BAM Communication to the Market: March 18

BAM Municipal Bond Insurance and the COVID-19 Pandemic

Frequently Asked Questions

Federal, state, and local government reactions to the spread of the novel coronavirus and a surge in COVID-19 cases are leading to a wave of questions about the fundamental credit quality of U.S. municipal bond issuers, given the potential for extended disruptions to economic activity.

As investors consider how to deploy their funds in this volatile environment, BAM-insured municipal bonds can be an important component of fixed-income portfolios. All BAM-insured bonds are rated AA with a Stable outlook by S&P Global Ratings. BAM guarantees timely payment of interest and principal, backed by more than $900 million of claims-paying resources. BAM's promise is unconditional and irrevocable, even if an issuer's regular operations are disrupted by work-from-home or shelter-in-place orders. BAM-insured bonds can also be used by investors to limit the risk of ratings volatility for specific issuers, increase liquidity of their position, and manage the risk concentrations within a portfolio.

To help investors understand BAM's financial strength and approach to credit selection in the municipal market, we've assembled the following answers to frequently asked questions:

BAM HAS THE LOWEST-RISK PORTFOLIO IN THE INDUSTRY

- *Suzanne Finnegan, Chief Credit Officer*
- *Michael Weinstein, Head of Surveillance*

Why is BAM's insured portfolio well positioned to withstand economic disruption from the COVID-19 pandemic?

From its beginning in 2012, BAM has focused on enhancing market access for issuers who provide essential public services, and today, more than 80% of BAM's portfolio is from school districts, cities and counties, or water utilities, which have historically seen limited volatility in their revenue streams. BAM's underwriting policies were written specifically to incorporate lessons learned during the global financial crisis and Great Recession, and they anticipate and protect against the types of economic and fiscal disruptions posed by the COVID-19 outbreak. For instance, BAM does not insure swaps or derivatives, or floating-rate bonds that could be subject to acceleration provisions.

In addition, when reviewing transactions for insurance, BAM often requires provisions and covenants that can provide crucial support during periods of economic disruption, similar to what is likely to be faced by U.S. local governments, municipalities, and municipal utilities that are impacted by public-health directives and the closure of many facilities. Many BAM-insured transactions have debt service reserve funds, in which the issuer has set aside cash to pay for up to a year of debt service in the event regular sources of repayment or other operations are disrupted. In addition, many BAM transactions are protected with legal covenants that require the issuer to adjust tax rates or fees to insure that budgeted revenues are well in excess of the minimum necessary to pay debt service.

Choosing to insure sectors with stable revenue streams and strong structural protections for investors is important, but equally significant is BAM's policy to avoid insuring bonds from issuers whose revenues have historically been volatile during periods of economic recession or other stress. BAM has no exposure to:

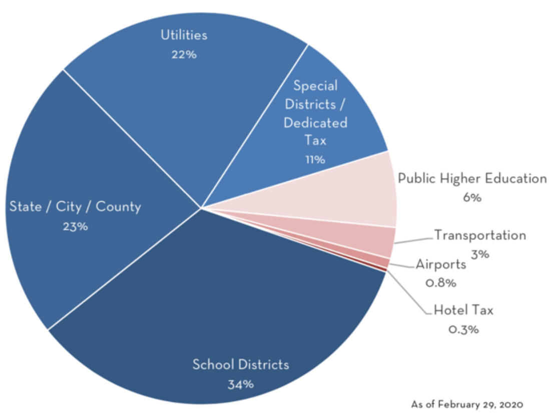
- Nonprofit Hospitals
- Private Colleges and Universities
- Charter Schools
- US Territories, including Puerto Rico and the Virgin Islands

FOR MORE INFORMATION ABOUT BAM'S UNDERWRITING STANDARDS, VIEW OUR CREDIT INSIGHTS VIDEO.

What sectors are getting additional attention from BAM's surveillance staff during this period?

BAM is closely monitoring the COVID-19 pandemic and the potential effects on existing BAM-insured credits. Our primary focus is on credits that derive a significant portion of revenues from travel and tourism-related activities, including airports and dedicated tax credits that are travel-dependent such as hotel tax and sales tax in tourist-driven economies, as well as mass transportation systems that are reliant on user fees.

BAM'S PORTFOLIO IS SHIELDED FROM IMMEDIATE COVID-19 IMPACTS



Additional sectors that are being reviewed include public higher education and credits backed by broader revenue streams in geographic areas that are travel dependent.

Across all potentially affected sectors, BAM is evaluating factors such as debt service coverage, liquidity, fund balances, and other reserves (including debt service reserve funds). The vast majority of BAM-insured credits in the affected sectors have strong coverage and/or ample liquidity and reserves.

BAM IS AN INDUSTRY UTILITY THAT PROMOTES EFFICIENT MARKET ACCESS FOR ISSUERS AND DURABLE CREDIT PROTECTION FOR INVESTORS

- *Scott Richbourg, Head of Public Finance*
- *Grant Dewey, Head of Municipal Capital Markets*

Is BAM approving new credits for insurance?

