



**Assured Guaranty Ltd. (AGO)
February 26, 2016
Q4 and Year-End 2015 Earnings Call**

Robert Tucker - Managing Director, Corporate Communications and Investor Relations

Thank you operator. And thank you all for joining Assured Guaranty for our 2015 fourth quarter and year-end financial results conference call.

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

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

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

If you are listening to 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 recent presentations, SEC filings, most current financial filings, and for the risk factors.

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

During 2015, Assured Guaranty once again achieved outstanding results and made significant progress on our four key business strategies:

- generating current and future revenue through new business production;
- managing capital efficiently;
- executing alternative strategies, such as, acquisitions and commutations; and
- mitigating losses.

Specifically, in 2015:

- We earned record operating income of \$699 million, or \$4.69 per share – which are respective increases of 42% and 66% year-over-year

- We increased operating shareholders' equity per share and adjusted book value per share to record levels of \$43.11 and \$61.18, respectively
- We achieved an operating return on equity of 11.8%, up from 8.1% in the previous year
- We increased the present value of new business production by 7% over our 2014 PVP
- We also completed our acquisition of Radian Asset, which contributed \$654 million to our claims-paying resources, \$193 million to operating shareholders' equity, and \$570 million to adjusted book value at the time of acquisition, as well as approximately \$2.13 per share to 2015 operating income
- And we increased our quarterly dividend to twelve cents per share and repurchased 21 million common shares, thereby returning to shareholders a total of \$627 million of our excess capital, equal to 15% of our market capitalization at the start of the year. This week our board increased the dividend again to 13 cents and authorized more share repurchases, which Rob will tell you more about.

It is also fair to say that 2015 was the year Assured Guaranty substantially put the effects of the Great Recession behind us. Our exposure to residential mortgage-backed securities, in excess of \$35 billion at the end of 2008, has amortized or otherwise diminished by 80% to \$7 billion, with much of the remaining exposure subject to loss-sharing agreements with providers of representations and warranties. We have now completed our direct pursuit of rep and warranty claims, which has further validated our loss mitigation abilities. Since January 2008, we have recovered \$3.6 billion and, in total, expect to recover \$4.2 billion from rep and warranty providers, including future benefits to be received under settlement agreements.

The market is increasingly recognizing the proven robustness of our business model and the compelling value of our guaranty product, which includes not only the certainty of payment provided by our unconditional guaranty of principal and interest when due, but also:

- Disciplined credit selection, underwriting and enterprise risk management
- Long-term surveillance of insured bonds and the ability to protect our capital through remediation and loss mitigation, while insulating insured investors from negotiations and litigation associated with workouts and restructurings
- Enhanced market liquidity, based on \$500 million of daily trading volume in bonds we insure
- The stability of our insured bonds' market value compared with the same troubled issuer's uninsured bonds
- And on the issuer side, our proven record of reducing financing costs, improving market access, broadening distribution and saving issuers money.

We believe growing awareness of this value proposition is fueling growth in the demand for bond insurance. In U.S. public finance, annual primary-market par insured was 36% higher in 2015 than in 2014, far outpacing overall municipal new issuance growth of 20%, and reaching a penetration rate of 6.7% of all par sold, the highest annual level since 2009. Fourth quarter industry penetration was even higher at 7.3% of par. In our most active market segment, transactions with underlying ratings in the single-A category, guarantors insured 54% of the new issue transactions and 22% of the par sold.

Insured penetration grew despite even lower interest rates and tighter credit spreads than in the preceding year. The index for thirty-year AAA yields averaged approximately 35 basis points below its 2014 average. During the year, credit spreads tightened to levels not seen since 2008. While these conditions

constrained pricing, we maintained our discipline and were even able to improve pricing as the year progressed. Clearly, the growth in demand is driven not by the rate environment but by improved perception of our guaranty's fundamental value. If long-term interest rates increase, growth could accelerate significantly.

Assured Guaranty led the municipal bond insurance market in both par insured and number of transactions during 2015, capturing 60% of all insured new-issue par and 54% of the insured transactions. Our 1,009 primary-market transactions represented \$15.1 billion of insured par, a 41% increase -- and more than \$5 billion more than the combined total for the rest of the industry.

We were the insurer of choice for bonds issued in amounts of \$10 million or less, leading the industry with 662 transactions totaling \$3.4 billion in par insured. Also, reflecting improved acceptance of our insurance by institutional investors, we guaranteed 55 transactions sold with insured par of \$50 million or more, of which 15 exceeded \$100 million. Once again demonstrating the exceptional value of our guaranty, we insured 64 transactions with underlying ratings in the double-A category, whose aggregate par amount totaled \$1.8 billion. Counting secondary market activity, our total 2015 U.S. public finance par insured reached \$16.1 billion.

