

Special Comment

Moody's Global Insurance

November 2008

The Changing Business of Financial Guaranty Insurance

Summary Opinion

- The financial guaranty industry is facing the biggest stress of its 30+ year history. The experience of these firms over the past year has provided significant new information about the risks and opportunities inherent in the financial guarantor business model. Moody's has incorporated this information into our credit judgments about guarantors, as further described in this report.
- Guarantors have recorded pre-tax RMBS loss reserves and credit-related impairments on ABS CDOs of approximately \$19 billion over the past five quarters, a very large number compared to the industry's aggregate GAAP equity of \$24 billion at year end 2006. Industry participants have raised an aggregate \$7 billion of capital to cover these losses, but those with the largest mortgage exposures have found customers unreceptive and financial flexibility constrained.
- In light of these factors, Moody's has downgraded six of the eight Moody's-rated primary guarantors that existed a year ago, including three which have been lowered below investment grade. Moody's is also reviewing the Aaa ratings of FSA and Assured Guaranty for possible downgrade, highlighting key elements of the financial guaranty business model as important concerns for long-term credit ratings.
- Developments observed over the last year, including a) a broad-based retreat of structured finance business opportunities, b) unanticipated high correlation within segments of the insured portfolios, c) rapid shifts in the industry's competitive structure, and d) unreliability of access to capital upon occurrence of a stress event, have all called into question the extent to which the business fundamentals of financial guaranty insurance are supportive of stand-alone Aaa ratings.
- Recent events have illustrated that a guarantor's franchise value is extraordinarily sensitive to changes in its risk profile, where even a moderate decline in financial strength may have a dramatic impact on a guarantor's future business prospects. The high operating leverage associated with the financial guaranty business model increases the potential for such changes, particularly given the significant correlation and volatility associated with certain exposures. As a result, there is a fine line between a thriving franchise and one with limited value for shareholders. In contrast, most highly-rated companies in other industries have franchises that are much more resistant to broad-based erosion in product demand.

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Moody's Investors Service

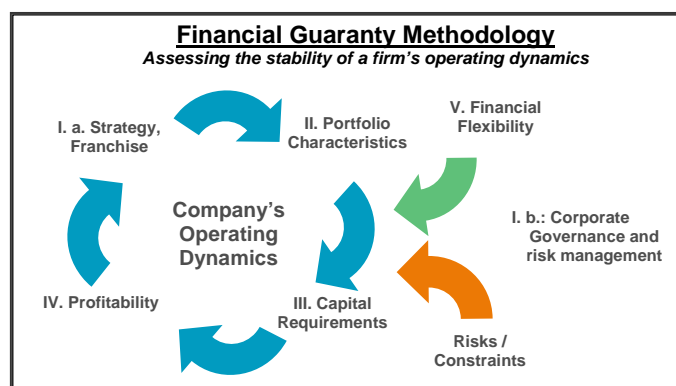
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- The extreme sensitivity of a financial guarantor's franchise value to changes in its risk profile also affects financial flexibility because prospective investors recognize that the value of their investment will be dependent upon the guarantor's ability to write profitable new business going forward. Financial flexibility of many guarantors has suffered over the past year in the face of company-specific stress, as the rapid deterioration of certain correlated credits left them with capital shortfalls relative to levels necessary to retain the confidence of their customers, damaging future business prospects. This has made it much more difficult for many firms to raise funds at reasonable cost, and could even increase the incentives among existing shareholders to withdraw capital, particularly where the prospects for writing profitable new business are poor.
- Moody's notes that Assured Guaranty Ltd. and Dexia SA recently announced a planned acquisition of the financial guaranty business of Financial Security Assurance Holdings Ltd. by Assured Guaranty Ltd. The announced transaction reinforces Moody's view that the business model of the financial guaranty industry is under significant pressure and the competitive landscape continues to change.
- In view of the recent volatility associated with structured credits, several industry participants have proposed to form separately capitalized "municipal-only" entities. While a municipal-only guarantor would likely have a lower-risk profile than a guarantor exposed to structured risks, municipal markets are not immune to downward credit pressure. Furthermore, the susceptibility of product demand and financial flexibility to changes in risk profile is particularly pronounced in the municipal sector. Such a narrow business strategy in a mature market could also generate increased competitive pressures which could be anticipated, over time, to degrade profitability and underwriting discipline. For these reasons, achieving a stand-alone Aaa rating for a muni-only guarantor would likely be difficult absent its ability to defend against product encroachment, secure reliable access to new funding in stress scenarios, and protect against the removal of capital and risk management resources in a run-off scenario.

