



# QUARTERLY STATEMENT

AS OF MARCH 31, 2008  
OF THE CONDITION AND AFFAIRS OF THE

## ACA Financial Guaranty Corporation

NAIC Group Code 0000, 0000 NAIC Company Code 22896 Employer's ID Number 52-1474358  
(Current Period) (Prior Period)

Organized under the Laws of Maryland, State of Domicile or Port of Entry Maryland  
Country of Domicile United States

Incorporated/Organized 06/25/1986 Commenced Business 10/31/1986

Statutory Home Office 140 Broadway, 47th Floor, New York, NY 10005-1101  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 140 Broadway, 47th Floor New York, NY 10005-1101 212-375-2000  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 140 Broadway, 47th Floor, New York, NY 10005-1101  
(Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 140 Broadway, 47th Floor New York, NY 10005-1101 212-375-2087  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Website Address http://www.aca.com

Statutory Statement Contact Melvin Allan Yee 212-375-2087  
(Name) (Area Code) (Telephone Number) (Extension)  
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### OFFICERS

Name	Title	Name	Title
<u>Alan Stewart Roseman</u>	<u>President, CEO, and Director</u>	<u>Lisa Michelle Mumford</u>	<u>Chief Financial Officer</u>
<u>Nora Jean Dahlman</u>	<u>Secretary and General Counsel</u>		

### OTHER OFFICERS

### DIRECTORS OR TRUSTEES

<u>David Michael Barse</u>	<u>John Gregory Berylson</u>	<u>Douglas Lee Jacobs</u>	<u>Robert Juneja</u>
<u>David King</u>	<u>William Howard Lacy</u>	<u>Gideon Anthony Pell</u>	<u>Alan Stewart Roseman</u>
<u>Warren Amerine Stephens</u>			

State of New York  
County of New York

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The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Alan Stewart Roseman  
President, CEO, and Director

Lisa Michelle Mumford  
Chief Financial Officer

Nora Jean Dahlman  
Secretary and General Counsel

a. Is this an original filing? Yes [ X ] No [ ]

Subscribed and sworn to before me this  
9th day of May, 2008

b. If no,  
1. State the amendment number \_\_\_\_\_  
2. Date filed \_\_\_\_\_  
3. Number of pages attached \_\_\_\_\_

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	511,066,964		511,066,964	593,402,665
2. Stocks:				
2.1 Preferred stocks .....			0	0
2.2 Common stocks .....	769,815	769,815	0	763,291
3. Mortgage loans on real estate:				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate:				
4.1 Properties occupied by the company (less \$ ..... encumbrances) .....			0	0
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....2,146,336 ), cash equivalents (\$ .....0 ) and short-term investments (\$ .....97,940,100 ) .....	100,086,437		100,086,437	61,537,736
6. Contract loans, (including \$ .....premium notes)			0	0
7. Other invested assets .....	19,339,936	0	19,339,936	19,339,891
8. Receivables for securities .....	20,719		20,719	9,141
9. Aggregate write-ins for invested assets .....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	631,283,871	769,815	630,514,056	675,052,723
11. Title plants less \$ ..... charged off (for Title insurers only)			0	0
12. Investment income due and accrued .....	5,324,404		5,324,404	6,098,420
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection .....			0	0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....	(4,067,654)	220,564	(4,288,218)	15,375
13.3 Accrued retrospective premiums .....			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers .....			0	0
14.2 Funds held by or deposited with reinsured companies .....			0	0
14.3 Other amounts receivable under reinsurance contracts .....			0	0
15. Amounts receivable relating to uninsured plans .....			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon .....	7,076,391		7,076,391	7,075,607
16.2 Net deferred tax asset .....	82,086,330	81,636,468	449,862	380,990
17. Guaranty funds receivable or on deposit .....			0	0
18. Electronic data processing equipment and software .....	3,212,653	3,032,124	180,529	571,685
19. Furniture and equipment, including health care delivery assets (\$ .....)	693,990	693,990	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
21. Receivables from parent, subsidiaries and affiliates .....	2,853,624		2,853,624	2,492,524
22. Health care (\$ .....) and other amounts receivable .....			0	0
23. Aggregate write-ins for other than invested assets .....	839,287	572,823	266,463	104,225
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	729,302,895	86,925,784	642,377,111	691,791,549
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			0	0
26. Total (Lines 24 and 25)	729,302,895	86,925,784	642,377,111	691,791,549
<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Prepaid Expenses .....	465,758	465,758	0	0
2302. Interest Receivable/(Payable) Affiliate .....	(116,447)		(116,447)	(116,447)
2303. Employee Flexible Spending Account .....	32,760		32,760	42,977
2398. Summary of remaining write-ins for Line 23 from overflow page .....	457,216	107,065	350,151	177,695
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	839,287	572,823	266,463	104,225

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ .....8,405,211 ) .....	16,091,166	7,373,268
2. Reinsurance payable on paid losses and loss adjustment expenses .....		0
3. Loss adjustment expenses .....	821,277	562,331
4. Commissions payable, contingent commissions and other similar charges .....	0	0
5. Other expenses (excluding taxes, licenses and fees) .....	3,080,381	5,591,071
6. Taxes, licenses and fees (excluding federal and foreign income taxes) .....	332,020	453,148
7.1 Current federal and foreign income taxes (including \$ ..... on realized capital gains (losses)) .....		0
7.2 Net deferred tax liability .....		0
8. Borrowed money \$ ..... and interest thereon \$ .....		0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ .....540,543 and including warranty reserves of \$ ..... ) .....	233,390,904	263,012,701
10. Advance premium .....		0
11. Dividends declared and unpaid:		
11.1 Stockholders .....		0
11.2 Policyholders .....		0
12. Ceded reinsurance premiums payable (net of ceding commissions) .....		0
13. Funds held by company under reinsurance treaties .....		0
14. Amounts withheld or retained by company for account of others .....		0
15. Remittances and items not allocated .....		0
16. Provision for reinsurance .....		0
17. Net adjustments in assets and liabilities due to foreign exchange rates .....		0
18. Drafts outstanding .....		0
19. Payable to parent, subsidiaries and affiliates .....		0
20. Payable for securities .....		0
21. Liability for amounts held under uninsured plans .....		0
22. Capital notes \$ ..... and interest thereon \$ .....		0
23. Aggregate write-ins for liabilities .....	206,378,825	185,658,975
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23) .....	460,094,572	462,651,493
25. Protected cell liabilities .....		0
26. Total liabilities (Lines 24 and 25) .....	460,094,572	462,651,493
27. Aggregate write-ins for special surplus funds .....	0	0
28. Common capital stock .....	15,000,000	15,000,000
29. Preferred capital stock .....		0
30. Aggregate write-ins for other than special surplus funds .....	0	0
31. Surplus notes .....	10,000,000	10,000,000
32. Gross paid in and contributed surplus .....	358,303,850	358,303,850
33. Unassigned funds (surplus) .....	(201,021,312)	(154,163,793)
34. Less treasury stock, at cost:		
34.1 ..... shares common (value included in Line 28 \$ ..... ) .....		0
34.2 ..... shares preferred (value included in Line 29 \$ ..... ) .....		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) .....	182,282,539	229,140,057
36. TOTALS	642,377,111	691,791,549
<b>DETAILS OF WRITE-INS</b>		
2301. Contingency Reserve.....	206,378,825	185,658,975
2302. ....		
2303. ....		
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	206,378,825	185,658,975
2701. ....		
2702. ....		
2703. ....		
2798. Summary of remaining write-ins for Line 27 from overflow page .....	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	0	0
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page .....	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)	0	0

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ ..... (17,548,966) )	3,492,417	21,128,612	93,846,144
1.2 Assumed (written \$ ..... (7,785,269) )	804,156	99,865	288,500
1.3 Ceded (written \$ ..... 8,075 )	17,086	155,669	1,841,723
1.4 Net (written \$ ..... (25,342,310) )	4,279,488	21,072,808	92,292,920
<b>DEDUCTIONS:</b>			
2. Losses incurred (current accident year \$ ..... 17,874,257 ):			
2.1 Direct .....	18,013,004	14,499,349	28,984,569
2.2 Assumed .....	0	0	8,500,000
2.3 Ceded .....	0	0	0
2.4 Net .....	18,013,004	14,499,349	37,484,569
3. Loss adjustment expenses incurred .....	300,784	49,000	614,697
4. Other underwriting expenses incurred .....	8,370,590	9,843,954	45,581,005
5. Aggregate write-ins for underwriting deductions .....	0	0	0
6. Total underwriting deductions (Lines 2 through 5) .....	26,684,378	24,392,303	83,680,271
7. Net income of protected cells .....	0	0	0
8. Net underwriting gain or (loss) (Line 1.4 minus Line 6 + Line 7) .....	(22,404,890)	(3,319,495)	8,612,649
<b>INVESTMENT INCOME</b>			
9. Net investment income earned .....	6,933,384	7,054,428	30,933,517
10. Net realized capital gains (losses) less capital gains tax of \$ ..... 0	(8,330,287)	(50,522)	(5,050,701)
11. Net investment gain (loss) (Lines 9 + 10) .....	(1,396,903)	7,003,906	25,882,816
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ ..... amount charged off \$ .....)	0	0	0
13. Finance and service charges not included in premiums .....	0	0	0
14. Aggregate write-ins for miscellaneous income .....	3,000	74,168	148,168
15. Total other income (Lines 12 through 14) .....	3,000	74,168	148,168
16. Net income before dividends to policyholders after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15) .....	(23,798,793)	3,758,580	34,643,633
17. Dividends to policyholders .....	0	0	0
18. Net income, after dividends to policyholders after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17) .....	(23,798,793)	3,758,580	34,643,633
19. Federal and foreign income taxes incurred .....	0	952,642	3,806,331
20. Net income (Line 18 minus Line 19)(to Line 22) .....	(23,798,793)	2,805,938	30,837,302
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year .....	229,140,047	273,643,757	273,643,757
22. Net income (from Line 20) .....	(23,798,793)	2,805,938	30,837,302
23. Net transfers (to) from Protected Cell accounts .....	0	0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ .....	(1,258,257)	(30,000,282)	(29,961,174)
25. Change in net unrealized foreign exchange capital gain (loss) .....	0	0	0
26. Change in net deferred income tax .....	16,968,478	6,463,575	12,579,132
27. Change in nonadmitted assets .....	(18,049,087)	23,761,292	18,034,058
28. Change in provision for reinsurance .....	0	0	0
29. Change in surplus notes .....	0	0	0
30. Surplus (contributed to) withdrawn from protected cells .....	0	0	0
31. Cumulative effect of changes in accounting principles .....	0	0	0
32. Capital changes:			
32.1 Paid in .....	0	0	0
32.2 Transferred from surplus (Stock Dividend) .....	0	0	0
32.3 Transferred to surplus .....	0	0	0
33. Surplus adjustments:			
33.1 Paid in .....	0	0	0
33.2 Transferred to capital (Stock Dividend) .....	0	0	0
33.3 Transferred from capital .....	0	0	0
34. Net remittances from or (to) Home Office .....	0	0	0
35. Dividends to stockholders .....	0	(1,917,942)	(3,810,636)
36. Change in treasury stock .....	0	0	0
37. Aggregate write-ins for gains and losses in surplus .....	(20,719,850)	(18,496,401)	(72,182,392)
38. Change in surplus as regards policyholders (Lines 22 through 37) .....	(46,857,508)	(17,383,821)	(44,503,709)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38) .....	182,282,539	256,259,937	229,140,047
<b>DETAILS OF WRITE-INS</b>			
0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page .....	0	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above) .....	0	0	0
1401. Other Income.....		168	0
1402. Surveillance Consent Fees.....	3,000	74,000	148,168
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page .....	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above) .....	3,000	74,168	148,168
3701. Change In Contingency Reserve.....	(20,719,850)	(18,496,401)	(72,182,392)
3702. ....			
3703. ....			
3798. Summary of remaining write-ins for Line 37 from overflow page .....	0	0	0
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above) .....	(20,719,850)	(18,496,401)	(72,182,392)

