S&P Global
Ratings

RatingsDirect®

Build America Mutual Assurance Co.

Primary Credit Analyst:
David S Veno, Princeton + 1 (212) 438 2108; david.veno@spglobal.com

Secondary Contact:
Brian Suozzo, New York 1 (212) 438 0525; brian.suozzo@spglobal.com

Table Of Contents

Build America Mutual Assurance Co.

Anchor	aa
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	aa

\+

Support	0
Group support	0
Government support	0

=

AA/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Very strong competitive position supported by conservative underwriting, with a focus on insuring low-risk U.S. public finance issues	Concentration risk in the insured portfolio as measured by the largest obligor test (LOT)
Excellent capital adequacy ratio that management is committed to maintaining	Intense competition, including the uninsured market, could pressure pricing

Build America Mutual Assurance Co. (BAM) has a strong market position with an expanding secondary market effort and a proven record of credit discipline. BAM has maintained a stable share of the new issue U.S. public finance market while its capital market strategy has resulted in strong growth in insured secondary market transactions. Although the company only writes business in the U.S. public finance market, it has a broad presence across the U.S. and its insured exposure represents the lower risk sectors as measured by S&P Global Ratings' capital charges.

BAM has excellent capital adequacy with a buffer above its current rating. The strength of the company's capital position is supported by a first-loss reinsurance agreement with HG Re Ltd., excess of loss coverage from Fidus Re through two note issues, and a members' surplus contribution that is assessed with the issuance of each policy. The application of our LOT, however, highlights potential concentration risks in the insured portfolio, which weigh on our financial risk assessment.

The combination of very strong business risk and very strong financial risk leads to a split anchor of 'aa/aa-'. We select the higher anchor given the company's redundancy of capital at the current rating level, which management is committed to maintaining.

Outlook: Stable

The stable outlook reflects our view that BAM's competitive position will remain very strong with no material change in its share of par written and transactions insured in the U.S. public finance market. Additionally, we expect the company to maintain its conservative underwriting strategy as it seeks growth opportunities. We view the maintenance of a capital adequacy ratio over 1.0x as essential for rating stability.

Downside scenario

We could lower our ratings if BAM's share of the U.S. public finance market declines substantially for a prolonged period or its qualified statutory surplus plus the assets in the collateral trusts decline leading to capital adequacy falling below 1.0x and we believe BAM will not be able to improve its capital position.

Upside scenario

Based on our view of the insurable new issue U.S. public finance market, we don't believe BAM's competitive position or earnings will dramatically change, so we don't expect to raise our ratings in the next two years.

Assumptions

- Real U.S. GDP growth 2.4% in 2022 and 1.6% in 2023
- 10-year Treasury yield of about 2.7% in 2022 and 3.2% in 2023
- Core Consumer Price Index at about 5.6% in 2022 and 3.3% in 2023
- Unemployment rate at 3.7% in 2022 and 4.1% in 2023

Source: "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," June 27, 2022

Key Metrics

Build America Mutual Assurance Co.--Key Metrics

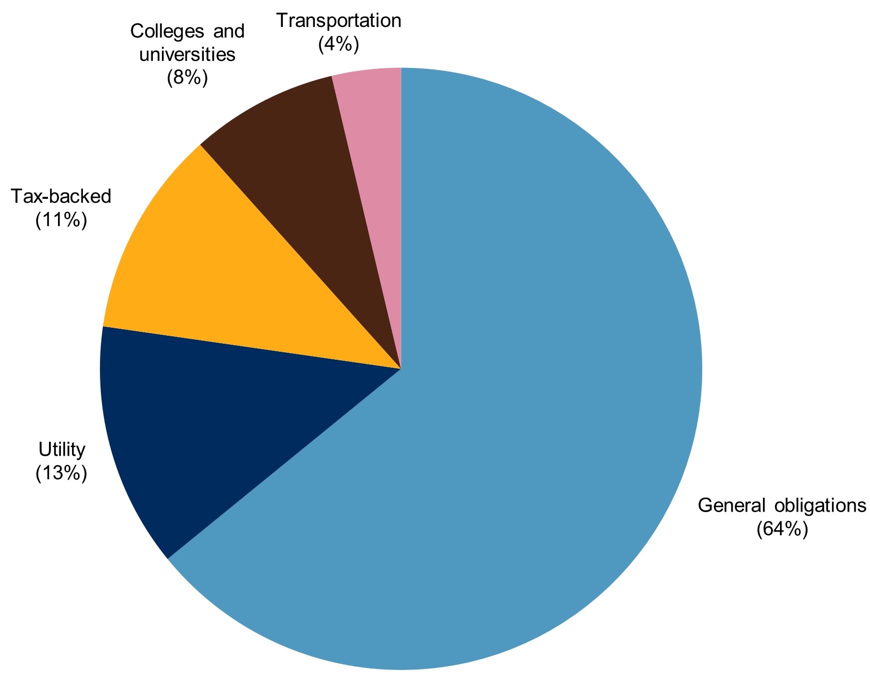
	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
Claims paying resources (mil. $)	1,192	1,137	938	871	808
Gross premium written (mil. $)	121	133	108	110	104
Operating return on equity (%)	10.2	9.6	9.3	4.6	2.8
Statutory return on revenue (%)	41.7	43.1	46.9	33.4	25.9
Net combined ratio (%)	63.3	58.9	59.0	63.2	75.1

