



**Transcript for the
First Quarter 2010 Earnings Conference Call
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Operator

Good day, ladies and gentlemen and welcome to the first quarter Assured Guaranty earnings conference call. My name is Alicia and I'll be your coordinator for today. At this time, all participants are in listen-only mode. We will be conducting a question-and-answer session towards the end of this conference. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Ms. Sabra Purtill, Managing Director of Investor Relations. Please proceed, ma'am.

Sabra Purtill - Assured Guaranty - Managing Director, IR

Thank you. And thank you all for joining us today for Assured Guaranty's first quarter 2010 financial results conference call. Our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Limited, and Bob Mills, Chief Financial Officer. We will take questions after their prepared statements, but please be aware that our Webcast is not enabled for questions. If you are listening via the Internet and would like to ask a question, please dial into the call live at 1-866-804-6922.

Our presentation and comments today may contain forward-looking statements relating to our new business, credit outlook, market conditions, credit spreads, financial ratings, loss reserves, acquisitions, financial results, or other items. Listeners should not place undue reliance on our forward-looking statements as our outlook is subject to change due to new information, future events or other things. If you are listening to a replay of this Webcast, please keep in mind that future management presentations, press releases or financial filings may update any forward-looking statements made today. You should refer to the investor information section of our website and to our most recent SEC filings including the 10-K that we filed last night for the most recent financial information and for more information on factors that could affect our future financial results and forward-looking statements.

Before turning to call over to Dominic, I also wanted to remind you that Dominic and Bob will be presenting today at the UBS Global Financial Services Conference at eleven-thirty AM in New York at the Waldorf Astoria. Their presentation will be Webcast live and you will be able to access it on our website, along with a copy of their presentation. A replay of the presentation will also be available. I'll now turn the call over to Dominic.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Thank you, Sabra and thanks to all of you on the call for your interest in Assured Guaranty. In the last quarter, we continued to face a number of challenges related to the economic and market environment. Although our earnings were once again negatively affected in the quarter, we continued to make progress on several strategic fronts. First and foremost, we're a bigger, stronger Company. By adding the acquisition of FSA to the existing earnings models of AGC and AG Re, we have substantially increased our embedded earnings power. This provides us with a financial stability that is critical to our ongoing business. Further, we have continued to report operating earnings each quarter through the financial crisis, despite having to absorb losses related to the residential mortgage market.

Second, based on the strategic steps we have taken, including operating Assured Guaranty Municipal as a public finance only insurer, we have achieved success in the US municipal market, despite the fallout in our industry and product from the failure of our competitors. Keep in mind that our penetration rate in the municipal market takes time to recover after every adverse rating agency decision. The current quarter penetration rate showed significant improvement from the fourth quarter when Moody's affected their last rating change. Specifically, in the first quarter we originated \$6.5 billion of new issued Par in our US municipal business, generating \$74.3 million of PVP.

The 300 primary transactions we insured represented 6.3% of all municipal new issues, up from 4.3% in the fourth quarter of 2009. And if we exclude the Build America Bonds and other taxable issuance, our insured penetration was 8.8% of all tax exempt volume. Even more important, we insured 11 large transactions of \$100 million or more, more than twice the number of large issues insured in the fourth quarter. While this gives a strong indication that the institutional investor is returning to the bond insurance market, our largest number of insured transactions

continue to be the mid-size issues which we define as those ranging from \$10 million to \$50 million. These issuers use bond insurance to reach a broader base of retail and middle market accounts.

We view these results as positive, especially when you consider that we rejected approximately 100 transactions that did not meet our standards. The 10 largest of these transactions alone would have provided an additional \$30 million of PVP to the quarterly results. The transactions we did insure had an average underlying rating of A with 15% having underlying ratings of AA. I am convinced that this is the correct approach. By exercising underwriting and pricing discipline, we not only improve our long range performance, but we demonstrate our commitment to preserving the financial strength behind our guaranty.

Turning to the retail market, in last quarter's call, we noted that we targeted the expansion of our retail investor base as an important part of our 2010 business plan. In addition to an ongoing calling program on municipal sales and trading desks, and some significant additions to our sales force team, we have launched a multi media advertising campaign aimed directly at local market broker dealers and their retail customers. We have also made progress in the quarter in building an electronic platform that will provide live executable capacity through the muni center. We look at this as both a way to increase our secondary market production and to increase our visibility in the retail marketplace. Another strategic focus is the generation of municipal production through the recapture of seeded reinsurance portfolios and the potential acquisition of other portfolios.