An important strength of Assured Guaranty is our diversified strategy, which allows us to avoid dependency on a single market. In 2015, our international infrastructure and global structured finance businesses each contributed more than \$26 million to our PVP, together representing 31% of total PVP.

Our international infrastructure business had its best production year since 2008. We have patiently and persistently worked to rebuild the European market for financial guarantees, which was damaged during the global financial crisis, and we are confident that our effort will continue to pay off. We still have opportunities to replace other monoline guarantors on existing transactions and also to generate new premiums through refinancings and restructurings of some of our current exposures. We are also making progress toward guaranteeing a number of new project financings.

In global structured finance in 2015, we closed an additional bilateral transaction with a life insurance company, as well as a number of other transactions. Additionally, we obtained an A+ rating from A.M. Best, the second highest rating in their rating scale, for AGRO, our Bermuda-based specialty reinsurance subsidiary. The A.M. Best rating is particularly relevant for the insurance company clients AGRO serves.

Our accomplishments in 2015 were achieved against the backdrop of magnified headlines concerning Puerto Rico. Let me put this in perspective.

First, as rating agencies have affirmed, even under highly stressed rating agency assumptions, our potential Puerto Rico losses are manageable within our current rating levels. The average annual debt service on all of our Puerto Rico exposures over the next ten years is roughly equivalent to what our investment portfolio generates in income each year, and no rational person expects 100% losses on each of our 11 different exposures, many of which are constitutionally protected or secured.

The next thing to realize is that the Puerto Rico downgrades immediately showed the market an important benefit of our insurance. Puerto Rico-related bonds we insured have consistently traded better than their uninsured equivalents since the downgrades and often by wide margins.

Also, I want to emphasize that negative headlines do not trigger losses. We have repeatedly been able to use our capital, liquidity and market access to work through troubled credits with outcomes far superior to what was initially offered -- as witnessed by the outcomes in Detroit, Jefferson County and Stockton.

In fact, the most recent example is the recovery plan contemplated by the Restructuring Support Agreement with the Puerto Rico Electric Power Authority. Puerto Rico's legislative assembly and governor have approved enabling legislation that serves as a foundation for PREPA's recovery plan, and if the remaining conditions are met and the recovery plan is implemented, it results in no losses for Assured Guaranty and commits bond insurers to provide very manageable additional financing support for PREPA to set it on the road to modernization, long-term sustainable rates for consumers and continued access to efficient financing. This recovery plan could serve as a model for consensual restructurings of other Puerto Rico credits.

Having said that, there is still no excuse for the current behavior of Governor Padilla and other Puerto Rico officials. Instead of building on the success of the PREPA agreement as a model solution for other credits, the Governor and his administration have been spending their time in Washington, D.C. lobbying the U.S. Congress to retroactively change established law to permit chapter 9 bankruptcy in Puerto Rico, or even broader restructuring powers that would give the Commonwealth rights unavailable to the states.

That the U.S. Treasury is advocating for this dangerous proposal, to break binding legal commitments, will undermine the belief that America keeps its commitments and the rule of law that enabled our nation to become the leading global model for economic success. For Treasury to claim this would not be a taxpayer bailout is to ignore the harm it would cause to millions of U.S. taxpayers who invested in good faith in Puerto Rico's debt.

Congress is being asked to reward fiscal and operational mismanagement and to condone poor disclosure, poor governance and lax tax enforcement, all of which are well-documented in Puerto Rico's own disclosures, as well as the corrupt cronyism most recently highlighted by the guilty plea of a high-ranking campaign finance official of the governor's own political party. This would be a terrible message to send to municipal borrowers - that it is OK to manage incompetently and corruptly, and OK to abandon legal commitments when it is politically inconvenient to keep them.

The Puerto Rico government is acting with disdain for the rule of law and its own constitution, and is violating the U.S. Constitution. For example, purportedly to make payments on certain general obligation debt due at the beginning of January 2016, the governor issued executive orders for the government to retain, or "claw back," tax and other revenues pledged to secure the payment of certain other bonds. This action caused a payment default, and a claim that Assured Guaranty paid, on Puerto Rico Infrastructure Financing Authority revenue bonds, and if allowed to stand, the revenue clawback would eventually force two of our other insured revenue bond issues to default. Assured Guaranty and other bond insurers have brought suit in Federal court asserting that this attempt to claw back pledged tax revenue is unconstitutional because it impairs the payment priority granted to the revenue bonds - whose proceeds were used to fund essential public services - by subordinating their payment to the payment of the Commonwealth's general expenditures. This impairment of contract and taking of collateral violates multiple provisions of the U.S. Constitution.

