

June 24, 2009

Research Update:

Ambac Assurance Corp. Ratings Lowered To 'BBB' And Placed On CreditWatch Negative

Primary Credit Analyst:

David Veno, New York (1) 212-438-2108;david_veno@standardandpoors.com

Secondary Credit Analyst:

Dick P Smith, New York (1) 212-438-2095;dick_smith@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

CreditWatch

Ratings List

Research Update:

Ambac Assurance Corp. Ratings Lowered To 'BBB' And Placed On CreditWatch Negative

Overview

- We believe that Ambac Assurance Corp. is effectively in runoff.
- Loss reserving increases have depleted surplus, boosting the likelihood of regulatory intervention, and we believe Ambac's prospects for writing new business are negligible.
- As a result, we have lowered our ratings on Ambac to 'BBB' from 'A' and placed them on CreditWatch negative.

Rating Action

On June 24, 2009, Standard & Poor's Ratings Services lowered its counterparty credit, financial strength, and financial enhancement ratings on Ambac Assurance Corp. to 'BBB' from 'A'. At the same time, Standard & Poor's also lowered the ratings on related entities and placed all of the ratings on CreditWatch with negative implications.

Rationale

The downgrade stems from our view that Ambac is effectively in runoff. We also lowered the ratings because of our belief that the likelihood of the company continuing as an operating entity capable of writing new business has decreased significantly.

As the company's book of business runs off, it could become concentrated and lack sufficient sector diversity. In addition, the company's 2005–2007 vintage direct RMBS and CDO of ABS exposures are subject to continued adverse loss development that could erode capital adequacy. Supporting the holding company's debt-service needs might also place pressure on capital adequacy.

CreditWatch

As a runoff company, the ratings on Ambac would be no higher than in the 'BBB' category. We could lower the ratings again if, upon review of the insured portfolio, we determine that Ambac's capital position has weakened.

The complete list of ratings affected by today's actions will be available in the coming days. When available, the list can be found on Standard & Poor's public Web site at www.standardandpoors.com; click on Ratings on the left-hand navigation bar and then select Bond Insurance. Ratings information is also available on RatingsDirect (www.ratingsdirect.com). Our analysis of the impact of these rating actions is ongoing; we will post any additional rating changes at the same locations.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Ambac Assurance Corp.		
Connie Lee Insurance Co.		
Ambac Assurance U.K. Ltd.		
Counterparty Credit Rating		
Local Currency	BBB/Watch Neg/--	A/Negative/--
Financial Strength Rating		
Local Currency	BBB/Watch Neg/--	A/Negative/--
Ambac Assurance Corp.		
Ambac Assurance U.K. Ltd.		
Financial Enhancement Rating		
Local Currency	BBB/Watch Neg/--	A/--/--
Ambac Financial Group, Inc.		
Counterparty Credit Rating		
Local Currency	BB/Watch Neg/--	BBB/Negative/--
Ambac Assurance Corp.		
Preferred Stock	BB/Watch Neg	BBB
Ambac Financial Group, Inc.		
Senior Unsecured	BB/Watch Neg	BBB
Subordinated	B/Watch Neg	BB+

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

Copyright © 2009 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.