ASSURED GUARANTY®
FAMILY OF COMPANIES

March 25, 2011

Mr. Mark Puccia, Criteria Officer
Ms. Colleen Woodell, Chief Credit Officer
Mr. Rodney Clark, Managing Director
Mr. Robert Green, Director
Standard & Poor's Ratings Services
55 Water Street, 33rd fl.
New York, NY 10041-0003

Ladies and Gentlemen:

This letter supplements our letter to you dated March 1, 2011 (the "First Letter"), which we attach for your convenience, regarding S&P's "*Request for Comment: Bond Insurance Criteria*", dated January 24, 2011 ("RFC"). Since we wrote the First Letter we have identified additional important issues and have developed further some of our comments on the proposed criteria.

Given the very significant issues we and other market participants have identified with the proposed criteria, we urge Standard & Poor's Ratings Services ("S&P") to provide an opportunity for us and other market participants to provide additional feedback regarding any revision to the proposed criteria before the new criteria are implemented.

Purpose of the Criteria Change

S&P did not volunteer in the RFC specific reasons for making the significant revisions to the criteria it is proposing. It appears to us that that S&P may have been influenced by two recent developments impacting the bond insurance business.

First, during the financial crisis most of the formerly AAA bond insurers lost their AAA ratings, and many descended to junk bond status fairly rapidly. The consensus is the rapid decline was caused by the mortgage crisis and the bond insurers' exposure to related structured finance products, particularly through ABS CDOs with concentrations in RMBS. (It is no accident that the only two bond insurers to survive the crisis with an S&P AAA, both now part of the Assured Guaranty family of companies, did not materially participate in ABS CDOs with concentrations in RMBS.) However, there is no indication in the RFC that S&P back-tested the proposed new criteria to determine if they would have helped it identify the fallen bond insurers as being riskier during the run-up to the mortgage crisis. Given the operation of the proposed leverage test and the material increases in the municipal capital charges, we believe it is highly unlikely that the revised criteria would have helped.

30 Woodbourne Avenue, 5th Floor
Hamilton HM 08
Bermuda
main 441 279 5700
fax 441 279 5701
info@assuredguaranty.com
www.assuredguaranty.com

Second, there have been a number of press reports lately suggesting that major defaults lie ahead in the municipal market, with one well-known non-municipal analyst suggesting a looming crisis in the municipal market on a scale comparable to the recent crisis in the mortgage market. The material increases in the municipal capital charges proposed in the RFC suggest this may be a motivation for the revisions. Yet, as we point out in our First Letter, S&P has been one of the many voices of reason in the municipal market indicating that no wave of defaults in the investment grade municipal market is expected. In fact, one day after our First Letter, S&P published its "*U.S. Public Finance Defaults and Rating Transition Data: 2010 Update*" and observed that "[a]s a general proposition, for the years relevant to our study, unenhanced debt … rated by Standard & Poor's has shown significant credit stability throughout a broad range of events, including a changed economic environment, federal government mandates, tax reform measures, and any number of influences on general credit." And, in its outlook for 2011, S&P observed that "[w]hile rating downgrades will likely continue to increase in number, we do not expect defaults or downgrades to be as frequent as they have been in the corporate sector as a result of the recession."

So, the major revisions proposed in the criteria appear to be a solution searching for a problem.

Proposed Aggregate Leverage Test

For all the reasons stated in our First Letter, we continue to believe that the application of a simple, par-based leverage test does not provide useful information to investors.

We note S&P's own thoughts, which very much mirror ours, regarding the use of a leverage test included in a report from April 15, 2010 entitled "*The Basel III Leverage Ratio Is A Raw Measure, But Could Supplement Risk-Based Capital*":

> "In our view, there is a risk that the effectiveness of the Basel III proposal could be jeopardized by the implementation of a leverage ratio that is poorly calibrated. If so, we believe that this ratio could weaken the value of enhanced Basel III risk-adjusted capital ratios. There may also be unintended consequences if banks manage down their low-risk low-yielding exposures … Moreover, we believe that assigning too much importance to this measure could potentially create unintended incentives for banks. They could, for example, be incentivized to move away from low-risk, low-yielding businesses to concentrate on higher-risk, higher-return assets. …
>
> "We have also found that regulatory leverage ratios can have limitations for the purpose of our analysis. For example, these ratios do not distinguish between a relatively high credit quality, short-term government loan from equity tranches of collateralized debt obligations. …
>
> "The leverage ratio could supplement risk-adjusted capital metrics. It could help identify outliers. …

"We believe that assigning too much importance to this measure could potentially create unintended consequences for banks."

What is particularly notable about these comments is the absence of the suggestion that a leverage test should be used as an absolute cap, as opposed to a "supplement" or to "help identify outliers". We are concerned that the proposed use of the measure in the criteria as an absolute rating cap assigns too much importance to the measure and creates improper incentives.

Since we provided our First Letter, we have had an opportunity to discuss with the primary regulators of our two primary direct bond insurance companies, the New York Insurance Department and the Maryland Insurance Administration, S&P's exclusion of our unearned premium reserve ("UPR") from the calculation of the proposed par-based leverage test. Both regulators have confirmed that the proceeds from unearned premiums are unencumbered cash available for the payment of claims, and that the impact of requiring a statutory reserve for unearned premiums is to limit the dividend paying capacity of the insurer to ensure the availability of premium proceeds for the payment of claims. It seems to us that S&P, in assessing our ability to meet claims in a stress scenario, should take comfort that our regulators impose such measures to ensure that this important source of claims-paying ability cannot be used for other purposes. Our auditor, PricewaterhouseCoopers LLP, has confirmed to us that under statutory accounting principles, "the unearned premium reserve represents the premium to be earned in the future intended to cover the unexpired portion of the policy which generally relates to the future sacrifice of economic benefit, which are the claim costs the insurer will pay if losses are incurred during the contract period." (See the attached letter.) Since the only justification S&P has offered for excluding the UPR from the par-based leverage test is related to regulatory concerns, if S&P retains the test we submit the test should be revised to include UPR.

Proposed Changes to Municipal Finance Capital Charges

The proposed Criteria include very material changes to municipal finance capital charges and provide little justification or support for the proposed changes. The changes are of two types: First, S&P reduced the number of categories of capital charges from nineteen to four. Second, S&P re-calibrated the capital charges to approximate a stress loss of 16%. Neither change appears justified.

