurers that owned securities ultimately tied to subprime mortgage loans and/or securities insured by the financial guaranty insurers. The SVO's analysis included a broad investigation of insurer exposures to subprime mortgage-backed securities in their investment portfolios. Additionally, the NAIC took steps to require greater disclosures by insurers with respect to insured exposure to subprime mortgages.

Our communication with the Maryland domestic companies increased as we monitored developments in the market. We had further discussions with NYID staff regarding their planned analysis of the health of the financial guaranty industry, and invited them to participate in the limited-scope examination of ACAFG. As part of the limited-scope examination of ACAFG, we have engaged expert consultants to evaluate its insured portfolio which is ultimately backed by subprime mortgage loans. The charge to these experts is to determine the probability, extent, and timing of potential losses on this portfolio.

Immediately prior to the downgrade of ACAFG's financial strength and financial enhancement ratings by S&P, we entered into a Consent Order with ACAFG. Under the Consent Agreement ACAFG agreed that it would not object to being placed into receivership in the event that: 1) S&P downgrades ACAFG's financial strength and financial enhancement ratings to "BBB+" or lower (which it now has done); and 2) ACA does not have signed forbearance agreements in place with all of the swap counterparties (which it currently has). A copy of the Consent Order is attached.

At the same time we entered into a Letter of Representations and Agreements (the Letter Agreement) with ACAFG. Under the Letter Agreement, ACAFG agreed to provide certain documentation and other reports to us, and also agreed not to engage in certain activities without providing prior notice and an opportunity for us to object. These activities include the pledging or assigning any assets, paying dividends, and engaging in certain material transactions.

Discuss the adequacy of existing statutory and regulatory tools, at the State or Federal level, to address these problems and the need for further reforms.

Maryland's financial surveillance process places significant emphasis on the ongoing monitoring of the financial condition of Maryland domestic insurers. This is a multi-dimensional process designed to obtain an understanding of the environment in which an insurer operates, the solvency risks it faces, and management's procedures to mitigate those risks. The process focuses on the early detection of financial difficulty so that we can work with management to avoid insolvency. We believe that the process in place is sound and the tools available are adequate.

That being said, whenever we note an insurer confronting financial issues we reconsider our process and seek ways to improve our results. For example, we look for signs that existed which, in hindsight, might have caused us to act differently or intervene sooner. With regard to the financial guaranty insurers, we are certainly reviewing our financial surveillance efforts with an eye towards future improvement.

This situation also warrants further work with the other state regulators of financial guaranty insurers for possible areas for improvement. State regulators need to and are working together to carry out their regulatory responsibilities to ensure the financial viability of financial guaranty insurers. I believe that this effort should consider all aspects of our financial surveillance process, including the adequacy of current financial reporting by the financial guaranty insurers.

We also note that the current issues facing certain financial guaranty insurers stem from their business models which focused on structured credit products. The New York Superintendent of Insurance and Wisconsin Insurance Commissioner have taken the lead in reviewing the overall business operations of financial guaranty insurers and whether reforms should be implemented to help ensure that they operate in a financially sound manner. I have been invited to participate in that process, and have offered my assistance and that of my staff in this important project.

Certainly the extent to which certain financial guaranty insurers have exposure to structured credit product, particularly that portion of which the underlying assets consist of subprime mortgage-backed securities, calls into question the way these insurers limit their risk to various exposures. I intend to work with the New York Superintendent of Insurance and Wisconsin Insurance Commissioner to ensure that this matter is fully addressed. That said, without seeking to avoid our responsibility for the regulation of the insurance industry, the problems that prompt your inquires are not, at their core, problems of insurance. Rather, it is the collapse of mortgage-backed securities that has put financial guaranty insurers in jeopardy. I therefore respectfully suggest that there are opportunities at the federal level for actions relating to banking and securities regulation that could lessen the likelihood of a repetition of these problems.