Review of Moody's Rating Methodology

Moody's methodology for rating financial guarantors is designed to assess the ability of a financial guaranty operating company to pay senior policyholder claims and obligations in a timely manner. The methodology focuses on five key factors that drive our ratings, namely franchise value and strategy, portfolio characteristics, capital adequacy, profitability and financial flexibility. These interdependent factors form the basis of a guarantor's operating dynamics and, in aggregate, provide a comprehensive picture of its overall credit profile. As part of our evaluation, we consider the risk that such operating dynamics could materially change as a result of internal or external pressures, thereby altering the guarantor's credit profile.

These key rating factors are interconnected in the following way: Starting with **franchise value and strategy**, a company writes financial guaranty business according to its underwriting and operating guidelines, which define the credit characteristics of its insured portfolio. These **portfolio characteristics** then determine the level of **capitalization** that is necessary to support the claims-paying ability of the guarantor, which, in turn, impacts the level of **profitability** that it achieves through the pursuit of this strategy. If the company's returns are sufficient to meet the expectations of shareholders, then its current strategy is reinforced. If, on the other hand, the level of returns from such a strategy are not sufficient to meet shareholder demands, the potential for a modification in behavior rises significantly which, of course, could also have a direct bearing on ratings. For this reason, our analysis carefully considers the impact of a changing environment on a company's financial profile and prospective business opportunities, and in turn, on management's incentives to either support the current strategy or to alter it. A shifting environment can also influence **financial flexibility**, especially with regard to a company's ease of access to, and cost of, capital. In addition, the



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regulatory framework under which a financial guarantor operates may play a role in predicting behavior, particularly where there are restrictions regarding the amount of dividends that can be paid or the type of business that can be written.

Historically, high ratings within the financial guaranty sector had been based on the industry's strategy of insuring investment-grade transactions with modest performance volatility, thereby producing a well-diversified portfolio of low-risk insured exposures supported by strong risk-adjusted capitalization levels. For years, this highly-focused business model generated stable risk-adjusted returns for shareholders and created substantial franchise value that validated and reinforced the industry's operating strategy. The preservation of a low-risk business profile was held to be a core objective, given the importance to the overall business of maintaining a high level of creditworthiness. This, in turn, created a powerful incentive for a guarantor to take whatever actions feasible to preserve its credit profile and claims-paying ability. Recent events, however, have significantly altered these operating dynamics, leading us to reassess our view regarding certain key rating factors. This report presents a summary of the changes affecting the industry, and their impact on our credit analysis.

Insurance Financial Strength Rating	Financial Security Description
Aaa	Exceptional
Aa	Excellent
A	Good
Baa	Adequate
Ba	Questionable
B	Poor
Caa	Very Poor
Ca	Extremely Poor
C	Lowest Quality

Key Rating Factors Re-examined

The following comments discuss Moody's historical perspective with regard to each of the five key rating factors and our current assessment in light of the profound dislocation witnessed in this industry over the past year.

I. Strategy and Franchise Value

Our judgment about strategy and franchise value relates to a company's ability to develop and sustain a competitive advantage in its market. The strength of a company's competitive position and prospects for growth depend upon the market environment and general conditions within its industry, as well as on the company's ability to continually create value for its customers, which can have a direct bearing on its future returns. A company with a strong market position and brand operating in a thriving industry should be well-positioned to maintain its financial strength over time, which is supportive of high ratings. Conversely, a company operating in an uncertain market or with a business franchise that is either weak or susceptible to material change is more prone to financial stress, and would be rated lower.

