STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

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CIRCUIT COURT
DANE COUNTY, WI

In the Matter of the Rehabilitation of:

Segregated Account of Ambac Assurance Corporation

Case No. 10 CV 1576

FINDINGS OF FACT AND CONCLUSIONS OF LAW REGARDING MOTIONS OF CERTAIN RMBS POLICYHOLDERS AND CERTAIN LVM BONDHOLDERS

Before the Court are two motions, entitled "Emergency Motion to Modify Order for Temporary Injunctive Relief Filed by Certain RMBS Policyholders and Motion Seeking Expedited Relief," filed on April 30, 2010 by a group of owners or managers of funds that own residential mortgage-backed securities ("RMBS") consisting of Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital Master Fund, Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC (collectively, the "RMBS Movants"); and "Emergency Motion to Enjoin Consummation of the Proposed Settlement Between Ambac and Certain CDS Counterparties," filed on May 5, 2010 by a group of owners or managers of funds and accounts that hold Las Vegas Monorail Project Revenue Bonds (the "LVM Bonds") consisting of Eaton Vance Management, Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners L.P. (collectively, the "LVM Movants").

These motions were heard by this Court May 25, 2010. Many submissions have been filed with this Court supporting or opposing these motions. These submissions have been reviewed by the Court. At the May 25, 2010 hearing, all parties were presented the opportunity to be heard on the motions. Upon this record, this Court determines that the submissions of fact and law presented by the Wisconsin Office of the Commissioner of Insurance and Sean Dilweg,

Commissioner of Insurance of the State of Wisconsin as Rehabilitator of the Segregated Account of Ambac Assurance Corporation; by the Bank Insureds of financial guaranty insurance policies issued by the Ambac Assurance Corporation; and Ambac Assurance Corporation, all are adopted and made those of this Court.

For the reasons described herein, both motions are DENIED in their entirety.

FINDINGS OF FACT

BACKGROUND

1. Ambac Assurance Corporation ("Ambac") is a Wisconsin-domiciled insurer authorized to transact surety and financial guaranty insurance. Through 2008, Ambac offered financial guaranty insurance on investment-grade municipal finance and private structured debt obligations, such as municipal bonds and RMBS.

2. Ambac also guaranteed some structured finance debt obligations indirectly, whereby a non-insurance, wholly owned Ambac subsidiary would enter into a credit-default swap ("CDS") with a counterparty that protected the counterparty from defaults of the underlying security issuer, and Ambac would, in turn, guarantee the financial obligations of its subsidiary. Some of the CDS transactions Ambac guaranteed included collateralized debt obligations of asset-backed securities ("ABS CDOs"), which are pools of securities backed by bundles of receivables such as mortgages.

3. Starting in late 2007, Ambac's financial stability began to deteriorate as RMBS and other financial instruments it insured or invested in suffered significant actual and expected future losses. Ambac's actual and expected losses continued to grow in 2008 and 2009, and downgrades in Ambac's credit ratings caused it to cease writing new policies and begin a

functional run-off of its business. In 2009 alone, Ambac made approximately $1.6 billion in gross claims payments, with the vast majority related to RMBS obligations.

4. Throughout the past two-plus years, oversight of Ambac by the Wisconsin Office of the Commissioner of Insurance ("OCI") has been increasingly extensive. As Ambac's condition began to deteriorate in late 2007, OCI increased its regulatory oversight of Ambac's capital position, financial health, and business activities, and that oversight continued to increase as Ambac's financial situation worsened in 2008 and 2009. OCI retained financial advisors and legal counsel with expertise pertaining to the specialized types of policies written by Ambac, the financial guaranty insurance business, restructuring, and Wisconsin insurance law. By 2009, OCI and its advisors were working on Ambac-related matters on essentially a daily basis. Its determinations are grounded in the literally thousands of hours of professional time that its senior staff and outside legal and financial advisors have spent in regard to the complex regulatory and restructuring challenges posed by OCI's statutory mandate to protect policyholders, creditors, and the public in light of Ambac's financial condition.

COMMUTATIONS, ABS CDO EXPOSURES, AND THE BANK SETTLEMENT

5. In 2008 and 2009, Ambac engaged in discussions with various policyholders regarding bilateral restructurings and commutations, several of which resulted in successful commutations that removed troubled policies from Ambac's books for a percentage of their projected ultimate expected losses. Ambac made approximately $1.8 billion in commutation payments in 2008 and another $1.4 billion in commutation payments in 2009, which were vetted and "non-disapproved" by OCI under Wisconsin insurance law. While these "one-off" commutations were alone insufficient to resolve the challenges facing Ambac, they did improve its financial condition.

