Assured Guaranty Ltd. (AGO)
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Third Quarter 2018 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our 2018 third 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.

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If you are listening to a replay of this call, or if you are reading a 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 most recent presentations, SEC filings, most current financial filings, and for the risk factors.

This presentation also includes references to non-GAAP financial measures. We present the GAAP financial measures most directly comparable to the non-GAAP financial measures referenced in this presentation, along with the reconciliations between such GAAP and non-GAAP financial measures, in our current Financial Supplement and Equity Investor Presentation, which are on our website at AssuredGuaranty.com.

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 ask a 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 call.

Assured Guaranty continued to generate solid performance during the third quarter of 2018. Non-GAAP operating income was up compared with the third quarter of last year, and operating income per share of $1.47 was 14% higher.

We continued to enhance shareholder value through our capital management program during the third quarter, repurchasing an additional 3.3 million shares at a total cost of $130 million. As of this week, we have repurchased 48% of the total shares we had outstanding when we began our share buyback program in 2013.

In new business production, the $3 billion of insured par we closed in the third quarter produced $52 million of present value new business production, or PVP. Compared with last year's third quarter, PVP was up 21%. On a year-to-date basis, which includes the large portfolio of business we assumed in the Syncora transaction in the second quarter, we have produced $567 million of PVP, which far exceeds our PVP during the first three quarters of any year since we acquired AGM in 2009. All of our financial guaranty businesses – U.S. public finance, international infrastructure finance, and structured finance – contributed to this strong result.

Conditions in the U.S. public finance market remained challenging during most of the third quarter. Thirty-year AAA municipal bond yields rarely exceeded 3% in July and August, and credit spreads stayed near their lowest levels in a decade. Yields have since begun to move, and the 30-year AAA index finished September at 3.19%. It has continued rising, topping 3.4% at times in October. However, credit spreads have remained relatively tight in spite of the increase in rates – a situation we hope will diminish – and as spreads widen, our market share for new business should increase.

Our 56% share of insured new issue volume sold in the third quarter of 2018 reflects Assured Guaranty's continued market leadership and the appeal of our guaranty across a broad range of bond types and transaction sizes. In addition to leading the volume insured, with $2.4 billion of insured par, we led in the number of transactions insured, with 160 transactions, or 53% of the insured new issues. We guaranteed 11 new issues with underlying ratings in the AA category, indicating investors' strong appreciation of our value proposition.

Year to date through September 30th, Assured Guaranty also led with a 56% share of the insured new-issue par sold, totaling $7.5 billion of primary market par, approximately 30% more than that of our nearest competitor. We continued to see significant interest in our insured paper among institutional investors during the first three quarters, as reflected by the nine new issues where we provided more than $100 million of bond insurance on each transaction. And, if you include the new business generated through our Syncora reinsurance transaction, we closed over $15 billion of insured par year to date.

Also, we have recently guaranteed two significant transactions for nationally recognized providers in the healthcare sector. In the first, we helped Montefiore Health System achieve a lower all-in cost for its $1.2 billion offering by insuring $302 million of federally taxable revenue bonds. And last month, we guaranteed more than one-third of the $1.5

billion of taxable and tax-exempt bonds issued for the ProMedica Healthcare System. Our extensive experience in both health care and public-private partnership financings was key to those complicated transactions. The strong executions of both transactions demonstrated the value of insuring a substantial portion of a large transaction to lower the all-in financing cost and attract a more diverse investor base.

Our international infrastructure activity continues to show that our ongoing commitment and efforts in that market are paying off. In a business where transactions have long lead times and the timing of bringing deals to the market can be somewhat difficult to predict, we have now generated international infrastructure premiums in 12 consecutive quarters. During the third quarter, we again wrapped a U.K. university housing financing, this one a £90 million transaction for Durham University. Then, in September, for the first time since the financial crisis, we executed a significant transaction in Australia, guaranteeing AUD$100 million of bonds issued largely to refinance existing facilities of the Port of Brisbane. This transaction was also notable because it was privately placed with a group of South Korean investors, representing a new market for our insured infrastructure bonds.