To date, in 2010, Assured Guaranty Municipal has reassumed \$8.8 billion of previously reinsured business. If we add this new strategic production source, comparable PVP would be \$144.3 million for the quarter. And we hope to execute other such transactions during the year. AG Re, our reinsurance unit, plays an important role in these transactions, providing us with capital support and increased single risk capacity. Third, we are carefully pursuing structured finance business where we have begun to see more opportunities in the primary market that meet our underwriting requirements.

In the first quarter, we insured a \$200 million transaction for AmeriCredit, backed by subprime auto. The transaction was well received and priced at a time weighted cost of 156 basis points over the benchmark. This is the tightest credit spread of any subprime auto transaction in the last two years. We are currently working on a number of other structured financings across multiple non-mortgage asset classes.

We also continue to insure secondary market transactions that help investors with risk management and/or capital issues. And last, we are making progress in both the primary PPP, PFI and utility segments of the global public infrastructure market. While some market participants continue to have concerns about the financial guaranty in general, we are well recognized by investors for our credit skills, ability to negotiate appropriate documentation, and our ongoing surveillance capabilities in these transactions. Throughout the market slowdown, we have continued to market our guaranty to project sponsors and investors and are beginning to see the results of these efforts in potential new business. We additionally have opportunities in refinancings and replacements of other mono lines.

Now, what is our outlook on the insured RMBS portfolio? In addition to the improvement in early stage delinquencies that we are seeing, there are other encouraging signs. For example, Equifax and MoodysEconomy.com report that the share of homeowners behind on their mortgages fell in the first quarter of 2010. This is the first drop in four years and indicates that the foreclosure crisis could peak over the coming months. The mitigation of RMBS losses is another strategic priority for 2010.

We recently created a new senior position in our organization to intensify our efforts and hired Greg Rob, a highly experienced workout specialist to fill it. Greg has the unique combination of experience in structured finance, risk mitigation and the bond insurance industry and most recently was with Ambac. He will be responsible for RMBS workout including enforcing our rights for putting back mortgage loans for repurchase that have breached rep and warranties and supervising the obligations of servicers of RMBS that AGC and AGM have insured. Greg will report directly to me in this capacity.

This effort represents a significant opportunity to improve on our RMBS performance and enhance our future earnings. To date we have completed reviews of approximately 28,000 loan files, causing the repurchase of \$206 million of loans, a small number relative to what we believe will be our ultimate amount of recovery. Moreover, recently several originators have publicly acknowledged the inclusion of affected mortgage loans in their securitization, which would appear to substantiate our own experience and our claims for reimbursements.

Before turning the discussion over to Bob Mills, who will provide details on our first quarter reporting, I want to sum up where I think we are headed. I believe we're off to a good start in the US municipal business where there is increasing demand for our guaranty. I'm also encouraged by the green shoots in other sectors. Equally important, there are positive signs in the mortgage market, which we will monitor carefully as we continue to vigorously press forward on our loss mitigation efforts. All of this, together with our strong capital position gives me every reason to be optimistic that we will be successful in continuing to grow the business and create value for our customers, shareholders, and employees. Bob?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Thanks, Dominic and good morning to everyone on the call.

Before covering the quarter's results, I wanted to touch on a few items that affected our financial results in the quarter. First, we adopted a new accounting principle for variable interest entities called VIEs this quarter as per FASB statement 167 or ASC 810 consolidation. This meant that we had to review about 1900 different insured transactions to determine if they needed to be consolidated according to this standard. The standard changes the consolidation requirements to focus on control. Our protective rights, predominantly in structured transactions, gives us the ability in certain circumstances to replace servicers and/or trustees which in the interpretation of the accounting literature is control, which may necessitate that we consolidate a transaction.

The net impact of this change meant that we deconsolidated four VIEs and consolidated 21. The effect of FAS 167 hits both the balance sheet and the income statement including shareholders equity, total assets and liabilities, net earned premiums and loss and loss adjustment expense. Our 10-Q and the financial supplement have the details on this and I will also address specific impacts in my comments. We revised our non-GAAP financial measures for adjusted book value and operating income to reverse the financial impact of consolidating the VIEs, which we believe is a more informative presentation for you. I also want to forewarn you that we will continue to review changing circumstances as required by the standard, relative to our structured portfolio, which could alter our VIE consolidation in future periods.

Our first quarter 2010 operating income was \$92.9 million this quarter, excluding AGMH acquisition related expenses versus \$68 million in the first quarter of 2009. Excluding both acquisition expenses and earnings from refunding and accelerations, our operating income was \$83 million, a material increase from \$3.3 million we earned in the first quarter of 2009. The AGMH acquisition and the addition of its large base of unearned premium was a major driver to the significant increase in our operating income. This quarter is only the third one that includes the AGMH acquisition. And it explains the majority of the variances in our first quarter 2010

results compared to 2009. In addition, the increase in shares due to the issuance of shares for the acquisition and the June and December capital raises affected all of the per share comparisons.

