ASSURED GUARANTY

J.P. MORGAN 2009 CREDIT AND EQUITY INSURANCE CONFERENCE IN NYC

PRESENTATION BY DOMINIC FREDERICO

DOMINIC FREDERICO:

Thank you Sabra. Thank you Andrew. And thanks all of you for your interest in Assured Guaranty. First we're going to do a quick overview and touch on the FSA transaction then take any of your questions. 2008 was an interesting year, as most of you know. But even through all of the difficulties, which included a major meltdown in the financial markets as well as a rather significant impairment of most of the companies in the financial guaranty industry, Assured Guaranty held up pretty well. We did total production last year of $823 million, which was in excess of the prior year, and pretty much on our projection, even though we had the mid-year problem with the industry, market acceptance and the rating agencies and specifically to our ratings as they were downgraded by Moody's.

Our strategic priorities have never changed. This is what we've been telling you from the time of our IPO. We've looked at strict underwriting being job one, job two, job three. If we don't protect the portfolio that would obviously open the company up to other problems. I think if you look back now, that strict discipline of underwriting has really paid off for us significantly. As you all know, we avoided the CDO's of ABS. We kept our residential exposure, although significant, containable from the standpoint of deterioration.

And although no one expected the kind of activity you've seen in the deterioration in losses that the real estate market has caused, I think we were reasonably well positioned to absorb that and continue forward. Our direct franchise, that you can see is up 905 percent gross since the IPO, has been a major focus for the company that's been very, very successful. And as Sabra kind of alluded to and Andrew too, we're now pretty much at the top of the market place in terms of market share for the industry.

We still have the reinsurance entity. It's, obviously, now more looking at portfolio opportunities coming out of the companies that are either damaged, stopped trading, or need the capital relief. And that's been a successful strategy and was working well with us in 2008. Obviously, our biggest focus is to stay in this business and you got to maintain your ratings. We work very hard with the rating agencies. We managed capital pretty well to make sure that we're still able to maintain the highest ratings possible that are offered by the rating agencies for our industry.

In terms of direct market information, I think this is a very interesting chart. Because it really looks at municipal penetration by Assured into the municipal market on an overall basis. We didn't show 2007, because in those days we had a less than a one percent market share that really didn't start to grow meaningfully until July of 2007 when we first received the Moody's Triple A. At that time we were already Triple A from both S&P and Fitch which did give us a reasonable foothold in the business.

But in terms of really getting to be a market player, the Moody's announcement in July helped. And as you can see, the numbers, as we started to build through the early part of 2008, remember the other carriers were still all trading at that time. And their downgrades didn't come till later in 2008. So, we're on this very good roller coaster of opportunity. And then all of the sudden, we hit a significant stop when Moody's, in July, put us on negative watch. I've spoken a million times about that.

We were upgraded in July of 2007. Affirmed in March of 2008. Reaffirmed again in May of 2008. And all of the sudden, about 60 days later, in July we were put on negative watch. I felt like the kid who plays Monopoly who wasn't allowed to pass Go and collect his $200. We went straight to watch. And most of the dialogue was on industry issues, not Assured issues.

At the time we still met all Triple A capital requirements. And yet, somehow, miraculously we lost our rating. That had a significant impact on our business at that point in time. And further put the industry in question, in terms of “what is the value? Is there really an industry there? Is there a market there?”

And I'm happy to say, as you look at the results subsequent to not only the ratings watch negative, but the downgrade that took place in November, it's been an ever building story since that point in time. And so, what does it prove to me? It proves to me that the industry is needed. It's sought after. It's got a real stake and a buoyancy and resilience that will last. If you look at 2008, although the bond industry specifically lost a lot of its penetration, so percentages of the insured penetration say in 2008 for the overall industry was 18.4 percent versus 46 percent the year before. So, roughly half. That drop in penetration for the insurance companies was made up by the banks offering letter of credit as a credit enhancement to a municipal issuer. And the letter of credit percentage in 2008 was roughly 26 percent, it brought total enhancement up to almost 45 percent in the industry. So, what does it tell you? It tells you that although some people might speak to the fact that they don't believe municipalities need enhancement, the investors still believe that to be the case. And even in 2008, where everything was subject to questions and uncertainty, almost half the market still demanded enhancement. I think that's a good, positive story. A good lesson for us to learn and take forward.

