

STANDARD & POOR'S
Moderator: Chris Atkins
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2:00 pm CT

Coordinator: Thank you for standing by. At this time all participants are in listen only mode. During the Question and Answer Session please press star 1 on your touchtone phone.

Today's conference is being recorded. If you have any objections you may disconnect at this time.

I'll now turn the meeting over to Mr. Chris Atkins. You may begin.

Chris Atkins: Thank you. Good afternoon. I'm Chris Atkins, Vice President of Communications at Standard & Poor's. I want to welcome all of you to our teleconference today.

This morning we announced that we've taken ratings actions on six bond insurers including downgrading one company, placing one on CreditWatch Negative and lowering the outlook on the other four to negative.

As we noted in our press release, these actions were prompted by worsening expectations for the performance of insured residential mortgage-backed securities backed by subprime mortgage loans as well as CDOs of asset-backed securities containing RMBS backed by subprime mortgage loans.

In addition to the press release today, we also published two articles that help to provide insight and context for today's actions. The first is called Detailed Results of Subprime Stress Test of Financial Guarantors. And the second is a FAQ called The Interaction of Bond Insurance and Credit Ratings.

Both of these articles -- as well as the press release -- can be found at www.spviews.com by clicking on the link for Ratings Actions by Asset Class and selecting Bond Insurers from the drop down menu.

For the next hour or so you'll be hearing from a number of people in our Financial Guaranty Group. First (Howard Mischel), the Managing Director, will make some opening remarks. Also presenting will be Dick Smith, Managing Director as well as Bob Green and David Veno, both Directors.

At the conclusion of the presentations we will open the call to questions. And now I'll turn the call over to Howard.

(Howard Mischel): Thanks Chris. Good afternoon everyone. In the midst of the bond insurance industry's most difficult period in its 36 year history brought on by the deterioration in the domestic mortgage market, S&P has now completed its most recent review of the monoline insurers.

This current review -- our third in a continuing series of stress tests of the monoline insurance industry -- was an extremely challenging and time consuming task which took several weeks to complete and incorporated the

efforts not only of the Global Bond Insurance Team but also numerous analysts from our RMBS and CDO teams as well.

(Its) depending subprime concerns began to draw into monoline and raise questions as to the adequacy of their capital reserves. We have stress tested companies against a scenario which captures, among other things, the track record of subprime performance as it relates to a variety of structured finance asset classes.

The current stress test that we are reporting on today goes deeper and wider than our previous tests. Their broadened vintage period covered from transactions closed in 2006 to those from 2005 and 2007 as well.

We are now including more asset classes including Alt-As, closed end seconds, HELOCs, NIMs, CDOs of ABS and CDOs squared.

S&P has intentionally moved carefully and deliberately because we think it is important to be able to properly distinguish between performance of subprime related deals on a global basis and those that have been underwritten by the insurers.

We have worked hard to separate fact from speculation understanding very well the propensity of many in the market to jump to extreme conclusions which contradict a highly table rating history for this industry supported by a strong record of basically conservative underwriting, exceedingly low claims paid and more than adequate claims paying resources.

Nevertheless, our research has led us to the conclusion that the potential for further mortgage market deterioration remains uncertain and will challenge

the ability of the insurers to accurately gauge their ongoing additional capital needs in the near term.

As a result we have effectively adopted a negative outlook for those firms with significant exposure to domestic subprime mortgages and/or meaningful lower credit quality exposures.

The assignment of a negative outlook also reflects S&P's assessment with regard to the strength of the company's capital position when weighed against projected stress case losses as well as the comprehensiveness and degree of completion of projects capitalization strengthening efforts underway.

To summarize our rating actions, financial strength ratings of the following companies have been affirmed but negative outlooks were assigned to: Ambac Assurance Corp., MBIA Insurance Corp., XL Capital Assurance Inc. and XL Financial Assurance Limited.

We have also affirmed the financial strength ratings of CIFG Guaranty, CIFG Europe and CIFG Assurance North America Inc. all of which remain on negative outlook.

The financial strength rating on ACA Financial Guaranty Corp. has been lowered to Triple C and was placed on CreditWatch Developing. And a Triple A financial strength rating of Financial Guaranty Insurance Company was placed on CreditWatch Negative.

However the results of the stress tests have led to the affirmation of the financial strength ratings of Financial Security Assurance Inc., Assured Guaranty Corp. and Radian Asset Assurance Inc.

Today we intend to accomplish the following on this call. We will offer some broad observations about analytic factors considered in our review. We will provide a quick overview of the assumptions and stress test that we developed for our review of the companies. We will review our stress test results for all the primary monoline insurers rated by S&P. And finally we will answer your questions.

I would now like to turn this over to Bob Green for his comments.

Bob Green: Thanks Howie. Before we get into the topic of potential losses, a few words on some capital and operating advantages which we took into consideration in our analysis.

First a word about liquidity - with respect to whatever losses occur, time is on their side. The insurers, excluding ACA, there's not a run on the bank situation. Claims when they occur will be paid out over time over the next several years.

Against that fundamental principle of paying principal and interest as it comes due -- or pay as you go on the CDO side -- the industry has solid liquidity and financial flexibility.

Those of you familiar with the balance sheet know that typically in excess of 90% of assets are highly rated -- Double A on average fixed income investments -- which could either be sold as needed or used for reverse repurchase borrowing.

Next a word about capital raising and financial flexibility - some in the industry are in various stages of raising capital. An important component of

this -- one that doesn't directly involve third parties -- is management of growth and business volume.

Our capital adequacy model not only stresses the existing book but it also assumes three years of growth. To the extent that growth will be slower than previously expected or a lower risk profile than expected, capital can be freed up in that manner and the capital cushion expanded.

And the nature of the industry is such that given the substantial revenue generated from UPR amortization and annual pay premiums, earnings are less sensitive to short-term declines in business.

Finally with respect to losses - our expectation is that the bond insurers' exposure will be a better performing subset of the larger universe of nonprime RMBS exposure. Comparative transition rates and loss ratios which we mention in our report support this premise such that we factored this belief into our conclusions.

And with that I'll turn it over to Dick Smith.

Dick Smith: Thanks Bob. I'm afraid Howie may have been a little over optimistic to say I can do a quick explanation of the result that we came up with and how we did it. Because, you know, frankly it's a very complicated analysis. But let me take a stab at it.