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**CASH FLOW**

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	(21,038,716)	111,769,704
2. Net investment income .....	8,347,266	31,727,001
3. Miscellaneous income .....	3,000	148,168
4. Total (Lines 1 to 3) .....	(12,688,451)	143,644,874
5. Benefits and loss related payments .....	9,295,105	24,130,609
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions .....	11,044,245	49,515,337
8. Dividends paid to policyholders .....	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ .....0 tax on capital gains (losses)	783	5,974,804
10. Total (Lines 5 through 9) .....	20,340,134	79,620,751
11. Net cash from operations (Line 4 minus Line 10) .....	(33,028,584)	64,024,123
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds .....	74,770,718	89,348,453
12.2 Stocks .....	0	0
12.3 Mortgage loans .....	0	0
12.4 Real estate .....	0	0
12.5 Other invested assets .....	10,870,012	8,798,196
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	0	73,752
12.7 Miscellaneous proceeds .....	4	0
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	85,640,734	98,220,401
13. Cost of investments acquired (long-term only):		
13.1 Bonds .....	2,670,000	196,528,872
13.2 Stocks .....	0	501,539
13.3 Mortgage loans .....	0	0
13.4 Real estate .....	0	0
13.5 Other invested assets .....	0	18,250,000
13.6 Miscellaneous applications .....	10,881,590	60,152
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	13,551,590	215,340,563
14. Net increase (or decrease) in contract loans and premium notes .....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	72,089,144	(117,120,162)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes .....	0	0
16.2 Capital and paid in surplus, less treasury stock .....	0	0
16.3 Borrowed funds .....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	0	0
16.5 Dividends to stockholders .....	0	3,810,636
16.6 Other cash provided (applied).....	(511,858)	3,110,262
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) .....	(511,858)	(700,374)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	38,548,702	(53,796,413)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	61,537,735	115,334,149
19.2 End of period (Line 18 plus Line 19.1) .....	100,086,437	61,537,735

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Practices

The accompanying financial statements have been completed in accordance with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual which have been adopted by the Maryland Insurance Administration ("MIA").

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

#### C. Accounting Policy

##### Premium revenue recognition

Installment premiums are earned over each installment period, which is generally one year or less. Up-front premiums are earned in proportion to the expiration of risk. Unearned premiums represent that portion of premiums which is applicable to coverage of risk to be provided in the future on policies in force. When an insured issue is retired or defeased prior to the end of the expected period or coverage, the remaining unearned premiums, less any amount credited to a refunding issue insured by the Company, are recognized as earned premium.

##### Expense recognition

Expense incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowance received or receivable.

Effective January 1, 2007, the Company's parent, ACACH, adopted the provisions of FIN 48. The implementation of FIN 48, did not result in a change to the Company's financial position with regards to reserves for uncertain tax positions and any associated interest and penalties.

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds are stated at amortized cost using the effective interest rate method.
- (3) The Company carries the common stock of an offshore subsidiary, ACA Capital (Singapore) Pte. Ltd. ("ACA Singapore") as a non-admitted asset as of March 31, 2008. For additional information please see (7) below.
- (4) The Company has no preferred stocks.
- (5) The Company has no mortgage loans.
- (6) Loan-backed securities are stated at amortized cost or the lower of amortized cost or fair market value, using the effective interest rate method. The retrospective adjustment method is used to value all securities.
- (7) In June 2006, the Company established a wholly-owned subsidiary, ACA Singapore, for the purpose of expanding the Company's structured credit business into the Asian markets. ACA Singapore enabled the Company to expand its marketing of its insured credit default swap business, find counterparties, perform credit assessment and negotiate transactions. ACA Singapore did not, however, have authority to enter into transactions on behalf of the Company or its subsidiaries. Instead, potential structured credit transactions identified by ACA Singapore were underwritten and executed out of the U.S. through Delaware special purpose entities whose obligations are insured by the Company (consistent with the Company's existing structured credit business). Through December 31, 2007, ACA Singapore was compensated by the Company on a cost-plus 7% basis for the expenses it incurred. Beginning January 1, 2008, ACA Singapore is reimbursed by the Company on a cost basis only. This change was implemented because the Company will no longer be transacting in the structured credit business, and it is currently undertaking the necessary steps to conclude ACA Singapore's business operations. The Company expects to complete the unwind of ACA Singapore by year-end 2008. As of March 31, 2008, the Company contributed approximately \$632 thousand of capital into ACA Singapore and did not admit its interest in the amount of \$770 thousand.
- (8) The Company has no joint ventures.
- (9) The Company has no derivatives.
- (10) The Company has no premium deficiencies.
- (11) Unpaid losses and loss adjustment expenses are established when an event of default of an insured obligation occurs. Such liabilities are necessarily based on assumptions and estimates and while management believes these amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. Loss reserves are recorded at the net present value of expected payments. The Company's unpaid losses and loss adjustment expenses is \$16.9 million at March 31, 2008 and include two new case reserves established during the current period in the total amount of \$8.4 million. Total case reserves at December 31, 2007 were \$7.9 million.
- (12) There has been no change to the Company's capitalization policy.
- (13) The Company has no pharmaceutical rebate receivables.

### 2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

A. The Company had no changes in accounting principles and/or correction of errors for the three months ended March 31, 2008, except for the application of a required change in accounting for an investment in a principal protected bond. At December 31, 2007, the bond was carried at its par value, however, the NAIC implemented Issue Paper No. 124 to amend SSAP No. 43, thus requiring such bonds to be carried at their discounted amounts. Application of this rule resulted in a write-down for this security in the amount of \$10.9 million.

### 3. BUSINESS COMBINATION AND GOODWILL

The Company was not party to any business combinations and does not hold goodwill.

### 4. DISCONTINUED OPERATIONS

The Company had no discontinued operations as of March 31, 2008.

### 5. INVESTMENTS

#### A. Mortgage Loans

The Company has no mortgage loans.

#### B. Debt Restructuring

The Company has no debt restructuring.

#### C. Reverse Mortgages

The Company has no reverse mortgages.

#### D. Loan-Backed Securities

- (1) The Company has no securities purchased prior to January 1, 1994.

## NOTES TO FINANCIAL STATEMENTS

- (2) Prepayment assumptions are derived from an average of those forecast by a number of Wall Street dealers as tabulated by Bloomberg L.P. and referred to as Bloomberg consensus estimates. Prices are determined by US Bank, N.A., which predominantly uses quotations received from Interactive Data Services, Inc.
- (3) The Company made no changes from the retrospective to prospective methodology in 2008 due to negative yield on specific securities.

## E. Repurchase Agreements

The Company has not used repurchase agreements. If the Company was to utilize them, Treasury or Agency collateral having a market value of no less than 102% of the amount of the repurchase agreement would be required.

F. The Company has no real estate investments.

G. The Company has no low-income housing tax credit investment.

## 6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

The Company has an investment in its wholly-owned subsidiary, ACA Service L.L.C., ("ACA Service"). This investment is non-admitted and, therefore, does not exceed 10% of the Company's admitted assets.

The Company has a \$770 thousand investment in ACA Singapore (see Note 1C(7) above) at March 31, 2008. This investment is accounted for as a non-admitted asset.

## 7. INVESTMENT INCOME

All investment income due and accrued with amounts that are over 90 days past due are considered a non-admitted asset. There was no past due investment income as of March 31, 2008.

## 8. DERIVATIVE INSTRUMENTS

The Company has no derivative instruments.

## 9. INCOME TAXES

A The components of the net deferred tax assets and deferred tax liabilities are as follows:

Description	3/31/08	12/31/07
Gross deferred tax assets	\$ 89,805,932	\$ 73,387,669
Gross deferred tax liabilities	(7,719,602)	(15,052,763)
Net deferred tax asset	82,086,330	58,334,906
Non-admitted deferred tax asset	(81,636,468)	(57,935,902)
Net admitted deferred tax asset	449,862	399,004
Decrease (increase) in nonadmitted deferred tax assets	\$ (23,700,566)	\$ (5,888,281)

B Deferred tax liabilities are not recognized for the following amounts:

Not Applicable

C The components of federal income tax expense (benefit) are as follows:

Description	3/31/08	12/31/07
Current year expense / (benefit)	\$ -	\$ -
Prior year (over) / under accrual	-	3,806,030
Current income tax expense / (benefit)	-	3,806,030
Less: expense / (benefit) on capital gain / (loss)	-	-
Current ordinary income tax expense / (benefit)	\$ -	\$ 3,806,030

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

Deferred tax assets	3/31/08	12/31/07	Change
Unearned premiums reserve	8,157,261	9,194,024	(1,036,763)
Loss reserve discounting	80,455	70,496	9,959
Change in contingency reserve	72,232,589	57,665,266	14,567,323
Unearned ceding commissions	1,100,002	1,100,002	-
Unamortized licenses	567,000	598,500	(31,500)
Change in accounting method	-	446,627	(446,627)
Fixed assets	1,715,272	1,715,272	-
Realized losses and impairments	3,802,176	-	3,802,176
Capital loss carryforward	1,438,763	2,327,667	(888,904)
General expense accrual	126,000	126,000	-
Other temporary differences	586,414	143,815	442,599
Gross deferred tax asset	89,805,932	73,387,669	16,418,263
Non-admitted deferred tax asset	(81,636,468)	(57,935,902)	(23,700,566)
Gross admitted deferred tax asset	\$ 8,169,464	\$ 15,451,767	\$ (7,282,303)
<b>Deferred tax liabilities</b>	<b>3/31/08</b>	<b>12/31/07</b>	<b>Change</b>
Contingency reserve deduction - T&L bonds	(7,413,334)	(14,664,790)	7,251,456
Investments	(304,059)	(387,973)	83,914
Other	(2,209)	-	(2,209)
Gross deferred tax liabilities	(7,719,602)	(15,052,763)	7,333,161
Net admitted deferred tax asset / (liability)	\$ 449,862	\$ 399,004	\$ 50,858

The change in net deferred income taxes is comprised of the following:

Total deferred tax assets	\$ 89,805,932	\$ 73,387,669	\$ 16,418,263
Total deferred tax liabilities	(7,719,602)	(15,052,763)	7,333,161
Net deferred tax asset (liability)	\$ 82,086,330	\$ 58,334,906	\$ 23,751,424

## NOTES TO FINANCIAL STATEMENTS

**D** The actual tax expense (benefit) on income from operations differs from tax expense (benefit) calculated at the U.S. statutory tax rate. A reconciliation of the Company's income tax expense (benefit) together with the significant book to tax adjustments for March 31, 2008 is set forth below:

Description	Tax Effect @	
	Amount	35%
Income / (loss) before taxes	\$ (23,597,239)	\$ (8,259,034)
Tax exempt interest, net of proration	(1,386,227)	(485,179)
Other	1,431	501
Total statutory taxable income	<u>\$ (24,982,035)</u>	<u>\$ (8,743,712)</u>
Federal income tax expense (benefit)		\$ -
Change in net deferred income taxes		(23,751,424)
Change in contingency reserve		14,567,322
Tax effect of change in unrealized gains (losses)		442,674
Comprehensive income		<u>(2,284)</u>
Total statutory tax expense		<u>\$ (8,743,712)</u>

**E** 1) The Company does not have net operating loss carryforwards at March 31, 2008 available to offset future net income subject to federal income tax.

