

**CONFIDENTIAL  
FOR DISCUSSION PURPOSES ONLY**

**TERM SHEET - MTA II THIRD WAIVER AND AMENDMENT**

The following Term Sheet provides a high-level summary of the proposed Third Waiver and Amendment (the “**Waiver**”) to the Master Transaction Agreement among Syncora Holdings Ltd., Syncora Guarantee Inc. (“**SGI**”), Syncora Capital Assurance Inc. (“**SCAI**”), certain Portfolio Trusts that are Affiliates of Syncora Guarantee Inc., and the Counterparties to Credit Default Swap Agreements with Syncora Guarantee Inc. and Affiliates of Syncora Guarantee Inc., dated as of April 26, 2009 (as amended, modified or supplemented, “**MTA II**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in MTA II. This Term Sheet is purely for information purposes, as the operative language is contained in the Waiver. In the event of an inconsistency between this Term Sheet and the Waiver, the Waiver shall govern.

“**Separate Voting**” means (i) with respect to matters pertaining only to SGI (former 5.14 matters), an “**SGI Only Vote**”, being approval by holders of a majority in principal amount of the SGI Long Term Surplus Notes and Short Term Surplus Notes, (ii) with respect to matters pertaining only to SCAI (former 5.13(g) matters), an “**SCAI Only Vote**”, being approval by the holders of more than 50% of the outstanding notional amount of the Assigned Swaps and greater than 50% in aggregate number of the holders of outstanding Assigned Swaps, and (iii) with respect to matters pertaining to both SGI and SCAI, an SGI Only Vote and an SCAI Only Vote.

<b>MTA II RESTRICTION</b>	<b>ENTITIES BOUND</b>	<b>PROPOSED CHANGE</b>	<b>BENEFITS/REASONING</b>
<u>PROVISIONS WITH NO PROPOSED CHANGES</u>			
Requirement to Deliver Financial Reporting Package (§5.13(c))	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	No change	N/A
No Investments other than: <ul style="list-style-type: none"> <li>• Investment Policy</li> <li>• Remediation Efforts with respect to itself</li> </ul> (§5.13(g)(B))	<ul style="list-style-type: none"> <li>• SCAI</li> </ul>	No change	N/A
Amendment, waiver or termination of Insurance Novation Agreement and Public Finance Reinsurance Agreement (§5.13(i))	<ul style="list-style-type: none"> <li>• SHL</li> <li>• SGI</li> <li>• SCAI</li> </ul>	No change	N/A

MTA II RESTRICTION	ENTITIES BOUND	PROPOSED CHANGE	BENEFITS/REASONING
Disposition of equity interests of SCAI (§5.14(e))	<ul style="list-style-type: none"> <li>• SGI</li> </ul>	No change	N/A
<u>PROVISIONS REVISED FOR SEPARATE VOTING ONLY</u>			
Writing of New Business (§5.13(a))	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	Separate Voting	<p>Improved allocation of consent rights between constituents</p> <p>Improve Insurers' Claims-Paying Ability</p>
Amendments to the Tax Sharing Agreement/Entry into of New Tax Sharing Agreement (§5.13(e))	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> <li>• Affiliates</li> </ul>	Separate Voting, provided, that SCAI Only Vote solely where proposed amendment or new agreement would adversely impact SCAI	<p>Improved allocation of consent rights between constituents</p> <p>NOL Protection</p> <p>Holding Company Value Generation</p>

MTA II RESTRICTION	ENTITIES BOUND	PROPOSED CHANGE	BENEFITS/REASONING
<p>Merger or consolidation or sale, assignment, transfer or disposition (including by way of reinsurance, recapture or otherwise) all or any material portion of its assets, other than:</p> <ul style="list-style-type: none"> <li>• Remediation Efforts with respect to itself</li> <li>• Disposition of investments in accordance with Investment Policy</li> <li>• As required by MTA II, the Ancillary Agreements or the Tax Sharing Agreement</li> <li>• Capital support of SGI UK (SGI only)</li> </ul> <p>(§5.13(g)(A) and 5.14(c))</p>	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	<p>Separate Voting</p>	<p>Improved allocation of consent rights between constituents</p> <p>Increase Operational Flexibility</p>
<p>Incurrence of material voluntary obligation other than:</p> <ul style="list-style-type: none"> <li>• Remediation Efforts with respect to itself</li> <li>• Ordinary Course of Business consistent with obligations under MTA II</li> </ul> <p>(§5.13(g)(E) and 5.14(h))</p>	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	<p>Separate Voting</p>	<p>Improved allocation of consent rights between constituents</p> <p>Improve Insurers' Claims-Paying Ability</p> <p>Increase Operational Flexibility</p>

