Report

of the

Examination of

Everspan Financial Guarantee Corp.

New York, New York

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

February 7, 2013

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EVERSPAN FINANCIAL GUARANTEE CORP.
New York, New York

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Everspan Financial Guarantee Corp. (Everspan or the company) was conducted in 2007 as of December 31, 2006. The company was known as Connie Lee Insurance Company at that time. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 and 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Everspan Financial Guarantee Corp. is a Wisconsin-domiciled insurer authorized to transact surety and financial guaranty insurance. From 1988 through 1997 the company operated as a financial guaranty insurer of debt securities issued by colleges, universities, and similar institutions. In 1997 the company discontinued writing new business. At present its entire portfolio of insurance risks is in run-off.

The company was incorporated on January 11, 1968, under the name Sentry Indemnity Company (SIC) and was established as an operating subsidiary of Sentry Insurance a Mutual Company (Sentry). Effective December 17, 1987, all of the insurance risk liabilities on the company's then-existing book of business were transferred to an affiliated Sentry Group reinsurance pool under a block assumption reinsurance treaty. Following the 1987 block assumption, the company was purchased by College Construction Loan Insurance Association (CCLIA), then a subsidiary of the Student Loan Marketing Association (Sallie Mae). On January 21, 1988, SIC's name was changed to Connie Lee Insurance Company (Connie Lee).

CCLIA was incorporated on February 13, 1987, and was organized as a government-sponsored enterprise authorized by Congress under Title VII of the Higher Education Act (Title VII). In 1988 CCLIA sold capital stock to the United States of America through the Department of Education and sold additional shares of capital stock to Sallie Mae. CCLIA was founded with a governmental mandate to provide credit enhancement for higher education financing and acquired Connie Lee to serve as a wholly owned insurance subsidiary dedicated to providing financial guaranty insurance for debt issued by institutions of higher education, as required under Title VII.

Connie Lee re-established operations in 1988 first as a reinsurer of financial guaranty insurance, restricted to the assumption of reinsurance on bonds of colleges, universities, and teaching hospitals. In October of 1991, Connie Lee received a triple-A rating as a primary insurer from Standard and Poor's Corporation, and the company initiated direct issuance of financial guaranty insurance.

On September 30, 1996, the Omnibus Consolidated Appropriation Act of 1997 was signed into law. The 1997 act removed restrictions on CCLIA's charter and authorized CCLIA to participate in all sectors of financial guaranty insurance. The 1997 act also required CCLIA to purchase the United States Department of Education's equity interest in CCLIA. In November of 1996 CCLIA changed its name to Construction Loan Insurance Corporation (CLIC). In February 1997 CLIC purchased all of the shares of its common stock that were held by the Department of Education.

Effective December 18, 1997, Ambac Assurance Corporation (Ambac) purchased 100% ownership interest of CLIC (renamed to Connie Lee Holdings, Inc.). Ultimate ownership and control of Connie Lee Insurance Company thereby transferred to Ambac Financial Group, Inc. (Ambac Financial). Connie Lee operations were subsequently moved to the offices of Ambac Financial in New York, New York. After Ambac took control, the company suspended writing new business and its entire portfolio of risks for financial guaranty insurance business entered into run-off. The company remains in run-off.

On Sept. 24, 2008, Connie Lee changed its name to Everspan Financial Guarantee Corp., the name presently used by the company. At the time Ambac Financial was considering using Everspan for writing municipal bond guaranty insurance after Ambac lost its top rating from Standard & Poor's and Moody's. Ambac Financial determined that it would not be able to fund Everspan to the level considered necessary at the time to write municipal bond guaranty insurance with a triple-A rating from independent rating agencies, so no changes other than the name were made. The business plan of Everspan now is to maintain its present status as an inactive insurer and to run off its existing book of business.

Ambac is the principal operating company in Ambac Financial and provides various operating functions and services on behalf of its affiliates, including Everspan, pursuant to its intercompany agreements. Further discussion of the company's holding company organization, description of the significant affiliates of Everspan, and description of intercompany transactions and agreements is included in the section of this report captioned "Affiliated Companies."

