

STATE OF WISCONSIN

CIRCUIT COURT

DANE COUNTY

COPY

In the Matter of the Rehabilitation of:

2010 JUN 22 PM 2:08

Case No. 10 CV 1576

SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

AFFIDAVIT OF THEA WATKINS IN SUPPORT OF LLOYDS TSB BANK PLC
MOTION TO MODIFY TEMPORARY INJUNCTION AND TO INTERVENE

State of New York)
) ss
County of New York)

Thea Watkins, being first duly sworn, on oath, deposes and states as follows in this Affidavit:

1. I am over 21 and am competent to testify. If called, I would testify consistently with this Affidavit. All testimony is based on my own personal knowledge, unless otherwise noted.

2. I am a Senior Vice President at Lloyds TSB Bank plc ("Lloyds Bank"). Lloyds Bank acts as "Liquidity Provider" as defined in and as within the contemplation of that Second Supplemental Indenture, dated as of August 1, 2006, which supplements that certain Trust Indenture, dated August 1, 2005 (as so supplemented, the "Indenture") between the JP Morgan Chase Bank, N.A. (the "Trustee" and/or "Tender Agent") and Access to Loans for Learning Student Loan Corporation ("ALL Student Loan"). Note that in 2006, Lloyds was advised that The Bank of New York Mellon Trust Company, N.A. had acquired JP Morgan Chase Bank, N.A.'s Corporate Trust business and as a result is currently acting as successor Trustee and Tender Agent. Subsequent references to the Trustee and/or Tender Agent are deemed to refer to Bank of New York Mellon Trust Company, N.A.

3. Pursuant to the Indenture, certain Senior Series V Bonds, V-A-3 through V-A-5, (the "Senior Series V Bonds"), were issued and are outstanding, the proceeds of which were used for financing of a Student Loan program that is administered by ALL Student Loan. When funds became insufficient to purchase the Senior Series V Bonds which were tendered by bondholders, Lloyds Bank, in its capacity as Liquidity Provider purchased such Senior Series V Bonds pursuant to its obligations under the Standby Bond Purchase Agreement dated August 1, 2006, among ALL Student Loan, the Trustee and Tender Agent and Lloyds Bank, and became owner of all of those Senior Series V Bonds.

4. I make this Affidavit in support of ALL Student Loan and Lloyds Bank's June 21, 2010 Motion to Modify Injunction and to Intervene.

5. At the time Senior Series V Bonds, V-A-3 through V-A-5, were issued, Ambac Assurance Corporation ("Ambac") issued a Financial Guaranty Insurance Policy (the "Policy"), which insured payment of the principal and interest to the Trustee, for the benefit of the "Holders," of the "Obligations," i.e. the Senior Series V Bonds. As the owner of all of the Senior Series V-A-3 through V-A-5 Bonds, Lloyds Bank is the sole "Holder" under and within the contemplation of the Policy.

6. At the time they were issued, Standard & Poor's and Moody's assigned the Senior Series V Bonds their highest ratings of "AAA," and "Aaa", respectively, because they were insured by Ambac.

7. Lloyds Bank fully expected that, under the Policy, Ambac would make payments on the Policy when and if a claim became due, because Ambac had agreed to make such payments when Ambac issued the Policy for a substantial premium amount.

8. From my limited review of the court filings in this matter, it is my understanding that, on March 21, 2010, Ambac's board of directors, with the approval of the Commissioner of Insurance for the State of Wisconsin, voted to (1) establish the Segregated Account that is the subject of this proceeding, and (2) take the Policy out of Ambac's General Account and transfer it to the Segregated Account, along with other liabilities.

9. Ambac did not provide Lloyds Bank with any consideration in exchange for the transfer of the Policy to the Segregated Account.

10. Ambac did not provide Lloyds Bank with any prior notice of the transfer into the Segregated Account.

11. Lloyds Bank did not consent to the Policy being placed in the Segregated Account.

12. Lloyds Bank has not made a claim under the Policy to Ambac, ALL Student Loan, or the Trustee.


13. I have been involved with several discussions during the past several months with Ambac representatives about the possible restructuring of the transaction, which is supported by the Policy. At no time during those discussions prior to the Rehabilitation Order becoming public did Ambac indicate that the Policy might be transferred to a new "account," that those, such as Lloyds Bank, with a beneficial interest in the Policy, would be treated differently from those with interests under other Ambac insurance policies, or that Ambac might unilaterally reduce the assets available to comply with its obligations under the Policy relative to beneficiaries of other Ambac policies.

14. At the time that Lloyds Bank agreed to enter and make the commitments under the Liquidity Facility, it understood the risk, as stated in the Offering Memorandum, that "[t]here can be no assurance that the Insurer [Ambac] will have sufficient revenues to enable it to make timely payments under the Insurance Policy." Lloyds Bank accepted that risk based in significant

part on performing a "due diligence" review of Ambac, a review that included an analysis of the assets available to Ambac to assure full payment under the Policy. Had Lloyds Bank known that Ambac might, without its consent, be able to reduce the assets available to it to meet Ambac's Policy obligations relative to other policyholders and policy beneficiaries, Lloyds Bank may not have agreed to enter the Liquidity Facility under the terms of the Facility.

15. Although the Plan of Operation for the Segregated Account attached as Tab 1 to Petition for Rehabilitation asserts at page 4 that "there is an adequate amount of capital and surplus in the Segregated Account pursuant to Wis. Stat. § 611.24(3)(a)," that same Plan of Operation (at p 3-4) further provides that the Segregated Account is only capitalized with a non-marketable \$2 billion dollar note with questionable value issued by Ambac and non-marketable interests in certain affiliated limited liability companies. The Segregated Account would appear to have no cash or marketable securities or other liquid assets.

16. The collateral pledged to the Senior Series V Bonds is extremely strong, as the student loans are guaranteed by the California Student Aid Commission and United Student Aid Funds, Inc., among others, and reinsured by the Department of Education, for at least 97% of any defaulted principal and interest accrued. Thus, the Policy in question is wholly distinguishable from what Ambac and the Commissioner refer to as the "toxic" bonds in the Segregated Account.



Thea Watkins

Subscribed and sworn to before me this 22nd day of June, 2010

[Seal]



Notary Public

THOMAS ASCOLELLI
Notary Public, State of New York
Typed Name of Notary: Thomas Ascolelli *New York*
Qualified in: Richmond County
Commission Expires: May 17, 2014

Notary Public
My Commission Expires: