



**Capital Markets Assurance  
Corporation**  
**Statutory-Basis Financial Statements**  
**December 31, 2009 and 2008**

**Capital Markets Assurance Corporation**  
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**December 31, 2009 and 2008**

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**Report of Independent Auditors**

To the Board of Directors and Shareholders of  
Capital Markets Assurance Corporation:

We have audited the accompanying statutory statements of admitted assets, liabilities and capital and surplus of Capital Markets Assurance Corporation (the "Company") as of December 31, 2009 and 2008, and the related statutory statements of income and changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2009 and 2008, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As described in Note 1 to the financial statements, the Company's operations are in run-off and its risk in force is 100% reinsured by its Parent, MBIA Insurance Corp.

Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the Company as of December 31, 2009 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Summary Investment Schedule and Supplemental Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2009 and for the year then ended. The Summary Investment Schedule and Supplemental Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

*PriceWaterhouseCoopers LLP*

May 28, 2010

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES and CAPITAL and SURPLUS**

(Dollars in thousands except share and per share amounts)

	December 31, 2009	December 31, 2008
<b>Admitted Assets</b>		
Investments:		
Fixed maturity securities, at amortized cost (fair value \$96,081 and \$101,914, respectively)	\$ 94,001	\$ 93,489
Short-term investments, at amortized cost	26,340	21,995
Receivable for securities	5	-
Total investments	120,346	115,484
Cash and cash equivalents	4,884	6,106
Total cash and investments	125,230	121,590
Accrued investment income	1,333	1,249
Premiums receivable	164	174
Receivable from parent and affiliates	2,204	2,958
Other assets	267	275
Total admitted assets	\$ 129,198	\$ 126,246
<b>Liabilities, Capital and Surplus</b>		
Liabilities:		
Other liabilities	\$ 1,166	\$ 1,488
Total liabilities	1,166	1,488
Capital and Surplus:		
Common stock, par value \$3 per share; authorized, issued and outstanding - 5,820,000 shares	17,460	17,460
Additional paid-in capital	57,540	57,540
Unassigned surplus	53,032	49,758
Total capital and surplus	128,032	124,758
Total liabilities, capital and surplus	\$ 129,198	\$ 126,246

The accompanying notes are an integral part of the financial statements.

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF INCOME**

(Dollars in thousands)

	Years ended December 31	
	2009	2008
Revenues:		
Gross premiums written	\$ 861	\$ 1,116
Ceded premiums	(861)	(1,116)
Net premiums written	-	-
Decrease in unearned premiums	-	-
Premiums earned	-	-
Expenses:		
Underwriting expenses incurred	335	179
Net underwriting loss	(335)	(179)
Investment income:		
Net investment income	4,083	4,800
Net realized gains, (less tax of \$35 and \$542)	65	1,006
Net investment gain	4,148	5,806
Other (expense) income, net	-	(1)
Income before income taxes (after capital gains tax)	3,813	5,626
Income tax provision	607	440
Net income	\$ 3,206	\$ 5,186

**The accompanying notes are an integral part of the financial statements.**

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS**

**For the years ended December 31, 2009 and 2008**

(Dollars in thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Unassigned Surplus	Total Capital and Surplus
	Shares	Amount			
Balance, January 1, 2008	5,820,000	\$ 17,460	\$ 57,540	\$ 44,494	\$ 119,494
Net income	-	-	-	5,186	5,186
Change in non-admitted assets	-	-	-	3	3
Change in net deferred income tax	-	-	-	42	42
Change in foreign currency translation	-	-	-	33	33
Balance, December 31, 2008	<u>5,820,000</u>	<u>\$ 17,460</u>	<u>\$ 57,540</u>	<u>\$ 49,758</u>	<u>\$ 124,758</u>
Net income	-	-	-	3,206	3,206
Change in non-admitted assets	-	-	-	68	68
Balance, December 31, 2009	<u>5,820,000</u>	<u>\$ 17,460</u>	<u>\$ 57,540</u>	<u>\$ 53,032</u>	<u>\$ 128,032</u>

**The accompanying notes are an integral part of the financial statements.**

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	Years ended December 31	
	2009	2008
<b>Cash from operations</b>		
Premiums collected, net of reinsurance	\$ 8	\$ (131)
Net investment income	4,261	5,443
Miscellaneous (expense) income	-	(1)
Total	4,269	5,311
Commissions and expenses paid	311	179
Federal and foreign income taxes paid	1,089	422
Total	1,400	601
Net cash provided by operations	2,869	4,710
<b>Cash from investments</b>		
Proceeds from investments sold, matured or repaid:		
Fixed-maturity securities	4,677	45,942
Net gains or (losses) on cash, cash equivalents and short-term investments	4	-
Miscellaneous proceeds	(6)	6
Total investment proceeds	4,675	45,948
Cost of investments acquired:		
Fixed-maturity securities	5,355	25,797
Total investments acquired	5,355	25,797
Net cash provided by (used for) investments	(680)	20,151
<b>Cash from financing and miscellaneous sources</b>		
Other cash provided	934	1,301
Net cash provided by financing and miscellaneous sources	934	1,301
Net change in cash, cash equivalents and short-term investments	3,123	26,162
Cash, cash equivalents and short-term investments - beginning of year	28,101	1,939
Cash, cash equivalents and short-term investments - end of year	\$ 31,224	\$ 28,101

**The accompanying notes are an integral part of the financial statements.**

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2009 and 2008**

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**1. Business and Organization**

Capital Markets Assurance Corporation (“CMAC” or the “Company”) was acquired in February 1998 by MBIA Inc. as part of their acquisition of CapMAC Holdings Inc. The Company provides an unconditional and irrevocable guarantee of the payment of principal and interest on insured obligations when due. As of the date of acquisition, management made a strategic decision to place CMAC's operations in run-off. The net book of business is 100% reinsured by MBIA Insurance Corporation (“MBIA Corp.”), which is the Company’s parent, and therefore many of the balances within the financial statements are shown net of this intercompany reinsurance. CMAC and MBIA Corp. are both domiciled in the state of New York. MBIA Corp. is owned by its parent company, MBIA Inc. an insurance holding company domiciled in the State of Connecticut.

