



## Transcript for the Fourth Quarter 2009 Earnings Conference Call

### Assured Guaranty Participants

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*Assured Guaranty - President, CEO*

**Bob Mills**

*Assured Guaranty - CFO*

### Participants

**Andrew Wessel**

*JPMorgan - Analyst*

**Mike Grasher**

*Piper Jaffray - Analyst*

**Donna Halverstadt**

*Goldman Sachs - Analyst*

**Darin Arita**

*Deutsche Bank - Analyst*

**Jim Shanahan**

*Wells Fargo Securities - Analyst*

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**Lawrence Kam**

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**Marie Lunakova**

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**Chris Owens**

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### Conference Call

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### Operator

Good day, ladies and gentlemen. Welcome to the fourth quarter 2009 Assured Guaranty earnings conference call. I will be your Operator for today. At this time all participants are in a listen only mode. We will conduct a question and answer session toward the end of this conference. (Operator Instructions) As a reminder this call is being recorded for replay purposes. I would now like to turn the call over to your host for today, Ms. Sabra Purtill, Managing Director of Investor Relations.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thank you, and thank you for joining us today for Assured Guaranty's fourth quarter 2009 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 from investors and analysts after their prepared statements. If members of the media have a question please contact Betsy Castenir or Ashweeta Durani in our Corporate Communications Department via e-mail or telephone.

Please be aware also you cannot submit questions via the webcast. If you are listening on the web and would like to ask a question, please dial into the call live at 866-203-2528. Our presentation and comments today may contain forward-looking statements relating to our business or credit outlook, market conditions, credit spreads, financial ratings, loss reserves, acquisition, 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 otherwise. If you are listening to a replay of this webcast please keep in mind future management presentations, press releases or financial filings may update any forward-looking statements made today. Please refer to the investor information section of our website and to our most recent SEC filings for more detailed disclosures of the risks and factors that could affect our future financial results and our forward-looking statements. Please also note that our 2009 10-K will be filed with the SEC on Monday, March 1. I'll now turn the call over to Dominic.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you, Sabra, and thanks to all of you on the call for your interest and support of Assured Guaranty. Despite the challenging economic environment we experienced in 2009, Assured still reported operating earnings of \$316.7 million for the year, the highest in our history, and that was after recording \$497.8 million of pre-tax losses in the RMBS portfolio as well as \$92.3 million of pre-tax expenses related to the acquisition of FSA. This is a testament to the earnings model we have developed, largely driven by the highly accretive acquisition of FSAH in July of 2009. Currently we occupy a unique industry position as the only financial guaranty company actively writing new business. Additionally, having enlarged our footprint through the acquisition of FSA, I believe we can continue to grow our opportunities in the US municipal business and, in due time, reestablish our global structure, finance and public infrastructure businesses as these markets recover.

Now, with two distinct direct bond insurance platforms, Assured Guaranty municipal, formerly FSA, a public finance only insurer, and Assured Guaranty Corp. a diversified provider, we can offer the market a choice between two financially stable bond insurers able to assist most issuers, lower their costs and get access to financing while capitalizing on our greater capacity to write business and creating more flexibility and execution for all parties. We have largely completed the integration of the two companies, which now have common processes and systems for origination, risk management, surveillance, financial reporting and technology. As we have said in the past, we expected to achieve annual expense savings of approximately \$150 million per year and as you can see, we are on target to accomplish this by the \$52 million

of operating expenses incurred in the fourth quarter of 2009 versus a run rate estimate of \$50 million per quarter that we predicted that we would achieve by the second quarter of 2010.

Turning to production results, in 2009 we achieved our highest PVP in our US municipal direct business, \$523.5 million versus \$431.6 million in 2008, a 21% improvement. We originated approximately \$34.8 billion of new issue par, or 8.5% of all new municipal issuance. Further we achieved these results despite the ratings uncertainty that prevailed during much of 2009. Our business began to rebound after Moody's maintained our Aa 3 rating based on the successful completion of our capital initiatives in early December. By the week ending February 19, our 2010 penetration rate was up to 10.3 of all tax exempt new issue volume. This this excludes the issuance of Build America Bonds (BABS) from the denominator. We would expect to increase our share throughout 2010. As further evidence of our market recovery, we have seen a significant increase in the number of large transactions so far in 2010 that we insure. These include a \$709.1 million State of Arizona certificates of participation, a \$290.5 million City of Chicago general obligation issuance, a \$168.1 million Asante Healthcare transaction and a \$158.7 million McCarran Airport deal. Today in 2010, we insured seven deals of \$100 million or more with a total par value of \$2.4 billion versus only four such transactions in the entire fourth quarter of 2009.

While the majority of insured transactions in 2009 were guaranteed by AGC, we are also beginning to see increasing demand for our AGM franchise as well. To further improve demand for our insurance we have been actively reaching out to large fixed income investors, and over the past two months, we've had numerous meetings with major institutional investors across the country. The feedback from these meetings has generally been positive, indicating that investors continue to believe that our financial guaranty product adds significant value. Additionally, we have targeted the expansion of our retail investor base as an important part of our 2010 business plan. We are taking a number of steps to increase our penetration of insured bonds sold at the retail level.

First, we have hired Bill O'Keeffe, a highly respected public finance banker to assist us in expanding our relationships with underwriters and to lead our retail marketing efforts. Bill headed the Public Finance Department at Morgan Stanley and played a key role in its expansion that spanned a 20-year career. Second, in mid March we will launch a comprehensive advertising and public relations program targeted at the retail brokers segment to reinforce the benefits of bond insurance and raise awareness of Assured. Third, we are in the process of building the necessary technology and controls to expand our secondary market insurance activity on a more direct basis through the muni Center, an electronic platform that will allow us to provide live, executable capacity. We are and have been an investor in the muni Center since its inception and some of the other investors in that platform include Merrill-Banc of America, Citi, and Morgan Stanley.

Regarding our business activities outside the municipal finance market, in 2009 our structured finance and public infrastructure opportunities remained constrained by the lack of new issue activity in these markets and concern about the financial guaranty industry. Therefore, we focused on secondary market transactions where we could help institutions with risk management and/or regulatory capital issues. We expect this activity to continue in 2010 and we are starting to see signs of life in the new issue market utilizing financial guarantees. Looking ahead we believe that these markets will rebound over the next 12 to 18, months as they are integral to the economic recovery throughout the world. As we go forward we will adhere to our credit discipline, focus on cash flowing, granular type of asset-backed transactions and we have no plans to participate in the RMBS sector in the foreseeable future. In the public finance infrastructure sector, we are primarily focused on essential public projects backed by contractual government payments as opposed to project revenues that rely on the projects' use.

As for our financial guaranty reinsurance segment, while we were hampered in 2009 by the lack of new business underwriting at all of our competitors, AG Re remains a key part of our business model and provides AGC and AGM with needed reinsurance capacity, enhancing our business opportunities. Additionally, I believe that we will have opportunities to provide reinsurance to new entrants to the industry as they emerge. AG Re would also be a logical candidate to assume insured portfolios from inactive companies, as we did in assuming the \$13 billion CIFG public finance portfolio in January of 2009, and this remains a top strategic priority.

