FINANCIAL GUARANTY INSURANCE
FINANCIAL GUARANTY INSURANCE INVOLVES UNCONDITIONAL GUARANTEES OF DEBT OBLIGATIONS AND PROVIDES GREATER SECURITY TO THE INVESTOR

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CHARACTERISTICS

. SECURED Vs. NON SECURED

. SHORT Vs. INTERMEDIATE Vs. LONG TERM

. COMMERCIAL Vs. PERSONAL Vs. MUNICIPAL

. RECOUSE Vs. NON RECOUSE
PURPOSE

- CREDIT ENHANCEMENT

- GREATER SECURITY

- LOWER BORROWING COST

- INCREASED MARKETABILITY OF THE DEBT OBLIGATION
BENEFITS TO
THE INSURER/REINSURER

. UNDERWRITING PROFITS
. STABILITY OF EARNINGS
. CASH FLOW
MARKET TRENDS

THE INVESTING PUBLIC'S DESIRE FOR GREATER SECURITY

BROKERS AND AGENTS ARE ACTIVELY SEARCHING FOR WAYS TO PROVIDE NEW INSURANCE PRODUCTS AND FINANCIAL SERVICES TO THEIR CLIENTS.

BANKS, PARTICULARLY THE LARGER ONES, ARE REACHING THEIR LIMITS FOR AMOUNTS OF THEIR LETTERS OF CREDIT OUTSTANDING.
MARKET DEBT

1975 - 1987
CORPORATE BOND
UNDERWRITING
(IN BILLIONS)
MUNICIPAL BOND UNDERWRITING
(IN BILLIONS)
CONSUMER DEBT OUTSTANDING
(IN BILLIONS)
MARKETING STRATEGY

- PROGRAM APPROACH
- SUBSTANTIAL PREMIUM
- REPEAT DEMAND
- SPREAD OF RISK
- THOROUGH RESEARCH AND DEVELOPMENT
TYPES OF TRANSACTIONS

ZERO LOSS

STRUCTURED

LAW OF LARGE NUMBERS
ZERO LOSS BUSINESS

. MINIMAL RISK

. LARGE LIMITS

. LOW PREMIUM

. INVESTMENT GRADE CREDITS

. EXAMPLES: MUNICIPAL BONDS
           COMMERCIAL PAPER
STRUCTURED BUSINESS

. MULTIPLE LEVELS OF PROTECTION (DEDUCTIBLES)

. RESERVES WELL IN EXCESS OF EXPECTED LOSSES

. COLLATERAL

. ANY ACCELERATION IS OPTIONAL FOR THE GUARANTOR
LAW OF LARGE NUMBERS BUSINESS

. Individual risks are small
. Losses expected, but predictable
. No catastrophe
. Credit analysis per risk is minimal
. Example: Consumer loans
UNDERWRITING CONSIDERATIONS

. NATURE OF THE OBLIGATION

. PURPOSE OF THE FINANCIAL GUARANTEE

. OBLIGOR - CHARACTER, CAPITAL, CAPACITY

. OTHER PARTIES TO THE TRANSACTION

. STRUCTURE - COLLATERAL, DEDUCTIBLES/RESERVES, RE COURSE, LEGAL

. PROJECT PROPERTY/ASSETS
PRICING

. ANALYSIS OF PAST DEFAULTS

. RATE - A MULTIPLE OF HIGHEST HISTORICAL DEFAULT RATE

. INTEREST SAVINGS FROM THE GUARANTY

. COST OF THE FINANCIAL GUARANTY

. INCOME STATEMENT/RETURN ON EQUITY
PRODUCTS OFFERED

CORPORATE BOND INSURANCE

LIMITED PARTNERSHIP INVESTOR BOND COVERAGE

EDUCATIONAL LOANS

INVESTMENT CAPITAL INSURANCE
CORPORATE BOND INSURANCE

GUARANTEES THE PROMPT PAYMENT OF PRINCIPAL AND INTEREST ON BONDS FOR COMMERCIAL AND INDUSTRIAL PROJECTS.
CORPORATE BOND INSURANCE

. FIRST MORTGAGE
. DEBT SERVICE RESERVE
. MULTI USE PROPERTY
. RECOURSE
LIMITED PARTNERSHIP INVESTOR BOND

GUARANTEES THAT AN INVESTOR IN A PARTNERSHIP WILL MEET THE FUTURE OBLIGATIONS TO THE PARTNERSHIP.
LIMITED PARTNERSHIP INVESTOR BOND

. SYNDICATOR AND PLACEMENT AGENT

. PROPERTY

. CREDITWORTHY INVESTORS
EDUCATION LOANS

G A U R A N T E E S T I M E L Y P A Y M E N T O F P R I N C I P A L
D E F A U L T O N E D U C A T I O N L O A N S T O F I N A N C E
U N D E R G R A D U A T E O R P O S T - G R A D U A T E
C O L L E G E E D U C A T I O N.
EDUCATION LOANS

. CREDITWORTHY BORROWERS (USUALLY PARENTS)
. ACCEPTABLE ORIGINATORS AND COLLEGES
. FIRST LOSS POSITION
INVESTMENT CAPITAL INSURANCE

INURES A FRACTION OF THE UNDERLYING VALUE OF EQUITY REAL ESTATE PORTFOLIOS DEVELOPED BY MAJOR REAL ESTATE COMPANIES THAT ARE HELD FOR A FIXED PERIOD OF UP TO TWELVE YEARS.
INVESTMENT CAPITAL INSURANCE

. MAJOR SYNDICATORS
. PROVEN REAL ESTATE PROPERTIES
. CROSS COLLATERALIZED
. SPREAD OF RISK BY LOCATION AND TYPE
INVESTMENT CAPITAL INSURANCE

POLICY LIMIT VS. ACTUAL LIMIT

POLICY LIMIT

ACTUAL LIMIT

YEARS

1 2 3 4 5 6 7 8 9 10

125

100

75

50

25

52