Effective January 1, 2009, MBIA Inc. disclosed that after receiving the required regulatory approvals, it had established and capitalized MBIA Illinois as a new U.S. public finance-only financial guarantor. As part of the capitalization of MBIA Illinois, the stock of MBIA Illinois was transferred to a newly established intermediate holding company, which is wholly-owned by MBIA Inc. MBIA Illinois has been renamed National Public Finance Guarantee Corporation (“National”). Effective December 1, 2009, National was redomesticated to the State of New York.

**2. Summary of Significant Accounting Policies**

Basis of Presentation

The statutory financial statements of CMAC are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners (“NAIC”) *Accounting Practices and Procedures Manual*. In September of 2009, the New York State Insurance Department (“NYSID”) became accredited under the NAIC’s Financial Regulations Standards and Accreditation Program. Therefore, as per Regulation Number 172 of the New York State Insurance Law, NYSID has adopted the NAIC’s *Accounting Practices and Procedures Manual* in its entirety subject to any conflicts with state regulations, or where the state statutes or regulations are silent.

CMAC does not have any accounting practices which are permitted, rather than prescribed, by the NYSID.

The accompanying statutory-basis financial statements have been prepared in conformity with Statutory Accounting Principles (“SAP”), which differs in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The more significant of these differences are as follows:

- Upfront premiums are earned on a SAP basis proportionate to the scheduled periodic maturity of principal and payment of interest (“debt service”) to the original total principal and interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP, CMAC recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;
- under SAP, acquisition costs are charged to operations as incurred rather than GAAP’s requirement to defer and amortize the costs as the related premiums are earned;
- a contingency reserve is computed on the basis of statutory requirements and is not permitted under GAAP;
- Loss reserves are reported net of insurance loss recoverables and are discounted using a rate equal to the yield-to-maturity of MBIA Corp.’s fixed-income portfolio, excluding investments in money market funds and alternative investments and including an intercompany secured loan. Under GAAP, loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the unearned premium revenue and gross of insurance recoverables which are reported as an asset;

**CAPITAL MARKETS ASSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2009 and 2008**

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- salvage and subrogation are generally recorded as a reduction to loss and loss adjustment expense (“LAE”) reserves for GAAP and statutory reporting. In certain instances under GAAP, the Company records salvage and subrogation, including insurance loss recoverables as an asset. This would occur, for example, when the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment and the recovery of such salvage is reasonable and estimable;
- assets and liabilities relating to reinsurance are reported on a net basis. Therefore, incurred losses and LAE are reported net of reinsurance recoverables and deferred premiums are reported net of prepaid reinsurance. Under GAAP, these reinsurance balances are required to be shown on a gross basis;
- certain assets, which consist primarily of premiums receivable over 90 days and prepaid expenses described as “non-admitted”, are charged directly to unassigned surplus under SAP. Non-admitted assets were approximately \$78 thousand and \$147 thousand at December 31, 2009 and 2008, respectively. Under GAAP, these amounts are typically reflected as assets;
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in CMAC’s net deferred income tax balances are either recognized as a component of net income or other comprehensive income depending on how the underlying pre-tax impact is reflected;
- the IRS permits financial guarantee insurance companies a tax deduction for increases to the statutory contingency reserve specifically relating to the issuance of U.S. state and local obligations, as defined under section 103 of the Internal Revenue Code of 1986, as amended. Such deduction is allowable provided that the financial guarantee insurance company purchase a special series Tax and Loss bonds (“T&L bonds”) issued by the U.S. Treasury equal to the tax benefit derived. CMAC does not have any statutory contingency reserves relating to the issuance of U.S. state and local obligations. As such, CMAC is neither eligible to make a tax deduction for any increases to the statutory contingency reserves nor eligible to purchase the related T&L bonds;
- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income (loss) and changes in capital and surplus or the statutory statements of admitted assets, liabilities and capital and surplus. Bonds not qualified to be carried at amortized cost are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes, rather than recording the difference in unrealized gains and losses through shareholders’ equity; and
- the statements of cash flows reconcile to cash and cash equivalents under GAAP rather than cash, cash equivalents and short-term investments. In addition, under SAP, cash flows from operations are reported consistent with the Statement of Income.

See “Note 7: Reconciliation of Statutory Accounting to GAAP-Basis Accounting” for the reconciliation of statutory-based capital and surplus to GAAP-based shareholder’s equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks with an original maturity of less than 90 days. Cash equivalents also include bonds and commercial paper with a maturity of less than 90 days at time of purchase.

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Investments

Bonds with an NAIC designation of 1 or 2 that are not backed by other loans are reported at amortized cost. Amortized cost is calculated using the effective interest method. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the bond. For bonds purchased at a price above par value, which have call features, premiums are amortized to the call date that produces the lowest yield. For premium bonds that do not have call features, such premium is amortized over the remaining term of the bond.

Investments in bonds with an NAIC designation of 3 through 6 that are not backed by other loans are reported at the lower of amortized cost (as described above) or fair value as determined by the NAIC's Securities Valuation Office ("SVO"). In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount CMAC could realize in the market.

Loan-backed bonds and structured securities with NAIC designation of 1 or 2 are reported at amortized cost using the effective interest method, including anticipated prepayments at the date of purchase. Changes in the estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. However, the prospective method is used to value interest only securities or securities where the yield has become negative.

Loan-backed bonds and structured securities with NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value as determined by the SVO. In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount CMAC could realize in the market.

Investment income is recorded as earned. All investment income due and accrued with amounts that are over 90 days past due are non-admitted. As of December 31, 2009 and 2008 there were no non-admitted assets for investment income due and accrued. Realized gains and losses on the sale of investments are determined by specific identification and are included in the Statement of Income as a separate component of revenues. Unrealized gains and losses from the revaluation of bonds and common stocks not valued at amortized cost are credited or charged to unassigned surplus

The NAIC adopted Statement of Statutory Accounting Principles ("SSAP") 43R "Loan-backed and Structured Securities," effective September 30, 2009. SSAP 43R establishes principles for investments in loan-backed and structured securities and increased disclosures regarding other-than-temporarily impaired securities. See "Note 3: Investments" and "Note: 4 Investment Income and Gains and Losses" for further information. CMAC did not recognize a transition adjustment as a result of implementing SSAP 43R.

