

Rating Action: Ambac Assurance Corporation

Moody's reviews Ambac's ratings for possible downgrade

New York, March 03, 2009 -- Moody's Investors Service has placed the Baa1 insurance financial strength ratings of Ambac Assurance Corporation ("Ambac") and Ambac Assurance UK Limited on review for possible downgrade. In the same rating action, Moody's also placed the debt ratings of Ambac Financial Group, Inc. (NYSE: ABK -- senior unsecured debt at Ba1) on review for possible downgrade. The review is prompted by the deterioration in Ambac's qualified statutory capital position and the likelihood of increased expected and stress case loss estimates among the company's mortgage-related risk exposures relative to earlier expectations. Prior to this review, the rating outlook for Ambac was developing.

Moody's-rated securities that are guaranteed or "wrapped" by Ambac are also placed under review for possible downgrade, except those with higher published underlying ratings (and for structured finance securities, except those with higher published or unpublished underlying ratings). A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

Moody's review will focus on an analysis of risks related to regulatory capital requirements, updating its assessment of Ambac's capital adequacy position relative to its current risk exposures, the degree to which the company's constrained holding company liquidity and impaired financial flexibility impacts its insurance financial strength and debt ratings, as well as developments related to the establishment of Everspan Financial Guarantee as a subsidiary of Ambac Assurance. Moody's said that the outcome of the ratings review could result in a multi-notch downgrade, including the possibility of non-investment grade insurance financial strength ratings. Moody's expects to complete its review of Ambac in the next few weeks.

Ambac's increased losses continue to reflect both the significant volatility of the company's mortgage-related risk exposures as well as the challenges inherent in estimating the losses that will ultimately develop from this portfolio over time. During 4Q2008, Ambac recorded \$916 million in loss reserves, primarily related to its direct residential mortgage-backed securities (RMBS) portfolio. According to Moody's, Ambac's incurred losses in its RMBS portfolio (excluding the \$860 million in net remediation benefit recorded by the company) are now meaningfully higher than the rating agency's prior expected-case loss estimate.

In recent weeks, Moody's has announced significant increases in our expectations for losses on mortgage-related securities, including subprime first lien pools, which are now expected to result in cumulative losses in the range of 28% to 32% of original pool balances (up from 22%) for the 2006 vintage. Moody's will update its analysis of Ambac's mortgage-related exposures in the context of actual performance as well as its developing view of the severity of the decline in housing fundamentals, including the potential impact of the Federal government's recently announced stimulus and housing related initiatives.

Moody's said that Ambac's holding company liquidity is currently under strain due to the absence of unrestricted dividend capacity during 2009. Moody's notes that there is currently \$233 million of cash and intra-company loans at the holding company -- equivalent to approximately 1.8 years of debt service coverage and holding company expenses. In Moody's opinion, the liquidity situation at the holding company illustrates the importance of a stabilization in Ambac's loss reserve position and for statutory net income to be generated during 2009.

Ambac's guaranteed investment contract (GIC) exposures ended the year at approximately \$2.6 billion, down from \$7.7 billion at year-end 2007. The company's GIC liabilities are expected to further decrease to about \$1.8 billion by March 31, 2009. Moody's stated that any further rating downgrades are not anticipated to result in meaningful additional collateralization or termination requirements in the company's financial services business in the context of the intra-company liquidity support that exists.

The rating agency also stated that it has withdrawn the ratings on Dutch Harbor Finance Sub-Trusts I-IV and Anchorage Finance Sub-Trusts I-IV. The trusts were dissolved following Ambac's recent exercise of its option to put preferred securities of Ambac Assurance Corporation to the trusts, and those preferred securities were then distributed to noteholders.

LIST OF RATING ACTIONS

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

Ambac Assurance Corporation -- insurance financial strength at Baa1;

Ambac Assurance UK Limited -- insurance financial strength at Baa1;

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

The following ratings have been withdrawn:

Anchorage Finance Sub-Trusts I-IV -- contingent capital securities at Ba1;

Dutch Harbor Finance Sub-Trusts I-IV -- contingent capital securities at Ba1.

The last rating action related to Ambac was on November 5, 2008, when Moody's downgraded Ambac's insurance financial strength rating to Baa1 from Aa3.

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.

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