2) The amount of federal income taxes incurred and available for future recoupment in the event of future net operating losses for tax purposes is set forth below:

Current year	-
First preceding year (2007)	-

**F** Effective November 22, 2007, the Company's operations will be included in the consolidated income tax return of its parent, ACA Capital Holdings Inc., a Delaware corporation.

1) Names of entities included with the Company in its consolidated income tax return

ACA Capital Holdings, Inc.  
ACA Holding, LLC.  
ACA Financial Products, Inc.  
ACA Solutions, Ltd.  
ACA Assurance, Ltd.

2) A written tax sharing agreement has been drafted but not yet approved by the Board of Directors of each company. The agreement sets forth the manner in which total consolidated tax for all entities is allocated to each entity in the consolidation. Generally, the allocation is based upon separate return calculations. Intercompany tax balances are to be settled quarterly following the time at which the consolidated income tax return is filed or estimated tax payments made. The agreement will be submitted to the MIA for approval in due course.

**G** In accordance with Maryland Insurance law, the Company is required to establish a statutory contingency reserve in quarterly amounts equal to the greater of 50% of financial guaranty premiums earned or a percentage of the principal guaranteed which can vary from .55% to 2.50% depending on the type of obligation guaranteed. These amounts may not be withdrawn for a period of 20 or 15 years depending on the type of the obligation except as permitted by the state for payment of certain losses. Section 832(e) of the Internal Revenue Code provides that the amount set aside in statutory contingency reserves may be deducted currently for income tax purposes provided non-interest bearing U.S. Mortgage Guaranty Tax and Loss Bonds issued by the Treasury Department are purchased in an amount commensurate with the tax benefit derived from deducting any portion of the Company's statutory contingency reserve. The statutory contingency reserve is shown as a liability on page 3 of the annual statement and the total Tax and Loss Bonds recorded in other invested assets on page 1 of the annual statement as of March 31, 2008 is \$18,250,000.

#### 10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

**A.** Effective November 9, 2006, ACACH completed its initial public offering of 6,875,000 shares of newly issued common stock and 23,541 shares of existing common stock ("IPO"). ACACH realized gross proceeds of \$13 per share on the newly issued common stock, or \$89.4 million. On November 10, 2006, ACACH commenced its listing on the New York Stock Exchange ("NYSE") and traded under the symbol "ACA".

The Company received a \$10 million capital contribution from ACACH from the proceeds of the IPO in December 2006.

Subsequent to the quarter ended June 30, 2007, in response to the decline in its common stock price, ACACH's Board of Directors approved a stock repurchase program of up to \$20 million. Such purchases of stock were funded from ACACH and its non-insurance subsidiaries. As of November 9, 2007, ACACH repurchased 2,087,900 shares of common stock at a cost of \$14.9 million in the aggregate. No additional shares have been repurchased since November 2007.

During the last three quarters of 2007, ACACH impaired a material portion of its CDO equity investments relating to its exposure to 2006 vintage sub-prime and second lien residential mortgage-backed securities ("RMBS"). Additionally, the Company has material exposure to 2006 vintage sub-prime and second lien RMBS through its insured credit default swaps. See Note 20(A) below.

On December 4, 2007, ACACH terminated its \$150 million three-year senior unsecured revolving credit facility with a syndicate of banks. At the time of the termination, ACACH did not have any borrowings outstanding under the credit facility.

On January 14, 2008, ACACH's common stock was removed by the NYSE from listing and registration on the NYSE and began trading on the over-the-counter bulletin board under the symbol "ACAH". On January 16, 2008, ACACH filed with the Securities and Exchange Commission a notice of termination of registration and suspension of duty to file reports under the Securities Exchange Act of 1934. This termination of registration and suspension of duty to file reports became effective on April 16, 2008 and applies retroactively to the date of notice.

**B.** The Company has issued financial guaranty insurance policies to swap counterparties of certain of its affiliated special purpose vehicles ("SPVs"), whereby the Company guarantees timely payment of the SPVs obligations under the structured credit default swaps. Under the terms of the forbearance agreement, installment premiums related to the swaps are no longer paid to the Company. See Note 20(A) below.



NOTES TO FINANCIAL STATEMENTS

C. At March 31, 2008, the Company reported \$2.9 million as amounts receivable, \$0.7 million of premium receivable, and \$0.3 million of interest payable from / to affiliated companies. These amounts represent arms-length transactions and are recorded as admitted assets and in accordance with SSAP No. 25 "Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties".

At March 31, 2008, the Company reported \$19.3 million as other invested assets. During the quarter ended September 30, 2007, the Company purchased Tax and Loss Bonds totaling \$18.3 million. During the quarter ended March 31, 2007, the Company was repaid a \$3.5 million loan from its affiliate, ACA CDS 2001-1, LLC. In May 2007, the Company was repaid in full on two loans from its affiliate, ACA Service, totaling \$5.3 million.

D. The Company has issued financial guaranty insurance policies to swap counterparties of certain of its affiliated special purpose vehicles ("SPVs"), whereby the Company guarantees timely payment of the SPVs obligations under the structured credit default swaps. The total notional amount of these structured credit default swaps was approximately \$66.3 billion at March 31, 2008. See Note 20(A) below.

E. At March 31, 2008, costs were allocated between the Company and its affiliates pursuant to a cost sharing, staffing and management services agreement and a funding agreement. The MIA approved these agreements on January 25, 2006.

F. The majority shareholder, ACA Holding, L.L.C. ("ACAH"), a Delaware holding company, holds a 76.6% share in the Company. The minority shareholder, ACA Solutions, Ltd. ("ACAS"), a Bermuda company and a wholly-owned subsidiary of ACAH, holds the remaining 23.4% share in the Company. Each of ACAH and ACAS are wholly-owned by ACACH.

G. The Company's majority shareholder and ultimate parent, ACAH and ACACH, respectively, are not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities.

H. The Company holds no investment in any SCA entity that exceeds 10% of admitted assets.

I. The Company did not impair any investments in SCA entities during the quarter ended March 31, 2008.

J. Not applicable.

11. DEBT

The Company has no debt.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

A. The Company has no Defined Benefit Plan.

B. The Company sponsors a defined contribution plan, which covers all full-time employees of the Company as of their start date with the Company. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions are based on a fixed percentage of employees' contributions subject to IRS limitations and approval by the Board of Directors. The Company did not recognize an expense for the defined contribution plan during the quarter ended March 31, 2008 because it utilized Company contributions forfeited by employees to fund the plan. At March 31, 2008, the fair value of plan assets was \$11.3 million.

C. The Company has no Multi-employer Plan.

D. The Company has no Consolidated/Holding Company Plan.

E. The Company has no Post-employment Benefits and Compensated Absences.

13. CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATION

(1) The Company has 1,000,000 shares of common stocks authorized, issued and outstanding with a par value of \$15.00 per share.

(2) The Company has no preferred stock outstanding.

(3) Under Maryland insurance law, the Company may pay a dividend without the prior approval of the Commissioner of the MIA from earned surplus, as defined, subject to the maintenance of a minimum-capital requirement, and the dividend, which, together with all dividends declared or distributed by it during the preceding twelve months, may not exceed the lesser 10% of its policyholder surplus shown on its last filed statement, or net income, as defined, for such twelve-month period. Consistent with prior years, based upon these restrictions, the Company required the approval of the MIA to pay any dividends in 2007. On December 20, 2006, the Company received approval from the MIA to make dividend payments to ACACH due in 2007 in respect of the Company's share of the interest expense on \$40 million of trust preferred debt outstanding at ACACH. At December 31, 2007, the Company made dividend payments in respect of 2007 in the aggregate amount of \$2.8 million. The Company also made dividend payments in respect of 2006 during the first quarter of 2007 in the aggregate amount of \$1.0 million. Additionally, the Company paid \$0.7 million in interest on its surplus note with ACACH during the year ended December 31, 2007. The Company does not expect to receive permission to make dividends or interest payments in 2008 with respect to the trust preferred debt or the surplus note and has not made any payments through the date of this report. See Note 20(A) below.

(4) Since the Company's earned surplus was in a negative position at March 31, 2008, no ordinary dividends may be paid in 2008.

(5) There are no restrictions on unassigned surplus.

(6) N/A

(7) The Company holds no stock for special purpose.

(8) The Company holds no special surplus funds.

(9) The portion of unassigned surplus represented by cumulative unrealized losses is \$(25,974,599).

(10)

Date Issued	Interest Rate	Par Value (Face Value of Notes)	Carrying Value of Note	Principal And/Or Interest Paid Current Year	Total Principal And/Or Interest Paid	Unapproved Principal And/Or Interest	Date of maturity
12/29/2004	3 months LIBOR plus 3.35%	10,000,000	10,000,000	-	\$2,150,084	\$474,870	12/29/2034

The surplus note in the amount of \$10,000,000, listed in the above table, was issued to ACACH on December 29, 2004 in exchange for \$10,000,000 in cash. The surplus note was issued pursuant to a Funding Agreement, dated as of December 29, 2004 (the "Agreement"), between the Company and ACACH. The surplus note was approved by the MIA on May 12, 2005, and on December 22, 2005, the MIA approved the Company's making payments of interest payable there under through year-end December 31, 2006. Pursuant to the terms of the MIA approval, future interest payments are subject to an annual request for approval of the MIA. The Company received approval from the MIA to make interest payments due in 2007 on

## NOTES TO FINANCIAL STATEMENTS

December 20, 2006. The Company does not expect to receive approval from the MIA to make interest payments due in 2008. However, the Company will accrue such payments as they come due as described below.

As provided in the Agreement and Surplus Note, payment of interest on and principal of the Surplus Note are subject to the prior approval of the MIA. The failure to make such payments shall not constitute an event of default under the Surplus Note. Rather, interest on the Surplus Note shall continue to accrue, but without further interest (i.e., interest-on-interest) and without penalty (i.e., no default interest rate). In addition, the Company's right to prepay the Surplus Note and the right to make a payment following an acceleration of the Surplus Note, which may only occur in the event of insolvency, bankruptcy, liquidation of the Company, are subject to the prior approval of the MIA.

As required by SSAP No. 41, the Surplus Note contains provisions relating to: (1) subordination to policyholders; (2) subordination to claimant and beneficiary claims; and (3) subordination to all other classes of creditors other than surplus note holders

(11) The Company has not gone through any quasi-reorganization.

(12) Not applicable.

### 14. CONTINGENCIES

A. The Company has no contingent commitments.

B. The Company has no assessments other than those arising in the normal course of business. Such assessments are not material.

C. The Company has no gain contingencies.

D. Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company. The Company has no admitted asset that it considers to be impaired.

### 15. LEASES

A. On November 17, 2006, the Company assumed all of ACA Services' obligations under its lease of office space at 140 Broadway, New York, New York, which lease was due to expire on August 31, 2009 (the "Existing Premises"). On October 19, 2006, the Company subleased certain additional office space at the above location, which sublease was due to expire on October 31, 2009 (the "Additional Premises", and together with the Existing Premises, the "Premises"). Each of the lease and sublease contain provisions for escalations in real estate taxes and building operating costs, in addition to base rent. Rental expense for the period ended March 31, 2008 and December 31, 2007 was approximately \$0.6 million and \$3.3 million, respectively.

