

139 Lancaster Street
Albany, NY 12210-1903

phone 518.449.4698
fax 518.432.5651

AFGI

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*Association of Financial Guaranty
Insurers*

May 31, 2001

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
SWITZERLAND
Attention: Basel Committee Secretariat

The Proposed New Basel Capital Accord

Dear Sirs:

This letter is submitted on behalf of the Association of Financial Guaranty Insurers ("AFGI") to comment on the proposed New Basel Capital Accord.

Background of AFGI. Members of AFGI include monoline financial guaranty insurers that provide insurance guarantying payments of scheduled debt service (e.g., principal and interest) on municipal bonds, asset-backed securities and other financial obligations. Members of AFGI also include insurance companies primarily engaged in the business of reinsuring financial guaranty insurance risks. Primary insurers that are members of AFGI include: ACA Financial Guaranty Corporation ("ACA"), Ambac Assurance Corporation, Financial Guaranty Insurance Company, Financial Security Assurance Inc., MBIA Insurance Corporation and XL Capital Assurance Inc. Reinsurers that are members of AFGI include: ACE Guaranty Re Inc., AXA Re Finance S.A., Enhance Reinsurance Company and RAM Reinsurance Company Ltd.

Primary financial guaranty insurers issue insurance policies directly guaranteeing securities and other financial obligations, while financial guaranty reinsurers are in the business of assuming risks from primary financial guaranty insurers and reinsurers. Monoline primary financial guaranty insurers limit their business to financial guaranty insurance and closely-related lines (i.e. credit, surety and residual value insurance). The business of each AFGI member that is a primary insurer is also limited by applicable insurance law to financial guaranty insurance and one or more of such related lines.

Each primary insurer member of AFGI has financial strength ratings in the “triple-A” category by at least two of the major securities rating agencies, with the exception of ACA, which is in the “single-A” rating category. AFGI members are insurance companies, each subject to the insurance regulatory regime of its state of domicile, as well as those of other jurisdictions in which it transacts business. Since the financial strength ratings of a primary monoline financial guaranty insurer are critical to its business, the monoline companies are also subject to substantial oversight from the securities rating agencies. As “monoline” companies, financial guaranty insurance represents the core business of the AFGI members. Accordingly, there is no history among the monoline companies of disputed claims payments or issues pertaining to “willingness to pay” on claims when due.

Credit enhancement by financial guaranty insurance is prevalent in the United States, and is spreading to European and Asian markets as well. For example, in the U. S. domestic markets, municipal bonds with financial guaranty insurance have represented approximately 40% to 50% of the new issue municipal market since 1995.

Comment. The consultative document proposes that there is no additional capital requirement (i.e. “w” is zero) in the case of a guarantee from a sovereign, central bank or bank. By this letter, AFGI proposes that the Basel Committee consider the extension of this provision to guarantees provided by monoline financial guaranty insurance companies (with external ratings above a minimum to be specified). The extension of this provision to monoline financial guaranty insurance companies is warranted in view of the regulatory frameworks in which those companies operate, as well as the willingness to pay and ratings stability attributable to their monoline status.

Please feel free to contact me if you require any further information regarding AFGI or this comment (telephone: 212-339-3482; fax: 212-339-0849; e-mail: BStern@FSA.com).

Very truly yours,

Bruce E. Stern,
Chairman, Government Affairs Committee,
Association of Financial Guaranty Insurers
139 Lancaster Street
Albany, New York 12210-1903

General Counsel and Managing Director,
Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022