Turning to the ratings situation, our success is largely dependent on our maintaining the highest possible ratings, particularly in the absence of a true capital regulation by federal or state authorities. That is why we implemented the December capital plan I referred to earlier solely to support our rating agency capital requirements, even though we believed that we had enough capital to meet all protective obligations and achieve our business plans. Based on our commitment to the highest possible ratings, the Wednesday announcement that we had agreed with Fitch for them to withdraw our ratings at our request might have seemed surprising. It was actually something we had to consider since Fitch announced in mid- October that they were withdrawing our bond insurance ratings from any transaction for which they did not provide an underlying assessment. As Fitch currently rates only about 10% of underlying users we insure, we simply came to the conclusion that the rating applied on such a limited basis on our insured securities, that would no longer provide value to the majority of our investors at our insured bonds. We believe that our two remaining financial strength ratings are more than sufficient to support our business activity and customer requirements; however, should Fitch expand its participation in the market in the future or change this policy, we would certainly consider renewing our relationship with them.

I also want to emphasize that our Fitch ratings were withdrawn at their current levels and once again, were withdrawn at our request. Finally, in regard to our current losses this quarter and our RMBS portfolio, our loss estimates increased primarily due to a lack of significant improvement in the under 60 day mortgage delinquencies. This caused us to extend the length of the period we expect the mortgage market to continue to underperform. Our extension of the conditional default curve by three months increased our incurred losses by approximately \$150 million exclusive of any impact on P-GAAP adjustments.

During the quarter, we continued to focus intensely on our RMBS remediation efforts. We continue the process of extensive file reviews for rep and warranty putbacks. We're also working with counterparties to find alternative solutions and are continuing our bond purchase program as a way to mitigate potential future losses. As of year-end 2009, we have caused the repurchase of approximately \$174 million worth of ineligible loans between our two companies. Aside from the losses in our RMBS book, the vast majority of our other credit exposures have continued to perform well in this economically stressed environment. Although there has been a rash of publicity on potential municipal bankruptcies, we believe that we are well protected against losses by the structural characteristics of our transactions as well as the ability of public entities to either increase revenues or sell assets to meet their obligations.

In conclusion I want to emphasize that I believe we are in a strong position to build our enterprise. First, I am confident that we have clearly differentiated ourselves from others in our industry, based on our interaction with issuers and investors and the continuing demand for our guarantee. Second, we have a number of strategic advantages that were potential new entrants which includes our two platform structure, market relationships, capital strength, and importantly, the deep bench of professionals in our combined companies. With that I'll turn the call over to Bob.

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**Bob Mills - Assured Guaranty - CFO**

Thanks, Dominic, and good morning to everyone. I'll provide some brief highlights for the quarter before turning to your questions. This is the second quarter that includes the FSAH acquisition, which had, a significant impact on our consolidated results compared to last year. Therefore, in my comments today I will focus principally on the quarters results compared to the third quarter, which was the first quarter that included the acquisition. Please feel free to ask questions on the comparison with last year; however, my answer in most instances will refer to the significant financial impact of the acquisition.

Our fourth quarter 2009 operating income per share, excluding \$0.05 per share of pre-tax FSAH acquisition related expenses was \$0.96 per diluted share, an increase of 45% from \$0.66 per diluted share in the third quarter 2009. The improvement in operating results compared to the last quarter is due principally to lower incurred losses on our insured RMBS exposures and lower operating expenses, which I'll discuss in a minute. A majority of our FSAH acquisition related expenses are behind us at this point. They totaled \$92.3 million pre-tax for the full year 2009. I expect that we will incur about \$3 million more in pre-tax expenses over the next two quarters, largely for systems and process integration costs as we complete the integration. We will continue to break out these expenses from our normal operating expenses so that you can see both the level of these expenses as well as the improvement in our expense efficiencies as we finish the systems integration in 2010.

Book value per share increased to \$19.12 at December 31, 2009, from \$17.89 at September 30, 2009, due to our operating income, unrealized gains on credit derivatives in the quarter and by our sale of \$574 million of additional equity in December which we largely downstreamed to Assured Guaranty Corp. Excluding the non-credit impairment portion of credit derivative mark-to-market and other non-credit related mark-to-market items, our operating shareholders' equity per share was \$22.49 at December 31, up from \$22.19 at September 30, 2009. Our adjusted book value per share, was \$48.40 per share down from \$54.59 per share at September 30, 2009, as a result of the December equity issuance.

Our new business production, which we measure as PVP or present value of new business production, totaled \$120.4 million for the fourth quarter, down from \$158.1 million for the third quarter of 2009 due to the effect of the Moody's credit review for possible downgrade. Moody's affirmed the Aa 3 financial strength ratings for AGC at the end of December, when the new issue market was effectively closed for the remainder of the year. Almost all of our new business was in the US public finance market either on new issue or secondary market basis. Pricing remains favorable as credit spreads remain wide compared to two years ago.

We had limited structured finance activity and no international transactions in the fourth quarter due to market conditions as well as our tight underwriting standards. There has been some market talk about 2010 potential transactions already in these markets but we probably won't see any material activity until either late 2010 or early 2011, given our underwriting standards as well as capital market conditions. Similar to last quarter, our reinsurance segment did not book any new production this quarter. We continue to pursue third-party portfolio as well as portfolio recapture transactions. Our reinsurance platform continues to provide us added flexibility to efficiently utilize our capital and manage risk as we seek out these opportunities. During the fourth quarter we've agreed to reassume \$16.2 billion of public finance par previously ceded to Tokio Marine, most of which will ultimately be reinsured to AGRe. AGRe continues to support the growth of the direct book through internal reinsurance, and we're also considering using that Company to support any new business for financial guarantees written in credit derivative form.

Turning to the income statement. Our net earned premiums were \$373.4 million, up from \$330 million in the third quarter of 2009. The increase was largely due to refunding, which totaled \$46.1 million in the fourth quarter of 2009 versus \$17.4 million in the third quarter. As we noted last quarter, the substantial increase in net earned premiums for the first half of the year and 2008 was due to the FSAH acquisition and the application of purchase GAAP accounting. The

acquisition related fair value adjustments to FSA's earned premium reserve are largely associated with the structured finance portfolio, including RMBS. The shorter average life of these exposures will result in significant amortization into income in the coming quarters. I urge you to refer to footnote 5 in the 10-K when that's filed on Monday or page 14 of the financial supplement, which will provide the expected earned premium rollout schedule. Net investment income was \$87.6 million in the quarter up from \$84.7 million in the third quarter 2009. We've moved some cash and short-term investments into longer maturities during the quarter although the total amount of cash and short-term investments did not move significantly during the quarter because of the \$574 million of net proceeds from the December offering. We expect that we will continue to gradually lengthen the duration of the investment portfolio; however given the current low level of long interest rates, we do not expect a significant change in pre-tax book yields on our fixed maturity securities. The pre-tax book yield was 3.5% at December 31, versus 3.6% at September 30, 2009.