Historical Perspective

Despite some variation in penetration rates, the demand for financial guaranty insurance had generally been strong and predictable over time, with established players generating attractive returns due to extremely low historical loss rates. Strong embedded premiums within existing books of business allowed these firms to weather temporary downturns in market activity without significant earnings impact. Barriers to entry were high relative to many other industries given the significant capital resources required to enter the market and the multiyear process of establishing market traction and generating meaningful profits.

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In normal economic periods, there was an unusually high alignment of interests between shareholders and creditors, with the franchise resting largely on the comfort that policyholders and other creditors gained from the guarantors' low risk profile and healthy risk-adjusted capitalization. Shareholders recognized that maintaining a strong credit profile was important to the underlying value of the business, mitigating the overriding governance concern (which exists for almost all companies) that management would act in the interest of shareholders to the detriment of creditor interests. In this context, it was expected that guarantors would be extremely proactive in addressing issues that could, if unchecked, lead to downward rating pressure. The industry's long track record of success reinforced this notion.

Current Assessment

As the credit markets have deteriorated over the past year, financial guarantors have experienced a dramatic change in their operating environment, with fewer new business opportunities and, in Moody's opinion, weaker market confidence in the industry overall. Issuance activity within the structured market, which generated about half of the industry's new business a year ago, slowed considerably in 2008. At the same time, insured penetration rates in the municipal market have fallen from roughly 50% over the past several years to about 20%-25% this year. While part of this change reflects a decrease in the number of active financial guaranty participants, penetration rates in the municipal market are also being affected by a shift toward unwrapped issuance and alternative forms of credit enhancement, including bank letters of credit. Furthermore, many issuers and investors have become more cautious about relying upon financial guaranty insurance, particularly from firms with significant exposure to troubled credits.

In response, several guarantors have announced their intention to de-emphasize or exit the structured finance sector and increase their focus on global public finance going forward. While there continues to be a market for municipal bond insurance, demand over the medium-term is somewhat less certain than in the past in Moody's view, as suggested by relatively higher uninsured issuance levels. From a franchise perspective, these trends have the effect of further narrowing the range of business opportunities, potentially increasing the level of competition for that business, and raising susceptibility to future disruptions within the core target markets that remain.

That said, we believe that the value of credit enhancement in the municipal market is as much a function of providing market liquidity and underwriting due diligence as it is about absorbing credit risk, so that we expect there to be a moderate amount of demand for municipal wraps from highly-rated credit enhancement providers, albeit to a lesser degree than in the past.¹ We also believe, however, that the level of demand for any individual provider is highly susceptible to changes in its credit risk profile, creating a "demand cliff" beyond that observed in most other industries. Although financial guarantors generally focus on underwriting investment grade transactions where losses are expected to be well-contained, high operating leverage and risk concentrations can nevertheless expose these firms to meaningful performance volatility in certain stress scenarios. As a result, our current assessment of franchise value given recent changes in the operating environment tends to fall in the single-A to double-A range for the best positioned financial guarantors. By contrast, companies with triple-A ratings typically have franchises that are extremely resistant to erosion in product demand over time.

We also note that, from a strategic standpoint, the confidence-sensitive nature of the financial guaranty business model, which under normal circumstances provides close alignment between shareholder and creditor interests, can become a negative for creditors in a stress scenario. Under stress, the interests of shareholders and creditors tend to diverge. In recent experience, certain guarantors have shown a reluctance to raise additional capital given the dilutive effect on shareholders. We have observed in other cases a reluctance to move available funds from a holding company to support a regulated insurance subsidiary, as well as strong interest in withdrawing operating company resources to support other group operations. Furthermore, recent attempts by some guarantors to commute troubled CDS exposures with their bank counterparties, often with the support of their regulator, have raised questions about the commitment to pay all claims and treat contingent creditors consistently. Moody's believes that the large losses sustained by some financial guarantors, and the somewhat restrained actions subsequently taken by those firms in support of

¹ While municipal market penetration rates could well increase from current levels, a return to previous penetration rates of 50% or greater is unlikely in our view.

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their creditworthiness, have served to undermine trust among financial guaranty customers in the product more broadly.

