September 30, 2022

Assured Guaranty Municipal Corp.

UNDERSTANDING

Assured Guaranty's Financial Guaranty

ASSURED GUARANTY®

A STRONGER BOND

New York, NY

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For those unfamiliar with financial guaranties, here are answers to some common questions about the product. In this Note, "Assured Guaranty" refers to Assured Guaranty Municipal Corp. and "financial guaranty" refers to a financial guaranty insurance policy (typically bearing the title "Municipal Bond Insurance Policy" when it is issued in respect of municipal bonds) issued by Assured Guaranty in its standard form.

1. What is a "wrap"?

Assured Guaranty is a New York **financial guaranty insurance company** whose single line of business is to guarantee financial obligations. Such a financial guaranty is often referred to colloquially as a "wrap," because of its comprehensive coverage of the underlying financial obligation. Beneficiaries of the financial guaranty have recourse to Assured Guaranty under the terms of Assured Guaranty's standard form financial guaranty. The Assured Guaranty standard form guarantees **timely payment of scheduled principal and interest**, typically on senior debt. The guaranteed financial obligation may be in the form of a **bond, loan or other form of financial obligation**, either in the **public or private** markets.

2. What protection does a financial guaranty provide and what are the benefits for beneficiaries?

At its most basic, Assured Guaranty's financial guaranty provides credit protection to debt providers (bond investors or banks or other lenders). If the issuer or borrower fails to pay all or part of scheduled principal and interest, then the beneficiary of the financial guaranty (or 'holder') instead receives timely payment from Assured Guaranty under the terms of the financial guaranty. Assured Guaranty's financial guaranty is **unconditional and irrevocable**, providing **timely payment of principal and interest** to the bondholder or lender.

Assured Guaranty's financial guaranty offers a number of other potential benefits for bondholders or lenders:

- **Expanded universe of potential investors** – Assured Guaranty's credit protection may enable certain investors to invest in asset classes in which they would not otherwise be able to invest (*e.g.,* projects with construction and/or demand risks) and can therefore open up an expanded universe of investors to sponsors and vice versa.
- **Potentially enhanced market liquidity and transferability** – Assured Guaranty believes that the additional security and typically higher ratings provided by a wrap may improve the market liquidity of the underlying debt instrument.
- **Single point of contact** – Assured Guaranty often acts as the **controlling creditor** on transactions it insures at issuance (a "primary guaranty"), exercising the voting rights in respect of any creditor and intercreditor decisions to be made by the bondholders or lenders (other than express rights) and provides a **single point of contact for sponsors**. Assured Guaranty has a very active and experienced risk monitoring department to administer the decision-making required in respect of transactions.
- **Regulatory capital savings** – Assured Guaranty's financial guaranty may **increase the rating** of the underlying debt instrument to Assured Guaranty's own ratings, including **AA with S&P** and **AA+ with Kroll,** which may reduce an associated regulatory capital requirement for that debt instrument.

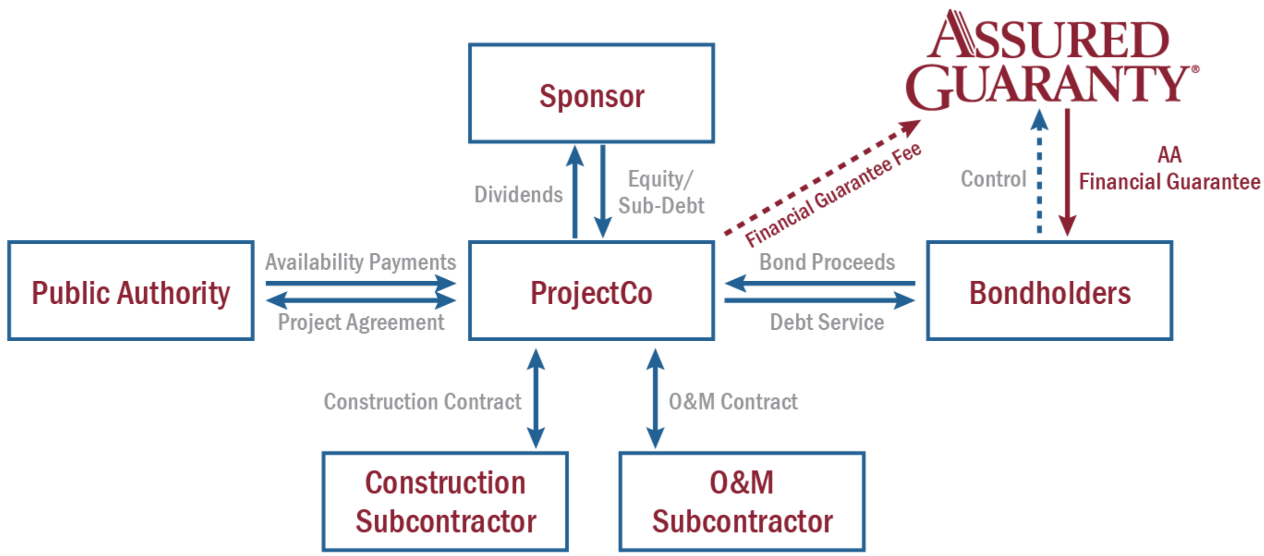
3. What is a "primary" versus a "secondary" financial guaranty?