Loss and loss adjustment expenses included in incurred losses on credit derivatives totaled \$186.9 million in the quarter down from \$275.5 million in the third quarter of 2009. The majority of the additional reserves were due to our decision to extend for another three months the conditional default rate curve that we use for modeling RMBS losses. This decision also increased our expected losses included in our unearned premium reserve, which totaled about \$1.28 billion pre-tax, which you can see on page 44 of the financial supplement. Although most transactions have had relatively stable new delinquency trends for the past few months, we're not yet seeing significant improvement on new mortgage delinquencies.

In addition to RMBS losses, we also posted some additional reserves on public finance risks principally for our Jefferson County, Alabama sewer exposures and also for selected trust preferred securities related to financial institutions and REITs. Even though it's too soon to call an end to the credit crisis, we're starting to see some light at the end of the tunnel. Although our overall level of below investment grade exposures has not improved, the rate of downgrades has slowed. Operating expenses were \$52 million for the quarter, down significantly from \$69 million in the third quarter 2009, due to the headcount and other expense reductions associated with the integration made since the FSAH acquisition closed on July 1, 2009. At this point, the integration is largely complete, and we've attained our targeted synergies. This translates into a quarterly operating expense run of about \$50 million, which we expect to see beginning in the second quarter of 2010.

Fourth quarter 2009 tax expense was \$72.6 million, for an effective rate of 32%. Our tax rate will vary from quarter to quarter depending upon the level of loss expenses and taxable versus non-taxable income. I expect our effective tax rate to be higher than in the past due to the acquisition of FSAH, a New York-based entity, as well as the non-cash deferred tax expense associated with acquisition accounting. In this quarter, about \$81.6 million of our tax expense was due to the amortization of the deferred tax asset associated with the revaluation of FSAH's unearned premium reserves. We do not have a cash tax expense on the amortization of that purchase accounting adjustment, but we do record a deferred tax expense as we earn that premium. As a result of the acquisition of the New York-based entity and the deferred tax expense, I would expect, on average, our effective tax rate to be approximately 24% to 28% in 2010, depending on the level of incurred losses and in which of our subsidiaries actually incurs the loss.

That concludes my comments for the quarter. The Operator will now give you instructions for submitting your questions.

## **QUESTION AND ANSWER**

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**Operator**

(Operator Instructions) Your first question comes from the line of Andrew Wessel from JPMorgan. Please proceed.

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**Andrew Wessel - JPMorgan - Analyst**

Hi everybody, good morning. Thanks for taking my questions. Just to start, I guess with the putback status of the rep and warranty reserve, that's up to 1.2 billion now and that's versus \$173 million of actual settlement. I guess the first question is of that \$1.2 billion, how many counterparties are included in that total or that reserve?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Nine. But obviously there's one significant one that represents 75% of it to date.

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**Andrew Wessel - JPMorgan - Analyst**

Okay. And then in terms of -- I think there's been some concern about, I guess the pace of that recovery, \$173 million versus that \$1.2 billion and with \$1.2 billion being such a big part of your capitalization, what do you see as the path for that recovery? Is it going to be like an orderly pay down over a number of quarters or do you think there's going to be any need for litigation, any outlook on that?

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**Dominic Frederico - Assured Guaranty - President, CEO**

It's hard to estimate at this point in time. Obviously we think we are building up momentum as opposed to a flat average of what we collected to date. As you remember, we started this process in early '08, got some files by late '08 against the one significant counterparty, started really getting collections in the '09, period, so although the process has been going on for probably two years, we really haven't seen cash being applied other than throughout '09 so obviously we expect that to pick up. At the same time, we are running down the exposures in the RMBS portfolio, approximately \$6 billion in 2009. So you got a shrinking core of what's going to be ultimately put backable while you're getting an acceleration or an increase in collections, which should hopefully modify or eliminate any growth in the receivable, say, towards the latter part of 2010.

We think we're making progress in terms of file reviews and putback requests and commitments in terms of addressing the specific requests from Assured Guaranty, but it's not in anyone's interest from the counterparty side to accelerate cash to us. In some cases, I think they are trying to make this go as slow as possible to give them a chance to further recover their earnings and give them a better position to recognize the liabilities that appear to be happening. Against that, however, you've got to pretty much further awareness developing in the marketplace, as you're seeing more and more instances of litigation, the federal home loan bank most recently. You're seeing more and more disclosure, Fannie and Freddie in terms of the amount of putback and the significant increase that they got in 2009. We all have the exact same cause, exact same situation relative to the principle of what is the issue here, so we're hoping to avoid litigation but that's not a tool that we couldn't utilize at some point in time and we're going to really take a very hard look through these early months of 2010 to see if we are generating more activity or significant activity, such that we still believe that that's the better course of action at this time.

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**Andrew Wessel - JPMorgan - Analyst**

Okay, great, thanks, and then my other question is just on municipal credit outlook. Maybe it would be helpful to use the heavily publicized Harrisburg, PA, even though it's not that big of an exposure as, maybe, an example. Can you just walk me through, let's say, if Harrisburg makes their March 1st payment and that's the last one they make, they petition the state for an exemption so they can file for bankruptcy. I mean, what's really the process, normally you would take towards a credit like that, and what could a workout look like because I think there's a lot of misconception in the investment community that a municipal bond default was a lot like a corporate bond default and I think it would be helpful to just clear that up.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Yeah, you're exactly right, Andrew, it's not. So the municipalities obviously use a thing called Chapter 9 that's different from Chapter 7 or Chapter 11 for corporations. States cannot file for bankruptcy, so that eliminates a significant part of our portfolio. Additionally, special revenue bonds don't get a stay even in a bankruptcy filing. As we look at our portfolio, we believe that the percentage of the portfolio that could possibly utilize Chapter 9 is only 30%, and that gets you into the qualification of status and then, as you say, okay so what happens after that. Well number one, to file for Chapter 9, the municipality has to be insolvent, and that typically knocks about everybody out., and as you look at Harrisburg specifically, they have two very valuable assets that they could sell or arrange for sale leaseback et cetera that would easily allow them to meet their obligations so in that case, we would anticipate or believe that their Chapter 9 filing would not be accepted. Number two, in most cases they have to apply to the state and in some cases the state will intervene or take over the running of the municipality, which is not a very happy circumstance for a lot of these small towns, et cetera, and 24 states do not allow the municipalities to file so that would take another further amount out of the portfolio. They've got to put a plan in place that's fair and reasonable and all creditors get to agree to the plan or sign off on the plan. Therefore as you look at A) who can file; B) who can actually prove that they are insolvent, it starts to really make this less of a case and in Harrisburg's case for specifics we don't think they are going to be able to do a Chapter 9.

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**Andrew Wessel - JPMorgan - Analyst**

Great. Thanks a lot. I appreciate it.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks, Andrew.

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**Operator**

Your next question comes from the line of Michael Grasher from Piper Jaffray.