Proposed Reduction in the Number of Municipal Finance Capital Charge Categories. S&P offered no explanation or support for reducing the number of different capital charge categories from nineteen to four, or for making some sizable shifts in relative capital charges between many of the current sectors. Moreover, we are unaware of any other context where S&P reduces all global public finance credits to just four categories of risk. For example, in its "*U.S. Public Finance Defaults and Rating Transition Data: 2010 Update*" published on March 2, 2011, S&P includes separate ratings transition tables for seven separate public finance categories just in the U.S.

The newly proposed four categories of capital charges lose the granularity in the assessment of risk that we have recognized in our underwriting of risks for over a quarter of a century and that market participants also recognize. To cite just a few examples:

1. Under the current criteria, a BBB or A rated bond supported by an excise tax of a locality has four times the capital charge of a similarly rated state general obligation bond, while under the proposed criteria both would have the same capital charge.
2. Under the current criteria, a BBB or A rated bond issued by a public power agency with high dependence on nuclear has about twice the capital charge as a similarly rated bond issued by a public power agency with little nuclear dependence, while under the proposed criteria both would have the same capital charge.

It is obvious that the risks in these pairs are not equivalent to one another. Market participants require different spreads for the (unwrapped) bonds in each pair described above, and a bond insurer would want to charge a different premium for the bonds in each pair. So, assigning equivalent capital charges to them fails to reflect their different risk profiles and creates perverse incentives for a bond insurer.

Public finance risk professionals, if asked to rank various public finance sectors by risk, probably would rank them roughly in the order implied by the capital charges in the old criteria. Yet in combining the old nineteen separate capital charge categories into four, S&P also changed the rank order of some of the sectors materially. To cite a few examples:

1. In the old criteria, an A-rated investor-owned electric distribution system, which would generally enjoy a monopoly and rate covenant protection, was considered among the least risky credits with a capital charge of 8% of average annual debt service (AADS), while under the proposed criteria its capital charge is in the highest category at 41% of AADS, a five-fold increase.
2. In the old criteria, an A-rated bridge with less than 5 years of operating history was considered among the riskier credits with a capital charge of 25%, while under the proposed criteria its capital charge would decrease to 19%.

These are major changes with significant implications for the underwriting of new business by bond insurers, and S&P has offered no studies, statistics or even an explanation for the changes. Nor is there any evidence that a problem exists with the municipal capital charges now in use. S&P has not offered any comparison to its treatment of such risk in other industries (risk weightings used in banking, for example) or to the approach that regulators may use in industries such as banking. This deserves a much more in-depth and transparent treatment and, we believe, with the proper attention will result in a granularity and ranking not dissimilar to the current criteria.

We provide as an attachment a table comparing old and new BBB and A capital charges by old sector, based on a mapping of old to new categories provided by David Veno of S&P.

Proposed Increases in Municipal Capital Charges – Hempel Study. Two aspects of S&P's application of George Hempel's 1971 research publication "*The Post War Quality of State and Local Debt*" (National Bureau of Economic Research) (the "Hempel Study") – the same study that was the basis for the present capital charges – compounded to cause S&P to materially overestimate the potential for municipal losses in a stress environment similar to the Great Depression:

1. S&P recalibrated municipal capital charges to cover losses equal to 16% of AADS, while the Hempel Study demonstrated that the ultimate losses realized during the Depression were only 5% of AADS.
2. S&P compounds this overestimation by making unrealistic assumptions about the composition of municipal bond issuers that existed at the time of the Great Depression, both with respect to credit quality and type of issuer.

Calibration of Municipal Losses to 5% of AADS. Our First Letter demonstrates that the Hempel Study showed that Great Depression municipal losses should be calibrated to 5% of AADS, not 16%. In fact, George Hempel authored a paper directly for S&P to help it in rating the nascent bond insurance industry in the early 1970's, titled "*An Analysis of Past Defaults on State and Local Debt / Municipal Default Study – Basis for Reinsurance Needs; Also Used by S&P in Granting AAA Rating*" (the "Second Hempel Study"). S&P used this paper to rate the first bond insurer and it formed part of the basis for establishing the current municipal capital charges. Unless or until contradictory information is made available, S&P should return to its original reading of the Hempel Study and the Second Hempel Study, when it had the benefit of advice from George Hempel himself. In particular, we would point you to the following passages from the *"Summary and Implications for the Future"* section of the Second Hempel Study:

> "The volume of defaults on state and local indebtedness has not spread to anything like dangerous proportions except in periods of major economic depression. The severity of defaults was mildest in the most recent of these major depression periods, the 1929 Depression, during which losses totaled approximately .5 percent of the average amount of state and local debt outstanding. …
>
> "The future is always uncertain, however, the past provides some clues about probable future defaults and losses on state and local issues. The probability of widespread defaults on state and local debt would appear to be lower than in previous periods because our economy is considerably less vulnerable to major economic declines. The probability of numerous banking failures which were causes of a substantial number of past state and local defaults appears to be considerably diminished. The chance for permanent loss on the relatively small number of defaults that do occur also appears to be diminished. Reasons include the preceding factors as well as the increasing

> Federal government responsibility for state and local revenue. It would appear that the limited number of state and local defaults which do occur in the coming decade will involve primarily unrated revenue issuers—most of which will eventually pay most or all of what they borrowed—and some very small unrated issues."

Moreover, we think that calibrating municipal capital charges to 16% rather than 5% confuses the concepts of liquidity and solvency. S&P has ample other tools for measuring liquidity, rather than presupposing that a depression of the same magnitude today would have the same effect on the *liquidity* of municipalities that it did during the Great Depression. The rise and fall of unpaid municipal debt in the early 1930's coincided with the failure (and the lack of access to deposits for taxpayers and municipalities alike) and subsequent reform of the banking system. Also, as noted in the Second Hempel Study, the Municipal Bankruptcy Act in effect in the mid-1930's required 100% bondholder consent to a plan of adjustment, and any bondholder was empowered to initiate its own mandamus proceedings with respect to his holdings only. This legal environment contributed to the increase in unpaid municipal debt service in ways we would not expect today.

Composition of the Municipal Market at the Time of the Great Depression. In order to distribute the 16% of AADS in missed payments shown in the Hempel Study, S&P had to make assumptions regarding the composition of the municipal market at the time of the Great Depression. These assumptions were:

1. The population of issuers that existed at the start of the Great Depression was composed of entities that would be rated 10% in the AA category, 60% in the A category and 30% in the BBB category today. Most notably, S&P assumes that no issuers of municipal bonds at the time of the Great Depression were below investment grade by today's standards (or would have fallen outside of the underwriting guidelines of bond insurers).

2. The population of issuers that existed at the start of the Great Depression was composed 90% of issuers in Risk Category 1, 5% in Risk Category 2 and 5% in Risk Category 3.