Assured Guaranty provides primary and secondary financial guaranties. A primary guaranty usually relates to a new debt issuance, whereas a secondary guaranty is usually applied to an existing transaction with a previously issued bond or previously made loan that remains outstanding either in the full principal amount or a remaining part.

An example of when a primary financial guaranty would be given is in respect of the debt issued for a new PPP project. In a primary transaction, the beneficiary of the Assured Guaranty financial guaranty would typically be a trustee or agent, holding the financial guaranty for the benefit of a number of bondholders or lenders.

The issuer or borrower will typically pay the financial guaranty fee in a primary transaction, as the fee is part of the issuer's or borrower's financing cost. The protection that investors derive from the financial guaranty may allow the investors to offer better pricing to the issuer/borrower than would have been the case without the financial guaranty or, in some cases, may allow certain investors to participate in a transaction that they would otherwise have to decline (for example, if an investor could not take construction risk without the financial guaranty).

Below is a diagram of a transaction with a typical primary financial guaranty:



An example of when a **secondary guaranty** would be given is where a bondholder or a lender is seeking credit protection in respect of an existing exposure that the bondholder or lender has in its portfolio. In a secondary transaction, **the bondholder or lender would pay Assured Guaranty's financial guaranty fee**, as the fee is a cost of protection that the investor is buying for itself to mitigate existing credit risk or to derive regulatory capital savings in respect of an existing exposure, or for other reasons.

In the U.S., Assured Guaranty provides its secondary financial guaranty to an investor principally via its Transferrable Custody Receipt program (see question 29 for more details).

In some circumstances, a secondary market financial guaranty can be applied shortly after a new (unwrapped) issuance of a bond (*e.g.,* even post-closing on the day of issuance).

4. Does Assured Guaranty have a direct relationship with the Issuer/Borrower?

In primary transactions, Assured Guaranty will typically have a direct relationship with the issuer or borrower. In a secondary transaction, Assured Guaranty typically deals with the bondholder or lender instead and may not have a direct relationship with the issuer or borrower.

5. How much does it cost?

The financial guaranty fee that Assured Guaranty requires in order to guaranty a specific transaction depends on a number of factors, including (i) the asset class (and associated risks), (ii) its assessment of the cost-of-borrowing savings generated by the financial guaranty (*i.e.,* the difference between the wrapped debt and unwrapped debt coupons) and (iii) the capital Assured Guaranty needs to set aside against the exposure (which drives Assured Guaranty's return on equity for the transaction).

Assured Guaranty's fee can either be paid in full upfront on closing or can be paid in installments over time – *i.e.,* a specified number of basis points per annum, typically with a portion payable upfront based on a present value calculation, with the remainder payable on future interest payment dates.

6. Sample Financial Guaranty Insurance Policy

A sample primary and secondary financial guaranty insurance policy can be provided on request.

7. Does the wrapped instrument need a separate rating?

Underlying rating

In order for a transaction to qualify for Assured Guaranty's financial guaranty, the underlying bond or loan needs to have an investment grade (at least BBB- or equivalent) rating without the benefit of the financial guaranty. Such underlying rating can be public or private.

Insured rating

Assured Guaranty would expect that most beneficiaries of a financial guaranty would require an insured rating, *i.e.*, a rating of the underlying bond or loan taking into account the benefit of the financial guaranty. Such insured rating would reflect Assured Guaranty's own public rating (*e.g.,* AA stable with S&P; see also Question 9 below).

