

**Issuer Comment: Syncora resumes claim payments but uncertainty about the firm's longer term risk profile remains**

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Syncora Guarantee Inc (SGI, IFSR:Ca, developing outlook) announced recently that it has resumed claim payments following completion of the remediation plan undertaken to mitigate liquidity concerns and strengthen their regulatory capital position. The company has outlined a plan to pay claims (pending and new) on regularly scheduled dates; current claims will be paid in full while pending claims will be paid over the next six months. These developments substantially reduce uncertainty about recovery for insured claims in the near term but the impact on the firm's long term capital profile is unclear until visibility on remaining risk and financial profile improves.

In April 2009, the New York State Insurance Department (NYSID) ordered SGI to stop paying claims (1310 order) until the statutory surplus position recovered to a level above the minimum (\$65 million) required by New York state insurance law. Syncora implemented a restructuring plan, the most important aspects of which were the commutation of nearly all the ABS CDO risk in the portfolio, the tender offer for RMBS risks that reduced the loss reserve requirement by 68% and the creation of Syncora Capital Assurance Inc. (SCAI), a wholly owned unrated subsidiary of SGI that now reinsures a portion of SGI's public finance and global infrastructure risk on a cut-through basis. With these transactions, SGI's statutory surplus recovered to \$100 million at year end 2009. The last portion of the restructuring was completed in April 2010 but SGI did not petition NYSID to resume claims at that time as the company announced that it was undertaking several remediation actions to improve its liquidity and surplus position. At the end of the first quarter, SGI has \$250 million of net unpaid RMBS claims and cash and short term investments of \$389 million. The company has not yet published second quarter financials.

NYSID withdrew the claims suspension order in June, but ordered SGI to submit a plan for payment of unfulfilled claims before resuming payments. SGI executed another round of remediation which included insured asset purchase, monetization of certain illiquid assets, and partial prepayment of surplus note by its subsidiary, and restructuring/commutation of some risks in the portfolio. The payment plan, based on the executed remediation and the expected claims schedule, has been approved by NYSID.

Resumption of claim payment is a significant positive development for policyholders with pending unpaid claims and for policyholders who will present claims in the near term. However, the longer term credit profile of SGI is still unclear as details of the remediation, including the net retained exposures and the firm's liquidity profile-post remediation, need to be assessed. SGI's portfolio at the end of the first quarter of 2010 included meaningful exposure to troubled segments including \$2.7 billion of RMBS risk and \$96 million of Trups CDO risk. Additionally, impact of remediation on other important factors such as, aggregate capital resources, remaining risk and statutory surplus position (second quarter financials have not been filed), is not yet known.

Syncora Guarantee Inc is a subsidiary of Bermuda domiciled Syncora Holdings Ltd. (OTC: SYCRF.PK). As of December 31, 2009, SGI insured \$23 billion of net risk and its wholly owned subsidiary SCAI insured \$83 billion of risk.

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