Clearly, there were significant abuses in the mortgage banking industry that led to the current crisis in the subprime mortgage market. Reportedly lax underwriting, inappropriately motivated loan originators and lenders, as well as borrowers whose reach exceeded their financial grasp, and an overwhelming desire to feed the capital market's appetite for securitized loan products all contributed to create the crisis faced today.

Further, accounting rules that allowed financial institutions that owned these securitized loan products to create off-balance-sheet risks through the use of credit derivatives and to transfer that risk to third parties (namely, the financial guarantors) may have been significant contributors to the current crisis. There does not appear to us to be significant economic rationale to support this treatment, but it does allow the owners of these instruments to smooth earnings by removing the market volatility risks associated with these products from their financial statements.

In addition, some degree of culpability on the part of the rating agencies must also be acknowledged. There are several probable sources of error from the rating agencies, which, like other market participants, did not proactively challenge downside risk assumptions for structured securities ultimately comprised of subprime mortgage loans until it was obvious that their prior assumptions were no longer valid. At the same time, the financial guaranty insurers (and yes, insurance regulators) relied on the work of the rating agencies in assessing the default risks in securities that the industry insured.

Last, some of the current situation may have been caused by the lack of oversight of CDOs. It is our understanding that there are no requirements to register these securities with the U.S. Securities and Exchange Commission (SEC). The lack of SEC registration may imply less transparency in these securities because of insufficient disclosures regarding their underlying assets. The SEC and others have greater expertise on these assets and should be consulted to determine if our concerns are justified.

Comment on the advisability of creating a guaranty fund, like those State funds for life and health insurers and property and casualty insurers, for the bond insurance industry.

We do not recommend the establishment of a separate guaranty fund for financial guaranty insurers.

Guaranty funds are funded by assessments of the participating insurers. Given that the financial guaranty insurance industry is relatively small in terms of participants, a funding scheme of this nature would likely result in financially unbearable assessments for the insurers.

In addition, we note significant issues regarding policyholders and claims that might be covered by a separate guaranty fund for financial guaranty insurers.

For example, under the currently existing guaranty funds coverage is restricted to policyholders under specified net worth thresholds (generally, those with net worth under $25 to $50 million). This serves to alleviate the financial burden on participating insurers by denying coverage to policyholders generally considered able to withstand uninsured losses. Should a separate guaranty fund for financial guaranty insurers be established, decisions on whether to include the financial guaranty industry's high net worth institutional policyholders would need to be made.

In addition, we note that municipal bond insurance is generally underwritten with a "zero loss" expectation (or at least a negligible loss expectation), which is indicative of the industry's historical experience in this business line. This suggests that most of the risk of a claim on a separate guaranty fund for financial guaranty insurers would result from the insurance of non-municipal securities, which have varied and complex events that create an insurable loss that could make the validity of a claim on a guaranty fund disputable.

Again, I appreciate the opportunity to provide these comments on these important subjects. I trust that my comments have been responsive to your request. Should you have any questions on these issues or would like additional information, please do not hesitate to contact me.

Respectfully submitted,

Ralph S. Tyler,
Insurance Commissioner

IN RE:	BEFORE THE
ACA FINANCIAL GUARANTY CORPORATION NAIC NUMBER 22896 140 BROADWAY 47TH FLOOR NEW YORK, NEW YORK 10005	MARYLAND INSURANCE ADMINISTRATION MIA No. MIA-2007-12-037

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CONSENT ORDER

Pursuant to §§ 2-108, 4-113, 9-102 and 9-103 of the Insurance Article, this Consent Order is entered by the Insurance Commissioner for the State of Maryland (the "Commissioner"), with the consent of ACA Financial Guaranty Corporation ("ACA").

FACTUAL FINDINGS

1. The Commissioner is charged with the enforcement of the Insurance Article.

2. ACA is a Maryland domestic property and casualty insurance company that was incorporated under the laws of Maryland on June 25, 1986. ACA obtained its original Certificate of Authority to conduct the business of insurance in the State of Maryland on September 11, 1986. Under it Articles of Incorporation, ACA was formed for the purpose of engaging in the business of issuing financial guaranty insurance, municipal bond insurance and credit enhancement insurance.