The company did not have any direct written premium in 2011. The company is licensed in the District of Columbia, Puerto Rico, and all U.S. states except Virginia.

The following table provides a summary of the net insurance premiums written by the company in 2011. All premiums relate to financial guarantee insurance coverages for timely payment of principal and interest in the event of default on the education and health care facility obligations insured. The run-off of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Financial guaranty	$0	$0	$62,000	$(62,000)
Total All Lines	$0	$0	$62,000	$(62,000)

Everspan does not have any direct written premiums or reinsurance assumed. The company's annual earned premiums are derived solely from premiums that were remitted to the company in prior years as up-front premium at the inception of multiple-year financial guaranty policies.

Premiums written by the company in prior years, but not yet earned, are recorded in the company's accounts as unearned premium liability that is carried forward from year to year until fully earned during successive insurance coverage years. Premiums for current-year coverages are reversed out of unearned premium liability and are either earned by the company or are ceded as written premium. Reinsurance ceded in 2011 reflected $62,000 of 2011 current coverage-year premiums written on a direct basis in prior years and ceded as written premium in 2011. Recognition of current-year reinsurance cessions as written premium results in the company recognizing negative annual net premiums written.

Mandatory Contingency Reserve

Everspan is required to establish a mandatory contingency reserve in accordance with NAIC Statement of Statutory Accounting Principles (SSAP) No. 60 and the Wisconsin Administrative Code. The reserve is an additional liability established to protect policyholders against the effect of adverse economic developments or cycles or other unforeseen circumstances. Under SSAP No. 60, financial guarantors are required to establish a contingency reserve equal to the greater of 50% of premiums written or a stated percentage of the principal guaranteed depending on the category of obligation insured. However, under the Wisconsin Administrative Code, a municipal bond insurer is required to establish a contingency reserve consisting of 50% of the earned premiums on policies of municipal bond insurance. The only exception is when another jurisdiction in which the insurer is licensed requires a larger contingency reserve than required by the Wisconsin Administrative Code. Everspan calculates contributions using both methodologies and records the higher contribution amount. Under SSAP No. 60, contributions are required to be made in equal quarterly installments over a period of 20 years for municipal bonds and 15 years for all other obligations; contributions may be discontinued if the total reserve established for all categories exceeds the sum of the stated percentages contained therein multiplied by the unpaid principal guaranteed. This reserve must be maintained for periods specified above, except that the guarantor may be permitted to release reserves under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the guarantor's outstanding guaranteed obligations, with notice to and approval by the Commissioner.

Wisconsin Administrative Code guidance for changes to contingency reserves differ from SSAP No. 60. Under SSAP No. 60, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under s. Ins 3.08 (7) (b), Wis. Adm. Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. The company received permission from the Commissioner to record contributions to and releases from the contingency reserve in accordance with SSAP No. 60.

Effective December 31, 2011, Everspan received regulatory approval from the Commissioner to release that portion of its contingency reserves relating to insurance policies that were no longer in force as of December 31, 2011, and cease making further contributions to the contingency reserves after December 31, 2011, with respect to such expired insurance policies. The Commissioner also allowed the company's reinsurers, which assumed portions of such insurance policies that expired after December 31, 2011, to take similar action related to contingency reserves on such reinsured expired insurance policies.

III. MANAGEMENT AND CONTROL

Board of Directors

The Everspan board of directors consists of four members. The directors are to be elected annually by the company's sole shareholder to serve a one-year term. Further discussion concerning the election of directors is included in the "Summary of Examination Results" section of the examination report. The board elects all officers annually and elects new officers and accepts officer terminations on a quarterly basis. Directors are employees of Ambac Financial or its subsidiaries and are not paid any fees or other compensation for their services as directors but would be reimbursed for travel and related expenses incurred in attending meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Diana Adams (Chair) New York, New York	President and Chief Executive Officer Ambac Assurance Corporation	2013
David Abramowitz New York, New York	Managing Director and General Counsel, Public Finance Ambac Assurance Corporation	2013
Robert Eisman Westfield, New Jersey	Senior Managing Director and Chief Accounting Officer Ambac Assurance Corporation	2013
Stephen Ksenak Maplewood, New Jersey	Senior Managing Director and General Counsel Ambac Assurance Corporation	2013