Turning to the income statement, our net earned premiums were \$325.6 million, which includes \$6 million related to VIEs. More than double the \$148.4 million reported in the first quarter of 2009. The growth in net earned premiums is even more compelling when you exclude refunding and accelerations, which totaled \$15.4 million this quarter, but were \$90.3 million a year ago. The growth in net earned premiums is largely due to the acquisition, although it also includes premiums on new business written over the last year. Net investment income was \$84.3 million in the quarter, almost twice last year's \$43.6 million.

The increase is largely due to the growth of the investment portfolio which now totals \$10.5 billion, compared to \$3.8 billion at March 31, 2009. Investment income did not match the increase of invested assets, however, because we continue to face declining market yields. The pretax book yield on our total investment portfolio was 3.5% this quarter, down from 5% in the first quarter of 2009. We will continue to gradually lengthen the duration of the investment portfolio to take advantage of market conditions and improve the yield on the portfolio going forward.

Loss and loss adjustment expenses, including incurred losses on credit derivatives, totaled \$216.9 million in the quarter, which includes \$10 million related to VIEs. This quarter, we had \$137.7 million in incurred losses on our RMBS portfolio, including \$10 million related to VIEs, principally because of the extension of the CDR by another three months. We also raised the severity rate for subprime to 75% from 70%, based on recent experience. The increase in severity added about \$23 million to our loss reserves.

As Dominic mentioned during the quarter, we clearly saw some improvement in early stage delinquencies on much of our insured RMBS portfolio. But we ultimately concluded that we needed more evidence of sustained improvement and therefore we extended the projected CDR for another quarter. I'm hopeful that early stage delinquencies will continue to demonstrate sustained improvement, allowing us to conclude that we've turned the corner on our RMBS losses. Non-RMBS losses totaled \$79.2 million this quarter, principally for increased reserves on mortgage and REIT TruPS, student loans and a few structured finance and public finance deals for which we had already established reserves. As per FAS 163, which we adopted in 2009, this quarter's loss and loss adjustment expenses included \$39 million of losses embedded in our UPR that we had already expected to recognize. We disclosed this loss amount in our December 31, 2009, Form 10-K, and financial supplement and updated this estimate in amortization schedule in our March 31, 2010, 10-Q and financial supplement.

Due to the same accounting principle we expect to recognize about \$59 million plus accretion of discount in the second quarter 2010 for loss and loss adjustment expenses before any loss development. Our total change in expected losses including changes in expected present value of losses to be expensed that is included in our UPR was \$239 million this quarter, down from \$333 million in the fourth quarter 2009. The majority of the change ran through our income statement this quarter rather than UPR. Operating expenses were \$64.4 million in the quarter, up significantly from \$29.4 million in the first quarter of 2009, due to the acquisition and the increase in our headcount to approximately 330 as of March 31, 2010.

About \$11.2 million of the first quarter 2010 other operating expenses were share-based and performance retention plan expense associated with retirement eligible employees as compared to \$6.6 million in the first quarter 2009. 80% of this increase was due to the year-over-year increase in the share price and option value. Our first quarter operating expense has always been higher than the rest of the year due to our incentive compensation which is granted in

February and recognized in the first quarter. And it will be higher in the first quarter of 2011 as well.

Looking forward for the rest of 2010, I expect a quarterly operating expense run rate of about \$55 million because of strategic initiatives and additions to personnel and surveillance loss mitigation and new business development. Finally, our effective tax rate on operating income was 33.5%. This compared to 19.3% in the first quarter 2009. The tax rate has and will continue to fluctuate with the level of loss expenses booked in taxable versus nontaxable jurisdiction. This quarter, similar to the fourth quarter, about 25% of our losses were booked in AG Re in Bermuda and therefore we did not record a tax benefit for those losses.

I would advise all of the analysts to consider this when estimating our tax rate. Absent recorded losses, our effective tax rate on operating income would be about 24% to 28%. The losses in Bermuda increase our effective tax rate on operating income. As noted in our press release and financial supplement, our operating shareholders equity per share was \$23.02 at March 31, 2010, up 2% from \$22.49 at December 31, 2009, reflecting our earnings this quarter. Our adjusted book value per share was \$48, slightly down for the quarter.

Dominic touched on our new business production but I just wanted to briefly mention that similar to last quarter, our reinsurance segment did not book any new production this quarter. We continue to pursue third party portfolio acquisitions as well as portfolio recaptured transactions. None of these are expected to have a material impact on earnings in a quarter but they add significantly to our UPR. That concludes my comments on key financial items for the quarter. The operator will now give you the instructions for submitting your questions.

Q&A

Operator

Your first question comes from the line of Daniel Kim from JPMorgan. Please proceed.