The calibration of the proposed capital charges is highly sensitive to these assumptions. Moreover, our reading of the Hempel Study leads us to believe that a substantial number of issuers at the time of the Great Depression could not have met S&P's standards for investment grade ratings, and certainly would not meet Assured Guaranty's standards for insurance.

The implications of these assumptions are obvious upon observation of the newly proposed capital charges. Even the proposed capital charge for AAA-rated general obligation bonds, the lowest risk in the entire table, is 7% of debt service, higher than the average loss for all bonds outstanding in the Great Depression. A BBB-rated General Airport Revenue Bond, a

sector that has proven to be extremely stable, would garner a capital charge of 35% of debt service, seven times the losses on all bonds outstanding in the Great Depression.

If S&P had assumed that even a modest amount of issuers would not have been investment grade in the Great Depression, a good deal of the weighted average missed payments of 16% of average annual debt service would be allocated to those credits. In fact, by our calculation, if we assume that 15% of the issuers in the Great Depression were non-investment grade (10% BB and 5% B), a very plausible assumption, then the proposed new capital charges would be reduced by nearly half.

It is reported in Table I on page 22 of the Hempel Study that the net debt of "other special districts" in 1932 was $1.599 billion, or 9.1% of the total municipal debt outstanding. Over 25% of that debt defaulted. As we articulated in our First Letter, Hempel's description of these issuers leads us to believe that they would have been similar to the "dirt bonds" of today, and would not have met investment grade rating standards.

In addition, the leverage of issuers that existed during the Great Depression was alarming and much higher than today. Debt service on state and local debt averaged *19.7%* of revenues in 1932, about *three times* that of two of today's most fiscally stressed states, Illinois and California, which have debt service between 6% and 7% of revenues according to a November 2010 S&P article. Even that 19.7% average masks the stress experienced in particular states, and within those, in particular municipalities. Hempel's debt per capita figures demonstrate the dispersion around the average. For example, nineteen of 191 cities larger than 50,000 had per capita debt loads more than 1.2 times the national average (eight of these nineteen defaulted), and seventeen municipalities in New Jersey had per capita debt more than *2.4 times* the national average. One can then conclude from these figures that at the time of the Great Depression, when average leverage of municipal issuers was over three times that of stressed issuers today, *some issuers were leveraged much more, perhaps more than six times the level of stressed states today.* Is it fair to assume that all of those issuers would receive investment grade ratings from S&P today?

It is hard for us to imagine, therefore, that anything less than 15% of issuers at the beginning of the Great Depression would have been rated below investment grade.

Impact on Calibration of Proposed Municipal Capital Charges. If the capital charges were properly calibrated to the ultimate Great Depression loss (5% AADS), all proposed capital charges would be reduced to less than one-third of those in the initial proposal. If we were to couple this correction with the assumption that 15% of the issuers at the time of the Great Depression were below investment grade, then the proposed capital charges should be reduced to approximately 17% of those proposed in the RFC.

Better Performance of Insured Bonds. Even calibrating municipal capital charges appropriately to the facts described in the Hempel Study ignores the likelihood that insured bonds will perform better than uninsured bonds. There are three reasons for this. First, the

underwriting process at bond insurance companies includes a credit evaluation that eliminates certain riskier transactions. Second, those transactions that are accepted for insurance are required to include stronger covenants than are available in uninsured transactions. Third, as is being amply demonstrated in this credit cycle, bond insurers have the resources, organization and motivation to actively mitigate losses in ways that are unavailable or impractical for a dispersed group of bondholders represented by a trustee that may be anxious to avoid liability and expense. While we are not asking S&P to make an adjustment to its analysis for this factor, we note that it builds in a level of conservatism into the analysis.

Single Risk

For the reasons enumerated in the First Letter, we continue to believe that S&P should revisit its calculation of single risk limits, as well as the implications of being over the limit, in light of observed loss severities.

Other Issues

While David Veno was kind enough to supply us with a mapping of old U.S. municipal sectors to the new categories, we do not have similar information with respect to the proposed treatment of non-U.S. exposures. The RFC suggests that most non-U.S. risks will be treated as Category 1 for capital charge purposes, but as structured finance for leverage test purposes, which appears inconsistent.

Given that bond insurers require high ratings to originate new business, the rating agencies act as *de facto* regulators of our capital requirements. S&P should recognize this and, if it materially revises its view of the amount of capital a bond insurer requires to maintain a given ratings level, it should provide for a phase-in period in a spirit similar to, for example, that provided by bank regulators in connection with the implementation of the Basel Accords.

Market Impact

We urge S&P to consider carefully the proposed criteria given the continuing importance of the availability of bond insurance in certain sectors of the municipal market. While some of the larger, higher-rated states and municipalities are able to access the market without bond insurance, many smaller municipalities still need bond insurance to gain efficient access to the capital markets. In 2010, Assured Guaranty enhanced 1,469 transactions ($10.6 billion par) that were $25 million or less in size, insuring more than 15% of the par of all 2010 municipal transactions of that size regardless of underlying rating. Assured Guaranty's wrap was

particularly important to market access in a number of states, with over 20% of the par volume of 2010 transactions in Arizona, Idaho, Alabama and Pennsylvania being enhanced by Assured Guaranty. The adoption of Criteria in a form that would result in a downgrade of Assured Guaranty, the only bond insurer still writing new business, would drive up costs for these issuers and reduce market access for some of them. Moreover, any change in ratings criteria that were viewed by market participants as being arbitrary and unsupported by facts would serve to chill the entrance of new or reinvigorated bond insurers into the market. Any such criteria change, then, should be fully supported by a careful and complete analysis of available information and be fully transparent to the market.

We look forward to working with you to improve the proposed new criteria.

Sincerely,

Dominic J. Frederico
President and Chief Executive Officer

cc: Richard Smith
David Veno

Attachments: Letter, dated March 1, 2011, from Walter A. Scott, Chairman, and Dominic J. Frederico, President and Chief Executive Officer of Assured Guaranty Ltd. to Mark Puccia, Colleen Woodell, Rodney Clark and Robert Green

Letter, dated March 24, 2011, from John J. Fosbenner, Partner, PricewaterhouseCoopers LLP to Robert A. Bailenson, Chief Accounting Officer of Assured Guaranty Ltd.

