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**Research Update:**

# Syncora Guarantee Inc. Ratings Lowered To 'CC' From 'B'; Outlook Negative

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## Table Of Contents

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Rationale

Outlook

Ratings List

## Research Update:

# Syncora Guarantee Inc. Ratings Lowered To 'CC' From 'B'; Outlook Negative

## Rationale

On Jan. 29, 2008, Standard & Poor's Ratings Services lowered its issuer credit and financial strength ratings on Syncora Guarantee Inc. (Syncora) to 'CC' from 'B'. At the same time, Standard & Poor's removed these ratings from CreditWatch, where they were placed on Nov. 18, 2008, with developing implications. The outlook is negative.

The downgrade is the result of Standard & Poor's recent update to its distressed exchange criteria. This update includes the commutation of credit default swaps by bond insurers. Once a distressed offer or commutation is announced or otherwise anticipated, we lower the issuer credit and financial strength ratings to reflect the risk of nonpayment under a financial guarantee policy. We generally lower the ratings to 'CC' and assign a negative outlook, reflecting the possible 'SD' issuer credit rating upon completion of the commutation.

Syncora has announced that it has entered into an agreement with 17 bank counterparties to commute, terminate, amend, or restructure existing CDS and financial guarantee contracts. Standard & Poor's has taken into consideration the company's lack of meaningful advancement on the restructuring and slow progress in its negotiations with counterparties of its CDO of ABS exposure.

For the quarter ended Sept. 30, 2008, the New York Insurance Department (NYID) granted Syncora permission to release statutory basis contingency reserves on terminated policies and on policies on which the company had established case reserves. As a result, the company reported policyholders' surplus of \$83.3 million as of Sept. 30, 2008. Absent the release of contingency reserves, Syncora would have reported policyholders' surplus of \$19.1 million, well below the \$65 million minimum.

If Syncora experiences further adverse loss development on its CDO of ABS or on its 2005-2007 vintage RMBS exposure, the company could fall below the NYID minimum surplus requirement. It is unclear if the NYID would grant an additional release of contingency reserves to bolster surplus.

## Outlook

The outlook is negative, reflecting the possible 'SD' issuer credit rating following the commutation and the lack of progress management has made on its commutation strategy. If management is not successful in its negotiations to develop strategic alternatives for problematic credits in its insured portfolio, we believe the financial position of the company would be impaired to a point that could lead to regulatory intervention. If management is successful in its commutation negotiations, we would lower the rating to 'SD'. After the commutation is complete, we could raise the rating if management presents a reasonably viable strategy to strengthen the company's financial

positions and protect policyholders.

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Syncora Guarantee Inc.		
Syncora Guarantee U.K. Ltd.		
Counterparty Credit Rating		
Local Currency	CC/Negative/--	B/Watch Dev/--
Financial Enhancement Rating		
Local Currency	CC	B/Watch Dev/--
Financial Strength Rating		
Local Currency	CC/Negative/--	B/Watch Dev/--

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