Assured Guaranty Ltd. (AGO)
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Q1 2015 Earnings Call

Robert Tucker
Managing Director, Corporate Communications and Investor Relations

Thank you operator. And thank you all for joining Assured Guaranty for our 2015 first quarter financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results or other items that may affect our future results.

These statements are subject to change due to new information or future events. Therefore, you should not place undue reliance on them, as we do not undertake any obligation to publicly update or revise them, except as required by law.

If you are listening to the replay of this call, or if you are reading the transcript of the call, please note that our statements made today may have been updated since this call.

Please refer to the Investor Information section of our website for our recent presentations, SEC filings, most current financial filings, and for the risk factors.

In turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd., and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions. As the webcast is not enabled for Q&A, please dial in to the call if you would like to a ask question.

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you, Robert, and welcome to everyone joining today's first quarter 2015 earnings call.

I'm pleased to say that Assured Guaranty's adjusted book value per share and operating shareholders' equity per share both ended the first quarter at all-time highs. Adjusted book value per share reached $54.66, surpassing the previous record of $54.59. Operating shareholders' equity per share hit $38.45, continuing its steady growth since September of 2012.

With $140 million of operating income, our first-quarter results give us an excellent start for 2015.

During the quarter, we continued to pursue our capital management strategy while maintaining a very high level of capital protection for our insured portfolio. In the current business environment, we remain in a position to create shareholder value - by repurchasing common shares at significant discounts to per share adjusted book value and operating shareholders' equity - while still achieving improvement in our financial strength relative to our insured obligations. We bought back 5.9 million common shares in the first three months of 2015, at an average price of $25.87 for a total of $152 million. From January 2013 through the end of the first quarter 2015, we've returned nearly $1.2 billion of excess capital through share repurchases and our quarterly dividends. We have substantially completed the $400 million of share repurchases authorized in August of last year, and this week we received authorization from our board for an additional $400 million of share repurchases.

Today, I want to focus on our continued leadership in building the financial guaranty market and then bring you up to date on the impact of AGC's acquisition of Radian Asset Assurance Inc., which we completed on April first, and other recent developments.

Our diversified market strategy produced a present value of new business production, or PVP, of $36 million in the first quarter, up 16% from last year's first-quarter.

The U.S. public finance market saw its greatest first-quarter new-issue volume since 2010 and the most volume for any quarter since the second quarter of 2012. First-quarter volume of $104 billion was 72% higher than last year's first quarter, and Assured Guaranty's year-over-year new-issue volume increase was even better, as we more than doubled the par sold with our insurance, guaranteeing $3.4 billion on 276 transactions.

We continued to lead our industry, insuring 57% of the $6 billion of insured municipal par sold during the quarter. Overall, bond insurance penetration rose from 4.6% of par issued in the first three months of last year to 5.7% this year – a 25% increase. In terms of transaction count, 16.9% of all new issues came to the market with insurance, the highest percentage since the second quarter of 2009.

Looking at the insurable market – which is basically credits rated single-A or triple-B – approximately 24% of the par and 60% of the transactions were insured, even in the low interest rate environment.

Assured Guaranty insured 53% of all insured transactions that sold in the quarter, including 19 public finance credits with ratings in the double-A category. These facts indicate growing market recognition of the value of our product.

Additionally, we insured a number of transactions where the premium we bid was higher than the competition's, reflecting our ability to provide superior execution on behalf of issuers and investors.

Looking beyond U.S. public finance, our structured finance group closed a number of transactions in the first quarter, including another private transaction that provided capital relief to a life insurance company. We also continue to see potential in the asset-backed market, where we are being asked to evaluate transactions backed by granular portfolios of assets like consumer loans, leases and small business loans.

Additionally, we believe we have reinsurance opportunities for our Bermuda subsidiary Assured Guaranty Re Overseas Ltd., which was recently awarded an A.M. Best rating of A+. This is the second highest financial strength rating Best assigns to insurance companies. We are pleased that AGRO has been awarded this Superior rating by such a highly respected insurance rating agency. Best's A+ rating will be particularly relevant for the insurance company clients that AGRO will be serving as it executes its business plan.

In international business, we closed one structured finance transaction during the quarter and have a solid pipeline of infrastructure transactions for the remainder of the year.