On December 7, 2006, the Company entered into a renewal lease for the Premises, which lease expires on April 30, 2020. This lease provides for scheduled periodic rent increases and escalations in real estate taxes and building operating costs. At December 31, 2007, future minimum rental payments under the renewal lease are as follows:

(Dollars in thousands)		
<u>Year Ending December 31</u>		<u>Amount</u>
1.	2008	\$ 2,382.0
2.	2009	\$ 2,466.6
3.	2010	\$ 2,655.2
4.	2011	\$ 2,655.2
5.	2012	\$ 2,655.2
6.	Total	\$ <u>12,814.1</u>

The rental expense for the Premises is shared by and among the Company and its affiliates pursuant to the cost sharing, staffing and management services agreement discussed in Note 10.E. Of the \$0.6 million expense for the quarter ended March 31, 2008, \$0.4 million was the Company's allocated portion.

B. Not applicable.

### 16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENT WITH CONCENTRATION OF CREDIT RISK

The Company has no financial instrument with off-balance sheet risk.

### 17. SALES, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

A. The Company had no transfer of receivables reported as sales.

B. The Company had no transfer and servicing of financial assets.

C. The Company had no wash sales.

### 18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS.

A. The Company has no Administrative Services Only (ASO) plan.

B. The Company has no Administrative Services Contract (ASC) plan.

C. The Company has no Medicare or other similarly structured cost based retirement contract.

### 19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATION

The Company has no direct premium written or produced by managing general agents or third party administration.

### 20. OTHER ITEMS

A. On November 9, 2007, Standard & Poor's Ratings Services ("S&P") placed its "A" financial strength rating of the Company on "Credit Watch with negative implications". S&P based its rating action on its opinion that the (\$1.7) billion unrealized mark to market loss recorded by ACACH on GAAP basis for the three months ended September 30, 2007 would likely impair the Company's ability to generate a satisfactory level of new business. Amongst other things, S&P also cited ACACH's inability to access its credit facility under its revised terms as a relevant factor in its rating action. See Note 10(A).

## NOTES TO FINANCIAL STATEMENTS

The substantial unrealized mark to market loss relates to the severe stress that has occurred in the credit markets with respect to sub-prime mortgages and securitizations comprised of sub-prime mortgages. The market stress began in the first half of 2007 and has continued to deepen as many financial institutions have recorded significant write-downs in connection with their exposure to this market segment. The decline in US home prices has made it difficult and in many instances impossible for sub-prime borrowers to refinance their mortgage obligations, causing severe levels of mortgage defaults. Market experts have predicted that ultimate default rates for mortgages issued in late 2005, 2006 and the first half of 2007 could reach extraordinarily high levels. Actual defaults coupled with these dire predictions have, in turn, negatively impacted securitizations containing them, resulting in realized losses in these instruments (due to actual defaults) and large declines in unrealized market valuations. The value of the Company's insured credit swaps continues to experience steep declines, resulting in large unrealized valuation losses recorded at ACACH on a GAAP basis.

On December 19, 2007, S&P downgraded the financial strength and financial enhancement ratings of the Company to 'CCC' (Developing Outlook) from 'A' (CreditWatch Negative). Under the existing terms of the Company's insured credit swap transactions, upon the Company's downgrade to a level below A-, ACACH is required to post collateral based on the fair value of the insured credit swaps as of the date of the posting demand by the Company's swap counterparties. The failure to post collateral represents an event of default under the insured credit swaps, giving rise to a mandatory termination payment in an amount approximately equal to the collateral call. This termination payment gives rise to a claim under the related insurance policy. Based on the fair values of the Company's insured credit swap transactions, neither the Company nor ACACH has the ability to post such collateral or make such termination payments. At September 30, 2007 and December 31, 2007, based on the Company's estimates, the fair value of all of its insured credit swaps amounted to (\$1.7) billion and (\$8.6) billion, respectively. The Company has not determined the estimated fair values at March 31, 2008, however, the Company believes the valuation has continued to deteriorate since its year-end valuation estimate.

In light of the Company's inability to post collateral or make these termination payments, and in order to avoid a regulatory proceeding, the Company entered into a forbearance agreement with its structured credit and other similarly situated counterparties. Pursuant to this agreement, the counterparties waived all collateral posting requirements, termination rights and policy claims relating to the rating of the Company under their respective transaction documents including any credit support annexes and similar agreements. Since the expiration of the term of the forbearance agreement on January 18, 2008, the Company and its counterparties have entered into three additional forbearance agreements on January 18, 2008, February 19, 2008, and April 23, 2008, respectively, with the term of the latest agreement expiring on May 30, 2008. The current forbearance is extendable until June 20, 2008 with the permission of the MIA. During this forbearance period, the Company and its counterparties will continue to explore potential restructuring transactions in order permanently solve the Company's capital and liquidity issues. It is uncertain, however, whether the restructuring efforts will be successful or what form the ultimate restructuring will take.

Under the terms of the forbearance agreement, installment premium related to insured credit swap transactions are no longer paid to the Company.

Prior to S&P's actions on December 19, 2007, the Company entered into a Letter of Representations and Agreements (the "Letter Agreement") and a Consent Order (the "Consent Order") with the Insurance Commissioner for the State of Maryland (the "Commissioner"). Under the Letter Agreement, the Company agreed to provide certain documentation and other reports to the MIA. The Company also agreed not to engage in certain activities without providing prior notice and opportunity to object to the MIA including, without limitation, pledging or assigning any assets, paying dividends or engaging in certain material transactions. Under the Consent Order, the Company agreed not to object to, and, if requested, to consent to, a petition by the Commissioner to institute delinquency proceedings in the event that S&P downgraded ACA FG's financial strength rating and the forbearance agreement was not signed by all of the counterparties. In view of the forbearance agreement, the Commissioner has not instituted any such proceedings.

- B. The Company has no troubled debt.
- C. Assets in the amount of \$4,823,075 and \$4,826,420 at March 31, 2008 and December 31, 2007, respectively, were on deposit with state authorities or trustees as required by state licensing regulations.

At December 31, 2007, cash in the amount of \$28,351,792 was held as collateral against three issued insured credit swap policies. During the quarter ended March 31, 2008, this collateral was released to the insured parties in conjunction with the negotiated settlement of these transactions. Of the released amount, \$9.5 million was recorded as losses incurred, \$18.3 million was recorded as return of unearned premium and the remaining balance as a reduction of interest income. Additionally, \$2,655,172 is held by the Company's lessor as collateral to guarantee lease obligations.

- D. The Company has no uncollectible balances.
- E. Not applicable.

### 21. EVENTS SUBSEQUENT

On April 24, 2008, the Company and its insured credit swap counterparties executed a fourth forbearance agreement. This agreement has a termination date of May 30, 2008, however, it is extendable with the permission of the MIA until June 20, 2008. See Note 20(A) above.

### 22. REINSURANCE

#### A. Unsecured Reinsurance Recoverables

The Company does not have an unsecured aggregate recoverable for losses, paid and unpaid, including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceed 3% of the Company's policyholder surplus.

#### B. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute as of March 31, 2008.

#### C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
All other	201,531	0	540,543	-0-	(339,012)	-0-
Total	\$ 201,531	\$ 0	\$ 540,543	\$ -0-	\$ (339,012)	\$ -0-

Direct Unearned Premium Reserve \$233,729,916.

There are no contingent commission or profit sharing arrangements at March 31, 2008.

## NOTES TO FINANCIAL STATEMENTS

During 2007, the Company assumed approximately \$1.1 billion of high-grade municipal par exposure via a facultative reinsurance agreement. This agreement terminated in accordance with its terms on March 18, 2008 since the Company's financial strength and financial enhancement ratings had not been restored to "A" by S&P. Upon termination, the Company is obligated to return the related unearned premium net of ceding commission to the ceding company. As of March 31, 2008, unearned premium net of ceding commission related to this assumption was approximately \$4.8 million. This amount is accrued in the Company's balance sheet as a payable. The ceding company has not sought enforcement of this right to the return of the unearned premium as of the date of this filing. The ultimate disposition of the Company's obligation under this contract is expected to be determined as part of the potential restructuring transactions described in Note 20(A) above.

D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances as of March 31, 2008.

E. Commutation of Ceded Reinsurance

The Company cancelled its Excess of Loss Reinsurance Agreement with its affiliate, ACAS, on July 1, 2006. There was no return of premium, incurred losses, or gain / (loss) as a result of the cancellation of the agreement. Effective January 1, 2007, the Company cancelled its excess of loss reinsurance agreement with HCC Reinsurance Company ("HCC"). There was no return of premium, incurred losses, or gain / (loss) as a result of the cancellation of the agreement. On December 20, 2007, the Company terminated the portfolio excess of loss agreement with HCC which had been in place since January 1, 2007, pursuant to which the Company had the ability to cede losses, if any, on its insured, non-investment grade municipal portfolio in excess of contractually defined limits. By the terms of the contract, the Company is obligated to pay minimum premium to the reinsurer in the amount of \$4.5 million, of which \$1.5 million had been paid through December 31, 2007. However, HCC has not sought enforcement of its right to the unpaid \$3.0 million as of the date of this filing. The ultimate disposition of the Company's obligation under this contract is expected to be determined as part of the potential restructuring transactions described in Note 20(A) above.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. The Company did not account for any reinsurance as deposits.

23. RETROSPECTIVELY RATED CONTRACTS

The Company has not entered into any retrospectively rated contracts.

24. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

During 2007, the Company's incurred losses and loss adjustment expenses totaled \$38.1 million. Of this amount, \$24.8 million is related to the settlement of losses on four insured manufactured housing securitizations. These four bonds were part of a portfolio of 12 transactions originally insured in 1998. The 12 insured bonds had a collective balance of \$213.3 million. During 2007, the Company agreed with the insured party to terminate the insurance on all of these transactions except for one (this bond is owned by a different party) having a reserve at December 31, 2007 of \$2.8 million. From the Company's perspective, this was desirable because termination of these transactions increased the Company's rating agency based capital adequacy, since many of these transactions had been downgraded since the time of the original insurance, and thereby were subject to higher rating agency capital charges. Additionally, the Company was paying claims on two of the policies. The agreement to terminate took place in two stages with the first occurring in the third quarter of 2007 and the second in the fourth quarter of 2007. As part of the third quarter termination, the Company agreed to purchase at par a portion of one of the insured bonds. The difference between the amount paid and the then fair value of the bond was recorded as a paid loss. In the fourth quarter 2007, the Company agreed to pay the outstanding reserve on two of the other three bonds. The reserve was based on the discounted value of projected future cash flows. The Company continues to pay claims on the fourth bond as they arise. Paid losses in connection with these terminated transactions amounted to \$25.4 million and the Company has remaining insurance only to one bond which has a specific reserve of \$2.7 million. The Company also retains the exposure to the purchased bond which is carried in the financial statements at \$4.1 million. No further insurance exposure exists with respect to the other 10 bonds.

The Company also incurred losses in the amount of approximately \$8.5 million in connection with two transactions assumed through a facultative reinsurance agreement. The reserve amount is based on the amount reported at March 31, 2008 from the ceding company.

The Company wrote off salvage recoverable in the amount of \$4.4 million in connection with losses paid in 2005 for an insured asset-backed transaction. The Company determined over the course of the year that the underlying insured transaction could not support the repayment of amounts paid by the Company.

During the first quarter of 2008, an insured asset-backed obligation defaulted with respect to an interest payment due. As a result a case reserve was established in the amount of \$7.8 million during the period. A claim payment was made on April 23, 2008 in the amount of \$162 thousand for the missed interest payment.

As of March 31, 2008, the Company established a case reserve for an insured public finance obligation in the amount of \$0.6 million. This amount represented the interest shortfall that occurred with respect to the obligation's May 1, 2008 interest payment. A claim payment in this amount was made by the Company on May 1, 2008. The Company is continuing to evaluate its estimate of ultimate claims on this insured obligation.