6. Engaging in such negotiations with all Ambac policyholders and beneficiaries was impractical for a number of reasons. Ambac has almost 15,000 policies across approximately 20 distinct exposure categories. There is no practical way to identify the holders of some types of policies, such as those insuring non-publicly traded securities or those held by intermediate trustees. Further, any non-confidential discussions with policyholders would have greatly enhanced the risk that parties would have exercised certain triggers in their contracts with Ambac, which would have had a disastrous effect on Ambac's financial condition. Therefore, such discussions were generally limited to policyholders or groups of policyholders that were readily identifiable by Ambac, well-organized, and which agreed to conduct all negotiations pursuant to written confidentiality agreements.

7. In the fall of 2009, Ambac became aware that several large financial institutions that are parties to CDS in respect of ABS CDOs were forming a group (the "Bank Group") to negotiate with Ambac regarding a global commutation of those exposures. The Bank Group eventually consisted of 14 financial institutions that, together with their direct affiliates, are among the largest financial institutions in the world. Ambac had previously engaged in negotiations for bilateral "one-off" commutations with some of those institutions, and it renewed those talks with an eye toward global settlement. As the negotiations continued into late 2009 and early 2010, OCI took an active role in overseeing, evaluating, and facilitating discussions between Ambac and the Bank Group.

8. A compromise between Ambac and the Bank Group was and remains important to the financial condition of Ambac and the interests of policyholders. Absent a global commutation with the Bank Group, OCI projects that ABS CDO exposures are likely to experience the greatest losses of all Ambac exposures—materially greater than even the troubled

RMBS book. Various loss exposure estimates available to OCI during the negotiations with the Bank Group all showed dramatic increases in the estimated amounts of economic loss projections. Of further concern, the ABS CDO structures are particularly sensitive to increases in interest rates, such that even a one percent increase in such rates could significantly add to such losses. The existence of contractual triggers allowing policy beneficiaries to terminate the CDS contracts and seek "mark-to-market" damages upon certain Ambac-related conditions or events added uncertainty to the size and timing of such losses.

9. A threshold challenge in negotiations was the uncertainty and disagreement between Ambac and its advisors, on the one hand, and the Bank Group and its advisors, on the other hand, as to the range of projected economic and market value losses for the ABS CDO policies. To resolve that problem, Ambac and the Bank Group sought to identify a highly qualified, independent professional organization with recognized expertise concerning complex ABS CDO transactions to perform a neutral appraisal of Ambac's ABS CDO book of business on a deal-by-deal basis.

10. After vetting the alternatives, Ambac and the Bank Group selected BlackRock Solutions ("BlackRock"). BlackRock was selected because of its expertise in valuing the securities comprising ABS CDOs and its previous experience in performing neutral appraisals in situations where other monoline financial guarantors like Ambac sought to commute their troubled ABS CDO policies. OCI was comfortable with the choice of BlackRock as an independent appraiser.

11. BlackRock finished its appraisal in early 2010. The appraisal analyzed each of the transactions in detail, on a deal-by-deal basis, and made its valuations of the Bank Group's claims under three different scenarios: "base case," "stress case," and "mark-to-market" or

"market value" case. The "base case" valuation relies on certain economic assumptions based on statistics that were prevailing at the time the analysis was performed. The "stress case" valuation is based on the assumption that actual economic conditions would be worse than the industry statistics used in the base case. The "mark-to-market case" determines the value of the Ambac policy based on an estimate of the value of the ABS CDO being analyzed, using a mid-market fair value. A mark-to-market payment would arise if the Bank Group successfully exercised termination rights and received market-value based termination payments. BlackRock discounted the base and stress case scenarios to present value using a discount rate equivalent to the interest rate on the related debt obligation issued by the ABS CDO and specified in the relevant CDS contract.

12. BlackRock's aggregate valuations of the loss estimates for the 17 deals at issue were as follows: base case – $8.668 billion; stress case – $10.361 billion; and market value case – $12.863 billion. Applying a 5.1% discount rate consistent with Ambac's statutory accounting requirements to the base and stress case valuations (rather than the obligation-specific discount rates employed by BlackRock), the base case valuation is $7.684 billion and the stress case valuation is $9.186 billion.