As we said we've tested the capital adequacy of the various bond insurers against a scenario that applies default assumptions to various nonprime RMBS-related transactions that have been insured.

Default rates for insured direct RMBS transactions and for tranches of uninsured RMBS transactions represent the stress we think the companies will encounter going forward based on the conclusions drawn from our structured finance analysts.

As we've said before, we've included the Alt-As subprime, closed end seconds, HELOCs and NIMs in this from the '05, '06 and '07 vintages. The loss assumptions vary but to give you some perspective, the weighted average loss expectation across the 2006 vintage weighted by original par was 22.4%.

To stress the direct RMBS component of the insurer's total exposure we developed rating sensitive loss assumptions for individual insured asset transactions for each asset class. To do this the various asset type loss assumptions were converted to probability distributions of outcomes using internal data of projected losses for individual transactions.

Each of the possible outcomes were compared to typical credit enhancement levels for such transactions to determine if the transaction defaulted or not and if so, what the loss would be.

Factoring in the probability of each possible outcome produces an analysis that defines the expected losses at each rating level for transactions in the various asset classes and vintages.

Expected loss on each transaction was computed based on the original par value and original rating of the transaction. Next the accumulated results were adjusted -- as Bob has suggested -- to reflect the reality that the bond insurer's underwriting and risk remediation processes do result in better overall loss rates. Finally the calculated results were converted to a present value and then tax effected.

The CDOs we computed weighting sensitive tranche loss assumptions using the same methodology described before. For each insured CDO we computed incremental collateral pool losses on all asset types with 2005/2007 vintages based on the same methodology described for computing the RMBS losses except we made no adjustment for better underwriting. And the present value methodology was changed.

The better underwriting adjustment was removed since the collateral of the wrapped CDOs is not insured and therefore does not benefit from the insurer's underwriting and risk remediation expertise.

The period for the present value adjustment was changed to reflect the structural features of the CDOs which require interest only until the final maturity.

Incremental losses on that portion of the CDO collateral made up of tranches of other CDOs were determined based on the typical asset composition of such CDOs. Possible losses on CDO-squared transactions were handled on a case by case basis.

Incremental losses were then aggregated to determine the collateral pool impairment. The collateral pool impairment was then compared to the subordination supporting each tranche that the bond insurer had insured.

In the vast majority of cases bond insurers have insured a super senior tranche, meaning that the subordinations supporting the insurer's insured tranche is at least 1.3 times the level required to achieve a Triple AAA rating.

We computed a subordination impairment ratio -- which is defined as the collateral impairment divided by the available subordination -- to show how much of the available subordination would be lost to theoretic losses.

Subordination impairment ratios above 1.0 signify that theoretic incremental losses would exceed available subordination. Ratios below 1.0 signify the theoretic losses would be less than the available subordination in the CDO. In this case the insurer would not incur a loss.

However we created four categories of CDO impairment ratios under 1.0 and incremental capital charges were assigned to those categories. Capital charges varied depending upon whether the CDO was high grade or mezzanine.

Some of the incremental theoretic losses on RMBS and CDOs define the additional stress test losses. These losses are then compared to the capital cushion an insurer had in excess of the minimum amount necessary to maintain its current rating. Capital cushion is the amount of additional losses the insurer could incur and still pass our capital adequacy test.

Now at this stage we will now go into a company by company review to discuss how they fare in this result. David Veno will begin.

David Veno: Thank you Dick. The first company that we'll talk about here is the CIFG companies.

And in the scenario that Dick described they generated \$7.93 million of after tax losses. And you compare this to their capital cushion of about 150 to \$200 million. They are a little bit short.

To address this capital shortfall the two French banks that at this time are the indirect owners have committed 1.5 billion to the company's claims paying resources. Once they commit this money to the companies they will become the direct owners at that point of about 99% of the company.

Once - if these additional claims paying resources are paid in, the outlook will remain on negative though due to concerns that we highlighted in our Outlook Change in June of 2007. And this was related to effective corporate governance.

The next company would be MBIA. In this scenario they generated about \$3.2 billion of after tax losses. And they have an adjusted capital cushion of approximately 1.8 billion. And we did adjust their capital cushion for a number of things.

First of all the retention of the \$500 million special dividend - when we ran the model last year we included dividends of a billion dollars coming out to support the company's share repurchase (plan). As everybody knows now the share repurchase plan has been put on hold. That the 500 million of those dividends that we assumed in the model were still at the operating company, so we plugged those back into to adjust the capital cushion.

Also one of the things that we did is we revised the business model for - business plan for 2007 because of what was actually happening in 2007 as far as their underwriting. And that also includes the mitigation of certain exposures namely the EuroTunnel was, you know, extinguished during 2007. So those losses had to come out of the model because those are losses that we modeled that really don't belong there anymore.

These - but this - to account for the shortfall in capital the company has done a couple of things. First of all Warburg Pincus has said that they will invest \$100 billion into the company - or a billion dollars into the company. Five hundred million of it will be a capital infusion that is going to backstop a rights offering to shareholders. So that brings it up to a total of a billion.

They also are exploring capital markets debt instruments. And maybe some debt, maybe some surplus, maybe some hybrid securities but they are looking into that right now also.

And there is some reinsurance opportunities out there for them. They have gotten some interest from some other reinsurers and some other primary companies that are looking to take some of the risk off their book. It might not be RMBS-related. It might be other more attractive business. But taking any amount of business off the books will free up capital because those are losses that come out of the model now.

The next company will be XLCA and XLFA. On a combined basis these two companies had \$884 million of after tax losses. We compare this to a combined capital cushion of about 600 to \$650 million. So they're approximately about \$200 million short.

To address their shortfall they're looking into the commutation or restructuring of several CDO transactions with the counter parties. This will remove risk from their books. They're also looking at reshaping their insured portfolio through reinsurance transactions with third parties.

Again it doesn't necessarily have to be RMBS business. It could be some of their muni business or, you know, any other types of structured finance

business. But once again removing risk from the books also removed losses out of our capital.

And they are looking at capital infusions from third parties. There are some parties that have expressed interest that they might want to invest in the holding company (SCA).

At this time I'll turn it over back to Bob Green who will talk about the companies for which he's the primary analyst.