25. INTERCOMPANY POOLING ARRANGEMENTS

The Company has no intercompany pooling arrangements.

26. STRUCTURED SETTLEMENTS

The Company has no structured settlements.

27. HEALTH CARE RECEIVABLE

The Company has no health care receivable.

29. PARTICIPATING POLICIES

The Company does not write participating policy business.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserve.

31. HIGH DEDUCTIBLES

The Company has no high deductibles.

32. DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES

## NOTES TO FINANCIAL STATEMENTS

The Company discounts unpaid losses and loss adjustment expenses using a rate that approximates the risk free rate that is closest to the term of the expected loss payments of the insured obligation at the date the case loss is established. For this purpose, US Treasury rates are used and approximate the taxable equivalent yield the Company earns on its investment portfolio on a fully invested basis. At March 31, 2008, the weighted average discount factor used was 4.6%. The effect of discounting on the Company's loss reserves at March 31, 2008 was \$620,447.

33. ASBESTOS/ENVIRONMENTAL RESERVES

The Company does not write this line of business and therefore has no asbestos/environmental reserves at March 31, 2008.

34. SUBSCRIBER SAVINGS ACCOUNTS

The Company has no subscriber savings accounts.

35. MULTIPLE PERIL CROP INSURANCE

The Company does not write this line of business.

## GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted.)

### PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes [ ] No [X]
- 1.2 If yes, has the report been filed with the domiciliary state? ..... Yes [ ] No [ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [ ] No [X]
- 2.2 If yes, date of change: .....  
If not previously filed, furnish herewith a certified copy of the instrument as amended.
3. Have there been any substantial changes in the organizational chart since the prior quarter end? ..... Yes [ ] No [X]  
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [X]
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? ..... Yes [ ] No [X] NA [ ]  
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2007
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/2003
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 01/19/2007
- 6.4 By what department or departments?  
Maryland Insurance Administration.....
- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? ..... Yes [X] No [ ] NA [ ]
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? ..... Yes [X] No [ ] NA [ ]
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes [ ] No [X]
- 7.2 If yes, give full information:  
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [X]
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

**GENERAL INTERROGATORIES**

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?..... Yes [X] No [ ]
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
  - (c) Compliance with applicable governmental laws, rules and regulations;
  - (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
  - (e) Accountability for adherence to the code.
- 9.11 If the response to 9.1 is No, please explain:  
.....
- 9.2 Has the code of ethics for senior managers been amended?..... Yes [ ] No [X]
- 9.21 If the response to 9.2 is Yes, provide information related to amendment(s).  
.....
- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes [ ] No [X]
- 9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).  
.....

**FINANCIAL**

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?..... Yes [X] No [ ]
- 10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: ..... \$ .....0

**INVESTMENT**

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) ..... Yes [X] No [ ]
- 11.2 If yes, give full and complete information relating thereto:  
Cash in the amount of \$2,655,172 on the Company's balance sheet is held as collateral against the Company's office space lease. ....
12. Amount of real estate and mortgages held in other invested assets in Schedule BA: ..... \$ .....
13. Amount of real estate and mortgages held in short-term investments: ..... \$ .....
- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? ..... Yes [X] No [ ]
- 14.2 If yes, please complete the following:

	1	2
	Prior Year-End Book/Adjusted Carrying Value	Current Quarter Book/Adjusted Carrying Value
14.21 Bonds .....	\$ .....	\$ .....
14.22 Preferred Stock .....	\$ .....	\$ .....
14.23 Common Stock .....	\$ .....763,291	\$ .....763,291
14.24 Short-Term Investments .....	\$ .....	\$ .....
14.25 Mortgage Loans on Real Estate .....	\$ .....	\$ .....
14.26 All Other .....	\$ .....1,089,891	\$ .....1,089,895
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ .....1,853,182	\$ .....1,853,186
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above .....	\$ .....	\$ .....

- 15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? ..... Yes [ ] No [X]
- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes [ ] No [ ]  
If no, attach a description with this statement.

## GENERAL INTERROGATORIES

16. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, G - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? .....

Yes [X] No [ ]

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
US Bank, N.A. ....	1025 Connecticut Avenue NY, Suite 517, Washington DC 20036.....

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes in the custodian(s) identified in 16.1 during the current quarter? .....

Yes [ ] No [X]

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
107038.....	JP Morgan Fleming Asset Management.....	522 Fifth Avenue, New York, NY 10036.....

17.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? .....

Yes [X] No [ ]

17.2 If no, list exceptions:

.....



**STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation**

**GENERAL INTERROGATORIES**

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted.)

**PART 2**

**PROPERTY & CASUALTY INTERROGATORIES**

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? ..... Yes [ ] No [ ] NA [X]

If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? ..... Yes [ ] No [X]

If yes, attach an explanation.

3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? ..... Yes [ ] No [X]

3.2 If yes, give full and complete information thereto.

.....

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see annual statement instructions pertaining to disclosure of discounting for definition of "tabular reserves") discounted at a rate of interest greater than zero? ..... Yes [X] No [ ]

4.2 If yes, complete the following schedule:

			TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
1	2	3	4	5	6	7	8	9	10	11
Line of Business	Maximum Interest	Discount Rate	Unpaid Losses	Unpaid LAE	IBNR	TOTAL	Unpaid Losses	Unpaid LAE	IBNR	TOTAL
Financial Guaranty.....			620,447			620,447	620,447			620,447
.....										
.....										
TOTAL			620,447	0	0	620,447	620,447	0	0	620,447

**SCHEDULE F—CEDED REINSURANCE**

Showing all new reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Location	5 Is Insurer Authorized? (Yes or No)
		AFFILIATES		
		US INSURERS		
		POOLS AND ASSOCIATIONS		
		ALL OTHER INSURERS		
<b>NONE</b>				

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**

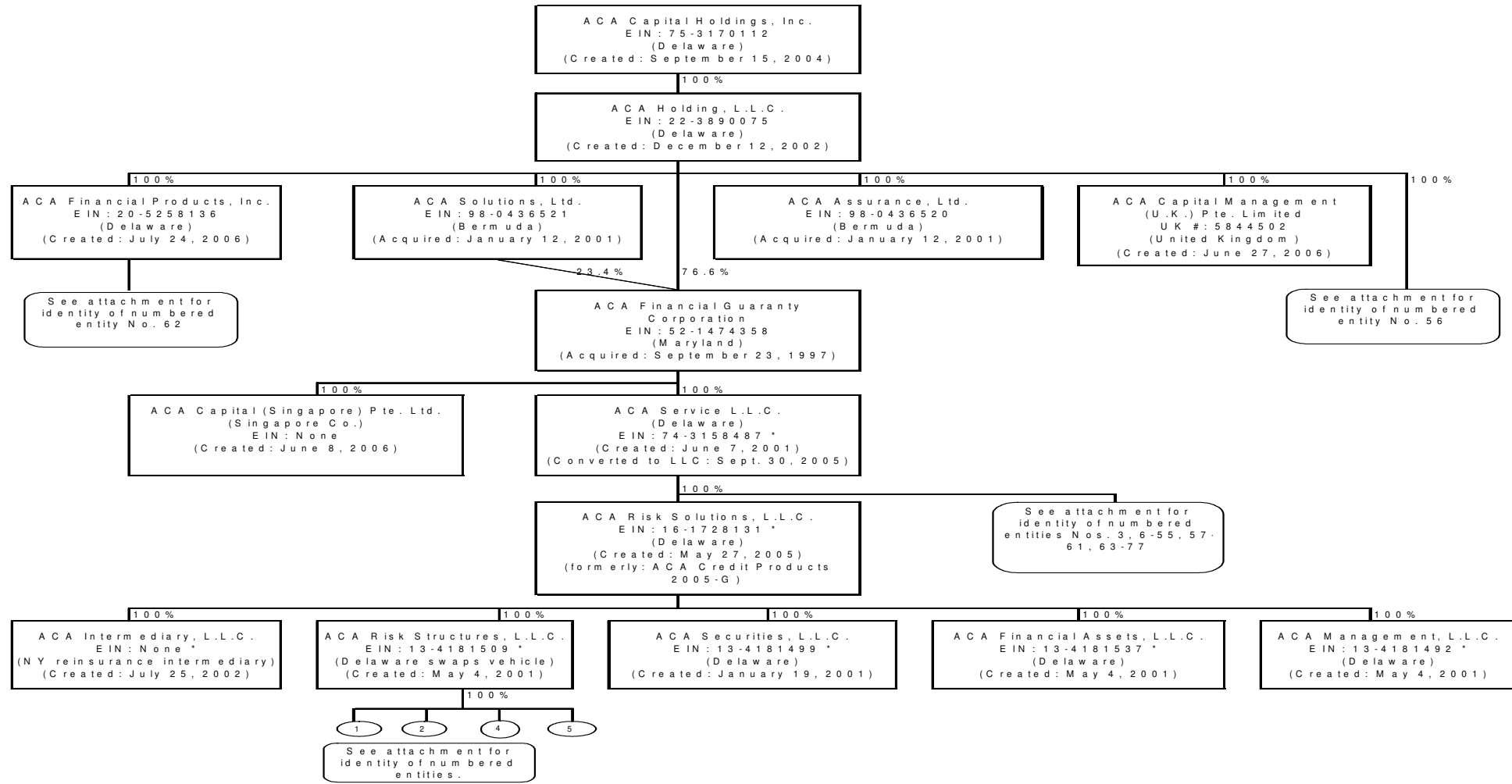
Current Year to Date - Allocated by States and Territories