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**Mike Grasher - Piper Jaffray - Analyst**

Thank you and good morning everyone. Just to follow-up on that topic, the public finance area, can you talk a little bit about refundings in the quarter and maybe your outlook moving forward?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Refundings in the quarter I think were what? \$46 million, Mike, and obviously, refundings for us are typically more related to interest rate movements, so you got a fairly benign market or restructurings that have to be accomplished either because of issues on the auction rate market and that, of course, seems to run a lot of its momentum but there still is obviously reasonable activity out there.

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**Mike Grasher - Piper Jaffray - Analyst**

Okay, when you have a situation popping up like Harrisburg, is it a possibility where you do actually have restructuring there, and is that a tool that maybe is used more frequently as we move forward?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, you're exactly right. So whenever you get into these situations of troubled credits, there's typically a workout, in a lot of cases and I won't say the majority, but a lot of cases the workout involves a refinancing, so if you think about what happened in Katrina times, most of those credits were refinanced and then rescheduled and worked out. The one thing I will say, getting back to Andrew and now your question, it's interesting for us because, remember, as a provider of insurance, specifically around credit risk and with the municipal portfolio dominating our exposure and business opportunity, a little credit concern is actually a pretty positive thing for business development and opportunity. I mean, we get paid on the premise or the concern over credit risk and if people believe that the municipalities will attempt because of other issues, be that Union contracts, retirement benefits, et cetera, that want to try to use this mechanism to renegotiate those deals, and yet we think we've got some pretty reasonable protections, that should really help our business activity.

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**Mike Grasher - Piper Jaffray - Analyst**

Would agree with that. The other area I think you were giving a few details here around the Chapter 9 and the 30% number that you pulled out. What typically in the terms and conditions of a transaction for public finance, what typically is the reserve amount or duration of those reserves that get set up? Is it 100% across-the-board that all transactions have those in place? Can you give us some information on that?

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**Dominic Frederico - Assured Guaranty - President, CEO**

I'm sorry, what percent? Typically it's a year or two, it's got a debt service reserve that normally will fund a given amount of debt service payment so obviously the Harrisburg payment is coming out of the debt service reserve for the next payment, which I think was previously reported that they would not make the payment but already sits in the debt service reserve.

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**Mike Grasher - Piper Jaffray - Analyst**

And is that across-the-board with all transactions?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Can't make it as an overall rule, but in a majority of cases it is.

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**Mike Grasher - Piper Jaffray - Analyst**

Okay, and then just flip over to the structured finance side. There were a couple transactions this quarter I believe. What areas were those in?

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**Dominic Frederico - Assured Guaranty - President, CEO**

They were basically Rule 2a-7 credits where the non-disclosure of your exposure greater than 10% in the conduit, we wrapped those exposures they were in mostly credit card transactions, and that's AAA or super AAA level as well.

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**Mike Grasher - Piper Jaffray - Analyst**

And then you seemed to express a little bit more optimism, and Bob also, just in terms of this market may be turning around in the latter half of this year or next 12 months or so. Can you elaborate on that, maybe what you're seeing or what has you moving down this path?

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**Dominic Frederico - Assured Guaranty - President, CEO**

I want to make sure I heard you. You said that Bob showed optimism?

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**Bob Mills - Assured Guaranty - CFO**

That's pretty strange to start with.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, a couple things we look at, obviously the general economy and at least the stabilization it looks like unemployment is not going to get to the levels that people were concerned about or predicting. Number 2, where we've got our issues is in the residential portfolio as you well know and yet as we look at 2009, \$6 billion of that portfolio ran off so especially as you look at things like rating agency capital that stresses the portfolio at ridiculous levels of default and severity, well they have \$6 billion left to stress in default, which is a positive sign and in the second lien stuff, that's really going out reasonably quickly, so we got less exposure to get to that armageddon scenario. We think we've got an improving economy. We see a pick up of demand. We think we've stabilized, knock on wood, the rating issues with the Company so that that will allow us to not be interfered with as it typically happens when there is concerns or watch is put on the credit that takes us out of the marketplace. We look to get involved again in those granular short-term assets like credit cards and autos, and we see requests for activity there. We're actually starting to see some stories in the international market so I think we're reasonably, we feel better today, obviously, from the business perspective. Obviously we've always felt very very comfortable with our portfolio and although we've always said to you, we can take bumps and bruises, but we don't think we can take a knock out blow and that continues to prove itself as the portfolio runs off, and we continue to go through quarters and be able to absorb our experience pretty easily in the income.

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**Mike Grasher - Piper Jaffray - Analyst**

Okay. Well, thank you for taking my questions and continued good luck.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thanks, Mike.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks.

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**Operator**

Your next question comes from the line Donna Halberstadt from Goldman Sachs. Please proceed.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Hello?

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**Donna Halverstadt - Goldman Sachs - Analyst**

Oh, good morning. I wanted to ask about muni credit as well, and I do appreciate your comment about deal structures protecting you, but if we say muni losses have been practically nothing, lets say they averaged x-bps over the last 10 to 20 years and now maybe we think they'll average Y bps over the next five or so years, could you give us some color on what you would say X and Y are and just more generally in terms of those underwriting and surveillance of munis, are you doing anything differently given the stresses that states and municipalities are now facing? And just more generally, how are you thinking about the spaces as we move forward?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Wow, good question. Obviously, we try to be in front of risks instead of behind them. We tend to react based on our projection of experience so if you think about it from the Assured Guaranty Corp. side, well both companies really got out of the commercial market way back when probably in '05 when we thought we saw issues developing. We by and large cut back a lot of writings on the residential side, as you saw that market developing, and yet we didn't cut back enough. So we try to be in front of it. If you go back a couple quarters on our call and we said geez we see problems in the municipal market, so we went to essential services and specific revenue obligations as a way of essential projects to make sure that as we thought we would see issues develop that we had started to mold our portfolio against that. Having said that, we still expect and I think we've been pretty good about talking about on the calls that we do expect to see issues in the market develop. Obviously this whole concept of bankruptcy, which you would not have heard five years ago, now seems like it represents a way out, but we think we've got the right underwriting in place in terms of looking at liquidity.

Other exposures are such that they bought derivative contracts, what their budgets look like, cash flow availability, the ability to raise revenue so we really try to say, can we look at the avoidance of a

potential in bankruptcy, but we have stepped up our surveillance, obviously we're surveying those credits on a more regular basis. As you know, surveillance is the largest department in our Company and even though we've gone through an integration to achieve overall operating savings and efficiencies, surveillance groups still has the ability to add wherever they see necessary further resources so we've given them a lot of opportunity, if we need to ramp up and we are in that process. We think even in the light of higher incidence of potential municipal credit issues that severity will still be very very low. As I said you got to look at the solvency issue primarily, and that seems to trap most of them. So as to get back to your earlier question what is the bps and the bps? Well, typically the bps I guess on an actual experience have been like 9 basis points of loss historically. We've always looked at it on a 300 to 500 basis points exposure. I think that would still be a reasonable number because as I said, we don't think severity goes up significantly and it still will affect a reasonably containable portion of the portfolio but I think we've adjusted A) underwriting and B) paid the attention and the resources and surveillance so that we are going to be on top of those deals.