Officers of the Company

The officers serving at the time of this examination are as follows

Name	Office	2011 Compensation*
Diana Adams	Chairman, President and Chief Executive Officer	$1,106,347
David Abramowitz	Managing Director, General Counsel and Secretary	505,000
Robert Eisman	Senior Managing Director and Chief Accounting Officer	750,000
David Trick	Senior Managing Director, Chief Financial Officer and Treasurer	1,000,000
Peter Cain	Managing Director and Chief Risk Officer	552,000
Stephen Ksenak	Senior Managing Director, Assistant General Counsel and Assistant Secretary	631,731

* Amounts reported are the compensation paid by Ambac Assurance Corporation for all work done for all companies in the Ambac Group.

Committees of the Board

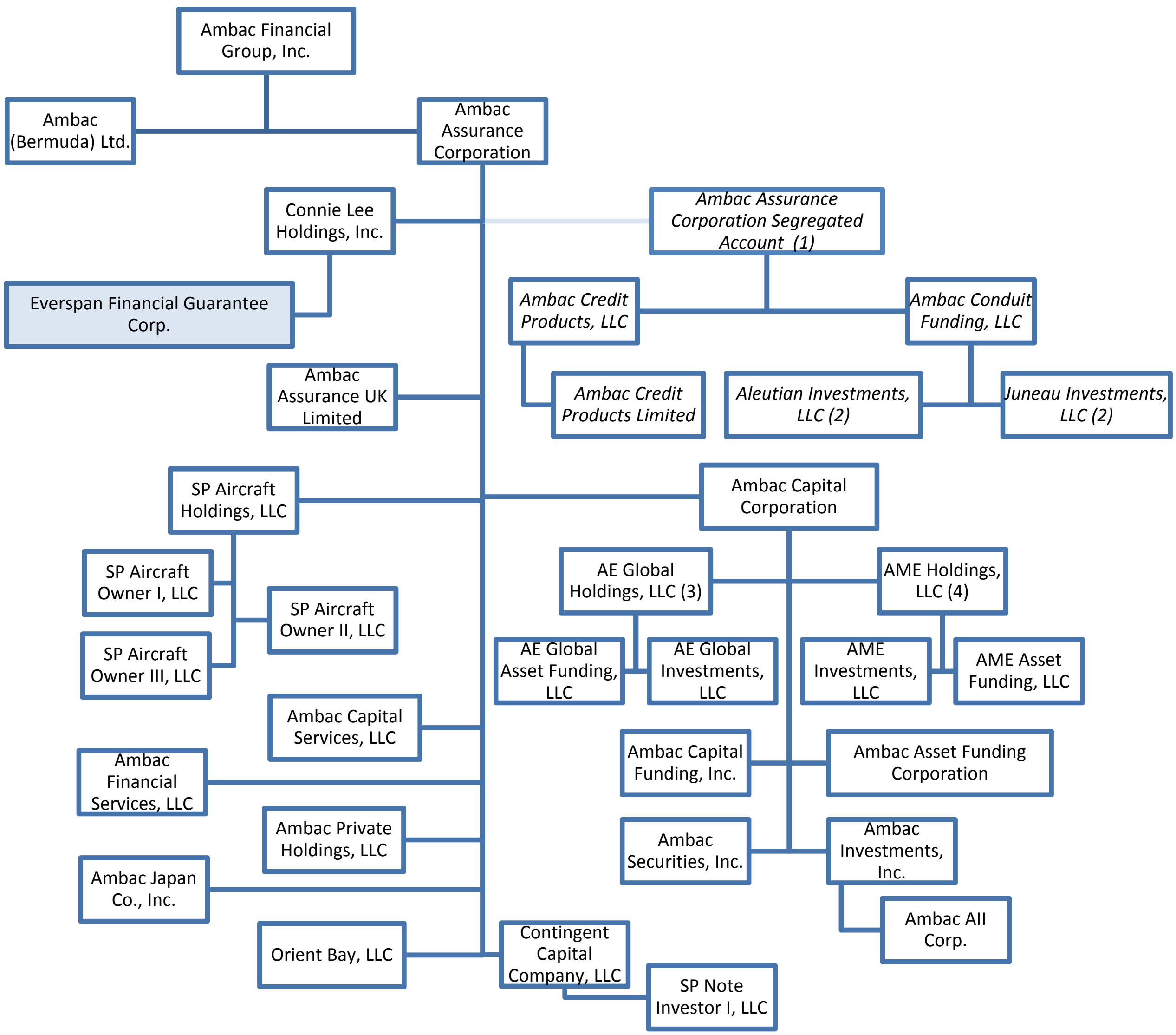
The company's bylaws allow for the formation of certain committees by the board of directors. There were no Everspan board committees at the time of the examination.

