



Presentation to Moody's on
Structured Finance Market
September 12, 2008

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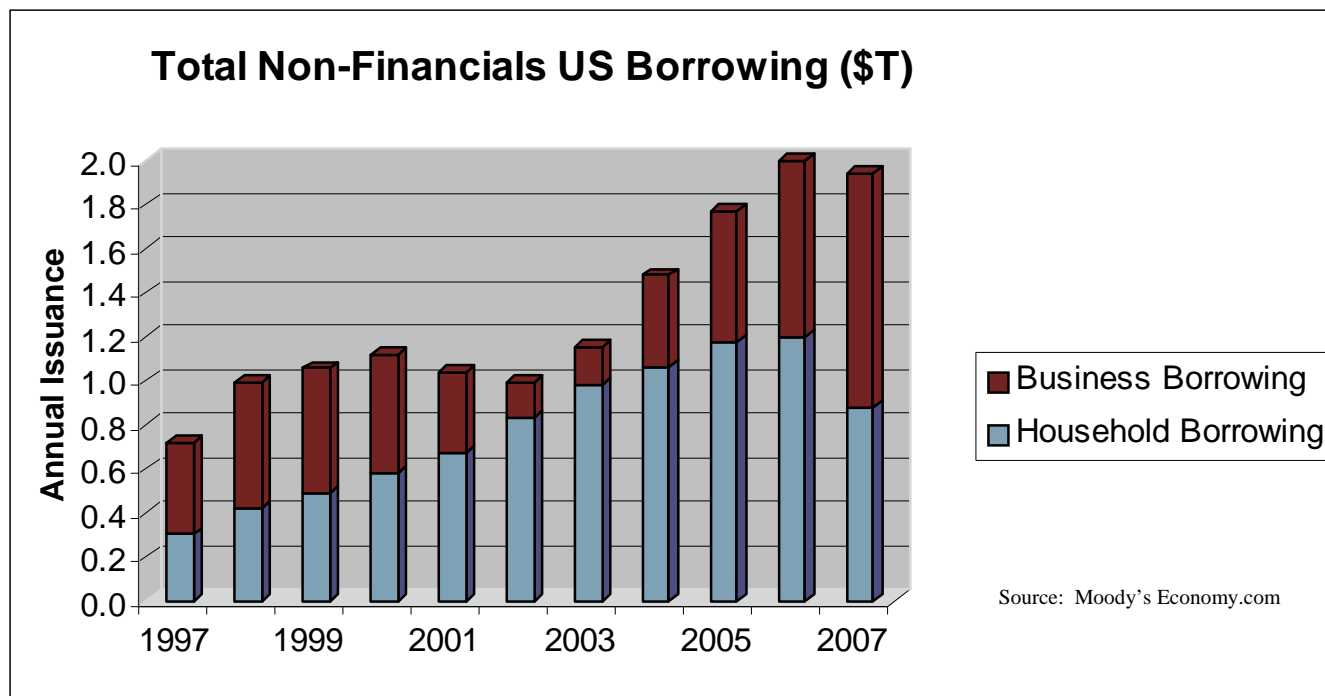
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- **ABS had been, and will continue to be, a major form of financing in the U.S. and globally**
 - Although this presentation is focused on describing the U.S. market, many of the same factors drive European and other international markets
- **The recent slowdown in ABS due to market conditions is temporary**
 - Underlying assets still need to be financed
 - Securitization is more efficient than other forms of financing in many sectors
 - The banking system does not have the capital to replace the securitization markets on a long term basis

- **ABS provides a significant portion of financing:**
 - Consumer loans (autos, credit cards, student loans)
 - Mortgage loans
 - Commercial loans
- **Re-securitizations which did not provide underlying economic value will disappear, such as, recent innovations did not provide financing for a direct business activity, including:**
 - ABS CDO
 - SIVs
 - Securities arbitrage conduits
- **Economic financing fundamentals for real assets will drive ABS in the future**
 - Same factors that created the ABS market

