Moody's Investors Service

Credit Opinion: Assured Guaranty Corp

Global Credit Research - 05 Mar 2010

New York, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	NEG
Insurance Financial Strength	Aa3
Assured Guaranty Ltd (Bermuda)	
Rating Outlook	NEG
LT Issuer Rating	A3
Assured Guaranty US Holdings, Inc.	
Rating Outlook	NEG
BACKED Senior Unsecured	A3
BACKED Junior Subordinate	Baa1

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Key Indicators

Assured Guaranty Corp ($ mil.)	2Q 2009	2008	2007	2006	2005
Gross Par Written ($ million)	32,110	47,567	47,795	41,888	17,117
Gross Premiums Written ($ million) [1]	376	487	247	191	108
Net Par Outstanding ($ million)	127,698	111,025	94,127	90,939	66,215
Hard Capital ($ million)	2,399	2,141	1,755	1,464	1,310
Net Income ($ million) (SAP) [1]	(21)	27.7	71.6	64.3	100.9
Strategy & Franchise Value					
% of Industry Net Par Outstanding	7.21%	5.92%	4.73%	4.00%	3.30%
% of Industry Gross Par Written	59.04%	34.43%	8.63%	7.40%	3.20%
Portfolio Characteristics					
Credit Risk Ratio [2]	84.7bps	55.4bps	33.2bps	35.2bps	40.4bps
Tail Risk Ratio [2]	252bps	167bps	113bps	113bps	118bps
Capital Adequacy					
Hard Capital Ratio	Na	Na	1.54x	1.99x	1.99x
Total Capital Ratio	Na	Na	1.49x	2.10x	2.16x
Par Reinsured [3]	28.45%	27.34%	26.32%	26.00%	23.50%
Profitability					
Return on Equity [4]	7.02%	0.94%	9.81%	9.70%	12.50%
Loss Ratio (SAP)	106.00%	90.30%	-13.50%	4.50%	18.20%
Expense Ratio (SAP)	19.80%	11.50%	49.90%	64.80%	20.60%
Financial Flexibility					
Earnings Coverage	7.7x	3.5x	8.5x	14.5x	18.1x

Cash Flow Coverage	**7.5x**	**9.5x**	**7.8x**	**6.3x**	**6.2x**
Double Leverage	**117.84%**	**116.72%**	**119.77%**	**113.20%**	**112.10%**

[1] As of first six months ending in June 30, 2009 [2] Model ratios as of 6/30/2009 [3] Includes NPO ceded to AGR [4] Annualized and excluding impact of gain/(loss) on derivatives for the period.

Opinion

SUMMARY RATING RATIONALE

The Aa3 insurance financial strength (IFS) rating, negative outlook, of Assured Guaranty Corp. (AGC) reflects its strong competitive position being part of the only group currently writing substantial new business, generally conservative risk management and solid capital position. These strengths are tempered by the operational leverage inherent in the business of a financial guarantor which makes the credit profile rather sensitive to the performance of individual insured sectors and even, in some cases, individual transactions. This has been particularly evident in the weakening of AGC's capital position resulting from the deterioration in the performance of mortgage related and CDO (primarily TruPs) exposures.

AGC writes insurance on structured finance and public finance transactions and is one of three main operating companies of Assured Guaranty Ltd. (issuer rating A3, negative outlook) and a wholly owned subsidiary of Assured Guaranty US Holdings Inc. (senior unsecured debt at A3, negative outlook). Affiliated companies include Assured Guaranty Municipal Corp. (IFS rating at Aa3, negative outlook), which will focus solely on municipal transactions going forward and Assured Guaranty Re Ltd. (IFS rating at A1, negative outlook), a Bermuda domiciled reinsurer. The credit profiles of the operating companies are differentiated but intertwined due to the group's flexibility in managing capital among these entities, as demonstrated by the recent intercompany capital support of AGC.

