

Credit Opinion: Assured Guaranty Corp

Assured Guaranty Corp

New York, New York, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Aaa
Ult Parent: Assured Guaranty Ltd (Bermuda)	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured Shelf	(P)Aa3
Subordinate Shelf	(P)A1
Preferred Shelf	(P)A2
Parent: Assured Guaranty US Holdings, Inc.	
Outlook	Stable
Bkd Senior Unsecured	Aa3
Bkd Jr Subordinate	A1
Assured Guaranty (UK) Ltd	
Outlook	Stable
Insurance Financial Strength	Aaa
Woodbourne Capital Trust I	
Outlook	Stable
Bkd Preferred Stock	Aa2

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Key Indicators

Assured Guaranty Corp (\$ mil.)	2006	2005	2004	2003	2002
Gross Par Written (\$ million)	41,888	17,117	17,807	14,612	17,896
Gross Premiums Written (\$ million)	190.6	108.2	168.7	219.9	156.0
Net Par Outstanding (\$ million) [1]	90,939	66,215	84,991	80,837	75,606
Hard Capital (\$ million)	1,464	1,310	1,234	1,324	1,077
Net Income (\$ million) (SAP)	64.3	100.9	103.2	66.6	46.2
Strategy & Franchise Value					
% of Industry Net Par Outstanding	4.0%	3.3%	4.4%	4.7%	5.1%
% of Industry Gross Par Written	7.4%	3.2%	n/a	n/a	n/a
Portfolio Characteristics					
Credit Risk Ratio [2]	35.2bps	40.4bps	38.7bps	35.8bps	32.4bps
Tail Risk Ratio [2]	113bps	118bps	119bps	120bps	112bps
Capital Adequacy					
Hard Capital Ratio [2]	1.99x	1.99x	1.80x	1.36x	1.25x
Total Capital Ratio [2]	2.10x	2.16x	1.82x	1.28x	1.31x
Par Reinsured	26.0%	23.5%	15.5%	6.1%	8.0%
Profitability					
Return on Equity [3]	9.7%	12.5%	10.6%	10.4%	6.6%

Loss Ratio (SAP)	4.5%	18.2%	-8.4%	25.9%	35.4%
Expense Ratio (SAP)	64.8%	20.6%	107.4%	32.0%	46.0%
Financial Flexibility					
Earnings Coverage	14.5x	18.1x	16.8x	26.0x	8.9x
Cash Flow Coverage	6.3x	6.2x	n/a	n/a	n/a
Double Leverage	113.2%	112.1%	n/a	n/a	n/a

[1] Includes par outstanding ceded to affiliate Assured Guaranty Re Ltd. [2] Model ratios are as of 6/30/06. [3] Net of impact of gain/(loss) on derivatives for the period

Opinion

SUMMARY RATING RATIONALE

In July 2007, Moody's upgraded the insurance financial strength ratings of Assured Guaranty Corp. (AGC) and its wholly owned subsidiary, Assured Guaranty (UK) Ltd. to Aaa. Moody's also upgraded the contingent capital securities of AGC to Aa2, the senior and subordinate debt ratings of Assured Guaranty US Holdings, Inc. (AG US Holdings) to Aa3 and A1 respectively, and the issuer rating of Assured Guaranty Ltd. (the ultimate holding company of the group) to Aa3. Assured has been participating in the primary financial guaranty market by providing credit default swaps for over five years, and since its IPO in 2004, has been writing financial guaranty policies as well.

AGC continues to make significant progress in establishing its direct financial guaranty insurance franchise. The company achieved over a 7% market share (as measured by industry gross par written) during 2006, while increasing the diversity of business segments that it insures and broadening the list of institutional investors that purchase its wrapped transactions. Other positive rating factors include the conservative leverage profile of the holding company and enhancements to its corporate governance, operating infrastructure and risk management processes.

AGC has continued to demonstrate improving trends in the volume and diversity of its direct production, although the company's financial guaranty activity remains substantially concentrated in the CDO sector, which accounted for more than 62% of par written and 42% of PVP written during 1Q2007 as compared to 38% and 35% during all of 2006. The company's increased participation in the US and international structured finance markets was largely achieved by writing a greater proportion of its new business in credit default swap (CDS) form during 2006 vs. 2005, which Moody's believes to be less supportive of franchise growth. Moody's expects AGC's market receptivity to continue to improve, however, which should allow the firm to diversify its business mix and enhance its ability to execute in financial guaranty form, particularly in the municipal sector where the company has been less active.

Assured has maintained strong underwriting criteria, portfolio credit characteristics and risk-adjusted capital ratios, which Moody's views as critically important to maintaining financial strength over time. AGC's credit risk and hard capital ratios are solidly within Moody's expectations for Aaa rated financial guarantors. While the company has wrapped \$4.6 billion of subprime RMBS transactions, the vast majority of these are rated Aaa. Furthermore, AGC's exposure to CDOs with subprime collateral is minimal, having wrapped a small number of highly rated transactions. Moody's believes that it is unlikely that AGC will be exposed to material deterioration in capital adequacy even if loss trends for subprime mortgages accelerate beyond current expectations.

Moody's ratings incorporate the expectation that AGC will continue to maintain high underwriting standards, focus on its direct financial guaranty business in the US and internationally, and will not diversify into ancillary or non-core business over the medium term. Moody's also expects the Assured Group to execute an integrated business strategy for AGC and AG Re, which realizes the benefits of having ready access to reinsurance capacity from a tax efficient Bermuda based reinsurer, while maintaining appropriate portfolio characteristics and capital adequacy metrics for these subsidiaries on an independent and combined basis.

