

**Rating Action: Assured Guaranty Corp**

**Moody's downgrades Assured Guaranty Corp. to Aa3, confirms Assured Guaranty Municipal (FSA) at Aa3**

New York, November 12, 2009 -- Moody's Investors Service has downgraded to Aa3, from Aa2, the insurance financial strength rating of Assured Guaranty Corp. (AGC) and downgraded to A1, from Aa3, the insurance financial strength rating of Assured Guaranty Re (AG Re); both ratings remain under review for possible downgrade. The rating agency confirmed the Aa3 insurance financial strength rating of Assured Guaranty Municipal Corp. (AG Muni -- formerly, Financial Security Assurance Inc.), with a negative outlook. AGC, AG Muni and AG Re (collectively, Assured) are all insurance operating subsidiaries of Assured Guaranty, Ltd. These rating actions follow, and in the case of AG Muni - conclude, reviews initiated on May 20, 2009. Today's rating actions have implications for the various transactions wrapped by AGC and AG Muni as discussed later in this press release.

As outlined in prior statements, Moody's review of Assured's ratings has centered on the performance of mortgage-backed securities (RMBS) exposures. Over the past year Moody's has observed substantial deterioration in the performance of underlying mortgage collateral in virtually all the segments of the market, resulting in estimates of pool losses for some transactions that would likely breach even the relatively high attachment points of Assured's first lien exposures (Alt A and subprime). Other exposures were also impacted by mortgage related deterioration, specifically life insurance-linked deals backed by collateral pools that included RMBS securities. Moody's said that adverse trends in RMBS loss estimates have had varying effects on Assured Guaranty Ltd.'s main insurance subsidiaries.

**ASSURED GUARANTY CORP**

AGC has suffered the most significant deterioration in relation to its \$2.7 billion in reported claims paying resources as a result of stress in its RMBS, and CDO (primarily TruPs) portfolios, and its current statutory capital position is relatively weak in relation to the possible mortgage-related losses, which Moody's estimates to be approximately \$600 million, before estimated repurchases of loans that have breached contractual representations and warranties (put-backs), as an expected case and reaching about \$1.7 billion in a severe stress scenario. However, Moody's stated that capital strengthening initiatives under consideration by the group could result in a conclusion of the rating review with a confirmation at the Aa3 rating level, negative outlook, if fully implemented. Absent such initiatives, Moody's would expect to lower AGC's rating into the single-A range.

**ASSURED GUARANTY MUNI**

AG Muni, with a reported \$7.3 billion of claims paying resources, remains adequately capitalized for its current rating level, in Moody's view, despite some additional RMBS deterioration, with losses (before put-backs) on those exposures estimated to be about \$1.9 billion in the expected case and rising close to \$3.2 billion in a severe stress scenario. The negative outlook on AG Muni reflects still meaningful uncertainty, over the next year or two, about the ultimate performance of the firm's insured portfolio following a period of severe dislocation in financial markets.

**ASSURED GUARANTY RE**

The downgrade of AG Re reflects its significantly constrained external business opportunities, given the declining fortunes of its 3rd party customers, and Moody's view that it could therefore become more of an instrument of capital support for its affiliated primary financial guaranty affiliates, AGC and AG Muni rather than a distinct operating business. As with AGC, consummation of capital strengthening initiatives under consideration could lead to a conclusion of the AG Re rating review with a confirmation of the current A1 rating (negative outlook).

**HOLDING COMPANIES**

The rating agency confirmed the senior debt rating of FSA Holdings Inc. at A3 (negative outlook), and downgraded the senior debt rating of Assured Guaranty Holdings to A3 (review for possible downgrade) from A2, reflecting their subordination to insurance obligations.

**OTHER ANALYTICAL CONSIDERATIONS**

A key focus of Moody's capital adequacy analysis is the evaluation of the group's exposure to mortgage-related losses. The Assured Group insures approximately \$31.2 billion of US RMBS, and reported total claims paying resources of \$12.6 billion at the end of the second quarter. The rating agency expects substantial additional claims from second lien exposures and sees more stress coming from first lien (Alt. A and subprime) transactions. Such losses are mitigated, in part, by the firm's ability to "put back" to solvent lenders loans that are in breach of representations and warranties, said the rating agency. Growing evidence of the magnitude of such breaches, and Assured's early success in putting back loans to lenders, suggests that recoveries on claims paid could be substantial; however, significant uncertainty remains as to the extent of the guarantor's ultimate success.

According to Moody's, the operational leverage inherent in the business of Assured can make the credit profiles of the operating subsidiaries rather sensitive to the performance of individual insured sectors and even, in some cases, individual transactions. This risk is mitigated -- but not eliminated -- by strong risk management, which has contributed to Assured's much better performance than peers during the financial crisis. This performance has, in Moody's view, enabled Assured to attract new capital over that past few years and remain an active underwriter of risk, a positive credit consideration.