All costs associated with the provision of underlying and insured ratings are expected to be borne by the issuer or borrower in the case of a primary financial guaranty and by the beneficiary in the case of a secondary financial guaranty.

8. How long does credit approval usually take?

This very much depends on the complexity of the underlying transaction. Typically, Assured Guaranty has been able to achieve credit approval within a range of 4-8 weeks from receiving all the relevant information for a new transaction. However, we may be able to achieve approval in a shorter time in the case of a straightforward transaction.

9. How creditworthy is Assured Guaranty?

Assured Guaranty is the leading financial guaranty franchise with more than three decades of experience in the municipal, infrastructure and structured finance markets. Assured Guaranty has strong financial strength ratings, as summarized below, and is part of the Assured Guaranty Ltd. (NYSE:**AGO**) group:

	Assured Guaranty Municipal Corp.
Operational Scope	Infrastructure & Public Finance
S&P	AA
Moody's	A1
KBRA	AA+

Assured Guaranty is part of the Assured Guaranty Ltd. group, which at September 30, 2022 had:

- $227 billion in guaranteed net par outstanding (US GAAP basis).
- $10.8 billion of consolidated claims-paying resources (US statutory basis).[1]

10. Is there any potential stigma associated with needing a wrap to raise funds?

No, we do not believe so. Assured Guaranty does not provide its financial guaranty to non-creditworthy entities. One benefit to investors of an Assured Guaranty financial guaranty is typically from the reduced capital requirement resulting from the ratings uplift to AA, and not from turning a "bad credit" into a "good credit." The product provides credit enhancement rather than credit substitution. Furthermore, we believe many institutional investors are generally aware of Assured Guaranty's strong credit ethos, which we believe can provide such investors additional comfort that the issuer or borrower is creditworthy in its own right.

[1] Aggregate data for insurance subsidiaries within the Assured Guaranty Ltd. group. Claims on each insurance subsidiary's guaranty are paid from that subsidiary's separate claims-paying resources. Details in the latest Assured Guaranty Ltd. Financial Supplement at www.assuredguaranty.com/agldata

11. **What is it like dealing with Assured Guaranty after the close of the transaction?**

A key advantage of a wrapped bond or loan in a primary transaction from the issuer's or borrower's perspective is that the issuer or borrower is generally required to deal with only one counterparty, rather than a disparate group of investors for consents, amendments, waivers and other matters. We believe that Assured Guaranty has an excellent reputation for being a responsive, proactive and reasonable counterparty as a creditor on transactions.

12. **What due diligence does Assured Guaranty typically need/conduct? Is it different/more onerous than other lenders?**

When Assured Guaranty issues a financial guaranty, it takes on the credit risk that the underlying bondholder or lender would have been exposed to if it had not been the beneficiary of the financial guaranty. Therefore, Assured Guaranty undertakes the due diligence on the transaction that any similarly situated investor typically would do. Assured Guaranty wants to understand how the transaction has been structured, the documents and the background circumstances of the project to which it would be exposed. Typically, a lead underwriter or financial advisor leads the process throughout the development of a primary transaction, and Assured Guaranty's comments on the finance and project documents are limited to provisions affecting the financial guaranty itself or Assured Guaranty as financial guarantor and terms that would be material to any similarly situated senior creditor.

13. **Who educates investors on Assured Guaranty? Does the issuer have to do it for a primary transaction?**

Assured Guaranty would provide the section of a public offering or disclosure document that sets out Assured Guaranty's certain corporate information and its financial position and the terms of its financial guaranty. Assured Guaranty has participated in municipal, infrastructure and structured financings for decades and is thus well known to most U.S. institutional investors.

14. **What is Assured Guaranty's exposure capacity for a new transaction?**

Assured Guaranty is active in both primary and secondary markets with a typical transaction size ranging from $100 million up to $1 billion. Its financial guaranty can have a long tenor, often 30-35 years.

15. **What sectors does Assured Guaranty cover?**

Assured Guaranty's scope is versatile and past projects include the following:

- Toll Roads/Bridges/Tunnels
- Rail
- Airports/Ports
- Private Student Housing
- Military Housing
- Stadiums
- Public Buildings
- Solar/Other Renewables
- Other Power/Utility

16. **Does using a wrap take longer/add execution risk?**

Using a financial guaranty does not typically take longer nor does it introduce execution risk. Assured Guaranty can move quickly to execute transactions with its dedicated team of underwriting, credit and legal experts. All transactions need to have an investment grade (at least BBB-) underlying rating from a major rating agency (public or private rating) to qualify for the financial guaranty, so the execution process will include a timeline for the rating process to be achieved.

