

Municipal Credit Tutorial for Equity Investors



Assured Guaranty Ltd.
April 23, 2010

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GUARANTY®**

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- **U.S. public finance is the cornerstone of the financial guaranty industry, dating back to the first policy written in 1971**
- **Within the insured bond category, net paid losses have been low, averaging about 4 basis points per annum of net par outstanding over the last 40 years**
- **Most bonds that default have been in the non-rated or non-investment grade category, which are generally not insured by our industry**
- **However, municipal budget stress has increased, causing investor concern about potential loss development on our portfolio**
- **Today's presentation summarizes municipal credit basics and highlights some of the credit and collateral protections as well as our underwriting considerations and surveillance practices of municipal bonds.**

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Municipal Bond Overview



- **Under the U.S. Constitution, “The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the States” (10th Amendment)**
 - Each state has the authority to borrow money and to allow its political subdivisions to do the same
 - State and local governments provide services, levy taxes and assess fees
- **State and municipalities are perpetual entities**
- **Municipal entities are usually the exclusive providers of governmental services, including essential utility (water, sewer, electric) services**
 - In general, there is no competition for the provision of these services

Municipal Versus Corporate Bonds



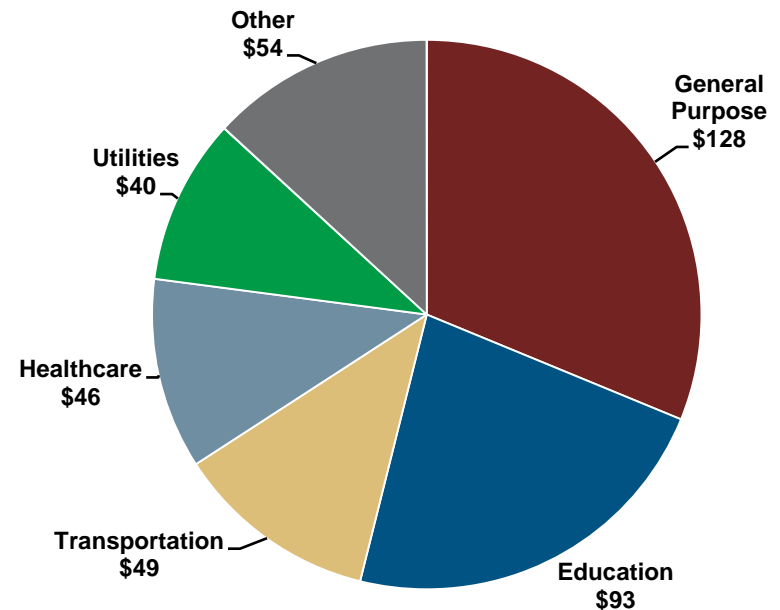
- **Municipal borrowing is the only method for access to capital – municipalities cannot sell equity, preferred stock or partnership units**
- **Interest on municipal bonds generally is exempt from federal income tax as well as state income tax for in-state buyers**
 - BABs (Build America Bonds) are an exception
- **Municipal bonds are unlike corporate debt instruments**
 - Exempt from SEC registration
 - Limited periodic financial reports (generally annual, not quarterly)
- **Municipal obligors do not behave like corporate borrowers**
 - Municipal response to fiscal stress typically is to cut services and expenses and raise taxes
 - Bankruptcy is not available to the states
 - Municipalities may file for bankruptcy on a voluntary basis only when specifically authorized under state law

2009 Municipal Bond Volume

- **\$2.8 trillion of municipal bonds outstanding as of December 2009**
- **11,700 issuances of municipal bonds in 2009**
- **\$410 billion of issuance in 2009**

- \$128 billion: General purpose
- \$93 billion: Education
- \$49 billion: Transportation
- \$46 billion: Healthcare
- \$40 billion: Utilities
- \$54 billion: Other

\$410 Billion of 2009 New Issuance
(\$ in billions)

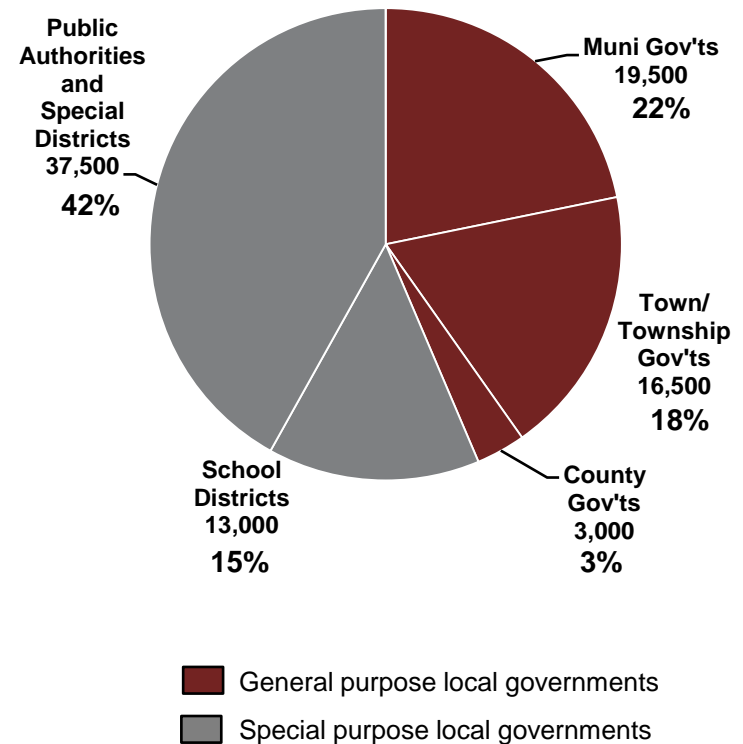


Source: Thomson Reuters

How Many Local Governments Are There?