Daniel Kim - JPMorgan

Good morning, guys.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Good morning.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Good morning, Daniel.

Daniel Kim - JPMorgan

Just a couple of questions. I guess can you talk about your mortgage credit statistics? You mentioned that early delinquency characteristics were better. Exactly how is it getting better and which early delinquency book are we talking about?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Okay. Well you broke up a little bit there at the end but I think the question was on early stage delinquencies, exactly how is it getting better and where I think is the question of where it's getting better. The good news is we're basically seeing it pretty much across the board if you look at on the first lien side, the option ARMs, Alt-As and subprimes. Additionally for probably one of the first time we noticed, total dollar amounts in the over 60 day categories are also dropping over the last two months.

We're seeing anecdotal evidence that maybe the foreclosure crisis has peaked. We expect to see that peak in foreclosure rates going somewhere mid-summer at their highest levels and then receding from there. When we refer to early stage delinquencies, we're referring to mortgages that are delinquent between 30 and 59 days. Because obviously they become the new feed for the over 60 day delinquencies, so that's something that's very sensitive in our reserving model and it's also critical to how we view what will be the future experience in the mortgage securitization and securities.

Daniel Kim - JPMorgan

Extending the credit default rate curve, does that fully account -- is the accounting for these changes in the delinquency characteristics or does that imply that your future assumptions could change for the positive in the full year loss model?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Once again, you broke up a little bit on the front end of the conversation.

Daniel Kim - JPMorgan

I'm sorry.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Try it again.

Daniel Kim - JPMorgan

I guess what I was saying is in terms of your credit default rate curve, your decision to extend that for another quarter or so, are you accounting for these improvements in early delinquency characteristics already in there or how should we look at how your model would change going forward, given the fact that your early delinquency's getting better and possibly could lead to lower charge-offs in the future.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Okay. So the answer to the question is no, it doesn't take into consideration these recent declines. As you look at how we close our quarter, we basically use trustee statements as of February to begin the loss reserving process and only change that if we see a significant difference in the March numbers as we close the quarter for March 31st. So by and large it's February data so the declines in both March

and April, although in the right direction, weren't significant to make us change our preliminary decision as we looked at closing the quarter from a reserve point of view.

Obviously that becomes a factor for next quarter. The first and foremost thing is as opposed to changing assumptions, what we would conclude potentially is we would not extend the curve if we continue to see further declines in both early stage and 60 plus delinquencies. So we like the process that we have, obviously we've kind of time tested it over the last 18 or so months. Therefore, that would not change in terms of the method of calculation. The first decision point would be principally relative to the extension or lack thereof or not extending the curve.

Daniel Kim - JPMorgan

Got you. And could you just kind of talk about the status of your remediation efforts? We know that you've been doing analysis on the mortgages and in terms of size and timing of the future payments, what can we expect?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

That's a great question. We'd be in a lot better shape. But as we talked in the past, we spent a lot of time and a lot of resources in the remediation efforts, and principally it's dealt with a rep and warranty breaches and therefore the putback or request for reimbursement. As you probably know, the losses that we were paying throughout most of this period have been second liens and, therefore, we've paid more critical attention there because it represented cash out the door, and to give you kind of a size reference, as I stated in my talk, we reviewed about 28,000 loan files.

Out of that 28,000, 22,500 were second liens because that's where cash was going out the door, that's where we needed to start to get the most benefit of collections to try to get us in a better cash position. We paid very few and I think in the quarter we actually started to pay our first loss on first lien so the cash there is not significant and, therefore, we paid and emphasized the second liens. As you know, most of our analysis and reimbursements coming from Countrywide and Bank of America where we've got the most exposure and the most amount of loans and the experience there has been kind of adequate, maybe a little bit less than that, in terms of the delay we're getting in reimbursements as we continue to put back loan files.

We've now expanded that to beyond Countrywide as an originator and are probably leading to conclusion that we will affect litigation against a couple other originators that are smaller in size and we're not getting the same level of cooperation. So a lot's going to depend on how that progresses. Also, what's happening in the market. You know, if you think about the rep and warranty issues that we've highlighted, we've been talking about this for probably a year and-a-half. And I hate to say it but a year and-a-half ago we were probably the only person that was really talking about it in any great detail.

Now it's hard to pick up a paper and not see some reference to this issue, whether it's another originator that is now highlighting from its own earnings projections that they're going to have further responsibility to pay these claims, or its claims being made by Fannie or Freddie or it's settlements being made by originators against investors, but there seems to be a very rising awareness of the issue which we would hope would also foster more in earnest settlement talks and get the movement of collections accelerated, because I think no one's now disagreeing that this is a large issue. I can't imagine anyone that would rather go into litigation with us than settle.