Credit Strengths

o Enhanced competitive position as a leading provider of financial guaranty insurance

o Disciplined underwriting and conservative risk management culture

o Generally well diversified insurance portfolio with nominal liquidity needs

o No exposure to recent vintage ABS CDOs

Credit Challenges

o Sensitivity of franchise value and financial flexibility to changes in risk profile

o Large RMBS exposures, particularly second lien and Alt-A, are generating substantial projected losses

o Exposure to large single risks and complex structured transactions

Rating Outlook

The negative outlook for Assured's ratings considers the meaningful remaining uncertainty about the group's ultimate credit losses, including claims on mortgage exposures and Assured's success in putting back mortgage loans that breached representations and warranties to lenders. The outlook also reflects the dislocation in the muni market and recent volatility of Assured's new business volumes despite limited alternative forms of credit enhancement and virtual absence of financial guaranty competition. In Moody's view, it is unclear how demand for financial guaranty wraps and Assured's competitive position will evolve once the municipal finance market normalizes.

What Could Change the Rating - Up

o Meaningful reduction in uncertainty associated with performance of the insured portfolio

o Evidence that franchise value and market demand for AGC's wrapped transactions remain strong once the environment normalizes

What Could Change the Rating - Down

o Deterioration in portfolio credit characteristics

o Sustained decrease in hard and total capital ratios below the Aa3 confidence level, without corrective action

o Deterioration in competitive environment or product demand

Notching Considerations

Assured Guaranty Ltd., the Group's ultimate holding company, is rated A3 and fully and unconditionally guarantees the senior debt of Assured Guaranty US Holdings Inc. The A3 issuer rating of Assured Guaranty Ltd. and A3 senior debt rating of Assured Guaranty US Holdings Inc. is three notches below the Aa3 financial strength rating of Assured Guaranty Corp. and 2 notches from the A1 financial strength rating of the group's Bermuda reinsurance operations, Assured Guaranty Re Ltd., consistent with standard notching practice for US and Bermuda insurance companies.

Recent Results and Company Events

On February 25, 2009, Assured Guaranty Ltd. reported consolidated net income of $97.2 million for 2009 compared to consolidated net income of $68.9 million in the prior year. Assured's gross written premiums fell from $618.3 million in 2008 to $556.4 million in 2009. Shareholder's equity has increased substantially to $3.5 billion at year end 2009 from $1.9 billion in 2008 reflecting significant issuance of common stock and the acquisition of FSA.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1: Franchise Value and Strategy: Aa

Moody's scores AGC Aa for franchise to reflect the operating company's enhanced competitive position. The Aa score also reflects the uncertainty of the future business environment for financial guarantors, with fewer new business opportunities and weaker market confidence for the financial guaranty industry overall. Although insured penetration rates in the municipal market have fallen significantly in recent quarters, AGC`s competitive position has strengthened, benefiting from reduced competition and improved premium rates in the municipal market. Moody's believes that credit enhancement for smaller and more complex credits and the benefits of third party due diligence and liquidity will continue to influence investors' demand for wrapped transactions in the future. However, customer demand for AGC's wraps may be unstable, with a sharp fall-off in demand likely to result from declines in the guarantor's credit profile. This susceptibility to changes in credit risk profile creates a "demand cliff" beyond that observed in most other industries.

Factor 2: Portfolio Characteristics: A

As a relatively recent entrant into the primary financial guaranty market, AGC insured a significant volume of structured finance transactions, which represents a large but diminishing portion of its insured portfolio. Assured's recent expansion into the municipal market has improved the diversification and credit quality of the insured portfolio. However, the company does plan to write insurance on structured risk when that market re-emerges. AGC's exposure to structured finance transactions and to single risk concentrations heightens the potential for volatility in the performance of the insured portfolio. The performance of AGC's mortgage related risks has continued to deteriorate and Moody's anticipates that there will be significant losses in this segment of the portfolio. Such losses are partially mitigated by the firm's ability to "put back" to solvent lenders loans that are in breach of representations and warranties. Approximately $30 billion of AGC's portfolio is concentrated in highly rated pooled corporate exposures with substantial subordination. Most non-mortgage exposures are performing well, although the $5.6 billion of TRuPs exposure has experienced material credit deterioration. Individually large structured finance exposures could further pressure Assured's capital position if a few of these transactions were to sustain meaningful losses.