The rating agency said that business opportunities available within the structured finance market have fallen off significantly, but Assured currently enjoys a very strong competitive position in the US municipal market given the scarcity of competitors and alternative forms of credit enhancement for municipal bonds. Moody's lead analyst Arlene Isaacs-Lowe noted, "While the value proposition of financial guaranty insurance has been eroded in some segments of the US municipal finance market, Assured still enjoys very strong demand for its insurance product from smaller and higher risk municipal issuers that would face higher funding costs absent credit enhancement. However, the municipal market remains somewhat dislocated and it is unclear how Assured's competitive position will evolve once it normalizes."

#### TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

As a result of today's action Moody's-rated securities that are guaranteed or "wrapped" by Assured Guaranty Corp. are also downgraded and placed under review for possible downgrade, except those with higher published underlying ratings (and for structured finance securities, except those with higher published or unpublished underlying ratings); securities that are guaranteed or "wrapped" by AG Muni (formerly FSA) are confirmed, except those with higher published underlying ratings (and for structured finance securities, except those with higher published or unpublished underlying ratings). A list of these securities will be made available under "Ratings Lists" at [www.moody.com/guarantors](http://www.moody.com/guarantors).

#### RATINGS DOWNGRADED

The following ratings have been downgraded and placed on review for possible downgrade:

Assured Guaranty Corp. -- insurance financial strength rating to Aa3, from Aa2;

Assured Guaranty (UK) Ltd. -- insurance financial strength rating to Aa3, from Aa2;

Assured Guaranty Re Ltd. -- insurance financial strength rating to A1, from Aa3;

Assured Guaranty Re Overseas Ltd. -- insurance financial strength rating to A1, from Aa3;

Assured Guaranty Mortgage Insurance Company -- insurance financial strength rating to A1, from Aa3;

Assured Guaranty US Holdings Inc. -- senior unsecured to A3, from A2, junior subordinated debt to Baa1, from A3, provisional senior unsecured to (P)A3, from (P)A2, provisional subordinated debt to (P)Baa1, from (P)A3;

Assured Guaranty Ltd. (Bermuda) -- issuer rating to A3, from A2, provisional senior unsecured to (P)A3, from (P)A2, provisional subordinated debt to (P)Baa1, from (P)A3, provisional preferred to (P)Baa2, from (P)Baa1;

Assured Guaranty Capital Trusts I and II -- provisional preferred to (P) Baa1, from (P)A3;

Woodbourne Capital Trusts I, II, III, and IV -- contingent capital securities to A3, from A1.

## RATING ASSIGNED

Moody's has assigned a rating of A3, review for possible downgrade, to the \$150 million equity linked senior unsecured debt of Assured Guaranty US Holdings Inc.

## RATINGS CONFIRMED

The following ratings have been confirmed with a negative outlook:

Assured Guaranty Municipal Corp. -- insurance financial strength at Aa3;

Financial Security Assurance (U.K.) Limited -- insurance financial strength at Aa3;

Financial Security Assurance Intl Ltd. -- insurance financial strength at Aa3;

Financial Security Assurance Holdings Ltd. -- senior unsecured debt at A3, junior subordinated debt at Baa1, provisional senior debt at (P) A3, provisional subordinated debt at (P)Baa1, and provisional preferred stock at (P)Baa2;

FSA Seguros Mexico S.A. de C.V. -- insurance financial strength at Aa3 (the firm's Aaa.mx national scale rating was affirmed); and

Sutton Capital Trusts I, II, III and IV -- contingent capital securities at A3.

The last rating action was on May 20, 2009 when Moody's placed the insurance financial strength ratings of AG Muni and Assured Guaranty Corp. under review for possible downgrade.

The principal methodology used in rating Assured Guaranty and AG Muni was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, which can be found at [www.moody's.com](http://www.moody's.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the rating process can also be found in the Credit Policy & Methodologies directory.

Assured Guaranty Corp. is a financial guaranty insurance company based in New York. Assured Guaranty Municipal Corp. (previously called Financial Security Assurance, Inc.) is the main operating company of Financial Security Assurance Holdings Ltd. Assured Guaranty Corp. and Financial Security Assurance Holding Ltd. are wholly owned subsidiaries of Assured Guaranty US Holdings Inc. Assured Guaranty Re Ltd. is a Bermuda based financial guaranty reinsurance company. Assured Guaranty Re and Assured Guaranty US Holdings Inc. are wholly owned by Assured Guaranty Ltd. [NYSE:AGO].

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