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**Donna Halverstadt - Goldman Sachs - Analyst**

Great, and one other question. You mentioned your TruPS, and that there are financials in there. Can you give a little bit more detail and color? Are those regional banks that are deferring, and that's lowering cash flow to those deals, or what's going on with your TruPS and how are you working with those going forward?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, we have in the entire Company a significant exposure of what we call pooled corporates which the TruPS are a part of. Obviously the TRuPS causing us the most problems are the real estate and the banking and insurance ones. We have a significant amount of defaults and in our cases when we look at it from a surveillance point, we also treat deferrals as defaults. So not really expecting -- or at least from a reserving and surveillance point of view, not expecting a change in the status. We still have reasonable subordination left on those deals. It's a couple billion part of a very large portfolio, a few billion part of a very large portfolio. We still have substantial protection left on those deals, so we monitor them very closely, we do provide some reserves under our stress loss scenarios so we do have some reserves set aside but at this point in time it doesn't appear to be a significant concern for the Company, and if you go to our website and look at our supplement, we detail a lot on the summary basis and then, within the website, each transaction, to show you the subordination of each and every deal and you'll see that we paid or at least charged off some significant losses in the real estate and the banking area but still have reasonable subordination left in those programs and as I said, we do treat deferrals as default.

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**Donna Halverstadt - Goldman Sachs - Analyst**

Great. Thank you for the answers.

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**Dominic Frederico - Assured Guaranty - President, CEO**

You're welcome.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks, Donna.

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**Operator**

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

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**Darin Arita - Deutsche Bank - Analyst**

Good morning.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Hi, Darin.

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**Darin Arita - Deutsche Bank - Analyst**

Was just hoping to follow-up on Donna' question on the TruPS. I guess as we're looking at this exposure here, what is the right way to look at it because if I look at page 20 of the supplement, this is on an aggregate basis but there's still a very high level of current enhancements on it and so I'm just wondering why we're having to put up some reserves?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Because we do stress analysis, Darin. As I said, if you look at that page 20, you're exactly right. We still have current credit enhancement on the bank and insurance of 36%. On the REITS it's a 42%. The issue we have as we look at our stress losses, some of these, I think there's four, that we're paying, making payments on the interest costs, the debt service, because they've got swaps on these deals that are taking the available cash flow. Now, the swaps have specific terms and once the swaps expire, then there's enough cash flow to pay debt service, so we anticipate getting that back but as you would hope, when we look at our reserving basis and we have a very conservative surveillance department that performs these analysis of sensitivity-we have to then look at a potential of a further or more severe scenario and that typically will generate reserves in our models.

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**Darin Arita - Deutsche Bank - Analyst**

Okay, that's helpful, and in terms of the closed end second exposure, the losses incurred there were negative \$12 million in the quarter and I was wondering if you could elaborate on what's happening there?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, the one thing our reserve model anticipates and this is where we always have this nice discussion internally-as we look at the delinquency buckets and we pay more attention to the under 60s because we kind of trap all of the over 60s already in our loss model, so we treat them as pretty much gone, it's the movement of the under 60 that really for us dictates, are we on our path of scheduled reserves or not, and when it stays flat, remember in the second lien we basically extend our curve for nine months and then start a trail down and in the first lien we extend the curve for 24 months and then

trail down, so the problem we always have with the under 60s is, as you look at any given month, we can't say with certainty if we're in, say, the first lien, is this representing month 1, 3, 14, 19 of that 24 month extension and with no better information, we say okay, we don't know that in detail. We have to then consider that because we didn't see any further decline we're going to say it's month one and we extend the curve. We do that on the second lien and then all of a sudden you do have the drop in the quarter and now you know that you were not on that flat period that you were in the later part of that nine month extension, so you start bringing down that delinquency curve that feeds into our default rate and that starts to lower the reserve, so once you know you're into the recovery, you're already probably a reserve.

What you don't know is whether you're into the recovery at any point in time and, of course, you could have variations in the next month so how much of a body of data do you need to look at to conclude positively? So in the second lien that CDR did come in, the constant default rate because of the delinquencies and of course we've had a lot of gymnastics on discount rates being applied because of the change of the rates in the quarter that has affected reserves. Like we put up a reserve in the municipal area, not based on the fact that we thought credit got any worse but the discount rate came down and we had to recognize a higher incurred to meet the new number that came out of the present valuing of the exposure because of the discount rates so accounting has not made it easier to figure out or navigate your way through what our real loss occurrence is and what happens to be either discount rate but in the residential side, your guess is as good as ours, and we just try to be reasonably conservative as we look at how do we estimate the current default rate or delinquency rate if it's below 60s against the future.

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**Darin Arita - Deutsche Bank - Analyst**

That's very clear.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Hopefully I confused you enough on that.

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**Darin Arita - Deutsche Bank - Analyst**

I think I'm fine, but thank you.

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**Dominic Frederico - Assured Guaranty - President, CEO**

You're welcome.

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**Operator**

Your next question comes from the line of Jim Shanahan from Wells Fargo.

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**Jim Shanahan - Wells Fargo Securities - Analyst**

Thank you, good morning. I have two questions. First with regards to the investment portfolio, you're still carrying a large amount of short-term investments, I think it was \$1.7 billion.

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**Bob Mills - Assured Guaranty - CFO**

Yes, that's right, Jim.

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**Jim Shanahan - Wells Fargo Securities - Analyst**

And you indicated the municipals represented a relatively high percentage of the total portfolio at 55%, this clearly pressured the yield on the investment portfolio. What strategies do you expect to employ throughout say 2010 to improve that performance, for example, extension of short-term investments?

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**Bob Mills - Assured Guaranty - CFO**

A couple of things are coming into play here as part of the acquisition; we engaged a group of investment managers which we had not before so this is the first quarter that we had multiple investment managers and allocated portfolios to them so a certain portion of the extent of the short-term portfolio is because of positioning of the portfolios with the new investment managers and beyond that, the long term rates are not all of that attractive and then naturally, in December, we added \$575 million worth of proceeds from the sale of the stock. We will be looking to lengthen the duration of the portfolio some but to meet liquidity needs and long term picture is not all that attractive. I would say it's a little up in the air as to how much we're going to extend that duration in the next month or two, even the next couple of quarters. I don't think I can be anymore definitive than that. I wouldn't expect a significant increase in the return on the portfolio. We will continue to maintain a high percentage of the portfolio in public finance securities and tax exempt securities especially with the acquisition of a New York based financial guarantor.

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**Jim Shanahan - Wells Fargo Securities - Analyst**

Thank you. And one more follow up please. You mentioned Bob on average the tax rate would be 24 to 28%. I think you said depending on levels of losses as well as where those losses occur, can you explain that? What specifically would drive the tax rate to the higher or lower end of that range?