Turning to the acquisition of Radian Asset, AGC paid $804.5 million in cash to acquire a financial guaranty company that had statutory capital of $1.34 billion on the acquisition date.

As a result of merging Radian Asset into AGC, the Radian Asset insurance policies are now obligations of AGC and the insured risks have been upgraded to AGC's financial strength ratings.

Both AGC and the Assured group benefit from the Radian Asset acquisition. The transaction increases AGC's capital base and policyholders' surplus and will be accretive to Assured Guaranty's earnings, operating shareholders' equity and adjusted book value. AGC acquired Radian Asset's entire insured portfolio and associated unearned premiums. As of April the first, the Radian exposures added to our insured portfolio had a net par outstanding of approximately $13.6 billion, comprising 69% public finance and 31% structured finance. Our second quarter 2015 results will reflect the impact of the acquisition.

My last topic today is Puerto Rico's unfolding story. On February 6th, a U.S. District Court held that the U.S. Bankruptcy Code preempts the Recovery Act that Puerto Rico enacted to provide a debt adjustment regime for its public corporations.

Since that ruling, focus has turned to whether the U.S. Congress will allow Puerto Rico to extend chapter 9 protection to its municipalities and public corporations. Congress should carefully consider the potential consequences of making such a significant change. Among U.S. states and territories, Puerto Rico is the third-largest issuer of municipal bonds, partly due to Congress having given Puerto Rico the unique privilege of nationwide tax exemption on its debt, while also excluding it from the option of invoking chapter 9. Additionally, Puerto Rico's own constitution elevates its debt above other claims. As a result, a huge number of people bought Puerto Rico debt, with the understanding that bankruptcy was not permitted.

Given the number of investors who could well feel like victims of a bait and switch, it is by no means clear that either the Recovery Act or access to chapter 9 is in Puerto Rico's immediate - or long-term - best interest. The market will view either restructuring regime as a negative for the island's credit, credibility, and more so if any public corporation or municipality actually declares bankruptcy. Credit integrity is a cornerstone for accessing the market, which is critical to Puerto Rico's future.

Both the Recovery Act and Chapter 9 would involve costly and lengthy processes with long-term negative repercussions for Puerto Rico and its citizens, including increased financing costs, potential costly litigation and reduced market confidence and access. In any case, neither regime would apply to obligations of the commonwealth itself. And neither regime is necessary for the public corporations, because those agencies' debt instruments have built-in mechanisms for financial workouts, such as the provision that allows the court to appoint a receiver for the Puerto Rico Electric Power Authority.

In PREPA's case, bankruptcy would be a costly, lengthy and litigious substitute for negotiations. PREPA and its creditors have many shared goals, including maintaining the authority's access to the financial markets and its ability to provide affordable power that will support sustainable economic growth for the island. We are continuing to join other creditors in providing forbearance to give PREPA more time to complete a restructuring proposal. We believe that the current decline in oil prices offers a unique opportunity for all parties to agree on a comprehensive solution.

Looking ahead to the rest of the year and our financial performance, overall, I am very optimistic. With the U.S. economy sustaining growth, there's reason to believe that the Federal Reserve will begin, or at least begin to signal, an increase in short-term interest rates. We are certainly the best-positioned guarantor to benefit from higher rates when they arrive, and I believe we will be rewarded for remaining active in our markets through this long stretch of reduced opportunities for bond insurers.

We are a daily presence in U.S. municipal finance and clearly benefit from our diversified business model, with its structured finance and international components. In terms of capital management, we will continue to repurchase shares to manage our capital to the level necessary to support our business needs, and we will continue to seek new ways to enhance the value of our company through our alternative business strategies, while maintaining high levels of capital protection for our insured bondholders.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

Thanks, Dominic, and good morning to everyone on the call.

In the first quarter of 2015, operating income was $140 million, compared with $132 million in the first quarter of 2014. This increase was primarily attributable to higher premium and credit derivative accelerations, lower loss expense and a lower effective tax rate. On a per share basis, operating income was $0.89, which represents a 23% increase compared with the first quarter of 2014.

Net earned premiums $171 million in the first quarter of 2015, up from $169 million in the first quarter of 2014. The scheduled amortization of the book of business was offset by higher accelerations from refundings and terminations. Refundings and terminations were $41 million in the first quarter of 2015, compared with $29 million in the first quarter of 2014. Credit derivative revenues in the first quarter of 2015 also included $11 million of income from the resolution of a dispute related to a 2008 termination of a structured finance transaction.