And as you can see, in January of '09, I think people got more comfortable with our position. As Sabra says, I think we're one of the most transparent companies in terms of showing our risks on our web-site, so that you can go out and evaluate yourself our views of those risks. All of a sudden in January and February we're back up to a market share penetration to the overall municipal market that I think would stand up very favorably to comparisons of the other financial guarantors back in their highest market share days. If they go back to the MBIAs in the '05, '06 period.

So, does the market need the product? Absolutely. If you maintain capital and ratings. We still had operating income through 2008 even though it was the worst year in our industry's history. I think, ultimately, that being accepted by the investors and issuers. And obviously, we're getting to be the beneficiaries of that.

Some other things, as we work hard to improve shareholder value, another one of our objectives, we look at what we've managed to do with adjusted book. And as you can see, even in the year 2008, adjusted book grew. Most companies are kind of in a liquidation mode. In other words, more business is running off than they're putting on. And therefore you're shrinking the overall economic size of your company. The Assured story is different. Right? We're still in a very growth mode.

And even as we look to the current year, we're still actively growing as witnessed by our municipal market penetration. I'll call your attention to the build up of what I'll call the deferred earnings, which are the two top segments of those boxes, or unearned premium reserves and the net present installment premium, that are a significant part of the story. As we looked at Assured and we went public in '04, we said, "Jeez, you know, we need to compete with the big guys. The big guys have an ROE in the, say 11 to 14 percent. And we're down around eight to nine. “How are we going to get our ROE up?"

And if you really analyzed it, the problem with the ROE was not that we couldn't control expenses. It was more that we didn't have enough earnings. And the earnings, really, in our industry is based on how many contracts or how much par and force you have. Because, if you think about your portfolio having an average duration of ten years, as we looked at our company, we were 50/50, say reinsurance direct. The reinsurance company had that ten year duration.

But the direct company, having been a new start-up kind of in '04, had no duration. And therefore, when we looked at the earnings we were making, we were earning a little bit from direct and substantially all of it from reinsurance. And we knew that we needed to turn that tide and start to write more direct business. And as we showed in the growth rate in the first slide, we significantly grew the direct business. And hopefully, in the very safe areas of the portfolio, such that we were able to start to move up that deferred earnings against capital.

So, as you look at any quarter's income, it was being contributed to by a lot more par outstanding, a lot more years of contract. And it took us roughly three years to catch up to the incumbents being the large companies. And as you look at, say an Ambac in its heyday had a 102 percent-1.02x deferred earnings to capital. If you think about the average duration being ten years, that would theoretically, if you just used quick approximate numbers, a ten percent pre-tax return just on the embedded premiums.

Add another five percent for investment income, you can see you had a 15 percent pre-tax, pre-expense, pre-law. Now, that's a lot of “pre”s. But remember, in those days, losses were not significant. In some cases, companies showed loss recoveries. So, it really came down to expense management. And some of our competitors were very good at expense management. And that's what was generating those high returns. So, we said, "Okay, when we get to that deferred revenue to equity of one or better, we'll get to the same level of earnings."

And sure enough, in the beginning of 2008, we broke the deferred revenue of capital. Of course, it happened to be in the '08 year when real estate decided to start behaving very badly. And of course, a lot of our earnings potential was used up in having to pay or set aside reserves when we put up a reserve for potential future defaults in the real estate area. As that loss, hopefully does normalize, well that's a nice wishy statement to make. But think of it, as we now go through '09, and we realize the bad real estate behavior was in '05, '06, '07, and as you think about it, as you finish '09, the '05 year is now a mature three years old.

And what we'll always tell you is that with real estate, you kind of know where you're at after about a three year period. Now, the '06 year will now be running through its last and second full year. And therefore the amount of its further deterioration should be in some sort of a forecast or estimatable basis. And really only the '07 year still becomes a question mark. So, time should help our story and the market's story either become, you know, reality or maybe not as close to reality as we hoped.

But at least you'll get a better read as we go through the 2009 year. You’ll see whether those earnings that we've actually built up will actually start to emerge and provide us with a significant return. As well as build up of capital, et cetera. Of course, you know, or most of you know we announced on November 14th the agreement to buy FSA. We thought that was incredibly opportunistic. Obviously, Dexia decided to exit the business and exit the business reasonably quickly.

