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## Acquisition Poses Limited Rating Risk For Rated Units Of Assured Guaranty, FSA Holdings

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NEW YORK (Standard & Poor's) Nov. 17, 2008--Standard & Poor's Ratings Services said today that Assured Guaranty Ltd.'s (Assured) agreement to acquire Financial Security Assurance Holdings Ltd. (FSA Holdings) appears to pose limited rating risk for any of Assured's rated entities, including Assured Guaranty Corp. (AGC; AAA/Stable), or FSA Holdings' units, including Financial Security Assurance Inc. (FSA; AAA/Watch Neg).

"The transaction marks a continued reshaping of the bond insurance industry," said Standard & Poor's credit analyst Robert Green.

On Nov. 14, 2008, Assured announced that it had reached an agreement with Dexia S.A. to acquire FSA Holdings, the parent company of FSA. It also announced that the \$361 million cash portion of the total \$722 million purchase price will be raised through an equity offering. We understand that common shares to Dexia will account for the difference. We have been told that the equity offering is backstopped by a commitment by WL Ross & Co., which is expected to be supported by a letter of credit, cash collateral, or other form of support. We believe that cash is not expected to be withdrawn from any existing Assured or FSA Holdings' units in connection with the acquisition.

The transaction has been structured to exclude the risk associated FSA's financial products business. We understand that the financial products unit will remain under Dexia's ownership, will be put into runoff, and may benefit

from some sort of guarantees from the Belgian and French governments. While the details of the sovereign guarantee element of the transaction have not been finalized and appear to be subject to execution risk, Assured seems to be protected by the fact that the successful removal of the financial products business is a condition of closing. According to the parties, the closing is contingent on the transaction not having an adverse impact on any Assured or FSA ratings.

We understand that FSA will continue to operate as a separate legal entity, as will AGC and Assured's reinsurance units. Financial guaranty risk and claims-paying resources for the various rated legal entities are not expected to change in the near term. While there are definite synergies and economies of scale, it is not yet clear how these will unfold at the operating company level.

Should the transaction fail to close, we believe that FSA would be in a more difficult position, and its ratings could be lowered. Dexia has characterized FSA as a noncore unit. Under this ownership structure, FSA's ability to raise additional capital would be very questionable, as would its ability to write business in volumes that would support its rating.

Looking beyond the closing, both AGC and FSA have relatively low loss exposure to 2005-2007 vintage nonprime residential mortgage-backed securities and second-lien mortgages, very little exposure to collateralized debt obligations of asset-backed securities, and their respective capital cushions are considered adequate in our criteria for 'AAA' rated guarantors.

However, if mortgage losses exceed current projections, or should the global credit deterioration cause additional meaningful losses or ratings migration in nonmortgage sectors, we believe that capital adequacy could become an issue. We believe this is especially true for AGC's trust preferred CDO exposure. Such a scenario would be exacerbated by the diminished financial flexibility currently facing most financial institutions. Standard & Poor's will continue to monitor the situation as it develops.

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