In fact, we saw further reinforcement of this investor appetite for our insured paper in October, when a similar group of South Korean investors purchased a £75 million U.K. social housing transaction, the first we have insured in a number of years in social housing. The guaranteed notes were issued by one of the largest U.K. housing associations, Places for People, and illustrate our ability to assist in cost-effective funding and to attract a more diversified investor base for social housing issuers.

In structured finance during the third quarter, we continued to execute transactions in the aviation, commercial real estate and CLO markets, while continuing to pursue opportunities in life insurance excess reserve financing, whole business securitizations and other asset finance sectors. We are also beginning to field inquiries relating to the use of our guaranty to support compliance with increased bank capital requirements under Basel IV.

Looking at our insured portfolio, we have been seeing positive developments in the Puerto Rico economy and debt negotiations, and the situation there continues to highlight important elements of our value proposition. Investors that hold the bonds we insure have received all of their principal and interest on time. And those investors have not had to spend any time, money or energy on restructuring negotiations or litigation costs.

In a positive development in October, we joined senior and subordinated COFINA creditors, the Commonwealth and the Oversight Board in an agreement that defines how to allocate COFINA's future sales tax revenues. It is the basis for the COFINA plan of adjustment that the Oversight Board has submitted to the Title III court. With judicial approval, it will resolve almost a quarter of Puerto Rico's total capital market debt outstanding and, according to the Oversight Board, save Puerto Rico approximately $17.5 billion in debt service expense over the term of the bonds.

To complete the transaction, COFINA will issue exchange bonds to replace existing debt. The exchange bonds will effectively convert our subordinated exposure to senior exposure and provide a significantly better recovery when compared with recent market prices of comparable uninsured bonds. Additionally, we expect to wrap our share of the new senior lien exchange bonds, which will be sold in the public capital markets for the purpose of further improving our overall recovery.

As to the sales tax revenue that will be allocated to the Commonwealth, we reserve all of our rights as a Puerto Rico general obligation bondholder. Under the Puerto Rico Constitution, such revenues and other resources must be used to pay general obligation debt before any other government expense – a priority that PROMESA requires to be respected.

Separately, a new opportunity to set PREPA on the right path by installing responsible management appeared on August 8th, when the First Circuit Court of Appeals vacated the Title III Court order denying our request for relief from the automatic stay. We subsequently re-filed our motion for stay relief and expect a hearing on that motion to occur early next year. Our motion focuses simply on installing experienced, professional management of the utility, which would reassure all stakeholders that the monopoly power supplier would be managed competently.

Meanwhile, a proposed restructuring support agreement has been reached among PREPA, some of its creditors, the Oversight Board and the Commonwealth. While we are not satisfied with its terms, and are not a part of that agreement, we do see it as a positive step forward and believe that a deal can be achieved. In general, it's fair to say that progress is being made in a number of negotiations, and there has been good economic news as well. The island's recent unemployment figures are the lowest recorded in more than 75 years, according to Puerto Rico's Department of Labor and Human Resources.

In another positive development, the Oversight Board released a new fiscal plan in October that incorporates some updated results and corrects some of the unrealistically dire predictions we saw in earlier fiscal plans. The new plan gives credit for economic stimulation consistent with the higher levels of disaster relief that are realistically expected. It also assumes a smaller population decline. As a result of these and other factors, and assuming the government follows through on some, but not even all, of the reforms the Oversight Board wants, the new plan projects a surplus through 2023 of $17 billion – which we believe is enough to cover the Commonwealth's contractual debt service requirements over that period. The projected surplus jumped by more than $10 billion since the previous fiscal plan released in June.

So the outlook for more consensual settlements has clearly improved, and there is more reason for optimism, although considerable work lies ahead. The fiscal plan still contains unrealistic and unsupported assumptions, notwithstanding the improvements I've mentioned. The plan continues to rely on the faulty reasoning behind its assumption of a "fiscal cliff" regarding the federal share of the island's Medicaid funding. A more reasonable assumption based on the 55% average federal share over the last 11 years results in almost $4.5 billion more flowing into Puerto Rico. And if, instead, the 86% rate the plan assumes for fiscal year 2019 were sustained through fiscal 2023, the additional amount over the plan's estimate would approach $9 billion. We found similar results when we analyzed the June fiscal plan and encourage you to visit https://revitalizepuertorico.com/Medicaid/ to see that analysis.