Bob Green: Thanks David. I'll talk about FGIC.

FGIC started the year with a capital cushion between 300 to \$350 million. This was one of the lowest cushions in the industry. It was purposefully low because FGIC had a goal of trying to rapidly improve its return on equity.

While the ROEs have improved over the past three years, the capital plan of operating slightly above the Triple A margin has not served the company well in this current situation. The loss assumptions that we're currently using have generated a potential loss number that's in excess \$2 billion. Now what's driving that?

Losses on the RMBS side are sensitive to the fact that about 70% of the company's exposure has underlying ratings of Triple D. That's more than any other company. And the same disadvantage is true on the CDO side where the credit quality of the underlying collateral is below average. And there's generally more exposure to the 2006 vintage.

The company has presented us with a capital plan. Management has indicated that it's their goal to create a cushion in excess of our Triple AAA

requirements. But there's execution risk in that plan hence, the negative CreditWatch.

And with that I'll turn it over to Dick.

Dick Smith: Okay I'll talk about Ambac. We affirmed the Triple A financial strength and financial enhancement ratings on Ambac and the Double A debt ratings on Ambac's financial (future). The outlooks have been changed to negative.

The rating affirmations reflect the fact that Ambac's adjusted capital cushion of between a billion 750 and 1 billion 800 is actually in line with modeled stress losses.

But it was important that Ambac did their \$29 billion reinsurance transaction with Assured Guaranty Re because that added approximately \$250 million of risk adjusted capital to the equation which brought the things into line.

Although our stress test does not show an immediate need for additional capital, the company has other hard and soft capital options that it is considering.

The negative outlooks reflect the potential for further mortgage market deterioration relative to the company's marginally adequate capital cushion.

Now I think we'll turn it to - because we do have one more.

Man: Right.

Dick Smith: Is that the last one?

Man: Yes.

Dick Smith: Okay. The last one is ACA, the sole company that was downgraded. We downgraded ACA to Triple C and placed it on CreditWatch Developing.

The lower rating reflects the substantial excess of modeled losses over - of nearly \$2.2 billion over the company's adjusted capital cushion at 12/31/07 or approximately \$650 million.

ACA has been diligently working to address contingent liquidity concerns which we identified in our CreditWatch this past November. But it has not focused significantly on raising additional capital.

New - lower new business activity recently during this period has been positive from a capital adequacy standpoint. But the incremental improvement is not sufficient to close the gap between losses and the capital cushion. The gap is large enough to create significant doubt that the company could possibly access sufficient hard capital resources to resolve the problem.

CreditWatch Developing acknowledges a possibility that the company may be able to modify its obligations to its counterparties but reflects the real possibility that the counterparties will require the company to post significant collateral going forward.

And with that we will open it up to questions.

Chris Atkins: Okay at this time we will open the call for questions. The Operator will instruct you again on how to do that.

Coordinator: And thank you. At this time we will begin the Question and Answer Session. If you have a question you may press star 1 on your touchtone phone, star 2 to withdraw. Please unmute your phone, record your name clearly when prompted. Your name is required to introduce your question.

And our first question comes from Ron Bobman. Please announce your company name.

Ron Bobman: Capital Returns - thanks for taking my question. I had a question as it relates to MBIA. And I was wondering whether you in analyzing MBIA and the losses and the capital needs whether you explicitly incorporated a review of Channel Re or not. And if so what's the nature of that review? Thank you.

David Veno: When we looked at MBIA no we did not look at Channel Re. We are in the process though of doing a review of them and gathering information and looking at their exposure. And we should be coming out with something in the future on them.

Chris Atkins: Thank you, next question.

Coordinator: Thank you, your next question is from (Jim Deloise). Announce your company name.

(Jim Deloise): Cambridge Place Investment Management. The ACA downgraded and developing, there were stories in the press today about the possible recapitalization of ACA by a number of current capital holders and possibly other people. Was that considered in the timing of this - of the change in the rating status?

Dick Smith: This is Dick. No it was not considered. We were aware that, you know, the company - that ACA was in discussions with all of its counterparties regarding the liquidity issues and possibly capital issues. But did not, you know, allow that to affect the timing of our rating decision.

(Jim Deloise): Okay and is there a difference - I mean would there be any difference in the way that capital - a capital infusion in any of these companies would be treated if it were capital infusion by a completely unrelated third party versus say somebody who is a counterparty and might have balance sheet reasons for hoping that the ratings were maintained? Or would it be a dollar is a dollar is a dollar?

Dick Smith: I think the answer to that is a dollar is a dollar is a dollar. If the capital is in the company than it, you know, it works. I mean it doesn't matter where it came from.

I'd like to go back to your first question and add that we were aware - because we were aware of the negotiations, that's the reason why we instituted the Developing CreditWatch rather than simply suggesting this will continue to decline.

The Developing indicated that there was a positive outcome possible. And - but - so that we were aware of it but...

Chris Atkins: Thank you, next question.

Coordinator: Thank you. (Tony Delatino) your line is open and state your company name.

(Tony Delatino): Yes thank you very much. Could you give some color in terms of the market reaction in terms of new business? I know there's been a lot of stuff that's been in the pipeline that'll be coming through.

But can you comment in terms of your assessment of the reaction of new business. Obviously you're looking at capital versus your requirements. But I guess my issue is if some of these firms start taking 1 billion, 2 billion, 3 billion in losses, will people still want insurance?

And is there any thought process on your end in terms of getting folks comfortable providing shadow ratings on deals of like municipals to try to keep that sector I guess more liquid than what it's been?

(Howard Mischel): This is (Howard Mischel). The answer I can give to that is that certainly we are concerned as to the viability of the basic business model for financial guarantors on a going forward basis. There's no doubt that taking rating actions of this type could easily have an effect on the success of that business model.

As to the desirability of assigning ratings to underlying ratings to transactions, should issuers desire that they can approach the rating agency. And we will be happy to discuss assigning those parts of public ratings for (their) issuers should they desire that.

(Tony Delatino): But I guess my question is if you see a significant decrease in usage of the guarantor so that their obviously profitability goes down significantly. And even if they (bring) their capital has had a rating impact for you or at this point in time it's just - it's really focusing on a capital adequacy point of view for the next few years.

