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Kroll Surveillance Report: Municipal Assurance Corp. (MAC)

Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed the insurance financial strength rating of **AA+** with a **Stable Outlook** for Municipal Assurance Corp. ("MAC"). The rating affirmation incorporates the reduction in claims paying resources from MAC's repayment of \$400 million of surplus notes effective June 30, 2016 to its affiliates.

Key aspects of KBRA's rating assessment are MAC's strong claims-paying resources and the company's diverse insured portfolio which consists of lower risk, predominantly investment grade U.S. municipal exposures. MAC has no exposure to Puerto Rico, which, in light of the Commonwealth's severely stressed financial position, KBRA views as a credit positive. As a major part of our analysis, KBRA used a Monte Carlo simulation analysis to determine a level of stress losses to be applied to MAC's insured portfolio. KBRA tested MAC's ability to pay this stress level of claims, and other expenses, in a run-off scenario. Under KBRA's Bond Insurer Financial model, MAC satisfied all projected claims due with an adequate balance remaining.

Since the company's capitalization in 2013, new business origination has fallen short of management projections and has not kept pace with the fairly rapid amortization of MAC's legacy exposures. The decline in the insured portfolio combined with MAC's large and stable balance sheet has pushed leverage ratios lower than historical levels.

KBRA also conducted a detailed review of MAC's governance, credit, and risk management protocols and found them to be strong and reflecting best practices. MAC has a proven management team and a well-developed governance framework.

Late in the second quarter of 2016, MAC received permission from its New York regulator to repay the full amount of both series of outstanding surplus notes, ultimately resulting in an asset transfer of \$400 million to MAC affiliates, Assured Guaranty Municipal Corp. ("AGM", AA+/Stable) and Assured Guaranty Corp. ("AGC"). Since its capitalization in 2013, MAC has not paid any dividends. KBRA views the surplus note repayment as equivalent to an extraordinary dividend and we factored this transaction into our rating assessment. While MAC's financial model results from KBRA's stress test remain above the AA+ rating level, the amount of projected excess assets is lower than was calculated for KBRA's last review on August 3, 2015, reflecting the now lower level of claims paying resources following the repayment of the surplus notes.

This rating is based on KBRA's Financial Guaranty Rating Methodology dated December 15, 2015.

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