13. Based on their extensive evaluation of CDO ABS exposures over time, OCI and its financial advisors believe that the BlackRock appraisals are fair and reasonable estimates for the purpose of making informed regulatory decisions. These independent BlackRock appraisals were not out of line with the loss expectations OCI developed based upon its own concurrent and ongoing assessment of Ambac's ABS CDO book, though OCI and its financial advisors predict that actual losses are more likely than not to develop above the levels projected by BlackRock

due to the potential for greater than anticipated collateral deterioration and increases in interest rates, among other factors.

14. On March 24, 2010, after months of protracted, arm's-length negotiations between Ambac and the Bank Group (with OCI playing an increasingly active role), Ambac and the Bank Group entered a non-binding statement of intent to commute all Ambac's outstanding CDS in respect of ABS CDOs (the "Bank Group Settlement"). In exchange for commuting $16.5 billion in net par exposure, with an appraised present value of $8.7 to $12.9 billion ($7.7 to $12.9 billion using a 5.1% discount rate), Ambac would transfer to the Bank Group in the aggregate $2.6 billion in cash and $2 billion of newly issued surplus notes of Ambac.

15. Averaging the BlackRock valuations under its base, stress, and mark-to-market case scenarios, the Bank Group Settlement would pay the Bank Group 43.3% of expected losses, with 24.5% in cash and 18.8% in notes (46.4% of expected losses, with 26.2% in cash and 20.2% in notes, using a 5.1% discount rate). Even when removing the mark-to-market valuation from the equation, and averaging only the base and stress case scenarios, the Bank Group Settlement would only pay Bank Group members approximately 50% of their anticipated losses, with 27% to 31% in cash.

16. OCI, Ambac, and all members of the Bank Group also entered into an extensive, heavily negotiated 60-day forbearance agreement to preserve the delicate status quo between completion of the non-binding statement of intent and the projected closing of the Bank Group Settlement. After further negotiations, the parties agreed to a short extension of the agreement to allow the present motions to be heard prior to its lapse. OCI believes that further extensions would be difficult to obtain without protracted negotiations and concessions to the Bank Group, and even then might not be possible.

17. In approving the terms of the proposed Bank Group Settlement, OCI considered such variables as whether the Bank Group would succeed in asserting mark-to-market damages, whether the ABS CDO policies could be viewed as subordinate to other policies under Wisconsin law, and the potential delays and risks in litigation involving those issues. These variables were factored into OCI's assessment that the Bank Group Settlement, which is a compromise of many potential litigation considerations and other factors, is fair and equitable to all policyholders.

18. The proposed Bank Group Settlement benefits all policyholders of Ambac's General Account and the Segregated Account. Settling the growing, volatile ABS CDO exposures at a major discount inures to the benefit of all other policyholders by capping those exposures, eliminating the possibility of costly, slow-moving mark-to-market litigation that would reduce recoveries to policyholders in the Segregated Account, impair Ambac's ability to provide continuing coverage to policyholders in the General Account, and delay the ultimate resolution of Ambac's financial situation.

ESTABLISHMENT OF THE SEGREGATED ACCOUNT

19. While commutations improved Ambac's financial condition, they alone were insufficient to resolve the mounting financial challenges facing the company. As Ambac's claims payments and projected loss impairments mounted and its liquid claims paying resources were eroded, it became increasingly clear to OCI that some type of affirmative regulatory action under Chapter 645 of the Wisconsin Statutes would be necessary to slow the outflow of claims-paying resources and prevent the exercise of insolvency and *ipso facto* "triggers" by certain categories of policyholders. Absent regulatory action, there was a growing risk that Ambac would become insolvent before its in-force policy obligations were satisfied.

20. Ambac's condition earlier this year left OCI with two realistic regulatory choices: (1) place all of Ambac into a Chapter 645 rehabilitation proceeding, or (2) allow Ambac to establish the Segregated Account, allocate certain troubled policies or policies with triggers to the Segregated Account while leaving most policies in Ambac's General Account, and commence rehabilitation of the Segregated Account.

