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.

RATING RATIONALE FOR AMBAC FINANCIAL GROUP, INC.

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.moodys.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.

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