The governor seized on the lawsuit to promote his politically motivated crisis narrative. He claimed the suit was the beginning of the legal chaos he had asserted would ensue unless the U.S. Congress promptly met his administration's demands to allow repudiation of his government's contractual and constitutional obligations.

Then, on January 29, 2016, Puerto Rico unveiled a restructuring proposal to creditors concocted without any prior consultation with creditors. It appears to be intentionally unworkable because the commonwealth wants Congress instead to provide restructuring authority that Puerto Rico can use as a negotiating club or for an eventual attempt to cram down creditors.

These political maneuvers are delaying the progress of consensual restructuring and structural reform that Puerto Rico desperately needs if it is to regain access to the municipal bond market and rebuild its economy.

If Puerto Rico succeeds in getting some form of chapter 9, it will obviously harm Puerto Rico's bondholders, some of whom live on the island, who have invested a significant portion of their life savings in supposedly bankruptcy-proof debt and have been partners with Puerto Rico for many decades, helping the island to build its roads, airports, hospitals, schools and other infrastructure. But it will also harm all the citizens of Puerto Rico, whose government will lose access to efficient financing, incur huge legal costs, drive away private investment and cause long-term economic harm far greater than any possible debt relief. And it will harm people in states and municipalities across the country, whose cost of borrowing will likely rise, as investors will be compelled to price in the possibility that state governments will insist on the kind of retroactive special treatment Puerto Rico is demanding, or retroactively change their own laws regarding use of chapter 9.

Puerto Rico has significant structural, operational and economic problems that will not be solved by bankruptcy. To the extent such problems exist, they are largely of Puerto Rico's own making. Yet, instead of doing everything within their power to legally manage their debt, reform their government, better manage their revenue collection and expenses, and rebuild their economy, Puerto Rico officials have deliberately pushed a self-fulfilling crisis narrative to influence Washington lawmakers. To embrace the Commonwealth's narrative suggests an irrational belief that harming creditors who are mainly U.S. taxpayers will benefit Puerto Rico, when the reality is that it will prevent the long-term solutions and partnerships that are necessary to bolster the island's economy to the benefit of its people.

With the government in Puerto Rico doing everything in its power to unjustly impair creditors, how does it expect anyone to provide further credit to the island to help build its economy?

We believe there is a constructive role for the Federal government that does not involve granting bankruptcy authority. And, with regard to Puerto Rico's creditors, only consensual restructurings can assist in the commonwealth's long-term recovery. We are prepared to work diligently with all stakeholders to achieve solutions that promote economic growth, provide Federal control over fiscal management and facilitate efficient financing through the capital markets. These practical and moral priorities are where Puerto Rico should be focused.

I am further dismayed at the recent position of certain Puerto Rican officials who have stated that they will reject any U.S. congressional efforts to create a financial control board. If they are claiming a humanitarian crisis that is the result of years of fiscal mismanagement and poor governance, how can they still claim any right to self-govern their financial operations?

The Puerto Rico government cannot have it both ways. Without significant governmental reform, the situation in Puerto Rico will not improve.

Coming back to how we create value, there are two key strategic activities that can improve future earnings and deploy some of our excess capital. One is acquisitions, like that of Radian. As inactive legacy financial guarantors finalize their own rep and warranty agreements and terminate poorly performing exposures, they may become appropriate acquisition targets. The second is the reassumption of business we previously ceded to third-party reinsurers, which typically involve a commutation premium paid to us that is recognized immediately in earnings. As an example, we reassumed \$855 million of net par exposure in 2015.

Turning to our loss mitigation and capital management strategies, I've mentioned our trailblazing, highly successful RMBS recovery efforts. We also manage risk and improve capital efficiency by terminating

transactions that are below investment grade or carry rating agency capital charges disproportionately high for their credit quality. During 2015, we terminated \$3.9 billion of net par exposure.

Similarly, we purchase bonds we have guaranteed to mitigate losses, reduce capital charges, or improve our investment portfolio returns without taking on additional risk. In 2015, we purchased \$945 million of such wrapped bonds.

