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Fitch Downgrades Assured Guaranty to 'AA-' & FSA to 'AA'; Outlook Negative

Ratings
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Fitch Ratings-New York-12 October 2009: Fitch Ratings has downgraded the Insurer Financial Strength (IFS) rating of Assured Guaranty Corp. (AGC) to 'AA-' from 'AA', and the IFS rating of Financial Security Assurance Inc. (FSA) to 'AA' from 'AA+'. Fitch has also downgraded the debt ratings of the U.S. holding companies - Assured Guaranty US Holdings Inc. (AGUSH) and Financial Security Assurance Holdings Ltd. (FSA Holdings) to 'A-'. The ratings have been removed from Rating Watch Negative and assigned a Negative Rating Outlook. A full list of affected ratings is provided at the end of this release.

Today's rating actions primarily reflect increased expectations of credit losses arising from the companies' residential mortgage securitization exposures. To date, most of the claims activity experienced by AGC and FSA has been from exposures to securitizations of second lien mortgages. During 2009, however, Fitch's performance expectations for certain first lien residential mortgage backed securities (RMBS) categories -- specifically Alt-A and Option ARM -- have weakened sharply. As a result, loss estimates related to first-lien RMBS exposures have been revised upward appreciably.

The Assured companies have substantial exposure to these first lien RMBS sectors - AGC and Assured Guaranty Re Ltd.'s (AG Re) combined direct net par exposure was about $7.2 billion at June 30, 2009 and FSA's net par exposure was $4.1 billion. Notably, within that amount, FSA has about $2.6 billion exposure to Option ARM mortgage securitizations, and most of this is to so-called 'junior' 'AAA' classes - which are subject to relatively higher loss given default compared to other classes originally rated 'AAA'. In addition to RMBS exposures, there are other areas of concern in the insured portfolios of these companies. In particular, $7.1 billion of combined direct net par exposure to trust preferred collateralized debt obligations (CDOs) in AGC and AG Re's portfolios continues to experience negative performance trends.

Given Fitch's revised performance expectations, the ratings have come under pressure as loss estimates have outpaced growth in claims paying resources. The companies are actively engaged in efforts to mitigate losses on residential mortgage exposures by enforcing loan 'rep and warranty' put-back rights which are a common feature of RMBS securitizations. While these efforts are currently focused on second lien exposures where claims are already occurring, the company is expected to actively pursue its loss mitigation rights on first lien exposures as claims on these begin to emerge. It is possible that losses on these exposures may be materially reduced if AGC's and FSA's loss mitigation strategies are successful.

In addition to loss mitigation initiatives, the companies are pursuing several initiatives designed to reduce the amount of 'tail risk' exposure in the portfolios of AGC and FSA which would improve risk-adjusted capitalization. If completed in the near term as planned, these initiatives could reduce pressure on capitalization.

Management of the companies has stated its intention to differentiate the market focus of FSA and AGC, with FSA pursuing a municipal-only strategy and AGC pursuing a more diverse strategy which includes new structured finance business. Demand for the companies' financial guarantee product, however, is ratings sensitive. The feasibility of each company's respective market strategy may be linked in the near to intermediate term to their ratings from Fitch and other rating agencies.

The ratings have been assigned a Negative Outlook, pending greater clarity on the loss mitigation and capital initiatives. Absent tangible progress on these initiatives and/or a material improvement in RMBS loss expectations, the ratings could face downward pressure. The IFS rating of FSA reflects its stronger financial position relative to AGC and AG Re.

Holding company debt ratings of AGUSH and FSA Holdings have been equalized at 'A-' for senior obligations. Parity between the unsecured debt ratings of AGUSH and FSA Holdings reflects current dividend restrictions on FSA as well as AGL's guaranty of the debt of both companies.

Fitch has downgraded the following ratings:

Assured Guaranty US Holdings Inc.
--$200 million of 7% senior notes due 2034 to 'A-' from 'A';
--$172.5 million of 8.5% senior notes due 2014 to 'A-' from 'A';
--$150 million series A junior subordinated debentures due 2066 to 'BBB+' from 'A-'.

Assured Guaranty Corp.
Assured Guaranty (UK) Ltd.
--Insurer financial strength (IFS) to 'AA-' from 'AA'.

Financial Security Assurance Holdings Ltd.
--Long-term rating to 'A-' from 'A+';
--$100 million of 5.6% senior notes due 2103 to 'A-' from 'A+';
--$230 million of 6.25% senior notes due 2102 to 'A-' from 'A+';
--$100 million of 6.875% senior notes due 2101 to 'A-' from 'A+';
--$300 million junior subordinated debentures to 'BBB+' from 'A';

Financial Security Assurance Inc.
FSA Insurance Co.
Financial Security Assurance International Ltd
Financial Security Assurance UK Ltd
FSA Seguros Mexico, S.A. de C.V.
--IFS to 'AA' from 'AA+'.

Fitch has affirmed the following ratings:

Assured Guaranty Re Ltd.
Assured Guaranty Re Overseas Ltd.
Assured Guaranty Re Mortgage Insurance Co.
--IFS at 'AA-'.

All of the above ratings have been assigned a Negative Outlook.

Fitch has taken no action on the following ratings:

FSA Seguros Mexico, S.A. de C.V.
--National IFS at 'AAA' (mex);
Rating Outlook Stable.

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