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**Bob Mills - Assured Guaranty - CFO**

Right, the tax position is needless to say complicated in general but it's probably more complicated by purchase accounting and with the purchase accounting you have to book a deferred tax asset in relation to the purchase accounting adjustment that we made to the unearned premium reserves for FSA and the acquisition. That reverses through the tax line on a quarterly basis as the earned premium rolls off and that is not a cash tax item, but that's going to tend to drive up to a certain degree the tax rate for the overall corporation. When you then try to figure out the level of losses and where they're incurred, whether the losses are in the United States or whether they're offshore in Bermuda for instance where you aren't tax affected, the impact of that was we had \$25 million worth of losses offshore in the quarter. The investment income rate I guess will be about 8 or 9% so when you combine and try to determine or estimate based upon a forecast which is certainly subjective when it comes to losses and the impact of purchase accounting adjustments, it's clearly going to drive the rate up from what we have historically thought and under a variety of scenarios there can be greater than or less than the 24% to 28%, but that's my best guess today.

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**Jim Shanahan - Wells Fargo Securities - Analyst**

Okay, thank you.

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**Operator**

Your next question comes from the line of Phillip Broenniman from [Visium] Asset Management. Please proceed.

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**Phillip Broenniman Analyst**

Good morning, folks.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Good morning.

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**Phillip Broenniman Analyst**

Nice quarter by the way.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Phillip Broenniman Analyst**

Just two quick questions. First of all, the \$12.1 million of acquisition cost expenses, that's indicated in the supplement that that will moderate over the next two quarters. Can you provide some guidance around that? It was \$12.1 million for this quarter, you state it's going to be lower than that? Is that a fourth quarter basis or total?

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**Bob Mills - Assured Guaranty - CFO**

The \$12.1 million for this quarter is made up of elimination of a duplicate facility in London as well as some severance expenses on top of systems integration expenses. Our best estimate today is that the remaining total which will be incurred over the next two quarters is probably \$3 million and that will predominantly be systems integration and process integration expense. We've gotten rid of all of the real estate expenses which is a lot of money and the severance expenses associated with right sizing the Company has really been incurred at this point.

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**Phillip Broenniman Analyst**

So it might be more appropriate to look at operating earnings without that \$0.05 in there?

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**Bob Mills - Assured Guaranty - CFO**

Yes, I think so.

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**Phillip Broenniman Analyst**

Second question is what will you need to see -- and this I guess is directed more to Dominic -- Dominic, what will you need to see to stop extending the curve on a three-month basis?

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**Dominic Frederico - Assured Guaranty - President, CEO**

First and foremost, a three-month consecutive drop in the under 60 day delinquencies in the various real estate classes. So your Option-ARM, Alt-A, and subprime. Secondly, and as I said, that's our big rep and warranty area. The exposures are paying down reasonably quickly so a real defined drop in the 60 day delinquency column.

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**Phillip Broenniman Analyst**

And without asking to be too clairvoyant, any prognostication there?

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**Dominic Frederico - Assured Guaranty - President, CEO**

My crystal ball is currently in the closet.

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**Phillip Broenniman Analyst**

Okay, well let us know when it comes out. Okay, I appreciate it.

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**Operator**

Your next question comes from the line of [Lawrence Kam] from Sonic Capital.

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**Lawrence Kam Analyst**

Good morning, gentlemen, Sabra. Got a couple of housekeeping questions. Bob, you said that the reserving that ran through the income statement was \$187 million.

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**Bob Mills - Assured Guaranty - CFO**

I think it's \$186 million when you add the--.

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**Lawrence Kam Analyst**

Close enough. \$186.9 million, right?

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**Bob Mills - Assured Guaranty - CFO**

Right.

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**Lawrence Kam Analyst**

And but how much of it was the stuff that didn't run through that got buried in the p-GAAP?

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

You mean the change in the expected loss in the unearned premium reserve?

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**Lawrence Kam Analyst**

Right.

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**Bob Mills - Assured Guaranty - CFO**

What went through p-GAAP was the total was \$333 million of which \$186 million went through the earnings statement, the balance went through part of purchase GAAP adjustment.

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**Lawrence Kam Analyst**

Can you repeat that?

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**Dominic Frederico - Assured Guaranty - President, CEO**

\$333 million total, \$186 million to the income statement.

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**Lawrence Kam Analyst**

Okay, so we're talking combined reserving of well over \$300 million for the quarter and you still--?

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Well, the change in loss estimate. It's not reserving the unearned premium reserve has been posted. It's just a change in expected loss.

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**Lawrence Kam Analyst**

Okay.

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**Bob Mills - Assured Guaranty - CFO**

That really was foreseen that a large portion of any change would be absorbed by the unearned premium reserve.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Remember the whole idea of the p-GAAP adjustment was to go back into the FSA real estate contracts and reallocate premium which was that premium adjustment in the unearned premium reserve specifically for this expected loss development.

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**Lawrence Kam Analyst**

Right, well so that seems like a very large number and yet you still managed to report an operating number of \$0.96 adjusted for the integration expenses which I assume is quite superlative and is certain to go down going forward.

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**Dominic Frederico - Assured Guaranty - President, CEO**

But that was the whole concept of when we talked about the significant accretion of the FSAH transaction where we bought a very valuable property at a substantial discount and that discount, because of the way purchase accounting works does ultimately get accreted into the financial statements and therefore would provide this rather robust earnings model that could absorb further deterioration and still show excellent income and returns.

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**Lawrence Kam Analyst**

Right and it seems like this is really starting to show through in this quarter so again, congratulations.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Lawrence Kam Analyst**

Can you speak towards a little bit more on the recapture of business from some of your reinsurers that lost their ratings like Radian or Ram Re? Is there any barrier to just recapturing all that business today?

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**Dominic Frederico - Assured Guaranty - President, CEO**

No, there isn't but obviously we look at that business recapture and in some cases we can recapture by specific treaties, in some cases you can do the entire session. We look at the business to be

recaptured first and foremost on a capital utilization so where we think we're getting reasonable capital benefits, that's one criteria that we look at prior to recapture. Obviously we look at the business itself and make sure that we recapture profitable business so not only does it not penalize us from a capital point of view. We've got profitability. We also have to look at it from single risk limits and what was the pricing on the business depending on when it was seeded. Obviously recapture does provide us benefits on cash flow as you recapture the reserve but there's a host of things. We have a fairly detailed and analytic approach. We've produced internally reinsurance subject to recapture that gets routed to the senior management and we basically take a hard look at those portfolios. As I think Bob might have mentioned and if not I'll mention, we are recapturing a significant portfolio from Tokio Marine in this quarter, a public finance business.