In 2001, CMAC implemented the retrospective methodology due to requirements stated in SSAP No. 43, "Loan-backed and Structured Securities." For loan-backed securities, the Company has elected to use the book value as of January 1, 1994, as the cost for applying the retrospective adjustment method to securities purchased prior to that date. Prepayment assumptions for single class and multi-class mortgage/asset-backed securities were obtained from an independent third-party data service or internal estimates. CMAC used independent third-party pricing services in determining the fair value of its loan-backed securities. The retrospective adjustment method is used to value all securities except for interest only securities where the yield has become negative. These securities are valued using the prospective method.

Short-term investments and cash equivalents are stated at amortized cost which approximates fair value.

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CMAC's investment portfolio containing all of its securities are reviewed no less than quarterly in order to identify those securities in which fair value is less than amortized cost in order to assess whether such a decline in value is other-than-temporary. An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

1. The security's current fair value is less than current book value by a magnitude of 5% or greater, and the fair value has been less than book value for a period of greater than twelve months; or
2. The security's fair value is less than current book value by a magnitude of 20% or greater.

If any of the above criteria are met, further analysis is performed to determine whether the impairment is other-than-temporary. In assessing whether a decline in value is other-than-temporary, CMAC considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and reasons for the decline, such as general interest rate or credit spread movements, credit rating downgrades, issuer specific changes in credit spreads, and the financial condition of the issuer, and (c) any guarantees associated with a security such as those provided by investment-grade financial guarantee insurance companies. Based on this assessment, if CMAC believes that either (a) the investment's fair value will not recover to an amount equal to its amortized cost or (b) CMAC does not have the ability and intent to hold the investment to maturity or until the fair value recovers to an amount at least equal to amortized cost, it will consider the decline in value to be other-than-temporary. If CMAC determines that a decline in the value of an investment is other-than-temporary, the investment is written down to its fair value and a realized loss is recorded in net income.

For loan-backed and structured securities, CMAC estimates cash flows expected to be collected over the life of the security. If CMAC determines that if, based on current information and events, there is a decrease in cash flows expected to be collected (that is they will be unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition) an other-than-temporary impairment shall be considered to have occurred. For loan-backed securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the other-than-temporary impairment is recognized as a net realized loss, while the rest of the fair value loss is recognized as a reduction to unassigned funds (surplus). If management intends to sell the security or if management believes that it is more likely than not such securities will be required to be sold prior to recovery, the entire amount of the unrealized loss is recognized as a net investment loss.

These assessments require management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data. In 2009 and 2008, CMAC did not recognize other-than-temporary impairments on any securities.

#### Premium Revenue Recognition

In December 2009, the NAIC adopted an amendment to SSAP 60 "Financial Guaranty Insurance." As a result of the amendment, CMAC is required to provide additional disclosures regarding premiums and loss reserves. See "Note 9: Changes in Losses and Loss Adjustment Expenses Incurred" and "Note 13: Premium Revenue" for more information.

CMAC's premiums written consist of upfront premiums and installment premiums received and accrued for policies issued in prior years. Upfront premiums are earned proportionately to the scheduled periodic maturity of debt service to the original total principal and interest insured. Installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Unearned premiums represent the portion of premiums written in prior years that is applicable to the unexpired risk of insured obligations. When an insured obligation is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing United States (U.S.) Government securities in escrow, the remaining unearned premium is earned at that time, since there is no longer risk to CMAC. As the outstanding principal of an installment-based policy is paid down by the issuer of a CMAC-insured obligation, less premium is collected and recognized by CMAC. Additionally, CMAC may receive premiums upon the early termination of installment-based policies, which are earned when received.

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Premiums ceded to reinsurers reduce the amount of earned premium CMAC will recognize from its insurance policies. For both upfront and installment policies, ceded premium is recognized in earnings in proportion to and at the same time the related gross premium revenue is recognized.

CMAC does not utilize anticipated investment income as a factor in the premium deficiency calculation. The Company had no premium deficiency as of December 31, 2009 and 2008 in accordance with the 100% reinsurance agreement with its parent, MBIA Corp.

Loss and LAE Reserves

The Company's financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that CMAC has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon such acceleration by CMAC. Loss and LAE reserves are established by MBIA Corp.'s Loss Reserve Committee, which consists of members of senior management, and require the use of judgment and estimates with respect to the occurrence, timing and amount of a loss on an insured obligation.

CMAC recognizes loss reserves on a contract-by-contract basis where an insured event has occurred (i.e., a payment default on the insured obligation) or a loss is expected in the future based upon credit deterioration which has already occurred and has been identified. Case reserves are measured based on the probability-weighted present value of expected net cash inflows and outflows to be paid under the contract, discounted using a rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income investment portfolio, excluding investments in money market funds, alternative investments and including an intercompany secured loan rate as of the measurement date. The loss reserve is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the loss reserve are recognized as losses incurred in the period of change. Measurement and recognition of loss reserve is reported net of any reinsurance. CMAC estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. The methods for making such estimates are continually reviewed and any adjustments are reflected in the period determined. Once a case basis reserve is established for an insured obligation, CMAC continues to record premium revenue to the extent premiums have been or are expected to be collected on that obligation.

This reserving methodology is different from case basis reserves that are established by traditional property casualty insurance companies, which determine loss reserves only upon the occurrence of an insured event when reported. The Company does not establish loss reserves for all payments due under an insured obligation. Case basis reserves cover the estimated amount of principal and interest the Company expects to pay on its insured obligations and the costs of settlement and other loss mitigation expenses, net of expected recoveries. CMAC recognizes potential salvage and subrogation recoveries on paid losses based on a similar probability-weighted net cash flow projection discounted using the same rate discussed above, as of the measurement date. Such recovery amounts are reported within "Loss and LAE reserves" on CMAC's balance sheet.

When CMAC becomes entitled to the underlying collateral of an insured obligation under salvage and subrogation rights as a result of a settled claim, it reports this type of salvage and subrogation as a contra liability within "Loss and LAE reserves."

