

Ambac



Ambac Second Lien RMBS Update

August 6, 2008

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ABK
Listed
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- ▶ Key Elements in Analyzing Potential Claims: 2nd Lien RMBS
 - Default rate estimation
 - Prepayment rate estimation
 - Loss severity assumptions
 - Cash flow waterfall model
- ▶ All assumptions and estimates employed are grounded by observation of historical performance of each individual mortgage pool
- ▶ Seasoning should allow for more stable loss estimate
- ▶ Remediation very active, likely to favorably impact ultimate losses

RMBS Reserves Methodology: Default Rate Estimation

- ▶ Unique projection for each deal (generic vintage assumptions are not made)
- ▶ A set of deal-specific roll rates (current to 30-day delinquent, 30-59 day delinquent to 60-89 days, 60-89 days delinquent to 90+ days/ foreclosure etc.) is estimated using actual recorded period-to-period roll rates and linear regression
- ▶ Derived roll rate vectors are used to simulate defaults over the remaining life of the transaction
- ▶ No burnout from peak levels is assumed for 24 months, beyond which the default rate is halved

RMBS Reserves Methodology:

Prepayment Rate Estimation:

- ▶ Unique projection for each transaction
- ▶ Single scalar CPR employed

Severity Assumption:

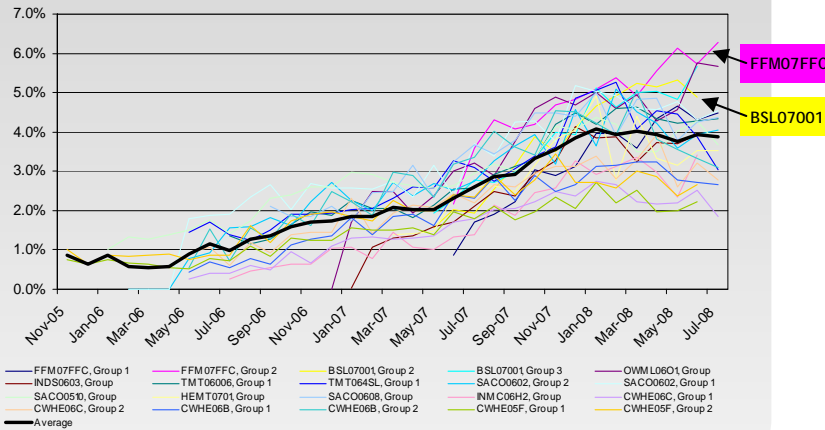
- ▶ Second Lien Mortgages generally have high severities
- ▶ At this stage, we use 100% for all pools

RMBS Reserves Methodology: Cash Flow Waterfall Model

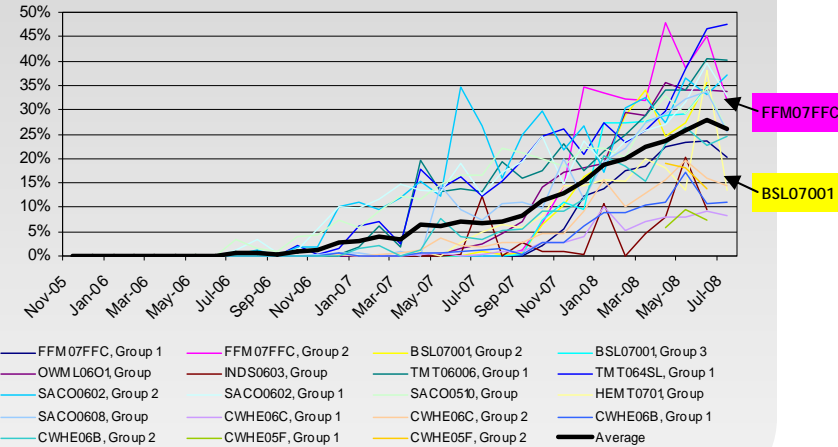
- ▶ Reverse-engineering provided by Intex solutions
- ▶ Clean-up call option “turned off”
- ▶ Utilized inputs for Intex model
 - Default rates
 - Prepayment rate
 - Loss severity
 - Forward interest rates
- ▶ Intex returns a time-profile of potential claims that for reserving purposes are discounted at 4.5%

ABK Second Lien Portfolio Performance Shows Signs of Improvement

Select ABK CES and HELOC: 30-59 Delinquencies



Select ABK CES and HELOC: CDRs



- ▶ Trend line for 30 - 59 day delinquencies for CES and HELOCs has noticeably flattened
- ▶ On an unweighted basis, the average of the performance for the transaction pools shows that delinquencies appear to be flattening out, while default rates may have begun to decline