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**Bob Mills - Assured Guaranty - CFO**

\$16 billion.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Yes, \$16 billion of par that we got to choose the risks that we would recapture so it's kind of done on that basis. There are further opportunities and to benefit -- to show you the benefit of the Assured structure because of the Bermuda Company obviously gives us chance to share that capacity throughout the group, utilize capacity in the offshore Company which obviously has better gearing relative to earnings as well; so we are in a very unique position, very flexible position. We do, I think, a very good job internally run by both our surveillance and reinsurance shops in terms of the evaluation. We have a nice book that got around this quarter for the people sitting around this table that remembered reading it that looks at every treaty, every session, type of business, ultimate results, whether we've seeded them any losses, what's our expectation of further development, where do we have collateral, what is the rating agency capital hit of the recapture, et cetera, so it's a very involved process. You'll see us be active in that throughout the year because it gives us an opportunity to further support the Bermuda capital in light of the fact that there isn't any other company seeding reinsurance business since this is a nice way to create that reinsurance opportunity.

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**Lawrence Kam Analyst**

Dominic, can you give us a hint as to what you see the size of that opportunity is for the rest of this year?

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**Dominic Frederico - Assured Guaranty - President, CEO**

It really is hard to tell. I think the Tokio thing might represent some portion, a third of what we might do for the entire year. And of course the Tokio--.

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**Lawrence Kam Analyst**

Maybe another \$30 billion or so?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Yes, I'd say that's not a bad number but that could change. Don't focus into it but we have enough opportunity out there to generate that and it's just a matter of whether we want to pull that trigger. I just was reminded and Tokio was not a downgraded reinsurer. There it's kind of a meeting of both minds in terms of the capacity that we would like to see back as well as what they're looking to unload or reduce in their financial statements.

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**Lawrence Kam Analyst**

One final question if I may, Dominic. Can you just repeat your severity outlook on the municipal default because it seems like the market has a grave misunderstanding about what the severity, what the losses may be in the muni, if you can put some additional color around that I would really appreciate it. Thank you.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Yes. All I'll say is historically municipalities are very low severities. That doesn't work across-the-board so if you look at the Vegas monorail, I'm sure we could have a straw vote of what do you think the severity is going to be on that? In most cases because most of our exposure is tax backed in general obligation and this whole issue of proving insolvency, we don't believe that. We believe the severity will be impacted but still not be something that is so extraordinary where you get to these projects where the project has failed and there is no revenue source behind it. I'm also being reminded that we have no exposure of the Vegas monorail but just to give you that as an example as a muni credit that would have higher severity in light of the current economics, but you're talking about a low loan severity in this portfolio anyway. Could that be higher? Sure it could. Do we think we have still more than enough either value, protection, or earnings against it? Sure we do or we believe that.

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**Lawrence Kam Analyst**

Fantastic, great job guys.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks.

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**Operator**

Your next question comes from the line of Shobra Frey from Putnam investments.

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**Shobra Frey Analyst**

Hi, this is Shobra Frey. I just wanted to ask you at your investor day you talked about being in a position of excess capital some time this year as your structure book runs off and you talked about

share buybacks or new business venture as opportunities. Are you still comfortable with that position and can you give an update on the amount of and options for capital deployment?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, I think as you can see as the exposures run-off we continue to book earnings and hopefully the economy continues its recovery to get some of the fear factor out of the rating agencies stress loss scenarios. That would free up capital but I think if you look at our priorities, first and foremost is to get our ratings back. We think that provides the most long term value for the Company and its shareholders by making the guarantee obviously worth more and therefore we can charge more, especially in an environment where we're the only Company out there doing it. We want to make sure that we remove all doubt as well in the fixed income investors minds, so that a strong capital position especially if it results in rating upgrades would be a real benefit to us. Beyond that, as you well know, we talked about, we look at other strategies of deployment, so we still have some new business opportunities that we're thinking of. We could at the end of the day if we still find ourselves in a -- we got our ratings back, we've managed to execute our new business plans and as I said we talked about launching a new retail kind of program into the market. We think we've got opportunities in the Bermuda Company to write some other structured business in Europe, and lastly, remember we also talked about our big strategic objective at 2010 is to get some of the portfolios from the companies that are no longer trading, that will utilize the capital. So I think you've got to give us the benefit of the doubt to the extent we can utilize the capital which is the enhancement of our earnings or the recapture portfolios of our own profitable business that's in sessions to third parties, that will be a good capital utilize. As the portfolio does run-off and creates further capital opportunity and to the extent that we exhaust those throughout 2010, we look at those other means of managing capital that you would normally deploy.

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**Shobra Frey Analyst**

Okay, thanks and just one final question. You talked about structured business in Europe, and Europe there's a lot of headlines on currency risk and sovereign risk. How do you feel about your exposures there?

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**Dominic Frederico - Assured Guaranty - President, CEO**

We appreciate that. That's not in our sweet spot of risk that we're looking to write. Obviously in the infrastructure world we look at those kind of dedicated facilities, essential services. In terms of the project financing, obviously we don't look at risk that we would actually involve to sovereign or anything related to that.

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**Shobra Frey Analyst**

Okay, thank you.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks.

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**Operator**

You have a follow-up question coming from the line of Phillip Broenniman from Vivian Asset Management. Please proceed.

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**Phillip Broenniman Analyst**

Dominic, I knew there was one question I forgot to ask of you. Can you give us an update on any conversations with Wisconsin regulators and/or Ampac, or similar?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Oh, that's a tough question. We constantly talk to a host of people, be it Washington, Albany, Wisconsin, about what we think is necessary to aid municipal issuers and continue to provide access to all parties to the market. Obviously there is a significant overhang of the downgraded financial guarantors as we estimate and we spend a lot of time on the road. Sean and I have felt like vacuum cleaner salesmen that throw dirt on your carpet before you throw us out. You've got to think of it broadly. Two out of every three financial guaranty policies is insured by a Company that has no longer maintained strong financial ratings, so if two out of three cars don't work in the parking lot, you're going to have a tough time selling cars. So obviously it's in everyone's interest. Of course, ours, to see if we can get solutions structured to provide the type of capital support behind those transactions that allow the holder of the instrument to have better pricing, better liquidity and value of the guarantee that was originally contracted for and that does involve Wisconsin, New York, and to a certain extent Washington is very interested in the continued access of the municipalities to financing. We're hoping that something gets done in 2010. We've made a number of presentations to talk about the issue and solutions. We've offered our services as a broker, as a servicer and as a potential reinsurer.

As you can imagine, what are the problems? you want to preserve as much of that portfolio to the benefit of creditors or the counterparties so lower the expenses, give us a service contract. You want to make sure that you can get a fair price. We'll help you run an auction if that's necessary as a good experienced group that understands the risk and what the value of those is and yes, we can be either the reinsurer or the purchaser if you really want to get to that level but things aren't moving as quickly as we'd like. We're focused on it, we spent a ton of time on it as you can well imagine. It's one of our strategic goals in every aspect and obviously, those portfolios would really help the municipal market if they can get restructured or further enhanced. So as we look at our strategic objective for the year, we try to always set ourselves a 5 or 10 and we go by the department. Trust me that is on at least three of our lists and a lot of time spent in that regard.

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**Phillip Broenniman Analyst**

That's pretty clear and I appreciate that. I'm sure Wisconsin this time of year is no joy, but--?

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**Dominic Frederico - Assured Guaranty - President, CEO**

They actually come to New York on quite a frequent basis. As you well know, they've all hired consultants so the consultant of the state is actually in New York.