3. ACA is an indirect, wholly-owned subsidiary of ACA Capital Holdings, Inc. (ACA Capital), a Delaware-domiciled company. ACA Capital is a publicly-traded company whose stock is currently listed on the New York Stock Exchange (NYSE). Due to current trading conditions and failure to meet NYSE listing maintenance requirements, ACA Capital stock has been delisted from the NYSEand its trading has moved to the over-the-counter market.

4. In order to retain its certificate of authority, ACA is required by §§4-103 to 4-105 to maintain certain capital and surplus.

5. In addition, §9-102 of the Insurance Article specifies the conditions the Commissioner may consider in determining whether the continued operation of an authorized insurer engaging in insurance business in the State would be hazardous to policyholders or creditors of the authorized insurer or the general public.

6. For the third quarter of 2007, ACA Capital reported a GAAP net loss of $1.0 billion, primarily because of $(1.7) billion, or $(1.1) billion after tax, of net

unrealized mark-to-market losses on its portfolio of certain Structured Credit transactions. These unrealized losses were a direct result of the current crisis in the residential mortgage-backed securities markets.

7. Since 2004, ACA has experienced significant growth in its structured credit business. Under this business, ACA issues financial guaranty policies that insure the performance of affiliated Special Purpose Vehicles (SPVs) on credit default swaps written by them on collateralized debt obligations (CDOs) or tranches backed by portfolios of financial assets. As a result, as of September 30, 2007 ACA had insured transactions of this nature with an insured principal in force totaling approximately $69 billion. Of that amount, approximately $22 billion was ultimately backed by subprime mortgages.

8. On November 9, 2007, Standard and Poor's Corporation (S&P), a Nationally Recognized Statistical Ratings Organization (NRSRO), gave notice that it had placed its "A" financial strength and financial enhancement ratings of ACA on CreditWatch with negative implications, meaning that those ratings could be downgraded in the near future. In taking this action, S&P cited its concerns that the losses discussed above may impair ACA's ability to generate a satisfactory level of new business in the future.

9. On certain of its financial guaranty policies that insure the performance of affiliated Special Purpose Vehicles (SPVs) on credit default swaps as described above, ACA entered into Credit Support Annexes (CSAs) with the swap counterparties. Among other things, the CSAs give the swap counterparties the right to require the respective SPVs to post collateral in an amount approximately equal to unrealized mark-to-market losses on the insured derivatives to support its obligations to pay on them in the event that ACA is downgraded to "BBB+" or lower by S&P.

10. If ACA is downgraded to "BBB+" or lower by S&P, the amount of collateral the SPVs would be required to post under the CSAs is approximately $1.7 billion, as of September 30, 2007, which the SPVs would not be able to do. The result of the SPVs failure to post would create an aggregate amount of termination payments under the credit default swaps in the approximate amount of the required collateral post, which payments are insured by ACA. ACA has approximately $426 million of statutory capital (policyholders' surplus and contingency reserves) and approximately $712 million of total admitted assets, as of September 30, 2007.

11. ACA has approached its swap counterparties as a group, proposing to them a short term Forbearance Agreement under which the counterparties would agree to forebear from taking actions related to the CSAs and/or events defined in related documents that would cause ACA to post collateral or terminate the structured credit transactions in the event of its downgrade by S&P. ACA must successfully negotiate this forbearance and a succeeding long term forbearance (together with

the short term forbearance referred to as the "Forbearance Agreement") from all of its swap counterparties to avoid the collateral call issues.

12. ACA has reviewed the terms of this Order and after careful consideration, with the advice of competent counsel, and with full knowledge and awareness of the benefits gained and the obligations incurred herein, ACA, upon resolution of its Board, knowingly and voluntarily consents to the terms, conditions, and requirements of this Order.