We had the resources. We had the familiarity with the company, its management. We were its largest reinsurer. So, it gave us a lot of competitive advantage as we looked at the potential of getting the go ahead and winning the contest for the acquisition. We paid, what I considered an incredibly reasonable price that was really based on market values in those days. And we were smart enough to lock in floors on the stock we would have to issue to protect the company from any further economic meltdown.

And as you can see, based on share prices today, having locked in both a $8.10 per share for the Dexia side of the shares, as well as buying a capital commitment from the Wilbur Ross funds, for anywhere between a $6 and an $8.50. Floor and ceiling, you know, turned out to be a good idea. We’re still more optimistic than that. Hopefully, as we go to close the transaction sometime in the second quarter, the market returns to a more normalized evaluation of the company.

Currently, we've got a lot of approvals in place. Of the significant approvals that remain outstanding are Oklahoma, FSA has a license company in Oklahoma that we're waiting on the approval. But we think that'll be coming shortly. And then we have our own condition which is the documentation of how Dexia and the governments of France and Belgium will indemnify us from the financial products business. And we're working on that current documentation of the guarantee. After we get to that agreement, we then take that whole package to the rating agencies for the final, kind of, closing condition where they've got to sign off that that documentation does fully indemnify us, or wall us off from financial product exposure for FSA. And therefore, they will conclude that the combination of the two doesn't impact our earnings on, our ratings on a stand alone basis or FSA's ratings on a stand alone basis.

So, we hope to try to get all that done before this end of the month. And then we have up to 45 days to close the transaction. As you look at the transaction, it gives you some of the more interesting things to think about. Number one, it significantly increases the claims paying ability of the company as well as significantly increases our capital. And I think they're important measurements. I think size does matter, believe it or not, in the industry.

I think it does give holders of our insured obligations more comfort to know that it's a bigger organization. So, you're a little bit less susceptible to any, individual volatility from any given exposure. It does push claims paying up to the second largest in the industry. And I'd anticipate that over time that would build up to the largest in the industry. And it does give us very nice financial ratios as it respects to the certain of the calculations.

We also bring in this embedded, significant deferred earnings. And as you can see, on the total company side, we wind up having an adjusted book value of $7.8 billion. Run the numbers. That's a pretty substantial increase in gain. And on the revenue side, the embedded earnings, this is pre-GAAP adjustments for purchase accounting.

What does that deferred earnings base mean? Well, it actually means emerged earnings. So, what this schedule shows you is if we close the door right now, how much earnings would we have in the company? And if you look at the FSA box and go all the way to the right hand side, you'll see that for the $722 million dollars that we're buying the company for, it will emerge $1.8 billion of gross revenue over the next three years. So, a significantly accretive purchase for us.

And it brings the overall companies combined revenues to over a billion dollars. And, you know, having taken Assured public back in 2004, I don't think we had $200 million of earnings in the entire company. So, to have over a billion dollars looking at 2009 consolidated is a pretty nice position to be in. And that does give you economic weight. Obviously, it doesn't reflect the synergies we're going to have and the combining of the two companies relative to expense savings. And hopefully, you know, as I said, as the real estate gets more mature, losses are going to be certain.

So, maybe you're not out there absorbing as many losses you've had in the past. So, more of that earnings becomes the potential for the company and it's shareholders and capital base. How do we look at the acquisition from an insured exposure point of view? As you can see on this slide, the portfolios are incredibly complimentary. If you look at FSA's portfolio and just add up general obligation, tax backed and muni utility and other public finance, you'll find that, you know, about 67 percent or two thirds of the company is exposed to muni risk.

Which is an exact compliment to our side. If you look at real estate for the total organization, it's only 6 percent of the total portfolio. So, although we know it's a troubled asset class, it's not significant relative to the overall combination. So, when you really look at two companies together, the beta of the portfolio actually goes down, while its alpha goes up. So, it's accretive, not only from an earnings point of view, but it's accretive from a risk point of view.

If we break down and look specifically at the things that go bump in the night, the real estate exposures as you can see, although they have, more significant exposure than we do, say the subprime and closed end seconds, it's still an incredibly manageable exposure in the context of both the emerged earnings as well as the overall size of the portfolio. And as I look at these things, I'm saying, okay, a couple of things are happening. One, you're getting the seasoning that's going to start to flatten out some of the numbers. Two, there seems to be a lot of talk in Washington to come up with some sort of a residential assistance type program to help maybe first lien borrowers avoid default and avoid foreclosure.