The company relies on the Audit and Risk Assessment Committee of Ambac Financial Group, Inc., for the selection of the independent auditors, approval of the scope of the annual audit by the independent auditors and internal auditors, the review of audit findings and accounting and control policies, assessment of the adequacy of internal controls and risk management, quality of Everspan's financial disclosures, and compliance with Ambac's Code of Business Conduct.

IV. AFFILIATED COMPANIES

Everspan is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2011



(1) The segregated account is in rehabilitation.
(2) Ambac Assurance Corporation Segregated Account owns 1% and Ambac Conduit Funding, LLC, owns 99%.
(3) Ambac Capital Corporation owns 50%.
(4) Ambac Capital Corporation owns 45%.

Ambac Financial Group, Inc.

Ambac Financial Group, Inc. (Ambac Financial) was incorporated on April 29, 1991, in the state of Delaware and is the parent holding company for the Ambac Financial Group. Ambac Financial filed a voluntary petition for Chapter 11 reorganization on November 8, 2010, and emerged on May 1, 2013. Prior to reorganization Ambac Assurance Corporation had already taken over the provision of most administrative services that had previously been provided by Ambac Financial. All employees of the group are employed by Ambac Assurance Corporation. Aside from Ambac (Bermuda) Ltd., all subsidiaries that had been owned by Ambac Financial were transferred to Ambac in the time prior to reorganization. None of the direct or indirect subsidiaries of Ambac Financial are actively engaged in issuing new financial guaranty insurance, related derivatives or other financial investment and service products for either public or private business sectors.

As of December 31, 2011, Ambac Financial's audited GAAP basis consolidated financial statements reported assets of $ 27,113,695,000, liabilities of $ 30,263,228,000 and stockholders' (negative) equity of $(3,149,533,000). Operations in 2011 provided reported net income (loss) of $(1,960,371,000).

Ambac Assurance Corporation

Ambac Assurance Corporation (Ambac) is a Wisconsin-domiciled insurance company authorized to transact surety and financial guaranty insurance. Ambac is the principal operating subsidiary of Ambac Financial. All operations of the group are performed by employees of Ambac. Ambac stopped writing new business at the beginning of 2008. On March 24, 2010, certain policies that had been issued by Ambac were placed into the Ambac Assurance Corporation Segregated Account (Segregated Account). The Segregated Account was immediately placed into rehabilitation by the Wisconsin Office of the Commissioner of Insurance. Ambac has written financial guaranty insurance on credit obligations issued in three primary markets: the U.S. public finance market, the U.S. structured finance and asset-backed securities market and the international credit obligation market.

As of December 31, 2011, Ambac's statutory basis financial statements reported admitted assets of $7,613,074,210, liabilities of $7,117,780,771 and surplus as regards policyholders of $495,293,439. Operations in 2011 provided reported net income (loss) of $(835,795,278). Material changes were reported in the first quarter 2012 statement as corrections of errors for 2011.