A number of variables are taken into account in establishing specific case basis reserves for individual policies. These variables include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate underwriting losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. The methodology for determining when a case basis reserve is established may differ from other financial guarantee insurance companies, as well as from other property and casualty insurance enterprises.

Case basis reserves are based on assumptions and estimates and while management believes the amount is adequate, the ultimate reserve may be in excess of, or less than, the amount provided. The methods for making

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such estimates are continually reviewed and any adjustments are reflected in the period determined. CMAC had no statutory unpaid loss and LAE reserve as of December 31, 2009 or 2008, in accordance with the 100% reinsurance agreement with its parent, MBIA Corp.

Contingency Reserve

Financial guaranty insurers are required to maintain a liability referred to as a statutory contingency reserve. The purpose of this reserve is to protect policyholders against loss during periods of extreme economic contraction. CMAC had no statutory contingency reserve as of December 31, 2009 or 2008, in accordance with the 100% reinsurance agreement with its parent, MBIA Corp.

Income Taxes

For the year ended December 31, 2009 and the year ending December 31, 2010, the NAIC has temporarily replaced SSAP 10 "Income Taxes" with the enactment of SSAP 10R "Income Taxes-Revised," which changed the limitations placed on the admissibility of deferred tax assets. Under SSAP 10, the amount of deferred tax assets that an insurance company could admit was limited to the lesser of deferred tax assets expected to reverse in one year or 10% of adjusted statutory policyholders' surplus. In accordance with the revised SSAP 10R, the amount of deferred tax asset that an insurance company may admit is now limited to the lesser of deferred tax assets expected to reverse in three years or 15% of adjusted statutory policyholders' surplus. The incremental difference between the two pronouncements must be set aside in a special surplus account that is not part of unassigned surplus. SSAP 10R is effective for 2009 annual financial statements and 2010 interim and annual financial statements only. Unless there is further action by the NAIC, SSAP 10 will be reinstated as authoritative guidance for accounting and reporting of income taxes for statutory financial statements after 2010. The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e).

CMAC is included in the consolidated tax return of MBIA Inc., the Company's ultimate parent. The method of allocation between the companies is subject to written agreement, approved by MBIA Inc.'s Board of Directors. Allocation is based upon separate return calculations as would have reported its separate tax liability to the Internal Revenue Service with the exception of the tax benefit realized from net operating losses. Intercompany tax balances are settled annually following the filing of its federal income tax return by MBIA Inc.

The provision for federal income taxes is based on income from operations. Deferred income taxes are provided based on temporary differences between the financial reporting and tax bases of assets and liabilities.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results. Actual results could differ from those estimates.

**3. Investments**

The Company's investment objective is to optimize long-term, after-tax returns while emphasizing the preservation of capital through maintenance of high-quality investments with adequate liquidity. The Company's investment policies limit the amount of credit exposure to any one issuer. The fixed-maturity portfolio comprises high-quality taxable and tax-exempt investments of diversified maturities.

The following tables set forth the amortized cost and fair value of the fixed-maturity securities included in the investment portfolio of CMAC, as of December 31, 2009 and 2008. Fair value of the bonds is based upon valuations adopted and approved by the NAIC's SVO.

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**As of and for the years ended December 31, 2009 and 2008**

<b>In thousands</b>	<b>As of December 31, 2009</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Governments	\$ 34,188	\$ 441	\$ (1,451)	\$ 33,178
States, Territories and Possessions	28,531	1,377	-	29,908
Political Subdivisions of States, Territories and Possessions	15,120	579	-	15,699
Special Revenue and Special Assessment Obligations	16,112	1,134	-	17,246
Industrial and Miscellaneous	50	-	-	50
Total fixed-maturity investments	<u>\$ 94,001</u>	<u>\$ 3,531</u>	<u>\$ (1,451)</u>	<u>\$ 96,081</u>

<b>In thousands</b>	<b>As of December 31, 2008</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Governments	\$ 34,342	\$ 7,977	\$ -	\$ 42,319
States, Territories and Possessions	33,075	1,018	(129)	33,964
Political Subdivisions of States, Territories and Possessions	9,822	137	(156)	9,803
Special Revenue and Special Assessment Obligations	16,200	43	(465)	15,778
Industrial and Miscellaneous	50	-	-	50
Total fixed-maturity investments	<u>\$ 93,489</u>	<u>\$ 9,175</u>	<u>\$ (750)</u>	<u>\$101,914</u>

Fixed-maturity investments carried at amortized cost of \$4.4 million and \$4.5 million as of December 31, 2009 and 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws. The fair value of those fixed maturities was \$4.6 million and \$5.6 million as of December 31, 2009 and 2008, respectively.

The following table sets forth the distribution by contractual maturity of the fixed-maturity investments at amortized cost and fair value as of December 31, 2009. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations.

<b>In thousands</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 10,801	\$ 11,110
Due after one year through five years	11,981	12,528
Due after five years through ten years	29,963	31,246
Due after ten years	40,572	40,438
Mortgaged-backed	684	759
Total fixed-maturity investments	<u>\$ 94,001</u>	<u>\$ 96,081</u>

As of December 31, 2009, there were no securities in an unrealized loss position for greater than twelve months. As of December 31, 2008, the total fair value of securities in an unrealized loss position for greater than twelve months was \$14.6 million, while the total unrealized losses for these securities were \$634 thousand. As of December 31, 2009 the total fair value of securities in an unrealized loss position less than twelve months was \$19.9 million, while the total unrealized losses for these securities were \$1.5 million. As of December 31, 2008, the total fair value of securities in an unrealized loss position for less than twelve months was \$6.3 million, while the total unrealized losses for these securities were \$116 thousand.

CMAC has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, along with CMAC's ability and intent to hold these securities to maturity or until such time as to recover an amount equal to their amortized cost. CMAC determined that the unrealized losses were temporary in nature because our impairment analysis did not indicate the Company would be unable to recover the amortized cost of impaired assets. Additionally, CMAC has both the

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ability and intent to hold these securities until their fair value recovers to an amount at least equal to amortized cost or to maturity. See “Note 2: Summary of Significant Accounting Policies,” for further information on how CMAC determines whether a security is impaired.

