

### Research Update:

## Ambac Assurance Corp.'s Counterparty Credit Rating Raised To 'CC' On Modest Financial Improvement; Outlook Developing

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## Research Update:

# Ambac Assurance Corp.'s Counterparty Credit Rating Raised To 'CC' On Modest Financial Improvement; Outlook Developing

## Overview

- Ambac Assurance Corp.'s financial position has modestly improved.
- Wisconsin's Office of the Commissioner of Insurance (OCI) has increased its monitoring of Ambac.
- We're raising our counterparty credit rating on the bond insurer to 'CC' from 'SD' (selective default).
- The developing outlook reflects our view that Ambac's financial position has improved, but that the potential for regulatory intervention remains high.

## Rating Action

On Dec. 2, 2009, Standard & Poor's Ratings Services raised its counterparty credit and financial enhancement ratings on Ambac Assurance Corp. to 'CC' from 'SD' (selective default). We also affirmed our 'CC' financial strength rating on Ambac and removed the rating from CreditWatch, where it was placed with positive implications on Nov. 18, 2009. The outlook on the ratings is developing.

## Rationale

This action follows Ambac's commutation of four collateralized debt obligation of asset-backed securities (CDO of ABS) exposures from multiple counterparties. The transactions, which have an aggregate of approximately \$5 billion of notional outstanding, were settled for cash payments of approximately \$520 million. Following the commutations and settlement payment, Ambac's financial position improved modestly.

The analysis of Ambac's financial position includes our expectation that it will receive approximately \$440 million in tax refunds as a result of the recently passed "Worker, Homeownership and Business Assistance Act of 2009."

The rating action also takes into account that due to the deterioration of Ambac's financial condition, the Wisconsin OCI has increased its monitoring of Ambac focusing on maximizing and preserving the company's claims-paying ability. The Wisconsin OCI has stated in its Nov. 18, 2009, media advisory that it and its advisors are working with Ambac to evaluate strategic alternatives. It is important to note that the Wisconsin OCI has not taken control of Ambac.

Further placing pressure on the rating is our understanding that Ambac Financial Group Inc.'s (Ambac Financial) ability to meet its debt obligations in the next two years, including maturing debt in 2011, is questionable. A

bankruptcy filing of Ambac Financial would create uncertainty for Ambac in terms of ownership, governance, and the possible intervention by the Wisconsin OCI.

## Outlook

The developing outlook reflects our view that Ambac's financial position has improved following the commutation of three CDO of ABS transactions, but that the potential of regulatory intervention remains high. Ambac could experience further deterioration in its insured portfolio, which could require the company to strengthen its reserves to account for higher projected claims. The additional reserves may hurt operating results, which we believe would strain surplus. If Ambac experiences additional adverse loss development in its insured portfolio that weakens its surplus position to a point where regulatory intervention occurs, we would lower the rating. If there are additional commutations and improvement in the quality of the insured portfolio, we could raise the rating to 'CCC'.

## Related Research

- "Bond Insurance Industry Overview And Analytical Focus," June 29, 2006

## Ratings List

### Upgraded; Outlook Action

	To	From
Ambac Assurance Corp.		
Counterparty Credit Rating	CC/Developing/--	SD/--/--
Financial Enhancement Rating	CC/Developing/--	SD/--/--

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Ambac Assurance Corp.		
Financial Strength Rating	CC/Developing/--	CC/Watch Pos/--
Ambac Assurance U.K. Ltd.		
Everspan Financial Guarantee Corp.		
Counterparty Credit Rating	CC/Developing/--	CC/Negative/--
Ambac Assurance U.K. Ltd.		
Financial Enhancement Rating	CC/Developing/--	CC/--/--

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at

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