Comparison of Current BBB and A Cap Charges and Risk Categories to Proposed BBB and A Cap Charges and Risk Categories

ASSURED GUARANTY®
FAMILY OF COMPANIES

March 1, 2011

Mr. Mark Puccia, Criteria Officer
Ms. Colleen Woodell, Chief Credit Officer
Mr. Rodney Clark, Managing Director
Mr. Robert Green, Director
Standard & Poor's
55 Water Street, 33rd fl.
New York, NY 10041-0003

Ladies and Gentlemen:

Thank you for this opportunity to comment on S&P's recently proposed Bond Insurance Criteria (the "Criteria"). We share S&P's desire to establish a clear and well-supported analytical framework for analyzing bond insurance companies. We also believe that investors will benefit from a better understanding of the long term credit characteristics that S&P considers when assigning ratings in this industry.

Having reviewed the recent proposal, we have several significant comments which we believe should be reflected in S&P's final published criteria before they are applied to any specific company.

Proposed Aggregate Leverage Test

Given the obvious benefits of a thoughtful, risk-based capital model, such as that traditionally employed by S&P, we do not believe that applying an arbitrary, par-based leverage test provides useful information to investors. As initially proposed, the leverage test would not distinguish insured risks by quality or tenor, nor would it reflect where an insured risk lies in the capital structure of a particular issuer. For example, two similarly leveraged insurers, one of which insures BBB, subordinated tranches of structured financings and the other of which insures AAA, senior classes of CLO's, would appear to be similar credit risks using this simple measure. Would investors benefit from S&P publishing equivalent leverage ratios for these two companies, or by downgrading the "AAA" insurer to the level of the "BBB?" It would be impossible for a leverage test as simple as the one proposed to reflect important differences among companies, which obviously undermines its usefulness in the rating process. Worse

still, the proposed test would actually encourage the underwriting of lower quality risks and the assumption of subordinated and/or compressed exposures.

In addition, the proposed leverage test excludes a critical component of a financial guarantor's claims paying resources, namely its unearned premium reserve ("UPR"). Unlike property and casualty companies or life insurers, UPR represents a significant source of claims paying ability for a financial guarantor. The cash associated with UPR is an unencumbered asset on an insurer's balance sheet and is available to pay claims as needed. In Assured Guaranty's case, our UPR represents nearly 40% of our total funds available for claims and adds very significantly to our financial strength. As you know, the UPR is earned over the life of our insured risks and therefore mirrors nearly perfectly the potential claims profile of our insured municipal portfolio.

We understand that S&P proposes to exclude UPR from the calculation of its proposed leverage ratio because regulators do not include UPR when determining an insurance company's solvency. Here we would point out two important facts. First, the regulatory leverage limit is approximately 150:1 for municipal bonds (compared to the 75:1 limit S&P proposes). This regulatory limit reflects both the conservative definition of capital and the high quality of insured municipal risks. Second, the primary regulatory motivation for excluding UPR from statutory capital is to limit the dividend capacity of insurance companies in order to maximize their ability to pay claims. This is entirely appropriate as UPR represents premium that has been paid up front (and is not refundable under any circumstances) but which will be earned in future periods – and thus should not be available to pay dividends until the associated risk has been retired.

Interestingly, the value of this important resource is reflected in S&P's risk based capital adequacy model which forecasts theoretical claims patterns over a seven year time horizon. Despite these facts, if S&P decides to retain a simple, par based leverage test in its final criteria, we believe the test should be revised to include UPR as a better measure of total funds available to pay future claims.

On a more technical note, the proposed criteria are not clear with respect to the treatment of international public finance risks under the leverage test. Given that these transactions finance essential public infrastructure and depend, in most cases, on government supervision and support, we believe these exposures should be treated as US municipals under the proposed leverage test, as they are under S&P's capital adequacy model (Criteria, paragraph 42), rather than as structured financings.

Proposed Increases in Municipal Capital Charges

In addition to the new aggregate leverage test, S&P's proposed Bond Insurance Criteria contain substantial increases in the capital charges associated with U.S. municipal exposures. The table below illustrates the magnitude of some of these proposed changes:

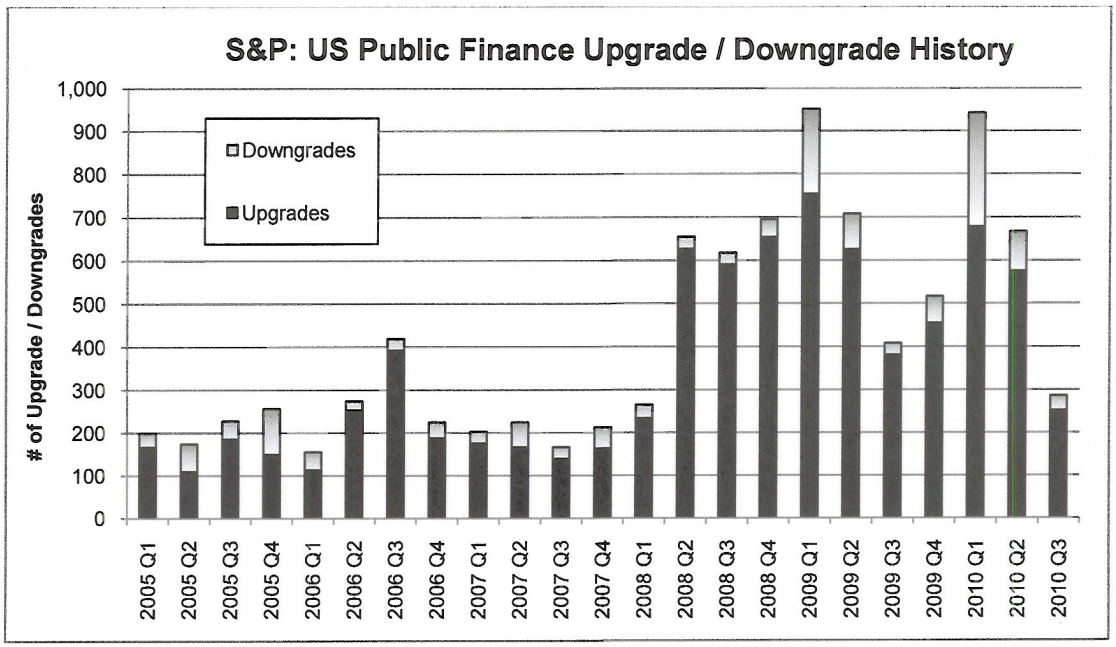
Sector	Prior Capital Charge (% AADS*)		Proposed Capital Charge (% AADS*)		% Increase in Capital Charge	
	BBB	A	BBB	A	BBB	A
State GO's	4	2	21	12	425%	500%
City/County GO's	13	7	21	12	62%	71%
Schools – GO's	5	3	21	12	320%	300%
Water, Sewer (Rev)	16	8	21	12	31%	50%
Public Power	20	11	35	19	75%	73%

*AADS is the average annual debt service of a municipal security

S&P states that these new capital charges were designed to reflect the default experience of municipal bonds during the Great Depression as described by George Hempel in his 1971 research publication The Post War Quality of State and Local Debt (National Bureau of Economic Research) (the "Hempel Study"). We will discuss the details of the Hempel Study later in this letter, but would first point out that Mr. Hempel's work was first used by S&P over 25 years ago to develop the *original* capital charges used in S&P's capital adequacy model for financial guarantors.[1] These *exact same statistics* are now being used by S&P to support increases of as much as 500% to the capital requirements for insured municipal bonds.