21. The first option—placing all of Ambac into a Chapter 645 rehabilitation proceeding—carried significant and unnecessary risks of harm to policyholders, which OCI and its advisors referred to as "collateral damage." The vast majority of Ambac's policies (more than 14,000 out of nearly 15,000 Ambac policies in force) insured problem-free transactions that were performing, with little or no projected claim impairments. These included the policies insuring notes issued by sizable corporations such as Dunkin' Brands, Inc. (the franchisor of the Dunkin' Donuts and Baskin Robbins chains), Sonic Corporation (the franchisor of Sonic drive-in restaurants), and the Hertz Corporation (the owner of the Hertz rental car and equipment rental businesses), who collectively provide employment for more than 380,000 people worldwide. For these and other commercial asset-backed securities transactions ("Commercial ABS"), the filing of a rehabilitation in respect of Ambac could have given these corporate issuers' lenders the right to withhold financing for the payment on the notes and counterparties the right to accelerate and declare defaults upon certain triggering events could arise due to Ambac's rehabilitation. Any shortfall in the affected corporate issuers' ability to make those accelerated damages payments would fall on Ambac, thus harming policyholders as a whole. Ambac alone could experience an excess of $1 billion as a result of such collateral damage.

22. Other segments of Ambac's business would be similarly affected, including acceleration of the obligations of Ambac affiliates issuing Ambac-guaranteed interest rate and

currency swaps and investment agreements. For example, a general rehabilitation of Ambac would cause the automatic termination of Ambac-insured interest rate swaps issued by an Ambac affiliate to municipalities. Because the swaps were generally entered some years ago when interest rates were higher, many of those municipalities would owe large, lump-sum payments to Ambac's affiliate upon termination, and that affiliate would in turn owe large lump-sum payments to the financial institutions through which it hedged its obligations. A municipality's inability to pay would cause a mismatch with the amount for Ambac's affiliate with the amount paid to the financial institutions with which it hedged these exposures, resulting in additional claims against Ambac and severe financial hardship for the affected municipality.

23. OCI also received comments from certain economic leaders expressing concern of a systemic risk that placing all of Ambac's policies in rehabilitation could result in market disruption such that trading and refinancing of those obligations could be significantly impaired, with unpredictable risks to the broader economy.

24. Finally, a full rehabilitation would have impaired the ability of Ambac subsidiary Everspan Financial Guarantee Corporation ("Everspan"), a Wisconsin-domiciled insurer, to attain credit ratings sufficient to potentially write new, safe public-finance policies, which have historically represented the core of Ambac's insurance business. Due to the vertical relationship between Everspan and Ambac, the benefits of any future business of Everspan would inure to Ambac policyholders as a whole.

25. The second option—establishing and rehabilitating the Segregated Account, while leaving Ambac's General Account outside the rehabilitation proceeding and subject to continued regulatory oversight—addressed Ambac's clear need for rehabilitation of certain troubled segments of its business while eliminating most of the drawbacks of a full rehabilitation.

26. On March 24, 2010, OCI granted its approval to formally establish the Segregated Account, supported by a $2 billion secured note and an excess of loss reinsurance agreement from the General Account. In doing so, it made the following findings:

- The Allocation is fairly balanced by AAC's issuance of the Secured Note and Excess of Loss Reinsurance Agreement to the Segregated Account. By the terms of the Secured Note, the Segregated Account may make demands upon AAC under the note as needed to meet its expenses, including the payment of claims due in respect of policy liabilities and other liabilities allocated to the Segregated Account. Should the Segregated Account exhaust resources available under the terms of the Secured Note, the Excess of Loss Reinsurance agreement will attach to cover the Segregated Account's liability under policyholder claims. AAC is obligated to make all payments under the Secured Note and Excess of Loss Reinsurance Agreement unless such payment would cause AAC's surplus to fall below $100 million, or such higher amount as determined by OCI pursuant to a prescribed statutory accounting practice.

- OCI finds that the creation of the Segregated Account and the Allocation create a fair and appropriate balance between (i) those assets and liabilities allocated to the Segregated Account and (ii) those assets and liabilities remaining within AAC's general account, both at present and according to future projections.

- OCI finds that the creation of the Segregated Account and the Allocation serve the interests of the public and policyholders.

- OCI finds that the creation of the Segregated Account and the Allocation was not done with the intent to hinder, delay, or defraud present or future creditors of AAC, but rather to preserve claims-paying resources for the benefit of all policyholders.

- OCI finds that the creation of the Segregated Account and the Allocation do not constitute fraudulent conveyances within the meaning of Wis. Stat. § 645.52 or the Uniform Fraudulent Transfer Act and its predecessor act, the Uniform Fraudulent Conveyance Act.

OCI's above-quoted findings have strong factual support and are not clearly erroneous or contrary to the weight of the evidence.