So it's hard for us to give you a real exact determination of when collections will pick up, what's the size. We've stayed the course relative to the strategic direction we've taken on this. We've had I think the best results relative to our industry. It doesn't say much but it's a start. As I see there's good, positive winds of change that I think should help this effort going forward.

Daniel Kim - JPMorgan

Thank you very much.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

You're welcome.

Operator

Your next question comes from the line of Joe DeMarino from Piper Jaffray. Please proceed.

Joe DeMarino - Piper Jaffray

Thank you. Good morning.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Good morning.

Joe DeMarino - Piper Jaffray

Dominic, can you talk about your decision to extend your severity assumption for subprime, especially in the light of the fact you did mention you guys saw some improvement in the percentage of borrowers who were behind their mortgage. Thank you.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Sure. So the question's on severity and severity doesn't really relate to delinquencies, right? Obviously delinquencies creates the ultimate potential foreclosure and then based on the foreclosure we then take a severity hit which represents what is the amount of the realized loan that we actually collect. We pay a lot of attention to this and we try to monitor current experience and the most recent reports we've seen for the quarter, severity has ticked up on the first lien side.

On the subprime, and therefore, we've increased the subprime severity accordingly. You might see that's quick reaction, but we're trying to keep the most reasonable basis of reserves we can and making sure we don't find ourselves short. So trying not to anticipate significantly future movement in the market but we do project in our reserving model an improvement I think starting about two years out in terms of the severity. We do keep track of what's happening currently and if you examine current reports you'll see the severity on subprime first lien has increased.

Joe DeMarino - Piper Jaffray

Okay. Thank you. That's helpful. Can you also talk about some of the trends going on in our mortgage and REIT trust portfolio and specifically if we have an improvement in the mortgage market, when you would expect that to carry over to your mortgage and just over trends that you're seeing within that book? Thank you.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Okay. On the mortgage trusts: the issue there you have a lot of issuers, smaller down, and therefore a little harder to track really current experience and keep that in our models. So our models tend to rely principally on our own internal ratings as best we can determine for each of the obligors within the trust, and it projects a default rate off of them. So it doesn't really monitor mortgage experience. Remember, these are people around the mortgage business, so they could be brokers, construction, real estate firms, et cetera, that although they should be picked up relative to any improvement in the housing market in general, they're not going to follow it specifically. And of course in those REIT shops there are some commercial properties as well so it's not purely a residential play.

Joe DeMarino - Piper Jaffray

Okay. Thanks. And I have one last question. Can you kind of talk about what's going on in Europe and what your exposure might be there in terms of how investors should think about whether or not you do have any exposures to some of the sovereign issues that we're hearing about? Thank you.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Yes, we analyze our exposure in the international side. We don't take really significant amount of sovereign risk, per se, and if you look at Greece, the amount that we have outstanding is not significant and it's very long-dated and it's done on a swap basis with a counterparty and the counterparty has a rep to hold requirement for them to keep our guaranty or our swap in place. Normally I think we've been pretty good if we thought it was a significant item, we would have talked about it or disclosed it so from that you can assume that our exposures across the European market are reasonably non-sovereign. They typically relate to utility and other infrastructure projects that have their own revenue source and payment capability beyond the sovereign exposure. The sovereign's typically a backup. So that has not created credit problems for us at this time.

Joe DeMarino - Piper Jaffray

Okay. Thank you. That's very helpful.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

You're welcome.

Operator

Your next question comes from the line of Chris Owens from Trafelet. Please proceed.

Chris Owens - Trafelet - Analyst

Good morning, everyone. My question is, if we continue to see the trends in early stage delinquencies that we saw in March, are we done extending the loss curve?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Nice try, Chris. I don't have my wizard's hat on. I would consider that a very positive trend and you can make your conclusions from that.

Chris Owens - Trafelet - Analyst

Okay. Let me ask the question a different way. If you had fully incorporated the March data into this quarter, would you have extended the loss curve?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Yes, because March would have only given you one month and really we like to see some sustainable period before we make that kind of a long-term judgment.

Chris Owens - Trafelet - Analyst

Okay. And then my other question is --

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Chris, is your next question if it falls for April and May, I'm waiting to follow your questioning through.

Chris Owens - Trafelet - Analyst

My other question is litigation against Countrywide, I think you said before that two-thirds of your sort of booked rep and warranty exposure is through them. With MBIA and also their settlement with various types of funds, not admitting fraud but settling. Why isn't there more -- why aren't you guys being more litigious at this stage? Seems like they are nickel and diming you, with over \$700 million to claim there.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

That's a great point, Chris and we discussed this more internally than you can imagine. It's a very significant discussion point with our Board. So let's try and break that down. Countrywide is by and far our largest exposure. We have seen in the last quarter I think we collected about \$32.5 million which is an improvement over the prior quarter as we work with them to expedite the putback process. We are hopeful that we can further improve on that collection effort. So by and large we are getting some cash. You say well, but how does that cash relate to the total receivable?