Through terminations, wrapped bond purchases, refinancings and scheduled amortization of insured transactions, we reduced our net below-investment-grade exposure by \$3.1 billion in 2015, even after acquiring an additional \$3 billion of below-investment-grade exposure in conjunction with the Radian transaction. Our overall par exposure also declined, while claims-paying resources increased, leading to a 15% reduction in insured leverage.

Our 2015 results have proven again that Assured Guaranty's business model works and our operating strategies are sound. We are looking to the future with great confidence. Our financial position is strong and stable, the value of our financial guaranty product has never been more evident, and we have abundant capital to protect our policyholders, write new business, invest in new opportunities and continue returning excess capital to shareholders.

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.

Our full year operating income of 699 million dollars, or 4 dollars and 69 cents per share, was the highest ever recorded by the Company. It was fueled by the Radian acquisition, high levels of refundings, and a variety of loss mitigation strategies, including a settlement with our last significant provider of reps and warranties.

Our fourth quarter 2015 operating income was 117 million dollars, or 83 cents per share, compared with operating income of 81 million dollars or 50 cents per share in the fourth quarter of 2014. This represents a 44 percent increase in operating income, or a 66 percent increase on a per share basis.

Our fourth quarter results reflect:

- refundings that resulted in premium accelerations
- the contribution to earnings from the Radian portfolio, and
- the continued success of our loss mitigation efforts.

It also includes changes in U.S. public finance loss reserves reflecting recent developments in Puerto Rico.

Financial guaranty and credit derivative revenues were 312 million dollars in the fourth quarter of 2015, compared with 178 million dollars in the fourth quarter of 2014. This increase relates primarily to higher accelerations of 180 million dollars from refundings and terminations.

Investment income in the fourth quarter of 2015 was higher than the fourth quarter of 2014 by 35 million dollars. The increase was mostly a result of nonrecurring income generated by loss mitigation securities that were acquired at discounts and subsequently paid off at par.

Total economic loss development was 133 million dollars in the fourth quarter of 2015. This was driven mainly by changes in the expected losses on various Puerto Rico exposures, and higher estimated delinquencies on HELOC transactions with mortgages that have interest-only reset features.

The impact of changes in the risk-free discount rates was a loss of 6 million dollars across all sectors.

In February of this year, we completed our previous buyback authorization, and earlier this week, our Board authorized an additional 250 million dollars in share repurchases.

Shareholder dividends, share repurchases and recurring debt service and operating expenses of the holding companies are supported by the dividend capacity of our insurance subsidiaries and cash at the holding companies. As of this week we had 41 million dollars in cash and investments at the Bermuda holding company and approximately 98 million dollars at the US holding companies.

After three years of steady execution of the share repurchase programs, we have repurchased 31 percent of our outstanding shares for a total of 1.5 billion dollars. Its accretive impact on our key financial metrics are clear.

Full year 2015 operating income per share was 26.4 percent higher than it would have been without these repurchases.

The corresponding impact on adjusted book value and operating shareholders equity were increases of 21.5 percent and 14.6 percent, respectively.

As a result of share repurchases and the execution of our various strategies, including the Radian acquisition, operating shareholders' equity and adjusted book value per share increased to record highs of 43 dollars and 11 cents per share, and 61 dollars and 18 cents per share, respectively.

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

Question and Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Peter Troisi with Barclays. Please go ahead.

Peter Troisi - Barclays

Great. Thanks for taking the question. Just a follow up on the distressed CLO transaction in the quarter that was mentioned in the press release. I believe exposure was at AGC. So is it fair to assume that the notes that you bought are now in the investment portfolio of AGC?

Rob Bailenson – Chief Financial Officer

Yes. That's exactly what you should expect. We tore up the CDS and bought the notes and valued them at fair value.

Peter Troisi

Okay. Great. Thanks. And then I think that second-to-pay wrap had a notional of about \$375 million. So is the right way to think about the par amount of the CLO notes that you've bought approximating that level?

Rob Bailenson

There's been some amortization since that, but that's how you should look at it. But remember, we also bought them and then you have to fair value them at the expected level. The difference between that fair value and the par amount of that went through losses incurred in the structured finance line.

Peter Troisi

Okay. Great. And that was in the fourth quarter?

Rob Bailenson

Yes.

Peter Troisi

Great. And then just one more from me. Are there any plans to change the \$100 million notional hedge associated with that CLO?

Rob Bailenson

No. Not at this time. Let me also mention we bought that bond back at a discount. I just want to make it clear.

Peter Troisi

All right. Thank you.

Operator

Our next question comes from Sean Dargan with Macquarie. Please go ahead.

