

## **FINANCIAL GUARANTY INSURANCE**



**FINANCIAL GUARANTY INSURANCE**

**INVOLVES**

**UNCONDITIONAL GUARANTEES**

**OF DEBT OBLIGATIONS**

**AND**

**PROVIDES**

**GREATER SECURITY**

**TO THE INVESTOR**

**BY CLIFTON BROWN**

## CHARACTERISTICS

- . SECURED VS. NON SECURED
- . SHORT VS. INTERMEDIATE VS. LONG TERM
- . COMMERCIAL VS. PERSONAL VS. MUNICIPAL
- . RECOURSE VS. NON RECOURSE

## PURPOSE

- . CREDIT ENHANCEMENT
- . GREATER SECURITY
- . LOWER BORROWING COST
- . INCREASED MARKETABILITY OF THE DEBT OBLIGATION

## **BENEFITS TO THE INSURER/REINSURER**

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- . 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.**

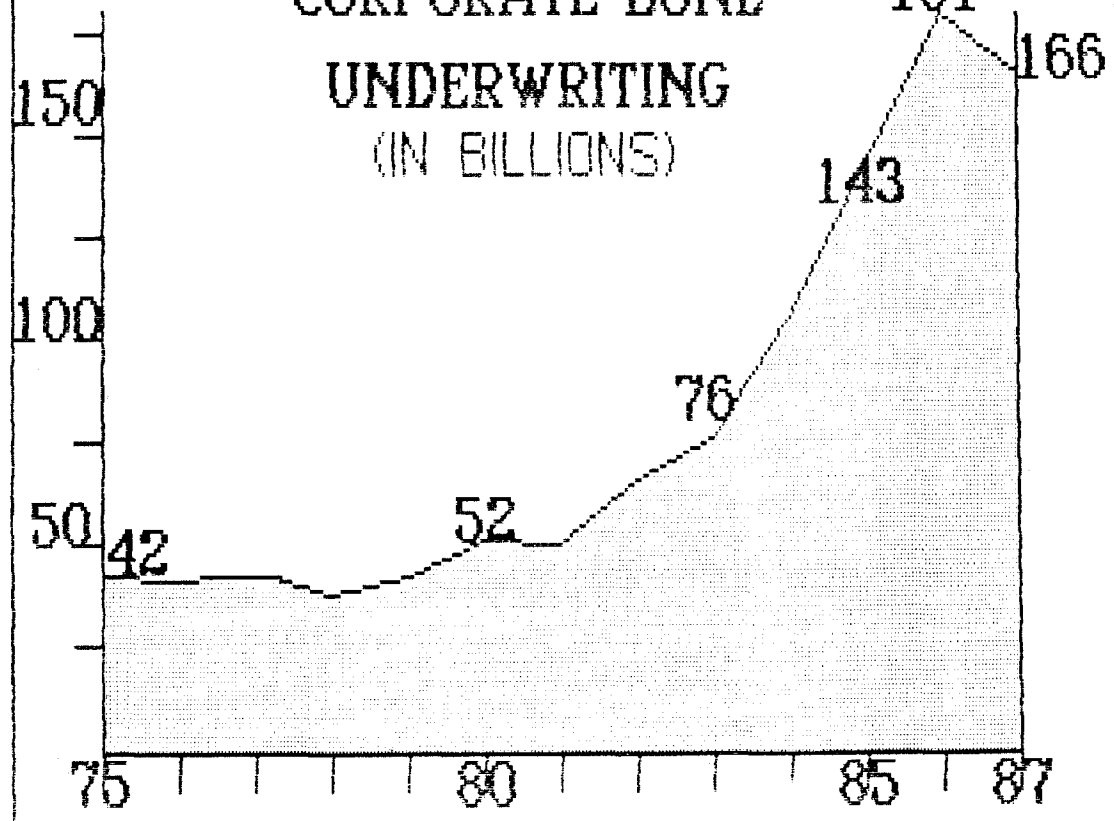
**BANKS, PARTICULARLY THE LARGER ONES, ARE REACHING THEIR LIMITS FOR AMOUNTS OF THEIR LETTERS OF CREDIT OUTSTANDING.**

