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# CEA Statement on Moody's Rating Affirmation and Outlook Change

SACRAMENTO, Calif. – The California Earthquake Authority (CEA) today commented on an announcement by Moody's Investors Service concerning CEA's bonds.

Earlier today, Moody's announced it has affirmed the A3 rating on the CEA's 6.169% fixed rate Series 2006-B revenue bonds (mature July 20, 2016) and changed the rating outlook to negative from stable.

"While the CEA is pleased that the A3 rating on the bonds has been affirmed, we believe Moody's decision to change the rating outlook is unsupported by the facts," said CEA Chief Executive Officer Glenn A. Pomeroy.

The CEA notes that under the latest scientific and loss-modeling calculations developed since 2006—including the Uniform California Earthquake Rupture Forecast (UCERF) (by the Southern California Earthquake Center, the U.S. Geological Survey and the California Geological Survey), and the Next Generation of Ground-Motion Attenuation Models (NGA)—expected earthquake loss ratios to the CEA's portfolio were revised significantly downward. Accordingly, the CEA's level of claim-paying capacity has tracked the CEA's expected losses.

Moody's also states that, in its assessment, the main risk to bondholders is a provision of California law allowing "the possibility that state authorities may curtail CEA's activities under certain circumstances." The CEA notes that this provision existed when the bonds were issued—and is counterbalanced by another statute stating that the Insurance Commissioner may not in any way "impede or in any manner interfere with the full and timely payment of principal, interest, and premiums on revenue bonds of the authority."

Moody's says the CEA's "outlook would likely return to stable if the CEA can maintain its claims-paying capacity at levels that can absorb losses at or above a 1-in-500 year return period" for the next 12 months. The CEA notes that for the first nine months of that 12-month period—through December 31, 2010—the CEA already has under contract sufficient reinsurance and other claims-paying resources to maintain a capacity at or above that level. The CEA intends to maintain that 1-in-500-year or better level for 2011—as has been the case every year since the issuance of the 2006 revenue bonds, and for several years before that. The CEA therefore looks forward to and anticipates Moody's reevaluation and return to a stable outlook in 2011.

*The California Earthquake Authority is a publicly managed, largely privately funded organization that provides catastrophic residential earthquake insurance and encourages Californians to reduce their risk of earthquake loss. For more information, see www.earthquakeauthority.com.*

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