

Research Update: Assured Guaranty Ltd.'s Various Operating Insurance Companies Upgraded to 'AA'; Outlook Stable

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Overview

- Assured Guaranty Ltd.'s competitive position remains strong relative to peers', no longer warranting a rating differential due to its structured finance risk exposure.
- We are raising our ratings on the insurance operating subsidiaries of Assured Guaranty Ltd. to 'AA' from 'AA-'.
- We are withdrawing our ratings on one of the insurance operating companies of the Assured group that has recently merged into an affiliated company.
- The stable outlook reflects the company's strong competitive profile.

Rating Action

On March 18, 2014, Standard & Poor's Ratings Services raised its financial strength and enhancement ratings on Assured Guaranty Municipal Corp. (AGM), Assured Guaranty Corp., Assured Guaranty Re Ltd. (AG Re), and Municipal Assurance Corp. (collectively, Assured or the company) to 'AA' from 'AA-'. In addition, pursuant to our application of standard notching criteria, we are raising our ratings on the preferred capital trusts Sutton Capital Trust I, Sutton Capital Trust II, Sutton Capital Trust III, Sutton Capital Trust IV, Woodbourne Capital Trust I, Woodbourne Capital Trust II, Woodbourne Capital Trust III, and Woodbourne Capital Trust IV to 'A+' from 'A'; and our counterparty, debt, and senior unsecured ratings on Assured Guaranty Ltd., Assured Guaranty Municipal Holdings Inc., and Assured Guaranty US Holdings to 'A' from 'A-'. The outlook is stable.

We are withdrawing the financial strength ratings and financial enhancement ratings on Assured Guaranty Mortgage Insurance Co. (merged into AGM). All policies of this company were reassumed by the acquiring company or all its exposures have expired and the company has subsequently surrendered its insurance licenses.

Rationale

The rating action reflects our view that Assured's competitive position remains strong relative to its peers' in the bond insurance industry. We believe that Assured no longer warrants a different rating than other recent entrants in the financial guaranty market based on its legacy structured-finance portfolio (which has materially declined since 2008). We believe Assured's ability to insure approximately \$7.5 billion of par in the primary public finance market (capturing 62% of total primary insurable public finance transactions) and \$1.1 billion in secondary market transactions in 2013 is a positive fundamental expression of market acceptance of Assured's financial guarantee policy. The company's legacy U.S. and residential mortgage-backed securities structured-finance portfolio no longer places Assured at a competitive disadvantage based on issuer, institutional, and retail investor sentiment. In addition, the full payment of claims to investors on various "high-profile" municipal bankruptcies held in Assured's insured portfolio demonstrates and reiterates to various constituents the value of bond insurance and the credit position and capacity of the company.

Assured's risk-adjusted pricing ratio of 4.52% in fiscal 2013 has been relatively unchanged since 2012 and compares favorably to peers'. The bond insurer's risk-adjusted pricing was constrained in 2013 by market-technical municipal benchmark yields and the credit-spread environment, which hurt the industry's risk-based profitability. However, we expect long-term rates to

widen by 50-75 basis points from current market levels by year-end 2015. This would present better opportunities for Assured to extract premium and risk-adjusted pricing at higher risk-based profitability levels. We view risk-adjusted pricing as a key metric in determining a bond insurer's operating performance characteristics, and one that might differentiate the key players in the bond insurance sector to a higher degree going forward.

Assured maintains capital at extremely strong levels with sufficient capital cushion to absorb higher theoretical losses. Assured has experienced refundings and normal amortization within its insured portfolios and limited new business production to replace the run-off of risk. The higher level of municipal refundings in bond insurers' insured portfolios has led to accelerated growth of their capital and generally stronger capital adequacy. We believe the overall acceleration of capital generation due to portfolio run-off in the current environment will offset potential negative capital adequacy migration that may have occurred in 2013. In fiscal 2013, unscheduled public finance refundings on insured obligations resulted in accelerated earned premiums of \$207 million (\$250 million in fiscal 2012).