States, etc.	1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid			
		2 Current Year To Date	3 Prior Year To Date	4 Current Year To Date	5 Prior Year To Date	6 Current Year To Date	7 Prior Year To Date		
1. Alabama	AL	L		147,288		.0		.0	
2. Alaska	AK	L		0		.0		.0	
3. Arizona	AZ	L		0		.0		.0	
4. Arkansas	AR	L		0		.0	615,000	.0	
5. California	CA	L		155,000		.0		.0	
6. Colorado	CO	L		1,999,103		.0		.0	
7. Connecticut	CT	L		0		.0		.0	
8. Delaware	DE	L		21,547		.0		.0	
9. District of Columbia	DC	L		0		.0		.0	
10. Florida	FL	L		103,350	106,020	.0		.0	
11. Georgia	GA	L		0		.0		.0	
12. Hawaii	HI	L		0		.0		.0	
13. Idaho	ID	L		0		.0		.0	
14. Illinois	IL	L		0		.0		.0	
15. Indiana	IN	L		0		.0		.0	
16. Iowa	IA	L		0		.0		.0	
17. Kansas	KS	L		0		.0		.0	
18. Kentucky	KY	L		0		.0		.0	
19. Louisiana	LA	L		2,417	2,356	.0		.0	
20. Maine	ME	L		0		.0		.0	
21. Maryland	MD	L		0		.0		.0	
22. Massachusetts	MA	L		0		.0		.0	
23. Michigan	MI	L		0		.0		.0	
24. Minnesota	MN	L		2,263	64,051	(806,873)	(778,374)	(728,376)	11,546,898
25. Mississippi	MS	L		3,313	0		.0		.0
26. Missouri	MO	L		0	504,363		.0		.0
27. Montana	MT	L		0		.0		.0	
28. Nebraska	NE	L		0		.0		.0	
29. Nevada	NV	L		0		.0		.0	
30. New Hampshire	NH	L		17,253	21,698	.0		.0	
31. New Jersey	NJ	L		0		.0		.0	
32. New Mexico	NM	L		0		.0		.0	
33. New York	NY	L		(17,798,250)	17,123,040	10,084,046	.0		.0
34. North Carolina	NC	L		0		.0		.0	
35. North Dakota	ND	L		0		.0		.0	
36. Ohio	OH	L		0		.0		.0	
37. Oklahoma	OK	L		0		.0		.0	
38. Oregon	OR	L		0		.0		.0	
39. Pennsylvania	PA	L		0		.0		.0	
40. Rhode Island	RI	L		0		.0		.0	
41. South Carolina	SC	L		0		.0		.0	
42. South Dakota	SD	L		0		.0		.0	
43. Tennessee	TN	L		0		.0		.0	
44. Texas	TX	L		0	853,212		.0		.0
45. Utah	UT	L		0		.0		.0	
46. Vermont	VT	L		0		.0		.0	
47. Virginia	VA	L		103,763	108,113	.0		.0	
48. Washington	WA	L		0		.0		.0	
49. West Virginia	WV	L		0		.0		.0	
50. Wisconsin	WI	L		0		.0		.0	
51. Wyoming	WY	L		0		.0		.0	
52. American Samoa	AS	N		0		.0		.0	
53. Guam	GU	L		0		.0		.0	
54. Puerto Rico	PR	L		0		.0		.0	
55. U.S. Virgin Islands	VI	L		0		.0		.0	
56. Northern Mariana Islands	MP	N		0		.0		.0	
57. Canada	CN	N		0		.0		.0	
58. Aggregate Other Alien	OT	XXX		(4,621)	1,466,739	(79,950)	.0	7,816,073	(2,249,867)
59. Totals	(a) 54			(17,548,966)	22,550,984	9,197,222	(778,374)	7,702,697	9,297,031
<b>DETAILS OF WRITE-INS</b>									
5801. Foreign	XXX			(4,621)	1,466,739	(79,950)	.0	7,816,073	(2,249,867)
5802.	XXX								
5803.	XXX								
5898. Summary of remaining write-ins for Line 58 from overflow page.	XXX			0	0	0	.0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX			(4,621)	1,466,739	(79,950)	0	7,816,073	(2,249,867)

(a) Insert the number of L responses except for Canada and Other Alien.

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART**



\* Denotes an entity which is disregarded for U.S. federal income tax purposes.

## STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

# SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART

#	Name of Entity	Entity Type	Created	EIN	#	Name of Entity	Entity Type	Created	EIN
1	ACA CDS 2001-1, L.L.C.	Delaware SPE	December 20, 2001	04-3601123	22	ACA Credit Products 2004-B, L.L.C. (changed from 2003-Q)	Delaware SPE	November 12, 2003	86-1090561
2	ACA Credit Products 2002-A, L.L.C.	Delaware SPE	December 11, 2002	02-0656384	23	ACA Credit Products 2004-C, L.L.C. (changed from 2003-R)	Delaware SPE	November 12, 2003	86-1090562
3	ACA Credit Products 2002-B, L.L.C.	Delaware SPE	December 11, 2002	02-0656388	24	ACA Credit Products 2004-D, L.L.C. (changed from 2003-S)	Delaware SPE	November 12, 2003	86-1090563
4	ACA Credit Products 2003-A, L.L.C.	Delaware SPE	December 11, 2002	02-0656394	25	ACA Credit Products 2004-E, L.L.C. (changed from 2003-T)	Delaware SPE	November 12, 2003	86-1090565
5	ACA CDS 2002-2, L.L.C.	Delaware SPE	December 19, 2002	55-0810892	26	ACA Credit Products 2004-F, L.L.C.	Delaware SPE	March 11, 2004	33-1086878
6	ACA Credit Products 2003-B, L.L.C.	Delaware SPE	February 12, 2003	45-0500992	27	ACA Credit Products 2004-G, L.L.C.	Delaware SPE	March 11, 2004	33-1086879
7	ACA Credit Products 2003-C, L.L.C.	Delaware SPE	February 26, 2003	83-0349466	28	ACA Credit Products 2004-H, L.L.C.	Delaware SPE	March 11, 2004	33-1086880
8	ACA Credit Products 2003-D, L.L.C.	Delaware SPE	March 11, 2003	27-0052390	29	ACA Credit Products CBNA3, L.L.C. (changed from ACA Credit Products 2004-I, L.L.C during 8/05.)	Delaware SPE	March 11, 2004	33-1086881
9	ACA Credit Products 2003-E, L.L.C.	Delaware SPE	April 21, 2003	02-0694360	30	ACA Credit Products 2004-J, L.L.C.	Delaware SPE	March 11, 2004	33-1086882
10	ACA Credit Products 2003-F, L.L.C.	Delaware SPE	May 23, 2003	02-0694364	31	ACA Credit Products 2004-K, L.L.C.	Delaware SPE	May 6, 2004	90-0172644
11	ACA ABS 2003-3 Funding, Limited	Cayman Island SPE	December 2, 2003	None	32	ACA Credit Products - CBNA 1, L.L.C. (changed from ACA Credit Products 2004-L, L.L.C.)	Delaware SPE	May 6, 2004	90-0172647
12	ACA Credit Products 2003-G, L.L.C.	Delaware SPE	June 11, 2003	11-3696673	33	ACA Credit Products - NI, L.L.C. (changed from ACA Credit Products 2004-M, L.L.C.)	Delaware SPE	May 6, 2004	90-0172648
13	ACA Credit Products 2003-H, L.L.C.	Delaware SPE	June 25, 2003	11-3696677	34	ACA Credit Products 2004 - GCM, L.L.C. (changed from ACA Credit Products 2004-N, L.L.C.)	Delaware SPE	May 6, 2004	90-0172650
14	ACA Credit Products 2003-I, L.L.C.	(Created 2006)	June 11, 2003	11-3696679	35	ACA Parliament Funding, L.L.C. (changed from ACA Credit Products 2004-O, L.L.C.)	Delaware SPE	May 6, 2004	90-0172652
15	ACA Credit Products 2003-J, L.L.C.	Delaware SPE	July 14, 2003	11-3696682	36	ACA Credit Products - CCMC, L.L.C. (changed from ACA Credit Products 2004-P, L.L.C. on 2/3/05)	Delaware SPE	September 2, 2004	75-3170118
16	ACA Credit Products 2003-K, L.L.C.	Delaware SPE	August 27, 2003	81-0634843	37	ACA Credit Products - Alpha, L.L.C. (changed from ACA Credit Products 2004-Q, L.L.C. on 2/3/05)	Delaware SPE	September 2, 2004	75-3170122
17	ACA Credit Products 2003-L, L.L.C.	Delaware SPE	September 5, 2003	81-0634844	38	ACA Credit Products - CA, L.L.C. (changed from ACA Credit Products 2004-R, L.L.C. on 2/3/05)	Delaware SPE	September 2, 2004	75-3170124
18	ACA Credit Products 2003-M, L.L.C.	Delaware SPE	August 27, 2003	81-0634845	39	ACA Credit Products - Matterhorn, L.L.C. (changed from ACA Credit Products 2004-S, L.L.C. on 2/3/05)	Delaware SPE	September 2, 2004	75-3170126
19	ACA Credit Products 2003-N, L.L.C.	Delaware SPE	September 18, 2003	81-0634846	40	ACA Credit Products - JPM, L.L.C. (changed from ACA Credit Products 2004-T, L.L.C. on 2/10/05)	Delaware SPE	September 2, 2004	75-3170131
20	ACA Credit Products 2003-O, L.L.C.	Delaware SPE	September 18, 2003	81-0634847	41	ACA Credit Products - CAN, L.L.C. (changed from ACA Credit Products 2004-U, L.L.C. on 2/17/05)	Delaware SPE	December 2, 2004	41-2168833
21	ACA Credit Products 2004-A, L.L.C. (changed from 2003-P)	Delaware SPE	September 18, 2003	81-0634848					

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART**

#	Name of Entity	Entity Type	Created	EIN	#	Name of Entity	Entity Type	Created	EIN
42	ACA Credit Products -BC, L.L.C. (changed from ACA Credit Products 2004-V, L.L.C. on 2/28/05)	Delaware SPE	December 2, 2004	41-2168835	60	ACA Credit Products - Maple, L.L.C. (changed from ACA Credit Products 2005-N, L.L.C. on 9/06)	Delaware SPE	November 15, 2005	86-1155593
43	ACA Credit Products - NB, L.L.C. (changed name from ACA Credit Products 2004-W, L.L.C. on 12/2/04)	Delaware SPE	December 2, 2004	41-2168837	61	ACA Credit Products - LB, L.L.C. (changed from ACA Credit Products 2005-O, L.L.C. on 8/06)	Delaware SPE	November 15, 2005	86-1155594
44	ACA Credit Products - CBNA 2, L.L.C. (changed name from ACA Credit Products 2004-X, L.L.C. on 4/11/05)	Delaware SPE	December 2, 2004	41-2168839	62	ACA Capital Partners I Master Fund, Ltd.	Cayman Island	February 14, 2006	98-0490672
45	ACA Credit Products 2004-Y, L.L.C.	Delaware SPE	December 2, 2004	41-2168846	63	ACA Credit Products - SINCLAIR, L.L.C. (changed from ACA Credit Products 2006-A, L.L.C. on 10/2/06)	Delaware SPE	August 14, 2006	98-0490673
46	ACA Credit Products - Zugspitze, L.L.C. (changed name from ACA Credit Products 2005-A, L.L.C. on 5/6/05)	Delaware SPE	March 2, 2005	16-1728123	64	ACA Credit Products - INCA, L.L.C. (changed from ACA Credit Products 2006-B, L.L.C. on 11/06)	Delaware SPE	August 14, 2006	20-8252848
47	ACA Credit Products - BA, L.L.C. (changed name from ACA Credit Products 2005-B, L.L.C. on 5/25/05)	Delaware SPE	March 2, 2005	16-1728124	65	ACA Credit Products - IFP, L.L.C. (changed from ACA Credit Products 2006-C, L.L.C. on 11/06)	Delaware SPE	August 14, 2006	20-8252895
48	ACA Credit Products - Monch, L.L.C. (changed name from ACA Credit Products 2005-C, L.L.C. on 6/14/05)	Delaware SPE	March 2, 2005	16-1728125	66	ACA Credit Products 2006 - Elbe, L.L.C. (changed from ACA Credit Products 2006-D, L.L.C. on 11/06)	Delaware SPE	August 14, 2006	20-8253791
49	ACA Credit Products - Eiger, L.L.C. (changed name from ACA Credit Products 2005-D, L.L.C. on 6/6/05)	Delaware SPE	March 2, 2005	16-1728127	67	ACA Credit Products - Osada, L.L.C. (changed from ACA Credit Products 2006-E, L.L.C. on 11/06)	Delaware SPE	August 14, 2006	20-8253723
50	ACA Credit Products MON, L.L.C. (changed from ACA Credit Products 2005-E, L.L.C. on 8/15/05)	Delaware SPE	March 2, 2005	16-1728128	68	ACA Credit Products MZ, L.L.C. (changed from ACA Credit Products 2006-F, L.L.C. on 01/07)	Delaware SPE	November 29, 2006	20-8910280
51	ACA Credit Products - ABN AMRO, LL (changed from ACA Credit Products 2005-F, L.L.C. on 9/22/05)	Delaware SPE	June 2, 2005	16-1728130	69	ACA Credit Products Pearl River, L.L.C. (changed from ACA Credit Products 2006-G, L.L.C. on 01/07)	Delaware SPE	November 29, 2006	20-8911103
52	ACA Credit Products - DK, L.L.C. ( changed from ACA Credit Products 2005-H, L.L.C. on 11/15/05)	Delaware SPE	June 2, 2005	16-1728132	70	ACA Credit Products BS, L.L.C. (changed from ACA Credit Products 2006-H, L.L.C. on 02/07)	Delaware SPE	November 29, 2006	20-8910386
53	ACA Credit Products - GSH, L.L.C. (changed from ACA Credit Products 2005-I, L.L.C. on 12/19/05)	Delaware SPE	June 2, 2005	16-1728133	71	ACA Credit Products - BSN, L.L.C. (changed from ACA Credit Products 2006-I, L.L.C. on 03/07)	Delaware SPE	November 29, 2006	20-8910420
54	ACA Credit Products - ML, L.L.C. (changed from ACA Credit Products 2005-J, L.L.C. on 12/19/05)	Delaware SPE	June 2, 2005	16-1728134	72	ACA Credit Products 2006-J, L.L.C.	Delaware SPE	November 29, 2006	20-8910462
55	ACA LIHTC Management, L.L.C.	Delaware SPE	October 17, 2005	86-1155586	73	ACA Credit Products 2007-A, L.L.C.	Delaware SPE	March 7, 2007	26-0412583
56	BR-1998, L.L.C.	Delaware SPE	October 31, 2005	84-1692947	74	ACA Credit Products 2007-B, L.L.C.	Delaware SPE	March 7, 2007	26-0413620
57	ACA Credit Products - Haussmann, L.I (changed from ACA Credit Products 2005-K, L.L.C. on 5/5/06)	Delaware SPE	November 15, 2005	86-1155589	75	ACA Credit Products 2007-C, L.L.C.	Delaware SPE	March 7, 2007	26-0413940
58	ACA Credit Products 2005-L, L.L.C.	Delaware SPE	November 15, 2005	86-1155590	76	ACA Credit Products 2007-D, L.L.C.	Delaware SPE	March 7, 2007	26-0414035
59	ACA Credit Products - Zermat, L.L.C. (changed from ACA Credit Products 2005-M, L.L.C. on 6/21/06)	Delaware SPE	November 15, 2005	86-1155592	77	ACA Credit Products 2007-E, L.L.C.	Delaware SPE	March 7, 2007	26-0414076

