

Research:

Summary: Assured Guaranty US Holdings

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■ Rationale

The 'A+' rating on Assured Guaranty US Holding Inc.'s debt is based on a guarantee from its parent, Assured Guaranty Ltd. ('A+' corporate credit rating). Assured Guaranty Ltd., a Bermuda-based holding company, is a provider of credit enhancement products to the municipal finance, structured finance, and mortgage markets on a global basis. The company was spun off from ACE Limited in an initial public offering that was completed on April 28, 2004. ACE currently owns 35% of Assured Guaranty Ltd.'s common stock. The company operates in three segments: financial guaranty direct, offering credit protection direct to holders; financial guaranty reinsurance, which indemnifies other financial guarantors against all or portions of losses incurred on financial guaranty insurance policies reinsured to the company; and mortgage guaranty, which provides direct and reinsurance protection to mortgage lenders, investors, and mortgage guaranty insurers. The principal U.S. operating subsidiary, Assured Guaranty Corp. ('AAA' financial strength rating, stable outlook), provides both direct and reinsurance products. The other key operating subsidiaries, Assured Guaranty Re International Ltd. and Assured Guaranty Re Overseas Ltd., in Bermuda, and Assured Guaranty Mortgage Insurance Co., in the U.S. (all 'AA' financial strength ratings, stable outlooks), provide reinsurance and mortgage guaranty products.

The consolidated reinsurance operations establish Assured Guaranty Ltd. as a leading monoline financial guaranty reinsurer. In addition, the company's equity base of \$1.5 billion ranks fifth among all monoline primary and reinsurance companies, trailing only the four long-established, 'AAA' rated primary bond insurers. Each of the operating companies is appropriately capitalized for its assigned rating.

As a general rule, Standard & Poor's Ratings Services views the financial guaranty reinsurance and mortgage guaranty businesses as more consistent with financial strength ratings in the 'AA' category, while the financial guaranty direct business can support 'AAA' financial strength ratings. Assured Guaranty's current business mix, with less than 30% in business consistent with an 'AAA' rating, nets out to a weighted average of a strong 'AA'. Applying Standard & Poor's traditional one-category notching from operating company financial strength rating down to holding company debt rating, to reflect the structurally subordinated position of the holding company, results in the debt rating of 'A+'. Assured Guaranty Ltd.'s business strategy calls for expanding the direct financial guaranty business such that, over time, this segment will contribute a greater percent of total business. To the extent this strategy is successful, a significant change in the business mix could lead to an upgrade in the debt rating.

The pro forma debt-to-capital ratio and pretax earnings coverage ratio for Assured Guaranty Ltd., as of Dec. 31, 2004, are approximately 11.4% and 17x, respectively. These levels are conservative for the 'A+' category and are more representative of 'AA' category debt ratings to which the company aspires. All other major analytical factors, including underwriting and profitability measures, are consistent with the company's current ratings.

■ Outlook

The stable outlook reflects the stable rating outlook on Assured Guaranty Ltd., which is based on its leading position as a financial guaranty reinsurer, its sound operating record, and its strong capitalization.