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**Phillip Broenniman Analyst**

It's obvious what the companies preferences would be and why they would be reticent to execute the transaction, but what ideology are the regulators holding on to in not forcing one?

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**Dominic Frederico - Assured Guaranty - President, CEO**

We're really speculating on behalf of the regulators but in most cases it's the fair treatment of everyone and that's the biggest issue that would really determine or influence how do you, if you do start to separate, is the separation fair to all parties?

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**Phillip Broenniman Analyst**

Well, great job. Thanks for your efforts.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Phillip Broenniman Analyst**

Talk to you soon.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks.

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**Operator**

Your next question comes from the line of Marie Lunakova from UBS. Please proceed.

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**Marie Lunakova - UBS - Analyst**

Good morning, everybody. I just have a couple questions. First one is a quick number one. How much of that \$130 million of RMBS loss was recognized in the fourth quarter came from AGM book of business and the other question is on the muni space. What is your view on the new proposed bill, which proposes taxes on bonds and prohibit advanced refundings?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Okay, for the first question remember, because of purchase accounting the majority of the AGM losses goes through the purchase accounting adjustment on the premium reserve, that's how we set it up and that's how it actually goes through and that was this whole difference between the \$186 million and the \$333 million. So it's in the purchase accounting adjustment.

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**Marie Lunakova - UBS - Analyst**

Most of it?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Yes.

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**Marie Lunakova - UBS - Analyst**

Okay.

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**Dominic Frederico - Assured Guaranty - President, CEO**

The second question relative to the bill that's proposed on the tax exempts, on the elimination of tax exempt, remember our product is of two major benefits. One, with over 30,000 issuers in the municipal market, whoever buys those securities needs someone to be able to make an assessment or an opinion relative to that credit and obviously assist that credit in getting access to financing regardless of how the financing is structured. So it's very important that we provide that service on that huge number of municipal credits. Number two, we provide a huge benefit in our surveillance activity and that once written, we don't forget about it and go away, and that's not putting a pun that maybe some other folks that might do that in terms of those guys we call rating agencies. We have a responsibility to continue to survey the credit. We offer a further service and then last, but definitely not least, to the extent as we expect today, credits do get into difficulty, once again regardless of the form to which their financing takes place that we then have an ability because of the contracted nature of our relationship to go in and start to look at remedies; be they consultancies, management changes, budget reductions, rate increases, et cetera. So we get paid not to the extent that it's taxable or non-taxable. We get paid for the service that we provide on behalf of the issuer to get them, access to the market and behalf of the investor in terms of the further benefit of our guaranty, the benefit of our structure, the benefit of our surveillance and the benefit of our risk mitigation to the extent that that's necessary.

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**Bob Mills - Assured Guaranty - CFO**

Just one elaboration on the issue of the question, the first question relative to losses. Dominic is absolutely right that AGM losses substantially go through the unearned premium reserve but if you go back to the third quarter, even the rollout of the earned premium, you note there that there will be a portion associated with AGM that comes through losses each quarter as the earned premium rolls out, so that number, a portion of the \$186 million that represented that number in the fourth quarter was \$30 million.

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**Marie Lunakova - UBS - Analyst**

Okay, thank you very much for your answers and congratulations on a nice quarter.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks, Maria.

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**Operator**

(Operator Instructions) Your next question comes from the line of Chris Owens from Trafelet.

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**Chris Owens Analyst**

Good morning. So my question is just regarding share repurchases and where you stand relative to Moody's base case assumptions that they outlined in either December or November. It just sort of seems that at \$20 with the adjusted book value of \$50 that share repurchase would be extremely accretive and I know that's largely dependent on when you get the excess capital to make those repurchases so if you could just talk about the boxes that you need to check before you could take such action to repurchase shares? Thank you.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, the two biggest boxes as I think I said is one, can we get the ratings up. Obviously we like to be back to triple triple and no outlook, no anything, and that's going to take some amount of capital. Two, we do have this strategic objective to get these portfolios back into the marketplace. Obviously we'd like to have the capital position to make sure that we can absorb them and prove to the various counterparties that would be responsible for making the decision to whether those portfolios get placed in the market that we would be the right person to place them with. So I think those two things, if I had to be selfish, would be the first priorities of the Company. And then after that you're exactly right. The other boxes we start check is what is the best value we can get to the extent there is still excess capital and is it share repurchase, is it dividend? What would be the method that we would in employ?

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**Chris Owens Analyst**

Okay, I'm just for capital efficiency standpoint it would seem that the ROE on a share repurchase is about 60% and I just wondered what would be the ROE that you think you could get on a portfolio transaction?

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**Dominic Frederico - Assured Guaranty - President, CEO**

Well, good point, but remember the portfolio transaction has other benefits besides simply income. And the share repurchase is a one-time ROE benefit versus -- just think what we can get from--.

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**Chris Owens Analyst**

Well, share repurchase is a permanent dividend. If you're a shareholder.

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**Dominic Frederico - Assured Guaranty - President, CEO**

What does it do for, I don't disagree with you on that basis, let me give you my view though. As I look at it, an increase in our rating would have an effect on our pricing and the pricing goes across all new business and it provides an earnings model into the future.

One of the challenges we face as we look at the enhanced earnings model we have now constructed through our growth and now the acquisition of FSAH is that, that's a great store of earnings, now the challenge of management is making sure we maintain that store. Well, we maintain that store by our ability to go out in the market and write new business to replace the unearned premium that runs off with new unearned premium. I think a higher rated Company has a better chance of being able to accomplish that so therefore, selfishly, I think we ought to look at the ratings improvement. I'm not disagreeing with you that the buyback is an incredibly accretive transaction but if I look at the long term franchise value of the Company, that rating improvement and therefore the pricing improvement has a real value to us and then number two, as we create the portfolio, as we leave capital available for portfolio opportunities, and that's a reasonably timed decision that we either see or not see that's going to happen, that does two things. We do get that bump in return based on the price that we pay for the portfolio and embed within it the return. Once again, that helps us get more demand in the market by cleaning up a lot of these securities that today do not trade and therefore have caused certain fixed income investors not to want to view insurance is a viable alternative as part of their portfolio. We have to create value in the fixed income markets and those portfolios would be another way of doing that. So I don't disagree.

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**Chris Owens Analyst**

Okay, thank you very much and congratulations on a great quarter.

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**Dominic Frederico - Assured Guaranty - President, CEO**

Thank you.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thanks, Chris.

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**Operator**

Ladies and gentlemen, this concludes the question and answer session. I will now hand the call over to Sabra Purtill for closing remarks.

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**Sabra Purtill - Assured Guaranty - Managing Director, IR**

Thank you, and thank you all for joining us today on our call. We certainly appreciate your interest in Assured Guaranty and if you have additional questions or require further information, please feel free to contact me or Ross Aron via e-mail or telephone and we are available today and will be happy to take follow-up calls for the questions that you have. Thanks again and have a great day.

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**Operator**

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