Pretax economic loss development for the first quarter of 2015 was a benefit of $3 million, which was driven largely by improvements in student loan and TruPs transactions, offset in part by loss development in certain Puerto Rico exposures. In the U.S. RMBS sector, economic loss development was $4 million, caused by modest collateral deterioration, which was partially offset by a $7 million benefit from a pending settlement between two unrelated parties that covers some of the Company's insured transactions.

The effective tax rate on operating income was 22% in the first quarter of 2015, compared with 27% in the first quarter of 2014. The first quarter of 2015 benefited from a larger proportion of income generated in non-taxable jurisdictions.

Turning to our capital management activities, during the first quarter of 2015, we repurchased an additional 5.9 million shares for $152 million, at an average price per share of $25.87. As of today, we have substantially completed the share repurchases under our previous authorization, bringing cumulative repurchases since 2013 to 44.8 million shares or $1.1 billion. This week, our board of directors approved an additional $400 million authorization to continue the share repurchase program.

Share repurchases since 2013 increased first quarter 2015 operating income per share by $0.18. Over this time period, share repurchases have been a significant contributor to the increase in operating shareholders equity per share and adjusted book value per share, which are now at all-time highs. The effect of these repurchases, as of March 31, 2015, was a $3.36 increase to operating shareholders' equity per share, and a $6.90 increase to adjusted book value per share.

As of April 30, we had $224 million in cash and investments at the Bermuda holding company and $78 million at the US holding companies.

As Dominic mentioned, AGC closed the acquisition of Radian Asset Assurance on April first for $804.5 million, and immediately merged it into AGC.

The transaction increases AGC's capital base and will be accretive to Assured Guaranty's earnings, operating shareholders' equity and adjusted book value. Since the acquisition happened in the second quarter, we are still working on calculating the fair value of the acquired assets and liabilities, but I can tell you that we expect the acquisition to increase ABV by $3 to $4 per share.

I also expect the acquisition to increase statutory capital by approximately $450 million, and to increase claims-paying resources by approximately $625 million.

The book of business we assumed with this acquisition is comprised of $9.4 billion of public finance net par and $4.2 billion of structured finance net par and does not change the overall Assured Guaranty insured portfolio average rating.

I'll now turn the call over to the operator, to give you the instructions for the question and answer period.

Question and Answer Section

Operator

(Operator Instructions). The first question comes from Bose George of KBW. Please go ahead.

Bose George - Keefe, Bruyette & Woods, Inc.
Good morning. Good quarter. Let me just start with one on Puerto Rico. Last quarter on the call you had noted, I think, it was a $4 number in terms of potential outcomes for Puerto Rico. Do you want -- can you just revisit that, and just has anything changed since then in terms of how you think things could play out?

Dominic Frederico
Well, I think our view of Puerto Rico really hasn't changed in terms of our expectation or the analysis that we did as we continue to evaluate the exposure in our reserve position. I think we give very good detail in our supplement in terms of the breaking out the Puerto Rico exposure and their debt service.

Obviously attention continues to focus on PREPA as being the one with the most immediate concern with the July 1 significant payment due. I don't think our facts and circumstance have changed.

As Rob mentioned in the quarter, we did adjust some of the reserves in Puerto Rico, just because of facts that have changed, mostly discount rate on the risk-free rate and some other change in model. But our numbers still say the same, as we believe the situation hasn't had material development quarter over quarter.

Bose George
Okay, great. And then actually just one on the muni side. Can you just talk about the competitive landscape in the muni market with BAM? Have you seen how's National behaving, et cetera?

Dominic Frederico
Well, you know, I think in any competitive market there's good parts to it and bad parts. Obviously the good parts continue to generate more interest relative to the insured product, which is positive. The bad part is typically you can get in on certain exposures, competition relative to insuring the risk, which we hadn't seen in a number of years.

Couple that with kind of a historic period where spreads and interest rates are at all-time lows, the compression between the AAA and A rating, it's become a very difficult market. And we continue to be very disciplined in how we approach it.

As we said on the call, or in our earlier script, we are still able to show a price differentiation between Assured and the rest of the marketplace. And although we see some risks that are being written by our competitors that we would not write, that really doesn't affect our view of the market or our underwriting standards. We remain disciplined in how we look at it and continue to write those risks that meet our underwriting standards.