Remember, our receivable we carry on the financial is roughly a \$1.3 billion. About \$800 or so million is country wide. But about half of that is based on future defaults, not current defaults. So the receivable in terms of real cash outlay based on paid losses is about half of what the total receivable is using kind of round numbers. If you look at the collection effort relative to that, it leads to or provides you maybe a different conclusion over the success of it.

Number two, as we look at all the litigation activity against them, we feel that we're not impaired whatsoever based on the success or the position of that. You know, our theory has always been we all have the same claim whether it's Fannie, Freddie, MBIA, specific investors, pension funds, et cetera. And therefore, if you start settling one, the argument not to settle them all becomes a little weaker and therefore because we're getting current cash if we were to move to litigation, we probably go into motions and discovery and halt the flow of cash, does it make sense at this point to pull the trigger when you evaluate the totality of this effort and the collections against the true receivable. It's not as bad as it looks on the surface.

But we do want to make sure that everyone's kind of playing fair in the sand box so we want to look at litigation as a further inducement to settlement and, therefore, we're going to take two of the smaller servicers in the near term and begin litigation activity on them. It gives us a sounding board to test our

premise and approach to make sure that that's going to work. We do it offline on two folks that we haven't got a whole lot of collection or cooperation efforts so it makes sense to start to generate potential new sources of cash but at the same time it allows us to maintain the existing process that we have with Countrywide that we think can be improved and --

Chris Owens - Trafelet - Analyst

Sure. But if I could just sort of take that other side of the argument there and I'm sure you looked at this as well. You're saying you've already paid out \$400 million in paid claims to them and you're collecting \$30 million a quarter. That's four years. And furthermore, you guys have to raise capital that was dilutive to adjusted book to avoid a ratings downgrade. If you had had that cash in hand, you could have avoided dilution and you could have maintained a higher rating. So not only is it the cash that you don't have on hand now, it's the ratings damage and the dilution. So I mean, I think you could make a case in court that they owe you not \$400 million or \$800 million, but they owe you billions of dollars. Is collecting \$30 million a quarter is good, but getting billions of dollars is better. So I would just -- the longer this process drags out, I think the more -- I think it's just evidence that you need to pursue litigation against them.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Well, Chris, two things. One, we will definitely have you on our list of expert witnesses when events come to pass. And two, I don't disagree with anything you've said so it's something that we watch closely. We discuss continually. It gets a lot of air time with the Board. We take a similar position to your own. And as we look at it, if we don't see a substantial increase in collection success, I would tend not to disagree with you for the future.

Chris Owens - Trafelet - Analyst

Thank you.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

You're welcome.

Sabra Purtill - Assured Guaranty - Managing Director, IR

Thanks.

Operator

Your next question comes from the line of Darin Arita from Deutsche Bank. Please proceed.

Darin Arita - Deutsche Bank

Hi. Can you talk a little more about the Build America Bonds market? To what extent might that require additional infrastructure on your sales and underwriting? Because these are smaller and lower rated insurers?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Quite the opposite. They're larger and higher rated issuers in the build America market today. This is a taxable execution under a government subsidy for the interest cost that may get comparable to what they would have issued tax exempt. The first problem we have with them is these have typically been the larger, more liquid issuers, and they're higher rated, so you can argue a large percentage of that issuance would not have required insurance at any point in time.

Number two, the problem we have or not problem but the challenge is that the insurance premium is not considered part of the subsidizable debt service. If you think of it in a tax exempt world, the insurance charge actually becomes part of the tax exempt benefit because you're lowering the interest rate and therein lies the lower coupon and therefore the insurance is kind of considered as part of the overall financing structure. In the BAB world, because the insurance premium is outside the subsidy is actually becomes more expensive for the issuer to use insurance at certain levels of rating. We're trying to work with both the Senate and the Treasury to say if you put in the insurance premium as part of the BAB subsidy, you actually lower the cost to the issuer, you lower the cost of the government subsidy and you make the premium that we charge taxable.

So it's really a kind of triple play hat trick benefit by putting the insurance cost back into the subsidy and we've had a lot of discussions in Washington over the last, say, 60 to 90 days, to see if that could be affected as they look to the extension of the BAB program. But by and large these are large issuers, very liquid, well-known, highly rated and therefore not typically in the bond insurance target zone. However, we do expect as that program expands, because it goes with different investor base and the whole idea of this was widen the appetite for municipal securities that lower issuers. We want to become a part of that process and they'll look to expand the application and in that case we see a potential for higher penetration of insurance.