Collectively, these developments have caused a monumental shift in the environment and competitive landscape for financial guaranty insurance, with some firms effectively entering a period of hibernation, and others likely exiting the business on a permanent basis. Assured Guaranty's planned acquisition of FSA's financial guaranty operations provides the latest example of how market pressures are changing the structure of the industry. FSA's current owner, Dexia SA, has agreed to sell the guarantor for slightly over one-third of its 3Q08 shareholders' equity (adjusted for FSA's asset management business, which is not part of the transaction, and certain other accounting items.) In Moody's view, Dexia's decision to divest itself of a company that it once considered strategically important, despite a highly discounted sale price, suggests that the market currently assigns only moderate value to the business franchise.

II. Portfolio Characteristics

Portfolio credit characteristics are reflective of management's overall risk appetite and underwriting discipline, as well as the trends in performance of a guarantor's insured portfolio. Susceptibility to potential losses under expected circumstances and under more remote scenarios is an important determinant of a company's risk profile.

Historical Perspective

The financial guaranty business model is predicated upon underwriting risk-remote transactions where both the probability of default and the severity of loss in the event of default are low. Throughout most of its history, the financial guaranty industry successfully carried out this strategy by insuring exposures judged to be of investment-grade quality at the time of origination. Risks tended to be well-diversified across a broad range of municipal and structured finance sectors, and the performance of individual transactions was generally extremely stable over time. Expected losses for the industry typically ranged between 30 and 40 basis points as estimated by Moody's, implying that for every \$100 in par value insured, a guarantor would be expected to lose only 30 to 40 cents over the lifetime of the portfolio. While most financial guarantors had some exposure to large single risks, those transactions tended to be considered highly risk-remote. The observed frequency of loss for the industry was extraordinarily low, and when claims did occur, the severity of loss was similarly modest.

Current Assessment

Recent events have clearly demonstrated that the leverage and complexity of some structured finance transactions have made it difficult for the guarantors, like other market participants, to accurately estimate losses for certain segments of the insured portfolio. This is compounded by the fact that large and potentially correlated risk exposures can have a materially negative impact on a guarantor's financial strength should the performance of those exposures deteriorate.

The weakening US economy and the severe problems currently facing the financial sector increase the likelihood of additional stress, and significant uncertainty remains about the ultimate performance of the guarantors' RMBS and ABS CDO exposures, creating the potential for further deterioration in portfolio credit characteristics over time. Moreover, certain non-mortgage-related transactions such as pooled corporate exposures, commercial real-estate CDOs and consumer asset-backed securitizations could also be susceptible to weakening performance in an economic downturn.

In contrast, the municipal and infrastructure finance portfolios of the guarantors are generally seen as less exposed to correlation risk, although large transaction sizes and rising credit pressures in a down market could prove problematic in certain instances, as illustrated by some guarantors' exposures to troubled Jefferson County, Alabama.

In light of these factors, our appraisal of the industry's aggregate portfolio credit characteristics has shifted. While some firms have continued to exhibit portfolio characteristics consistent with Moody's double-A or triple-A benchmarks, other guarantors have seen their portfolio metrics drop dramatically over the past several months. Furthermore, the range of potential outcomes has widened considerably in the current environment,

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and the complex and leveraged nature of certain structured finance exposures makes them subject to potential volatility in performance.

III. Capital Adequacy

Capital adequacy measures a financial guarantor's operating leverage in terms of the amount of business that it has insured and the risk characteristics of that business relative to the company's claims-paying resources, and is reflective of its ability to meet creditor claims over time at a given confidence level (*assuming* all else is held equal). Maintaining sufficient capital is critically important for a financial guarantor, not only because insurance regulators require minimum capital levels or ratios in order for the company to continue to operate, but also because its business prospects are highly dependent on investor perceptions of its capital adequacy.

