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Research:

Some Bond Insurers Are Facing Uncertainty In The Aftermath Of Hurricane Katrina

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NEW YORK (Standard & Poor's) Sept. 7, 2005--Standard & Poor's Ratings Services said today that although the effects of Hurricane Katrina on the long-term credit quality for state and local entities are currently unknown, five of the bond insurers are clearly facing uncertainty given the magnitude of their exposure in the Gulf Coast region.

"At this time it is not possible to determine how individual entities have been affected by the storm and the subsequent flooding, as many are still focused on lifesaving activities and might not even be able to access their offices or records," said Standard & Poor's credit analyst Richard P. Smith. "Accordingly, it is not yet possible to assess the potential losses that will be incurred by the insurers."

The nine primary bond insurers have insured a total of \$13.8 billion in bonds (net par) of public finance entities whose creditworthiness may have been affected by the hurricane. For reporting purposes, statewide credits, along with issuers in Louisiana parishes and counties in Mississippi and Alabama designated by the Federal Emergency Management Agency for individual and public assistance, are considered to be at risk for possible credit impairment.

The potential for loss in the mortgage-backed and asset-backed sectors is not thought to be as significant, however, given the diversity of obligors that comprise the assets backing the bonds and the level of credit support/overcollateralization found in most transactions.

The \$13.8 billion in insured public finance bonds is spread among a variety of sectors ranging from general obligations and other tax-supported bonds to more specific types such as health care and transportation. General obligation bonds are generally more highly regarded since a larger and more diverse resource base backs the bonds. General obligation defaults may tap a bond insurer's liquidity, but recoveries have historically been at or close to 100%. At the other extreme, bonds backed by revenues of a specific enterprise--such as airports and ports, hospitals, or convention centers--might be more susceptible to impairment because they are backed by more narrow revenue streams. In each case, the potential for default can only be determined once the issuer is able to assess its specific circumstances, including storm/flood damage, economic base impairment, and available reserves.

"Despite the inability to make detailed assessments of risk at this point, it is still possible to describe some insurers as having a low likelihood of suffering rating stress based on their low exposure to potentially affected issuers relative to the insurer's capital position," said Mr. Smith.

These insurers are Assured Guaranty Corp., the CIFG companies, Radian Asset Assurance Inc., and XL Capital Assurance Inc. For the remaining five companies-- ACA Financial Guaranty Corp., Ambac Assurance Corp., Financial Guaranty Insurance Co., Financial Security Assurance Inc., and MBIA Insurance Corp.--the details of the changes in credit quality to the various insured issuers will determine how susceptible each is to rating stress. Even so, a scenario featuring moderate rating changes (two or less rating categories) to a significant percent of the insured issuers and no long-term defaults (defaults that are not expected to be promptly corrected) will not likely threaten any of these companies' ratings. As of year-end 2004, the industry, on average, was in a somewhat overcapitalized position relative to respective rating requirements. More severe downgrades and/or actual long-term defaults by multiple issuers, particularly larger ones, could result in an insurer's

ratings coming under stress.

We will continue to monitor new information as it becomes available and will comment as appropriate.

Bond Insurance Industry Insured Public Finance
Net Par Exposure To Hurricane Katrina

(Mil \$)	Ala.	La.	New Orleans*	Miss.	Total
ACA	53.2	193.9	0.0	57.5	304.6
Ambac	734.6	2,828.5	1,660.2	255.1	3,818.2
AGC	2.8	76.0	36.3	1.8	80.6
CIFG	0.0	4.8	0.0	0.0	4.8
FGIC	225.9	3,172.3	738.6	748.3	4,146.5
FSA	184.2	1,432.3	426.7	595.3	2,211.8
MBIA	236.9	2,402.4	1,127.8	248.4	2,887.7
Radian	78.7	400.1	109.2	5.6	484.4
XLCA¶	0.0	57.1	14.5	117.0	174.1
Total	1,463.1	10,373.5	4,113.3	1,971.5	13,808.1

*Included in Louisiana totals. ¶Gross par.

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