Bose George
Okay. Great, thanks.

Operator
The next question comes from Pete Troisi of Barclays. Please go ahead.

Pete Troisi - Barclays Capital
Thanks very much for the color on Assured Guaranty Re Overseas. And just reading through the A.M. Best press release, they talk about how that entity may operate in the P&C cat reinsurance market and potentially life reinsurance markets. Just wondering if you can flesh out a little bit the opportunities that you see there?

Dominic Frederico
Well, we have a underwriting discipline and an underwriting theme or mantra that says we look at risks that have low probability, low severity. In the reinsurance area, we think we can provide our higher ratings to qualify reinsurers for certain ceding companies either that don't have ratings or their ratings are not high enough to allow them to take full credit for the session. We call that a collateralized reinsurance arrangement.

Additionally, we think we can leverage some of that and provide some excess risk transfer that would be a very much out-of-the-money option for that same reinsurance session. Preliminary, it's like a financial guarantee. We're basically stepping in the shoes to enhance the rating of another reinsurer that would not normally be qualified. It speaks that we're comfortable, we might take some excess risk or leverage some of that collateralization.

On the life insurance, we have been doing that product for a number of years where it is exactly a capital relief kind of program. However, in today's structure it's done on a note-for-note basis so you don't have asset management risk that we had in the historical way that the XXX reserves were done.

Pete Troisi
Okay, thanks. So then, I just had one follow-up on your hybrids, the junior sub-debt that was issued by Assured Guaranty US Holdings. That becomes callable at the end of '16. Just curious how you think about that security relative to your capital structure and your leverage.

Rob Bailenson - *Assured Guaranty Ltd - CFO*
Well, as you know it becomes callable and becomes an adjustable rate based on LIBOR. And right now it's actually going to be a significant benefit to us. So we're still evaluating that right now, whether or not we'd look to hedge, to actually hedge in and lock in that fix rate. But we're pleased with where it's at and we're evaluating hedge opportunities.

Pete Troisi
Great. Thanks very much.

Dominic Frederico
You're welcome.

Operator
The next question comes from Michael D. Cohen of Opportunistic Research. Please go ahead.

Michael Cohen - Opportunistic Research
Hi guys. Thanks for taking my question. I was wondering if you could talk about how you think about the amortization of the municipal public finance portfolio over the next couple of years in light of the fact that 10-year no-cost protections are likely to expire from the 5-, 6-, and 7-vintages? How significant, a capital relief and -- how significant do you think capital relief will be?

Dominic Frederico
If you are talking from a specifically capital relief point of view, remember the majority of the capital that's sent through the Company comes from the structured finance portfolio, not the municipal portfolio. Number two, we look at amortization in this low interest rate and low spread environment. They still continue to be a major factor in the portfolio, but we do feel that a bottom gets hit at probably sometime in 2016, I hope, depending if we start raising rates domestically. That would be a big help.

So the amortization will continue, as you point out. The call provision in the 2005/2006/2007, which were still very high issuance years, will be a factor of interest rates.

As you saw in the first quarter, we had a substantial excess, or above our expectation, refundings in the quarter, which we try to model based on what is the available UPR, the unearned premium reserve, related to those issuance years at kind of a 50% refunding type of estimate. And we were obviously above that in the first quarter. As a matter of fact, first quarter's issuance was dominated by refunding, I think over 70% of all issuance was refunding, which is a remarkable statistic.

The capital side of that, we're more interested in the run-off on the structured side in terms of getting us more capital relief relative to what the rating agencies require, and therefore it gives us more capital freedom relative to the capital management strategy of the Company. But we are aware of the municipal decline. However, we're hoping to see some pick-up in rates and spreads over these next two years, which will start to slow that decline, if not stop it completely, and start showing growth back again in the portfolio.

Michael Cohen
Understood. And the obligatory Puerto Rico question. Perhaps you could talk about how you think sort of the timeline of events might evolve, recognizing there's an early June deadline for PREPA that may very get extended? And then obviously there's the June 30 government shutdown. Do you have a consensus to what you think are the outer bounds of coming to -- getting all parties to some type of an agreement - would be?

Dominic Frederico
Well, if I really had a great answer on that I would be probably running for office somewhere. But putting that aside, you look at Puerto Rico, I would say 9 out of 10 articles are very negative. Obviously, we are involved in very private discussions to all parties, creditors, the government, et cetera.