Ambac Assurance Corporation Segregated Account in Rehabilitation

The Segregated Account was created by Ambac on March 24, 2010, and put into rehabilitation on that day. It is being managed by a Special Deputy Commissioner of the Wisconsin Office of the Commissioner of Insurance under the supervision of William D. Johnston, a Lafayette County Circuit Court Judge, presiding by a judicial assignment order of the Circuit Court of Dane County, Wisconsin. Ambac was contracted to provide operations services for the Segregated Account. Most policies selected for the Segregated Account were policies that were not municipal bond policies.

As of December 31, 2011, the Segregated Account's statutory basis financial statements reported admitted assets of $1,708,069,658, liabilities of $1,602,170,412 and surplus as regards policyholders of $105,899,246. Operations in 2011 provided reported net income of $0.

Connie Lee Holdings, Inc.

Connie Lee Holdings, Inc. (CL Holdings) serves as the intermediate holding company parent of Everspan. CL Holdings was originally incorporated on February 12, 1987, under the name College Construction Loan Insurance Association. CL Holdings was established by Congress as a private for-profit stock corporation in the District of Columbia, mandated to acquire and capitalize a wholly owned insurance company to provide financial guaranty insurance for credit securities issued by higher education institutions. Ownership of CL Holdings was acquired by Ambac effective December 18, 1997.

As of December 31, 2011, CL Holdings' unaudited GAAP basis financial statements reported assets of $220,585,341, liabilities of $12,203,181, and stockholders' equity of $208,382,160. Operations in 2011 provided reported net income of $5,053,476.

Agreements with Affiliates

The affiliated reinsurance agreement is discussed in the "Reinsurance" section of the examination report. Further discussion of affiliated agreements can be found in the "Summary of Examination Results" section of the examination report.

1. Tax-Sharing Agreement – The domestic affiliates of Ambac Financial have all been part of a tax-sharing agreement since it first became effective July 18, 1991, or since they became part of the group. Since then, the agreement has been amended three times. Under the agreement, Ambac Financial annually files a consolidated federal income tax return on behalf of itself and its subsidiaries. Each subsidiary pays Ambac Financial the federal income tax they would owe if the subsidiary had filed separately. This amount is due no later than the due date of the consolidated federal income tax return for the taxable period. This agreement was replaced by an amended and restated agreement that was signed on March 14, 2012. The agreement was effective as of March 14, 2012, but remained subject to early termination until the IRS settlement was closed. The restated agreement was amended as of April 29, 2013. The amendments to the restated agreement primarily concern details about the allocation of the use of certain net operating loss carryforwards (NOLs) among the affiliated companies. Because the NOLs are a material asset of post-bankruptcy Ambac Financial, the companies have made a serious effort here to protect the NOLs from any adverse consequences and began the effective time of the future tax-sharing agreement to make the best use of the NOLs.

2. Expense-Sharing and Cost-Allocation Agreement – Originally effective January 1, 1997, Ambac and certain of its subsidiaries and affiliates entered into an expense-sharing and cost-allocation agreement. It was updated January 1, 2007, and was terminated and replaced by another agreement effective March 14, 2012. Pursuant to the agreement, Ambac allocates a portion of its annual overhead expenses incurred to the participating subsidiaries and affiliates. Ambac also allocates to each respective subsidiary and affiliate direct costs incurred by Ambac that are paid on behalf of the respective subsidiary and affiliate. Estimated allocated and direct costs are to be billed within 20 days of the end of the month and paid within 5 days thereafter. An actual cost true-up is due on a quarterly basis within 55 days of the end of the quarter and payment is due within 60 days of the end of the quarter.

V. REINSURANCE

The company ceased writing new business in 1997 and its existing book of business is in run-off, resulting in the company having a limited reinsurance program. Under the company's reinsurance program, Everspan does not have any net retained assumed reinsurance exposure and cedes to its parent a portion of the company's liability for existing risks that were written on a direct basis in prior years.