U.S. Borrowing Needs

- The U.S. has significant financing needs, both for businesses and consumers
- Total U.S. non-financials borrowing needs experienced a CAGR of 9% from 1997 to 2007, reaching nearly \$2 trillion in annual borrowings

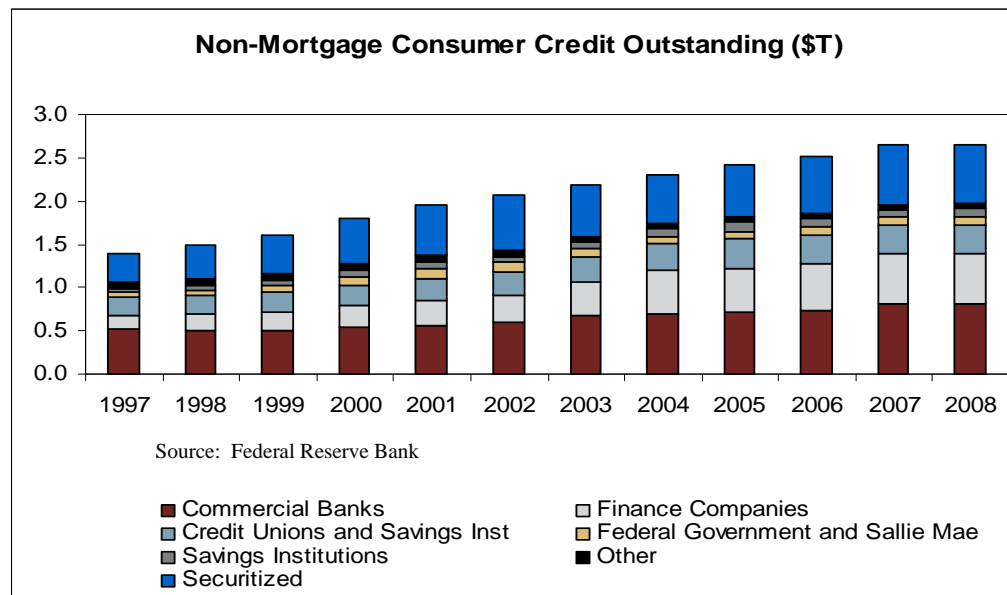


Borrowing Sources

Non-Mortgage Consumer



- Non-mortgage consumer credit has grown consistently with a CAGR of 7% over the last 10 years
- Securitization has financed a significant portion of this
- In 2008, 27% of non-mortgage consumer debt outstanding was through securitization, slightly down from 32% in the early-2000s
- Commercial banks and finance companies have financed almost half of non-mortgage consumer debt; 54% in 2008 vs. 46% in the early-2000s



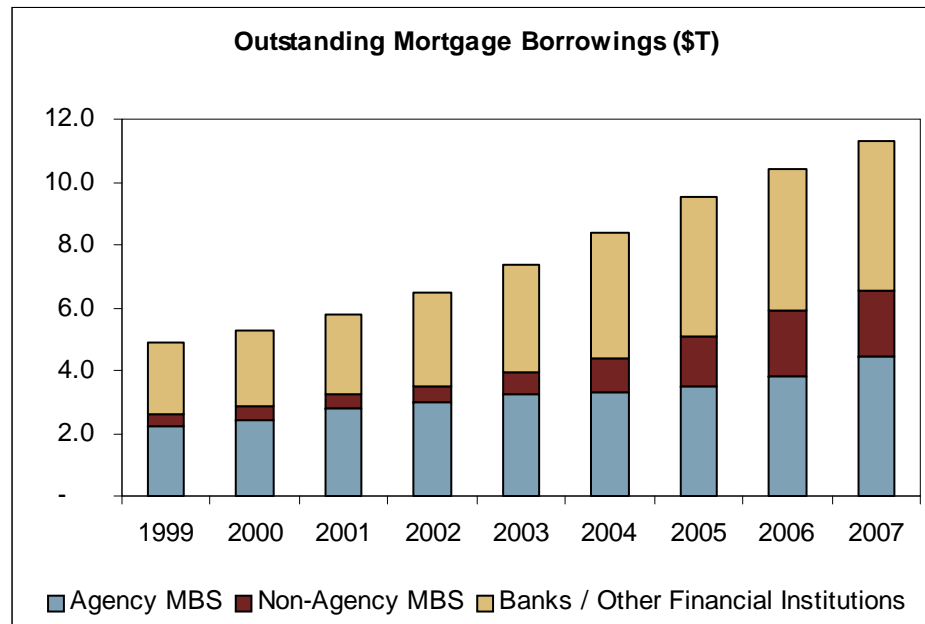
Consumer Credit includes most short and intermediate credit extended to individuals, excluding loans secured by real estate