**PART 1 - LOSS EXPERIENCE**

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire			0.0	0.0
2. Allied Lines			0.0	0.0
3. Farmowners multiple peril			0.0	0.0
4. Homeowners multiple peril			0.0	0.0
5. Commercial multiple peril			0.0	0.0
6. Mortgage guaranty			0.0	0.0
8. Ocean marine			0.0	0.0
9. Inland marine			0.0	0.0
10. Financial guaranty	3,492,417	18,013,004	515.8	68.6
11.1 Medical malpractice - occurrence			0.0	0.0
11.2 Medical malpractice - claims-made			0.0	0.0
12. Earthquake			0.0	0.0
13. Group accident and health			0.0	0.0
14. Credit accident and health			0.0	0.0
15. Other accident and health			0.0	0.0
16. Workers' compensation			0.0	0.0
17.1 Other liability - occurrence			0.0	0.0
17.2 Other liability - claims-made			0.0	0.0
18.1 Products liability - occurrence			0.0	0.0
18.2 Products liability - claims-made			0.0	0.0
19.1,19.2 Private passenger auto liability			0.0	0.0
19.3,19.4 Commercial auto liability			0.0	0.0
21. Auto physical damage			0.0	0.0
22. Aircraft (all perils)			0.0	0.0
23. Fidelity			0.0	0.0
24. Surety			0.0	0.0
26. Burglary and theft			0.0	0.0
27. Boiler and machinery			0.0	0.0
28. Credit			0.0	0.0
29. International			0.0	0.0
30. Warranty			0.0	0.0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0.0	68.6
35. TOTALS	3,492,417	18,013,004	515.8	68.6
<b>DETAILS OF WRITE-INS</b>				
3401.				
3402.				
3403.				
3498. Summary of remaining write-ins for Line 34 from overflow page	0	0	0.0	0.0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0.0	0.0

**PART 2 - DIRECT PREMIUMS WRITTEN**

Lines of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire	0		0
2. Allied Lines	0		0
3. Farmowners multiple peril	0		0
4. Homeowners multiple peril	0		0
5. Commercial multiple peril	0		0
6. Mortgage guaranty	0		0
8. Ocean marine	0		0
9. Inland marine	0		0
10. Financial guaranty	(17,548,966)	(17,548,966)	22,550,984
11.1 Medical malpractice - occurrence	0		0
11.2 Medical malpractice - claims-made	0		0
12. Earthquake	0		0
13. Group accident and health	0		0
14. Credit accident and health	0		0
15. Other accident and health	0		0
16. Workers' compensation	0		0
17.1 Other liability - occurrence	0		0
17.2 Other liability - claims-made	0		0
18.1 Products liability - occurrence	0		0
18.2 Products liability - claims-made	0		0
19.1,19.2 Private passenger auto liability	0		0
19.3,19.4 Commercial auto liability	0		0
21. Auto physical damage	0		0
22. Aircraft (all perils)	0		0
23. Fidelity	0		0
24. Surety	0		0
26. Burglary and theft	0		0
27. Boiler and machinery	0		0
28. Credit	0		0
29. International	0		0
30. Warranty	0		0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0
35. TOTALS	(17,548,966)	(17,548,966)	22,550,984
<b>DETAILS OF WRITE-INS</b>			
3401.			
3402.			
3403.			
3498. Summary of remaining write-ins for Line 34 from overflow page	0	0	0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2008 Loss and LAE Payments on Claims Reported as of Prior Year-End	2008 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2008 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2005 + Prior	(563)		(563)	(845)		(845)	.674			.674	.392	.0	.392
2. 2006	.12		.12			.0	.12			.12	.0	.0	.0
3. Subtotals 2006 + Prior	(551)	.0	(551)	(845)	.0	(845)	.686	.0	.0	.686	.392	.0	.392
4. 2007	8,486		8,486	.98		.98	8,388			8,388	.0	.0	.0
5. Subtotals 2007 + Prior	7,936	.0	7,936	(747)	.0	(747)	9,074	.0	.0	9,074	.392	.0	.392
6. 2008	XXX	XXX	XXX	XXX	10,084	10,084	XXX	7,838		7,838	XXX	XXX	XXX
7. Totals	7,936	0	7,936	(747)	10,084	9,337	9,074	7,838	0	16,912	392	0	392
8. Prior Year-End's Surplus As Regards Policyholders	229,140										Col. 11, Line 7 As % of Col. 1 Line 7	Col. 12, Line 7 As % of Col. 2 Line 7	Col. 13, Line 7 As % of Col. 3 Line 7
											1. 4.9	2. 0.0	3. 4.9
													Col. 13, Line 7 As a % of Col. 1 Line 8
													4. 0.2

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# SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of **NO** to the specific interrogatory will be accepted in lieu of filing on "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter **SEE EXPLANATION** and provide an explanation following the interrogatory question.


RESPONSE

- 1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement? .....NO.....
- 2. Will Supplement A to Schedule T (Medical Malpractice Supplement) be filed with this statement? .....NO.....
- 3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement? .....NO.....

**Explanation:**

- 1.
- 2.
- 3.

**Bar Code:**

- 1.   
2 2 8 9 6 2 0 0 8 4 9 0 0 0 0 0 1
- 2.   
2 2 8 9 6 2 0 0 8 4 5 5 0 0 0 0 1
- 3.   
2 2 8 9 6 2 0 0 8 3 6 5 0 0 0 0 1

**OVERFLOW PAGE FOR WRITE-INS**

PQ002 Additional Aggregate Lines for Page 02 Line 23.

\*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2304. Prepaid City Income Tax.....	350,151		350,151	99,765
2305. Security Deposit.....	77,930	77,930	0	77,930
2306. Other Assets.....	29,135	29,135	0	0
2307. ....			0	0
2397. Summary of remaining write-ins for Line 23 from Page 02	457,216	107,065	350,151	177,695

## SCHEDULE A - VERIFICATION

Real Estate

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book/adjusted carrying value, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisitions		
2.2 Additional investment made after acquisitions		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		0
5. Deduct amounts received on disposals		0
6. Total foreign exchange change in book/adjusted carrying value		0
7. Deduct current year's other than temporary impairment recognized		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8)	0	0
10. Deduct total nonadmitted amount		0
11. Statement value at end of current period (Line 9 minus Line 10)	0	0

## SCHEDULE B – VERIFICATION

Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
<b>NONE</b>		
1. Book value/recorded investment excluding accrued interest receivable as of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisitions		0
2.2 Additional investment made after acquisitions		0
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		0
7. Deduct amounts received on disposals		0
8. Deduct amortization of premium and mortgage interest points and commitment fees		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		0
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	0
12. Deduct total nonadmitted accounts		0
13. Statement value at end of current period (Line 11 minus Line 12)	0	0

## SCHEDULE BA – VERIFICATION

Other Long Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	19,339,891	39,931,501
2. Cost of acquired:		
2.1 Actual cost at time of acquisitions		18,250,000
2.2 Additional investment made after acquisitions		0
3. Capitalized deferred interest and other		
4. Accrual of discount	45	167
5. Unrealized valuation increase (decrease)		(30,043,581)
6. Total gain (loss) on disposals		0
7. Deduct amounts received on disposals		8,798,196
8. Deduct amortization of premium and depreciation		0
9. Total foreign exchange change in book/adjusted carrying value		0
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	19,339,936	19,339,891
12. Deduct total nonadmitted amounts		0
13. Statement value at end of current period (Line 11 minus Line 12)	19,339,936	19,339,891

## SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	594,165,968	493,219,431
2. Cost of bonds and stocks acquired	2,670,000	197,030,411
3. Accrual of discount	100,314	456,508
4. Unrealized valuation increase (decrease)	(1,258,257)	(4,974,382)
5. Total gain (loss) on disposals	2,539,725	6,100
6. Deduct consideration for bonds and stocks disposed of	74,770,718	89,348,453
7. Deduct amortization of premium	740,225	2,223,647
8. Total foreign exchange change in book/adjusted carrying value		0
9. Deduct current year's other than temporary impairment recognized	10,870,012	
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	511,836,795	594,165,968
11. Deduct total nonadmitted amounts	769,815	0
12. Statement value at end of current period (Line 10 minus Line 11)	511,066,980	594,165,968

STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a).....	586,182,070	86,044,313	76,355,556	(14,291,791)	581,579,036	0	0	586,182,070
2. Class 2 (a).....	19,758,325		749,370	2,981,958	21,990,913	0	0	19,758,325
3. Class 3 (a).....	590,231			(59,231)	531,000	0	0	590,231
4. Class 4 (a).....	2,050,704				2,050,704	0	0	2,050,704
5. Class 5 (a).....	0				0	0	0	0
6. Class 6 (a).....	4,261,047			(1,405,640)	2,855,407	0	0	4,261,047
7. Total Bonds	612,842,377	86,044,313	77,104,926	(12,774,704)	609,007,060	0	0	612,842,377
<b>PREFERRED STOCK</b>								
8. Class 1.....	0				0	0	0	0
9. Class 2.....	0				0	0	0	0
10. Class 3.....	0				0	0	0	0
11. Class 4.....	0				0	0	0	0
12. Class 5.....	0				0	0	0	0
13. Class 6.....	0				0	0	0	0
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock	612,842,377	86,044,313	77,104,926	(12,774,704)	609,007,060	0	0	612,842,377

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$ 97,940,101 ; NAIC 2 \$ ; NAIC 3 \$ ; NAIC 4 \$ ; NAIC 5 \$ ; NAIC 6 \$