- **One federal government**
- **50 state governments**
- **Approximately 89,500 “governmental units” within the states**
 - 39,000 general purpose local governments
 - 19,500 municipal governments
 - 16,500 town/township governments
 - 3,000 county governments
 - 50,500 special purpose local governments
 - 13,000 school districts
 - 37,500 public authorities and special districts (e.g., fire, utility, library, community college)

89,500 Local Governmental Units



Types of Municipal Bond Obligors



- **States**
- **Local Governments**

- Cities	- Counties	- Towns
- Boroughs	- Villages	

- **Dedicated Special Districts**

- School Districts	- Utility Districts	- Port Districts
- Community College	- Library Districts	- Fire Districts

- **Public Authorities**

- Turnpikes	- Airports	- Public Universities
- Water Systems	- Municipal Utilities	- Public Colleges
- Transit Systems	- Building Authorities	

Sources of Municipal Revenue

- **Municipal bond obligors have the ability to collect taxes and fees and use such revenue to pay expenses and service debt**

- **Taxes**

- Income Tax	- Property Tax	- Sales Tax
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- **User Fees**

- Tolls	- Transit Fares	- Gas/Electric Rates
- Water Charges	- Sewer Charges	- Vehicle Registration
- Tuition	- Parking Fees	- Landing Fees

- **States, local governments and public authorities use municipal bonds to finance capital projects and spread the cost of a project over its useful life**

- Schools	- Streets & Roads	- Government Buildings
- Bridges/Tunnels	- Highways	- Airports
- Ports	- Mass Transit	- Water/Sewer Utilities
- Gas/Electric Utilities	- Stadiums/Arenas	- Libraries
- Housing	- Prisons/Jails	- Hospitals
- Higher Education	- Police/Fire Vehicles	- Parks/Recreation

- **Governments may also use debt proceeds during difficult economic times to fund operating deficits or manage cash flow timing mismatches**
 - Debt repaid when economic conditions and revenue improve
- **Credit concern for rating agencies and investors if debt is used repeatedly for chronic budget shortfalls rather than addressing source of operating deficits (raise revenues; reduce expenses)**
 - May be used to fund pension and other post-employment benefit (“OPEB”) liabilities

Types of Municipal Bonds



- **General Obligation (“GO”) bonds are supported by the “full faith and credit” of the state or municipal entity, which promises to use all legally available resources to repay debt**
 - The obligation to repay debt is supported by the obligor’s promise to increase taxes in amounts sufficient to repay the bonds
 - Very simple covenant. Generally no other covenants given in GO bond documents
 - GOs are not secured by a specific revenue source
- **Types of GOs**
 - Unlimited Tax (GO ULT): GO of an obligor whose taxing power is unlimited
 - Limited Tax (GO LT): GO of an obligor whose taxing power is limited by its charter or by state statute
- **To the extent the obligor fails to make a payment under a GO, the investor may go to the appropriate court and seek a writ of mandamus**
 - Courts have directed municipal entities to raise taxes or reduce expenses in order to meet GO payments
- **Voter approval to issue GOs in certain jurisdictions**

- **In lieu of seeking voter approval for GO debt, some states and local governments will issue debt secured by a lease obligation**
 - Lease obligations do not require voters approval
- **From a credit perspective, a lease obligation is functionally similar to a general obligation but without the taxing power**
- **The leased asset is usually essential to a public purpose such as:**
 - Court house
 - City hall
 - Jails
 - Schools
 - Prisons
- **Lease payments may be subject to annual appropriation**

- **In underwriting GOs and leases, we evaluate the long term credit quality of the obligor**
 - Nature and size of local economy
 - Concentration of tax base
 - Demographic trends
 - Financial condition (e.g., fund balances)
 - Financial flexibility
 - Current indebtedness
 - Union contracts
 - Pension liabilities
 - OPEB (retiree medical coverage)
- **Catastrophe risk (e.g., hurricane, earthquake)**
- **Nature of leased asset, as required**
- **Type of security**
 - Variable
 - Auction rate
 - Fixed

- **Revenue bonds are secured by a designated revenue stream**
 - May be a revenue stream over which the obligor has rate setting authority (e.g., water and sewer charges)
 - May be a passive revenue stream, where the rate is set by statute and revenue is dependent on volume (e.g., sales tax, excise tax)
- **The pledged revenues securing the bonds may be considered a “Special Revenue” under the Bankruptcy Code**
 - The lien on such revenues will survive a chapter 9 bankruptcy filing
- **A government entity may issue both GO bonds and a variety of revenue bonds. For example, the City of Chicago has issued GO bonds as well as revenue bonds secured by:**
 - Water revenues
 - Sewer revenues
 - O’Hare International Airport revenues
 - Midway Airport revenues
 - Tolls

- **Revenue bonds generally contain one or more of the following security features or covenants**
 - **Rate Covenant:** Where allowed, the obligor agrees to set rates (or user fees) to generate sufficient revenues to meet a debt service coverage ratio threshold
 - **Debt Service Reserve Fund:** Generally equal to about 10% of the par amount of the bonds, this cash is used to fund debt service payments in the event of a shortfall in cash flows
 - **Additional Bonds Test:** The obligor may not issue additional parity bonds unless cash flows are sufficient to meet the rate covenant for both existing and new bonds
 - **Cash sweeps and lock boxes:** Cash is placed in a trustee held account for the benefit of debt service before excess cash is released to the obligor
- **Revenue bonds generally have an enduring lien on the specified revenue source until the bonds are repaid**