Outlook

The stable outlook reflects Assured's strong competitive profile. The outlook also incorporates the company's market position in insuring new primary public finance debt issues and its ability to insure available U.S. public finance debt issues trading in the secondary market. The outlook also reflects Assured's pricing discipline when insuring transactions while competing with its bond insurance peers. In the near term, we expect insurable volumes and risk-adjusted pricing to be muted due to lower municipal yields, but expect the company to target appropriate risk-based profitability consistent with the market environment. As market yields widen based on our economic expectation, we believe Assured will be able to capture additional issuers and will be able to raise its risk-based premium pricing to more profitable levels appropriate for the rating category.

We could lower the rating below the 'AA' category if the current spread compression persists beyond the next 12 months and Assured's public finance risk-adjusted pricing decreases to less than 4% and remains there. We could also lower the rating if the company exhibits significant volatility from earnings or capital adequacy. Based on our view of the new-issue U.S. public finance and financial guarantee markets, we do not expect the business or financial risk profiles of the company to change dramatically and therefore do not expect to raise the ratings.

Related Criteria And Research

- [Group Rating Methodology](#), Nov. 19, 2013
- [Enterprise Risk Management](#), May 7, 2013
- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), Nov. 13, 2012
- [Bond Insurance Rating Methodology And Assumptions](#), Aug. 25, 2011
- [Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings Withdrawn

	To	From
Assured Guaranty Mortgage Insurance Co. Counterparty Credit Rating		
Local Currency	NR/--	AA-/Stable/--
Financial Strength Rating		
Local Currency	NR/--	AA-/Stable/--

Upgraded

	To	From
Assured Guaranty Ltd. Assured Guaranty US Holdings Counterparty Credit Rating		
	A/Stable/--	A-/Stable/--

Assured Guaranty (Europe) Ltd.		
Municipal Assurance Corp.		
Assured Guaranty Re Overseas Ltd.		
Assured Guaranty Re Ltd.		
Assured Guaranty Municipal Corp.		
Assured Guaranty Corp		
Counterparty Credit Rating		
Local Currency	AA/Stable/--	AA-/Stable/--

Assured Guaranty (Europe) Ltd.		
Municipal Assurance Corp.		
Assured Guaranty Re Overseas Ltd.		
Assured Guaranty Re Ltd.		
Assured Guaranty Municipal Corp.		
Assured Guaranty Corp		
Assured Guaranty (UK) Ltd.		
Financial Strength Rating		
Local Currency	AA/Stable/--	AA-/Stable/--

Assured Guaranty (Europe) Ltd.		
Assured Guaranty Re Overseas Ltd.		
Assured Guaranty Re Ltd.		
Assured Guaranty Municipal Corp.		
Assured Guaranty Corp		
Assured Guaranty (UK) Ltd.		
Financial Enhancement Rating		
Local Currency	AA/Stable/--	AA-/Stable/--

Assured Guaranty (UK) Ltd.		
Counterparty Credit Rating	AA/Stable/--	AA-/Stable/--

Assured Guaranty Municipal Holdings Inc.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A-/Stable/--
Senior Unsecured	A	A-
Junior Subordinated	BBB+	BBB

Assured Guaranty US Holdings		
Senior Unsecured	A	A-
Junior Subordinated	BBB+	BBB

Sutton Capital Trust I		
Sutton Capital Trust II		
Sutton Capital Trust III		
Sutton Capital Trust IV		
Woodbourne Capital Trust I		
Woodbourne Capital Trust II		
Woodbourne Capital Trust III		
Woodbourne Capital Trust IV		
Preferred Stock	A+	A

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Primary Credit Analyst: Marc Cohen, CFA, New York (1) 212-438-2031;
marc.cohen@standardandpoors.com

Secondary Contact: David S Veno, Hightstown (1) 212-438-2108;
david.veno@standardandpoors.com

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