Anything that would be done in that area would obviously significantly help our exposures. And even in the closed end second, what we're finding, and I think so is most of our industry, is that there is a tremendous amount of misrepresentation claims included in those portfolios. And now companies are starting to analyze and request reimbursement from the originators. And we're no different than that. We've talked about the success we're now starting to achieve in that regard. This, hopefully, will take, a good bite out of any further deterioration in losses, if there are any. Or maybe even recover some of the losses that we've previously recorded.

Getting back to my normal claim to fame about deferred revenue against equity, as you can see on a pro-forma basis what the combining does of buying the company in at such a low purchase price relative to the deferred earnings what it does to the overall relationship. So, if we said to you, Ambac in its best day got to 1.02, we finally got to 1.11. This takes us up into a new rare area where hopefully we can get some oxygen at base camp because that's pretty hard to breathe at 2.76. Obviously, the value that we would create would be significant for the company's capital base and, obviously, for the shareholders, and for anyone that holds our insured securities.

One other thing I talked about in the combination between ourselves and FSA. Our goal is to keep both companies operating because obviously its two sets of licenses, two sets of capital, two sets of ratings. The market needs to be serviced by more issuers. We think an issuer will look at a little bit of diversification credit by having two different capital bases and two different ratings. So, we do not plan to merge the companies. We also do not plan to do anything else in terms of transferring, creating a muni only, and then a structured financed company. As part of our deal with Dexia, we did agree that we would only write muni business into FSA.

Obviously, they still maintain significant exposure to FSA wrapped securities on their balance sheets. But in terms of the structured finance in the FSA group, that will just run off in its normal course. Assured Guaranty will still re-diversify business. We still believe in diversification. We still think that works on behalf of how you manage a portfolio.

And obviously, there were mistakes made in structured finance. But they've been kind of oversold. And if you really look at the current performance of the real estate assets, I don't think anyone else in our industry thinks they're going to take any loss on a straight sub-prime securitization where the only rep the Triple A or the super senior player. Same thing with Alt A or prime loans. So, the natural real estate securitization stuff performed very well. You can go to our website pull it up and look at the performance of that data to see that that kind of holds true. So, where do the losses come from?

Well, they came from the second liens. Which we now, say, okay, big mistake. Second liens automatically put you in a severe position relative to severity. But now we're finding a lot of rep and warranty issues there. So, maybe there is some bright light or some lighter light in that tunnel. But the rest of the losses came out of the CDOs of ABS. And had you not written CDOs of ABS, I think us as an industry, the financial guaranty industry would not have been in the position it is today. Would not have taken the losses. Would not have had the capital impairments that caused the ratings downgrades that happened throughout 2008.

So, we don't have that issue in structured finance. The majority of our structured finance portfolio is performing as per our estimates and expectations. And obviously not challenged by any loss content. It’s profitable business; sure we'll write it, diversify the book. Now, we have changed the underwriting standards for structured finance. We've lowered limits across the board. We've also taken, and this goes back probably to the middle of '07-more of an economic look than a historic look at performance. Because, obviously, the economy today's very different than in the past. So, you have to factor that in as you try to evaluate performance.

You just can't rely, as most people have done, on either ratings or historical performance. But there is a value there (structured finance). And we still see significant opportunities in that area. So, that's how the companies look [in slide 13].

We do have that third company, which we talked about very briefly, which was Oklahoma. And then I think about the Oklahoma license. It doesn't have a lot of business in it. It was a re-insurer of the FSA New York Company. So, we can clean that company up pretty quickly if we had to in terms of just having it rescind its re-insurance from FSA to Oklahoma-it’s-still part of the same consolidated group and then they take the structured credit out. And theoretically, without doing any transfers, that could be a muni only company. And we would just have to license it and remain muni only business if we really wanted to go that way. Most of the time people are looking at starting the new muni companies in order to get market acceptance. But as you look at the performance of our company, and especially through the January, February 2009 statistics that I showed you, we already had market acceptance.

Our goal now is to make sure we preserve capital and or, preserve ratings so that we can capitalize on that market acceptance and reward that market acceptance and confidence in us by maintaining stable, high ratings and providing value to the issuers and, obviously, to the investors of those securities. So, that's kind of my, you know, Readers' Digest version of the company and the transaction. And now I'll take any questions that you might have.