Similarly, the updated fiscal plan contains what appears to be unreasonably low projections for Act 154 multinational excise tax collections. Act 154 taxes have provided approximately one-fifth of the Commonwealth's revenues in recent years, and collections were actually up 6% and 10% in the second and third quarters of 2018, compared with last year's comparable quarters. Yet the fiscal plan projects a 37% decline from 2018 to 2022.

I also want to draw your attention to recent misleading comments made by Puerto Rico, and repeated in the media, about its per capita debt levels being far higher than the per capita debt levels of certain states in the U.S. A key problem with their analysis is that it compares only state-level debt and ignores local government debt and federal debt, which is also the responsibility of stateside taxpayers. Remember that people in Puerto Rico are not required to pay federal income tax. When you include the state, local and federal debt that is paid by stateside residents, Puerto Rico's per capita debt load is only 25% of the average for the 10 states with the lowest per capita debt burdens in the U.S.

And it's important to note that the Commonwealth itself fully supported this very measurement of debt burden in the past. For example, in an investor presentation in October 2013, a time when Puerto Rico was looking for ways to access capital market financing, it stated "any comparison of the public debt levels of Puerto Rico with the states should include state, local and federal debt" for all taxpayers in the U.S. It further stated "if one factors in the federal debt load, Puerto Rico would rank last in outstanding debt per capita amongst all U.S. jurisdictions."

As we continue to protect our rights, it appears clear that we are starting to see progress in Puerto Rico. Its economic and financial situations, as we and others predicted, are both performing better than what was represented in earlier fiscal plans, consensual settlements are being reached or negotiated on more realistic terms, and recent court decisions are more supportive of the rule of law and the rights of stakeholders.

I'll conclude by observing that interest rates are rising and public demand for infrastructure investment continues to grow, both of which are likely to increase our business opportunities. I believe that in the not-too-distant future, we will enter a more favorable business environment than we have seen in years.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

Thank you, Dominic, and good morning to everyone on the call.

Operating income was $161 million in the third quarter of 2018, a modest increase compared with $156 million in the third quarter of 2017. The increase in operating income is a result of lower losses; a gain of $31 million related to the Company's minority interest in the parent company of TMC Bonds LLC, which was sold in the third quarter of 2018; and a lower effective tax rate; offset in part by lower commutation gains and lower net earned premiums.

The decline in net earned premiums from $186 million in the third quarter of 2017 to $142 million in the third quarter of 2018 was attributable mainly to reduced refunding activity. Accelerations due to refundings and terminations were $40 million in the third quarter of 2018, compared with $87 million in the third quarter of 2017, which, as expected, reflects the elimination of the tax-exempt status of advance refunding bonds, as well as the reduction in the insured portfolio subject to a call provision.

In aggregate, there was almost no economic loss development in the third quarter of 2018. Improved performance of the underlying collateral in U.S. RMBS transactions resulted in a benefit of $40 million, which was offset by increases in expected losses primarily on certain Puerto Rico exposures.

The effective tax rate on operating income in the third quarter of 2018 was 7.4%, compared with 34.2% in the third quarter of 2017. The effective tax rate in 2018 reflects the effects of the tax reform act as well as a release of reserves for uncertain tax positions for a closed audit year. It also fluctuates from quarter to quarter based on the proportion of income in different tax jurisdictions.

We have continued to repurchase shares in order to efficiently manage our capital position. During the third quarter of 2018, we repurchased 3.3 million shares for $130 million, at an average price of $39.41 per share. Since the beginning of 2013 and through the end of the third quarter, we had repurchased a total of 92 million shares. The cumulative effect of these repurchases was a benefit of approximately $14.54 per share in operating shareholders' equity, and approximately $25.68 in adjusted book value per share.

We have continued repurchasing shares since September 30, bringing the current year-to-date share repurchases to $429 million or 11.4 million shares. In just under 6 years, we have repurchased 48% of the shares that were outstanding when we began the repurchase program, while still maintaining total statutory capital of $6.8 billion and claims-paying resources of $11.8 billion.