Historical Perspective

Because an important part of the industry's value proposition is the delivery of exceptional financial security to policyholders, financial guarantors have treated the maintenance of strong risk-adjusted capitalization as a top strategic priority. To manage capital effectively and avoid negative surprises, guarantors have traditionally focused on insuring low risk, predictable transactions while controlling portfolio growth, adhering to conservative single risk limits, and using reinsurance to shape the insured portfolio. Moody's evaluates capital adequacy through the use of a portfolio risk model, where we estimate stress losses for a guarantor by looking at the tail of our model-derived loss distribution. As a component of achieving and maintaining a given rating level, a guarantor would be expected to have at least enough capital to cover losses at the point in the tail that is consistent with the rating, plus some cushion to absorb model, operational and portfolio migration risks. Historically, Aaa-rated companies have generally maintained total capital ratios in the range of 1.4 to 1.6 times, providing them with a cushion above Moody's 1.3 times Aaa "target" level threshold.

Current Assessment

As the credit crisis has unfolded, guarantors with significant mortgage-related exposures have seen their risk-adjusted capital positions fall sharply due to the erosion of credit protection within certain exposures, as well as the realization of actual losses in some cases. At the same time, credit deterioration among financial guaranty reinsurers has resulted in less reinsurance benefit for those primary companies who were heavy users of third-party reinsurance as a form of capital relief. Consequently, most firms within the industry have seen their capital ratios fall to levels that are no longer consistent with Aaa ratings. While some companies have raised additional capital to at least partially offset the deterioration in portfolio quality, others have not, causing a wide range of capitalization levels within the industry. Furthermore, the most negatively affected guarantors are at risk of breaching minimum regulatory capital requirements, increasing the likelihood of regulatory intervention. Such a regulatory event could trigger a market value termination of outstanding CDS contracts, thereby exacerbating a troubled guarantor's capital problems in light of today's depressed mark-to-market valuations relative to expected losses.

The degree of volatility in the capital profiles of certain financial guarantors has reinforced the importance of maintaining substantial capital cushions while avoiding large risk concentrations and transactions that are highly sensitive to changing assumptions or market conditions. In addition, the presence of market value termination insolvency triggers in CDS contracts has magnified the adverse consequence of those agreements in severe stress scenarios. Our current view, then, is that while capitalization may meet or exceed a given threshold value, it can be subject to far greater volatility than previously anticipated. Furthermore, owners' incentives for restoring impaired capital positions to former levels will likely be weak in a severe stress scenario.

IV. Profitability

The quality and sustainability of a guarantor's earnings capacity can influence both capital adequacy and the ability of a firm to access the capital markets on reasonable terms. An assessment of profitability considers the extent to which capital is being successfully deployed and, consequently, the stability of a firm's current strategy.

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Historical Perspective

Moody's assesses a guarantor's profitability by measuring returns on equity, loss ratios and expense ratios to derive both the earnings power of the firm and the stability of such earnings, as well as operational efficiency. Prior to the current mortgage crisis, the established guarantors had exhibited strong and consistent profitability resulting from the low historical level of incurred losses. When losses did occur, they tended to be minor relative to both earnings and capital. Earnings stability was aided by large, multi-year embedded revenue streams provided by the amortization of unearned premiums and receipt of installment premiums.

Current Assessment

Recent mortgage-related credit losses at most guarantors have overwhelmed core earnings, and in some instances, have represented a multiple of core annual earnings power. This phenomenon of infrequent but high-severity loss development raises questions about the true core profitability of the business. Additionally, unrealized mark-to-market losses on credit derivatives (as well as their partial reversal through FAS 157) have made it challenging for constituents to interpret reported results, which can further pressure investor and customer confidence.

The current volatility in guarantors' profitability resulting from large mortgage-related losses creates a stark contrast to the historically stable profits enjoyed by the industry for years. Moody's expects this volatility to continue over the near to medium term. Going forward, we believe the guarantors will significantly reduce their participation in the structured finance market, particularly to leveraged products and re-securitization transactions, and shift their focus to the public finance and global infrastructure sectors. Here, Moody's believes the current market turmoil presents near-term opportunities with improved pricing on public finance business. Longer term, however, public finance premium rates are likely to revert to more historical levels, and could even fall further, as surviving guarantors and potential new entrants compete in the mature U.S. municipal market. Consequently, the ability of guarantors to earn returns that are consistent with historic levels without taking undue risks could become more challenging.