Business Risk Profile: Very Strong

Our view of BAM's competitive position is shaped by its strong market presence in the U.S. public finance market; prudent underwriting; stable share of new issue par, transactions insured, and premiums written; and a growing secondary market business. BAM is a mutual bond insurer writing business solely in the U.S. public finance market with a broad, well-diversified presence across the U.S. Its insured portfolio comprises primarily general obligation bonds for school districts and municipalities, somewhat lessening volatility.

Chart 1

BAM Gross Insured Par Exposure



BAM has a unique pricing structure with the "premium" charged comprising a member's surplus contribution (MSC) and an upfront risk premium. In evaluating BAM's profitability metrics, we include the MSC as a component of revenue in the year in which it was collected.

In 2021, BAM reported $121 million in total premiums and $17.5 billion of gross par insured. While gross par insured reached a new record, total premiums declined as credit spreads tightened as pandemic induced uncertainty in the U.S. public finance market may have waned. BAM's share of the total gross par new issue insured market remains approximately 45%. Additionally, BAM continued to experience strong demand in the insured secondary market due to its marketing efforts and because the economics of bond insurance are appealing to institutional investors as a tool for risk mitigation.

For 2022, BAM is on pace to surpass 2021 business volume as volatility in municipal yields has driven a significant shift in demand from different classes of investors. While new issue municipal bond sales are down as refunding transactions are put on hold in response to rapidly rising interest rates, new money issuance is up nearly 10%. Much of the rise in new money issues is attributed to state and local investment in essential infrastructure. Market participants anticipate this activity will increase further in the second half as issuers accelerate capital investment plans to take advantage of federal grants through the Infrastructure Investment and Jobs Act. This bodes well for BAM as bond issues associated with these types of investment have historically had the greatest insured penetration of any municipal sector.

Financial Risk Profile: Very Strong

We assess BAM's capital and earnings as excellent, with a capital adequacy ratio above 1.0x. Our analysis includes the consolidation of the assets in the collateralized trusts securing the first-loss reinsurance obligations of HG Re Ltd. We take this approach because BAM is the sole beneficiary of the trusts and has significant control rights to the investments and distribution of assets from the trusts. The BAM surplus notes the supplemental trust holds are considered an intercompany loan and we don't give them value as assets to meet HG Re's reinsurance obligations. Our capital adequacy analysis also includes the excess of loss coverage from two Fidus Re Ltd. note issues and MSCs that are assessed with the issuance of each policy.

BAM's moderately high risk exposure reflects the application of the LOT, which highlights concentration risks in the insured portfolio that weigh on our financial risk assessment. This test captures the possible effect of rating changes of the underlying insured issues, which could lead to volatility in our assessment of capital and earnings and does not necessarily assume these exposures will default. Somewhat offsetting the concentration risk of the insured portfolio, the investment portfolio presents low risk and is entirely fixed income investments with an average credit quality of 'AA'.

Regarding BAM's funding structure, as a mutual insurer, BAM collects member surplus contributions with each policy issuance, effectively raising equity capital with each policy issued. The Fidus Re transactions demonstrate BAM's access to capital to fund growth.

Other Credit Considerations

Governance

Management is effectively enhancing its risk management strategy to address the changing risk dynamics of the U.S. public finance market. Governance and structural limits define the risk categories and underlying risk exposures, which BAM monitors closely for validation. The company runs stress and scenario tests--including an assessment of potentially correlated revenue streams and sensitivities to a variety of concerns--at least quarterly. We view the well-seasoned management team with many years of experience in the U.S. public finance market as a strength.

Liquidity

We view BAM's liquidity as exceptional based on the lack of any credit-sensitive liabilities or collateral-posting requirements, as well as a high-quality investment portfolio. Additionally, BAM is a member of the Federal Home Loan Bank of New York, which expands its financial flexibility by providing access to reliable liquidity at a low cost.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5		S-1	**S-2**	S-3	S-4	S-5		G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors have no material influence on our credit rating analysis of BAM.

Related Criteria

- S&P Global Ratings Definitions, Nov. 10, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | Bond: Methodology And Assumptions For Analyzing Bond Insurance Capital Adequacy, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	**aa/aa-**	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of July 7, 2022)*

Build America Mutual Assurance Co.	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--

Ratings Detail (As Of July 7, 2022)*(cont.)	
Financial Enhancement Rating	
Local Currency	AA/Stable/--
Holding Company	None
Domicile	New York

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.