This has been a key strategy that helped to drive operating shareholders' equity per share and adjusted book value per share to new records of $60.20, and $84.51, respectively.

As of today, our remaining share repurchase authorization is approximately $169 million. We currently have approximately $250 million in cash and investments available for liquidity needs and capital management activities at the holding companies.

On another positive note, this week we received the final approvals necessary for the combination of our European subsidiaries, and as of November 7, the portfolios and operations of our 4 European financial guaranty insurance companies are combined. As a result, all obligations and bonds previously insured by Assured Guaranty London, Assured Guaranty UK and CIFG EU are now insured obligations of Assured Guaranty Europe, and are soon expected to receive Assured Guaranty Europe's financial strength ratings. The business combination simplifies the capital structure of our European business, while reducing operational costs and increasing rating agency excess capital.

I'll now turn the call over to the operator, to give you the instructions for the Q&A period.

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] Our first question comes from Bose George with KBW.

Thomas McJoynt-Griffith, *Keefe, Bruyette, & Woods*
Hey guys, this is Tommy on for Bose. I want to ask about a couple of the potential opportunities that you guys have mentioned. So this quarter, you guys had your first CLO obligation, and then you've also mentioned on the call some bank inquiries for Basel IV compliance. So could you guys talk about the potential impact down the road of how big those opportunities could grow?

Dominic Frederico
I think the potential impacts really go back to one common premise, which is rising interest rates, right? These are examples of where we're seeing markets that have been dormant for a number of years now starting to come alive. And obviously, if interest rates continue to increase and spreads widen, we expect that activity will geometrically further increase. Remember, this is an industry that used to produce $4 billion to $5 billion of annual premium a year. And although we expect the penetration rate levels -- because of ratings changes, capital requirements, our own risk appetite -- might be half of that, there's still a huge market of opportunity that has not been available to us predominantly because of interest rates and spreads. And as we're seeing these markets start to rebound, I think it's a good indication of where we think we can get to over the next couple of years, as long as the market participates relative to the continued rise in rates.

Thomas McJoynt-Griffith
Okay. And so going off that, does – do you kind of have an updated sort of expectation for when you'd expect the portfolio to stabilize? Or is that, again, waiting on sort of to see where interest rates end up?

Dominic Frederico
Well, there's three factors there, okay? So – and we try to measure all three, and we try to predict the balance. And of course, our predictions have been pretty weak because we've been wrong on interest rates for the last six or seven years in a row. So the streak continues. However, we are seeing a little bit of light of day. So what's the indicators I look at?

So first and foremost is: When do we stop depleting the store of the unearned premium reserve? So we're hoping that by the end of the year, the unearned premium reserve this year winds up higher than it was at the end of the previous quarter. Now we're bigger than – the unearned premium reserve as of third quarter is greater than it was of year-end, but not of third quarter of '17. And that says, "Okay, we've now stabilized the earnings store so that year-over-year comparison of income should start to stabilize as opposed to decline." And that's been two things, right, the lack of new business writing because of rates, but also the heavy earnings we've gotten through refunding activity through this low-interest rate period while there was significant callable par that was out there from the early writing years of, say, '04, '05, '06, '07. So that's number one.

Number two is the amount of par outstanding in the overall portfolio. We're down to $250-odd billion, right? And it continues to decline because of amortization against new writings. So when does that hit the balance? And we're hoping that balance is 2020 or late 2019. So once again, that could change. Depending on if we continue to see rising rates and more demand for product, you could turn that around. Or if we do another large reinsurance deal, that will also help.

And third and most important is the production levels itself, the PVP. When does our PVP writings in any quarter greater than the earned premium in the quarter? Once again, the same indication, you're building up earnings, not depleting earnings. So as we look down that very complicated path, we're kind of saying, in our minds, "2020 is probably the year of the balance."

Thomas McJoynt-Griffith
Thanks. And last one, just on the tax rate. So you've had a few of these release of reserves from uncertain tax positions over the past year, year and a half. Going forward, is kind of a 15% still a good run rate to think of? Obviously, recognizing that it can bounce around a bit quarter-to-quarter, depending on where the – which jurisdiction and these releases.

