Rating Action: Assured Guaranty US Holdings, Inc.

Moody's Set to Issue Revised Guidelines for Hybrid Securities

New York, February 06, 2007 -- Moody's Investors Service announced today that, except for hybrid securities with meaningful mandatory deferral triggers, all preferred stock and hybrid securities will continue to be rated according to existing notching guidelines with no rating distinction made among cumulative, non-cash cumulative and non-cumulative obligations.

In November 2006, Moody's proposed new notching guidelines for preferred stock and hybrid securities -- obligations that combine features of debt and equity -- and requested comment about its proposal from market participants in a special report, "Rating Preferred Stock and Hybrid Securities."

The original proposal called for lowering ratings by one notch on non-cumulative preferred stock and other hybrid securities ranked as either "moderate" or "strong" for "no ongoing payments" by Moody's New Instruments Committee.

Moody's said that market reaction to the proposal was largely negative. Recurrent themes were the incentives issuers have to avoid deferring payments on any hybrid security and the lack of strong statistical evidence supporting greater notching for non-cumulative securities. Having considered the points made by respondents, Moody's decided not to adopt the proposal, and to keep its notching conventions largely unchanged.

"While there may be further refinements, we now expect the revised guidelines to be adopted," said Jerome Fons, Managing Director for Credit Policy at Moody's. "We would like to thank all market participants who responded to our request for comment."

The revised proposal calls for hybrid securities with a meaningful mandatory deferral trigger to be rated one notch lower than indicated by existing notching guidelines. "In addition," said Fons, "the new guidelines call for no obligation of an investment-grade issuer to be rated more than two notches below the issuer's senior unsecured or issuer rating.

Unless indicated otherwise by Moody's loss given default (LGD) rating methodology, he added, "no obligation of a speculative-grade issuer should be rated more than four notches below the issuer's senior rating," adding that these guidelines hold for an individual issuer, rather than across a family of issuers.

For issuers with senior unsecured ratings or corporate family ratings, if applicable, at Ba2 or higher, Moody's notching guidelines will continue to suggest that senior subordinated, subordinated and junior subordinated debt be rated one notch below senior unsecured debt; and preferred stock be rated two notches below senior unsecured debt. The two-notch guideline also holds for deeply subordinated securities that are similarly positioned in the capital structure, as found, for example, in certain European countries.

For issuers with senior ratings below Ba2, the guidelines suggest two notches for subordinated debt, two or three notches for junior subordinated debt, and three or four notches for preferred stock.

"For most issuers with corporate family ratings, notching for subordination is determined by Moody's LGD methodology and may differ from these guidelines," said Fons. "In addition, notching practices for banks and insurance companies may vary more widely, reflecting their unique regulatory and support status."

He said exceptions to the revised guidelines will be permitted in certain circumstances, including those cases in which additional notching may be applied to hybrids that allow principal write-downs or contain other features that may significantly increase investor expected loss. Also excluded from consideration at this time are hybrid securities issued by members of banking groups, where any potential rating revisions would be considered in the context of Moody's proposed incorporation of joint-default analysis into its bank ratings.

Based on the comments received to date, as well as further analysis of the relevant issues, including further discussion with select market participants, Fons said, Moody's will shortly release the final guidelines in a methodology report that outlines notching for preferred stock and other hybrid securities.

As a result of the revised proposed notching guidelines, the following securities have been placed on review for change.

Hybrid ratings put on review for downgrade:

Allianz AG, A2-rated Perpetual Junior Subordinated Notes, EUR 1,500,000,000 issued in February 2004 and EUR 800,000,000 issued in February 2006

ELM B.V., A1-rated Perpetual Subordinated Step-Up Loans of Swiss Reinsurance Company, EUR 1,000,000,000 issued in May 2006

Metropolitan Life, A3-rated Junior Subordinated Notes, USD 1,000,000,000 issued in December 2006

Peabody Energy Corporation, Ba2-rated Junior Subordinated Notes, USD 675,000,000 issued in December 2006

Swiss Reinsurance Company, A1-rated Perpetual Subordinated Step-Up Preferred Securities, USD 750,000,000 issued by Swiss Re Capital I LP in May 2006

Zurich Financial Services, Baa2-rated Enhanced Capital Advantaged Securities -- "ECAPS" -- USD 600,000,000 issued by ZFS Finance (USA) Trust I in November 2005; USD 700,000,000 issued by ZFS Finance (USA) Trust II in December 2005; USD 400,000,000 issued by ZFS Finance (USA) Trust III in December 2005

Hybrid ratings put on review for upgrade:

Assured Guaranty US Holdings, Inc., A3-rated Junior Subordinated Notes, USD 150,000,000 issued in December 2006

Financial Security Assurance Holdings Ltd., A1-rated Junior Subordinated Notes, USD 300,000,000 issued in November 2006

Morgan Stanley Capital Trust VII, A2-rated Preferred Stock, USD 1,000,000,000 issued ion October 2006

Nelnet, Inc., Ba1-rated Subordinated Notes, USD 200,000,000 issued in September 2006

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