(Howard Mischel): That's a fair concern. But I'd characterize that as more of an intermediate term concern. Right now the focus is on capital and solving the problem.

Chris Atkins: Thank you, next question.

Coordinator: Thank you. Your next question is from (Ethan Auerbach). Your line is open. State your company.

(Ethan Auerbach): Hi, Promethean Asset Management. I just had a question on the difference between Ambac and MBIA. You know, obviously Ambac's provided better disclosure publicly on their CDOs. But MBIA has not. I noticed though that I, you know, based on the most recent numbers it looks like you've rated a lot higher percentage of MBIA's CDOs as being in a lost position.

Can you just comment on whether there's some kind of fundamental difference in the way they were underwritten or whether it's just kind of the luck of the draw that their's happened to be worse off than Ambac's. Thanks.

David Veno: As far as MBIA's underwriting a lot of their business has some of the high bucket concentration of HELOCs and closed end seconds in it.

(Ethan Auerbach): Within the CDOs?

David Veno: Yes.

(Ethan Auerbach): Got you. And secondly could you comment on Ambac's CDO-squareds and, you now, where those fit in to your impairment ratios?

Dick Smith: The CDO-squareds as we said were handled on a case by case basis.

(Ethan Auerbach): Are they included in the, you know, CDO net par insured in the table that you guys provided that shows essentially 5.7 billion of Ambac CDOs being in some kind of loss position?

Dick Smith: They are included in the \$29 billion number. I don't think we're going to comment on which bucket any particular deal is in. But needless to say, you know, given the nature of the underlying collateral that there were important contributors to the total loss number.

Chris Atkins: Thanks, next question.

Coordinator: Thank you. (Rasheed Patel) your line is open. State your company. Mr. (Patel) your line is open.

(Rasheed Patel): Can you hear me?

Coordinator: We can't hear you.

Chris Atkins: Sorry we're going to have to move on. We cannot hear you. Next question.

Coordinator: (Laura Silverman) your line is open. State your company.

(Laura Silverman): Morgan Keegan - hi guys. I guess in along the same lines as (Ethan)'s question, when I look at the current par outstanding as of September 30 of all of the classes that you disclosed in Table 5, it looks like Ambac has significantly higher exposure to both end seconds HELOCs and - well the total amount is about 35 billion versus FGIC at 29 billion and MBIA at less than 30 billion.

And yet the charges come out almost double for MBIA and somewhere in the middle for FGIC. Could you tell us how, you know, what impacted those numbers and - they don't seem to mesh all that well.

Man: (Laura) can you state that again. It's like it was pretty complicated.

(Laura): I'm just trying to understand why Ambac has more current (prior) outstanding of exposure to all of the different classes of risk that you've outlined in both MBIA and FGIC and yet the capital charges for Ambac come out to almost half of what MBIA's are and significantly lower than what FGIC's are even though they have a higher dollar value of exposure.

Man: Probably the biggest factor that, you know, I'm trying to do this quickly, is both FGIC and MBIA's closed in seconds outstandings are quite a bit higher than Ambac. Closed in second had the highest loss assumptions against them.

I'd also point out that the Ambac had, compared to FGIC had a better quality of rating distribution. And they also had the better vintage distribution. Vintage matters here and they had more of the vintages that either had, that weren't even assessed or the 05 which has the lower number attached to it.

So I think it's more of the right vintages and the other two just had more of the closed in seconds, which were the worst asset class.

Man: Next question.

Coordinator: Thank you. Our next question is from (J. Abrams). Your line is open.

(J. Abrams): Hi. I have two questions. One is the ratings list that you put out showing the revisions of the ACA under, you know, insured bonds. A number of those did

stay in the investment grade or double-B category. Are those now going to be public ratings of S&P that S&P is going to monitor as if those had been ratings that have been directly applied for?

Man: The answer is yes.

(J. Abrams): Okay. And the other thing is assuming that ACA no longer is writing business and may not be there in the future, will there be - the capital that's been originally pledged behind these bonds, would that still remain in a runoff situation there or is it possible that substantial losses from CDOs could wipe out all the capital that the (muni) side would, you know, expect (that in play)?

Man: Well certainly if our, you know, stress test results prove to be true, then the capital will be gone. If for some reason losses don't completely wash the company away, the capital's there and then that's just a question of how current management and owners intend to manage that situation.

They do have to interface with regulators whom they have some say about how much capital can be taken out and how quickly that could happen. But clearly a runoff situation, I'm not speaking specifically of ACA, but in general runoff situations tend to be situations where owners are (incented) to get as much capital out as quickly as possible.

Man: Thank you. Next question please.

Coordinator: Our next question is from (Ronnie Leopold). Your line is open.

(Ronnie Leopold): Hi, this is (PB Capital). My questions was 2006 was a weighted average assumed loss of about 22%. Could you tell us what they were for 2005 and 2007 please?

Man: Of course. Two thousand five was 8.2. Two thousand seven was 19.7.

(Ronnie Leopold): Thank you.

Man: Next question please.

Coordinator: (Jerry Dale). Your line's open.

(Jerry Dale): City of (Mackalend). We have some Ambac insured - have an Ambac insured issue and our question was what impact is this going to have to our bond holders trading in the secondary market?

Man: None of us are in the market but we can - it's probably fair to assume that this is a negative piece of news as it's already been confirmed in the equity markets and that, you know, maybe the bonds will trade a little bit lower.

But it's still triple-A so it's not as though this is a, you know, falling off the cliff situation. The bonds are still rated triple-A. The negative outlook placed on Ambac does not affect the bonds at all.

So it would be if the investors are aware that there's a negative outlook on Ambac and choose to trade it. So I think the bottom line is probably not much but it's hard to predict that a deal by deal basis.

(Jerry Dale): Thank you very much.

Man: Thank you. Next question please.

Coordinator: (Peter Suese), you're line's open.

(Peter Suese): Yeah, hey guys. Thanks for taking the call. And that's (Sanofi Capital). Just had a quick question. There's - I know you guys talked about re-insurance as a possible solution for some of these companies. And there's a lot of talk it seems about a potential sidecar starting up in Bermuda.

And my question is is that a feasible solution because wouldn't that sidecar have to get rated? And so how quickly could it get rated? And would the rating have to be triple-A in order to re-insure some of these companies? And also, would that sidecar have to be managed by somebody in the industry? Thank you.