QUESTION IS: (unintelligible on replay)

DOMINIC FREDERICO: The question is, "How are you factoring in deterioration of municipal and state financial situations? And I think that's an excellent question. So, we've been really trying to take a hard look at the municipal businesses that we're writing today and making sure that they're either critical services, or they're obviously covered by a significant amount of tax or other revenue. Because we do believe, much like other folks, that there is going to be significant fiscal pain into the municipal business through '09 and probably 2010. Where you're going to probably see some downgrades, which will cost us some capital.

And we actually, when we write a piece of business, we always have to consider, and we do when evaluating the credit in committee, downgrade potential. Because obviously, that's still a cost of capital. And if we're trying to write to a targeted return, we have to make sure we understand what is going to be the capital required in terms of writing that risk. So, downgrade risk always becomes one of our key criteria. So, we think that there will be downgrades. We think you're going to probably wind up having some shortfalls in debt service that you might have to fund. But much like Katrina, you know, we believe that in majority of cases, you will recover that. So, it's going to be a timing of payments as opposed to an ultimately loss. But that still doesn't mean there's not going to be an aberrational amount of defaults that we would think could happen through 2009 and 2010.

QUESTION:

On the first page of the Appendix you show Fourth Quarter incurred losses with full reserve amount to the right. So, it looks like you only have slightly more than one quarter's worth of reserves at the current run rate of losses. Can you talk about that and how you're modeling these bonds to come up with this reserve level? And if you're including remediation efforts-- and significant burnout in-- in those assumptions?

DOMINIC FREDERICO:

Let me step back. So, I mean, in terms of the reserve model, it's not a run rate by quarter. Because, thank God, our industry doesn't have a typical run rate by quarter, right? Typically we would not have losses. So, it really is based on ultimately loss expectation with us using a variety of factors. So, if we say, let's talk about real estate, you know, obviously, what are we concerned about? We're concerned about market value decline. Because that, in effect, represents what you can ultimately get on a property.

And if you look at our assumptions, and if you go back two years ago, we probably used a 25 to 50 percent decline. 25 percent in normal markets. And then 50 around the United States being California, Nevada, Texas, and Florida. And then, of course, everyone throws in Michigan for good behavior. As the year progressed we're actually dead up from say 25 to 50 to 30 to 50. Then we went from 40 to 60. And now you're looking at our numbers, we're probably in the 50 to 70 range. So, that changes reserves as opposed to, kind of, a burn rate.

The next thing, though, we looked at the fall. So, in the old days, the biggest guess was how many of the current borrowers would default? Well, we make an assumption for that. Then we actually see over six months how many of those borrowers did default. And then we change the run rate of default. Which also then kicks off higher reserve. So, today, as we look at the books, we typically, obviously, had paid losses, or had losses charged off in the structure.

So, if it's within our subordination, and we're not paying claims. But there are still losses in the structure. We then default, basically, everybody that's currently delinquent. And then the bet is of the current borrowers, how many of those guys go? And right now we've been averaging about a 35 percent default rate of current borrowers. And if you think about that, if it's the '05 year, these guys have already paid for three plus years. And you still think a third of them are going to go away. And it might grade up. Because as we change the monthly numbers, it changes the ultimate default rate on the current.

So, we're trying to keep track of it as best we can. But what we typically wind up have happening here is we definitely look at the current statistics and see if that adjusts our model. And I think for the HELOC, which is the biggest exposure we have that pays losses we've extended out the curve for bottoming out. So, we used to have a six month continued deterioration. We now stretched that out to a nine month continued deterioration. So, it definitely takes us through the end of the year.

Whether we're right, wrong, or indifferent, I can tell you probably with certainty, we're not going to be exactly right. But we're trying to get to the reasonable best estimate. And that's what's really causing the reserve changes. Not that we're trying to book to a specific number, we will wait and see how much we can theoretically absorb. It really comes off of a ground up. And then remember, we also do a portfolio reserve that says, for all other risks that we're not monitoring specifically, we use our internal ratings against S&P's default and severity statistics and run reserves off of that.

Now, the funny-- not the funny, but the challenging thing is, if we look at first quarter 2009, the accounting has now changed, right, for how we set loss reserves. We now have to go from an inherent loss model to a specific identification model. So, there's going to be some, you know, numbers that will change also in the first quarter. Where credit reserves that we're currently holding for fundamentally sound credits have to go away. And they either get re-applied, or we have to take a different or harder look at some of the other credits that either are performing and getting worse, or, getting worse in their own performance.