Darin Arita - Deutsche Bank

Thank you. Now, with respect to the rating agencies rerating bonds, how does that change the market opportunity for you?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

I'm sorry, say that one again.

Darin Arita - Deutsche Bank

The rating agents rerating muni bonds, how does that change the market opportunity?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

It should have an impact but not as significant an impact as you think. Why is that? A minority of the bonds today are rated only by Moody's. Remember, if you go back, we had dropped Fitch as a rating or agreed mutually do to limit our Fitch rating because they didn't have the penetration in the municipal market and therefore because of their change in process they would not be rating the majority of bonds that we insure. So putting them aside for the time being, you look at it as an S&P and Moody's market predominantly. Very few bonds carry only a Moody's rate.

S&P has always had a higher rating because they feel their on a global scale for years and although they did significantly over the last say two and-a-half years upgrade a tremendous amount of municipal issuers, I think it was 10 to one upgrades versus downgrades, so by and large we've already had the higher S&P rating that influenced the decision to seek insurance as well as to provide benefit against the financing cost for the issuer. So now the Moody's kind of catching up with the S&P, might have an effect for that small segment of the market that only carries Moody's rating but since most of the market

is dual rated between both and they've already carried the higher S&P rating, we don't think it's going to have that material of an impact.

Darin Arita - Deutsche Bank

Thank you.

Operator

Your next question comes from the line of Lawrence Ham from Sonic Capital. Please proceed.

Lawrence Ham - Sonic Capital

Good morning. Bob, a question for you: last quarter we talked about how the total reserving including the change in expected losses was \$333 million, of which 186 went through the income statement. Could you give me a comparable number for this quarter?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

As far as how much the -- I'm sorry.

Lawrence Ham - Sonic Capital

How much total reserving occurred including the change in expected losses?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Of the \$239 million of expected losses, 206.7 went through the earnings statement.

Lawrence Ham - Sonic Capital

So the total number is 239 versus 333 last quarter. So I guess you're getting there.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

It's certainly an improvement over the last quarter, there's no doubt about that.

Lawrence Ham - Sonic Capital

Could you speak towards why more of it went through the income statement this quarter than last quarter?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

AGC, right?

Lawrence Ham - Sonic Capital

Okay, so it was more of an assured issue as opposed to an FSA issue.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Two things. You had the purchase accounting adjustment of the FSA book, now AGM book. As you now recognize the fact that in some cases the extension of the curve on certain of those obligations has now exceeded the purchase accounting adjustment, they become current incurred and go through the income statement and not through the unearned premium reserve.

Lawrence Ham - Sonic Capital

Got you. It's not as simplistic as an AGC versus FSA.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

No. What has happened to the accounting, nothing simplistic for financial -- As you can well understand. We now have to look in I think it's up to four buckets to try to tell you what the true economic exposure and the last bucket was added by the VIE consolidation, which now takes another amount of what would have been incurred losses through the income statement and throws it up in the mark-to-market adjustments. The mark-to-market includes two loss contents, one from the true swaps that had economic exposure as a part of the mark change. Now the VIE losses that are now buried up there, you have the purchase accounting adjustments down below in unearned premium and then you have the true loss reserves sitting in the financial statements.

Good news is quarter to quarter it's down about \$100 million. Bad news is you're going to see more of it through the income statement as we now work our way through the purchase accounting as now the losses that are embedded in the UPR start to come out as we're earning the UPR on these short tail exposures so that it does earn out and the losses materialize very quickly. The only thing that will change that in the long term is the fact that we either change assumptions relative to the reserves that are booked based on how we book them and default rates, et cetera and obviously things like not extending the curve, et cetera.

Lawrence Ham - Sonic Capital

How much of the amount was from extending the curve?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

About \$100 million, about another \$30 million because of the severity change.

Lawrence Ham - Sonic Capital

I see. Okay. Great. And getting back to the issue of the month to month changes in the trustee reports, I've been looking at those reports and I must say take that the April numbers look significantly better than the March numbers in respect to kind of early stage delinquencies. Would you agree with that statement?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

I would. And will pray and offer a number of -- light a few candles at church next Sunday to see if the May comes in like the April.

Lawrence Ham - Sonic Capital

One final question is JPMorgan as well as others I guess have at least in their earnings reports and conference calls seem to be taking a more constructive stance on the rep and warranty issue in terms of putting up bigger reserves against that. Have you noticed any change in behaviors in terms of your originators and how they're dealing with you or is that so far just been lip service?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

There's been really no change, maybe a little lip service, we'll begin to discuss putbacks in say first liens, let's talk about a negotiated settlement but a lot of this is delaying tactics, a lot of it is trying to schedule out what their payments are going to be, we believe, and that's why obviously as we talked previously on the call, we're considering litigation against a couple of the smaller issues, force more direct response, more implied behavior.

