
In the Matter of the Rehabilitation of:

Segregated Account of
Ambac Assurance Corporation

Case No. 10 CV 1576

**RMBS POLICYHOLDERS' FACTUAL QUESTIONS
TO BE ADDRESSED BY WITNESSES CALLED BY THE REHABILITATOR**

Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital, L.P., King Street Capital Master Fund, Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC (collectively, the "RMBS Policyholders"), in their capacity as owners of or managers of funds that own residential mortgage-backed securities, by their attorneys, submit the following list of factual questions that the RMBS Policyholders wish to bring to the Rehabilitator's attention in advance of the hearing beginning on November 15, 2010. The RMBS Policyholders reserve the right to ask any questions at the hearing, but the following are the questions they wish to bring to the Rehabilitator's attention at this time.

In addition to any question that could be introduced in connection with the topics and issues raised by the RMBS Policyholders in their Objections to Rehabilitator's Motion for Confirmation of Plan of Rehabilitation filed November 8, 2010, those topics and issues which the RMBS Policyholders herein incorporate by reference as if fully set forth in question form, the RMBS Policyholders add the following:¹

¹ For purposes of these questions, "OCI" shall refer collectively to the Wisconsin Office of the Commissioner of Insurance and to the Rehabilitator of the Segregated Account; "AAC" refers to Ambac Assurance Corporation; and "AFG" refers to Ambac Financial Group, Inc.

1. What analysis did OCI, AAC, or their respective financial consultants perform regarding loss expectation, including the calculation and timing thereof, for the financial guaranty insurance policies and surety bonds allocated to the Segregated Account, and what did that analysis show?
2. What analysis did OCI, AAC, or their respective financial consultants perform regarding the value or anticipated value, including the calculation and timing thereof, of the current or future remediation claims, defenses, offsets and/or credits with respect to the policies allocated to the Segregated Account, and what did that analysis show?
3. What cash proceeds do OCI and AAC estimate will be received through remediation efforts?
4. What provision, if any, does the Plan provide to ensure that cash proceeds from remediation efforts are in fact paid to policyholders in the Segregated Account?
5. What are the estimated liabilities, including the calculation and timing thereof, assumed by AAC as reinsurer under the Reinsurance Agreement?
6. What were the expected estimated losses and loss reserves for all exposures allocated to the Segregated Account when the Segregated Account was created, and how have those expected estimated losses and loss reserves changed since the creation of the Segregated Account?
7. How are the CDS Bank notes expected to operate, including but not limited to any expected or estimated payments, redemptions, and details of AAC's call options?
8. Are there any potential circumstances under which part or all of the CDS Settlement Agreement could be undone or unwound, and what would the resulting impact on the General Account, the Segregated Account and the Plan of Rehabilitation be?

9. How will the anticipated AFG bankruptcy affect AAC, the Segregated Account and the Plan of Rehabilitation?
10. What claims does OCI anticipate are likely to be filed by AFG against AAC's General Account or Segregated Account in the event of an AFG bankruptcy?
11. What actions has OCI taken or what analysis has OCI done that ensures the Plan meets the legal requirements that policyholders receive at least a liquidation value for their claims, and where are those actions summarized or where is that analysis contained in the Plan and its accompanying documents?
12. Why were the liabilities transferred to the Segregated Account but not their accompanying assets, and what was the legal basis for doing so?
13. What is OCI/AAC's plan for Everspan in connection with the rehabilitation of the Segregated Account? How will that plan be carried out?
14. In the view of OCI, was AAC insolvent at any time prior to the formation of the Segregated Account?
15. In the view of AAC, was AAC insolvent at any time prior to the formation of the Segregated Account?
16. In the view of OCI, is AAC currently insolvent?
17. In the view of AAC, is AAC currently insolvent?
18. Is the Segregated Account able to pay policyholders' claims in full?
19. Under how many of the projected scenarios in Exhibits D, E, F, and G to the Disclosure Statement are policyholders projected to recover 100% of the value of their claims?
20. Have OCI, AAC, or their respective financial consultants determined the likelihood of the scenarios reflected in Exhibits D, E, F, and G to the Disclosure Statement? Does OCI or AAC

consider any of the scenarios reflected in Exhibits D, E, F, and G to the Disclosure Statement as the Best Estimate of the outcome under the Plan?

