

### Research Update:

## Ambac Assurance Corp. Counterparty Credit Rating Lowered To 'SD'; Financial Strength Rating Placed On Watch Positive

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## Overview

- Ambac announced that it has commuted four collateralized debt securities, resulting in cash payments of \$520 million, substantially less than the Standard & Poor's expected loss on those exposures.
- We are lowering the counterparty credit and financial enhancement ratings on Ambac to 'SD' from 'CC' because we view these commutations as distressed exchanges.
- We expect to raise the counterparty, financial strength, and financial enhancement ratings on Ambac in the near future, most likely to the 'CCC' category.

## Rating Action

On Nov. 18, 2009, Standard & Poor's Ratings Services lowered its counterparty credit and financial enhancement ratings on Ambac Assurance Corp. to 'SD' (selective default) from 'CC'. These rating actions are based on our criteria for distressed exchanges, not due to unexpected business developments.

We also placed the 'CC' financial strength rating on Ambac on CreditWatch with positive implications to reflect the likelihood that we'll raise the rating as a result of the commutations.

## Rationale

This action follows Ambac's announcement that it has commuted 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.

In our view, the likely losses under these exposures would have been significantly higher than the cash settlement amount. Further, it is likely that without the commutations, Ambac would have reported a negative statutory surplus for the quarter ended Sept. 30, 2009. As a result of the exchanges, the company avoided a potential regulatory action and improved reported statutory surplus to \$856 million as of Sept. 30, 2009.

## CreditWatch

The positive CreditWatch on the financial strength rating indicates that we are likely to raise the rating in the near future to reflect the positive impact of the commutations on the balance sheet. We expect to complete our review in a relatively short period of time and the ratings, if raised, will most likely be in the 'CCC' category.

## Related Research

- "Rating Implications Of Exchange Offers And Similar Restructurings, Update", May 12, 2009

## Ratings List

### Downgraded

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

### CreditWatch Action

	To	From
Ambac Assurance Corp.		
Financial Strength Rating	CC/Watch Pos/--	CC/Developing/--

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 [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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