- **Not-for-Profits (mostly health care and private colleges) may access tax exempt markets**
 - Debt issued through a conduit issuer (e.g., Dormitory Authority of the State of New York)
 - Debt is the sole responsibility of the obligor
 - Conduit has no responsibility to make any debt service payments

- **May be subject to corporate bankruptcy (chapter 7 or chapter 11)**

- **Underwriting considerations**
 - Specialist underwriters
 - Corporate credit analysis
 - Significant debt covenants
 - Leverage and liquidity covenants
 - Mortgage on real property
 - Debt service reserve

Revenue Bond Example

Mesquite, TX Water & Sewer Revenue Bonds



Summary Terms

Total Indebtedness	\$71 million
Assured Guaranty Par	\$56 million
Debt Service Reserve	Average annual debt service
Rate Covenant	Net revenues provide 1.50 times coverage of annual debt service
Additional Bonds Test	Net revenues provide 1.50 times coverage of average annual debt service

- **Transaction considerations:**
 - Essential service to a sizable service area, population \approx 138,000
 - Diverse customer base; no concentration
 - Over the past three years debt service coverage has averaged 1.8 times
 - Rates have been raised periodically to keep pace with costs and debt
- **Failure to comply with a rate covenant is an event of default (“EOD”) under the transaction indenture**
- **An EOD gives bondholders remediation rights including the right to enforce the rate covenant**
- **During remediation, the debt service reserve fund is used to pay interest and principal**

Revenue Bonds

Underwriting Considerations

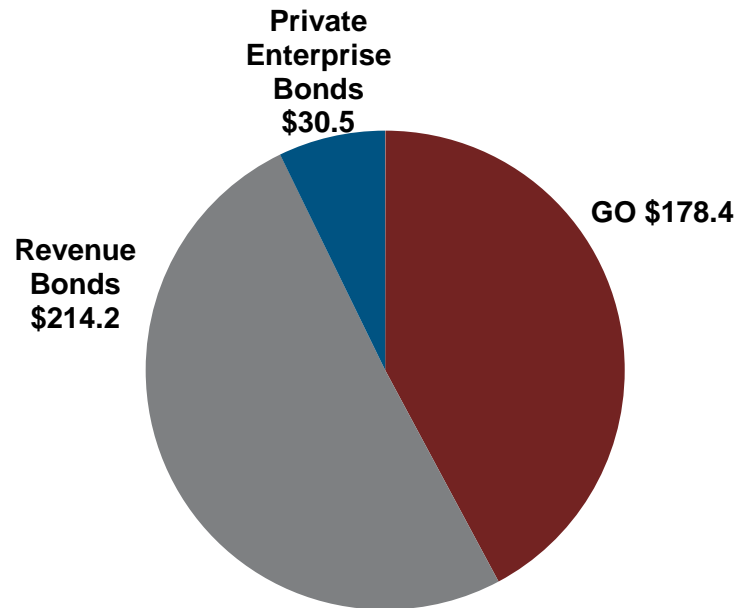


- **We consider the nature of the revenue source and factors that affect it**
 - Does obligor have rate setting authority?
 - Nature of the revenue stream
 - Broad v. narrow
 - Statewide v. local
 - Price elasticity: Increasing rates reduces demand
 - Highway and bridge tolls, parking fees
 - Economic vulnerability
 - Impacts consumer demand
- **Catastrophe risk (e.g., hurricane, earthquake)**
 - How does catastrophe impact revenue stream

Our Municipal Portfolio By Bond Type



**Assured Guaranty Ltd.
Net Par Outstanding
As of December 31, 2009**
(\$ in billions)



Net Par Outstanding: \$423.1 billion

- 42% of our U.S. public finance net par outstanding is for GO bonds
- 51% is for revenue bonds
- Only 7% of our U.S. public finance net par outstanding is in the private enterprise bond category

The Great Recession: Credit Issues



The Great Recession: Municipal Revenue Reduction



- **Lower income taxes due to unemployment and lower corporate income**
 - State personal income tax declined 16.9% in 2009 compared to 2008
 - Corporate income taxes declined 9.7% over 2008
- **Decline in consumption taxes**
 - General sales tax and gross receipts taxes declined 8.2%
 - Motor fuel (gas) tax declined 2.9%
- **Decline in demand for municipal services**
 - Enplanements at top 20 airports down 3.8% in 2009 from 2008
- **Bright spots:**
 - Property taxes up 6.1%, although lag on property assessments expected to cause future drop unless mil rates increase
 - Alcohol taxes were up 1.1%

Sources: US Census Bureau
ACI-NA Top 2009 North American Airport - preliminary passenger rankings

- **Cannot reduce employee expenses as easily as the private sector**
 - Must maintain adequate staffing for essential services
 - Union contracts are often multi-year agreements with guaranteed salary and benefit increases
 - Employee medical expense rising faster than inflation
 - Pension liabilities
 - OPEB
- **Elimination of services is politically-charged**
 - Bus and train schedule reduction
 - Police and fire station closings
 - Teacher lay-offs
 - Non-essential services: recycling programs, senior citizen centers, etc.