21. Under each of the projected scenarios in Exhibits D, E, F, and G to the Disclosure Statement, what are the amounts and timing of estimated payments?

22. Has OCI or AAC prepared a pay-out schedule for the Surplus Notes that will be issued by the Segregated Account?

23. If there is cash available in the General Account over and above the statutory minimum surplus, is it AAC's and OCI's intention to pay the principal and interest on the Surplus Notes issued by the Segregated Account?

24. What protections exist in the proposed Plan to ensure that the principal and interest on the Surplus Notes issued by the Segregated Account will be paid so long as cash is available in the General Account over and above the statutory minimum surplus?

25. Did OCI or its financial consultants calculate the liquidation value of AAC as of the date of the creation of the Segregated Account, or as of any other date? If yes, what is the liquidation value that was calculated?

26. Did AAC or its financial consultants calculate the liquidation value of AAC as of the date of the creation of the Segregated Account, or as of any other date? If yes, what is the liquidation value that was calculated?

27. What protections exist in the proposed Plan to ensure that Surplus Notes issued by the Segregated Account will be treated *pari passu* with Surplus Notes issued by the General Account, including the CDS Bank Notes, in the event that the General Account is placed into rehabilitation or liquidation?

28. Pursuant to the terms of the proposed Plan, how will claims by the Segregated Account be treated by the General Account in the event that the General Account is placed into rehabilitation or liquidation in the future? That is, how will claims made pursuant to the Secured Note, the Aggregate Excess of Loss Reinsurance Agreement, and Surplus Notes issued by the Segregated Account be treated vis-à-vis General Account policyholder claims, General Account Surplus Notes claims, and General Account general creditor claims in a rehabilitation or liquidation of the General Account?

29. How will Segregated Account policyholders' claims be treated in the following scenarios: (1) AAC's surplus falls below \$100 million but AAC as a whole is not put into rehabilitation or liquidation; and (2) AAC's surplus falls below \$100 million and AAC as a whole is put into rehabilitation or liquidation?

30. How does the Plan provide for claims arising after June 1, 2020?

31. What protections exist in the proposed Plan or otherwise to ensure that no value, including dividends or use of AAC's net operating losses ("NOLs"), will be upstreamed from AAC to its parent, AFG, prior to the time when all policyholders in the Segregated Account have been paid in full on Permitted Claims, including principal and interest on Surplus Notes issued by the Segregated Account?

32. What protections exist in the proposed Plan or otherwise to protect the value of AAC's NOLs in the event that AFG files for bankruptcy protection?

33. Under what circumstances would OCI permit AAC to remit dividends to AFG while policyholders in the Segregated Account are not being paid in full?

34. How do AAC and OCI intend to use the discretion they are granted under the terms of the Plan? Please identify any standards, practices, or guidelines to be adopted in discharging Plan implementation and claim adjudication responsibilities.
35. What measures, whether contained in the Plan or elsewhere, has OCI put in place to ensure uniform and consistent treatment of policyholders regarding, but not limited to, payments on the Segregated Account notes, General Account notes and CDS Bank notes, and evaluation of pending claims, regardless of when these issues arise?
36. How have AAC's practices, standards, and personnel changed since the initiation of rehabilitation proceedings?
37. Has OCI conferred with the incoming Governor's team regarding these rehabilitation proceedings?
38. What consideration has the Segregated Account received in exchange for the transfer to the General Account of remediation recoveries, reimbursements, and insurance premiums associated with policies allocated to the Segregated Account?
39. What terms in various AAC policies/agreements prevent OCI from agreeing, as part of the Plan, not to allow AAC to issue dividends to AFG while policyholders in the Segregated Account are impaired?
40. Did AAC and/or OCI consider including a Segregated Account policyholder representative on the Board of Directors of AAC?

41. What communications has OCI had with other state insurance regulators regarding (a) the formation of the Segregated Account; and (b) the proposed Plan?

Dated this 8th day of November, 2010.

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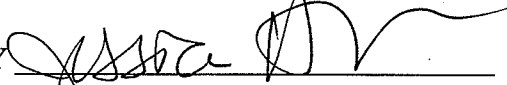
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