

P R E S E N T A T I O N T O

The American Enterprise Institute

The Financial Guaranty Insurance Industry
and State and Local Development Bonds

P R E S E N T E D B Y

The Association of Financial Guaranty Insurers

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AFGI

AFGI: The Association of Financial Guaranty Insurers is a trade association of the 11 insurers and reinsurers of municipal bonds and asset-backed securities.

AFGI Members:

- Provide unconditional, irrevocable guarantees of timely interest and principal payments to holders of insured securities
- Lower the cost of financing vital infrastructures and economies

AFGI Mandates:

- Advocate professional standards for credit enhancement worldwide
- Educate investors, issuers, the news media and the public about credit enhancement

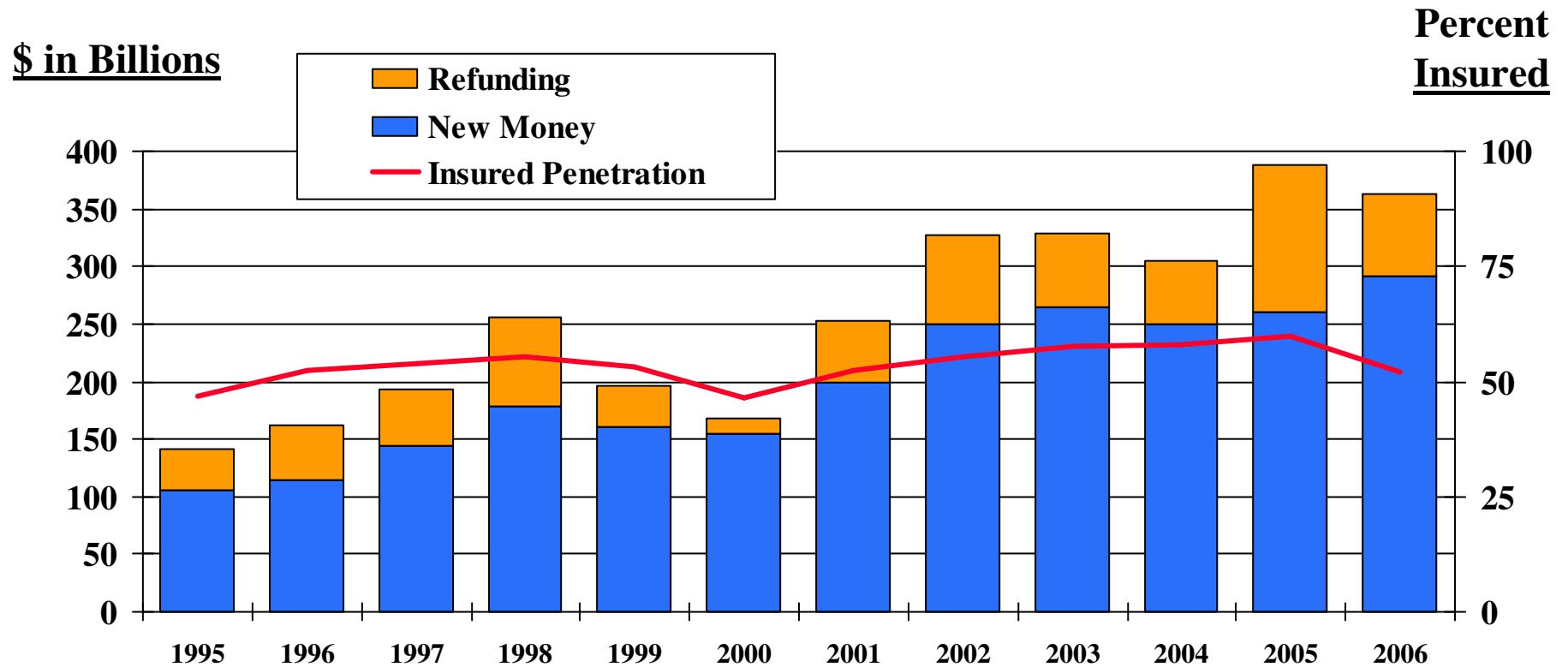
Financial Guaranty Industry Statistics

- In its 36-year history, industry has saved municipalities over \$35 billion
- Nearly \$1.3 trillion in insured outstanding par value
- In 2006:
 - insured \$188 billion (52% of total issuance) in par value municipal bonds
 - qualified statutory capital up 5% to \$21.5 billion
- Provides investors with safe and stable insured municipal bonds
- No bond issue insured by an AFGI member has ever been downgraded
- No investor owning a bond or security insured by an AFGI member has ever failed to receive timely payment