The Great Recession: Municipal Response to Fiscal Stress



- **Most states are required by law to adopt balanced budgets**
 - States reduce support to local governments
 - During budget impasse, states (e.g., California) will make priority/mandated payments
- **Municipalities respond to operating deficits**
 - Liquidity is stressed -- credit fundamentals are not changed
 - Expense reduction, including layoffs
 - Non-recurring measures, such as asset sales and system/road privatization
 - Deferral of capital projects to free up funding
 - Inter-fund borrowing (special purpose funds are used to offset general fund deficits)
 - Issuing debt to fund operating deficits

- **Making debt payments to ensure continued access to the capital markets is a hallmark of the response of state and local governments to fiscal stress**
 - Debt service is generally a priority payment, in some cases according to their constitution or charter
- **Certain state governments have enacted statutes which provide for oversight and additional powers to troubled municipalities:**
 - Act 47 in Pennsylvania
 - New York City Municipal Assistance Corporation (MAC) empowered to issue debt secured by alternative revenue sources
 - Pennsylvania Intergovernmental Cooperation Authority (PICA) was created to address Philadelphia deficits
 - California authorized an additional revenue source for Orange County to pledge for a bond
- **All of the states have in place statutory procedures to take control of mismanaged school districts**

- **It is rare and difficult for a municipality (assuming eligibility) to seek protection from creditors under Chapter 9 of the federal Bankruptcy Code**
- **Rarely occurs**
 - Fewer than 500 chapter 9 bankruptcy petitions have been filed since 1934¹
 - 4 cases filed in 2008; 10 cases in 2009¹
 - Since 1970, 2 chapter 9 bankruptcies of Moody's rated debt²
- **Significant eligibility requirements**
- **Expensive**
- **Time consuming**
- **Has an uncertain outcome and/or unintended consequences**
- **Stigma**
 - Businesses and people do not want to live/work in a bankrupt town
- **Adverse credit market reaction**

1. The Administrative Office of the U.S. Courts

2. U.S. Municipal Bond Defaults and Recovers, 1970-2009; Moody's Investors Service; February 2010

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Understanding Chapter 9 of the Bankruptcy Code

Philip M. Abelson

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- **What is Chapter 9?**
- **Eligibility Requirements**
- **Anatomy of a Municipal Bankruptcy**
- **Treatment of Bondholders and Other Lenders**
- **Case Studies**

What is Chapter 9?

- Chapter 9 of the Bankruptcy Code provides a financially-distressed municipality protection from its creditors while it develops and negotiates a plan for debt adjustment.
- Chapter 9 is seldom used -- only 600 cases have been filed since chapter 9 was enacted in 1934.
 - From 1970 through 2009, only two cases have involved defaults of Moody's-rated issuers.
- Chapter 9 is expensive, time-consuming, and stigmatizing.
- Chapter 9 is significantly different from chapter 11:
 - 10th Amendment to the U.S. Constitution constricts the power of the bankruptcy court, as a federal court, in chapter 9 cases
 - No provision for liquidation of municipal assets and distribution
 - Bankruptcy judge not as active as in chapter 11

Eligibility Requirements

- States cannot file for chapter 9.
- To qualify for chapter 9, the debtor must:

A) Meet the definition of “municipality”:

“[a] political subdivision or public agency or instrumentality of a State”

- ◆ includes cities, counties, townships, school districts, and public improvement districts, bridge authorities, highway authorities, and gas authorities

and

B) Satisfy four additional requirements:

- (i) Specifically Authorized By Statute
- (ii) Insolvency
- (iii) Voluntary
- (iv) Attempt to Avoid Filing

(i) Specifically Authorized

- The municipality must be *specifically* authorized to be a debtor by state law or by a governmental officer or organization empowered by state law to authorize the municipality to be a debtor.
- The state must enact specific enabling legislation that permits municipalities to seek chapter 9 relief.
- The following states specifically authorize chapter 9 filings:

Alabama	Idaho	Montana ¹	Oregon
Arizona	Iowa	Nebraska	Pennsylvania
Arkansas	Kentucky ¹	New Jersey ¹	South Carolina
California	Louisiana ¹	New York	Texas
Colorado	Michigan ¹	North Carolina	Washington
Connecticut ¹	Minnesota	Ohio ¹	
Florida	Missouri	Oklahoma	

¹ State with an authorization statute that requires state participation prior to a chapter 9 filing.

(ii) Insolvency

- The municipality must be insolvent to file for chapter 9.
- The test for insolvency is paying debts as they come due (unless subject to dispute) or impending inability to pay debts as they come due.
 - Courts look to cash flows of the municipal issuer, and also take into account the municipal issuer's ability to sell assets, increase taxes or user fees, and reduce operating expenses.
- Insolvency is determined as of the petition date.
- Only debts that are matured and enforceable are counted for determining ability to pay debts (the period of projection is 1-2 yrs).

(iii) Voluntary

- The municipality must desire to effect a plan to adjust its debt.
- Akin to a good faith requirement.
- Unlike chapter 11, the debtor cannot be put into bankruptcy by involuntary petition.

(iv) Attempt to Avoid Filing

- The municipality must satisfy one of four alternatives:
 - obtain the agreement of creditors holding at least a majority in amount of the claims of each class that the debtor intends to impair under a plan in a case under chapter 9;
 - negotiate in good faith with creditors and fail to obtain the agreement of creditors holding at least a majority in amount of the claims of each class that the debtor intends to impair under a plan;
 - be unable to negotiate with creditors because such negotiation is impracticable; or
 - reasonably believe that a creditor may attempt to obtain a preference.

