



Summary Opinion: [Assured Guaranty Corp](#)

Assured Guaranty Corp

Opinion

Credit Strengths

- High quality insured portfolio
- Increasing primary financial guaranty volume
- Strong risk adjusted capitalization

Credit Challenges

- Uncertainty over stability of strategy given the Group's relatively low current returns
- New business activity concentrated in a few sectors
- High expense ratio resulting from fully staffed operating infrastructure and modest (but growing) volume

Rating Rationale

Assured Guaranty Corp. (AGC), rated Aa1 for insurance financial strength, has increased its participation in the primary financial guaranty market over the last five years. The company initially focused on providing credit default swaps but since its IPO in 2004, AGC has been writing financial guaranty policies as well.

The company has made significant progress in establishing its direct financial guaranty insurance franchise. Over the past several quarters, AGC's volume and diversity of business underwritten has increased, as has the list of institutional investors that purchase its wrapped transactions. In addition, the company has continued to maintain high quality underwriting standards and strong risk adjusted capitalization. Unlike its 2003-and-prior direct book that was largely in the form of CDS execution, more than 40% of the insurance written after 2003 has been executed in financial guaranty form, which Moody's believes to be more supportive of franchise growth. However, the company's financial guaranty activity remains substantially concentrated in a few sectors, with the mortgage-backed and CDO sectors accounting for 50% of the present value of premiums written since 1Q2004. Moody's recognizes that AGC's split rating impairs its ability to make significant progress in the public finance market.

The company has also made significant enhancements to its corporate governance, operating infrastructure and risk management processes since the IPO, although these processes are still somewhat untested.

AGC's rating continues to reflect uncertainty over the sustainability of its business strategy given the challenges of profitably executing its primary business plan. Primary financial guaranty is a franchise driven business where ratings and relative trading value represent significant differentiating factors. AGC, as a relatively new player, continues to face challenges in penetrating the municipal and structured flow market. Additionally, the growth prospects for the financial guaranty industry continue to be constrained by increased competitive pressures, tight credit spreads, and alternative executions.

Assured Guaranty Re Ltd, (AG Re) IFSR Aa2, acts as the group's reinsurer but also offers reinsurance to other primary financial guarantors. The ratings of AGC and AG Re are related, reflecting their strategic relationship and interdependence, as well as the strong capital base and conservative financial profile of the recently formed Assured Guaranty group. AGC has been able to conservatively shape its insured portfolio by ceding risks to AG Re, particularly during the ramp up stage for its primary business. However, the group's growing primary financial guaranty business competes directly with its main reinsurance clients, which has diminished the demand for AG Re's reinsurance product.

Rating Outlook

The rating outlook for AGC is positive.

What Could Change the Rating - Up

- Continued progress in executing the firm's primary business strategy
- Seasoning of risk management and governance processes

- Achieving a sustainable market share over several quarters of greater than 5% of industry gross par written while broadening the diversity of its business mix
- Consistently maintaining hard and total capital ratios above 1.5x

What Could Change the Rating - Down

- Deterioration in the competitive environment or product demand
- Deterioration in the credit quality of the insured portfolio
- Failure to maintain hard and total capital ratios above 1.3x
- Extensive diversification into higher-risk businesses

© Copyright 2002 by Moody's Investors Service, 99 Church Street, New York, NY 10007. All rights reserved.

Copyright 2006, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.