

Credit Opinion: Assured Guaranty Corp

Assured Guaranty Corp

New York, New York (State of), United States

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Aa1
Ult Parent: Assured Guaranty Ltd (Bermuda)	
Outlook	Stable
Issuer Rating	A1
Parent: Assured Guaranty US Holdings, Inc.	
Outlook	Stable
Bkd Senior Unsecured	A1
Assured Guaranty (UK) Ltd	
Outlook	Stable
Insurance Financial Strength	Aa1
Woodbourne Capital Trust I	
Outlook	Stable
Bkd Preferred Stock	Aa3
Woodbourne Capital Trust II	
Outlook	Stable
Bkd Preferred Stock	Aa3

Contacts

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Key Indicators

Assured Guaranty Corp (SAP Statistics)

	H1 2005	2004	2003	2002	2001	2000
Gross Par Written (\$mil)	3,904	17,807	14,612	17,900	18,366	9,684
Net Income (\$mil)	68	103	67	46	45	60
Expense Ratio (%)	21.5	107.1	32.0	45.9	50.8	46.7
Loss Ratio (%)	7.7	-8.4	25.9	35.4	18.3	(0.7)
Adjusted Net Par Outstanding (\$mil) [1]	54,654	57,447	81,757	76,408	na	na
Market Share (%) [2]	2.6	3.8	4.5	5.0	5.3	5.1
Hard Capital (\$mil)	1,244	1,234	1,336	1,077	1,013	919
Operating Leverage (Adjusted NPO / Hard Capital) (x)	43.9	46.6	61.2	70.9	na	na
Credit Quality Ratio (Expected Loss / Adjusted NPO) (bps) [3]	na	38.7	35.8	32.4	30.0	30.0
Tail Risk Ratio (99.9 % Losses / Adjusted NPO) (bps) [3]	na	119.5	120.5	111.8	108.5	128.1
Hard Capital Ratio (Hard Capital / 99.5 % Losses)(x) [3]	na	[4]1.80	[4]1.36	1.43	1.50	1.42
Total Capital Ratio(Total Capital/99.9 % Losses)(x) [3]	na	[4]1.82	[4]1.28	1.50	1.58	1.37

[1] Adjusted Net Par Outstanding reflects the haircuts assigned to reinsurance provided by non-Aaa reinsurers. [2] Total market share is based on total primary and reinsurance NPO rated by Moody's. [3] Credit Quality Ratio, Tail Risk Ratio, Hard Capital Ratio and Total Capital Ratio are Moody's model ratios. All results are as of calendar year-end. [4] Results for year 2003 and after are at the Aaa level with losses at 99.9 percentile for the Hard Capital Ratio and 99.99 percentile for the Total Capital Ratio.

Opinion

Credit Strengths

High quality insured portfolio

Strong risk adjusted capitalization and predictable earnings of the Assured group

Highly transparent risks and business strategies

Credit Challenges

Execution risks associated with the implementation of Assured Guaranty group's business strategy

Impact of heightened competition on the firm's ability to become a viable alternative to established primary guarantors

Primary market activity could reduce demand for the group's reinsurance

Rating Rationale

The Aa1 IFSR of Assured Guaranty Corp. (AGC) and the Aa2 IFSR of its sister company, Assured Guaranty Re International Ltd. (AG Re) are linked, reflecting the interdependence between AG Re and AGC, as well as the strong capital base and conservative financial profile and strategy of the recently formed Assured Guaranty group. The ratings also consider the uncertainties associated with the implementation of the strategy of the main operating companies of the group, its new status as a public company, and the limited track record of AGC in the primary financial guaranty business. The rating differential between AGC and AG Re reflects Moody's view that AG Re faces somewhat higher franchise and credit risks than AGC and that the primary business, underwritten at AGC, should become relatively more prominent over time.

AGC has been increasingly pursuing primary financial guaranty activities over the last five years, initially through CDS markets and now by writing financial guaranty policies as well, with its sister company acting as the group's reinsurer. Unlike its 2003-and-prior direct book that was largely in the form of CDS execution, three-quarters of the insurance written in 2004 was executed in financial guaranty form, which we believe to be more supportive of franchise growth. However, the company's financial guaranty activity remained largely confined to a few sectors, with the mortgage-backed sector accounting for more than 50% of the business written during the year. Moody's has observed that credit spreads for AGC versus the more established primary guarantors has narrowed since the IPO of the Assured Group, a credit positive. In conjunction with the company's strategic repositioning as an independent monoline, AGC reinsured some higher risk business with its reinsurance affiliate AG Re, and recently novated its FSA reinsurance portfolio, the bulk of which was subsequently reinsured by AG Re. AGC also expects to cede 25-30% of its future business to AG Re.

Moody's noted that there are risks associated with the group's change in strategic direction. Senior management has strong experience relevant to the industry but is, for the most part, new to the company. Primary financial guaranty is a franchise driven business where ratings and relative trading value represent significant differentiating factors. AGC, as a relatively new player, will have to establish itself as a viable alternative to the well-established primaries at a time where competitive pressures appear to be intensifying. Also, the group's growing primary financial guaranty business competes directly with its main reinsurance clients, which could hurt demand for AGR's reinsurance product. However, as AGC shifts its strategic direction, the firm should continue to benefit from its significant financial guaranty experience and an infrastructure that has been developed over time.

Rating Outlook

The rating outlook for AGC is stable.

What Could Change the Rating - UP

-Clear demonstration of a sustained ability to write a wider diversity of business

- Seasoning of risk management and governance processes; continued adherence to guidelines and processes that insure one directional risk transference from AGC to AGR

-Evidence that the majority of reinsurance business will continue to be written at AG Re

What Could Change the Rating - DOWN

-Deterioration in the competitive environment or product demand

-Failure to demonstrate an ability to write a wider diversity of business over the intermediate term

-Failure to sustain a reasonable cushion above 1.3X hard and total capital ratios to absorb business strategy execution risks

-Extensive diversification into higher risk business

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