Sean Dargan - Macquarie

Hi. Thanks. Good morning. I just wanted to see if we can get an update on your thoughts around asking for an extraordinary dividend. Is it correct that one of your competitors who also has significant Puerto Rico exposure has asked for and received extraordinary dividends from New York?

Dominic Frederico – President and Chief Executive Officer

I don't really know if I can give you the – what the competitors are doing. I think, I know Radian got one, and I'm not sure there's been -- CIFG got one but I am not sure the amount of their Puerto Rico exposure. Radian, of course, had more, but of course as you know we purchased Radian, so those are the only two that I know, but obviously they are very different circumstances than the other companies that are staying active in the marketplace.

Sean Dargan

Okay. I guess where I am going with this – do you need a resolution of Puerto Rico before you feel like you can ask for a special dividend?

Dominic Frederico

I think, as I said on the last call, I think the answer for us is no. We'd like to get more clarity on Puerto Rico because I think it just makes the case to the regulator that much easier, and we'd rather have the continued relationships that we have where basically this is a good, strong, supportive relationship between ourselves and the regulator. We don't want to put the regulator in a position where they have to really kind of wring their hands over this. So we think any further clarity on Puerto Rico helps the argument. However, based on our excess capital position and hopefully with the PREPA deal by and large being complete except for the final approval of the rate formula going forward to allow for the continued ability to repay the new bonds, that I think provides a little bit further incentive to us. And as I said, our excess capital position would tend to keep -- indicate that regardless of which way Puerto Rico goes, we're obviously very, very well capitalized, and well capitalized even under stressful scenarios that allow us to maintain our ratings, which is probably the most critical component that we will look at.

Sean Dargan

Okay. And one other topic that investors have been asking about is – I'm just wondering if included in your public finance economic loss development, there is any development related to Chicago or the state of Illinois?

Dominic Frederico

We continue to look at those exposures. Obviously you'll have a better handle on where our position is vis-à-vis reserving as you look at our below investment grade list. And obviously that's where we start to begin - the trigger of reserve consideration is if it's below investment grade. And as of today, Chicago is not below investment grade.

Sean Dargan

Okay. Thank you.

Dominic Frederico

You're welcome.

Operator

Our next question comes from Geoffrey Dunn with Dowling & Partners. Please go ahead.

Geoff Dunn – Dowling & Partners

Thank you. Good morning, guys. Rob, I missed one number. The Bermuda holding company cash?

Rob Bailenson

Hold on one second. Alright. It's \$41 million of holding company cash in Bermuda and it's \$98 million of holding company cash in the U.S. holding company.

Geoff Dunn

Great. Thanks. And the other question is on the loss mitigation efforts. You're buying the wrapped bonds, can you provide some historical detail in terms of the successes there? I mean, it gives a pop here and there. Obviously a bigger one this quarter. But do you have any statistics around the average discount you bought, the average discount you've exited? Because I know it's been an ongoing effort for another way of generating value here. I'm just curious if you have any bigger numbers to put around that to frame it.

Dominic Frederico

Yeah. These might not be up to the penny but they're going to be reasonably close. I think in total we bought over \$2 billion of securities. The average against all of the securities is in the, I think high 60s, low 70s. Now remember in the early days the RMBS securities that we bought back were deeply, deeply discounted, so they were driving numbers, down in the 30s and 40s. And in recent years, obviously, even more strategic, and the witness is in the last quarter where we bought back those CLO securities at a discount, but these now become very different purchases for us, in this case, we were protecting a legal position, we were taking advantage of a discount. We've used it in loss mitigation in a different context, inside the RMBS.

Number two, we've been buying a lot of the securities in the last, say, 18 months, where the discount is a lot smaller, and there're really short term securities that are producing better investment yields –than the new money that we can invest in the standard portfolio. So, the average has been, the total is I think we're in the plus \$2 billion, the average has been around 70%. And as I've said, we've changed the nature of it. If you've noticed in the past, we were buying some of the more... larger, not necessarily concerned about huge economic loss but taking advantage of either the discounts to perfect returns or to provide us a better status in terms of – if there is a workout, where we stand in the workout scenario.

Someone just handed me some stuff. Well, so we purchased \$3.4 billion with an initial purchase price of

approximately \$2.2 billion, so that kind of gives the overall number. We actually track the – what we call the value creation of this thing, and it's been highly, highly profitable for the organization.

Geoff Dunn

Okay, great.

Rob Bailenson

The other thing, Geoff. The average yield on these loss mitigation bonds as of the balance sheet date is about... almost 12%.