Moody's also anticipates that, despite a challenging business environment, AGC will continue to sustain positive market share trends, leading to further improvement in the firm's franchise value and profitability metrics. AGC's hard and total capital ratios continue to be strong, although these ratios are likely to decline as the company deploys capital. Moody's rating drivers for the company build-in the expectation that AGC will maintain hard and total capital ratios comfortably above the 1.3X threshold over the medium term to account for continued future growth and business execution risks.

Assured Guaranty Re Ltd, (AG Re) IFSR Aa2, acts as the group's main 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 such, Moody's expects the combined capital base of AGC and AG Re to remain strong, and for the group to retain its conservative financial profile. AGC has been able to shape its insured portfolio by ceding risks to AG Re, particularly as its primary business ramps-up. However, AGC will likely expand its reinsurance providers as the insured portfolio grows.

Credit Strengths

High quality insured portfolio

Increasing market share and improved diversification

Traction in the international market

Conservative holding company leverage profile

Strong risk adjusted capitalization

Credit Challenges

CDS execution predominates new business written

New business activity concentrated in a few sectors

Meaningful improvement in profitability will take time as the company rationalizes a fully staffed operating infrastructure and modest (but growing) business volume

Rating Outlook

The rating outlook for AGC is stable.

What Could Change the Rating - Down

Failure to improve the diversity in business written or to sustain its growth trajectory of new business written over the medium term.

Failure to achieve and sustain ROE's of 12% or expense ratios below 40% over the medium term.

Failure to sustain hard and total capital ratios at a reasonable cushion above 1.3x to absorb business strategy execution risks until the franchise is more fully established.

Notching Considerations

The Aa3 senior debt rating of AG US Holdings is three notches from the Aaa insurance financial strength rating of its operating company, AGC, which is one notch wider than is typical for the financial guaranty industry. This is a result of the debt being serviced by both Aaa rated AGC and Aa2 rated AG Re. The Aa3 issuer rating of AGL is one notch lower than the Aa2 IFSR rating of AG Re, as a result of the benefit it derives from its investment in Aaa rated AGC through its ownership of the intermediate holding company AG US Holdings.

DETAILED RATING CONSIDERATIONS

Moody's rates AGC Aaa for insurance financial strength, which is consistent with Moody's rating scorecard.

Factor 1 - Franchise Value and Strategy: Aa

AGC's franchise value metrics currently fall within Aa-level parameters on Moody's rating scorecard, reflecting the firm's relatively short history as a primary financial guarantor. The firm's NPO at year end 2006 represented a 4% share of the market, although its share of new business grew substantially in 2006 to 7.4% of industry gross par written. Moody's expects that, over time, AGC will increase the diversity of its business and its market share. The group 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.

Factor 2 - Portfolio Credit Characteristics: Aaa

AGC's credit and tail risk ratios of 35 bps and 115 bps respectively are solidly within our expectations for a Aaa-rated financial guarantor and modestly better than the industry average, reflecting its mix of high quality direct structured business and well-diversified reinsurance portfolio. These strong portfolio metrics are somewhat offset by AGC's higher than average use of reinsurance although much of this risk is ceded to its affiliate, AG Re.

Factor 3 - Capital Adequacy: Aaa

AGC has very strong capital ratios of approximately 2.0X, reflecting the ramp-up stage of its primary business. It is anticipated that the company's capital adequacy ratios will decline toward the industry mean over time, but will be

stronger than the industry average until the firm more fully develops its franchise.

Factor 4 - Profitability: Aa

Assured's profitability metrics, which are below the industry average, are reflective of the firm's investment in an operating infrastructure capable of increased capacity, together with lower premiums associated with writing a substantial portion of high quality business. The firm's ability to gain wider market acceptance and increase its insured volume over time should have a positive impact on its profitability ratios.

Factor 5 - Financial Flexibility: Aaa

The leverage profile for the consolidated Assured Guaranty group, which benefits from the ownership of AGC and AG Re, is conservative and well within our guidelines for Aa-rated financial guaranty holding companies. Furthermore, as the Assured Group's market share and returns grow, we would also expect improvements in its capital access and cost of capital.

Rating Factors

Assured Guaranty Corp

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	< Baa	Score	[1]Adjusted Score
Factor 1: Strategy & Franchise Value (25%)							
% of Industry Net Par Outstanding			4.0%				
% of Industry Gross Par Written		7.4%					
Moody's Adjusted Book Value/Book Value		1.2x					
Client Concentration		X					
Management, Governance & Risk Management Oversight		X					
Factor 2: Portfolio Characteristics (20%)							
Credit Risk Ratio [2]	35.2						
Tail Risk Ratio [2]	1.13						
% Below Investment Grade	1.5%						
S (WCL > 10% of HC) / HC	42%						
Factor 3: Capital Adequacy (30%)							
Hard Capital Ratio [2]	1.99x						
Total Capital Ratio [2]	1.91x						
Par Reinsured			26.0%				
Factor 4: Profitability (15%)							
Return on Equity - 3 year average		10.9%					
Loss Ratio (SAP) - 3-year average	4.8%						
Expense Ratio (SAP) - 3-year average				64.3%			
Factor 5: Financial Flexibility (10%)							
Earnings Coverage	14.5x						
Cash Flow Coverage	nm						
Double Leverage	113.2%						
Ease of Access to Capital		X					
Aggregate profile							
						Aaa	Aaa

[1] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [2] Scorecard as of 12/31/06, except noted ratios which are as of 6/30/06.

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