Oh, you also asked about remediation, right? So we, as well as most of our industry, has done a lot of work now in terms of specialty real estate we've had, like, strange numbers. So, if you go back a year ago, we went down to Washington to talk to the Congress. And they were really concerned about what's going on in the municipal market. We said, "Hang on a second." And they were going to destroy the structured market. We said the structured market is where America shops, it's where America gets financing, it's planes, trains, automobiles, homes, small technology, new technology, small companies, mid-size companies. You need to make sure you preserve that market and its liquidity.

But we're seeing some real strange anomalies. We pulled three deals, Sabra and I. They were sub-prime. And first payments default as the percentage of the total pool were averaging around 17 percent for these three deals. Well, 17 percent of a first payment default's impossible. So, it kind of hits at the fraud. What we've done is we've looked at the structures or the exposure we're actually paying losses on. So, that's the closed end seconds and HELOC. And just started to audit the files for the charged offs.

And this is where the reps and warranty comes in. Our current reserving model has a $49 million credit against the '05 and the '07 deals for Countrywide in our HELOC direct business. And that's the majority. That's $1.4 billion, $1.2 billion of our exposure today against a $1.7 billion total exposure. And sure enough, as we just go through the charged off files, we're finding a high percentage of those do not qualify based on the requirements for, the loan to be included in the portfolio. We've kept the credit reasonably low. Obviously, it's our expectation now, as we look at what we've actually succeeded in having the company reimburse us for that that credit will go up.

So, what does it mean? Well, it means that if there is further deterioration based on the next three months worth of data in terms of how many of the current borrowers versus what we expected. Because, remember, we already default everybody that's delinquent. And if you look at the '05 deals, delinquencies in the under 60 day bucket actually drop significantly. Charge offs are actually dropping as well. So, it looks like '05 is hitting that three year seasoning. And it's starting to return to some level of performance that we can gauge.

'07's a different story. But now you're looking at the put-backs, or the warranty claims to be more and more significant. So, hopefully, in my mind, does it potentially offset any further deterioration? Maybe, and hopefully so. Does it get to such a level that we actually get recoveries? That's a possibility as well. But we're not taking a huge credit for that.

QUESTION:

There's been a fair amount of discussion about-- seeking some sort of Federal relief for the monolines. Some of your competitors have been suggesting possible tapping TARP funds. What do you think of this? And if something like this did occur how would that impact your business going forward?

DOMINIC FREDERICO:

Yes, good question. I'm not really sure I can tell you exactly what I think of it. As a matter of fact, we were in Washington last week. And as you go around, as for those of you that have done this, know, you typically go into the Congressmen's office, and they say, "Okay, what do you want?" And I said, "Well, I'm going to be unique. I'm going to tell you I want nothing." And this Congressman said, "Well, see, then you want something. You know, you want us to do nothing, which means you want something."

I'm like, "Okay. If that's the way you're looking at it." But I don't believe that TARP money is the right way to go relative to our industry. But for reasons that go beyond my view of the competitive nature. The municipal market is the one that's making a lot of noise to say it's not working. And fundamentally, they're right. But it's not working for a whole host of reasons and none of them have to do with whether A company or B company gets some further capital so that they are able to trade. No, there's a longer equation to the ability to be able to trade. You got to look at ratings. You got to look at what your trading value is. So, whether you can actually deliver a savings to the issuer. So, that's really not going to kick start the municipal market, right? The municipal market's not working today because of the economy and the outlook for the economy. Because of the cost of financing doesn't fit into the debt service calculations of most municipalities. Because remember, they're paying higher rates and a variable rate and auction rate stuff.

So, that's talking out debt service capability for the municipalities – besides which their own revenues are decreasing significantly. So, I think there's more of an issue of the ability of these people to get debt off in the existing market. Unless you go fixed rate and your highly rated or have a good revenue back story to withstand people's economic outlook for the next two years.

As importantly, who wants to commit to 30 years? So, I think it's the economic environment, investor appetite for 30 year money. Their own budgetary challenges relative to surplus and deficit. The fact that they aren't paying higher charges on auction rate and variable rate today. Because of what's happened to the guarantor behind them and what it's meant to the rate required to keep those issues afloat.