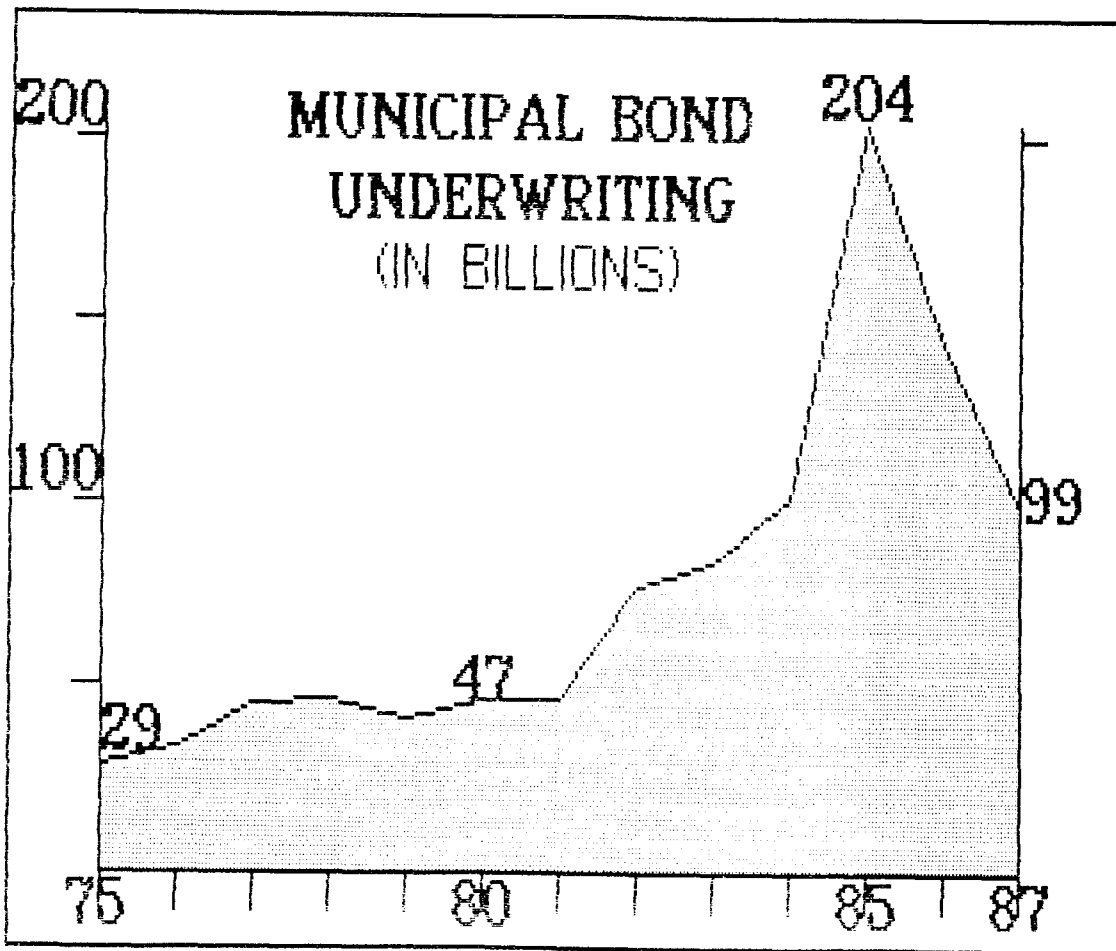
# MARKET DEBT

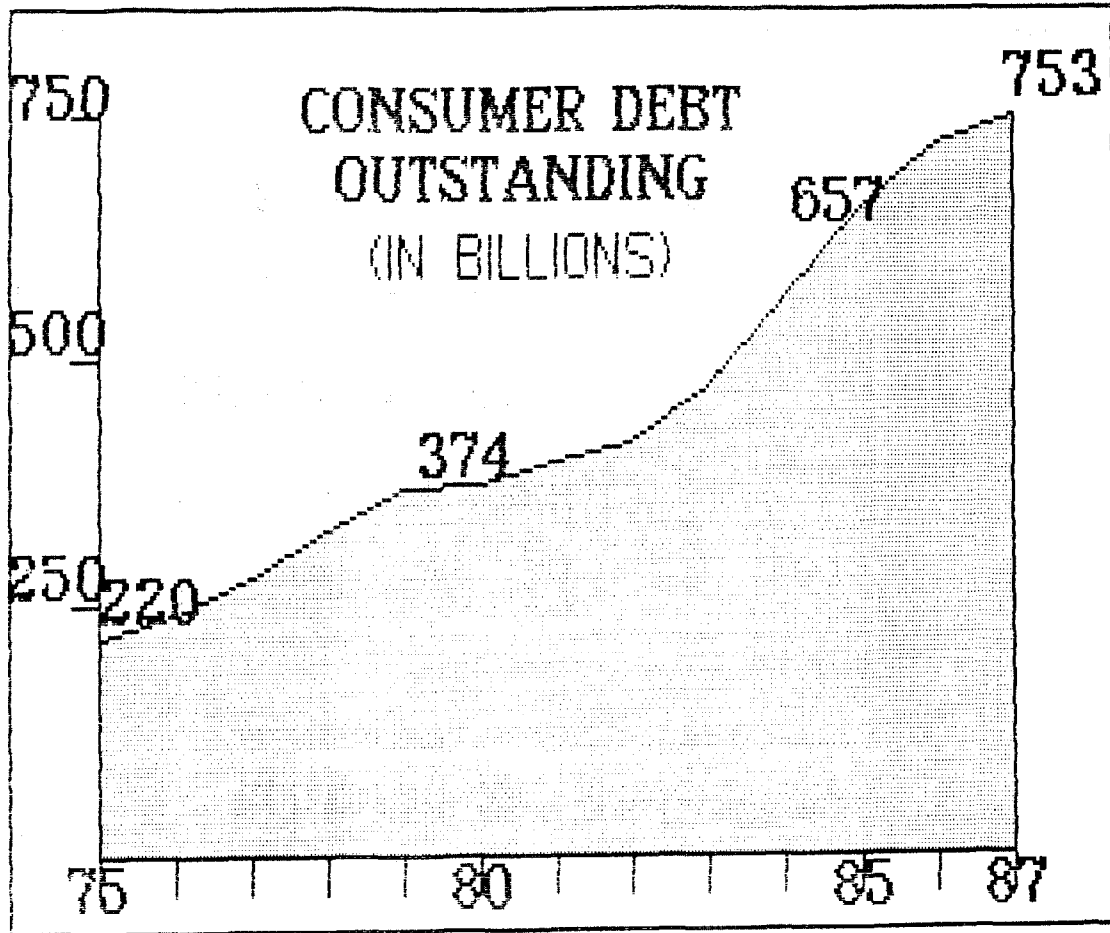
1975 - 1987



# CORPORATE BOND UNDERWRITING (IN BILLIONS)







## MARKETING STRATEGY

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

# **TYPES OF TRANSACTIONS**

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**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, RECOURSE, 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**

**GAURANTEES 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

**GAURANTEES TIMELY PAYMENT OF PRINCIPAL  
AND INTEREST IN THE EVENT OF A BORROWER  
DEFAULT ON EDUCATION LOANS TO FINANCE  
UNDERGRADUATE OR POST-GRADUATE  
COLLEGE EDUCATION.**



## EDUCATION LOANS

- . CREDITWORTHY BORROWERS  
(USUALLY PARENTS)
- . ACCEPTABLE ORIGINATORS  
AND COLLEGES
- . FIRST LOSS POSITION

## INVESTMENT CAPITAL INSURANCE

INSURES 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