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## SCHEDULE DA - PART 1

Short-Term Investments Owned End of Current Quarter

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
8299999 Totals	97,940,101	XXX	97,940,101	266,123	0

## SCHEDULE DA - VERIFICATION

Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	19,439,720	38,511,472
2. Cost of short-term investments acquired .....	83,374,313	375,742,645
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		73,752
5. Total gain (loss) on disposals.....		0
6. Deduct consideration received on disposals.....	4,873,933	394,888,149
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		0
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	97,940,100	19,439,720
11. Deduct total nonadmitted amounts.....		0
12. Statement value at end of current period (Line 10 minus Line 11)	97,940,100	19,439,720

Schedule DB - Part F - Section 1

**NONE**

Schedule DB - Part F - Section 2

**NONE**

## SCHEDULE E-VERIFICATION

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	43,839,063
2. Cost of cash equivalents.....		80,638,012
3. Accrual of discount.....		522,924
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....		125,000,000
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	0	0
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11)	0	0

Schedule A - Part 2

**NONE**

Schedule A - Part 3

**NONE**

Schedule B - Part 2

**NONE**

Schedule B - Part 3

**NONE**

Schedule BA - Part 2

**NONE**

Schedule BA - Part 3

**NONE**



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**SCHEDULE D - PART 3**

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator <sup>(a)</sup>
64972F-SJ-6	NY City Mun Fin Auth Wtr & Swr 2.000%		03/19/2008	Citigroup Global Markets		2,600,000	2,600,000	0	1FE
3199999 - Total	- Bonds - Special Revenue					2,600,000	2,600,000	0	XXX
003016-75-2	Hibernia Nat'l Bank C.D. 2.280% 03/10/		03/09/2008	Direct Issue		70,000	70,000	0	1
4599999 - Total	- Bonds - Industrial, Misc.					70,000	70,000	0	XXX
6099997 - Total	- Bonds - Part 3					2,670,000	2,670,000	0	XXX
6099999 - Total	- Bonds					2,670,000	2,670,000	0	XXX
6599999 - Total	- Preferred Stocks					0	XXX	0	XXX
7299999 - Total	- Common Stocks					0	XXX	0	XXX
7399999 - Total	- Preferred and Common Stocks					0	XXX	0	XXX
7499999 - Totals						2,670,000	XXX	0	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues .....

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STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
31359W-0W-8.	FNMA 3.250% 01/15/08. GNMA Pool 595037		01/15/2008.	Maturity.....		4,000,000	4,000,000	3,925,125	3,997,213	0	2,787	0	2,787	0	4,000,000	0	0	0	65,000	01/15/2008.	1
36200A-BE-8.	6.000% 10/15/32. GNMA Pool 595085		03/01/2008.	Paydown.....		1,405	1,405	1,447	1,445	0	(40)	0	(40)	0	1,405	0	0	0	17	10/15/2032.	1
36200A-CW-7.	6.000% 10/15/32. GNMA Pool 599167		03/01/2008.	Paydown.....		6,859	6,859	7,063	7,057	0	(197)	0	(197)	0	6,859	0	0	0	69	10/15/2032.	1
36200E-TY-7.	6.000% 12/15/33. GNMA Pool 604018		03/01/2008.	Paydown.....		1,211	1,211	1,247	1,243	0	(32)	0	(32)	0	1,211	0	0	0	12	12/15/2033.	1
36200M-AT-0.	5.500% 02/15/33. GNMA Pool 604141		03/01/2008.	Paydown.....		90,561	90,561	93,186	93,061	0	(2,500)	0	(2,500)	0	90,561	0	0	0	975	02/15/2033.	1
36200M-EN-9.	6.000% 03/15/33. GNMA Pool 569684		03/01/2008.	Paydown.....		8,123	8,123	8,364	8,355	0	(232)	0	(232)	0	8,123	0	0	0	77	03/15/2033.	1
362000-ZR-4.	6.000% 02/15/32. GNMA Pool 570142		03/01/2008.	Paydown.....		6,638	6,638	6,835	6,826	0	(188)	0	(188)	0	6,638	0	0	0	61	02/15/2032.	1
36200R-LX-8.	6.000% 12/15/31. GNMA Pool 570490		03/01/2008.	Paydown.....		4,921	4,921	5,067	5,061	0	(140)	0	(140)	0	4,921	0	0	0	52	12/15/2031.	1
36200R-XT-4.	6.000% 12/15/31. GNMA Pool 571293		03/01/2008.	Paydown.....		51	51	52	52	0	(1)	0	(1)	0	51	0	0	0	1	12/15/2031.	1
36200S-US-7.	6.000% 11/15/31. GNMA Pool 577422		03/01/2008.	Paydown.....		67	67	69	69	0	(2)	0	(2)	0	67	0	0	0	1	11/15/2031.	1
36201A-PF-9.	6.000% 01/15/32. GNMA Pool 579722		03/01/2008.	Paydown.....		2,455	2,455	2,528	2,525	0	(70)	0	(70)	0	2,455	0	0	0	25	01/15/2032.	1
36201D-AX-0.	6.000% 08/15/32. GNMA Pool 580607		03/01/2008.	Paydown.....		2,841	2,841	2,926	2,923	0	(82)	0	(82)	0	2,841	0	0	0	37	08/15/2032.	1
36201E-AG-5.	6.000% 02/15/33. GNMA Pool 581506		03/01/2008.	Paydown.....		1,582	1,582	1,629	1,627	0	(45)	0	(45)	0	1,582	0	0	0	15	02/15/2033.	1
36201F-AF-4.	6.000% 04/15/33. GNMA Pool 585371		03/01/2008.	Paydown.....		264	264	272	272	0	(8)	0	(8)	0	264	0	0	0	3	04/15/2033.	1
36201K-J0-0.	6.000% 04/15/32. GNMA Pool 606864		03/01/2008.	Paydown.....		23,995	23,995	24,708	24,628	0	(633)	0	(633)	0	23,995	0	0	0	356	04/15/2032.	1
36201Y-FD-3.	6.000% 10/15/33. GNMA Pool 429788		03/01/2008.	Paydown.....		1,105	1,105	1,138	1,137	0	(32)	0	(32)	0	1,105	0	0	0	16	10/15/2033.	1
36207E-ND-2.	6.000% 12/15/33. GNMA Pool 493545		03/01/2008.	Paydown.....		678	678	698	697	0	(20)	0	(20)	0	678	0	0	0	7	12/15/2033.	1
36210J-HW-1.	6.000% 03/15/31. GNMA Pool 553303		03/01/2008.	Paydown.....		502	502	517	516	0	(14)	0	(14)	0	502	0	0	0	7	03/15/2031.	1
36213F-U4-3.	6.000% 06/15/33. GNMA Pool 562469		03/01/2008.	Paydown.....		21	21	21	21	0	(1)	0	(1)	0	21	0	0	0	0	06/15/2033.	1
36213R-2A-4.	5.000% 02/15/34. GNMA Pool 562442		03/01/2008.	Paydown.....		7,655	7,655	7,695	7,693	0	(38)	0	(38)	0	7,655	0	0	0	65	02/15/2034.	1
36213R-ZF-7.	5.500% 01/15/34. GNMA Pool 563713		03/01/2008.	Paydown.....		256,535	256,535	263,510	262,798	0	(6,263)	0	(6,263)	0	256,535	0	0	0	3,500	01/15/2034.	1
36213T-GW-7.	6.000% 01/15/33. GNMA Pool 564552		03/01/2008.	Paydown.....		8,027	8,027	8,265	8,256	0	(229)	0	(229)	0	8,027	0	0	0	74	01/15/2033.	1
36213U-EZ-9.	6.000% 12/15/31. GNMA Pool 565505		03/01/2008.	Paydown.....		1,915	1,915	1,972	1,966	0	(51)	0	(51)	0	1,915	0	0	0	19	12/15/2031.	1
36213V-GN-2.	6.000% 09/15/32. GNMA Pool 620628		03/01/2008.	Paydown.....		112	112	115	115	0	(3)	0	(3)	0	112	0	0	0	1	09/15/2032.	1
36290X-PM-6.	6.000% 09/15/33. GNMA Pool 620634		03/01/2008.	Paydown.....		801	801	824	823	0	(23)	0	(23)	0	801	0	0	0	8	09/15/2033.	1
36290X-PT-1.	6.000% 09/15/33. GNMA Pool 621657		03/01/2008.	Paydown.....		26,441	26,441	27,226	27,204	0	(762)	0	(762)	0	26,441	0	0	0	264	09/15/2033.	1
36290Y-TN-8.	6.000% 12/15/33. GNMA Pool 624236		03/01/2008.	Paydown.....		8	8	8	8	0	0	0	0	0	8	0	0	0	0	12/15/2033.	1
36291C-PV-1.	6.000% 12/15/33. GNMA Pool 625604		03/01/2008.	Paydown.....		118	118	121	121	0	(3)	0	(3)	0	118	0	0	0	1	12/15/2033.	1
36291E-AD-3.	6.000% 12/15/33. GNMA Pool 625620		03/01/2008.	Paydown.....		197	197	203	203	0	(6)	0	(6)	0	197	0	0	0	2	12/15/2033.	1
36291E-AV-3.	6.000% 12/15/33. US Treasury 3.625%		03/01/2008.	Paydown.....		286	286	294	294	0	(8)	0	(8)	0	286	0	0	0	3	12/15/2033.	1
912828-BA-7.	US Treasury 4.250%		03/19/2008.	Lehman Brothers.....		4,234,688	4,000,000	3,812,500	3,861,543	0	4,966	0	4,966	0	3,866,509	0	368,178	368,178	50,192	05/15/2013.	1
912828-BH-2.	US Treasury 3.000%		03/19/2008.	Lehman Brothers.....		4,259,836	3,900,000	3,851,250	3,857,940	0	1,453	0	1,453	0	3,859,393	0	400,443	400,443	98,357	08/15/2013.	1
912828-BZ-2.	02/15/09.		03/19/2008.	First Boston.....		4,534,608	4,475,000	4,510,559	4,483,082	0	(1,538)	0	(1,538)	0	4,481,544	0	53,064	53,064	79,665	02/15/2009.	1

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STATEMENT AS OF MARCH 31, 2008 OF THE ACA Financial Guaranty Corporation

**SCHEDULE D - PART 4**

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1 CUSIP Identification	2 Description	3 F o r e i g n	4 Disposal Date	5 Name of Purchaser	6 Number of Shares of Stock	7 Consideration	8 Par Value	9 Actual Cost	10 Prior Year Book/Adjusted Carrying Value	Change in Book/Adjusted Carrying Value					16 Book/ Adjusted Carrying Value at Disposal Date	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Bond Interest/Stock Dividends Received During Year	21 Maturity Date	22 NAIC Design- ation or Market Indicator (a)
										11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's (Amortization)/ Accretion	13 Current Year's Other Than Temporary Impairment Recognized	14 Total Change in B./A.C.V. (11 + 12 - 13)	15 Total Foreign Exchange Change in B./A.C.V.							
7499999 Totals						74,770,718	XXX	72,275,274	72,421,051	2,188	(192,246)	0	(190,058)	0	72,230,993	0	2,539,723	2,539,723	1,122,107	XXX	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues .....

Schedule DB - Part A - Section 1

**NONE**

Schedule DB - Part B - Section 1

**NONE**

Schedule DB - Part C - Section 1

**NONE**

Schedule DB - Part D - Section 1

**NONE**



**SCHEDULE E - PART 2 - CASH EQUIVALENTS**

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year	
<b>NONE</b>								
8799999 Totals						0	0	0

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