Robert Bailenson
Yes. We estimate between 14% and 16%. So 15% is perfect.

Operator
Our next question comes from Dan Kersten with CarVal.

Dan Kersten, *CarVal Investors*
Hey guys. I'd appreciate your thoughts around Puerto Rico Highway Authority, or HTA. And specifically, how you anticipate that that will get restructured, and what the sequencing for that particular credit will be with respect to the broader Commonwealth restructuring.

Dominic Frederico
Wow. Great question. I wish I had a really great answer. So let's think about it. So transportation is probably one of the more complex exposures that you're going to deal with. So you've got to look at it from two different perspectives. If you believe in rule of law, and if you believe in rule of law being upheld, then we think that, much like everything else that is going on in terms of new securities being issued, and you can think back to the original RSA for PREPA as well as the current deal for COFINA, each situation, seems to me, being replaced by a securitization-type structure where they're going to hive off a given amount of revenue, lock it away and use that to pay down whatever the replacement bonds are. So figure that's going to be the structure that's going to win, now it's only a matter of does rule of law apply?

So think of it, we just told you in our presentation that the most recent fiscal plan projects a significant surplus on behalf of the Commonwealth. If you believe that, and if it's achieved, remember, under the law, and once again, if rule of law applies, you can't clawback any revenue from transportation unless it's to pay Commonwealth general obligation debt. If the Commonwealth already generates a surplus, it would have absolutely no reason to clawback any revenue. And the revenue, if I remember correctly over that, like, that 5-year period, it's about $2.5 billion. So if the Commonwealth is showing a $17 billion surplus... If the Commonwealth debt service, excluding transportation, is about $10 billion, you still have $7 billion left over. If you take back the $2.5 billion of clawback, you still have $4.5 billion left over. So under that premise, you'd have absolutely no legal right to clawback any of transportation revenues. If you don't clawback the transportation revenues, it does have enough money to meet debt service.

However, nobody's going to believe them anymore. So you're going to have to get to these securitization structures where you lock the money away so there is a real certainty that future bondholders will absolutely get paid and no governor can act irrationally and just start taking money out of wherever he feels like it. So it gets back to rule of law, it gets back to Commonwealth surpluses and budgets, and it gets back to the clawback issue as to whether it can be enacted or not.

So I think transportation, believe it or not, will be last on the list. Because if you solve the other problems where you wind up with the Commonwealth in funds and creating a surplus, then the argument of transportation, I think from the bondholder side, becomes stronger. And as I said, any new structure or replacement bonds, because they're still going to want to extend term to get some relief in the budget, will do under these new securitization-type approaches.

Operator
Our next question comes from Michael Temple, a private investor.

Michael Temple, *Private Investor*
Thank you gentleman and congratulations on another fine quarter. A series of questions. I'll keep them brief. As you mentioned, your overseas penetration of markets that were kind of virgin territory for you had investors who are appreciating your financial guaranty, I'm just curious to hear your thoughts. We know the Assured story ad nauseam here in the States. Is there an opportunity for you to market the Assured Guaranty equity story to a fresh set of eyes on a global basis, as you are becoming better known to investors throughout the globe?

Dominic Frederico
The answer to that is absolutely yes. So one of the things we realized over probably the last four or five years, in the old days, you really -- when you looked at your marketing efforts and your outreach programs, really, it affected issuers and the banks who basically are the gatekeepers for the placing of these securities at the capital markets. It has to be easily six or seven years ago. In Europe, because there was so much damage done by the former competitors in terms of how they treated their policies there and the reinsurance that came back to the States, we really embarked on an investor outreach program because we really had to go back and reestablish credibility and confidence that we would honor all commitments, that we're not kind of the way the other guys were and we're here to actually service their business and make sure that the benefits and the rights that they provide in those deals are actually honored or given back, depending on the circumstance. And as we've done that and we built that investor confidence, we can see now the results in the international marketplaces, we're booking our 12th consecutive quarter of activity. And in the old days, we'd had to search for deals, now we basically see every deal that's in the market, and it's really expanding what is that market opportunity.

