

July 1, 2009

Research Update:

**Assured Guaranty Corp. And
Financial Security Assurance Inc.
'AAA' Ratings Affirmed; Assured
Outlook Revised To Negative**

Primary Credit Analyst:

David Veno, New York (1) 212-438-2108;david_veno@standardandpoors.com

Secondary Credit Analyst:

Robert E Green, New York (1) 212-438-2013;robert_green@standardandpoors.com

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Research Update:

Assured Guaranty Corp. And Financial Security Assurance Inc. 'AAA' Ratings Affirmed; Assured Outlook Revised To Negative

Overview

- Assured Guaranty Corp. and Financial Security Assurance Inc. have a flexible platform from which to write business in a number of markets and sectors.
- Each company also has a strong margin of safety, and Assured has a proven track record of underwriting discipline.
- As a result, we have affirmed our 'AAA' ratings on these companies.
- We have revised our outlook on Assured to negative to reflect our view of potential changes in the competitive dynamics of the industry.

Rating Action

On July 1, 2009, Standard & Poor's Ratings Services affirmed its 'AAA' counterparty credit and financial strength ratings on Assured Guaranty Corp. (Assured) and Financial Security Assurance Inc. (FSA). At the same time, Standard & Poor's revised its outlook on Assured to negative from stable. The outlook on FSA remains negative.

Rationale

Assured's acquisition of FSA has recently closed. The 'AAA' ratings on both companies reflect our view of their strong market position in the bond insurance industry and their solid capital position. The acquisition of FSA will provide the combined entity with a flexible platform from which to write business. Assured has a proven track record for credit discipline, as its lack of exposure to the problem credits that have plagued other financial guarantors demonstrates. However, we do not believe that FSA has entirely isolated the risks associated with the financial products business retained by Dexia S.A., so we have applied a capital charge to FSA.

Assured and FSA were effectively the only two bond insurers active in the U.S. public finance market for the first quarter of 2009. Assured wrapped \$8.2 billion of par and FSA wrapped \$1.2 billion of par compared with \$7.2 billion and \$18.4 billion, respectively, in the first quarter of 2008. Assured's ability to write a greater amount of business was constrained more by staffing levels to meet the demand than from lack of opportunities. Assured and FSA should experience an increase in volume as they make efficient use of their combined resources. Both companies should also benefit from a bond insurance landscape that is lacking any significant competition in the near term.

Assured is well-capitalized, as measured by Standard & Poor's capital adequacy test, with a margin of safety of 1.6x-1.7x, which we view as strong.

FSA's margin of safety was 1.5x-1.6x, which we also view as strong. The margin of safety for FSA did include the residual capital charge for the financial products business. We expect that there will be little change in the company's margins of safety because of the low-risk business they intend to underwrite in the public finance market, combined with a strong pricing environment.

As part of the sale of FSA, Dexia S.A. has assumed the risk of FSA's GIC business. We analyzed the degree to which the structure with Dexia S.A. isolates the GIC business from FSA. Based on our analysis and testing, we found that although the structure does create remoteness from these risks, the company is not totally isolated from them. In October 2011, Dexia must post required collateral to a trust for the benefit of Assured-FSA and the GIC-issuing entities. Until that time, FSA has significant exposure to the performance of Dexia. Belgium and France have guaranteed Dexia's obligation, and our rating on Dexia is dependent on both sovereigns. Therefore, we view FSA as having large single-risk exposure to the two sovereigns.

Outlook

The negative outlook on both entities reflects our view that the proposed separation of Assured-FSA's GIC business does not fully mitigate asset risk and exposes the company to related claims. Most importantly, prior to the required collateral being posted, Assured-FSA would retain a large single-risk concentration exposure to Belgium (AA+/Stable/A-1+) and France (AAA/Stable/A-1+). Unrelated to the acquisition, the outlook also reflects our view that change in the competitive dynamics of the industry--with the potential entrance of new competitors, alternative forms of credit enhancement, and limited insurance penetration in the U.S. public finance market--could hurt the companies' business prospects.

We could revise the outlooks on Assured and FSA to stable once the risk associated with the GIC business is defeased through the collateral posting process and there is greater clarity in the industry's competitive dynamics and the companies' ability to be successful in that environment.

Related Research

- Bond Insurance Industry Overview And Analytical Focus, June 29, 2006

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Assured Guaranty Corp		
Assured Guaranty (UK) Ltd.		
Counterparty Credit Rating		
Local Currency	AAA/Negative/--	AAA/Stable/--
Financial Strength Rating		
Local Currency	AAA/Negative/--	AAA/Stable/--
Financial Enhancement Rating		
Local Currency	AAA/--/--	

Ratings Affirmed

Financial Security Assurance Inc.

Financial Security Assurance Intl Ltd.

Financial Security Assurance (U.K.) Ltd.

FSA Insurance Co.

Counterparty Credit Rating

Local Currency AAA/Negative/--

Financial Enhancement Rating

Local Currency AAA/--/--

Financial Strength Rating

Local Currency AAA/Negative/--

FSA Seguros Mexico S.A. de C.V.

Counterparty Credit Rating

Local Currency mxAAA/Stable/--

Sutton Capital Trust I and III

Preferred Stock AA

Sutton Capital Trust II and IV

Preference Stock AA

Woodbourne Pass Through Trust Securities

Preferred Stock A+

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