There's a political challenge there, without question. You've got different interests looking for different kind of results or outcomes. But if you step back in the main, there is a financial crisis. We believe there are solutions that can address it, but it needs cooperation across the board. And that's obviously hard to achieve in that kind of environment.

However, I think as days get closer, and we will point to the July 1 principal payment for PREPA, the positioning is going have to stop. There's going to have to be real improvements or adjustments made to start to correct the issues that are there.

And we believe the solutions are possible. With the drop in oil prices, we think it is a huge, unique opportunity to solve PREPA.

We think PRHTA -- debt issuance does a whole lot for transportation. If not solves transportation. There are solutions, and I think people have to understand, they throw around restructuring as if it's a get-out-of-jail-free card. And there is no such thing, and especially for Puerto Rico. And that any action that, although there are factions that would like to see a different outcome, would have, I think, huge negative, dire consequences for Puerto Rico.

We believe Assured is well-capitalized, well-positioned, well-reserved. And remember, we can't get accelerated, this is principal and interest when due. I think we stand the test of time. I'm not so sure the same can be said about the island itself.

I think it is time to put politics aside. It's time -- and we have been at the table, trying to work on comprehensive and cooperative solutions. And the time is ticking.

And we look at July 1 as kind of the date, or prior to that date, that something's got to get done. Where all the positioning is today, we need adults in the room. We need people to put their heads down. And we solutions to be derived, which we believe do exist in the marketplace.

Michael Cohen
Great. Thank you.

If I could just ask one last question that's sort of high level. How are you are you thinking about the IRRs and the ROEs that new business is being written to? Could you sort of provide us an update on sort of where that is being done today?

Dominic Frederico
That's a great question, and we just had our annual S&P presentation. They do an annual review of the Company and then issue their report sometime in the early part of the summer.

And we focused a lot on pricing, because you can look at metrics in our existing statistics that would indicate a real significant decline in pricing. If you adjust apples to apples, the decline, although it's there, is not as significant as appeared.

We had some special items in the first quarter last year that made that a little aberrational compared to the result against first quarter this year. The book this year is of a higher credit quality than last year.

The cap charge, for instance, is down 30% on the business written in first quarter 2015 compared to first quarter 2014. So you are adjusting for everything. So where is pricing?

The one thing I will tell you, Assured benefits better, than any other company in the market because of our diversified portfolio. The thing we try to focus on is how much risk do we put on in the quarter and what is the average premium rate or return?

So if you add in the benefit of the reinsurance recaptures, if you add in the price we in effect got paid for the Radian portfolio, if you looked at Rob's numbers, you've got $1.34 billion against $800 million of numbers. You got paid roughly $500 million for a $14 billion portfolio. Compare that to any quarterly production of something less than $20 million or $30 million, you've got $500 million. You have to look at the overall performance of the book.

That's why we maintain the diversified faith to the market, that's why we are still in the international business, we're still in the structured business. Because although we're price-constrained on the US public finance market, there are opportunities to make significant ROEs in profitable business through the diversified portfolio.

And like any other company, I will give you the oil industry today, you got to be able to pipe through price declines in the market and still deliver the kind of returns that you expect to get on your capital. And because we are diversified, we still have the ability to do that, and quite easily. This would have been a fantastic quarter, in terms of the business profitability written in the quarter when you consider all components of the change in our risk exposures.

Michael Cohen
Great. Thank you.

Dominic Frederico
You're welcome.

Operator
The next question from Sean Dargan from Macquarie. Please go ahead.

Sean Dargan - **Macquarie Research Equities**
Thanks and good morning.

Dominic Frederico
Good morning. Sean.

Sean Dargan
The most common question I have been getting from investors over the last month or so is what are your reserves for Puerto Rico? I know you haven't -- or I guess you've stopped providing that because it's been used against you in litigation in the past.

How can we back into what they might be? Is there any way we can look at what you give in your Qs, or in the supplement, and try to back into that number?

Dominic Frederico
Sean, that's like asking me, do you know where the treasure chest is buried, but can you give me a map that puts an X on it? You're kind of asking me for the answer to the question.

But we would tell you two things. One, we think it hurts us to allow those numbers to be public because, for the easiest case, we are involved in rather tense negotiation. I kind of show my hand if I told you what we have out there on Puerto Rico.