The logical inconsistency resulting from using the same historical statistics to reach two significantly different analytical conclusions is compounded by S&P's recent rating actions in the municipal market. Since the beginning of the current recession in 2007 S&P has upgraded 6,460 municipal ratings and downgraded only 1,050.

[1] S&P's website of historical articles contains a 2003 article entitled "Understanding the Bond Insurance Capital Adequacy Model" which specifically refers to the Hempel default statistics as the basis for S&P's current municipal capital charges.



S&P has stated publicly on many occasions that it has always had a single scale for rating municipal, corporate, and structured finance securities and that its recent upgrade activity has reflected changes to S&P's view of the strength of the individual municipal credits and not a fundamental recalibration of its municipal rating system. If this is true, an upgrade/downgrade ratio of 6:1 since the onset of the recession would seem to signal generally improving municipal credit profiles among municipal issuers and to confirm the robust financial strength of the municipal sector more generally. Such widespread upgrade activity is not consistent with a five-fold increase in municipal capital charges and sends a contradictory message to municipal investors.

Compounding this confusion, S&P's Municipal Department has communicated clearly to the market in recent months that it does not expect the municipal market to experience significant defaults among investment grade issuers. The following comments from S&P's November 8, 2010 article entitled "U.S. States and Municipalities Face Crises More of Policy than Debt" are illustrative of S&P's public (and we believe correct) commentary with respect to the current state of municipal credit:

> "...for states in particular, debt service generally holds a priority status relative to other obligations. Indeed, a state's spending cuts in a recession may actually serve to protect debt service. The revenue declines that we think would likely cause default in many instances would need to be double what they were during the Great Depression." (page 2)

> "Considering California's senior payments, and using audited 2009 data, we estimate that a 45% revenue loss (annualized) would place material pressure on the state's ability to fund its debt service. This level of revenue deterioration would be approximately 2.5 times the average among states during the Great Depression." (page 6)
>
> "Given [Detroit's] variety of revenue sources and spending commitments, we believe a default in the normal course of business would be unlikely. Even when pension and OPEB payments are included, fixed costs rise to only a quarter of the budget..." (page 9)

These statements clearly indicate that large losses are not expected in the municipal market even after experiencing the most severe financial crisis in decades.

Finally, the historical performance of investment grade municipal bonds also supports the retention of the current capital charges. Assured companies have been insuring municipal obligations for over 20 years. During this time, in our direct book, we have insured bonds for over 13,000 unique municipal issuers totaling $675 billion of par and received over $6.2 billion in premiums. During this period of time we have paid claims on 9 municipal transactions and have incurred loss and loss adjustment expense of just $113 million. Compared to similarly rated property and casualty companies which regularly post loss ratios of 60% or more of earned premiums, this is an impressive track record. Furthermore, the entire investment grade segment of the municipal market has had similar results. In S&P's most recent study of municipal defaults it notes only 39 S&P rated issuers since 1986 which have defaulted on their debt from a rated universe (excluding housing) of over 12,970 issuers today. This is a track record of credit strength that distinguishes the municipal bond market from all others that S&P rates.

Given the facts outlined above, we believe the increased capital charges for municipal exposures as outlined in S&P's proposed criteria are not supported by historical data or S&P's own municipal research. If implemented, the proposed Criteria would send a confusing and contradictory message to investors in insured municipal bonds given the historical performance of this sector and S&P's rating actions and public statements over the past several years.

Review of Hempel Study

In its Request for Comment, S&P explains that it calibrated its proposed municipal capital charges to the results of the Hempel Study by attempting to distribute capital charges so that the weighted average "would equal a 16% loss as a percent of average debt service, the figure estimated by Hempel..." (Criteria, paragraph 41) A closer reading of Mr. Hempel's study, however, reveals that missed debt service payments were less than half of the number to which S&P refers, and ultimate losses during the Great Depression were only 5% of annual debt service, or 50 bp of outstanding municipal par. As explained in more detail below, we believe

that the capital charges which S&P originally assigned following their review of the Hempel Study 25 years ago are better supported by actual facts than the capital charges outlined in S&P's proposed Criteria.

1. On page 19 of his study, Mr. Hempel notes that the *total indebtedness* of state and local units with recorded defaults between 1929 and 1937 was approximately $2.85 billion. He then assumes an average interest rate of 4.5% and an average maturity of 15 years to conclude that approximately $320 million of debt service was due from defaulted issuers. This amount is estimated to represent 16% of average annual debt service for the whole market. It is this 16% estimate of missed debt service that S&P treats as a *loss* when computing its proposed municipal capital charges. S&P's usage of this estimate is flawed for three reasons:

    a) Mr. Hempel points out that only $1.35 billion of outstanding municipal bonds *actually defaulted* from 1929 through 1937. (Hempel Study, page 21) This is because issuers didn't default on all of their outstanding debt when they defaulted on a single bond. In fact, the observed default rate was less than half of the default rate used by S&P to compute their proposed capital charges.

    b) Municipal issuers today have a significantly longer maturity profile for their debt than the 15 years quoted in the Hempel Study. Additionally, during the Depression, debt maturities were commonly balloon payments and sinking fund accumulation for term bonds were largely ignored. Today, most municipalities use serial bonds or term bonds with mandatory sinking fund requirements. The average original maturity of Assured's municipal portfolio, for instance, is approximately 23 years. This longer maturity, combined with the fact that defaulted bonds cannot be accelerated against the insurer (i.e., insurers are only obligated to pay debt service in accordance with the original maturity schedule), significantly reduce the magnitude of potential claims, even during periods of significant stress.

    c) Most importantly, the 16% figure S&P is using to compute assumed municipal *loss* (and required capital) fails to account for the significant recoveries that bondholders received. Mr. Hempel notes that:

        "Nearly all of the large state and local units in default made complete payment of all due debt service charges within a few years." (Hempel Study, page 23)

    Mr. Hempel later concludes by saying that:

        "The total loss of principal and interest resulting from recorded defaults during the 1929 depression period is estimated at $100 mm, or about

0.5 per cent [50 bp] of the average amount of state and local debt outstanding in the period."

