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Ambac Financial Group, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from [Arun Umar – J. P. Morgan]

[Arun Umar – J. P. Morgan]

The comments you made earlier regarding liquidity based on a potential rating action, if Moody's does take you down a couple of notches, how do you expect to remediate the situation and cover the shortfall. Have you had any recent dialogue with the Wisconsin Insurance Commission in terms of allocating assets especially in light of the fact that the statutory capital has dropped quite a bit in the third quarter? If you look beyond this year and getting into next year with the fact that if you don't have any dividend capacity, what kind of liquidity position do you expect to have given that you don't have any bank lines currently?

Sean Leonard

In talking about discussions with the Wisconsin Insurance Department, we've had quite active discussions as David pointed out in his remarks, and this goes back quite some time so this is not obviously an issue that's crept upon us. It's been out there and it's an issue that Wisconsin Insurance Department is well briefed on.

Regarding our plans to solve those liquidity issues, are to utilize the resources of the insurance company to meet collateral posting requirements and termination requirements in both GIC and the interest rate swap business. That will be a combination of purchases of assets out of the business. It will be a bit of secured lending to the business which we've done some of already, and it will be some unsecured lending to the business to accomplish the result of either terminating or collateralizing.

Obviously, if we were to be down graded, we'll take an economic view of whether or not to terminate or to collateralize contracts based upon the terms of the liabilities, rates and the like and what type of posting requirements are required under those contracts. For example, long term fixed rate collateralizing with Treasuries would not be in our best interest. Those are the plans to handle that and we've had active discussions and up to date.

Relating to the holding company liquidity, we've provided a pretty good overview in the materials, Page 15 of the material which gives you a sense for where we expect to be at the end of the year relating to our cash balances. We will need to discuss with Wisconsin the plans to take dividends next year but in the case that we were not able to take those, we do have approximately 1.9 coverage over that debt service requirements for 2009.

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