V. Financial Flexibility

Financial flexibility reflects a company's ability to access – at reasonable cost and from diverse sources – liquidity and/or capital in times of material stress. Highly-rated guarantors should have the capacity to raise cost-effective capital externally for additional growth, and to meet unexpected financial demands whether those come from an unusually negative credit/market environment, earnings volatility, or other planned or unplanned capital needs.

Historical Perspective

Historically, the business and financial profile of highly-rated financial guarantors was grounded in their exceptional commitment to avoiding credit losses through diligent selection and structuring of underwriting risks. However, while loss prevention is the first line of defense for a guarantor, sound capitalization and financial flexibility are also essential to its overall credit profile.

The financial flexibility of financial guarantors has typically been defined as flowing from two discrete sources. First, financial guaranty insurance is typically structured such that only actual credit losses (and not market value declines) precipitate claims and claims require payment only over time, significantly mitigating the difficulties that can be associated with large draws on liquidity. Second, guarantors have typically enjoyed access to a diverse set of options for raising capital at reasonable cost, to bolster claims-paying resources. Moreover, with the credit profile of their insured portfolios exhibiting a very high degree of stability over a long period of time, guarantors historically had ample time over which to plan and execute capital management actions.

Current Assessment

The experience of financial guarantors since the onset of the credit crisis over a year ago offers valuable insight into the nature – and limits – of financial flexibility available to firms in this industry, as a diverse range of scenarios presented themselves, including:

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- The rapid deterioration of a large number of correlated credits – including some that were individually large – in the portfolios of most guarantors caused their capital cushions to deteriorate quickly. This left a number of those firms with capital shortfalls relative to levels necessary to retain the confidence of their customers.
- Stock prices of publicly traded firms declined as concerns grew about future business prospects and the size of potential mortgage related losses, increasing the cost of raising dilutive equity capital.
- The private equity owners of one firm with large losses, Financial Guaranty Insurance Company (FGIC), were unwilling or unable to recapitalize the firm.
- Another firm with significant losses, XL Capital Assurance (since renamed Syncora Guarantee Inc.) similarly failed to recapitalize in the period over which the magnitude of estimated losses became evident.
- One industry-leading firm, MBIA Inc., was able to attract a large private equity injection, yielding some degree of control over its governance in the process. Subsequently, the firm issued surplus notes, at very high cost.
- Another industry leader, Ambac Financial Group, Inc., delayed its plans to raise equity amid a declining stock price and management turnover, later concluding a highly dilutive transaction.

Moody's longstanding view, based on observed experience, had been that monoline financial guarantors would be extraordinarily motivated to raise capital in the event they needed to bolster financial resources and, further, such firms would have broad access to a variety of financing sources, whether from committed owners or public markets. Recently observed performance and behavior no longer support these expectations.

Moody's currently views financial guarantors as having less financial flexibility than they had exhibited prior to the onset of the credit crisis. While the assessment of financial flexibility varies considerably from firm to firm, it is apparent that even the best positioned firms could experience a dramatic constriction of financing options if material losses were to be incurred and/or uncertainty about their potential losses was high. Such sensitivity to event risk and market confidence is typically associated with financial strength scores falling below the Aaa level.

Municipal-Only Guarantors

In light of these developments within the financial guaranty industry, some market participants are considering the formation of stand-alone financial guaranty companies that would focus exclusively on insuring public sector risks. This could be achieved through the establishment of a separately capitalized "muni-only" guarantor within an existing financial guaranty holding company structure, or through the creation of a start-up muni-only guarantor.

The rating on any such entity would be a function of its specific character, and would be based on Moody's judgments in the context of the five key rating factors outlined above. For certain of these factors, a municipal-only guarantor may be more likely to achieve high marks than a company focusing on both municipal and structured risks. A municipal-only guarantor, for example, would be expected to have a lower-risk portfolio than a guarantor exposed to structured risks, as municipal exposures are generally of high credit quality, are frequently more granular and less correlated, and appear to be less sensitive to the credit cycle. Yet municipal markets are not immune to downward credit pressure, particularly in the current environment. As discussed in Moody's October 2008 report, "Credit Market Turbulence: How are Municipal Issuers Impacted" (report number 111907), many municipalities are likely to experience declines in tax revenue stemming from the slowing economy and severe house-price depreciation, which will test their long-demonstrated ability to adapt to credit stress.