Market Well Served by Private Sector Financial Guaranty Industry

- The financial guaranty insurance industry is highly regulated by state insurance regulators and the rating agencies
- The industry is both transparent and efficient
- Private sector bond insurers provide an incentive to issuers to improve their financial management
- Other avenues are available to small- and medium-sized communities not seeking or unable to access the capital markets

U.S. New Issue Municipal Bond Market

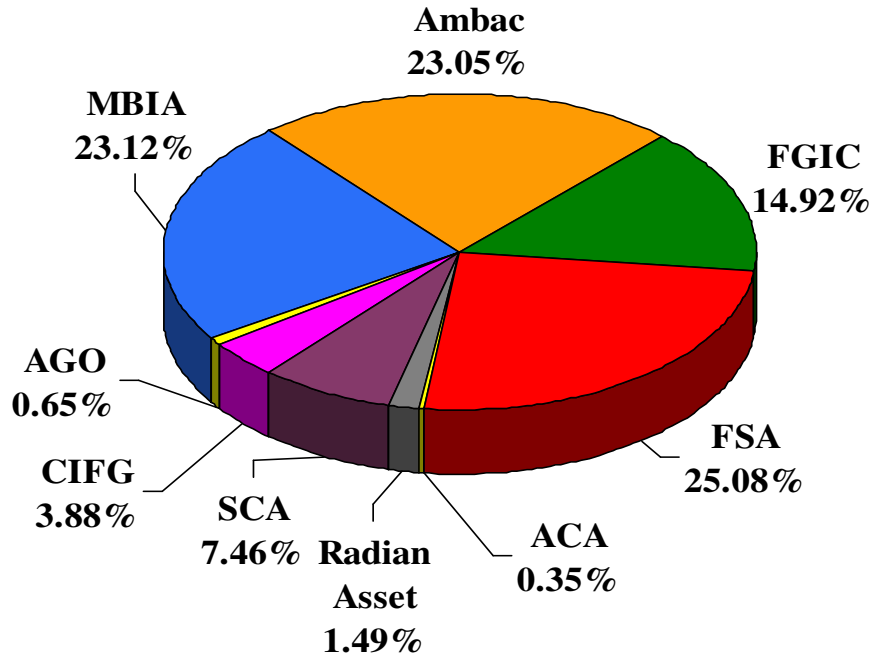


Source: MBIA Internal Management Reporting

Municipal Business Activity Report

Insured Market Statistics: 2006

Total Insured Market - \$190 billion
Insured Penetration = 52%



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|---|---|
| ACA – ACA Financial Guaranty Corp. | FSA – Financial Security Assurance Inc. |
| AGO – Assured Guaranty Ltd. | Radian Asset – Radian Asset Assurance Inc. |
| Ambac – Ambac Assurance Corporation | MBIA – MBIA Insurance Corporation |
| CIFG – CDC IXIS Financial Guaranty North America, Inc. | SCA – Security Capital Assurance Inc. |
| FGIC – Financial Guaranty Insurance Co. | |

Federal Home Loan Banks

Unfair Competitive Advantage

- Creates a double government subsidy
 - The bonds would retain their tax-exempt status, and
 - The bonds would also be guaranteed by the GSEs
- As GSEs, the FHLBanks have significant advantages not available to private firms. Those advantages include:
 - An implicit government guarantee of their borrowings
 - An exemption from federal, state and local income taxes
 - A tax exemption for holders of FHLBank obligations

Unintended Consequences of the Proposal

- Permits the FHL Banks to enter a line of business that is already well served by efficient private firms
- Reduces the fiscal discipline that the capital markets currently imposed on issuers
- Reduces, significantly, the tax revenues currently paid to the federal, state and local governments

Summary

- Market is very well served by the private financial guaranty industry
- U.S. capital markets are very sophisticated and efficient
- FHL Banks entry into this market – with a double government subsidy – would not add any real value
 - No demonstrated market failure to justify entry into this business
 - Needless expansion of government-subsidized competition
- FHL Banks entry into this market could have negative, unintended consequences