Anatomy of a Municipal Bankruptcy

- Commencement of a Case:
 - Municipal debtor must seek voluntary protection.
 - Municipal debtor must file a list of creditors.
- Assignment of Case to a Bankruptcy Judge
 - Unlike chapter 11, case not automatically assigned to a particular judge:
 - ◆ "The chief judge of the court of appeals for the circuit embracing the district in which the case is commenced [designates] the bankruptcy judge to conduct the case." 11 U.S.C. 921(b)
 - Removes politics from the issue of which judge will preside over the case.
 - Ensures the selection of a judge who has the time and capability to handle a major municipal bankruptcy.

Notice of Case/Objections/Order for Relief

- Notice of Case
 - Notice must be published at least once a week for three successive weeks in at least one newspaper of general circulation.
- Objections
 - The Bankruptcy Code permits objections to the petition.
 - If an objection is filed, the court must hold a hearing on the objection.
- Order for Relief
 - The court may dismiss a petition if it determines that the debtor did not file the petition in good faith or fails to satisfy eligibility requirements.
 - Burden on municipality to prove that it meets eligibility requirements.
 - If petition is not dismissed upon objection, the court must order relief, and the case proceeds.

Automatic Stay

- Applicable in chapter 9 cases.
- Bars all actions against debtor and its property unless modified by court order.
- Other entities cannot, for example:
 - Bring new proceedings against debtor for prepetition acts or claims
 - Continue proceedings commenced prepetition
 - Take actions against debtor's property
 - Seek to obtain possession of property of estate
 - Enforce prepetition judgment
 - Perfect/enforce liens
- Exception for special revenue bonds

Court Has Limited Power

- 10th Amendment restricts the powers of a bankruptcy court in a chapter 9 case.
- Court may not interfere with the operations of a municipality, including the use of its property, its expenditures, and its revenues.
- Municipal debtor's day-to-day activities are not subject to court approval.
- Municipal debtor may borrow money without court authority on an administrative expense basis.
- Court cannot appoint a trustee and convert the case to a liquidation proceeding.

Limited Role of Creditors

- Much more limited in chapter 9 than in other cases. The only real remedies available to a disgruntled creditor are to seek dismissal of the petition or to object to plan of adjustment.
- Creditors may not propose competing plans
 - BUT: there is a creditors' committee that has powers and duties:
 - ◆ selecting and authorizing the employment of attorneys, accountants, or other agents to represent the committee;
 - ◆ consulting with the debtor concerning administration of the case;
 - ◆ investigating the acts, conduct, assets, liabilities, and financial condition of the debtor; and
 - ◆ participating in the formulation of a plan.

Intervention/Right of Others To Be Heard

- Intervention
 - Secretary of Treasury of the United States and representatives of the state in which the debtor is located may intervene in a chapter 9 case.
- Right of Others to be Heard
 - SEC may appear and be heard on any issue
 - Parties in interest may appear and be heard on any issue
 - ◆ e.g., municipal employees, local residents, non-resident owners of real property, special taxpayers, securities firms, and local banks

Powers of the Debtor

- Court far less involved in the conduct of a chapter 9 case.
- Municipal debtor has broad powers to control the use of its property, raise taxes, and make expenditures as it sees fit.
- Municipal debtor may reject executory contracts and leases, subject to court approval.
- May also reject collective bargaining agreements and retiree benefit plans without going through the usual procedures required in chapter 11 cases.
- Only the municipal debtor may file a plan to adjust its debts.
 - ◆ No provision allowing creditors or any other parties to submit a plan of adjustment

Dismissal

- The court may dismiss a chapter 9 petition, after notice and a hearing, if it concludes the debtor did not file the petition in good faith or if the petition does not meet the requirements of chapter 9.
- The court may also dismiss the petition for cause.
 - e.g., lack of prosecution, unreasonable delay by the debtor that is prejudicial to creditors, failure to propose or confirm a plan within the time fixed by the court, material default by the debtor under a confirmed plan, or termination of a confirmed plan by reason of the occurrence of a condition specified in the plan.

Confirmation Standards

- General conditions required for confirmation of a plan:
 - (i) the plan complies with the applicable provisions of the Bankruptcy Code;
 - (ii) all amounts to be paid by the debtor or by any person for services or expenses in the case or incident to the plan have been fully disclosed and are reasonable;
 - (iii) the debtor is not prohibited by law from taking any action necessary to carry out the plan;
 - (iv) any regulatory or electoral approval necessary under applicable nonbankruptcy law in order to carry out any provision of the plan has been obtained, or such provision is expressly conditioned on such approval; and
 - (v) the plan is in the best interests of creditors and is feasible.

Other Confirmation Conditions

- Plan has been accepted by at least one class of impaired creditors.
 - "cram down" still possible
- Post-bankruptcy claims must be paid in full, unless an affected creditor agrees to a different treatment.
- Creditors must receive as much under the plan of adjustment as they would if the case was dismissed.
- "Best Interests of Creditors"
 - Under chapter 11, a plan is said to be in the "best interest of creditors" if creditors would receive as much under the plan as they would if the debtor were liquidated.
 - Because a municipality cannot be liquidated, chapter 9 requires a different standard.
 - In chapter 9, the "best interests of creditors" generally means the plan must be better than other alternatives available to the creditors.
 - ◆ Court requires a reasonable effort by the municipal debtor that is a better alternative for its creditors than dismissal of the case.
 - Parties in interest may object to confirmation, including creditors whose claims are affected by the plan, an organization of employees of the debtor, and other taxpayers, as well as the Securities and Exchange Commission.