**4. Investment Income and Gains and Losses**

All investment income due and accrued with amounts that are over 90 days past due, with the exception of mortgage loans in default, are non-admitted. As of December 31, 2009 and 2008 there were no non-admitted assets for investment income due and accrued. The components of net investment income for the years ended December 31, 2009 and 2008 are as follows:

<b>In thousands</b>	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Fixed-maturity	\$ 4,050	\$ 4,739
Short-term investments	175	200
Gross investment income	\$ 4,225	\$ 4,939
Investment expenses	142	139
Net investment income	\$ 4,083	\$ 4,800

Gross realized gains (losses) from fixed-maturity investment security sales are primarily generated as a result of the ongoing management of the Company’s investments portfolios. In 2009, gross realized gains from the sale of fixed-maturity investments were \$100 thousand compared with \$1.5 million in 2008. During 2009 and 2008, the Company did not realize other-than-temporary losses on any securities in its portfolio. See “Note 2: Summary of Significant Accounting Policies” for a description of the general categories of information CMAC considers in determining whether a security is other-than-temporarily impaired.

**5. Fair Value of Financial Instruments**

The estimated fair value amounts of financial instruments shown in the following table have been determined by the Company using available market information and appropriate valuation methodologies. However, in certain cases, considerable judgment was required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. There were no assets or liabilities of CMAC recorded on the balance sheet at fair value.

**Fixed-maturity securities** – The fair value of fixed-maturity securities is based upon the market prices published by the NAIC Securities Valuation Office (SVO), if available. If the NAIC SVO published market price is not available, an independent third-party source is used.

**Short-term investments** – Short-term investments are carried at amortized cost, which approximates fair value.

**Cash, cash equivalents, accrued investment income, premium receivable and receivables for investments sold** – The carrying amounts of these items are a reasonable estimate of their fair value.

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<b>In thousands</b>	<b>As of December 31, 2009</b>		<b>As of December 31, 2008</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
<b>Assets:</b>				
Fixed-maturity securities	\$ 94,001	\$ 96,081	\$ 93,489	\$ 101,914
Short-term investments	26,340	26,340	21,995	21,995
Cash and cash equivalents	4,884	4,884	6,106	6,106
Accrued investment income	1,333	1,333	1,249	1,249
Premium receivable	164	164	174	174
Receivable for investments sold	5	5	-	-

**6. Income Taxes**

The components of deferred tax assets (DTA's) and deferred tax liabilities (DTL's) are as follows. References to paragraphs are those within SSAP 10R "Income Taxes":

<b>In thousands</b>	<b>2009</b>			<b>2008</b>		
	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Gross deferred tax assets	\$ 266	\$ -	\$ 266	\$ 266	\$ -	\$ 266
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	266	-	266	266	-	266
Gross deferred tax liabilities	-	-	-	-	-	-
Net deferred tax asset (liability) before admissibility test	266	-	266	266	-	266
Admitted pursuant to paragraph 10.a.	-	-	-	-	-	-
Admitted pursuant to paragraph 10.b.	266	-	266	266	-	266
Admitted pursuant to paragraph 10.c.	-	-	-	-	-	-
Total admitted under paragraph 10.a., 10.b. and 10.c.	266	-	266	266	-	266
Admitted pursuant to paragraph 10.e.i.	n/a	n/a	n/a	n/a	n/a	n/a
Admitted pursuant to paragraph 10.e.ii.	n/a	n/a	n/a	n/a	n/a	n/a
Admitted pursuant to paragraph 10.e.iii.	n/a	n/a	n/a	n/a	n/a	n/a
Total admitted under paragraph 10.e.i., 10.e.ii and 10.e.iii	n/a	n/a	n/a	n/a	n/a	n/a
Admitted deferred tax asset	266	-	266	266	-	266
Deferred tax liability	-	-	-	-	-	-
Net admitted deferred tax asset (liability)	266	-	266	266	-	266
Non-admitted deferred tax asset	-	-	-	-	-	-
Increase in non-admitted deferred tax asset	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

n/a - not applicable

The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e). The deferred tax asset was established from the tax effect of the temporary differences on unrealized losses on currency translation.

The Company has no unrecognized deferred tax liabilities for amounts described in SSAP No. 10R, "Income Taxes," paragraph 6d., and paragraph 31 of accounting principles for income taxes.

Income tax expense differs from the amount obtained by applying the federal statutory rate of 35%. Current income taxes incurred consist of the following major components:

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<b>In thousands</b>	<b>12/31/09</b>	<b>12/31/08</b>
Current income tax expense (benefit)	\$ 607	\$ 548
Prior year over (under) accrual of tax reserves	-	(108)
Realized capital gains tax	35	542
Federal income taxes incurred (benefit)	<u>\$ 642</u>	<u>\$ 982</u>

The tax effects of temporary difference that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows:

<b>In thousands</b>	<b>12/31/09</b>	<b>12/31/08</b>	<b>Change</b>	<b>Character</b>
<b>DTA's</b>				
Contingency reserve	\$ -	\$ -	\$ -	Ordinary
Compensation	-	-	-	Ordinary
Unearned premium reserve	-	-	-	Ordinary
Unrealized losses	266	266	-	Ordinary
NOL carryforward	-	-	-	Ordinary
Other	-	-	-	Ordinary
Gross DTA's	<u>\$ 266</u>	<u>\$ 266</u>	<u>\$ -</u>	

<b>In thousands</b>	<b>12/31/09</b>	<b>12/31/08</b>	<b>Change</b>	<b>Character</b>
<b>DTL's</b>				
Compensation	\$ -	\$ -	\$ -	Ordinary
Unrealized gains	-	-	-	Ordinary
Accrual of market discount	-	-	-	Ordinary
Other	-	-	-	Ordinary
NOL carryforward	-	-	-	Ordinary
Gross DTL's	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

<b>In thousands</b>	<b>12/31/09</b>	<b>12/31/08</b>	<b>Change</b>
Total deferred tax assets	\$ 266	\$ 266	\$ -
Total deferred tax liabilities	-	-	-
Net deferred tax asset (liability)	<u>266</u>	<u>266</u>	<u>-</u>
Tax effect of unrealized gains (losses)			-
Change in net deferred income tax			<u>\$ -</u>