Second Lien Portfolio Reserving

HELOC

(BIG Par as a % of Total HELOC Par)	Change in 2 nd Quarter Reserves	Net Outstanding Reserves
27%	\$36	\$464

▶ **ABK Portfolio Update:**

- 7 (\$2.9 bn) of 46 transactions are now BIG, representing 27% of net par of the HELOC portfolio
- The 7 transactions are represented by 5 issuers and were originated in 2005-07

Closed-End Seconds (CES)

(BIG Par as a % of Total CES Par)	Change in 2 nd Quarter Reserves	Net Outstanding Reserves
51%	(\$448)	\$187

▶ **ABK Portfolio Update:**

- 8 (representing \$2.5 bn) of 33 transactions are now BIG, and represent 51% by net par of the CES portfolio
- These 8 transactions are represented by 6 issuers and were originated in 2005-07

Significant Progress Towards Remediation Related to Second Lien Exposures

- ▶ 2Q 2008 estimated remediation recoveries aggregate to \$263mm on a PV basis across 8 second lien collateral transactions
- ▶ The estimate is based upon substantiated breaches of representations and warranties on over 1,800 loans where actual loan file examinations were performed by consultants to Ambac. These consultants have significant experience in the quantitative and qualitative aspects of mortgage lending
- ▶ This remediation estimate is only an initial sampling of mortgage loans for which we are seeking recoveries and we are significantly expanding the number of loans and transactions under review
 - The 8 second lien transactions contain over 85,000 loans
 - There are an additional 6 second lien collateral transactions with NPO of \$1.5 bn
- ▶ Detailed loan file review reveals a significant number of deal representation and warranty breaches. We are continuing to build cases to support loan repurchase demands
- ▶ The estimated recoveries will be revised as the scrutiny of the mortgage loan pools progresses

HELOC Performance Summary

	Bank Originated	Non-Bank Originated 2005-07	Originated <2005
Net Par Outstanding as of 6/30/08	\$4,078	\$4,306	\$2,310
Reserves	\$0	\$464	\$0
Weighted Average Cumulative Collateral Loss	0.7%	5.3%	1.7%
Weighted Average 60+ dlq. (incl. FC & REO)	0.4%	8.8%	6.5%
Weighted Average Loan Age (months)	43	32	52

- ▶ Bank originated and pre-2005 transactions performing in-line with expectations
- ▶ Certain HELOC transactions have shown largely significant deterioration over the last few months
- ▶ Remediation efforts focused on non-bank originated product

CES Summary

(\$mm)	Conventional CES	80/20 Piggy-back CES with High concentration of Purchase and Stated Doc Loans
Net Par Outstanding at 6/30/08	\$2,390	\$2,441
Reserves	\$0	\$187
Weighted Average Cumulative Collateral Loss	3.2%	18.5%
Weighted Average 60+ del. (including FC & REO)	5.4%	13.6%
Weighted Average Loan Age (months)	39	23

- ▶ Conventional CES showing acceptable performance
 - Mainly refinance, full doc or streamlined loans with good geographic diversification and lower CLTVs
- ▶ Piggy-back CES with high concentrations of purchase and stated doc loans encompass 100% of CES reserves
 - Started to pay claims on one transaction in the 2nd quarter

Summary: Loss Reserve Methodology and Results

- ▶ Ambac has developed a conservative reserving methodology, utilizing pool specific assumptions, which it has consistently applied to all reserved second lien product
- ▶ The methodology throws up clear adverse outliers in performance, but also demonstrates that this poor performance is not systemic
- ▶ Similarly, a more detailed product segmentation within both the HELOC and CES categories illustrates the highly differentiated nature of clear segments of the portfolio
- ▶ Adverse performance is not systemic, but instead highly concentrated in limited sub-segments of the portfolio i.e. Non bank HELOCs and piggy back CES

Remediation Summary

- ▶ Ambac has a track record of successful RMBS recoveries
- ▶ Engaged top level consultants
 - Experts in diagnostic, forensic and legal transaction scrutiny
- ▶ Aggressively remediating current portfolio
 - Exercising full contractual rights and remedies
 - Actively pursuing select repurchase opportunities, being mindful of capital / liquidity implications

- ▶ Recoveries beginning to yield significant value