27. For several weeks prior to granting its formal approval, OCI worked closed with outside advisors and Ambac to identify those policies with projected impairments and/or triggers that best met OCI's criteria for allocation to the Segregated Account. Ultimately, fewer than 1,000 policies (representing approximately $67 billion in net par outstanding, including more than $20 billion in "assumed" or reinsurance exposures) were allocated to the Segregated Account. The RMBS and LVM Movants, whose policies were among those allocated to the Segregated Account, collectively comprise approximately 2% of the net par outstanding of all policies in the Segregated Account.

28. Policies on RMBS were allocated to the Segregated Account because the actual and projected impairments are substantial and short-term. From 2008 through March 24, 2010, Ambac paid over $2 billion in RMBS policy claims. These substantial claims payments were effectively reducing the cumulative sum of Ambac's claims-paying resources in favor of certain RMBS policyholders with mature claims while leaving insufficient resources to pay in full the many policyholders with longer-tail claims. Absent the claims payment moratorium presently in place with regard to Segregated Account policies, Ambac estimates that it would have paid another $300 million between March 25, 2010 and April 30, 2010.

29. Policies on the bonds relating to the LVM also fit OCI's criteria for allocation to the Segregated Account. LVM is in serious financial distress and filed for Chapter 11 bankruptcy in Nevada in January 2010. The present value of losses associated with LVM exposure could exceed $350 million—one of the highest projected individual deal losses in the Segregated Account.

30. Besides the LVM policies, other policies with public-finance components, such as swap sureties and leveraged lease transactions, were allocated to the Segregated Account. They

include forty-two public-finance policies (with an aggregate net par outstanding of more than $1.1 billion as of December 2009) and more than 150 swap surety policies (with initial notional amounts of more than $10 billion).

31. More than 14,000 policies remain in Ambac's General Account. Those policies were not allocated because (a) they lacked material projected impairments, (b) the collateral damage of a rehabilitation proceeding as to those policies could outweigh the benefits of allocation, and/or (c) the policyholders (namely the Bank Group) were subject to a forbearance agreement. Since the filing of the Verified Petition, Ambac has paid less than $10 million in claims with respect to policies in the General Account.

REHABILITATION PROCEEDINGS AND THE INTERESTS OF POLICYHOLDERS AND THE PUBLIC REGARDING THE BANK GROUP SETTLEMENT AND THE SEGREGATED ACCOUNT

32. On March 24, 2010, after the Segregated Account was established and the statement of intent between Ambac and the Bank Group was reached, OCI petitioned this Court for Rehabilitation of the Segregated Account, which this Court granted. The Court appointed Commissioner of Insurance Sean Dilweg as Rehabilitator of the Segregated Account, with all the powers authorized by Chapter 645 of the Wisconsin Statutes.

33. The proposed Bank Group Settlement has been negotiated and reached by the Bank Group and Ambac, with OCI's oversight and involvement in its capacity as Ambac's insurance regulator. The Bank Group Settlement continues Ambac's business practice over the past two years of commuting troubled policies at steep discounts from exposure estimates, with OCI's regulatory involvement and approval, outside of rehabilitation.

34. In light of independent third-party appraisals and OCI's own assessments, the proposed Bank Group Settlement is a fair and reasonable compromise that will benefit policyholders of both the General and Segregated Accounts by capping potentially massive

future losses for a mix of cash and notes representing a substantial discount under all financial scenarios. The Bank Group Settlement also avoids costly litigation and brings greater certainty and stability to the financial condition of the General and Segregated Accounts.

35. If the Bank Group Settlement is temporarily enjoined, that injunction will likely cause the settlement to fall apart and never close. If the Movants later failed on the merits to obtain a permanent injunction, or were to reconsider their position and cease their pursuit of permanent injunctive relief, the General and Segregated Accounts would incur present value Bank Group claims of $7.7 to $12.9 billion, according to BlackRock's appraisal—losses far in excess of the $4.6 billion capped settlement.

36. The formation of the Segregated Account, the allocation of less than 1,000 of Ambac's almost 15,000 policies thereto, and the commencement of this rehabilitation of the Segregated Account was a fair and reasonable response to Ambac's financial condition. It addresses the serious financial hazards the allocated policies presented to Ambac and all of its policyholders (including those allocated to the Segregated Account), maximizes claims-paying resources, and avoids the unpredictable and potentially substantial collateral damage to Ambac, its policyholders, and the public that would accompany a full rehabilitation of Ambac.