2. In its analysis of the Hempel Study, S&P assumes that the entire municipal bond market in 1929 would have been rated investment grade (and, hence, been eligible for insurance) using today's rating standards (30% BBB, 60% A, 10% AA, from paragraph 41 of the proposed S&P Criteria). S&P also assumes that financial guarantors, had they been in existence during the Depression, would have insured a cross-section of the entire municipal bond market, without any positive effects as a result of their underwriting processes. If these two important assumptions were true, it might be appropriate to include all observed defaults from this period when estimating the stress case defaults that an insurer might suffer.

   It is more likely, however, that the 1929 market included non-investment grade issuers and/or issuers which would not have been approved for insurance, and that a disproportionate share of defaults observed during the 1930's came from that segment of the population. Unfortunately, ratings for the entire municipal bond market in 1929 were not noted in Mr. Hempel's study. It is clear from his description of issuers in the period, however, that many would not be investment grade by today's standards, and hence would not have qualified for bond insurance from the outset, ignoring the positive effects of underwriting. From Mr. Hempel's 1964 dissertation[2] on the subject, for instance:

   > "The growth of municipal units in the 1920's brought a genuine need for added improvement. It also provided an excuse for the use of local credit to further real estate subdivision speculation. The officers of real estate companies often became officials of the municipal units and promoted bond issues to develop their property for sale. Special assessment or local improvement districts were created to permit the improvement of undeveloped and speculative areas. Where there were legal debt limits, nearly all were expressed in terms of a certain ratio of debt to assessed valuation. Changes in assessed values or issuance of debt in the name of an overlapping unit easily made these limits ineffective."

   This description brings to mind present day, non-rated, early stage land secured transactions ("dirt bonds"), such as tax-exempt community development districts or municipal utility districts, that are often backed by special assessments or ad valorem tax pledges. These issues typically do not qualify for insurance until substantial taxable value has developed, leading to an assignment of investment grade underlying issuer ratings. Therefore, S&P's assumption that all Depression losses were attributable to

[2] "The Post War Quality of Municipal Bonds," University of Michigan, Ph.D., 1964. (page 117)

issuers who would be rated investment grade today does not appear justified and overstates Depression losses significantly.

3. It is also important to recognize that the municipal market of today contains significant protections for investors that did not exist during the Great Depression. In particular, Mr. Hempel notes that some municipal defaults during the Depression were executed by way of repudiation based on defects in the legal documents. Additionally, the severity of loss was particularly high for smaller issuers and special districts (see page 24 of the Hempel Study). Also, revenue bonds were virtually non-existent, representing only 2% of municipal debt in 1931. We also believe that the banking crisis of the Depression, which occurred prior to the institution of many bank safeguards that exist today, increased the financial stress placed on governments by causing municipal issuers to lose access to their deposits.

   Since the Great Depression, a significant number of safeguards have been implemented to protect municipal bondholders. Briefly, these safeguards include:

   a) statutory debt limits to prevent excessive borrowing caused by speculative growth in real estate valuations;

   b) clearly defined bondholder rights upon the occurrence of an event of default supported by dedicated local governmental debt statutes and related case law;

   c) determination by a nationally recognized bond counsel of the legality and validity of the bonds before sale to avoid technical legal defects that could allow the municipal obligor to repudiate the debt;

   d) many local governments and school districts benefit from state oversight programs that offer administrative and/or financial support which positively impacts the default performance of municipal bonds. The S&P default study from 2003 (published in April 2004) observed that municipal crises are typically resolved prior to default as the state typically intervenes in the financial affairs of local issuers either by providing oversight, additional state aid or some other type of outside intervention;

   e) greater supervision by both the Federal and state governments of local debt administration including the creation of the Municipal Securities Rulemaking Board ("MSRB") by Congress in 1975 to provide oversight of firms in the municipal securities business;

   f) federal supervision of banking institutions, ensuring the credit strength of depository banks that hold municipal obligors' bond related funds and accounts;

   g) statutory limitations on municipal obligors issuing debt to finance chronic operating deficits;

h) vastly improved debt disclosure and municipal accounting standards including the creation of the Government Accounting, Auditing, and Financial Reporting ("GAAFR") standards and the Governmental Accounting Standards Board ("GASB");

i) constitutional "gift clause" or "lending of credit" prohibitions that prohibit issuing governmental debt for the benefit of private persons or purposes;

j) thorough credit review by many Wall Street investment firms and institutional investors; and

k) greater financial sophistication among public officials and their general recognition of the necessity to meet all contractual obligations, including debt service on their capital markets debt obligations.

Each of the safeguards listed above, which were not in existence during the Great Depression, enhance bondholder credit quality and security significantly, and clearly demonstrate that the municipal bond market of 2011 has a lower vulnerability to economic stress, including lower frequency of default and severity of loss, than the municipal bond market of 1929-37 period.

All three rating agencies (S&P, Moody's and Fitch) have also published default studies all of which show very low default rates for municipal bonds. Moody's study, which covers the longest period of time out of the three studies (1970-2009) and captures some significant economic downturns, shows a ten year cumulative default rate for all Moody's rated municipal bonds of a very low 0.09%. When non-general obligation bond issuers are excluded from these numbers, the 10 year cumulative default rate barely registers at 0.01%.

With respect to bankruptcy, the Federal Municipal Bankruptcy Act of 1937 (the "1937 Act"), the predecessor bankruptcy regime to Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. §§ 901 – 946 ("Chapter 9"), that governed most municipal bankruptcies during the Great Depression, did not include two important features included in today's Chapter 9. First, the 1937 Act did not have a requirement that municipal obligors be "specifically authorized" under State law to file Federal bankruptcy petitions; only "general authorization" was required (unless the consent of the host state was expressly required under State law) and, therefore, any municipal obligor that was generally authorized to execute contracts under State law was considered to be authorized to file a bankruptcy petition under the 1937 Act. In 2011, 23 States do not provide "specific authorization" to their municipalities to file Chapter 9 petitions and most of the other states that provide "specific authorization" require some form of State consent as a condition precedent to a Chapter 9 filing. Second, the 1937 Act did not provide protection to bondholders secured by "special revenues". As a result, the bondholders' lien on pledged revenues could be terminated post-petition, potentially resulting in a

higher loss severity for special revenue bondholders. Under Chapter 9, the bondholders' lien on "special revenues" is protected post-petition and survives a bankruptcy filing. The maintenance of the bondholders' lien on the pledged revenues provides significant protection to bondholders during a bankruptcy proceeding and implies a much lower loss severity for revenue bondholders under Chapter 9 than under the 1937 Act.