It is a little hard for me to go to the next meeting and say, look, this is where we're standing and that's it. There's a practical reason as to why, and then of course, if we get into litigation, it is another whole issue in and of itself.

So setting that aside, however, we do give you our loss reserves by book of business. We do give you a quarterly work-up of that. We do give you an earnings call where we'll identify what were the significant things that happened in the quarter. So I think that there is a map available that will get you pretty close to the number that you are looking for. And I think you will be quite pleased with the amount of reserves that Assured Guaranty holds.

And remember, that is also exclusive of our unearned premium reserve. Because remember, on a GAAP basis we can only set up a loss reserve to the extent it exceeds the unearned premium reserve.

Whatever you think that reserve number is, you have to go back and look at the UPR side and say, there's the total reserve that we have out on Puerto Rico, and, remember, these are principally revenue bonds. We have certain rights under the revenue bond designation. Therefore, our ability to limit or control severity becomes a little greater.

Number two, we cannot get accelerated. It is principal and interest when due. We've always been, I think, reasonably realistic in how we look at our reserves. And we're not trying to not recognize our potential liabilities when they arise. I think you will get to a number, if you go back and follow our instructions, that will get you close.

Rob Bailenson
Also, Sean, it is not only just the loss reserves that we disclose. We also disclose the economic loss development, and we disclose that by sector in public finance versus structured finance. You can look at that, and that takes out the noise of the unearned premium reserves.

Sean Dargan
If I look at the economic loss development during the first quarter for US public finance, I see $9 million. Does that include your assumptions as of March 31? Because since then we've had the Puerto Rico legislature vote down a tax increase. The news flow has been incrementally worse since then. So what is the cutoff date for what goes into that $9 million of economic loss development?

Rob Bailenson
The cutoff date is the day we file that Q.

Dominic Frederico
That's right. So the cutoff date is actually today. (Laughter) Remember, under GAAP, we've got this subsequent events exposure issue, and that's why we try to make the earnings call as close to the filing date, so you don't get caught exactly in this problem where some significant event happens, and the materiality thresholds today on a GAAP basis

are very low. So you'd have to go back and adjust if anything material happened. So it basically includes everything we know as of today.

Remember, the tax reform, A, do we believe Puerto Rico needs tax reform? Absolutely. Does it have to take the form of a 12%, 13% or 14% VAT tax? Absolutely not.

Remember, they have been trying to balance their budget, and they seem to be reasonably close if you read the information that was produced yesterday in terms of a fiscal ‘15 budget. That had no tax reform in it.

So although we think tax reform is definitely an enhancement - it is absolutely a credit positive - it is something that we do not rely on as part of our reserve analysis and our reserve assumption. Nor does it affect our view of how we work out PREPA and transportation as we look to restructure

or revise those credit obligations today based on the PRHTA potential funding and the oil tax and the potential cost of oil today, what that could mean for rates in Puerto Rico for electricity.

Sean Dargan
Great, thank you.

Dominic Frederico
You're welcome.

Operator
The next question comes from Brian Meredith of UBS. Please go ahead.

Brian Meredith - UBS - Analyst
Two quick questions here for you. The first one. Rob, can you give us an update on what the increase in dividend capacity from Radian will be out of AGC?

Rob Bailenson
Well, we expect the increase to investment income to be - and this is just an estimate right now, we are not completed yet - to be between $20 million and $25 million of investment income. As you know right now, as you look at Page 8 of the equity presentation, AGC is limited not by surplus, but its investment income. The increase of that $25 million will be the increase of the dividend capacity.

Brian Meredith
Great. Second question. Dominic, any update on the opportunities out there to do additional Radian-type transactions?

Dominic Frederico
Well, we have been very public for a number of years now, that we are looking to consolidate the industry. We are very acquisitive. We think as time is on our side now and that most of the real credit, thorny credit issues are being resolved by the other companies, I think their strategy going forward in some cases might not involve the financial guaranty industry, or probably does not involve the financial guaranty industry.

Therefore I think it becomes even more conducive to a transaction, because we can give you capital relief, liquidity and allow the currently non-trading company to go on its merry way and pursue its new strategies in whatever areas that they think they have opportunities for. So I think the market, although we were maybe premature in our desire to consolidate, and still having to wait the right appropriate time for the insurance risk side, the exposures to the existing portfolios to be able to become more manageable.