Man: I would say it has to be rated for us to give credit unless - I guess the other option as we do do in some other re-insurance arrangements where the re-insurer collateralizes their obligation. It's an expensive proposition in terms of tying up capital but it could be done that way.

But short of that it would require that entity to be rated. That process is hard to gauge in advance. You know, when everything goes right it could take, you know, a few months. When things don't go right, it could take a year or more. It all depends on, you know, the specific facts and circumstances of that particular situation.

Management, it doesn't have to be in the industry, but management has to be considered and we'd have to view it as, you know, appropriate levels of experience and expertise do that. So, you know, so it could be in the industry. It could be outside, but in the end it's going to have to have the right management.

(Peter Suese): So that's in the best-case scenario, it takes a few months to get a sidecar rated. You guys are probably looking for these companies to come up with capital solutions before that time. I guess would it satisfy you if that was part of their plan even though they wouldn't be able to actually get on it right away?

Man: I think it's important to reference back to the point we made earlier in our presentation that time is really on the side of the insurers at this point. It's not as if the world is crashing in on them tomorrow. They have time to work through these arrangements. And the negative outlook is intended to, you know, cover a period of time that actually goes out for up to a two year period.

((Crosstalk))

(Peter Suese): Sorry. One last quick one. What are you assuming for home price depreciation for 2008?

Man: Just a...

(Peter Suese): Or 2009...

((Crosstalk))

Man: We have FGIC on negative CreditWatch. And that's typically a three-month horizon. So there we're looking for more meaningful progress in that short of term.

(Peter Suese): That's the only one that you have the three-month horizon?

Man: Yes.

Man: Other than ACA.

(Peter Suese): Okay. Right. But of the other negative watch ones. Okay.

Man: On house price depreciation I believe we're, you know, we're not the experts on that but we have people here in the room who are helping us out. They're telling us peak to trough 11% decline in '08 or total.

Man: Total.

Man: So not just '08 but the peak to trough, 11% overall. That's from (David Wist) is the S&P economist. That's his number.

(Peter Suese): Great. Thanks guys.

Man: Haven't '08 alone, but that's an overall number.

Man: Okay. Next question please.

Coordinator: Thank you. (Jared Cohen), your line's open.

(Jared Cohen): Hi. Thanks for the call. Quick question on the soft capital facilities that most of these (final) lines have. The question is do they get the same credit whether or not those facilities are triggered, i.e., is there any rationale for triggering the soft capital facility other than if they have to use that to actual other losses?

Man: Referring to these committed capital facilities?

(Jared Cohen): Correct.

Man: Like Ambac, Dutch Harbor or Anchorage Capital. They get full credit for that in our modeling exercise already. So triggering it would not really provide much if any benefit in the modeling exercise.

The value of triggering it would be to get cash if they needed cash or it would be triggering it would increase the statutory capital on their balance, which might be an issue from a regulatory standpoint. But they're already getting full credit in our model for it.

Man: Next question please.

Coordinator: (Tom Walsh), your line's open.

(Tom Walsh): Hey guys, thanks. I was just glancing at Table 7 in your charts and I guess I was just trying to understand I think Dick or Bob you might have mentioned before that you look at (after tax) losses relative to the capital cushion and ACA you model out to 2.2 billion of (after tax) losses would ingest a capital cushion of almost 50 to 700 million and that's triple-C and you've got FGIC at 2.2 billion of after tax loss with a capital cushion of three 350 and that's triple-A. I guess I'm just trying to understand what the difference is.

Dick: Well I - this is Dick. I'll respond to that. And I'll really - I won't limit the comparison to FGIC. I think I'd just a soon talk about any of the other companies versus ACA. I think the biggest difference is simply that the other companies have options and wherewithal available to them that ACA does not have.

In other words, you know, FGIC, Ambac. FGIC has owners who might inject capital. FGIC has the opportunity to do re-insurance on a very pristine municipal book if they wanted to do it. They have other options.

ACA has a small municipal book that has been difficult to re-insure for many years. So why that could happen now would be unlikely. And it's unlikely that the current owners would put up any more capital. So it's just lack of options on that.

And the other way to look at it is not just the dollar amount. It's the dollar amount relative to the capital cushion and I'm, sorry, the capital base. And when you look at it that way, it's a petty big number, you know, it's integer multiples of their current capital whereas in FGIC that wouldn't be true.

Man: Next question please.

Coordinator: (Ricardo Climbbaum), you're line's open.

(Richard Climbbaum): Yes, just have a follow up question on ACA. I'm sorry. I joined the call a little late. You might have addressed this but can you just walk us through how you reach the triple-C conclusion on ACA? Why at that level and not low double-B or any other rating category?

And did the discussion with the banks regarding the credit default swaps and the rating trigger, was that a factor in your rating decision, because clearly it was - it's an important trigger point for the viability of the company. And was that - basically my question is was that a factor in your reaching triple-C or was the triple-C really a fundamental call? Thank you.

Man: Triple-C was a fundamental call. We were aware of discussions and those were the justification for developing CreditWatch as opposed to simply a negative CreditWatch. And in terms of what led to triple-C is just the

enormity of the capital hole, if you will, relative to the company's size, the limited options they have solving that.

The whole issue of business viability remains. Several of their products are basically products that are kind of dead in the market. So to be a viable company going forward, they have to kind of come up with a new business plan and find, you know, new business to do other than what they've been doing now.

So it's the combination of all that just led us to conclude that this, you know, if you read the definition of triple-C ratings it says, you know, that there's stress and it takes some very favorable business developments to keep the company going. And I think that kind of fits pretty well.

Man: Thank you. Next question.

Coordinator: (Ann Kibbler), you line's open.

(Ann Kibbler): Hi. I was just wondering if there's any way you could provide a brief summary with the dates of the various actions you've taken on insurers in regards to sub prime markets. Just kind of walking through maybe since June.

Man: I'm sorry, actions on insurers in the sub prime market?

(Ann Kibbler): Just kind of in general terms of let's say for Ambac and FSA and the other insurers you discussed previously in this call. Just kind of if you could, you know, the actions that you've taken in terms of downgrading on specific dates.