In summary, given that 1) the Hempel Study clearly shows that losses during the Depression were less than one-third of the level assumed by S&P, 2) that certainly a substantial portion of the observed Depression losses were attributable to non-investment grade risks, and 3) that today's market includes many bondholder protections not present in the 1930's, we believe there is no analytical basis for S&P to increase the capital charges attributable to municipal bonds.

Single Risk Limits

S&P's proposed single risk limits are designed to compare the stress loss for a given issuer to a measure of an insurer's loss tolerance, whether defined as two years of adjusted earnings or 25% of capital. This logical framework, as described in Table 15 in S&P's proposed Criteria, is dependent on several critical assumptions which we believe should be adjusted to reflect actual market experience:

1. In single risk Category 1 (which includes general obligation bonds), S&P's assumed loss equals 25% of insured par. We are not aware of any validly issued, investment grade, GO bond which has experienced an ultimate loss of 25% of par in the history of the municipal bond market. Referring again to the Hempel Study, losses on *all* defaulted securities (not just GO bonds) equaled only 7.4% of defaulted par ($100 million/$1,350 million). Given S&P's stated goals of using the Great Depression as its guidepost, assuming a loss severity 3.5 times worse than that observed during the 1930's seems excessive. We believe an assumed loss severity of 7.5 – 10% of par for Category 1 risks (including GO's) would better reflect the actual Depression experience and still leave a margin for possible error.

2. While the proposed Criteria are somewhat vague, in the event that a specific risk exceeds the single risk tolerance, S&P appears to suggest that the insurer's capital be reduced by the *par* amount of the "overage". Given the substantial recovery experience of the municipal bond market, it would only seem reasonable to limit this capital reduction to the *loss* associated with the "overage" (7.4% from the Hempel Study).

3. We believe the proposed single risk guidelines should be modified to allow larger single risk limits for higher rated exposures. In the extreme, it would seem illogical to downgrade an insurer for having "excess" exposure to a credit whose underlying rating is equal to or higher than the insurer's claims paying rating.

Other Comments

1. Paragraph 59 – Investments

   S&P proposes to assume that all investments rated below A are "worthless" for purposes of the capital adequacy model. We do not believe this treatment of assets is consistent with S&P's view of asset quality when analyzing similarly rated banks and insurance companies, all of whom own large portfolios of equities, high yield bonds, unrated securities, and direct loans. Given S&P's goal of achieving consistency in its ratings across sectors, we believe such assets should be included in claims paying resources when running the capital adequacy model.

2. Paragraph 88 – Insured Investments

   S&P's proposed criteria suggest certain limits on insured bonds held in a financial guarantor's investment portfolio. We believe such limits should not apply to bonds rated higher than the rating of the guarantor, as these bonds trade on the basis of their own credit quality, not that of the insurer. An obvious example of this type of security would be pre-refunded bonds which are secured by an escrow account and are among the highest quality and most liquid securities in the municipal market.

3. Paragraph 129 – Liquid Assets

   As part of its liquidity analysis, S&P proposes to compare cash and assets maturing within 12 months to anticipated claims over a similar period. We believe this test should be expanded to include highly liquid investments of a longer maturity such as Treasury and Agency securities and pre-refunded municipal bonds.

4. Subjective Measures

   While comprehensive, the proposed S&P Criteria rely significantly on subjective judgments covering important components of an insurer's ratings, such as risk management and business strategy. While we agree that subjective judgments can add important color to the rating process, we believe that valid, quantitative elements should be the principal drivers of an insurer's financial strength rating.

Conclusion

We support S&P's efforts to improve the analytical foundation and transparency of their ratings and understand that over time some evolution of rating criteria is to be expected. We believe, however, that any proposed new criteria should be shown to provide meaningful incremental information to investors. Based on our discussion above, we do not believe that the proposed leverage test, as currently formulated, allows investors to draw analytical distinctions between companies, and is therefore not a useful tool in the rating process.

In addition, proposed changes to the capital charges associated with municipal risks are not supported by either a careful reading of the Hempel Study or by the actual default experience observed in the municipal market over the past 80 years. Absent material new information, we believe the existing capital charges should be retained.

We look forward to discussing these ideas in greater detail with you in the weeks ahead.

Sincerely,

W. A. Scott

Walter A. Scott
Chairman of the Board of Directors

Dominic J. Frederico
Chief Executive Officer

pwc

March 24, 2011

Mr. Robert A. Bailenson
Chief Accounting Officer
Assured Guaranty Ltd.
30 Woodbourne Avenue
Hamilton HM 08
Bermuda

Dear Mr. Bailenson:

This letter is in response to your question regarding the definition of the unearned premium reserve established under accounting principles generally accepted in the United States of America and accounting practices prescribed or permitted by the Insurance Department of the State of New York.

Per ASC 944-20, the 'unearned premium revenue represents the insurance enterprise's stand-ready obligation under a financial guarantee insurance contract at initial recognition.'

Statement of Statutory Accounting Principles No. 53 indicates that the unearned premium reserve 'shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired.'

In preparation for the issuance of an SSAP, the NAIC has released issue papers that contain recommended conclusions and discussions of the topics. The final conclusions are codified into an SSAP. The issue papers are therefore not authoritative statutory accounting guidance, but are considered by the NAIC to be an important part of the accounting practices and procedures manual because they reference the history and discussion of the related SSAP.

Issue Paper No. 53 - Property Casualty Contracts - Premiums, which relates to SSAP 53, states in its discussion section that 'the unearned premium reserve represents the premium to be earned in the future intended to cover the unexpired portion of the policy which generally relates to the future sacrifice of economic benefit, which are the claim costs the insurer will pay if losses are incurred during the contract period.'

This letter solely addresses the definition of the unearned premium reserve established under accounting principles generally accepted in the United States of America and accounting practices prescribed or permitted by the Insurance Department of the State of New York and does not address any other matters for any other purpose.