Borrowing Sources

Mortgages



- **Total outstanding mortgage borrowings increased by a CAGR of 14% from 2001-2006 to over \$10 trillion in 2006**
- **Over half of this was financed through securitization**
- **In 2006, 57% was securitized through both Agency (FHLMC, FNMA, GNMA) and Non-Agency securitization**
- **Of the 2006 vintage mortgage-backed securities, 64% were financed through the Agencies and 37% were financed through non-Agencies**

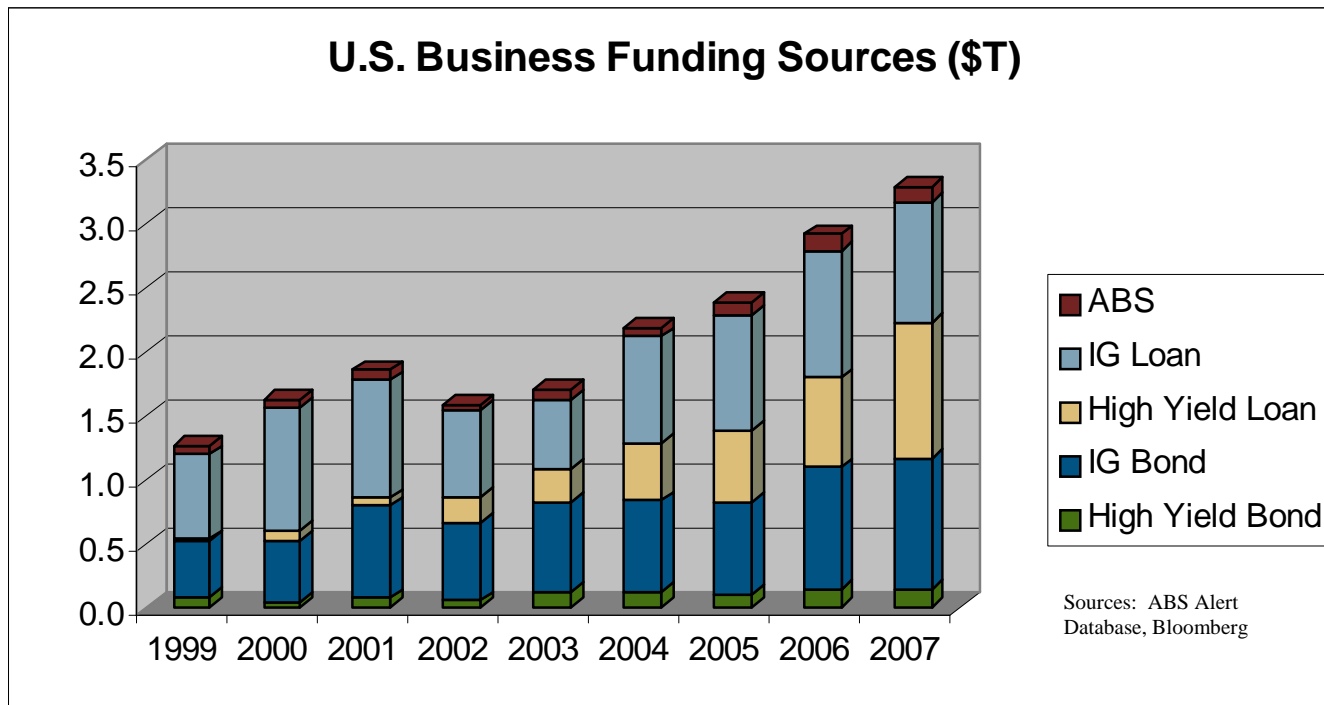


Borrowing Sources

Commercial, Industrial & Financial

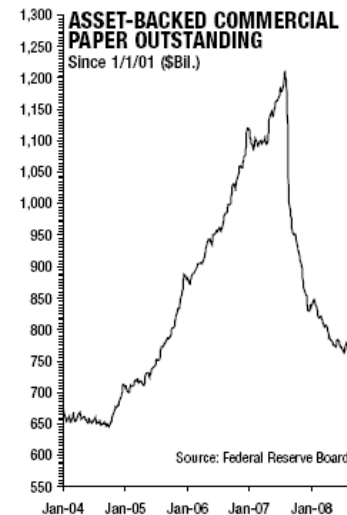
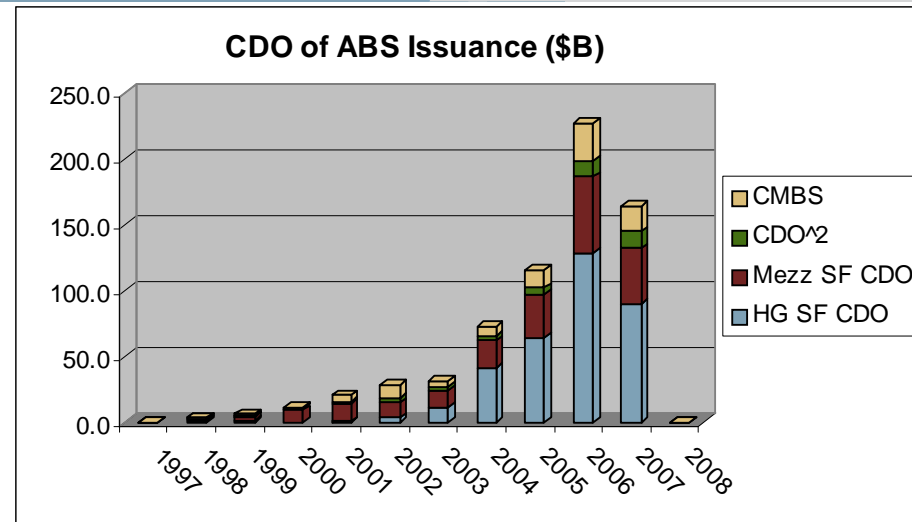


- **Total business borrowings (inclusive of financials) increased by a CAGR of 11% from 1999-2006**
- **Total annual business borrowing reached over \$3 trillion in 2007**



Re-securitizations

- **ABS CDOs and SIVs offset each other to a considerable degree, neither impacting materially the financial support for underlying assets**
- **ABS CDO activity ballooned to a peak of \$227 billion in 2006**
 - 2008 volume is negligible and the product is not likely to return to regular issuance
- **SIV assets under management that reached nearly \$400 billion by the end of August 2007, are now actively running off**
- **The disappearance of SIV-issued CP is illustrated in the severe drop in ABCP volume (pictured at right) over the same period**
- **Assets were down to under \$180 billion at the end of March 2008, as SIVs were put into run-off or absorbed by sponsors**
- **SIVs being taken back on balance sheet by sponsors is contributing to capital crunch at banks**



- **ABS has proven itself far more efficient than other forms of financing because securitizations provide for the disaggregation of risk. Unbundled risks sold to varying investors are economically more efficient than bundled risks. Hence, a return to the 1960's style bank lending is so costly as to be impractical.**
- **ABS evolved because of its relative advantages vs. secured lending**
 - Bankruptcy remote
 - Decouple rating of assets from ratings of servicer and/or originator
 - Enhances ability to match-fund for asset-liability management
 - Shifts assets off bank balance sheets, continuing the general trend of disintermediation that has been underway since the 1960's
- **2008 issuance has dropped precipitously due to adverse market conditions**
 - Relative value often greater in secondary market
 - Many issuers are reluctant to enter market under current terms and pricing
 - Investor concerns about further market decline
- **Banks and governments have stepped in to support the financial markets**
 - Short term funding alternatives to ABS, supported heavily by banks and government entities, are not sustainable
 - Bank balance sheets are under pressure
 - Government entities will not provide current aid over a long period of time