Remember, we've been predominantly a U.K. player. We've given our international folks a mandate to look at more continental and now even global, and it's all part of an overall strategy as we look at our outreach program and our diversification program for asset management. We're still looking to get in the markets that we're really not. But the investor outreach program, we've taken globally. When you go to sit in these markets and talk to, say, large life companies, well, they need investments on both sides of the fence. They need the equity as well as the fixed income. The fixed income, quite honestly, from a U.S. perspective looking internationally, is very attractive. You're getting a highly rated security with a long term to match certain structures overseas, like pension obligations, et cetera, and it's got a good rate of return relative to what's available on those local markets. So that seems, to us, to have been a home run all along that we really hadn't focused on.

And now you're seeing that we're spending more and more time in our investor outreach and then more and more time internationally. As we said, the Port of Brisbane was an absolute real reflection of how successful the program is. And now we've got a South Korean investor basically buying 100% of an issue relative to an Australian port. And I think that's kind of the future of our business. It does represent a future opportunity for real growth that really hadn't been tapped in the past, and I think can become a very integral part of the market.

And remember, where we go internationally, we typically have a huge capital efficiency advantage. So those products make sense. And I've always said in the international infrastructure market, our product is the best, most elegant solution. If you're going to finance a long-term asset, wouldn't you want to finance it with long-term kind of known debt service? And in the old days, we competed against banks that did these deals on a refinancing basis. So they give a five- to eight- or even a 12-year term. But you're looking at a 30-year asset, or a 40-year asset in some cases, say, in the U.K., it didn't make sense because why would you take that refinancing risk? So we're very optimistic of what this strategy could ultimately create for us.

We've actually just recently dedicated another investor, significant – not significant, but further investment on our part, we put another investor outreach person dedicated full time to our structured finance division because we really believe that it really does make sense to go outreach and make sure we identify people that would be interested in the Assured Guaranty paper. And once again, as you said, getting our name out there, continue to spread it globally, we'll get better recognition and get those people also involved and potentially looking at the equity.

Michael Temple
Very good. Thank you. A couple of other quick questions, if I could. We know, you know as well, that shareholders or potential shareholders have very much adopted the old Missouri “show me” attitude as regards the brightening outlook for Puerto Rico, and understandable why just because of the uncertain nature of any bankruptcy. My question is this: Assuming confirmation of the COFINA plan and a corollary plan for the GOs that flows from that and PREPA, which again, seems to have some momentum, let's just, for argument's sake, say that by Christmas of 2019, so 14, 15 months from now, we have confirmations, and they're done, they're all tied up. Can you speak to your policy towards the reversal of your reserves if and when those obligations get terminated? Would we see an accounting reversal in those quarters? Again, if you could just speak to that. Again, I know that's a question that nobody would have thought to ask a year ago, two years ago, maybe even earlier this year. But as you pointed out and as the marketplace has clearly pointed out, there are tremendous recoveries to date in almost all Puerto Rican debt.

Dominic Frederico
Well, you're asking a very tough question, obviously. So let's think about it. We put up reserves when we believe there is a probability of a loss, and we then do the analysis of various scenarios under those specific obligations and then probability-weight them. If as you say, there are settlements kind of across the board in PREPA, general obligation and

COFINA, obviously, as we look at our probability assessments of the reserves that would be created under a probable loss scenario, you'd have to affect whatever the settlement numbers are, and therefore, that would change the mathematics.

Every quarter, we look at all the most available information and say, does it do one of two things? Does it change the amount of loss we would realize, if any, under an optimistic, kind of mid-optimistic, realistic and pessimistic? So doesn't change any of those numbers? And then, number two, does it also change my probability weighting that either a court will approve it or it ultimately will get forced by another higher level of court affirmation? So you've got that matrix of 2 soft sides, right? The amount of the loss in any scenario and then the probability to get that scenario.

So as you said, if you have a settlement on PREPA, settlement on COFINA, settlement on general obligation, we go back and look at exactly our little table of reserves. And we have an, obviously, as you know, a corporate actuary on staff – we're one of the – matter of fact, back in the day, we were the only financial guaranty company that had an actuarial department. I mean, that was a lesson that everybody else should have learned. So we'll go back to those exact schedules, redo the math and tell you what the numbers are. You know we carry reserves. We've been very aggressive in how we've continued to try to deal with our issues on Puerto Rico. But at the same time, we have a responsibility relative to GAAP financial statements in how reserves should be calculated. And we'll go back and look at those schedules and say is there an impact that's going to result in a change in that reserve position, positive or negative? Obviously, under a settlement, we would hope they would be positive.