Treatment of Bondholders and Other Lenders

- General Obligation (GO) Bonds: Debtor Not Required to Make Payments During Case
 - Treated as general debt
 - During the case, municipal debtor not required to pay either interest or principal on GO debt.
 - GO bonds subject to negotiation and possible restructuring under the plan of adjustment.

Treatment of Bondholders and Other Lenders

- Special Revenue Bonds: Payments Continue During Case
 - Special revenue bonds continue to be secured and serviced during the pendency of the chapter 9 case.
 - Bondholders of special revenue bonds continue to receive debt service payments (principal and interest).
 - ◆ so long as such special revenues are sufficient and the lien of special revenues is subordinate to the operating expenses of the project or system from which the revenues are derived
 - Special revenue bonds subject to negotiation and possible restructuring under the plan of adjustment.

Treatment of Bondholders and Other Lenders

- Bondholders generally do not have to worry about the threat of preference liability with respect to any prepetition payments on account of bonds or notes, whether special revenue or general obligations.
 - Any transfer of the municipal debtor's property to a noteholder or bondholder on account of a note or bond cannot be avoided as a preference, *i.e.*, as an unauthorized payment to a creditor made while the debtor was insolvent.

Case Studies

- Vallejo, California
 - Significant decline in real estate and sales tax revenues driven by California's economic slowdown.
 - Court adopted cash flow analysis as means to test insolvency
 - ◆ Labor unions argued that Vallejo had cash reserves sufficient to fund its operations and pay its obligations as they became due
 - ◆ Vallejo contended that most of its cash was held in restricted accounts, and unavailable for payment of obligations
 - ◆ Court found Vallejo insolvent, and allowed chapter 9 case to proceed
 - Landmark ruling held that municipal debtor has the authority to void its existing union contracts, holding public workers do not enjoy the same protections Congress gave union workers at private companies.

Case Studies

- Orange County, California
 - Largest chapter 9 filing ever
 - Proverbial "run" on the County investment pool by lenders and participants
 - All bond and lease financing obligations ultimately paid in full
- City of Bridgeport, Connecticut
 - \$16 million budget deficit
 - Insolvency test challenged
 - ◆ City must prove its inability to pay debts as they become due in the current fiscal year, or by an adopted budget for the following fiscal year
 - Connecticut changed law to require state consent before filing
 - ◆ 1994 Bankruptcy Reform Act enacted specific authorization requirement

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Understanding Chapter 9 of the Bankruptcy Code

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Questions?

Offices Worldwide

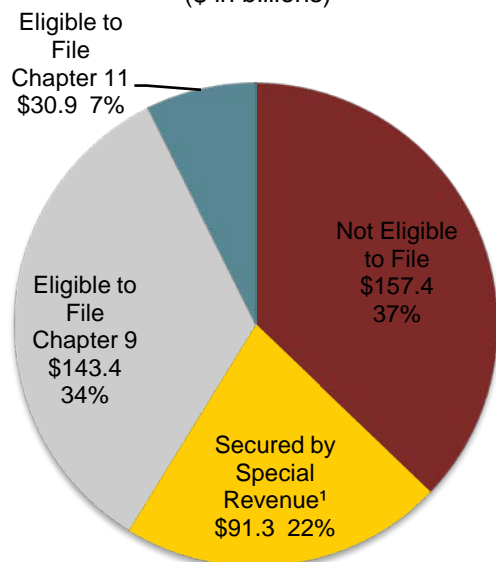


Our Insured Portfolio



Net Par Outstanding by Bankruptcy Eligibility

**Assured Guaranty Ltd.
Net Par Outstanding
As of December 31, 2009**
(\$ in billions)



Net Par Outstanding: \$423.1 billion

Disclosure Sector (\$ in billions)	Not Eligible for Bankruptcy	Secured By Special Revenue ¹	Eligible to File Chapter 9	Eligible to File Chapter 11	Net Par Outstanding	Weighted Avg. Rating
General obligation	57.9	-	120.5	-	178.4	A+
Tax backed	51.9	11.3	19.8	-	83.0	A+
Municipal utilities	14.7	54.8	-	-	69.6	A
Transportation	9.8	25.2	0.3	-	35.3	A
Healthcare	-	-	0.2	21.8	22.0	A
Higher education	13.5	-	-	1.7	15.1	A+
Housing	4.7	-	2.6	1.3	8.5	AA-
Infrastructure finance	-	-	-	3.6	3.6	BBB
Investor-owned utilities	-	-	-	1.7	1.7	BBB+
Other public finance	4.9	-	-	0.9	5.9	A
Total U.S. Public Finance:	\$ 157.4	\$ 91.3	\$ 143.4	\$ 30.9	\$ 423.1	A+