Lawrence Ham - Sonic Capital

Looks like the trends are improving anyway, so good luck with that and congratulations.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

We said that you read everything in the press, it appears that they're recognizing the liability more than we're getting concerned about it, it's getting written up a lot more. There are some settlements taking place. Obviously we're all looking very closely at the B of A/MBIA litigation that's scheduled for, I think it's in March or April. Obviously there were some motions last week from the judge that are favorable to the MBIA case. I think all these things help to add to a potential settlement.

Lawrence Ham - Sonic Capital - Analyst

Great. Thank you much.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

You're welcome.

Sabra Purtill - Assured Guaranty - Managing Director, IR

Thanks, Larry.

Operator

Once again, as a reminder, that is star one to ask a question. Your next question comes from the line of Marie Lunackova from UBS. Please proceed.

Marie Lunackova - UBS

Good morning, everybody. I just had a question on the new business production. What kind of pricing do you see, what kind of trends are there versus prior year or prior quarter with ROEs you're getting on the business.

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Pricing has remained relatively strong. Obviously we're still able to capture a kind of historic high as a percentage of the spread. Spreads have come in, but the percentage of captures has gone up. Obviously we're writing a higher rated book. As we talked on the call, we rejected about 100 credits this quarter for various noncompliances to our standards. Some of those are return as well as credit. So we're quite pleased with the pricing and we specifically maintained what I'll call a high discipline of pricing standards and although we theoretically could have written more business had we lowered our pricing threshold, we think that our shareholders and internally ourselves expect target rates in that 15 to 20% range and that's based on full absorption of the capital and holding the capital to term, obviously refinancing provides you a higher effective ROE than that when you look at the true actual experience and that's the way we're going to build it. That's the way we're going to stay. And that's reflected in the results that we put forth in the first quarter.

Marie Lunackova - UBS

And as far as how much of the spread, I know you mentioned on Investor Day, somewhere around 60, 70% of the spread, is that about the same now that you're able to capture?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

Yes, it's north of 50%.

Marie Lunackova - UBS

Okay. Thank you.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

You're welcome.

Operator

Your next question comes from the line of Matthew Howlett from Macquarie. Please proceed.

Matthew Howlett - Macquarie

Thanks for taking my question. Could you just maybe comment on some of the principal forgiveness modification plans have come out, HAMP and also the one from B of A. Specifically how could it impact your deals, particularly the second lien transactions?

Dominic Frederico - Assured Guaranty - President, CHIEF EXECUTIVE OFFICER

Well, the second lien transactions, it could only improve because we've taken a very conservative view of defaults and we take roughly a 95% severity and then distressed cases 100% severity so we're basically taking the full loss. Some of the modifications now require I think a 20% allocation to the second lien which would actually be a positive for us. In terms of the first lien exposure, as we just talked about, we've upped severity to 75%. We're at the top of the water fall in most cases and, therefore, when you think about those deals, they were constructed with anything between, say, 10 and 35% subordination underneath them with the majority being the upper end of that.

So if they're willing to forgive 20% of principal, that's tending to be positive because of where we are in the attachment process. That would be below where our losses would apply. We're taking a 75% hit on those loans anyway so we would view that to be a positive. Lastly, there's just not that much activity, although we are seeing anecdotally an increase in modifications, it hasn't risen to the level of significance that we think will have at this point a benefit but could have a future benefit to us and as I said we look at any modification program because of where we're at in the structure to be positive to our ultimate result.

Matthew Howlett - Macquarie

So specifically on the Countrywide B of A transactions they haven't done anything meaningful yet on those delinquent?

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

B of A has announced a lot of things but they typically are for their own account and securitization than around the market. When you break down the announcement, what would actually impact our securitizations, it's less than a 5% hit.

Matthew Howlett - Macquarie

Great. Thanks, guys.

Bob Mills - Assured Guaranty - CHIEF FINANCIAL OFFICER

You're welcome.

Sabra Purtill - Assured Guaranty - Managing Director, IR

Thanks.

Operator

This concludes the question and answer portion of the call. I will now turn the call back over to Sabra Purtill for closing remarks.

Sabra Purtill - Assured Guaranty - Managing Director, IR

Thank you, Alicia and many thanks to all of you for joining our call today. We appreciate your interest in Assured Guaranty and we also look forward to seeing some of you today at the UBS Global Financial

Services conference. If you have additional questions or require any further information, please feel free to contact me or Ross Aron via e-mail or telephone. Thanks again and have a great day.

Operator

Ladies and gentlemen, this concludes the presentation for today. Thank you for your participation in today's conference. You may now disconnect. Have a great day.