Michael Temple
All right. Jumping to your comments about the, again, incredibly low estimates of Medicaid reimbursements that Puerto Rico has been using in their documents. Again, I know you're not a lawyer, but you're obviously far closer to the situation than the rest of us. In terms of winning that argument as you and others press your claims in court, is that something that's just a very factual assessment? That a judge just takes a look at it and says, "Puerto Rico, you don't have a leg to stand on. Here are the historicals. There is no basis for you to set much more draconian levels going forward. I hereby order you to amend your plan to reflect the past reality unless you can show us something definitive that shows that Medicaid reimbursement are going to drop precipitously." In other words, is this just like a simple rubber-stamp? Or in bankruptcy, all cards are up in the air until they are settled?

Dominic Frederico
Well, although I'm not a lawyer, I play one on TV. So let me answer it in the best lawyer… of course, my General Counsel just fell off her chair, but that's beside the point. So if you think about it, it would be lovely if it was a slam dunk. It's not. So we can say, look, historically, the United States has provided 55% of reimbursement of Medicaid and it goes all the way up to 83% or whatever it is for the 2018 year, but that's just historically, it's still an appropriation from Congress. And unless you get Congress to make some permanent statement that says we will continue to support Puerto Rico at some level, which your guess is as good as mine. In a divided Congress can you get agreement that you will put

out such a statement? I don't think you'll ever have a court slam dunk it. However, as you can see on the fiscal plan, even with the draconian assumptions there is today, there is still a surplus. And remember, that's only 1/2 of the equation.

The real equation is what are our legal rights? And what does rule of law require? And it appears that the First Circuit appellate is actually starting to really support rule of law. We've had the overturn of the stay against our ability to put a receiver in PREPA. We had the – what's the other overturn? I don't know, I'm forgetting. There was two. It will come to me. So I think as you look at that, we're going to be very pleased, I believe, in the long run that now that we've gotten rid of the economic argument – and we always go back to Detroit. Detroit had a real economic argument. We'll argue that Puerto Rico doesn't have an economic argument, and therefore, rule of law shouldn't be really influenced or interfered with relative to our rights to collect.

For instance, in the general obligation, you're supposed to pay first dollar to debt service. You have not even attempted to put debt service in the fiscal plan. I would hope that a court, a superior court, because obviously, we're not getting it in the lower court, recognizes that and realizes the ridiculousness of that and says “Okay, so the game's over, this has to be provided for.”

So there's many estimates, I don't think you are getting to get a court – this is a long answer to a short question – to say, "Okay, you must put in the Medicaid money." But remember, these budgets are full of many estimates to every level of revenue. So you can make the argument to the court, as reasonable as they're trying to project sales tax going forward, how could you not project Medicaid going forward based on some historic analysis of previous activity? So I don't think the court will say it, but I think the court of popular opinion will. I think it will still make a good basis for an appeal. And once again, with the surpluses shown, there should be no reason why debt service is not being provided for.

Michael Temple
Thank you for that. And then final question. And again, I appreciate your forbearance. You've talked in the past about your appetite for buyouts of legacy competitors. As the Puerto Rico situation continues to improve here, does this perhaps enhance the opportunities as other competitors feel less pressure on them as the industry as a whole achieves better recoveries? Or does that really not have an impact on the possibility of seeing another transaction or two as you try to consolidate more of the legacy players?

Dominic Frederico
Well, if you think about it, so we've pushed this consolidation issue going all the way back to 2009. And so far, we've bought 5 and a half of the original 8 competitors. So we're well on our way in achieving our goal. What holds us up from the remaining? So there's going to be three things.

One, if there are these what I'll call concerned exposures a la Puerto Rico, would we really want to step in that fight and increase even further our exposure to what still is a volatile situation? Still going to rely a lot on court activity. But although we feel very confident in the outcome, it's still an outcome that has to be determined. So if there were further settlements that lowered the exposure or the volatility, you're right, it creates a more opportunistic environment for further consolidation.

