

Rating Action: [Ambac Assurance Corporation](#)

Moody's downgrades Ambac to Ba3; outlook is developing

New York, April 13, 2009 -- Moody's Investors Service has downgraded to Ba3 from Baa1 the insurance financial strength ratings of Ambac Assurance Corporation ("Ambac") and Ambac Assurance UK Limited. In the same rating action, Moody's also downgraded the senior debt of Ambac Financial Group, Inc. (NYSE: ABK) to Caa1 from Ba1. Today's rating action concludes a review for possible downgrade that was initiated on March 3, 2009. The outlook for the ratings is developing.

Today's rating action has implications for the various transactions wrapped by Ambac as discussed later in this press release.

The downgrade of Ambac's ratings primarily reflects weakened risk adjusted capitalization, as Moody's loss estimates on RMBS securities have increased significantly (particularly with respect to Alt-A transactions). These higher loss estimates increase the estimated capital required to support Ambac's sizable direct RMBS portfolio (including securities owned as well as securities guaranteed) and also the insurer's large portfolio of ABS CDO risks. The rating agency noted that the claims-paying resources of Ambac remain above Moody's expected loss estimates for the firm, though this cushion has been significantly eroded, and losses in more severe stress scenarios would exceed available resources.

Ambac recorded a statutory net loss of \$4.0 billion for 2008, ending the year with \$1.6 billion in policyholders' surplus only after giving effect to \$2.0 billion of new capital raised during the year. Qualified statutory capital, comprised of policyholders' surplus and contingency reserves, stood at approximately \$3.5 billion at year-end 2008, but remains vulnerable to increases in case loss reserves over the near to medium term, based on Moody's expected loss estimates. Furthermore, Ambac's current impairment provisions for ABS CDOs are highly sensitive to estimates of future cash flows on underlying CDO collateral and projections of the timing of claims payments many years into the future.

In Moody's view, Ambac's liquidity risks associated with its investment agreement business have been largely contained due to inter-company asset purchases and lending, with approximately 93% of investment agreement liabilities collateralized. However, the credit profile of Ambac Assurance's investment portfolio has deteriorated due to the purchase of structured finance assets from the financial services business. At year-end 2008, the market value of Ambac's consolidated invested assets was approximately \$2.5 billion below amortized cost, with much of the difference attributable to RMBS assets. While Moody's believes that large liquidity premiums contribute to this differential, we also expect some further loss to principal based on Moody's ratings on these securities.

Ambac is steadily de-leveraging through natural portfolio run-off, high levels of refundings and via commutations of credit default swaps on ABS CDOs. However, downward credit migration in the firm's insured portfolio outside its mortgage-related exposures has largely offset the positive capital accretion benefits associated with the de-leveraging process to date.

In addition to reduced capitalization, Moody's also cited deterioration in other key rating factors as dislocation in financial markets -- and in Ambac's situation -- have persisted. These include, most notably, Ambac's weakened business position and very constrained financial flexibility. Taken together, Moody's believes that these factors limit Ambac's ability to effectively counter the company's weakened capital position.

Moody's stated that Ambac's developing outlook reflects the potential for further deterioration in the insured portfolio as asset performance develops over the intermediate (6-18 month) term. It also incorporates positive developments that could occur over that time including lower variability in mortgage-related asset performance, the possibility of commutations or terminations of certain ABS CDO exposures, and/or successful remediation efforts on poorly performing RMBS transactions.

The company's developing outlook is also based on the potential for various initiatives being pursued at the US federal level to mitigate the rising trend of mortgage loan defaults. Moody's will continue to evaluate Ambac's ratings in the context of the future performance of its insured portfolio relative to expectations and resulting capital adequacy levels, as well as changes, if any, to the company's strategic and capital management plans.

The increase in the notching between the Ba3 insurance financial strength rating of Ambac and the Caa1 senior unsecured debt rating of ABK, to four notches, from three, reflects the deterioration in Ambac's capital adequacy profile and the subordinated status of holding company creditors to policyholder claims and \$800 million of preferred stock issued by the operating company. Moody's notes that holding company liquidity remains strained due to the lack of unrestricted dividend capacity during 2009. At year-end 2008, ABK had approximately \$233 million of cash and inter-company loans, which is equivalent to approximately 1.8 years of debt service and holding company expenses.

TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

In light of today's downgrade of Ambac to below the investment grade level, Moody's will position the ratings of all structured transactions wrapped by Ambac at the higher of the underlying rating of the structured security -- regardless of whether the underlying rating is published or not -- and Ambac's Ba3 rating.

For all other transactions wrapped by Ambac, including municipal securities, Moody's will withdraw the ratings for which there are no published underlying ratings in accordance with current rating agency policy. For these transactions, if the rating of Ambac should subsequently move back into the investment grade range, or if the agency should subsequently publish the underlying rating, Moody's would reinstate the rating to the wrapped instruments.

LIST OF RATING ACTIONS

The following ratings have been downgraded; with a developing outlook:

Ambac Assurance Corporation -- insurance financial strength to Ba3 from Baa1;

Ambac Assurance UK Limited -- insurance financial strength to Ba3 from Baa1;

Ambac Financial Group, Inc. -- senior unsecured debt to Caa1 from Ba1, junior subordinated debt to Caa2 from Ba2 and provisional rating on preferred stock to (P)Ca from (P)Ba3.

The last rating action related to Ambac was on March 3, 2009, when Moody's placed Ambac's ratings on review for possible downgrade.

The principal methodology used in rating Ambac was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Ambac can also be found in the Credit Policy & Methodologies directory.

Ambac Financial Group, Inc. (NYSE: ABK), headquartered in New York City, is a holding company whose affiliates provide financial guarantees and financial services to clients in both the public and private sectors around the world. For the year ended December 31, 2008, the company reported a GAAP net loss of approximately \$5.6 billion and a shareholders' deficit of \$3.8 billion.

New York
James Eck
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Jack Dorer
Managing Director
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S (MIS) CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."