NOW, THEREFORE, with the Consent of ACA, **IT IS HEREBY ORDERED THAT**:

A. In the event that S&P downgrades ACA's financial strength and financial enhancement ratings to "BBB+" or lower, and ACA does not have signed forbearance agreements in place with all of the swap counterparties, and in the sole judgment of the Commissioner those events result in insufficient protection to ACA's policyholders and creditors or to the general public, the Commissioner may, in his sole discretion, institute delinquency proceedings in the Circuit Court for Baltimore City. Such proceedings may consist of a request that ACA be placed under conservation, rehabilitation, or liquidation.

B. ACA will not object to and, if requested, will consent to, an Order granting any petition filed by the Commissioner requesting that ACA be placed under conservation, rehabilitation, or liquidation upon occurrence of the events described in Paragraph A above.

C. For purposes of the business of the Administration, for any subsequent and unrelated administrative or civil proceedings concerning ACA, and with regard to requests for information about ACA made under the Maryland Public Information Act or properly made by governmental agencies, this Consent Order will be kept and maintained in the regular course of business by the Maryland Insurance Administration.

D. ACA acknowledges that this Consent Order constitutes a FINAL ORDER of the Commissioner. ACA waives all rights to a hearing on, or judicial review of, this Consent Order.

IT IS SO ORDERED, effective this 19th day of December, 2007.

RALPH S. TYLER
INSURANCE COMMISSIONER

CONSENT OF ACA FINANCIAL GUARANTY CORPORATION

ACA Financial Guaranty Corporation hereby CONSENTS to the terms of the above Consent Order in MIA No. MIA-______. A copy of the corporate resolution authorizing the Chairman of the Board to consent to this Order on behalf of ACA Financial Guaranty Corporation is attached hereto.

______________________________ Date *December* ____, 2007

David King
Chairman of the Board

CERTIFICATE

I, NORA J. DAHLMAN, Secretary of ACA Financial Guaranty Corporation (the "Company"), a Maryland stock insurance company, HEREBY CERTIFY that the following resolutions were adopted by the Board of Directors (the "Board") of the Company at a meeting duly called and held on December 18, 2007 and that they are now in full force and effect without amendment or modification:

WHEREAS, the Board deems it advisable and in the best interest of the Company to enter into or consent to, as applicable, (i) that certain Letter of Representations and Agreements (the "Letter Agreement") by and between the Company and the Insurance Commissioner for the State of Maryland (the "Commissioner") and (ii) that certain Consent Order by the Commissioner (the "Consent Order"), in each case in substantially the form heretofore provided to the Board;

RESOLVED, that each of the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, and General Counsel and Secretary of the Company (the "Authorized Officers") be, and each of them hereby is, authorized and empowered, in the name of and on behalf of the Company, to execute, acknowledge and deliver (or cause to be executed, acknowledged and delivered) the Letter Agreement and the Consent Order with such changes, amendments, modifications and omissions thereto as such Authorized Officer or any of them shall approve, as in the best interests of the Company and not inconsistent with the terms of this resolution;

FURTHER RESOLVED, that each of the Authorized Officers and the Chief Accounting Officer and the Treasurer of the Company is hereby authorized to pay any and all expenses, fees, costs and taxes incurred by or on behalf of the Company or any of its subsidiaries as such officer may determine to be necessary or advisable in connection with the foregoing resolution (such determination to be conclusively, but not exclusively, evidenced by such payment); and all expenses, fees, costs and taxes paid by or on behalf of the Company in connection with the transactions contemplated by the foregoing resolution are hereby authorized, ratified and confirmed in all respects;

FURTHER RESOLVED, that each Authorized Officer is hereby authorized to take any and all such further actions and to execute, deliver and file such further agreements, instruments, reports and documents, in the name and on behalf of the Company as they shall deem necessary or appropriate to carry out the intent and accomplish the purposes of the foregoing resolution; and

FURTHER RESOLVED, that any and all actions heretofore or hereafter taken by the officers of the Company, or any of them, within the terms of the foregoing resolution hereby are ratified and confirmed in all respects as the act and deed of the Company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate deal of the Company this 18th day of December, 2007.

(SEAL)

Secretary