Factor 3: Capital Adequacy: Aa

AGC's strong risk adjusted capital position reflects recent capital strengthening measures that served to mitigate the credit deterioration as a result of increased expected and stress losses primarily attributable to the performance of the company's RMBS portfolio and to a lesser extent its TruPs exposures. Moody's expected losses on AGC's RMBS portfolio are approximately $600 million, before an estimated $300 million benefit from anticipated lender repurchases of loans that have breached contractual representations and warranties (put-backs). In Moody's view, gross RMBS losses could reach about $1.7 billion in a severe stress scenario. During 4Q09, Assured completed a $575 million common stock issuance and has indicated a portion of the proceeds would be downstreamed to AGC. Based on discussions with the company, Moody's understands that the remainder of Assured's planned capital support transactions have also been executed, although the specific details have not been publicly disclosed. Moody's believes that these transactions have replenished AGC's capital to a level consistent with the Aa3 rating, while still leaving its affiliates with capital structures appropriate for their own ratings.

Factor 4 - Profitability: A

The embedded premiums in AGC's portfolio, which have been further enhanced with significant volumes of higher priced new municipal business written since 2008, should provide the operating company with a strong stream of revenues over the next few years. However, continued stress in the firm's structured portfolio, primarily stemming from RMBS exposures, leaves AGC exposed to potentially meaningful increases in loss reserves, adversely affecting the firm's core profitability. The group's future GAAP earnings will benefit from the substantially discounted acquisition price to FSA Holdings' book value. The resulting $1.7 billion increase in liabilities as a result of balance sheet items being fair valued will be amortized, boosting recognized revenues which will serve to offset the effect of increases in GAAP loss reserves.

Factor 5 - Financial Flexibility: Aa

With substantially better performance than its peers, the Assured Group has been successful at accessing the capital markets during the credit crisis. Furthermore, ownership of two direct financial guaranty providers and a Bermuda domiciled reinsurer provides the group with additional flexibility to manage capital through intercompany capital transactions. Moody's believes, however, that the extreme sensitivity of a financial guarantor's franchise value to changes in its risk profile negatively affects financial flexibility, where even the best positioned firms could experience a dramatic constriction of financing options if material losses were to develop.

Rating Factors

Assured Guaranty Corp

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**		**Score**	[2]**Adjusted Score**
Factor 1: Strategy & Franchise Value (25%)						**Aaa**	**Aa**
% of Industry Net Par Outstanding		**7.2%**					
% of Industry Gross Par Written	**59.0%**						
Moody's Adjusted Book Value/Book Value	**1.93x**						
Client Concentration	**x**						
Management, Governance & Risk Management Oversight	**x**						
Factor 2: Portfolio Characteristics (20%)						**Aa**	**A**
Credit Risk Ratio		**84.7**					
Tail Risk Ratio			**251.6**				
% Below Investment Grade			**6.9%**				
S (WCL > 10% of HC) / HC		**55.5%**					
Factor 3: Capital Adequacy (30%)						**A**	**Aa**
Hard Capital Ratio		**X**					
Total Capital Ratio		**X**					
Par Reinsured			**28.4%**				
Factor 4: Profitability (15%)						**Baa**	**A**
Return on Equity - 3 year average					**7.2%**		
Loss Ratio (SAP) - 3-year average			**43.7%**				
Expense Ratio (SAP) - 3-year average		**26.3%**					
Factor 5: Financial Flexibility (10%)						**Aa**	**Aa**
Earnings Coverage		**7.7x**					
Cash Flow Coverage	**7.5x**						
Double Leverage	**117.8%**						
Ease of Access to Capital		**x**					
Aggregate profile						**Aa3**	**Aa3**

[1] Scorecard as of 6/30/09, except where noted [2] 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