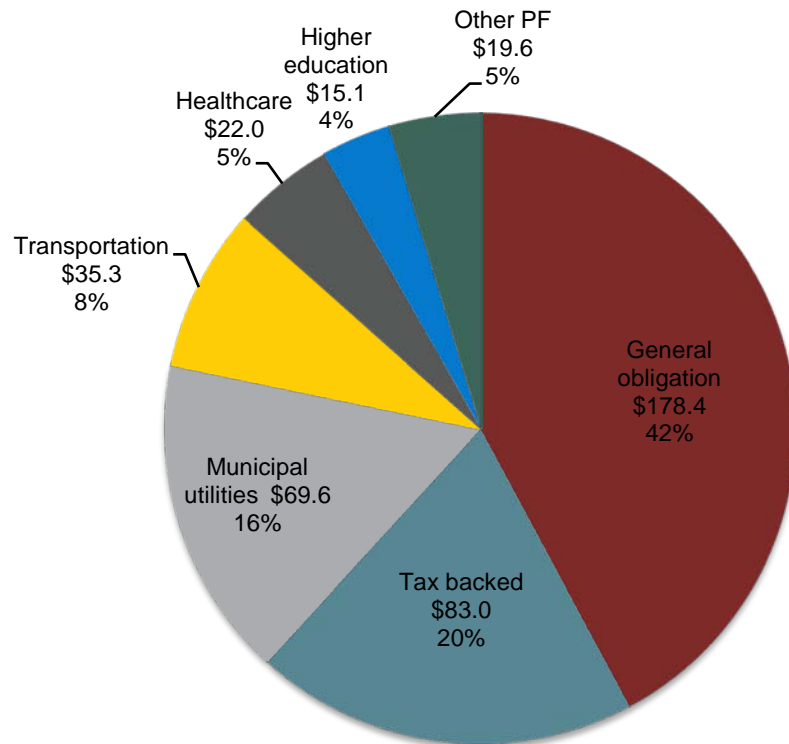
¹ Special revenue secured bonds are not subject to an automatic stay under Chapter 9 of the Bankruptcy Code.

U.S. Public Finance Net Par Outstanding



(\$ in billions)

Assured Guaranty Ltd. Net Par Outstanding As of December 31, 2009



Net Par Outstanding: \$423.1 billion

- **\$423.1 billion of U.S. public finance net par outstanding, 66% of our total as of December 31, 2009**
- **GO, tax-backed and municipal utilities represent 78% of U.S. public finance net par outstanding and 88% of all transactions**
 - 52% of total net par outstanding
- **Average internal rating of A+***

* Represents Assured Guaranty's internal ratings. Assured Guaranty's rating scale is similar to that used by the nationally recognized rating agencies.

- **Credits are reviewed annually through one of five processes:**

- In-depth review of the 250 largest credits
- Sector reviews employing portfolio analytics:

- GOs	- Tax backed
- Municipal utilities	- Transportation
- Healthcare	- Higher education
- Housing	- Infrastructure finance
- Investor-owned utilities	- Other public finance

- Active monitoring and quarterly reporting of below investment grade exposures
- Review by the public finance department in response to new business opportunities
- Transaction Amendment/Waiver/Consent (TAWAC) requests

Transaction Amendments, Waivers and Consents (TAWACs)



- **Nature of the consents processed depend on a variety of factors including changes in market conditions.**
- **Generally these requests can be categorized under one of the following three classifications:**
 - **Minor or Ministerial Amendments**
 - Trustee/remarketing agent changes, conversions, acknowledgement or waiver of officer certifications.
 - **Transaction Modifications**
 - Covenant breaches (not requiring remediation) and amendments related to (i) issuance of new debt; (ii) timing of funding requirements; (iii) revision of terms that do not have an adverse effect on our insured bonds.
 - **Remediation**
 - Amendments/forbearance agreements that have an impact on potential loss. Generally, as a condition of our forbearance, obligors must agree to provide enhanced covenants to improve our security position.

Transaction Amendments, Waivers and Consents (TAWACs) (Cont'd)



- **Many transactions are structured with financial covenants requiring annual certification**
 - We are apprised of adverse events before an event of default
 - We are able to pursue remediation efforts to prevent claims
- **TAWAC activity declined in 2009 from 2008**
 - We approve several hundred TAWACs each year
 - TAWAC activity in 2008 was largely driven by transaction modifications for conversions of auction rate bonds and changes in remarketing agents
- **In a given year, approximately two-thirds of TAWACs are requests for minor or ministerial changes**
- **Less than 2% of TAWACs are related to remediations, of which the majority are healthcare credits**

Conclusion and Q&A

Stephen Donnarumma
Chief Credit Officer
Assured Guaranty Corp.
Assured Guaranty Municipal Corp.



- **Municipal credit risks are very different from corporate or structured finance**
 - Municipal obligors generally cannot “dissolve” like a corporation
 - Municipal bonds are generally backed by a revenue stream, rather than a fixed pool of assets, like structured finance
- **Municipal bankruptcy is an infrequent and unlikely event**
 - Most municipal obligors cannot file for either chapter 11 or chapter 9
- **Recent municipal credit stress is largely due to revenue declines, not debt costs**
 - Debt service costs are generally 10% or less of municipal and state budgets
- **While we expect some deterioration in municipal finance and credit performance over the next several years, the nature of our exposures and the credit protections embedded in them help protect us from the severe credit stress that we have seen in the structured finance markets**

Questions



Philip M. Abelson's practice deals with debtors' and creditors' rights and corporate restructurings. Mr. Abelson represents debtors, official and unofficial committees, creditors, bondholders and third parties in connection with both in-court and out-of-court restructurings. Mr. Abelson's recent engagements have involved a number of different industries, including television broadcasting, airlines, telecommunications, plastics, natural gas, health clubs, residential roofing materials and automotive parts manufacturing. Mr. Abelson has played an active role in the chapter 11 proceedings of Adelpia Business Solutions, G-I Holdings, Federal-Mogul, Delta Airlines, Bally Total Fitness, Granite Broadcasting and Wellman.

Mr. Abelson received his B.A. in 1997 from Indiana University and his J.D. in 2000 from the University of Michigan Law School. He is a member of the New York and California (inactive) Bars and is admitted to practice before the U.S. District Court for the Southern District of New York.