Man: Well the only action - the only downgrade that's happened is ACA, which happened today.

(Ann Kibbler): Okay.

Man: ACA was put on CreditWatch in November. Other than that there's been no actions other than what was taken today.

(Ann Kibbler): Okay. Thank you.

Man: Next question please.

Coordinator: (Kurt Vancouver), your line's open.

(Kurt Vancouver): Hi, can you hear me?

Man: Yes.

(Kurt Vancouver): I'm at (1861 Capital). Couple of quick questions. I have a number really but let's start with the top ones. This is called an expected stress, which is a little bit of an oxymoron because typically I've seen stress tests, which purport to be like extreme tail risks. But I take it this is presented as what you mortgage people say is not the expected amount of losses particularly sub prime for '06 15-1/2%.

So if that's the case, you know, do you have other tests that show greater stress, you know, above and beyond say the 15-1/2% loss rate for the sub primes in '06? And how did you adjust, you know, for better underwriting? How much credit? How much of an adjustment was made for the better underwriting of the insurers, you know, for these loans? Hello.

Man: We're here. I think the first point to make is that the stress test represents the stress that we think the companies will encounter going forward based on the conclusions that were drawn from our structured finance analysts here at S&P.

(Kurt Vancouver): Okay. So this is like the mean now if there was a - if there was a probability distribution, this would be the mean situation and not say a tail risk situation.

((Crosstalk))

Man: We used the, you know, we had distributions of outcomes that - distribution of outcomes that averaged to that but there were some that were higher and some were lower in the results of this. But, you know, we didn't have other runs where the mean was other than the 15 5 on sub prime for '06. That's what the committee was focused on.

(Kurt Vancouver): Okay.

Man: As far as the better underwriting, we adjusted the expected losses modestly lower. I can't give a specific number, but it was modestly lower than the published table numbers.

(Kurt Vancouver): And one quick follow up. Did you also include in these losses charges in the event that some of the upper tranches that are insured were merely downgraded and didn't have actual losses but, you know, incremental charges for, you know, lower subordination protection going forward?

Man: I'm sorry. Say that again.

(Kurt Vancouver): Was there included in these capital, these loss number which you're showing here and was there any other incremental charges merely due to downgrades of insured obligations as opposed to just showing losses.

Man: Yes. On Page 8 of our report, Table 6, CDO exposure. The theoretic loss and incremental capital charges, those impairment ratios which are less than one represent not losses per se but higher capital charges.

(Kurt Vancouver): Okay. Yeah, I didn't see them...

((Crosstalk))

Man: ...additional capital charges for (RMBS) transactions, but there were for the CDOs as Bob just said.

Man: Thank you. Next question please.

Coordinator: Thank you. (Pascal St. Gerard), your line's open.

Pascal St. Gerard: Thank you for the call. Wells Fargo. I just had a question about future rating actions on the model lines in general. Is this something that you foresee being solved by just continually increasing the capital requirements for all of them or at what point does I guess the underlying assets just become so impaired that they'd lose their triple-A? One or more of them.

Man: As we indicated in our report, the potential for further mortgage market deterioration remains uncertain and will challenge the ability of the insurers to accurately gauge ongoing additional capital needs in the near future.

So we're going to continue to monitor the sector carefully and especially in the case of our CreditWatch listing for FGIC. We'll be looking for meaningful progress toward raising the capital needed to maintain the current ratings.

Man: Yeah. I would just add that it's probably fair to think that some of the insurers will try to get ahead of the curve here, but they're not just going to raise the minimum amount of capital to maintain their rating, but they're going to want to have a cushion rather than not.

And so it's possible that depending on how future mortgage performance turns out that the cushions that they put in place now might be sufficient to hold them in good stead for a while. But it'll all depend on the future evolution of the mortgages.

Man: Next question please.

Coordinator: (Evelyn Camar), you line's open.

(Therone): Hi (Therone) from JPMorgan. I think this is a question for you. Regarding Ambac and MBIA. If you look at Table 7 and then you look at the after tax losses relative to adjusted cushion and the identified hard and soft capital going forward.

Do you expect these companies to get back to the original cushion because right now the after tax losses and the available capital plus the cushion kind of matches up. Do you expect them to go back to the 1.5, 1.6 billion dollars of cushion for you to maintain the triple-A with this table? And if so, at what point do you expect them to raise that level of capital to take the negative outlook off?

Man: They don't have to get back, well, they don't have to get back to the capital cushions they had going into this for maintenance of the triple-A. We haven't actually set a number that we're looking for as far as changing the outlook to stable. That, you know, we're just saying it's too uncertain and we need to, you know, monitor it and see how it plays out.

So we do expect that some, if not all the companies will consider, you know, getting more capital than they need just to have the minimum to keep their triple-A rating. But I think it's going to take time to figure out what the right number is as far as actually something that can get the negative outlook removed.

(Therone): So based on what you just said, is the negative outlook then likely to stay for a while? Let's say if a given company Ambac or MBIA goes and gets another 150 to a billion either re-insurance or any other way that you alluded to, is that enough for you to take the negative off or do you got to wait for a while, a year or so, and see how things play out in the market?

Man: The fact of the matter is that the negative outlook doesn't depend solely on the level of capital. It's also our take on the deterioration that we can expect to continue in this sector. And it's going to be a combination of those two factors.

(Therone): Okay. Fair enough. Thanks.

Man: Next question please.

Coordinator: (David Pulson), your line's open.

(David Pulson): Yes thanks. I'm still trying to compare Ambac and MBIA with regards to their exposure and how that would contribute to losses on your test. I don't see that from your Table 5. I'm looking at their current (parts) outstanding. Yes I see there's a difference in closed in seconds but there is also differences in the other categories.

And then I look at your Table 3. You're pretty, you know, it looks like you're really strongly sending losses on closed in seconds and (he locks). I don't see that much of a difference in '06 and '07 between A, triple-B and double-B. So it makes me confused about where Ambac is getting much less loss on it's (RBS) business than MBIA. Is it just the amounts?

Man: No, I think first of all your Table 3 are the loss expectations for individual tranches of uninsured deals that reside inside of CDOs

(David Pulson): Okay. Okay. I'm sorry. Yeah.

Man: So for the deal that you see in Table 5, you want to look at the loss numbers on Table 2.

