

August 18, 2009

Summary:
Ambac Assurance Corp.

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Summary:

Ambac Assurance Corp.

Local Currency

Credit Rating: CC/Negative/--

Rationale

The 'CC' rating on Ambac Assurance Corp. reflects Standard & Poor's Ratings Services' view that the company is effectively in runoff and in a weakened financial position. Although the company has received regulatory approval to release contingency reserves to bolster surplus, the rating reflects our view that there could be additional commutations, which we will view as distressed exchanges. Once a distressed exchange has occurred, we will revise our counterparty credit rating on Ambac to 'SD'. Following the commutation, we will also complete a review that takes into account any benefits the company realized from the commutation as well as any other interim developments, and we will adjust the ratings as necessary.

The rating also reflects our view that further deterioration in Ambac's insured portfolio of nonprime residential mortgage-backed securities (RMBS) and related collateralized debt obligations (CDOs) of asset-backed securities (ABS) exposure would require the company to strengthen its reserves to account for higher projected claims. The additional reserves will hurt operating results, which we believe could cause surplus to decline to below regulator-required minimums.

Outlook

The negative outlook on the Ambac counterparty credit rating reflects the possibility that we could revise the rating to 'SD' upon the completion of additional commutations. The outlook on the Ambac financial strength rating is developing because we could raise the rating if the completion of additional commutations strengthens Ambac's financial position.

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