Russell B. Brewer II

Chief Surveillance Officer



As Chief Surveillance Officer, Russ Brewer manages the risk profile of the insured portfolios of the Assured Guaranty family of companies. He supervises both surveillance and risk mitigation activities.

At Assured Guaranty Municipal Corp. ("AGM") (formerly FSA), which Assured Guaranty acquired in 2009, he was a Managing Director, a member of the Executive Management Committee and the Chief Risk Management Officer, overseeing the Corporate Research department and both the Public Finance and Structured Finance/International Transaction Oversight departments. In earlier positions at AGM, he served as Chief Underwriting Officer and Head of the Asset Finance Group. He joined AGM in 1986 and played a leading role in developing the use of financial guaranties for asset-backed securities.

Earlier, he was an Associate Director in the Structured Transactions Group at Moody's Investors Service. In this position, he directed the development of credit standards for a variety of mortgage-backed and receivables-backed securities.

He holds a B.A. from Colby College and an M.B.A. from New York University.

Stephen Donnarumma
Chief Credit Officer
Assured Guaranty Corp.



Stephen Donnarumma is Managing Director and Chief Credit Officer for Assured Guaranty Corp. and Assured Guaranty Municipal Corp. with responsibility for overseeing the underwriting process and various credit committees. Mr. Donnarumma joined Assured Guaranty in 1993 and was most recently the Managing Director of the Mortgage and Asset Backed Securities Group. He has also served as the Chief Underwriting Officer and Chief Operating Officer of Assured Guaranty Mortgage Insurance Company, Chief Operating Officer of Assured Guaranty Re Ltd., and Chief Risk Officer of Assured Guaranty Corp.

Previously, Mr. Donnarumma served as Vice President, Structured Finance at Financial Guaranty Insurance Company and as Director of Credit Risk Analysis in the Credit Policy Division at Fannie Mae. He began his career as an analyst for Moody's Investors Service.

Stephen Donnarumma received a M.B.A. from The Stern School of Business at New York University. He has a B.S. from the Wharton School of the University of Pennsylvania.

Mary Francoeur
Managing Director
Head of the Project Finance and Utilities Group



Mary Francoeur is a Managing Director and Head of the Project Finance and Utilities Group. Prior to this position she was responsible for business development and underwriting for the eastern region of the U.S. for Assured Guaranty Corp.'s and Assured Guaranty Municipal Corp.'s Public Finance Department. Ms. Francoeur joined Assured Guaranty in February 2008 to lead project finance underwriting. Previously, she worked at Financial Guaranty Insurance Company and spent nine years at Moody's Investors Service with her final role as team leader of the Infrastructure Finance group. Ms. Francoeur started her career serving in financial management roles with the Port Authority of New York and New Jersey and the City of Jersey City.

Ms. Francoeur has a Master of Public Administration degree from the Maxwell School at Syracuse University where she also earned her Bachelor of Arts degree in newspaper journalism and political science. She is a member of the United States Environmental Protection Agency's Environmental Financial Advisory Board, Chairman of the Municipal Analysts Group of New York and their designate to the board of the National Federation of Municipal Analysts.

Séan W. McCarthy

Chief Operating Officer
Assured Guaranty Ltd.



Séan McCarthy is the chief operating officer of Assured Guaranty Ltd., the holding company for all the Assured Guaranty subsidiaries writing direct financial guaranty business, including both Assured Guaranty Corp. and Assured Guaranty Municipal Corp. He has responsibility for strategic direction and direct insurance originations across the Assured Guaranty group of companies.

Mr. McCarthy has been a director and the Chief Operating Officer of Assured Guaranty U.S. Holdings Inc. since July 2009. Mr. McCarthy has served as a director of Assured Guaranty Municipal Holdings Inc. ("AGMH") since February 1999. Mr. McCarthy has been Chief Operating Officer of AGMH since January 2002, and prior to that time served as Executive Vice President of AGMH since November 1997 and President of AGMH from January 2002 until November 2009. He has served as Chief Operating Officer of AGM since July 2009; served as President of AGM from November 2000 until July 2009; and served as Chief Operating Officer of AGM from November 1997 until November 2000. Mr. McCarthy was named a Managing Director of AGM in March 1989, head of its Financial Guaranty Department in April 1993 and Executive Vice President of AGM in October 1999. He has been a director of AGM since September 1993. Prior to joining AGM in 1988, Mr. McCarthy was a Vice President of PaineWebber Incorporated.

In January 2006, Mr. McCarthy became Chairman of the Association of Financial Guarantee Insurers (AFGI). He also served on the Board of Directors of the Association for the Prevention of Cruelty to Animals (ASPCA).

Sabra R. Purtil
Managing Director, Investor Relations
Assured Guaranty Ltd.



Sabra Purtil is Managing Director Investor Relations at Assured Guaranty Ltd. Ms. Purtil joined Assured in 2004 from ACE Limited, the former parent company of Assured, where she was Senior Vice President of Corporate Finance.

Ms. Purtil has been involved with insurance and financial services capital markets for more than 20 years, initially as an investment banker covering the insurance and non-bank financial services industry at Chase Manhattan Bank, and later at Merrill Lynch & Co. She was a sell-side equity analyst following the financial guaranty, mortgage guaranty and life insurance industry for six years, initially at Conning & Co., an insurance boutique, and later at ABN Amro.

Ms. Purtil received a B.A. with High Honors from the University of Virginia and an M.A. from Georgetown University. She is a member of Phi Beta Kappa and the Association for Insurance and Financial Analysts. She received her C.F.A. charter in 1995.

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Municipal Credit Tutorial for Equity Investors