Yes. BAM's underwriters continue to work with investment bankers, municipal advisors and issuers to assess the credit quality of new issues and BAM's Municipal Credit Committee meets daily to vote on transactions. Despite the slowdown in new issuance, BAM continues to see a strong flow of new issues presented by transaction teams who are poised to enter the markets when yields stabilize. For the week of March 9th, BAM's MCC approval activity was above its year to date weekly average.

We have not made changes to our underwriting criteria, but are paying particular attention to the structural protections for bondholders in the issues we review, particularly for issuers that are in regions with a high number of COVID-19 cases, and for those that are reliant on tourism-related revenues.

Has BAM changed its underwriting criteria in response to concerns about COVID-19?

No. As discussed above, BAM's conservative underwriting standards are appropriate to mitigate the risks to its insured portfolio from coronavirus-related fiscal shortfalls.

BAM INVESTS CONSERVATIVELY TO PROTECT ITS FINANCIAL RESOURCES

- *Beth Keys, Chief Financial Officer*

What principles does BAM follow in managing its investment portfolio?

The primary objectives for BAM's investment portfolio are:

i. Preserve claims paying resources
ii. Provide for sufficient liquidity to pay claims
iii. Avoid realized capital losses
iv. Comply with the limitations set forth in the New York Insurance Law;

v. Preserve BAM's credit ratings; and

vi. Subject to the foregoing, to maximize risk adjusted returns.

BAM's Investment Guidelines have been established to achieve these objectives and include limitations on eligible assets (fixed income U.S. dollar securities), credit quality (A-/A3 at time of purchase), concentrations and liquidity.

Information about the specific holdings in BAM's investment portfolio as of December 31, 2019 can be found online:
Summary Information
Details of Holdings

Did BAM change its Investment Guidelines after S&P Global Ratings relaxed its standards for eligible investments for bond insurers?

No. BAM believes its existing Investment Guidelines represented the appropriate balance of risk and return for a highly-rated, municipal-only bond insurer, and made no changes to its Investment Guidelines in response to S&P's new criteria. BAM continues to only invest in U.S. dollar, fixed-income securities that are rated A-/A3 or higher at the time of purchase.

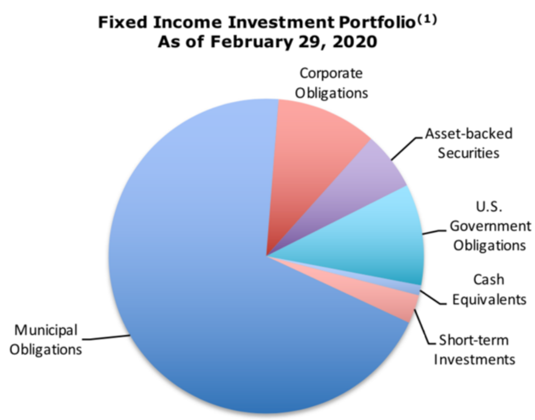
Does BAM have any credit concerns in its Investment Portfolio?

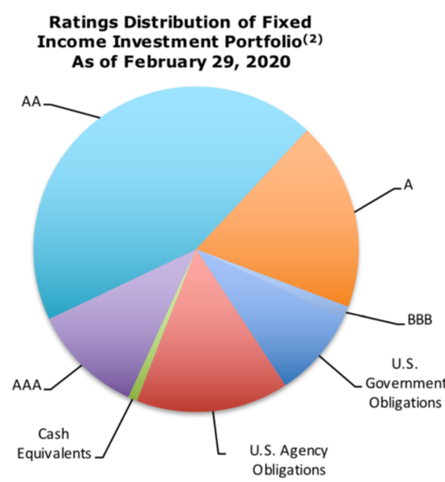
No. BAM maintains continuous contact with its Investment Manager to monitor the credit quality of its portfolio on an ongoing basis during this period of market volatility. Most recently, as of March 17th, the managers have confirmed that they have no concerns regarding the assets in the investment portfolio. As of February 29, 2020, the weighted average credit quality of the investment portfolio is AA/Aa2.

Does BAM have adequate liquidity to pay claims during the COVID-19 related economic disruptions?

Yes. BAM monitors upcoming payments due on all of its insured transactions to ensure it will have adequate liquidity to meet all of its needs. All of the assets in BAM's and our reinsurers investment portfolios are invested in securities that are commonly traded in established secondary markets. In addition, BAM has access to contingent liquidity from the Federal Home Loan Bank of New York that can be drawn on at any time.

Further Information on BAM's operations Is available on our website, www.buildamerica.com. The material In these Frequently Asked Questions Is subject to our regular Terms of Use. Please email us at info@buildamerica.com with any additional questions.





(1) Based on fair value.

(2) Ratings are based on the lower of S&P's or Moody's rating. Rating distribution is calculated based on fair value.