

MONOLINES

AMBAC, FGIC AND PMI

THE BEST KINDS OF MATTERS are the ones that require that we bring together talent from across our practices. Beginning in 2010, we became involved in the restructuring of the U.S. monoline and mortgage insurance business after its collapse in 2008. We have acted as counsel in connection with several bankrupt insurers—Ambac Financial Group, Inc., Financial Guaranty Insurance Company (FGIC) and PMI Mortgage Insurance Co. (PMI). Before the financial crisis, Ambac was one of the largest monoline financial guaranty insurers in the world, but it suffered massive losses due primarily to its exposure to asset-backed and mortgage-backed securities. Ambac's Official Committee of Unsecured Creditors hired us to counsel them on restructuring issues. To resolve this far-reaching case, we devised novel bankruptcy, tax, insurance regulatory and litigation strategies. In order to maximize value for Ambac's creditor constituents, we advanced a number of legal theories and approaches, including asserting the parent holding company's legal rights as the group's agent vis-à-vis the Internal Revenue Service, potential preference claims for tax refunds paid by the parent to the subsidiary within one year of the bankruptcy filing, and challenging the allocation of tax refunds between the parent and the subsidiary and the allocation of net operating losses and other tax attributes between the parent and the subsidiary. By viewing frequently overlooked tax attributes in a new light, our plan averted hundreds of millions of dollars in losses to policyholders and materially enhanced recoveries to bondholders. We employed a similar approach to create value for creditors in the Chapter 11 cases of monoline insurer FGIC and mortgage insurer PMI.