The company cedes a portion of the risks on its existing book of business pursuant to a December 18, 1997, excess of loss reinsurance agreement with Ambac. This agreement specifies that Ambac will accept 100% of the company's incurred losses in excess of a specified, variable attachment point defined as policyholder's annual statement statutory surplus less $75 million. The attachment point was $123,185,643 on December 31, 2011.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Everspan Financial Guarantee Corp.
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$191,781,046	$0	$191,781,046
Cash, cash equivalents, and short-term investments	15,864,392	0	15,864,392
Receivables for securities	11,472	0	11,472
Investment income due and accrued	1,939,397	0	1,939,397
Receivable from parent, subsidiaries, and affiliates	9,000	0	9,000
Total Assets	$209,605,307	$0	$209,605,307

Everspan Financial Guarantee Corp.
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Other expenses (excluding taxes, licenses, and fees)		$ 75,541
Current federal and foreign income taxes		3,660,362
Unearned premiums		4,262,429
Write-ins for liabilities:		
Mandatory contingency reserve for adverse losses		3,421,332
Total liabilities		11,419,664
Common capital stock	$15,000,000	
Gross paid in and contributed surplus	97,927,598	
Unassigned funds (surplus)	85,258,045	
Surplus as regards policyholders		198,185,643
Total Liabilities and Surplus		$209,605,307

Everspan Financial Guarantee Corp.
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$ 815,631
Deductions:		
Losses incurred	$ (357,150)	
Loss adjustment expenses incurred	705	
Other underwriting expenses incurred	627,034	
Total underwriting deductions		270,589
Net underwriting gain (loss)		545,042
Investment Income		
Net investment income earned	8,698,375	
Net realized capital gains (losses)	(80,623)	
Net investment gain (loss)		8,617,752
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		9,162,794
Federal and foreign income taxes incurred		1,676,689
Net Income		$7,486,105

Everspan Financial Guarantee Corp.
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$ (62,000)
Net investment income			7,492,264
Total			7,430,264
Benefit- and loss-related payments		$ (357,150)	
Commissions, expenses paid, and aggregate write-ins for deductions		593,414	
Total deductions			236,264
Net cash from operations			7,194,000
Proceeds from investments sold, matured, or repaid:			
Bonds		10,089,483	
Cost of investments acquired (long-term only):			
Bonds	$15,800,318		
Miscellaneous applications	3,134		
Total investments acquired		15,803,452	
Net cash from investments			(5,713,969)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(9,000)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			1,471,031
Cash, cash equivalents, and short-term investments:			
Beginning of year			14,393,361
End of Year			$15,864,392

Everspan Financial Guarantee Corp.
Compulsory and Security Surplus Calculation
December 31, 2011

Assets		$209,605,307
Less liabilities		11,419,664
Adjusted surplus		198,185,643
Annual premium:		
Lines other than accident and health	$(62,000)	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (or Deficit)		$196,185,643
Adjusted surplus (from above)		$198,185,643
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (or Deficit)		$195,385,643

Everspan Financial Guarantee Corp.
New York State Aggregate Risk Limit Calculation
December 31, 2011

Section		**Aggregate Net Liability**		**Aggregate Risk Limit**
A	Municipal Bonds and Investment Grade Utility First Mortgage Obligations	$359,431,532	0.33%	$ 1,197,985
B	Investment Grade Asset Backed Securities	0	0.67%	0
C	Collateralized Guaranties or Guaranties of Less than 7 years of:	0		0
	Investment Grade Industrial Development Bonds	0	1.00%	0
	Other Investment Grade Obligations	0	1.00%	0
D	Other Investment Grade Obligations	0	1.50%	0
E	Non-investment Grade Consumer Debt Obligations and Asset Backed Securities	0	2.00%	0
F	Guaranties on Non-investment Grade Obligations Secured by First Mortgages on Commercial Real Estate and having a Loan to Value Ratio of less than 80%	0	2.50%	0
G	Other Non-investment Grade Obligations	0	4.00%	0
	Totals	$359,431,532		$ 1,197,985

Aggregate Risk Limit	$ 1,197,985
Surplus as regards Policyholders	198,185,643
Contingency Reserves	3,421,332
Total	201,606,975
Less Aggregate Risk Limit	1,197,985
Excess of Surplus and Contingency Reserves Over Aggregate Risk Limit:	$200,408,990