Number two in terms of acquisition opportunity is how complicated is the equity component or the equity structure of the target? So if they have preferred stock, surplus notes, deferred payment obligations and common, it becomes a little hard to say how can I corral all of those 4 instruments and get a deal done? That's why we've gone to this new structure of reinsurance that says I can pull a lot of the economic benefit and therefore relieve, for the target company, their required capital and maybe the regulatory scrutiny. So as they look to their future, this gives them an opportunity to focus more on that future. Plus in the free up of that regulatory capital by the reinsurance, does other components of the equity in terms of surplus notes, deferred payment obligations, preferred stocks, they can make settlements there as well? So ultimately, they get into the right position that we can then make an acquisition to actually pull in the rest of the said capital base or equity component.

And last but not least is: The target has got to have figured out where they want to go once the capital gets freed up. And do they have plans that they want to effect or execute? So in the old days, we drove it very hard about the consolidation. Today, I think it's equally beneficial for both sides. These transactions not only help us because it continues to build our story and obviously creates earnings. And we do these things at a pretty good price at a reasonable discount. It also provides the target with this opportunity to say, "Okay, now I can start to grow. I can go into something that's got opportunity. I can start to reward my shareholders." So I think it's a good answer for both of us.

So I think, yes, as Puerto Rico continues to mature relative to ultimate resolution, I think it will continue to further give us opportunity to increase our desire to consolidate the rest of the industry.

Michael Temple
So in effect, am I correct in interpreting your words there saying that if transactions were to take place, they might look more like the Syncora reinsurance deal than an outright acquisition, like you did in Radian and CIFG?

Dominic Frederico
Yes, for the short term. But remember, CIFG, we did a reinsurance deal first, then we acquired the company, like, four years later. So same kind of structure. So the Syncora kind of looks like CIFG, if you can remember CIFG. And I still think it's going to – and we did a small reinsurance deal with one of the other guys. I don't think we've publicly said who it was or what it was. But we're constantly working that channel because I think it is a good transaction for both sides. It makes the regulator happy because now it's in a highly rated, strongly capitalized company that pays its bills and pay its claims. It does free up capital on behalf of the ceding company, so they can go out and settle some of their obligations. So I think it's a positive transaction. Wherein the old days, we were kind

of pushing the point of consolidation; today, as I said, I think it's positive for both sides of the fence.

Operator
Our next question comes from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn, *Dowling & Partners*
Just a couple of number questions. First off, have you submitted the request for a fourth quarter special dividend?

Dominic Frederico
We wouldn't tell you that until after we submit it.

Geoffrey Dunn
All right. Rob, what do the new money yields look like versus your current pretax portfolio yield?

Robert Bailenson
New money yield right now is about 3.85%.

Geoffrey Dunn
So just a little bit better than the current portfolio?

Dominic Frederico
Yes.

Robert Bailenson
Yes.

Geoffrey Dunn
And then could you also break out the new issue versus secondary par? And the muni results this quarter, both par and PVP?

Dominic Frederico
Wow. I have the new issue. So the new issue is $2.975, so I think we advertised something a little around $3 billion. So the difference is the secondary market stuff. I don't have the specific number in front of me. Teresa does. Go ahead.

Robert Bailenson
So we did in 2018, total primary was $25 million in 2018 in the third quarter. Secondary was $8 million.

Dominic Frederico
Par.

Robert Bailenson
Sorry, I've given to you in PVP. You want the par? Okay.

Geoffrey Dunn
That's PVP you just gave me?

Robert Bailenson
Yes. Do you want par or PVP?

Geoffrey Dunn
Both.

Robert Bailenson
Okay. So PVP was $25 million primary, $8 million secondary.

Dominic Frederico
That's in public finance.

Robert Bailenson
In Public finance. And public finance non-U.S., obviously, was $12 million. And structured finance was $7 million. And the par, the primary par would be $2.2 billion, and secondary market would be $182 million. And non-U.S. public finance would be $189 million, and structured finance was $473 million.

Dominic Frederico
So the secondary market then is just under $200 million.

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

Robert Tucker
Thank you, operator, and I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.