

Rating Action: [Ambac Assurance Corporation](#)

Moody's downgrades Ambac to Caa2; outlook is developing

New York, July 29, 2009 -- Moody's Investors Service has downgraded to Caa2 from Ba3 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 credit ratings of Ambac Financial Group, Inc. (Ambac Financial), lowering the rating of the senior unsecured debt to Ca from Caa1. The ratings outlook for Ambac is developing, and is negative for Ambac Financial.

Today's rating action may have implications for certain transactions wrapped by Ambac as discussed later in this press release.

RATIONALE FOR RATINGS AND OUTLOOKS

Today's rating action was prompted by Ambac's recently announced large loss reserve increase and credit impairment charge estimated for 2Q2009. These losses would reduce Ambac's regulatory capital to levels below the required minimum threshold, though the company has petitioned the Wisconsin insurance regulator to approve a reclassification of statutory contingency reserves to offset the capital depletion. With the risk of regulatory intervention now elevated, Moody's believes there will be increased pressure on Ambac's counterparties to commute outstanding exposures on terms that could imply a distressed exchange.

For Ambac Financial, the greater regulatory risk further reduces the likelihood in Moody's view that the holding company will be able to access operating company resources over a reasonable timeframe to satisfy its obligations. This raises the risk of distressed exchanges of outstanding debt with moderate-to-high estimated severity due to the holding company's modest cash position and limited financial flexibility.

The developing outlook for Ambac reflects the possibility of either positive or negative movement on Ambac's insurance financial strength ratings, depending on the performance of the insured portfolio and including any negotiated policy terminations over the next one to two years.

The negative outlook for Ambac Financial reflects Moody's view that severity of loss on senior debt could be quite high, particularly if the company's performance deteriorates further.

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, Moody's will position the ratings of wrapped transactions or withdraw such ratings according to these criteria. For wrapped transactions whose ratings are withdrawn based on these criteria, 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:

Ambac Assurance Corporation -- insurance financial strength to Caa2 from Ba3;

Ambac Assurance UK Limited -- insurance financial strength to Caa2 from Ba3;

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

The last rating action related to Ambac was on April 13, 2009, when Moody's downgraded Ambac's financial strength ratings to Ba3 and Ambac Financial's ratings (senior debt to Caa1).

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's.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.

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