17. Are there any ancillary costs?

In a primary transaction, the issuer or borrower typically will pay Assured Guaranty's due diligence costs (*e.g.,* legal fees, demand advisor fees if needed) and also the cost of rating the transaction. These are in addition to the cost for a lender's technical advisor and insurance advisor, which the issuer or borrower would normally engage whether or not a financial guarantor was involved. The investor buying a secondary financial guaranty typically would pay these costs for a secondary transaction.

18. What documentation is involved and who are the parties? What does each additional document/party do?

In a primary transaction, the key document will typically be the financial guaranty insurance policy itself. The financial guaranty insurance policy exists so that if an issuer or borrower fails to pay scheduled principal and interest on time, then the holder of the financial guaranty, often a trustee or agent in a primary transaction, is able to submit a claim against Assured Guaranty and receive payment from Assured Guaranty in time to make the payment to the holder on the originally scheduled payment date. When applicable, the financial guaranty fee letter sets out the agreement for any ongoing insurance premium payments. The parties to the financial guaranty will be Assured Guaranty and the beneficiary, which is often a trustee or an agent in a primary transaction. The fee letter will be between Assured Guaranty and the issuer or borrower because the issuer or borrower will pay the financial guaranty fee.

In a secondary transaction, the key documents will be (i) a secondary financial guaranty insurance policy in favor of the investor and (ii) potentially a financial guaranty fee letter with the investor or the custodian under the TCR documents – please see question 29 for more details on the TCR.

19. Will there be additional parties to this transaction?

The only additional party will be Assured Guaranty as the financial guarantor.

20. Can we use existing documentation?

Amendments will be necessary to bring Assured Guaranty into the transaction, but Assured Guaranty can work with an issuer/borrower's own base documents.

21. Can we use a loan format?

Yes.

22. Does Assured Guaranty need covenants?

Assured Guaranty typically does not require a materially different covenant package from that required by any other similarly situated senior creditor.

23. Is there any change to roles that exist in an unwrapped transaction?

Not usually.

24. How is interest withholding tax dealt with for foreign investors?

Assured Guaranty believes that whether or not interest withholding tax is payable depends on the structuring of the underlying deal and withholding tax is not attracted simply by introducing a U.S. financial guaranty into a U.S. transaction. This is a matter for foreign investors to consider with their tax advisors. Assured Guaranty does not cover taxes as part of its financial guaranty coverage. Assured Guaranty does not provide tax advice, and the parties are urged to consult with their own tax advisors regarding their specific situation.

25. Does the underlying instrument need to be listed, in physical form, or set up in a clearing system?

Assured Guaranty does not require the underlying instrument to be listed, in physical form or cleared.

26. What rights does Assured Guaranty have? Does it vote? Receive reports? How does it decide how to vote?

Assured Guaranty provides a single point of contact as Assured Guaranty would represent all insured bond holders with decision-making authority over a range of activities that could impact the underlying risk of the project.

This means that Assured Guaranty takes over the voting rights of the underlying bondholders or lenders and will therefore vote and receive reports and any other rights given to senior creditors in the transaction, but no more than the rights that would otherwise be given to the bondholders or lenders in a transaction without a financial guaranty. Such decision-making authority is typically subject to a standard set of rights, retained by the trustee or bondholders or the lenders' agent or lenders, as applicable.

Assured Guaranty will decide how to vote depending on the prevailing circumstances of the project or business and the nature of the request that is being made at the time. It will do so on its own, based on its own interests as financial guarantor, without direction from underlying bondholders or lenders, as applicable.

27. If Assured Guaranty votes in place of wrapped investors, how does that fit in with any existing intercreditor arrangements?

The existing intercreditor arrangements (if any) typically will not be disturbed. Assured Guaranty takes over the voting rights of any bondholders or lenders who are beneficiaries of its financial guaranty. Relative rights between senior and junior creditors or creditors and equity providers typically will not be affected.

