

## Assured Guaranty Corp. And Assured Guaranty Municipal Corp. 'AAA' Ratings Affirmed; Outlook Remains Negative

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### **Overview**

- Assured Guaranty and Assured Guaranty Municipal maintain a dominant position in the bond insurance industry as well as a strong margin of safety.
- The companies also have a proven track record of underwriting discipline.
- As a result, we are affirming our 'AAA' counterparty credit and financial strength ratings on these companies.
- The outlook remains negative, reflecting the possibility of adverse loss development within the structured finance portfolio.

### **Rating Action**

On May 17, 2010, Standard & Poor's Ratings Services affirmed its 'AAA' counterparty credit and financial strength ratings on Assured Guaranty Corp. (AGC) and Assured Guaranty Municipal Corp. (AGM). The outlook remains negative.

### **Rationale**

The insurer financial strength ratings on AGC and AGM reflect our view of their dominant market position in the bond insurance industry and their strong combined capital position. The acquisition of AGM has provided the combined entity with a flexible platform from which to write business. AGC and AGM have proven track records of credit discipline—they have managed the growth of their insured portfolios and exposure to problem credits relative to their capital base. We do not believe that the sale of AGM's financial products business to

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Dexia S.A. in July 2009 entirely isolates AGM from the risks associated with this business, so we have applied a capital charge to AGM.

AGC and AGM were the only two bond insurers active in the U.S. public finance market in 2009. The companies insured \$50 billion of new par, compared with \$77 billion in 2008. We believe AGC and AGM likely will experience an increase in volume as they make efficient use of their combined resources. We also expect both companies to benefit from a lack of significant competition in the bond insurance market in the near term.

On a combined basis, AGC and AGM are well capitalized, as measured by Standard & Poor's capital adequacy criteria, with a combined margin of safety of 1.3x to 1.4x, which we view as strong. However, a stress analysis that we performed relating to commercial mortgage-backed securities (CMBS) exposure had a negative impact on AGC's individual margin of safety. Under Standard & Poor's updated criteria for corporate collateralized debt obligations, both companies experienced higher modeled theoretical losses as well as credit deterioration in some of the transaction portfolios. The margin of safety for AGM did include the residual capital charge for the financial products business. We expect that the companies' margins of safety will improve as a result of the low-risk business they intend to underwrite in the public finance market, combined with strong pricing and the rapid runoff of the structured finance book of business. We view AGC and AGM as core to Assured Guaranty Ltd., and we rate them as a consolidated group.

As part of the sale of AGM to Assured Guaranty Ltd., Dexia S.A. has assumed the risk of AGM's guaranteed investment contract (GIC) business. We analyzed the degree to which the structure with Dexia S.A. isolates the GIC business from AGM. Based on our analysis and testing, we believe that although the structure does attempt to transfer the risk of this business to Dexia, the company is not totally isolated from the risk of this business. In October 2011, Dexia must post required collateral to a trust for the benefit of AGC and AGM and the GIC-issuing entities. Until that time, AGM has significant exposure to the performance of Dexia. Belgium (AA+/Stable/A-1+) and France (AAA/Stable/A-1+) have guaranteed Dexia's obligation, and our rating on Dexia is dependent on both sovereigns. Therefore, we view AGM as having large single-risk exposure to the two sovereigns.

### ***Outlook***

The negative outlook reflects the possibility of adverse loss development of domestic nonprime mortgages for each company and AGC's CMBS exposure and stress in other structured finance sectors. The negative outlook also reflects our view that changes in the industry's competitive dynamics could hurt the companies' business prospects. The current market has only one active insurer, indicating that investors and issuers are learning to live without insurance. The longer this is true, the more limited the potential for reemergence of a strong and vital bond insurance sector, in our view. The outlook also considers our view that the separation of AGM'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, the combined AGC and AGM would retain a large single-risk concentration exposure to Belgium and France.

We could revise the outlook on AGC and AGM to stable once there is greater clarity regarding the industry's competitive dynamics and the companies' ability to be successful as well as greater certainty of ultimate potential losses in the structured finance portfolios. Another factor that would support a stable outlook would be the removal of the risk associated with the GIC business

through the collateral posting process. However, we could lower the rating if our loss expectations within the structured finance portfolio result in a margin of safety below the 'AAA' minimum.

### ***Related Criteria And Research***

- “ U.S. CMBS ‘AAA’ Scenario Loss And Recovery Application,” July 21, 2009
- “ U.S. CMBS Rating Methodology And Assumptions For Conduit/Fusion Pools,” June 26, 2009
- “ Bond Insurance Industry Overview And Analytical Focus,” June 29, 2006

### ***Ratings List***

#### Ratings Affirmed

Assured Guaranty Corp  
Financial Security Assurance Intl Ltd.  
FSA Insurance Co.  
Assured Guaranty Municipal Corp.  
Assured Guaranty (UK) Ltd.  
Assured Guaranty (Europe) Ltd.  
Counterparty Credit Rating  
Local Currency                    AAA/Negative/—  
Financial Strength Rating  
Local Currency                    AAA/Negative/—  
Assured Guaranty Mortgage Insurance Company  
Assured Guaranty Re Overseas Ltd.  
Assured Guaranty Re Ltd.  
Counterparty Credit Rating  
Local Currency                    AA/Stable/—  
Financial Strength Rating  
Local Currency                    AA/Stable/—  
Assured Guaranty Municipal Holdings Inc.  
Counterparty Credit Rating  
Local Currency                    A+/Stable/—  
Assured Guaranty, LTD.  
Counterparty Credit Rating            A+/Stable/—  
Assured Guaranty Municipal Holdings Inc.  
Senior Unsecured                    A+  
Junior Subordinated                    A-  
Assured Guaranty US Holdings  
Senior Unsecured                    A+  
Junior Subordinated                    A-  
Sutton Capital Trust I and III  
Preferred Stock                    A+  
Sutton Capital Trust II and IV  
Preference Stock                    A+  
Woodbourne Pass Through Trust Securities

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Preferred Stock	A+		
Ratings Affirmed; Outlook Action		To	From
Assured Guaranty Corp			
Financial Security Assurance Intl Ltd.			
FSA Insurance Co.			
Assured Guaranty Municipal Corp.			
Assured Guaranty (UK) Ltd.			
Assured Guaranty (Europe) Ltd.			
Financial Enhancement Rating			
Local Currency		AAA/Negative/—	AAA/—/—
Assured Guaranty Re Ltd.			
Assured Guaranty Re Overseas Ltd.			
Financial Enhancement Rating			
Local Currency		AA/Stable/—	AA/—/—

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