BAM has no exposure to Puerto Rico.
Here's why…

BUILD AMERICA MUTUAL'S PLAN OF OPERATION, FILED WITH AND APPROVED BY THE NEW YORK DEPARTMENT OF FINANCIAL SERVICES, PROVIDES THAT BAM "WILL ONLY INSURE INVESTMENT GRADE, ESSENTIAL PUBLIC PURPOSE U.S. MUNICIPAL BONDS", U.S. MUNICIPAL BONDS BEING DEFINED AS "DEBT OBLIGATIONS ISSUED BY STATE AND LOCAL MUNICIPAL GOVERNMENTS AND PUBLIC AUTHORITIES LOCATED IN THE UNITED STATES".

Build America Mutual does not guarantee any debt obligations from Puerto Rico or its affiliated entities; our underwriting standards prevent us from doing so. Nevertheless, we still get lots of questions about how events unfolding in Puerto Rico and the recent rating downgrades of debt issued by Puerto Rico and related entities may affect confidence in bond insurance. The situation in Puerto Rico highlights several important insights for the industry going forward.

BAM was formed as a mutual insurance company in response to the lessons learned from the 2007-08 financial crisis and its affect on the financial guaranty industry. BAM built its business model and underwriting guidelines focusing on protecting the durability of both our ratings and our guaranty, to protect both our ability to pay claims and the liquidity of the bonds we insure. These departures from the legacy model can be seen most notably in our decision to insure only essential public purpose debt of U.S. borrowers, which precludes insuring any debt of U.S. territories or

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any debt issued by non-U.S. or non-municipal entities. Equally important, our internal limits ensure that the company is not exposed to any large single risks or concentrations of risk. BAM limits its gross par exposure to single or highly correlated risks to no more than 20% of its “qualified statutory capital." In addition, BAM’s capital is protected by collateralized first-loss reinsurance for the first 15% of each policy.

It’s difficult to forecast how events in Puerto Rico will evolve. But given the size of the underlying economy and its large relative debt burden, there is potential for substantially higher losses to investors than historic municipal loss levels if the Commonwealth is unable to close its structural deficit.

BAM believes that municipal fiscal distress will remain rare, but will become slightly more common going forward. By limiting our exposure to single risks and focusing exclusively on borrowers in sectors that have historically posted low losses even in the event of default, BAM’s structure helps ensure that unforeseen developments will not jeopardize the long-term durability of our ratings and guaranty.

This policy means BAM has to pass on opportunities where its guaranty could help improve market access and cut borrowing costs on large transactions. But that’s a price we think we need to pay in order to protect our role as a municipal market utility for the public-sector borrowers who are BAM’s ultimate owners, as well as the investors who hold BAM-insured debt.

BAM is committed to the industry's highest standard of transparency, so investors and other stakeholders can see how these policies influence our insurance activity. A complete list of the credits in BAM's insured portfolio is available on our web site: http://buildamerica.com/portfolio/ and we also publish Obligor Disclosure Briefs (http://buildamerica.com/obligor/) with important financial information about every insured credit. For more details on BAM's underwriting standards and how they protect investors in BAM-insured bonds, please visit: http://buildamerica.com/underwritingstandards/.

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