That's the problem. So, does TARP money then come in to any of our competitors or anybody in the financial guarantee business and really help that equation? It really doesn't. So, if you're going to spend money, which they seem to obviously want to do we all agree to that. But where is the best place to put it? Its not that I would be dead against it. I think it'd be good if we have more competitors in the industry. I think that helps our story. It helps the industry. It'll start to bring up the penetration rates. Because you got more carriers out there. But you still have to worry about ratings. You still have to worry about trading value. And the real end of the story sits over here in municipalities' earnings challenges in today's market, and not necessarily in the financial guaranty market.

Okay, so the question is, well, there's also rumors about a Federal insurer for those municipal business. And I can be humorous and say, well, the Federal government has done so well in running other businesses that they've tried to enter into that, I don't think the, federal deficit could stand another federally-run business. But putting that aside, I don't think their goal was to replace private industry and the ability of private capital to respond to issues, number one. Number two, as I said, this is not an insurance problem. Because most of the municipalities that would run that Federal insurer would not be investment grade. As you look at the revenue side, we're sitting here in New York. What do you think New York's revenue for 2009 in sales tax, real estate tax, and income tax is going to be compared to 2007? And what do you think their expenses are, 2009 to 2007? Does that get helped by a Federal insurer? I don't think so. So, you got to look at what is the benefit of that solution. Ultimately, as you would point out, it would really hurt the private market.

So, does the government want to be in the business forever? Because there is no recovery. You know, once you make that step off the cliff, you know, there's no going back. And, we've been in Washington enough. And I think, you know, there's not a lot of appetite for that across the broad spectrum of both the Congress and the Senate that that would, really get enough votes to pass.

So, what have we said to them? If you're really concerned about insurance capacity, and this has been kicked around, you've seen it in the press, then create a reinsurer. Because, we're getting squeezed capacity-wise by the rating agencies who are ratcheting up capital requirements because they're getting concerned about, volatility of performance. So, they ratchet up capital requirements. We have less capital to put to work in those businesses that you provide an excess of loss protection that we'll pay for.

And remember, they do the same thing, say, for terrorism. They've collected a lot of premium from the injury paid on the claim. So, it's meant to not be a government subsidy or government funded project. Supposed to make economic sense. So, you can do something like that if you want to increase capacity. And give more liquidity into the market. That's an idea that doesn't destroy competition. Doesn't replace the private market. Might get to your goal of increasing capacity.

In the same way the National League of Cities came out and said, “we ought to form a mutual insurer.” Well, mutuals work. But they work where there is a definable, sustainable kind of average coverage. So, if you want to do pools for workers' comp, well that's easy. You know, the guy that collects refuse in any state is subject to similarly the same risk. Obviously, there's a loss control feature. But that's why you have an expense modifier that kind of equates the rate. The same way firemen, policemen, et cetera. That's a risk that's standard, it's easily modeled, and is repetitive year after year over a big base of numbers of employees. How do you work that into the financial guarantee model where you don't issue every year potentially?

The credit of Detroit not taking a shot at Detroit versus Norfolk, if they're both in the pool, how do you equate them? It's going to be a little hard expense modifier to make those two. And you've got a 30 year exposure. So, in terms of what worked in the municipal world of either liability cover, workers' comp because it's actuarially sustainable, averageble, lot of statistics doesn't really translate well into the financial guaranty model.

So, once again, okay, nice idea. But, once again, what can you do? Provide excess of loss, provide re-insurance. And that would tend to help, further liquidity. But you still can't underwrite a non-investment grade risk. And I think the risk you have is that a lot of the places that are complaining today that they don't have any access to the market are exactly that (non-investment grade). If you need access to the market, and you're willing to go out on a fixed rate basis, which I see no reason not to, then there is plenty of capacity. Obviously, we've done enough of that business through the first two months. And we're obviously in a position to do more.

And, of course, there's other players. You know, Berkshire, Macquarie, to the extent that they get ratings. But I don't know where they stand today. But, you know, you can get that thing done. And as we look forward to a close in the transaction, then you'll have two others, you'll have FSA back as a full trading partner as well. So, I think there is, you know, the ability. So, long answer to a short question: I don't see that as having value. So therefore I don't see it's got a real chance of it, going very far.

[END OF Q & A SESSION AND PRESENTATION]