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

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<u>In thousands</u>	<u>Amount</u>	<u>Tax Effect</u>	<u>Effective Tax Rate</u>
Income before taxes	\$ 3,848	\$ 1,347	35%
Tax exempt interest and dividend received deduction	(2,554)	(894)	-23%
Meals and entertainment	-	-	0%
Nondeductible transaction costs	-	-	0%
Other	-	0	0%
Taxable income	<u>1,294</u>	<u>453</u>	<u>12%</u>
Contingency reserve		-	0%
Other items		<u>189</u>	<u>5%</u>
Taxable income		<u><u>642</u></u>	<u><u>17%</u></u>
Federal income tax incurred		642	17%
Change in net deferred income tax		-	0%
Total statutory income tax		<u><u>\$ 642</u></u>	<u><u>17%</u></u>

At December 31, 2009 the Company did not have any net operating loss carryforwards expiring through the year 2029, loss carryforwards expiring through the year 2014 or alternative minimum tax carryforwards.

The following is income tax expense for 2008 and 2009 that is available for the recoupment in the event of future net losses:

<u>In thousands</u>			
<u>Year</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
2007	\$ -	\$ -	\$ -
2008	548	542	1,090
2009	418	35	453
Total	<u><u>\$ 966</u></u>	<u><u>\$ 577</u></u>	<u><u>\$ 1,543</u></u>

The Company and its affiliates file a U.S. federal consolidated income tax return with its ultimate parent, MBIA Inc. The following is a list of names of the entities with which the Company's federal income tax return is consolidated for the current year:

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MBIA Inc.  
CAH Asset Holdings, Inc.  
CapMac Holdings  
CapMac Investment Management Inc.  
Colorado Investor Services Corporation  
MBIA Capital Corporation  
MBIA Capital Management Corp.  
MBIA Insurance Corporation  
MBIA Investment Management Corporation  
MBIA Municipal Investors Service Corporation  
MBIA Services Company  
Municipal Issuers Service Corporation  
Municipal Tax Collection Bureau, Inc  
National Public Finance Guarantee Holdings, Inc.  
National Public Finance Guarantee Corporation  
Optinuity Alliance Resource Corporation  
LatAm Capital Advisors, Inc  
Triple-A One Funding Corporation

**7. Reconciliation of Statutory Accounting to GAAP-Basis Accounting**

The following is a reconciliation of statutory capital and surplus to consolidated shareholder's equity presented on a GAAP-basis for the Company. See "Note 2: Summary of Significant Accounting Policies" for an explanation of the differences.

<b>In thousands</b>	<b>As of December 31,</b>	
	<b>2009</b>	<b>2008</b>
Statutory capital and surplus	\$ 128,032	\$ 124,758
Non-admitted assets	78	147
Deferred income taxes	(304)	(2,674)
Unrealized gains	2,091	8,468
Other items	(2,103)	(2,250)
GAAP-basis shareholder's equity	<u>\$ 127,794</u>	<u>\$ 128,449</u>

The following is a reconciliation of statutory income to net income presented on a GAAP-basis for the Company.

<b>In thousands</b>	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Statutory net income	\$ 3,206	\$ 5,186
Deferred income taxes	138	(118)
Other items	146	-
GAAP-basis net income	<u>\$ 3,490</u>	<u>\$ 5,068</u>

**8. Capital and Surplus and Dividend Restrictions**

CMAC has 5,820,000 common shares authorized, issued and outstanding as of December 31, 2009, with a par value of \$3 per share.

Under New York State insurance law, CMAC may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement. Any dividends declared or paid may not exceed, together with all other dividends, the lesser of (i) 10% of its policyholders' surplus shown on its last filed statement, or (ii) adjusted

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net investment income as defined, for such 12-month period without prior approval of the Superintendent of the NYSID. In 2008 and 2009 CMAC did not declare or pay any regular dividends.

In accordance with such restrictions on the amount of dividends that can be paid in any 12-month period, CMAC had \$4.1 million and \$4.8 million available for the payment of dividends as of December 31, 2009 and December 31, 2008, respectively.

The portion of unassigned surplus represented by non-admitted assets was \$78 thousand and \$147 thousand as of December 31, 2009 and December 31, 2008, respectively.

**9. Change in Losses and Loss Adjustment Expenses Incurred**

In 2009 and 2008, CMAC did not have any net unpaid losses or unpaid loss adjustment expense, in accordance with the 100% reinsurance agreement with its parent, MBIA Corp.

MBIA Corp.'s Insured Portfolio Management Division (IPM) monitors CMAC's outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by CMAC. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, CMAC typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

Insured obligations are monitored periodically. The frequency and extent of such monitoring is based on the criteria and categories described below. Insured obligations that are judged to merit more frequent and extensive monitoring or remediation activities due to a deterioration in the underlying credit quality of the insured obligation or the occurrence of adverse events related to the underlying credit of the issuer are assigned to a surveillance category ("Caution List-Low," "Caution List-Medium," "Caution List-High," or "Classified List") depending on the extent of credit deterioration or the nature of the adverse events. IPM monitors insured obligations assigned to a surveillance category more frequently and, if needed, develops a remediation plan to address any credit deterioration.

CMAC does not establish any case basis reserves for insured obligations that are assigned to "Caution List-Low," "Caution List-Medium," or "Caution List-High." In the event CMAC expects to pay a claim with respect to an insured transaction, it places the insured transaction on its "Classified List" and establishes a case basis reserve. The following provides a description of each surveillance category:

"Caution List – Low"—Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. IPM subjects issuers in this category to heightened scrutiny.

"Caution List – Medium"—Includes issuers where debt service protection is adequate under current and anticipated circumstances, although adverse trends have developed and are more pronounced than for "Caution List – Low." Issuers in this category may have breached one or more covenants or triggers. These issuers are more closely monitored by IPM but generally take remedial action on their own.

"Caution List – High"—Includes issuers where more proactive remedial action is needed but where no defaults on debt service payments are expected. Issuers in this category exhibit more significant weaknesses, such as low debt service coverage, reduced or insufficient collateral protection or inadequate liquidity, which could lead to debt service defaults in the future. Issuers in this category have breached

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one or more covenants or triggers, have not taken conclusive remedial action, and IPM adopts a remediation plan and takes more proactive remedial actions.