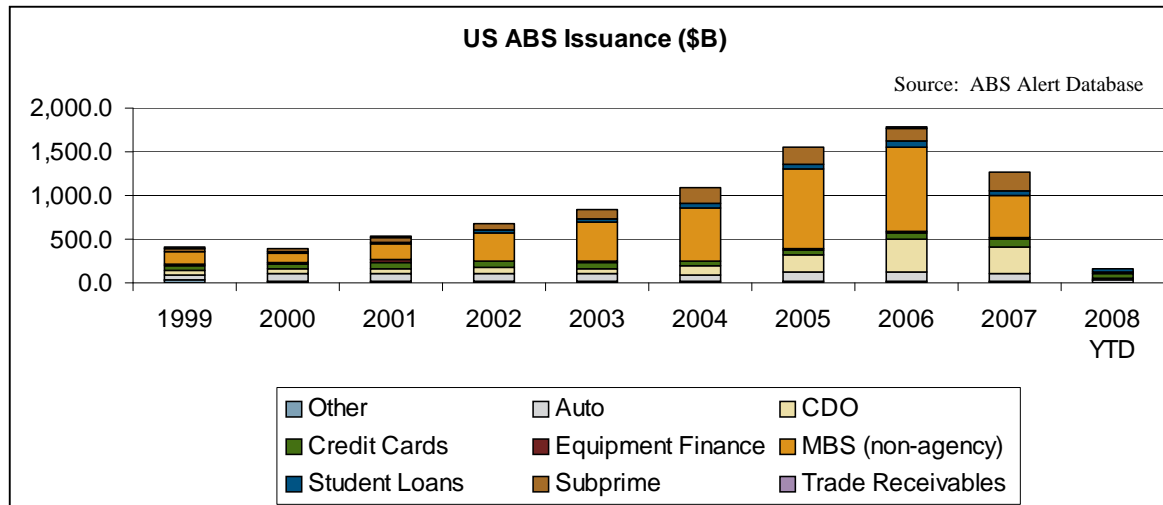
- **ABS replaced a segment of secured lending because it offered a lower cost of funds and increased liquidity over bank and finance company lending**
 - Assets are held in bankruptcy remote vehicles, distancing the investment's performance from a potential downfall of the originator/seller
 - ABS distribution channels are broader than a whole-loan syndication market can offer
- **Institutional investors rely on ABS to run a portfolio that meets their credit quality and maturity needs**
- **The transition to securitization follows two very clear patterns in finance evolution:**
 - Disintermediation. ABS allows consumer and commercial market segments that would otherwise be limited to bank lending, to instead tap directly into term capital markets that were previously reserved for only large investment grade corporate borrowers.
 - Specialization and differentiation of risk appetite. ABS allows business and financing companies to monetize assets in a way that more directly taps into focused and specialized investors best suited to understand the risks being securitized.
 - Both of the above factors lead to increased efficiency, lower costs of funding, and greater liquidity.
- **ABS execution has become an integral part of corporate financing strategies, and in some industries it has become the primary component, e.g.:**
 - Approximately 80% of credit card borrowings are financed in the capital markets (\$348B outstanding as of 12/31/07)
 - CLO volume nearly doubled from \$53 billion in 2005 to \$97 billion in 2006

