

Rating Action: Ambac Assurance Corporation

Moody's places ratings of Ambac and MBIA on review for possible downgrade

New York, September 18, 2008 -- Moody's Investors Service has placed the Aa3 insurance financial strength rating of Ambac Assurance Corporation (Ambac) and the A2 insurance financial strength rating of MBIA Insurance Corporation (MBIA) on review for possible downgrade. Today's rating action follows Moody's announcement of an upward revision to cumulative loss projections for subprime RMBS exposures (see Moody's Structured Finance Special Report entitled "Subprime RMBS Loss Projection Update: September 2008"). Prior to today's rating action, the rating outlook for both Ambac and MBIA was negative.

As a result of this review, the Moody's rated securities that are "wrapped" or guaranteed by Ambac and MBIA are also placed under review for possible downgrade, except those with higher public underlying ratings. A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

Moody's said that its reviews of the insurance financial strength ratings of Ambac and MBIA will focus on the impact of increasing cumulative loss rate projections on each guarantor's mortgage-related exposures and risk-adjusted capital position. According to Moody's, and as outlined in the Special Report referenced above, lifetime cumulative losses on 2006 vintage subprime first-lien pools are now projected to average 22%, considering pool performance through the July 2008 remittance reports. Projected losses increase progressively with the 2006 quarter of origination, averaging 17% for Q1 2006 and rising to 26% for Q4 2006. This compares to Moody's previous projections in January, which estimated losses in a range between 14-18%.

Moody's updated estimate of 2006 subprime losses represents a significant increase above the level previously projected, and now exceeds the average stress case level that has been used in Moody's assessments of financial guaranty insurers. Accordingly, Moody's has also revised upward the associated 2006 subprime stress case assumption substantially -- it now exceeds 30%. Expected and stress-case loss assumptions for other RMBS collateral types and vintages have also been increased as well based on observed deterioration across the range of mortgage product types.

Broadly, expected and stress-case loss assumptions for 2007 vintage transactions are roughly one-third more severe than for 2006, and 2005 vintage transactions are roughly one-third to one-half as severe as 2006 depending on the product type.

Moody's stated that because both Ambac and MBIA are meaningfully exposed to the risk of US subprime mortgages and other residential mortgage products, the revised assumptions are expected to have a significant impact on the firms' capital positions and multi-notch downgrades are possible.

Moody's said that it will also evaluate the effect of changing loss-rate projections on its insurance financial strength ratings of other financial guarantors rated by Moody's including Syncora Guarantee Inc. (B2 -- on review for possible upgrade), Financial Guaranty Insurance Company (B1-- negative outlook), and CIFG (Ba2 -- on review with direction uncertain). The rating agency noted that its analysis will consider the impact of increasing RMBS loss projections in the context of each of these companies' restructuring plans.

The ongoing reviews for possible downgrade of Financial Security Assurance and Assured Guaranty, both of which Moody's expects to conclude shortly, will also incorporate the effect of rising RMBS loss projections. The rating agency noted that both FSA and Assured are relatively less exposed to mortgage-related risks versus the other primary financial guarantors.

LIST OF RATING ACTIONS

Ambac

The following ratings have been placed on review for possible downgrade:

Ambac Assurance Corporation -- insurance financial strength at Aa3;

Ambac Assurance UK Limited -- insurance financial strength at Aa3;

Ambac Financial Group, Inc. -- senior unsecured debt at A3, junior subordinated debt at Baa1 and provisional rating on preferred stock at (P)Baa2;

Anchorage Finance Sub-Trusts I-IV -- contingent capital securities at A3; and

Dutch Harbor Finance Sub-Trusts I-IV -- contingent capital securities at A3.

MBIA

The following ratings have been placed on review for possible downgrade:

MBIA Insurance Corporation -- insurance financial strength at A2 and surplus notes at Baa1;

MBIA Insurance Corporation of Illinois -- insurance financial strength at A2;

Capital Markets Assurance Corporation -- insurance financial strength at A2;

MBIA UK Insurance Limited -- insurance financial strength at A2;

MBIA Assurance S.A. -- insurance financial strength at A2;

MBIA Mexico S.A. de C.V.'s -- insurance financial strength at A2;

MBIA Inc. -- senior unsecured debt at Baa2, provisional senior debt at (P) Baa2, provisional subordinated debt at (P) Baa3, and provisional preferred stock at (P) Ba1;

North Castle Custodial Trusts I-VIII -- contingent capital securities at Baa2.

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.

MBIA Inc. (NYSE: MBI) provides financial guarantees to issuers in the municipal and structured finance markets in the United States, as well as internationally. MBIA also offers various complementary services, such as investment management and municipal investment contracts.

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