

Rating Action: Assured Guaranty Corp

Moody's reviews Assured Guaranty's Aaa rating for possible downgrade

New York, July 21, 2008 -- Moody's Investors Service has placed under review for possible downgrade the Aaa insurance financial strength ratings of Assured Guaranty Corp. and its wholly owned subsidiary, Assured Guaranty (UK) Ltd., (collectively Assured), as well as the Aa2 insurance financial strength ratings of Assured Guaranty Re Ltd. (AG Re) and its affiliated insurance operating companies. Moody's has also placed under review for possible downgrade the Aa3 senior unsecured rating of parent company, Assured Guaranty US Holdings Inc. and the Aa3 issuer rating of the ultimate holding company, Assured Guaranty Ltd. (Bermuda). Today's rating action reflects elevated risks with the financial guaranty insurance market and within Assured's insured portfolio. Moody's said that Assured's credit profile may no longer be consistent with its current ratings given uncertainty about the firm's portfolio risk profile, material shifts in the demand function for financial guarantees, and as observed recently among Assured's competitors -- potential sensitivity of its franchise and financial flexibility if losses continue to rise. Moody's noted that, while the outcome of the review is uncertain at this time, a downgrade of Assured insurance financial strength rating below Aa2 is currently seen as unlikely.

As a result of this review, the Moody's-rated securities that are guaranteed or "wrapped" by Assured are also placed under review for possible downgrade, except those with higher public underlying ratings. A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

CAUSES OF THE REVIEW FOR DOWNGRADE

According to Moody's, recent events have demonstrated that the leverage and complexity of some structured finance transactions have made loss estimations for certain segments of Assured's insured portfolio more difficult and the variability of those estimations, especially given the guarantor's operating leverage, may be inconsistent with the very low risk tolerance implied by a Aaa rating. Furthermore, Assured's material exposure to large single and sectoral risk concentrations, which Moody's considers to be higher than other highly-rated financial guarantors, creates the potential for significant deterioration to the company's capital position should material adverse developments occur among a few large transactions or within a particular sector of the insured portfolio.

Moody's added that the review for downgrade also reflects the significant reduction in overall market demand for financial guaranty enhancement. The structured finance market that generated about half of the industry's and two-thirds of Assured's new business has seen a dramatic decline as a result of the current market dislocation. Such dramatic instability in the firm's current and prospective market opportunity also raises questions about whether a Aaa rating remains appropriate.

Bond insurance volumes in the municipal segment have also declined significantly, with insurance penetration rates dropping by a third or more. Although deterioration in the credit profile of some of the large financial guaranty providers might have been the main factor prompting this shift, and Assured's competitive position in this market has improved, Moody's notes that alternatives to bond insurance and the potential reassessment of risk by investors in this segment may negatively influence demand in this sector in the future.

The recent market disruptions and resulting decline in equity valuations of other financial guarantors have highlighted the extent to which the market's perception of future adverse developments can impact not only new business volume but also financial flexibility. In this context, Moody's takes note of the potential fragility of Assured's access to business opportunities and capital should its insured portfolio unexpectedly deteriorate. Moody's further notes that these business challenges impact the credit profile of Assured's affiliate AG Re, prompting the rating review of that firm as well.

COMPANY ANALYSIS

According to Moody's, Assured is one of only three guarantors that have remained active in recent months, reflecting the market's perception of Assured's lower risk profile relative to many of its peers given the company's limited exposure to ABS CDOs. Assured has become a leading municipal bond insurance underwriter with currently about a 40% share of the insured market (where aggregate financial guaranty penetration rates currently approximate 20-25% of new originations).

The rating agency has reassessed Assured's mortgage-related exposures in light of worse-than-expected

performance trends in the second lien asset class. Based on Moody's revised assessment of the risks in Assured's direct RMBS portfolio, stress-case loss estimates on a present value basis did not change meaningfully from prior estimates, approximating \$330 million for Assured and \$250 million for AG Re. Furthermore, Assured and AG Re remain modestly exposed to the ABS CDO sector, which did not generate any loss under Moody's stress scenario.