Geoff Dunn

Okay. And then I'm not sure kind of how to even ask this last question. But we all see the same thing going on with Puerto Rico, and what seems to be a lack of good faith and effort on the negotiations. It seems inevitable that this is going to the courts ultimately. So when you think about something like this, it's unprecedented I think, going into the courts, how do we think about the reserving developments over a long period of time of potential legal battle. Each quarter, do we have to deal with plus and minuses on the probabilities or is that something that just ultimately plays out over a longer time and we don't see much adjustment, like we have been seeing over the last year for Puerto Rico.

Rob Bailenson

Just wanted to say, based on the rules, Geoff, FAS 163 requires us all to look at all new information within the quarter, and we then look at our probability-weighted scenarios and adjust those probability-weighted scenarios based on that new information. So if you are reading in the paper that there is some negative development with respect to some credit, it's fair to say there is a chance there is going to be some development on that credit within that quarter. On the same side, if you hear that there is some positive development within a quarter on a specific credit, there'll be a positive impact to our loss reserving probability-weighted scenario. If there is no new information and no material change to any information within a quarter, then you would see very little movement. And that's how we describe it.

Geoff Dunn

Okay. Just to wrap up and ask one more, have you released any of your PREPA reserves yet?

Dominic Frederico

Yeah. Nice try, Geoff, appreciate the tone of the question. But as we obviously don't talk about a specific credit, as obviously there is too much going on in the market place. And too much negotiation and obviously, if we're preparing for any sort of a – legal confrontation, all that information has to be kept private. To Rob's point though, we hopefully – as we set reserves, we try to include all possible scenarios and probability-weight them. So if you think about a standard situation on any of the credits, hopefully, we've considered every possible situation that could apply and maybe it's going to be a matter of just juggling probabilities now, as we come to the weighted average outcome. As you said, this could take a long period of time, if they dare step over that line, you could assume there will be substantial litigation. This is not similar to other credits, where by and large, although they have done some strange and wonderful anti-bond market things, by and large the overall solution was acceptable into the marketplace and for those people that were in an impaired position, they chose not to provide further objection to it. In Puerto Rico's case, whatever the wild, wonderful and weird activities that are going to take place, you can assume that this is going to be quite the battle, we believe firmly in our contractual protection, as we believe firmly in our constitutional priority in regard to who puts what on the table. We will vigorously defend that.

Geoff Dunn

Okay. Thanks for all the comments.

Dominic Frederico

Thank you.

Rob Bailenson

Thank you.

Operator

[Operator Instructions] Our next question comes from Bose George with KBW. Please go ahead.

Chas Tyson - KBW

Hi, guys. Good morning. This is actually Chas Tyson for Bose. I wanted to follow up on John's question on Chicago. I think one of your competitors has put the public schools on their BIG list. I just wanted to maybe get a little more color on how you guys are feeling about both the city and the schools, and what keeps that off the BIG list for now?

Dominic Frederico

Specifically, for the Chicago School District, and the way our deals work, there's an appropriation that's done at the beginning of the year that basically funds the debt service for the year. And the way the appropriation is formed, it is a specific, in effect, tax grant. That has been done for the current year. Therefore, the amount of payment through the year has already been provided for in the segregated account, as well as, as we look at the revenue source, it appears to be reasonably stable on a go forward basis, and therefore should be able to meet our debt service requirements.

So, we had a long and arduous discussion on what should be the rating on this – on the Chicago debt. That's not to say that there aren't required improvements that have to be made to the entire Chicago and Illinois balance of payment and specifically the unfunded pension liability, that's got to get worked out, I mean within their own jurisdiction or within their own laws and congressional action, which we continue to monitor but as we look at the credit, as far as we can see it for the current year, as well as looking at the priority of the revenue source, we're at this point in time still comfortable that it's investment grade.

Chas Tyson

Okay. And then I want to ask about pricing as well. I think you mentioned that the pricing had improved towards the end of the year, and it looks like from the release that definitely did improve on the muni finance side. And in the U.S., how has – what drove that increase or improvement in pricing? And have you seen any of the new pricing mechanisms that competitors have introduced have an impact on demand for that type of pricing or has kind of the traditional way of pricing the business still been largely the way that customers are comfortable with?

Dominic Frederico

Well, if you really look at it, we spend a lot of time on pricing as you will appreciate. It's because our view is that there is kind of a minimum rate of return that we want to put our capital to use and we've got other things to do with the capital. And as we said on the call, pricing did improve in the latter half of the year, and I think it was more based on there is a lot more demand and appreciation for the product because of all the other stuff that's going on in the marketplace and the fact that Assured Guaranty continues to meet all our obligations, treats all creditors fairly and has maintained its financial strength and high financial strength ratings, that allows us to operate in the marketplace as we do.