More broadly, the limited room for error associated with high operating leverage and a confidence-sensitive business model is likely to remain a credit issue for muni-only guarantors, despite the absence of structured risk. Additionally, the US municipal market opportunity is likely to be narrower than in the past in Moody's opinion given the market's evolving perception of low risk within the municipal sector and possible skepticism on the part of issuers and investors about the value of financial guaranty insurance. Such a narrow business strategy, with limited core growth potential, could generate increased competitive pressures that may, over

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time, adversely affect profitability and underwriting discipline. We witnessed this phenomenon in the mid-to-late 1990's when, absent other growth opportunities, domestically-focused financial guarantors bid aggressively for business within the mature US municipal bond market, driving down premium rates to uneconomic levels. This, in turn, caused the guarantors to focus increasingly on the global structured finance markets for growth, ultimately leading to the industry's current credit problems. These lessons provide clear evidence of how the operating environment and competitive dynamics can influence profitability levels and management behavior.

Profitability ultimately depends on the spreads available in the marketplace, with spreads influenced not only by the demand for bond insurance, but also by the number of credit enhancement providers competing for business and the availability of economic alternatives to insurance. To achieve a stand-alone rating of Aaa, a municipal-only financial guarantor would need to demonstrate competitive advantages that allow it to generate consistently strong underwriting results, maintain its financial health and defend against encroachment upon its franchise. In addition, achieving Aaa ratings would be dependent on the guarantor's ability to secure highly reliable access to meaningful amounts of new capital under reasonable terms in a stress scenario, as well as to establish mechanisms that would allow for protections against the removal of capital, and an orderly runoff of the insured portfolio to maturity should the company stop writing new business. We believe that a municipal-only guarantor's ability to overcome these circumstances is likely to be quite challenging.

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Appendix A - Rating Definition: Insurance Financial Strength Ratings

Moody's Insurance Financial Strength Ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Specific obligations are considered unrated unless they are individually rated because the standing of a particular insurance obligation would depend on an assessment of its relative standing under those laws governing both the obligation and the insurance company.

Long-Term Insurance Financial Strength Ratings

Moody's rating symbols for Insurance Financial Strength Ratings are identical to those used to indicate the credit quality of long-term obligations. These rating gradations provide investors with a system for measuring an insurance company's ability to meet its senior policyholder claims and obligations.

Aaa

Insurance companies rated Aaa offer exceptional financial security. While the credit profile of these companies is likely to change, such changes as can be visualized are most unlikely to impair their fundamentally strong position.

Aa

Insurance companies rated Aa offer excellent financial security. Together with the Aaa group, they constitute what are generally known as high-grade companies. They are rated lower than Aaa companies because long-term risks appear somewhat larger.

A

Insurance companies rated A offer good financial security. However, elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa

Insurance companies rated Baa offer adequate financial security. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Ba

Insurance companies rated Ba offer questionable financial security. Often the ability of these companies to meet policyholder obligations may be very moderate and thereby not well safeguarded in the future.

B

Insurance companies rated B offer poor financial security. Assurance of punctual payment of policyholder obligations over any long period of time is small.

Caa

Insurance companies rated Caa offer very poor financial security. They may be in default on their policyholder obligations or there may be present elements of danger with respect to punctual payment of policyholder obligations and claims.

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Ca

Insurance companies rated Ca offer extremely poor financial security. Such companies are often in default on their policyholder obligations or have other marked shortcomings.

C

Insurance companies rated C are the lowest-rated class of insurance company and can be regarded as having extremely poor prospects of ever offering financial security.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. Numeric modifiers are used to refer to the ranking within a group with 1 being the highest and 3 being the lowest. However, the financial strength of companies within a generic rating symbol (Aa, for example) is broadly the same.

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