Moody's said that Assured's conservative underwriting strategy and expansion into the municipal market have resulted in a generally high-quality and diversified insured portfolio beyond the firm's marginally affected mortgage-related exposures, although the company's exposure to structured finance transactions and to single risk concentrations as measured by Moody's are meaningfully higher than the other highly-rated primary financial guarantors. Most non-mortgage-related structured segments are performing well, although certain exposures, such as Assured's \$40 billion of pooled corporate exposures, may be more sensitive to transaction or sector deterioration. Single risk concentrations in this segment could result in a significant deterioration in Assured's capital position if a few of these transactions were, contrary to Moody's expectations, to sustain meaningful losses.

Moody's has re-estimated expected and stress loss projections on Assured's aggregate insured portfolio. Based on Moody's revised assessment, estimated stress-case losses would approximate \$1.7 billion at the Aaa threshold. This compares to Moody's estimate of Assured's total claims-paying resources of approximately \$2.4 billion. Assured's capital ratio has declined as a result of significant portfolio growth in the municipal segment, although the firm continues to meet Moody's 1.3x "target" level for capital adequacy, exceeding the Aaa target by an estimated \$120 million. AG Re's capital ratio improved marginally, as capital utilization from portfolio growth was more than offset by a capital injection from Assured Guaranty Ltd. following its recent equity issuance. Relative to Moody's 1.3x target level for capital adequacy, AG Re is currently \$340 million above the Aa2 target level.

SCOPE OF THE REVIEW

Moody's said that it will review the characteristics of Assured's portfolio, particularly within the structured segment, that could make the company susceptible to material losses as seen in the mortgage market. Moody's will also evaluate the company's business and franchise sensitivity to an erosion of market confidence, including any impact on financial flexibility. In addition, Moody's review will consider the likely strategic direction of the firm given the changing dynamics within the industry, as well as the potential implications of any future regulatory changes to the credit profile of the group.

AFFECTED RATINGS

The following ratings have been placed on review for possible downgrade:

Assured Guaranty Corp. -- insurance financial strength rating at Aaa;

Assured Guaranty (UK) Ltd. -- insurance financial strength at Aaa;

Assured Guaranty Re Ltd. -- insurance financial strength at Aa2;

Assured Guaranty Re Overseas Ltd. -- insurance financial strength at Aa2;

Assured Guaranty Mortgage Insurance Company -- insurance financial strength at Aa2;

Assured Guaranty US Holdings Inc. -- senior unsecured at Aa3, junior subordinated debt at A1, provisional senior unsecured at (P)Aa3, provisional subordinated debt at (P)A1;

Assured Guaranty Ltd. (Bermuda) -- issuer rating at Aa3, provisional senior unsecured at (P)Aa3, provisional subordinated debt at (P)A1, provisional preferred at (P)A2;

Assured Guaranty Capital Trusts I and II -- provisional preferred at (P)A1;

Woodbourne Capital Trusts I, II, III, and IV -- contingent capital securities at Aa2.

OVERVIEW OF ASSURED GUARANTY

Assured Guaranty Corp. is a financial guaranty insurance company based in New York. At March 31, 2008, the company had net par exposure of \$102 billion and qualified statutory capital of \$1 billion. Assured Guaranty Corp. is a wholly owned subsidiary of Assured Guaranty US Holdings Inc. Assured Guaranty Re Ltd. is a Bermuda based financial guaranty reinsurance company with net par exposure of \$113 billion as of March 31, 2008. Assured Guaranty Re and Assured Guaranty US Holdings Inc. are wholly owned by Assured Guaranty Ltd. [NYSE:AGO], a Bermuda-based holding company. As of March 31, 2008, Assured Guaranty Ltd. had total assets of \$4.1 billion and \$1.5 billion in GAAP shareholder's equity.

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