So the combination of what we saw, increase in demand plus our own further analysis of use of capital, cost of capital and minimum returns, we went on that, there was a concerted effort by us to take a hard look at pricing, as well as the market participating by looking for more insurance product, and the best example is those deals that we did over \$100 million, that we seem to be getting institutional investors back in the game, which is further, once again, increasing the demand for the insurance.

If you really look at premium rate, and we do a lot of work, as you can well imagine, on this. The premium rates in the current year were as good if not better than the rates that were pre-financial crisis. And most of the time, even through the latter years of the financial crisis, the premium rates today are still better than that. So although spreads are tight and rates are very, very low, the amount of premium we're getting paid for the dollar value of risk has held up very, very well, and beyond holding up has actually improved and still represents increases over what we call the pre-crisis, or the heyday, of the a market. And we've always said, in those periods of time, you had a lot more competitors out there. We had a lot more aggressive pricing in the market. And today obviously it's more fundamentally based on cost of capital, what's the spread in the available market, what's the share the insurer receives as part of the overall bargain to get the issues access to the marketplace and get the ultimate savings, although smaller today than would have been in the past for the issues in terms of debt service.

Chas Tyson

Okay. Thanks. And I was just going to ask one more on the non-GAAP loss expense on the proportion that came for the other structured finance line item. Was that all related to the middle market CLO or is there something else in there?

Dominic Frederico

Yeah. That was related to Zohar, yes.

Chas Tyson

Okay. Thank you.

Operator

Our next question comes from Jordan Hymowitz with Philadelphia Financial. Please go ahead.

Jordan Hymowitz - Philadelphia Financial

Hi. Thanks, guys. Thanks for taking my call. Two questions please. One, is there any way you can quantify the effect that, if Puerto Rico does... is allowed and executes Chapter 9, what the cost of municipal financing in other places would be, in other words, could – is there some math you can say like California GO's were this, but now going to be this, or city of San Francisco, because once the rule of law is broken, the effect is much broader, and if they're just thinking about Puerto Rico, they can say, well we can do it here, but once the country realizes the broader based effects, they may have more second thoughts?

Dominic Frederico

Well, it's funny you should say that. Obviously we believe there will be contagion, right? And if you look at examples like Detroit and what it's done for the rest of the municipalities in Michigan as well as how Detroit now has to access the market under secured lien and kind of the imprimatur of the state on top of it. The one comment we continue to make is there has been demonstration of this every time. There's been the disruption of the market and yet those disruptions have been rather minor. If you think of disruption on the size of Puerto Rico in terms of, A) how large it is in the marketplace; B) how it will be – the consequence of the action of going back and saying, "I don't care what the constitution says of Puerto Rico, I don't care if you guys insured or purchased these securities when they were contractually protected, as well. We're just going to ignore all of that," and yet the Treasury thinks there are no consequences for that behavior - talk about naïve.

I think the market is smart enough to appreciate what this would ultimately mean. We continue to make that case. And yet treasury doesn't believe that one iota, and the proof will ultimately be in the pudding, but at the end of the day, as I said, this will be so hotly contested legally that this will be out there for quite a long period of time. I think there will be significant damage in the market because once you break rule of law, which is why people invest in the U.S., why we do business in only countries that have rule of law.

We're not a company that – does business in Eastern Europe and other locations around the world, and there is a reason for that.

To ignore that here, just absolutely shocks me. We have a U.S. treasury that just thinks that's not an issue whatsoever, it's just strictly a Puerto Rico problem that will be contained strictly within Puerto Rico when there is no such thing, [considering] the size of their activity in the marketplace. And remember the U.S. government gave the incentive to buy these bonds, by making them triple tax exempt. This makes me kind of question who knows what, where and how much they care about the marketplace in general.

Jordan Hymowitz

My second question is... so, hypothetically let's say Puerto Rico does have some sort of restructuring, someone has to buy the new bonds and everybody including myself who bought the original bonds thinking we'll get paid back, we're not going to buy the new bonds, have they thought about, who would buy the new bonds out there because there is no price, once they've not kept their word, that anyone in my mind would buy any newly issued bonds?