Transition to ABS Execution

U.S. Structured Finance Market



- **U.S. asset backed securities issuance had been robust leading up to the liquidity crunch in the second half of 2007, with a CAGR of 19% from 1997 to 2007**
 - Through 6/30/07, US ABS issuance had been on an annual pace for \$1.8 trillion
- **Approximately 13% of 2007 issuance was re-securitizations, which are unsustainable**
 - Re-securitizations did not provide direct value to the real economy
- **Issuers in several sectors have become dependent on securitization not only for a lower cost of funds, but also for the accessibility to the capital markets**
 - Mortgage lenders, auto lenders, student loan lenders, rental fleet companies, aircraft lessors, shipping container lessors, middle market lenders and equipment lessors all rely heavily on capital market funding for continued operations
 - Reflects the continuing disintermediation of the banking sector



Transition to ABS Execution CLO Market



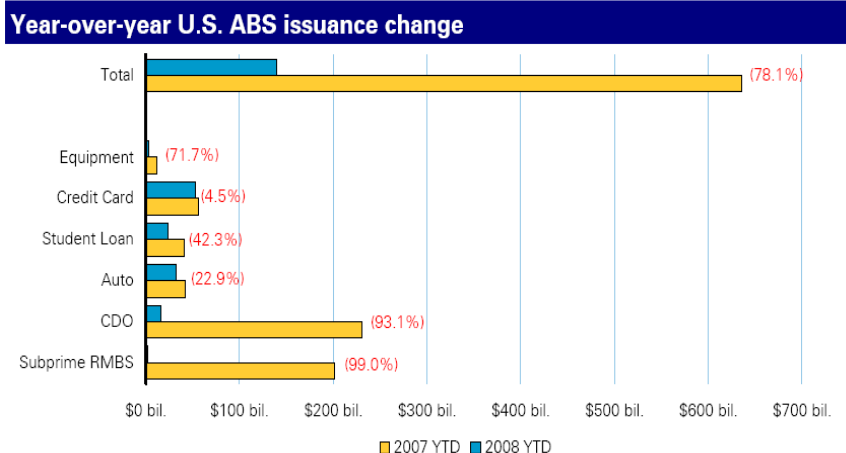
- **CLO issuance will continue as an integral component of business financing**
 - In 2008, a year of extreme distress, there has already been \$160 billion of funded CLO issuance (through 8/22)
 - Commercial and industrial business financing needs remain large, with 61% of 2007 U.S. business financing in the form of high yield and IG loans in amounts of \$1.1 trillion and \$0.9 trillion, respectively
 - If banks were needed to pick up the CLO market share, it would consume an additional ~\$200 billion of balance sheet

- **As the leveraged loan market moved from bank financing to non-bank financing, the CLO market grew from 12% of the leveraged loan market to 47% from 1997 to 2007 as CLO execution became more beneficial than balance sheet lending to both lender and borrower**
 - CLO terms of 7-12 years are better than 3-4 year bank finance alternatives
 - Banks went from holding an average 80% of the loan market to only 20%

[Proprietary data omitted]

- **Even in the current market turmoil, sound credit quality opportunities exist in CLOs, particularly in secondary market deals**
- **High credit quality opportunities will continue to be robust in the secondary CLO market**
 - \$463 billion in CLO paper was issued in 2006 and 2007
 - ~ 75% (i.e., \$347 billion) of such CLO paper was rated Aaa
 - ~ 50% (i.e., \$174 billion) of such Aaa rated CLO paper was purchased by banks
 - This conservative estimate does not take into account potential secondary wraps of 2005 CLO paper, and assumes zero new CLO production and zero new IG corporate production (i.e., 100% synthetic transactions requiring no primary issuance)
- **Conclusion: Assured does not have to participate in new issuance to have strong opportunities at attractive ROEs over the next two years while the primary market stabilizes**

- **Due to the credit and liquidity crisis evolving out of subprime mortgage & CDO of ABS difficulties, Structured Finance issuance volume has experienced a significant retreat.**
 - Fixed income investors are focused on secondary trading of existing securitizations rather than buying new issuance due to the increased relative value created by the liquidity crunch (distressed portfolio sales, SIV liquidations, banks selling assets to raise capital)
 - The relative value of secondary market ABS makes it prohibitive to issue many types of ABS in the new issue market
 - Natural cash accumulators such as pension funds and insurance companies are not putting new money in play as actively as they were just over a year earlier. Term investors are selective, preserving capital and waiting for a clear market bottom. Consequently, a large volume of cash is accumulating while it awaits investment.