Sincerely,

John Fosbenner

John Fosbenner
Partner
PricewaterhouseCoopers LLP

Comparison of Current BBB Cap Charges and Risk Categories to Proposed BBB Cap Charges and Risk Categories

Old Large Sector	Old Sub Sector	Old BBB Cap Charge	New BBB Cap Charge	Old A Cap Charge	New A Cap Charge	Old Single Risk Category	New Risk Category	New Risk Category Description
General Obligation	States	4	21	2	12	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
General Obligation	Cities and Counties	13	21	7	12	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
General Obligation	Schools - Elementary and Secondary	5	21	3	12	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
General Obligation	Special District	16	21	8	12	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
General Obligation	Community College District	13	21	7	12	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Tax-Supported Debt	Sales, gas, excise, gas & vehicle registration - Local	20	21	11	7	2	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Tax-Supported Debt	Sales, gas, excise, gas & vehicle registration - Statewide	10	21	6	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Tax-Supported Debt	Personal Income - Less than 1.0 million	21	21	11	7	2	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Tax-Supported Debt	Personal Income - More than 1.0 million	10	21	6	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Utilities	Water, sewer, electric, and gas utilities (revenue secured)	16	21	8	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Utilities	Solid waste disposal to energy or landfill project (single site)	33	21	18	7	4	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Utilities	Solid waste system with landfill and / or waste-to-energy facility	26	21	14	7	3	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Utilities	Solid waste transfer station, trucks (no landfill / water-to-energy facility)	20	21	11	7	2	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Special Revenue	Public colleges and universities and community college revenue bonds - General obligation - unlimited-fee pledge	12	21	6	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Special Revenue	Public colleges and universities and community college revenue bonds - General obligation - limited-fee pledge	13	21	7	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Special Revenue	Public colleges and universities and community college revenue bonds - Auxiliary enterprises and related foundations	20	21	11	7	2	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Special Revenue	Guaranteed Student Loans	13	21	7	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Housing Bonds	FHA-insured multifamily*	0.8	21	0.4	7	1	1	Tax-backed general obligation pledge, water-sewer/solid waste, sales/income/gas tax, public universities, and FHA insured housing
Tax-Supported Debt	Guaranteed Entitlements	13	35	7	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Utilities	Public power agencies and utilities with special project risk	52	35	28	12	6	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Utilities	Public power agencies and utilities with high dependence on nuclear	39	35	21	12	5	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Utilities	Public power agencies and utilities with no special project risk and little nuclear dependence	20	35	11	12	2	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Airports	16	35	8	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Airports - Limited Tax-Backed	13	35	7	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Airports - Passenger Facility Charge	26	35	14	12	3	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings

* Old cap charge as a % of par; all other cap charges as a % of AADS.

Rev. 3-22-11

Comparison of Current BBB Cap Charges and Risk Categories to Proposed BBB Cap Charges and Risk Categories

Old Large Sector	Old Sub Sector	Old BBB Cap Charge	New BBB Cap Charge	Old A Cap Charge	New A Cap Charge	Old Single Risk Category	New Risk Category	New Risk Category Description
Special Revenue	Airports - Special facility (with rate flexibility)	21	35	11	12	2	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Ports	13	35	13	12	2	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Ports - Limited Tax Backed	18	35	10	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Ports - Special facility (with rate flexibility)	39	35	21	12	5	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Parking	33	35	18	12	4	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Toll Roads - Five-year operating history	26	35	14	12	3	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Toll Roads - Less than five-year operating history	39	35	21	12	5	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Bridges - Five-year operating history	33	35	18	12	4	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Bridges - Less than five-year operating history	46	35	25	12	6	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Federal grant-secured obligations	21	35	11	12	2	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Special Revenue	Federal grant-secured obligations with additional credit support	16	35	8	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Housing Bonds	HFA ICRs	20	35	11	12	2	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Housing Bonds	PHA ICRs	33	35	18	12	4	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Housing Bonds	State Agency single-family	13	35	7	12	1	2	Tax-backed general fund or appropriation pledge, public power/gas, transportation, state agency single-family housing, and FHA and PHA ICR financings
Tax-Supported Debt	Special Assessments, Mello Roos, tax increment financings	33	55	18	31	4	3	Other special taxes, special assessments, tax increment, and local agency single-family housing
Tax-Supported Debt	Hotel / motel	33	55	18	31	4	3	Other special taxes, special assessments, tax increment, and local agency single-family housing
Tax-Supported Debt	Cigarette, liquor	33	55	18	31	4	3	Other special taxes, special assessments, tax increment, and local agency single-family housing
Housing Bonds	Local agency single-family	26	55	14	31	3	3	Other special taxes, special assessments, tax increment, and local agency single-family housing
Health Care	Hospitals	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Hospital Systems (3 or more hospitals with geographic dispersion)	39	78	21	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Hospital Equipment loan program	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Health Maintenance Organization	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Clinic practices closely affiliated with hospital	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Nursing home	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Nursing home system (3 or more homes with geographic dispersion)	39	78	21	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Life-care center	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Health Care	Life-care center system (3 or more centers with geographic dispersion)	39	78	21	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates

* Old cap charge as a % of par; all other cap charges as a % of AADS.

Comparison of Current BBB Cap Charges and Risk Categories to Proposed BBB Cap Charges and Risk Categories

Old Large Sector	Old Sub Sector	Old BBB Cap Charge	New BBB Cap Charge	Old A Cap Charge	New A Cap Charge	Old Single Risk Category	New Risk Category	New Risk Category Description
Health Care	Human service providers	26	78	14	41	3	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Special Revenue	Private colleges and universities and independent schools - General Obligation	33	78	18	41	4	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Special Revenue	Private colleges and universities and independent schools - Auxiliary Enterprises	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Special Revenue	Not-for-profit 501(c)3's	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Special Revenue	Charter Schools	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Housing Bonds	PHA (capital fund financings)	26	78	14	41	3	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Housing Bonds	Stand-alone affordable housing/section 8/student housing	46	78	25	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Housing Bonds	Mobile home parks/single borrower pools	39	78	21	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Housing Bonds	Military housing / multiborrower pools	33	78	18	41	4	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Investor-Owned Utilities	Electric distribution system	16	78	8	41	1	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Investor-Owned Utilities	Water, electric, and gas	16	78	8	41	1	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Investor-Owned Utilities	Gas distribution	20	78	11	41	2	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Investor-Owned Utilities	Telephones	20	78	11	41	2	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Investor-Owned Utilities	Natural Gas Pipeline	59	78	32	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Life and property/casualty insurance operating companies*	7.4	78	3.5	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Life and property/casualty insurance holding companies*	14.8	78	7.1	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Bank operating companies*	7.4	78	3.5	41	5	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Bank holding companies*	14.8	78	7.1	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Corporate and corporate-like entities*	11.1	78	5.3	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates
Corporates and Financial Inst.	Subordinated debt*	14.8	78	7.1	41	6	4	Charter Schools, private schools and universities, healthcare, 501c3, PHA Capital Fund Financings, military housing, mobile home or affordable housing/section 8 financings, corporates

* Old cap charge as a % of par; all other cap charges as a % of AADS.