This schedule calculates the company’s minimum capital requirements, based on calculation of aggregate risk limitation pursuant to Article 69 of the New York Insurance Laws. A Wisconsin-domiciled financial guaranty insurer is subject to Wisconsin minimum capital and surplus requirements pursuant to s. Ins 3.08 and ch. Ins. 51, Wis. Adm. Code. Everspan is also subject to the minimum capital requirements of the New York Insurance Laws, which are more restrictive than Wisconsin requirements for certain segments of financial guaranty business. The New York aggregate risk limitation requirement serves as an industry standard for the evaluation of minimum capital requirements of a financial guaranty insurer and is used as the minimum standard in Wisconsin. The risk limitation calculation is based on an insurer’s guaranteed principal and interest in force on various classes of insured credit obligations.

Everspan Financial Guarantee Corp.
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2011	**2010**	**2009**	**2008**	**2007**
Surplus, beginning of year	$177,007,791	$169,721,206	$156,974,930	$147,563,706	$138,617,181
Net income	7,486,105	8,451,968	13,846,318	11,162,739	10,708,346
Change in net unrealized capital gains/losses	(164,398)				
Change in net deferred income tax		(2,911,205)	(3,109,195)	(1,765,384)	(1,437,485)
Change in nonadmitted assets		2,911,205	3,109,195	1,765,384	1,437,485
Write-ins for gains and (losses) in surplus: Mandatory contingency reserve for adverse losses	13,856,145	(1,165,383)	(1,100,042)	(1,751,515)	(1,761,821)
Surplus, End of Year	$198,185,643	$177,007,791	$169,721,206	$156,974,930	$147,563,706

Everspan Financial Guarantee Corp.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011

The company’s NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2011**	**2010**	**2009**	**2008**	**2007**
#1	Gross Premium to Surplus	0%	0%	0%	0%	0%
#2	Net Premium to Surplus	0	0	0	1	0
#3	Change in Net Premiums Written	0	0	-144*	999*	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	4.3	3.4	3.6	4.5	5.2
#7	Gross Change in Surplus	12	4	8	6	6
#8	Change in Adjusted Surplus	12	4	8	6	6
#9	Liabilities to Liquid Assets	5	12	13	15	15
#10	Agents’ Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	-0	-0	-1	-1	-0
#12	Two-Year Reserve Development to Surplus	-1	-1	-2	-0	5
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 3 showed very large swings as a percent of change in premium, but this was a result of immaterial net premium levels changing from negative in 2007 to positive in 2008 to negative again in 2009.

Run-off of Everspan Financial Guarantee Corp.

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$209,605,307	$11,419,664	$198,185,643	$ 7,486,105
2010	201,490,198	24,482,407	177,007,791	8,450,968
2009	194,646,860	24,925,659	169,721,206	13,846,318
2008	184,186,216	27,211,286	156,974,930	11,162,739
2007	173,642,785	26,079,079	147,563,706	10,708,346
2006	160,946,897	22,329,716	138,617,181	13,327,849

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$ 0	$ (62,000)	$ 815,631	(43.7)%	(1,011.3)%	(1,055.0)%
2010	0	(91,000)	2,330,774	(26.0)	(449.9)	(475.9)
2009	(507,715)	(635,715)	2,200,079	(68.1)	(51.4)	(119.5)
2008	20,476	1,444,300	3,503,028	(27.1)	162.1	135.0
2007	29,344	(179,000)	3,523,641	30.5	(102.7)	(72.2)
2006	27,972	(242,500)	5,972,211	82.1	(84.2)	(2.1)

The company has not underwritten any new direct business since 1997 and is currently in a voluntary run-off. Since entering into run-off, the company has experienced favorable loss development overall and profitable underwriting results. Surplus has increased by 43% to $198.2 million since the prior examination.