“Classified List”—Includes all insured obligations where CMAC has paid a claim or where a claim payment is expected. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

The following table provides information about the financial guarantees and related claim liability included in each of CMAC’s surveillance categories as of December 31, 2009:

<u>\$ in millions</u>	<b>Surveillance Categories</b>				<b>Total</b>
	<b>Caution List Low</b>	<b>Caution List Medium</b>	<b>Caution List High</b>	<b>Classified List</b>	
Number of policies	-	-	-	8	8
Number of issues <sup>(1)</sup>	-	-	-	5	5
Remaining weighted average contract period (in years)	-	-	-	23	23
Gross insured contractual payments outstanding:					
Principal	\$ -	\$ -	\$ -	\$ 795	\$ 795
Interest	-	-	-	1,483	1,483
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,278</u>	<u>\$ 2,278</u>
Gross claim liability					
Less:					
Gross potential recoveries	\$ -	\$ -	\$ -	\$ 92	\$ 92
Discount, net	-	-	-	-	-
Reinsurance	-	-	-	92	92
Net claim liability (recoverable)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net unearned premium reserve	\$ -	\$ -	\$ -	\$ -	\$ -

(1) - An “issue” represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

The following table presents changes in CMAC’s loss and LAE reserve for the twelve months ended December 31, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, changes in the timing and amounts of estimated net payments and changes in assumptions are recorded in “Losses and loss adjustment expenses” in CMAC’s Statement of Income. LAE reserves are expected to be settled within a one year period and are not discounted. As of December 31, 2009, the rate used to discount the claim liability was 6.51%.

<u>In millions</u>							
Loss and LAE Reserve as of December 31, 2008	Gross Loss Payments	Accretion of Claim Liability Discount	Changes in Discount Rate	Changes in Timing of Payments, Amount of Net Payments and Assumptions	Changes in LAE Reserves	Reinsurance	Loss and LAE Reserve as of December 31, 2009
\$ -	\$ (55)	\$ -	\$ -	\$ (32)	\$ -	\$ 87	\$ -

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**10. Net Insurance in Force**

CMAC has no net aggregate exposure in force as of December 31, 2009 and 2008 in accordance with the 100% reinsurance agreement with MBIA Corp.

**11. Reinsurance**

The Company reinsures 100% of its net exposure to MBIA Corp. In the event that MBIA Corp. were unable to meet its obligation, the Company would be liable for such defaulted amounts.

The maximum amount of return commission which would have been due to reinsurers if all reinsurance contracts were canceled with the return of the ceded unearned premium reserve at December 31, 2009 and 2008 would be \$1.6 million and \$1.6 million, respectively. The related unearned premium reserve at December 31, 2009 and 2008 would be \$25.3 million and \$27.1 million, respectively.

The Company has letter of credit facilities aggregating to \$1.0 million. As of December 31, 2009, no amounts have been drawn from these facilities.

**12. Information Concerning Parent and Affiliates**

All outstanding shares of CMAC are owned by its parent company, MBIA Corp., an insurance company domiciled in the State of New York. All outstanding voting shares of MBIA Corp. are owned by its parent company, MBIA Inc., an insurance holding company domiciled in the State of Connecticut.

As of December 31, 2009, CMAC reported \$1.5 million and \$0.7 million as amounts due from its parent and from its affiliated entities, respectively. As of December 31, 2008, CMAC reported \$2.2 million as amounts due from its parent and \$0.7 million as amounts due from its affiliated entities. The terms of the intercompany settlement require that these amounts be settled within 90 days.

CMAC is party to a management fee agreement between itself and its parent MBIA Corp. whereby MBIA Corp. is to provide management, investment and administrative services in connection with insurance business. Effective January 1, 2010 this agreement was terminated and re-established with an affiliated entity Optinuity Alliance Resources.

**13. Premium Revenue**

In December 2009, the NAIC Statutory Accounting Principles Working Group adopted an amendment to SSAP 60 "Financial Guarantee Insurance" requiring financial guarantee insurers to adopt expanded financial guarantee premium and loss related disclosures effective for the 2009 annual reporting period. The amendment requires additional disclosures on expected premiums to be earned and collected, a rollforward of loss reserves from the prior reporting period, and additional information on risk management activities used to monitor and track deteriorating financial obligations. As this amendment only required additional disclosures, there was no impact on the financial statements of CMAC. See "Note 9: Change in Losses and Loss Adjustment Expenses Incurred" for the disclosure of loss reserve and risk management activities.

Refer to "Note 2: Summary of Significant Accounting Policies" for a description of CMAC's accounting policy for insurance premiums.

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The following table presents a roll forward of CMAC's undiscounted premiums receivable for the year ended December 31, 2009 as if all installment premium contracts were received on an upfront basis:

<u>In thousands</u>		<u>Adjustments</u>				
Premiums Receivable as of December 31, 2008	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Other	Premiums Receivable as of December 31, 2009	Reinsurance Premiums Payable as of December 31, 2009
\$ 10,167	\$ (793)	\$ -	\$ (1,332)	\$ (17)	\$ 8,025	\$ 8,025

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

<u>In thousands</u>	<u>Expected Collection of Premiums</u>
<u>Three months ended:</u>	
March 31, 2010	\$ 417
June 30, 2010	171
September 30, 2010	153
December 31, 2010	164
<u>Twelve months ended:</u>	
December 31, 2011	565
December 31, 2012	469
December 31, 2013	383
December 31, 2014	318
<u>Five years ended:</u>	
December 31, 2019	1,400
December 31, 2024	1,252
December 31, 2029 and thereafter	2,733
Total	<u>\$ 8,025</u>

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The following table presents the unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