CONCLUSIONS OF LAW

1. This proceeding pertains to the rehabilitation of the Segregated Account of Ambac Assurance Corporation under Wis. Stat. Ch. 645.

2. The Segregated Account was formed in compliance with Wisconsin law. Wis. Stat. § 611.24(2).

3. For the reasons stated in the Affidavit of Roger A. Peterson and in the above findings of fact, OCI acted well within its discretion in approving the establishment of the Segregated Account.

4. The standards for novation, as recognized by the common law of contracts, are inapplicable to the allocation of certain policies to the Segregated Account, which was statutorily authorized under Wisconsin law. The allocation of policies to the Segregated Account was proper and did not effect an improper novation of contract.

5. The establishment of the Segregated Account was constitutional. For the reasons stated in the Findings of Fact and OCI's opposition brief, the allocation of Movants' policies to the Segregated Account did not effectuate a taking of Movants' property. Movants also had no due process right to notice and a hearing prior to OCI's approval of the Segregated Account.

6. The motions of the RMBS Movants and LVM Movants to enjoin the consummation of the settlement between Ambac and the Bank Group are denied.

(a) Preservation of the status quo allows Ambac to continue to operate the General Account business on a day-to-day basis, including the commutation of policies where warranted, subject to OCI's approval.

(b) Movants have failed to satisfy their burden of demonstrating irreparable harm. Their arguments regarding potential adverse consequences of the Bank Group Settlement on them are too speculative to be accorded weight. Moreover, their claims about the Settlement are measurable in money damages and the Bank Group members clearly are collectible as to the amounts at issue.

(c) Movants also have failed to show a likelihood of success on the merits. OCI has broad discretion to approve or disapprove the Bank Group Settlement under its

general regulatory authority over insurers. *See* Wis. Stat. §§ 601.42, 601.43, and 611.01 through 611.78. This Court is required to give deference to OCI's policy choices and regulatory decisions, as long as it acts within its statutory authority. The Peterson Affidavit shows that deference to OCI is warranted here. Movants have identified no facts to suggest that Ambac or OCI should be enjoined from executing, consummating or approving the Bank Group Settlement, in light of OCI's considered judgment that the Bank Group Settlement is in the best interest of all policyholders, including those whose policies have been allocated to the Segregated Account, and OCI's view that the consideration to be paid to the Bank Group, as a percentage of their projected claims, is substantially less generous than the consideration to be paid to policyholders in the Segregated Account under the expected plan of rehabilitation.

(d) Finally, Ambac, the Segregated Account, and policyholders, would be subject to a significant risk of harm if the Bank Group Settlement did not close, and the Bank Group members exercised their contractual *ipso facto* and insolvency triggers. Movants do not address the issue of the bond needed to support an injunction, but OCI believes that a reasonable bond would be in the billions of dollars. This Court need not determine the appropriate amount of a bond here because the other requirements for injunctive relief are not met.

(e) The relief sought by Movants would disserve the public interest.

7. Accordingly, Movants' motions to enjoin the Bank Group Settlement (or OCI's approval of that Settlement) are denied.

8. Movants' request for discovery also is denied. As policyholders, Movants do not have standing as parties to seek discovery in this rehabilitation proceeding. Moreover, even if

Movants were parties and there were a basis for them to seek discovery in this proceeding, documents relating to OCI's regulatory decision-making are statutory privileged under Wisconsin law. *See* Wis. Stat. §§ 601.465(1m)(a), (2m)(a). Finally, the discovery Movants seek would be futile because the scope of the Court's review of agency decision-making is very narrow and OCI, in the Peterson Affidavit, has demonstrated a reasoned basis for its actions to address the grave risks posed by Ambac's declining financial situation. As a matter of law, policyholders such as Movants cannot challenge the wisdom of OCI's decision-making, so long as OCI had a rational basis for its regulatory choices.

9. Because Movants have not satisfied the requirements for intervention under Wisconsin law, their motion to intervene in this proceeding is denied.

WHEREFORE, IT IS HEREBY ORDERED that RMBS Policyhlders' and LVM Bondholders' Emergency Motions for Injunctive and other relief are denied.

Dated this 27th day of May, 2010.

BY THE COURT

Honorable William D. Johnston
Lafayette County Circuit Court Judge
Presiding by Judicial Appointment

CC: Atty S. Morgan
Atty S. Whitmer
Atty K. Wisniewski
Atty J. Schlicht
Atty M. Lynch
Atty M. Van Sicklen
Atty L. Callan
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