“[The] chief investment officer at [an investment advisor firm] has pulled back from both stocks and bonds, increasing his typical client’s cash position to roughly 10% - an exceptionally high level for [this CIO].”
 – Wall Street Journal, August 25, 2008

Source: Thomson Financial Securities Data, Deutsche Bank

Funding Alternatives in the Short Term

Bank Lending



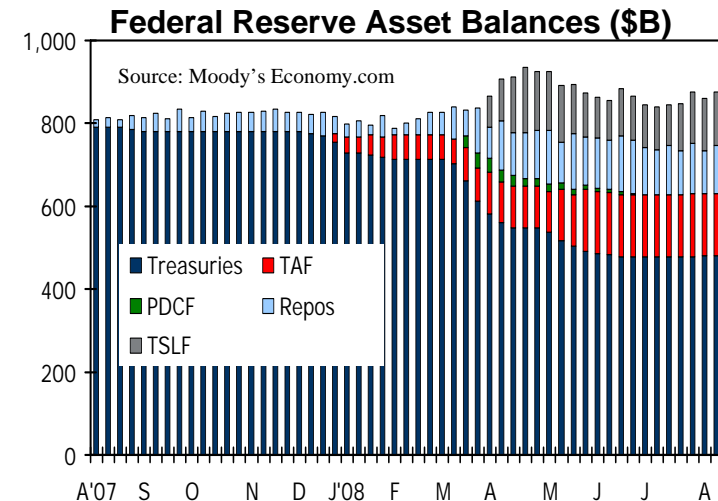
- **Bank lending has partially supplanted securitization in the term capital markets**
- **Bank financing is not infinite – capacity is limited and tighter capital controls from increased regulatory oversight are likely to limit bank financing further**
 - The top six US banks have had to raise over \$100 billion in the past year in order to maintain core capital ratios and they continue to be focused on preserving capital
 - Nearly 60% of banks surveyed by the Federal Reserve in July indicated that they had tightened standards on commercial and industrial loans over the past three months
 - JP Morgan estimates that financial institutions will have to pay off or refinance at least \$787 billion in floating rate notes and other medium term obligations before the end of 2009, which is about 43% more than the refinancing and redemption figure for the previous 16 months

Funding Alternatives in the Short Term

The Federal Reserve Bank



- **The Fed has augmented ABS funding through use of its own balance sheet with new lending programs; the Term Auction Facility (TAF), the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF). Each new program is designed to promote liquidity and foster the functionality of the financial markets in general by:**
 - Including a broader range of acceptable repo collateral that goes beyond Treasuries and agency MBS, such as investment grade asset backed securities, CMBS and corporate securities (PDCF, TSLF)
 - Extending terms of existing lending programs, often from overnight to 28 days (TAF, TSLF)
- **Non-Treasury Fed assets ranged between \$360 billion and \$410 billion from May through August of this year, up from less than \$20 billion at the beginning of August 2007**
- **These programs are not intended to continue indefinitely**
 - Although extensions have recently been granted, the TAF, TSLF and PDCF were all intended to expire at the end of 2008
 - With only 52% of the Federal Reserve Bank's assets in non-Treasuries today, as opposed to 91% a year ago, asset mix is well outside the Fed's traditional concentration, raising questions about its role and credit allocation practices
 - The Fed's balance sheet ballooned in 2Q '08 to unprecedented historical levels of over \$935 billion, and is on the rise again



Funding Alternatives in the Short Term – GSE Support



- **The Federal Reserve Bank and the Treasury will both be providing direct relief to the Government Sponsored Entities through lending or direct purchase of their MBS securities**
 - An estimated 91% of MBS origination will be absorbed by GSEs in 2008 and 2009, up from 62% in 2007
- **The GSE MBS origination penetration rate is forecasted to be higher than it was in the previous down cycle from 2001-2003, well above recent run rates**
 - In addition, the GSEs are under tighter capital constraints now than in the previous cycle, which will further limit their ability to extend credit
- **As GSEs balance sheets are under pressure, the only replacement source of funds in size is the securitization market**