I think the time is right. We did the Radian deal. We are continuing to look for a second deal in the current year.

And we are optimistic that we will see further opportunity, whether it is partial, whether it is portfolio or whether it is a company, I think we think that there should be good opportunities throughout the rest of the year. That is one of our key alternative strategies, and obviously provides real value to the Company.

Brian Meredith
Great. Thanks for your answer.

Dominic Frederico
No problem. Thank you.

Operator
The next question comes from Larry Vitale of Moore Capital. Please go ahead.

Larry Vitale - Moore Capital Management - Analyst
Great. Thanks. Good morning, gentlemen. Were there any RMBS tear-ups in Q1? I didn't -- I wasn't able to determine that there were any, I just

wanted to make sure, though.

Rob Bailenson
No, there weren't.

Larry Vitale
Okay. And then was there an earnings benefit from the accelerations?

Rob Bailenson
Earnings benefit from accelerations. You talking about refundings?

Larry Vitale
Yes, the $41 million.

Rob Bailenson
That is, that all goes right to earnings.

Dominic Frederico
Right that's all

Larry Vitale
Okay.

Dominic Frederico
$41 million this year compared to $29 million last year, plus we had this other $10 million settlement from a termination done back in 2008 that was disputed that we finally got paid for.

Larry Vitale
Got it. Okay.

Rob Bailenson
As I said earlier, in this interest rate environment, refundings should stay at an elevated pace.

Larry Vitale
Great. Okay. Have you talked about sensitivity of the reserves and unearned premium reserves from changes in interest rates and the impact that has on your reported results? Because interest rates fell during Q1, and then since March 31st they have gone back up to where they were at the end of the year.

It is going to wash out; it just might create some period-to-period volatility. And I am wondering if there was an impact in Q1, and that might reverse in Q2?

Rob Bailenson

Larry, I think you meant not UPR, you meant loss reserves. So the effective interest rate and risk-free rate movement was about $7 million of a negative. So an increase in reserve in the first quarter.

And as you said, rates have rallied. We have not -- so we would expect some of that would -- a benefit actually to come back through earnings in our loss reserves in the first quarter if rates continue to rally.

Dominic Frederico

Right. So (multiple speakers) we took a rather big hit in the fourth quarter for the drop in the risk-free rate. We took a smaller hit this quarter of $7 million, but theoretically if rates would rise, we would get back both the fourth quarter and the first quarter losses. And the fourth quarter was significant.

Larry Vitale

Right. Okay. And then my last question is, back on Puerto Rico, based on what you know about how these restructuring discussions are going, do you -- in the event that there is a restructuring that is more or less close to what's being talked about, and I may be totally off base in making that assumption, but let's go with it for now. Do you expect to make a material addition to reserves in the event that a restructuring is arrived at? I think that's really the concern that the marketplace has.

Dominic Frederico

Larry, so obviously we just produced our first quarter financials. We are filing our Q today. And boy, if we don't believe our reserves are adequate based on our view of restructuring going forward, that would put Mr. Bailenson and I in a very, very bad position, and we are not that stupid.

So I think we have a pretty good understanding of where restructuring is. I think we have, as you know, in the GAAP scenario, is you've got to model all the possible outcomes. So we've all the outcomes that we believe could possibly happen.

And could we be off on our probabilities? Yes, maybe. But I don't think materially, or else we wouldn't be sitting here signing our Qs today under the theory that everything is properly stated.

Larry Vitale
Okay. All right. That's great. Thanks, Dominic.

Dominic Frederico
You're welcome.

Operator
The last questions for today will come from Harry Fong from MKM Partners. Please go ahead.

Harry Fong - MKM Partners - Analyst
Good morning.

Dominic Frederico
Morning, Harry.

Harry Fong
Rob, when you are setting your Puerto Rico reserves, have you considered as one of the risk factors a moratorium on GO -- Puerto Rican GO debt?

Rob Bailenson
Like Dominic just answered, Harry, we consider all possible outcomes and probability-weight those outcomes. That would be yes.

Harry Fong
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back to Robert Tucker for any closing remarks.

Robert Tucker - *Assured Guaranty Ltd - Managing Director of IR*
Thank you, operator. I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel to give us a call. Thank you very much.