<u>In thousands</u>	<u>Unearned Premium Revenue</u>	<u>Expected Future Premium Earnings</u>		<u>Estimated Earnings of Future Premium Collections</u>	<u>Total Expected Future Premium Earnings</u>
		<u>Upfront</u>	<u>Installments</u>		
December 31, 2009	26,414				
Three months ended:					
March 31, 2010	25,998	150	266	27	443
June 30, 2010	25,618	314	66	119	499
September 30, 2010	25,348	166	104	170	440
December 31, 2010	25,042	295	11	159	465
Twelve months ended:					
December 31, 2011	23,905	917	220	583	1,720
December 31, 2012	22,732	964	209	487	1,660
December 31, 2013	21,497	1,038	197	399	1,634
December 31, 2014	20,505	877	115	327	1,319
Five years ended:					
December 31, 2019	14,431	5,861	213	1,409	7,483
December 31, 2024	10,989	3,229	213	1,255	4,697
December 31, 2029 and thereafter	-	10,257	732	2,848	13,837
Total		<u>\$ 24,068</u>	<u>\$ 2,346</u>	<u>\$ 7,783</u>	<u>\$ 34,197</u>

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	33,595,628	26.827	33,595,628	26.827
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	28,531,368	22.783	28,531,368	22.783
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	15,120,292	12.074	15,120,292	12.074
1.43 Revenue and assessment obligations	16,019,987	12.792	16,019,987	12.792
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	591,404	0.472	591,404	0.472
1.512 Issued or guaranteed by FNMA and FHLMC	92,364	0.074	92,364	0.074
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	50,000	0.040	50,000	0.040
2.2 Unaffiliated non-U.S. securities (including Canada)				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by the company				
5.2 Property held for the production of income (including \$ _____ of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ _____ property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	5,419	0.004	5,419	0.004
8. Cash, cash equivalents and short-term investments	31,223,944	24.933	31,223,944	24.933
9. Other invested assets				
10. Total invested assets	125,230,406	100.000	125,230,406	100.000



SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE CAPITAL MARKETS ASSURANCE CORPORATION

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2009

(To Be Filed by April 1)

Of The CAPITAL MARKETS ASSURANCE CORPORATION

Address (City, State and Zip Code) Armonk, NY 10504-1610

NAIC Group Code 00528

NAIC Company Code 20877

Employer's ID Number 13-5165865

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- 1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 129,198,246
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Lists 10 largest exposures including Florida State Ref-Sr Lien-Jacksonville T, Massachusetts State Cons Ln-Ser C, Ohio State Water Development A OH ST WTR, etc.

- 3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Table with 6 columns: Bonds (NAIC-1 to NAIC-6), Preferred Stocks (P/RP-1 to P/RP-6), Amount, Percentage. Shows NAIC-1 at 120,340,745 and P/RP-1 at 93.1%.

- 4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
4.02 Total admitted assets held in foreign investments \$ %
4.03 Foreign-currency-denominated investments \$ %
4.04 Insurance liabilities denominated in that same foreign currency \$ %

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

- 5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:
- 6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:
- 7. Aggregate unhedged foreign currency exposure..... \$ 1 2 %
- 8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:
- 9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:
- 10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:  
 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? ..... Yes  No   
 If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.
12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.  
 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? ..... Yes  No   
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.
13. Amounts and percentages of admitted assets held in the ten largest equity interests:  
 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? ..... Yes  No   
 If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u> Issuer	<u>2</u>	<u>3</u>
13.02 .....	\$ .....		%
13.03 .....	\$ .....		%
13.04 .....	\$ .....		%
13.05 .....	\$ .....		%
13.06 .....	\$ .....		%
13.07 .....	\$ .....		%
13.08 .....	\$ .....		%
13.09 .....	\$ .....		%
13.10 .....	\$ .....		%
13.11 .....	\$ .....		%

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? ..... Yes [X] No [ ]
- If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.
15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? ..... Yes [X] No [ ]
- If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
- 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? ..... Yes [X] No [ ]
- If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction Loans .....	\$ .....	%
16.13 Mortgage loans over 90 days past due .....	\$ .....	%
16.14 Mortgage loans in the process of foreclosure .....	\$ .....	%
16.15 Mortgage loans foreclosed .....	\$ .....	%
16.16 Restructured mortgage loans .....	\$ .....	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
17.01 above 95% \$ .....	%	\$ .....	%	\$ .....	%	%
17.02 91% to 95% \$ .....	%	\$ .....	%	\$ .....	%	%
17.03 81% to 90% \$ .....	%	\$ .....	%	\$ .....	%	%
17.04 71% to 80% \$ .....	%	\$ .....	%	\$ .....	%	%
17.05 below 70% \$ .....	%	\$ .....	%	\$ .....	%	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? ..... Yes [] No []  
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description			
	<u>1</u>	<u>2</u>		
18.02 .....	\$ .....	\$ .....	%	
18.03 .....	\$ .....	\$ .....	%	
18.04 .....	\$ .....	\$ .....	%	
18.05 .....	\$ .....	\$ .....	%	
18.06 .....	\$ .....	\$ .....	%	

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? ..... Yes [] No []  
 If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

19.02 Aggregate statement value of investments held in mezzanine real estate loans: ..... \$ 2 ..... 3 %  
 Largest three investments held in mezzanine real estate loans:

19.03 .....	\$ .....	%
19.04 .....	\$ .....	%
19.05 .....	\$ .....	%

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		1st Qtr <u>3</u>	At End of Each Quarter	
	<u>1</u>	<u>2</u>		<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions) .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
20.02 Repurchase agreements .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
20.03 Reverse repurchase agreements .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
20.04 Dollar repurchase agreements .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
20.05 Dollar reverse repurchase agreements .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		3	Written		4
	<u>1</u>	<u>2</u>		<u>3</u>	<u>4</u>	
21.01 Hedging .....	\$ .....	% .....	\$ .....	\$ .....	% .....	% .....
21.02 Income generation .....	\$ .....	% .....	\$ .....	\$ .....	% .....	% .....
21.03 Other .....	\$ .....	% .....	\$ .....	\$ .....	% .....	% .....

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-end		1st Qtr <u>3</u>	At End of Each Quarter	
	<u>1</u>	<u>2</u>		<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
22.01 Hedging .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
22.02 Income generation .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
22.03 Replications .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
22.04 Other .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-end		1st Qtr <u>3</u>	At End of Each Quarter	
	<u>1</u>	<u>2</u>		<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
23.01 Hedging .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
23.02 Income generation .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
23.03 Replications .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....
23.04 Other .....	\$ .....	% .....	\$ .....	\$ .....	\$ .....