MBS Gross New Issuance

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 Est.
Total MBS (\$B)	833.0	615.0	1,354.8	1,858.4	2,718.2	1,882.8	2,156.0	2,070.1	1,878.6	1,400.0
Agency %	82.2%	77.9%	80.3%	77.7%	78.4%	54.1%	44.7%	44.7%	62.4%	91.0%
Agency \$	684.7	479.1	1,087.9	1,444.0	2,131.0	1,018.6	963.7	925.3	1,172.2	1,274.0

Source: UBS Mortgage Strategist

- **Monoline participation within the securitization markets has benefited issuers and investors**
 - Separates credit risk from funding, liquidity, prepayment and extension risks
 - Provides access to a greater investor base, enhancing the liquidity of smaller issuer names and esoteric asset classes
- **Assets accumulated on bank balance sheets are naturally shifted to monoline balance sheets**
 - Banks want to retain higher volatility/higher risk/higher return business
 - Monolines have a comparative advantage to retain lower volatility/lower risk business
- **Monolines have successfully participated in ABS for many years**
 - One asset class, ABS CDOs, concentrated mortgage risk through leverage resulting in correlated, high severity risk that overwhelmed the capital of several monolines

The disaggregation of risk has been the driving economic force for the entire securitization market from the first CMO to credit derivatives. By separating credit from other ABS risks, monoline participation reflects an inescapable driver of economic efficiency in Western financial systems.

The Role of Monolines in Structured Finance



- **Financial guarantors have been involved in asset-backed securities since 1988**
 - Article 69 included both municipal and asset backed categories from inception
 - All recently well publicized arguments for the importance of bond insurance in the municipal finance sector, are also applicable to many corporate and consumer sectors
- **Insured penetration of U.S. ABS primary issuance was 5% in 2006 (6% without considering the MBS market), translating to approximately \$850B in ABS financing in that year facilitated by a monoline wrap**
 - 95% of senior portfolio aircraft ABS notes from 2003-2007 were wrapped
 - 100% of 1H '08 subprime auto issuances had wraps
- **A significant portion of capital markets activity is conducted in the secondary markets, where monoline participation has been a significant boost to providing liquidity for wrapped and unwrapped Structured Finance issuance**
 - Assured alone closed on \$3 billion of secondary market Structured Finance par in 2007 and \$9 billion in 2008 (through August)

- **The return of the structured finance capital markets will be a necessity to support business expansion and economic growth**
 - Projected financing needs of approximately \$1.5 trillion of U.S. asset backed securities have been, or will be, delayed or absorbed by banks and the Fed during 2008
 - This volume is unsustainable as banks under capital pressure do not want to use their balance sheets in this manner
- **There will continue to be a significant market need for monoline credit enhancement**
 - Many investors want to disaggregate credit risk from other risks
 - Monolines play a critical role in the re-establishment of liquidity, where our capital is most needed and most valuable
 - Active surveillance of monthly data, daily industry and company news and proactive remediation are critical in structured finance
 - Investor's require greater scrutiny and will benefit from in-depth monoline underwriting and sector expertise
 - With fewer healthy monolines, top-tier credit enhancement supply is down. This off-sets reduced insured penetration rates and creates opportunities for better structuring of credits and higher pricing.
- **Even in the current market turmoil, sound credit quality opportunities exist in structured finance for primary transactions, bank balance sheet relief, warehouses, private placements and secondary market deals**

- **Economic fundamentals will drive long-term opportunities**
 - Global growth drives expansion of credit
 - Securitization remains key tool for financing corporations, financial institutions and consumers
 - Corporate and Consumer financing are as important to the economy as municipal finance
- **There is not a practical alternative to securitization**
 - Banks cannot fund this volume of assets on balance sheet
- **Fundamental macroeconomic reason for monoline value added in ABS is that it separates credit risk from funding, liquidity, prepayment and extension risks**

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