(David Pulson): Okay. So from that table, is it - I guess it's the closed in - so, okay. I see that MBIA has a lot more double-B than RMBS. Is that really where the difference is coming from?

Man: Well, yeah. That would yes.

(David Pulson): That really is. That's mainly the case or is there something - I know that would contribute a lot - or not double-B but looks like triple-B.

Man: Triple-B would, you know, well you look at the closed in seconds, you know, it adds some versus A but it definitely adds up. But it's the - I think it still comes down to the mix of, you know, Ambac versus MBIA there's a big difference in closed in seconds outstanding.

And Ambac the rating distributions for the triple-Bs are pretty similar. Ambac has more A, but I think it still comes down to the asset mix.

(David Pulson): Okay. It's just that MBIA has a lot more closed in seconds, but Ambac has more key locks and all day and sub prime and it looks like a lot more sub prime. Is there a factor in your models for like the servicers; a mix of servicers perhaps?

Man: That wasn't dealt with explicitly, you know, we do believe the insurers typically deal with the stronger servicers and originators but there was not a specific factor in the model differentiating that.

(David Pulson): Okay. All right. Thank you.

Man: Welcome.

Man: Thank you. Next question please.

Coordinator: (Fred Rothman), you line's open.

(Matthew): Yeah hi. It's actually (Matthew) from Millennium Partners. I was wondering a couple of the companies that you all have discussed today have subsidiaries involved in the guaranteed investment contract business notably I guess FSA and MBIA.

Wondering if you could eliminate the (unintelligible) look at those? And whether or not their being in separate subsidiaries affects or doesn't affect the (unintelligible) that you all are typically looking at in Redding? Thank very much.

Man: I'll talk about FSA. FSA we - FSA (gick) program is invested very conservatively. They do have a substantial amount of sub prime exposure but it's all to the triple-A level and essentially it's a matched funded book. We have a capital charge on it and over the past couple of months that capital charge has stayed relatively stable so we're comfortable with that exposure to FSA.

Man: I assume I probably - (David) I don't know if you're going to comment but it's similar general comments would be true about MBIA that we monitor it and you know, it's a large (immassed sort of book). It is a separate subsidiary as Bob said, but we capital charge the risk as the insurer wraps over those (gicks) so that, you know, the insured takes the risk of those companies.

The actions we've taken today really have no impact on those businesses. FSA was maintained so there's nothing going on there. But for MBIA the, you know, the (gick) is still triple-A.

(Matthew): And just a very quick follow up. The (gick) are those through companies who are quite active in providing (gick) to CDOs which does raise a question about the matched funding of those assets given the fact that the CDOs are at least a very small percentage of them that have gone belly up quickly were obviously not expected to.

Can you discuss any since you all have looked at that and whether that raises questions about the viability or the robustness of the asset liability management? Thanks.

Man: I think the team that looks at those companies is (unintelligible) I think they've looked at it. In our discussions with the insurers, we are aware that they've been conscience of it and have been building liquidity with resources to deal with that should they have to pay it out.

Man: Thank you. Earlier in the call we were asked a question about where we anticipate the housing prices in the U.S. to go and we said 11% and we have consulted with (David Weiss) and it is 11% from Q3 2006 through Q3 2008.

Next question please.

Coordinator: (Heather Hunt), your line's open.

(Heather Hunt): Thank you. Good afternoon. My question is on access of loss re-insurance. I was wondering if you - what kind of credit would give you an (unintelligible) of loss re-insurance program? Would it have to attach closer to the statutory capital level or could it go out further to say like six or seven billion? And would it get a good amount of credit there?

Dick: This is Dick. Well first of all the credit would be risk adjusted based upon the provider's rating. That's the first step. The attachment point has to work for us and that means that, you know, we would want to see the attachment point such that, you know, the benefits of that re-insurance would protect statutory capital from going negative.

(Heather Hunt): It would have to be like stability at the highest...

((Crosstalk))

Man: I don't know which company...

(Heather Hunt): Say Ambac or MBIA.

Man: I don't think it necessarily has to be that low. But it can't be at a point higher than the statutory capital for sure.

(Heather Hunt): Okay Thank you.

Man: You're welcome.

Man: Next question please.

Coordinator: (Terry Sue), your line's open.

(Terry Sue): You already. (Terry Sue) from JPMorgan. You already answered the question on what the mono lines have to do to restore the stable outlook. From what you said, you haven't really come up with a hard number yet. And it's going to be a period of time. But at some point I guess each of them will be having discussion with S&P to find out what they need to do. But it's too early to tell. Is that the correct answer?

Man: I think that's pretty much a correct answer. I think we tried to give you a sense in this report of the stress test losses that were projected and the capital cushions that exist. You therefore have a gap number that you can make reference to. We also tried to give you a sense of the steps that have already been taken by some of the companies...

(Terry Sue): Right. Right.

Man: ...and potential steps that others are planning to take. The exact mix and how that's all going to play out...

(Terry Sue): Right.

Man: ...still remains to be finalized with many of the companies and as a result we can't give you an absolute final answer on all of those. But clearly it's going in their interests to move quickly. We anticipate that that's going to be the case.

We'll be here working to evaluate those prospective plans. And we're going to obviously evaluate that in the context of where the market is moving and any further deterioration that takes place.

(Terry Sue): Is it possible then if they come up with plans over the next several months that even without rate clarity on market trends that sometime over the next several months there's a thought that you may restore the stable rating just based on capital raising activity? Is that possible?

Man: I think as the market clarifies and we have a better sense or greater level of confidence in exactly where sub prime is going to go, I think that that in addition to the steps being taken...

(Terry Sue): Right.

Man: ...regarding capital, it will allow us to draw some conclusions and perhaps reevaluate our negative outlooks for some of these companies.

(Terry Sue): So it could be either one or the other or a combination of both. More likely the combination of both. So sometime over the next period of time possibly with, you know, within the '08 timeframe because we would have greater clarity that you'll revisit this. Is that a fair comment?

Man: I think that it's fair to say that during the course of 2008 that will be possible.

Man: Next question please.

(Terry Sue): Thank you.

Coordinator: Thank you. (Brad Body), your line's open.