28. What happens if Assured Guaranty doesn't vote?

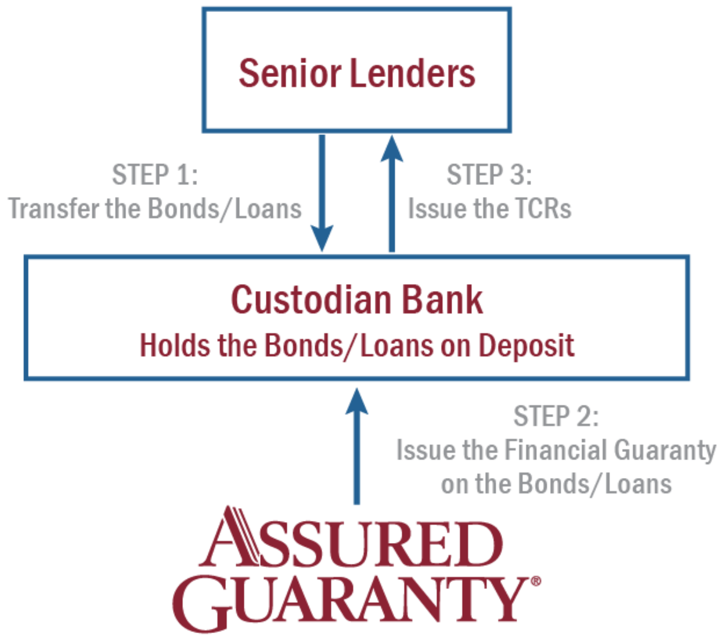
Assured Guaranty will typically vote on any matters on which it is entitled to vote, as it has a dedicated staff monitoring transactions that are subject to its outstanding financial guaranties and, as financial guarantor, has an underlying interest in the repayment by the issuer or the borrower and in the transaction succeeding. The underlying transaction documents contain voting procedures that govern what happens should Assured Guaranty (in the exceptional case) abstain from voting, so the consequences would vary from transaction to transaction.

29. What is a TCR? How does it work, who is involved, why is it different?

Assured Guaranty can provide a financial guaranty to investors that have previously purchased bonds or notes in the primary market. Assured Guaranty can execute such secondary financial guaranty transactions through a repackaging structure, which Assured Guaranty refers to as its Transferable Custody Receipt (TCR) program. This structure works as follows:

- The investor transfers (deposits) the underlying securities (typically rated in the BBB category) to a custodian, which holds the bond or note in a custody account.
- Immediately following such transfer, Assured Guaranty issues a financial guaranty to the custodian bank covering the timely payment of principal and interest on the underlying bond or note.
- Upon receipt of both (i) the underlying bond or note and (ii) the financial guaranty, the custodian bank issues a TCR to the investor. The TCR is a separate transferrable instrument, which incorporates the protection of the financial guaranty and bears the rating of Assured Guaranty.

Below is a diagram of a typical TCR transaction:



The main advantages of the TCR structure (compared to a separate secondary guaranty issued directly to the bond or note holder) are:

- Efficient way for the investor to benefit from the AA S&P rating of Assured Guaranty and therefore optimize regulatory capital savings.
- The TCR is a fully tradable instrument (with its own CUSIP or ISIN), so the guaranty follows the underlying instrument upon a sale.

Additionally, depending on the location of the beneficiary or the risk being covered, regulatory requirements may make the TCR the preferred method of attaching the Assured Guaranty financial guaranty to an obligation.

30. Who pays for any legal work required?

Assured Guaranty's legal fees are typically paid for by the issuer/borrower in a primary transaction and by the investor in a secondary transaction (if significant legal review is needed).

31. Who pays for any rating costs?

Rating costs are typically paid for by the issuer/borrower in a primary transaction and by the investor in a secondary transaction.

32. Is the policy different from the policies provided by other insurers?

Assured Guaranty is a financial guaranty insurance company providing a single line of business, financial guaranty insurance. Such a company is also referred to as a *monoline* insurance company. Financial guaranty insurance is not to be confused with similar-sounding products provided by other multi-line insurance companies, typically called "non-payment insurance." Assured Guaranty's financial guaranty is **unconditional and irrevocable**, guaranteeing **timely payment** of principal and interest to bondholders or lenders for the **full duration** of the obligation, which are important attributes that typical competing insurance products do *not* possess. In addition, Assured Guaranty can and does guarantee debt for long tenors, often in the 30-35 year range.