Dominic Frederico

Well, once again you're hitting the old nail on the head. Remember, the first issue of the new bonds, the shotgun wedding, we have to take those things back. But after that, we'll get whatever we get and in the exchange if there was such a thing. I agree with you 100%. Who in their right mind would ever, ever, ever trust any structure around any sort of security that would be issued on behalf of the Puerto Rico Government, who have done nothing but go out of their way to ignore every protection, their own constitution, revenue arrangement, the illegal clawback of the taxes, you are exactly right. And I think if, and we hope that the market understands this and reacts and gets to Washington and makes sure they understand that, now, this is a one and done deal. If you really do this, understand what you've done to Puerto Rico, I think it will do more harm, than you can ever imagine can be gained by restating the debt.

Jordan Hymowitz

Thanks, guys. Maybe the Clinton Foundation could invest in some of these.

Operator

And the next question comes from Brian Meredith with UBS. Please go ahead.

Brian Meredith - UBS

Hi, good morning, everybody. Just a couple of quick ones for you. Rob, if you could just clarify the exact amount of the investment income that was kind of a one-time for this quarter?

Rob Bailenson

It was approximately \$35 million.

Brian Meredith

\$35 million -Okay, spread the whole increase. Good. The second thing, looking at the \$250 million reauthorization that you had. And if I just look at, what your kind of holdco liquidity looks like and dividend capacity, it looks like you should fairly easily be able to do that all in 2016. Is that a fair assumption?

Rob Bailenson

We'll manage it based on our needs and expenses and capital within the year. So we expect to do that. But we do have the financials to that. If you look – we have the financial capabilities of doing that looking at the dividend capacity, that's scheduled on page nine of the equity presentation.

Brian Meredith

Well, it looks like you've got the ability to do more than that. That's what I am trying to get at.

Rob Bailenson

Remember, you have to take out holding company expenses as well, Bryan.

Brian Meredith

Right, okay. Got you. And then last question, just curious, the HELOC development that you had in the quarter, how much longer can we expect to see this kind of stuff pop up? I would think that most of the HELOCs are going to run off within the next I guess 18 months, is that true?

Dominic Frederico

No, no. Not even close. So remember the reason why we're looking at the HELOCs today is they are now hitting that nice point in their lives where they're running out of the interest only payment and now have to start amortizing the principle. We're looking at that by vintage, so if you think - we're in 16, so the 06 years are now converting, we've got the 07 years and the 10-year IOs before start going to amortization. And although we had a good assumption that said you've been paying us for 10 years, it means there aren't large balances, even when I think when they start going to an amortization; we'd anticipate if you've been with us for 10 years and your market value of your home has improved reasonably over the last few years, you're going to continue to pay. We have seen a spike in early term delinquencies, which we have to respond to. As Rob said, our loss reserve takes into consideration the facts, circumstances at that time. There's not a lot of balance out there, Bryan, expected to be an overwhelming concern, and we have strategies in place as to how we think we can start to improve on these results by offering certain modifications to certain borrowers as they convert from I.O. to amortization, and those strategies are just being implemented. So we're optimistic that this is not something that will be too much of a concern, but there's going to be noise as we go through this first adjustment period, going from IOs to amortization on these old HELOC deals, of which as I said, we don't have significant balances outstanding. So it's more noise than anything else, but at least we're responsive to what we see in terms of the specifics in terms of loan performance.

Rob Bailenson

And in addition, Brian, we don't just estimate based on the early stage going with the deals that are just going through an IO period, we extrapolate that on the other transactions that will be going through IO periods. So we're catching all of the transactions, all of those deals.

Brian Meredith

Do you have what the par is on those – on your remaining balance on those HELOCs?

Dominic Frederico

I'm sure ...pull it up here...\$1.3 billion – I think they have been in the \$1.3 billion range.

Brian Meredith

Okay. Great.

Dominic Frederico

\$1.2 billion, \$1.3 billion.

Brian Meredith

Okay. Thanks guys.

Dominic Frederico

Thank you.

Operator

Our next question is a follow-up from Sean Dargan with Macquarie. Please go ahead.

Sean Dargan - Macquarie

Hi, thanks. I just have a one quick follow-up on the structured side. There have been renewed concerns about CMBS, which has been a weak asset class this year. It looks in the supplement that all your exposure to CMBS is investment grade, is that correct?

Dominic Frederico

Yeah.

Rob Bailenson

Yeah.

Sean Dargan

Okay. Thank you. That's all.

Dominic Frederico

Obviously CMBS has been very, very positive. The deals we wrote have performed very, very well through the crisis. And they continue to amortize as well.

Sean Dargan

Thank you.

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 – MD, IR, Corporate Communications

Thank you, operator. 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. Thanks very much.

Operator

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