(Brad Body): Hi. This is (Brad) with American Century Investments. My call has to do with the total after tax losses shown on Table 7. Can you clarify for example with MBIA with the 3.18 billion in after tax losses, how much of that is capital charge related and how much of that is from actual claims having to be paid?

Man: You want to turn to Table 6. You're going to have to do some math because we do present value and take after tax losses. But in Table 6 under theoretic loss and incremental capital charges, all the numbers for MBIA for impairment ratios less than one; so if you're looking at that table, it's the 139 million, 176, the 35 and 20. I wouldn't put the 154 in that.

So it's those four numbers are the capital charge numbers but then you have to discount them to the present value. You can see the relationship there and then you can take the tax affect. That would be the non-cash portion. Everything else would be cash.

(Brad Body): Okay. Thank you.

Man: Question please.

Coordinator: Thank you. (Davie Yee), your line's open.

(David Yee): Yes. I just - couple of questions. The first is about the (sell capital). I mean, is your analysis - (David) this is more for you that do you account for the relationship between either XL in the insurance company versus the (SEA) number one. Secondly is the outlook for the monoline business overall, I mean, structure finance is about 30% of their business.

Given the severe dislocation in the structure finance business, what are the overall business outlooks for, you know, the (unintelligible) as whole because literally about 30% of the business either significantly, you know, reduced or, you know, evaporates in some way.

Man: If the, you know, the market will be off in the coming year at least and we're looking at, you know, the companies, all the companies that have volume reductions in the structured finance market.

There are other opportunities for them to write business in the public finance market and in the international market as far as project finance where (XL) has made strong headways in the international market. So there are opportunities out there for them.

It will be, you know, volumes will be off probably for all the insurers and maybe the newer companies or the less mature companies might be impacted more but it's something that we'll look at over time.

This is just a, you know, a point in time and it could be a short-term issue. But like Bob said earlier, right now we're looking at the capital requirements of these companies and do they have the capital resources to withstand this stress.

(David Yee): Turn on the page, just help me understand here, the difference between Table 2 and Table 3 are such that the - Table 2 are the losses at the bond level. Table 3 are the losses at the CDO or the poor bond level. Is that correct?

Man: Table 2 are the losses that we're projecting for the direct deals that the insurers insure meaning it's a pool of mortgages they attach at whatever rating level but their wrap goes to the top of the capital structure. Okay.

Table 3 is...

(David Yee): For that particular tranche, so in other words...

Man: No. It's not a - it's a tranche, but it goes to the top of the capital structure. It's not a tranching transaction.

(David Yee): Say for example for I look at under the sub prime. So in the Table 3, all six vintage double-A is about 62% loss. So flip back to, you know, Table 2, you know, you know, the single-A only had 5% loss. So is the 62% loss on Table 3 for sub prime of six vintage. Is that for 60% of the single-A tranche loss? Is that what you're saying. Take the tranche (unintelligible) into consideration?

Man: Absolutely. And that's the big difference. The tranche thickness is Table 2 is not a thin tranche. It starts at the single-A attachment point in your example and goes to the very top of the capital structure.

(David Yee): So for Table 3 it just ends at the, you know, the attachment point double-A. So its based upon the starting single-A to double-A, right?

Man: Correct.

(David Yee): Okay. Got you.

Man: Please.

(David Yee): Thank you.

Coordinator: (Daryl Cunningham), you line's open.

(Daryl Cunningham): Yes. I had a question on the specifically with FGIC and being on CreditWatch which you said should be resolved in three months. If they don't have a capital plan in place at the end of the three months, would they be downgraded?

Man: They do have a capital plan. But as I said before, execution is not a certain thing. If they don't make meaningful progress toward implementing capital plan, that is a risk.

(Daryl Cunningham): Okay. The other thing I wanted to commend you on providing the detail on your analysis too. That's appreciated.

Man: Thank you very much.

(Daryl Cunningham): Thank you.

Man: Next question.

Coordinator: (Brian Hower), your line's open.

(Brian Hower): Hi. Two quick questions. Did you do any sensitivity analysis for (HPA) assumption say at negative 15 or negative 20 (each trough) and can you comment at all on why there's not a greater difference in the present value of the CDO liabilities given the length of maturity of some of the principal payments on some of these structures?

Man: The first part is we didn't do a separate sensitivity on house price appreciation or depreciation through the HPD. I mean, the structured people look at that stuff but in the end, they gave us one number based upon their expectations.

The second question had to do with, I'm sorry, could you repeat it?

(Brian Hower): Yeah. The principal payments for many of the CDOs are stretch out for, you know, about 30 or 40 years and...

Man: We decided to be conservative and not assume that every payment would not be due for 20, 30 years. We used the more near in number just to be conservative there.

(Brian Hower): Can you quantify that in any fashion?

Man: Approximately ten years.

(Brian Hower): Okay. Thank you.

Man: And we'll take one more question.

Coordinator: Thank you. And our last question comes from (Jeffrey Dunn). Your line's open.

(Jeffrey Dunn): Two questions on your capital cushion calculations. First on (SCA). Did you include the third quarter re-insurance transaction that they did. And then in adjusting the '07 capitalization levels, did you just consider more one of factors or did you do a complete analysis of capital generation from rolloff versus capital usage from growth?

Man: For the (SCA) questions, no we did not. There was no adjustment made for that.

Man: In general we made some adjustments for growth versus planned growth, but we focused more on the specific things like (David) pointed out in MBIA's case, the MBIA dividends were (euro tunnel). We did not do a full top to bottom capital adequacy model rerun for all the companies. We made certain known adjustments.

(Jeffrey Dunn): And just sort of a follow up on the (SCA). From what we've been told publicly it a was pretty substantial capital number. Any reason that was not considered?

Man: There's really no reason. I mean, I can't give you an honest reason why it wasn't. It was just something that never came up in our discussions with the company.

(Jeffrey Dunn): Okay. Thank you.

Man: And with that, we're going to draw this to a close. I thank you very much for your participation. We will be posting a transcript of this teleconference

probably tomorrow on our Website, standardandpoors.com. In addition, there is replay information that's available on the Website and also in the press release that was issued today.

And again, for the documents that we published today, go to www.spviews.com and then go to the rating actions by asset class and select bond insurers from the dropdown menu. That will give you the press release as well as the two commentary pieces that we published today that provide greater insight and context. Thank you very much.

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