The company's annual earned premium revenues are derived from earning current-year coverage premiums on policies that were written in prior years, for which premiums were paid up front for all policy coverage years and were recorded by the company as unearned premium liability. Remaining unearned premiums that are available to be earned as premiums in future years are decreasing annually as the book of business runs off and equaled $4.3 million at year-end 2011 compared to $16.2 million at year-end 2006.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Board of Directors—It is recommended that the board of directors approve investment transactions of the company in accordance with s. 611.51, Wis. Stat.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

2. Board of Directors—It is recommended that the company hold an annual meeting for the election of directors and other matters, as necessary, in accordance with its bylaws and as required by ss. 180.0804 (1) and 180.0701 (1), Wis. Stat.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

3. Biographical Affidavits—It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

   Action—Compliance.

4. Affiliated Agreements—It is recommended that the company conduct a thorough review of its affiliated relationships, identifying existing affiliated agreements necessary for those relationships and terminating agreements that are no longer considered necessary.

   Action—Compliance.

5. Affiliated Agreements—It is further recommended that in the cases in which an agreement is necessary and the company no longer has evidence of filing it with this office that it properly submits the agreement pursuant to s. Ins 40.04 (2), Wis. Adm. Code, and reports the agreement in its annual holding company registration statement pursuant to s. Ins 40.03, Wis. Adm. Code.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Board of Directors

The company's Restated Corporate Bylaws, Article II, Section 1, states, "The annual meeting of the shareholders shall be held at such place, date and time as shall be fixed by the Board and designated in the notice or waiver of notice of such annual meeting, for the purpose of electing directors and for the transaction of such other business as may come before the meeting." Section 180.0701 (1), Wis. Stat., states, in part, "a corporation shall hold a meeting of shareholders annually at a time stated in or fixed in accordance with the bylaws." Section 180.0804 (1), Wis. Stat., states, in part, "The terms of the directors of a corporation, including the initial directors, expire at the next annual shareholders' meeting unless their terms are staggered." Minutes of the company show that the company receives written consent of the sole shareholder in lieu of an annual meeting. In that consent, the shareholder offers such resolutions as are needed for the business of the company. This includes an appointment of a board of directors. The minutes show that the shareholder went up to 23 months between annual meetings or providing written consent in lieu of an annual meeting and that there is no evidence that there is a consistent time of the year when the meeting is supposed to be held. It is again recommended that the company hold an annual meeting for the election of directors and other matters, as necessary, in accordance with its bylaws and as required by ss. 180.0804 (1) and 180.0701 (1), Wis. Stat.

Minutes of the board of directors did not provide evidence of a review of investment transactions made by Everspan during the last three quarters of 2007 (as Connie Lee) or any of 2011. Section 611.51, Wis. Stat., states, “the board shall manage the business and affairs of the corporation and may not delegate its power or responsibility to do so.” It is again recommended that the board of directors approve investment transactions of the company in accordance with s. 611.51, Wis. Stat.

VIII. CONCLUSION

Everspan Financial Guarantee Corp. is a member of an insurance holding group which has had financial problems. The ultimate parent, Ambac Financial Group, Inc., was in a Chapter 11 reorganization proceeding during the time of the examination. Ambac Assurance Corporation has not been writing any new policies since the financial crisis.

Everspan itself is financially strong, is in run-off, and has few policies still in force since it has not written any new policies since 1997. During the examination, it was determined that there were no material misstatements of the account balances reported by the company in its 2011 statutory financial statements and there were no adjustments or reclassifications of reported account balances. Everspan has been profitable each of the five years since the prior examination and has admitted assets of $209,605,307, liabilities of $11,419,664, and surplus of $198,185,643.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Board of Directors—It is again recommended that the company hold an annual meeting for the election of directors and other matters, as necessary, in accordance with its bylaws and as required by ss. 180.0804 (1) and 180.0701 (1), Wis. Stat.

2. Page 24 - Board of Directors—It is again recommended that the board of directors approve investment transactions of the company in accordance with s. 611.51, Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Gene Renard, CFE	Insurance Financial Examiner – Journey
Rachel Liu	Insurance Financial Examiner
Victoria Y. Chi, CISA, CISM, CRISC	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry C. DeArmond, CFE, FLMI, AIRC	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Frederick H. Thornton, CFE, CPCU	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist

Respectfully submitted,

David Jensen, CFE
Examiner-in-Charge