<b>MTA II RESTRICTION</b>	<b>ENTITIES BOUND</b>	<b>PROPOSED CHANGE</b>	<b>BENEFITS/REASONING</b>
Payment of management fees or reimbursement of expenses of Affiliates other than pursuant to Ancillary Agreements <sup>1</sup> or the Intercompany Service Agreements (§5.13(h))	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	Separate Voting	<p>Improved allocation of consent rights between constituents</p> <p>Increase Operational Flexibility</p>
Dividends, repurchase, redemption, exchange or conversion of equity securities (or those of its direct or indirect parent) (§5.14(f))	SGI	SGI Only Vote	<p>Improved allocation of consent rights between constituents</p> <p>Holding Company Value Creation</p> <p>Increase Operational Flexibility</p>

<sup>1</sup> Defined in MTA II as “P&I CDSs, the P&I CDS Policies, the Insurance Novation Agreement, the Insurance Novation Consents, the Commutation Agreement, the Post-Closing Commutation Agreements, the Public Finance Reinsurance Agreement, the SGI Surplus Notes, the DropDownCo Surplus Notes, the Swap Assignment Agreement, the RMBS Transaction Agreement, the Ceded Reinsurance Novation Agreements, the New DB Swaps and Policies, the Intercompany Service Agreements and all other documents, instruments and other materials executed in connection with this Agreement”.

MTA II RESTRICTION	ENTITIES BOUND	PROPOSED CHANGE	BENEFITS/REASONING
<u>PROVISIONS REVISED TO SEPARATE VOTING AND EFFECT ADDITIONAL AMENDMENT</u>			
<p>Liens on Assets other than Permitted Liens (which includes, Liens permitted by Sections 5.13 and 5.14, and in connection with Remediation Efforts, where the collateral granted is not disproportionate to the obligations and the collateral granted by SCAI doesn't exceed \$100 million in the aggregate and those incurred in connection with SGI and SCAI's liquidity management programs and hedging under their derivative use programs, the collateral for which does not exceed \$150 million in the aggregate at any one time) (\$5.13(g)(A) and 5.14(c))</p>	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	<p>Separate Voting</p> <p>Modify definition of Permitted Liens to allow for liens securing permitted Indebtedness (see below)</p>	<p>Improved allocation of consent rights between constituents</p> <p>Increase Operational Flexibility</p>

MTA II RESTRICTION	ENTITIES BOUND	PROPOSED CHANGE	BENEFITS/REASONING
<p>Affiliate Transactions by SCAI</p> <ul style="list-style-type: none"> <li>a. No Prepayment of SCAI Surplus Notes</li> <li>b. No Dividends or Distributions from SCAI to SGI or Affiliates, unless after giving effect SCAI would have surplus and other claims paying resources of A Capital plus \$50 million</li> <li>c. No Transactions between SCAI, SGI or Affiliates</li> <li>d. No issuance of securities by SCAI to SGI or Affiliates</li> <li>e. No loans to or investments by SCAI in SGI or Affiliates</li> <li>f. No transfer, assignment or disposition of assets by SCAI to SGI or Affiliates</li> </ul> <p>(§5.13(g)(D))</p>	<p>SCAI</p>	<p>SCAI Only Vote</p> <p>Waive clause (d) to allow SGI and SCAI to enter into Conditional Surplus Note Purchase Agreement in accordance with the terms set forth on <u>Exhibit A</u> hereto</p>	<p>Improved allocation of consent rights between constituents</p> <p>Increase Operational Flexibility</p>
<p>Incurrence of Indebtedness (§5.13(g)(E) and 5.14(h))</p>	<ul style="list-style-type: none"> <li>• SGI</li> <li>• SCAI</li> </ul>	<p>Separate Voting</p> <p>Modify to allow SGI to incur indebtedness up to a maximum of \$250 million without consent for purposes of liquidity management</p>	<p>Improved allocation of consent rights between constituents</p> <p>Improve Insurers' Claims-Paying Ability</p> <p>Increase Operational Flexibility</p>

<b>MTA II RESTRICTION</b>	<b>ENTITIES BOUND</b>	<b>PROPOSED CHANGE</b>	<b>BENEFITS/REASONING</b>
Distribution or payment to the holders of SGI Surplus Notes (in their capacity as such) unless to all on a pro rata basis and on the same terms (§5.14(a) and (b))	SGI	SGI Only Vote Modify to (i) allow Syncora entities to negotiate and purchase Surplus Notes from time to time from any holders thereof at less than par and (ii) allow for the reissuance or sale of any Surplus Notes acquired	Improved allocation of consent rights between constituents  Increase Operational Flexibility
Issuance of surplus notes or similar securities that are preferred to common or preferred but junior to indebtedness or policy obligations (§5.14(g))	SGI	SGI Only Vote Modify to allow for the issuance of surplus notes junior to the existing SGI Surplus Notes	Improved allocation of consent rights between constituents  Improve Insurers' Claims-Paying Ability  Increase Operational Flexibility
<b><u>PROVISIONS DELETED</u></b>			
Issuance of New Equity Securities (§5.13(b))	<ul style="list-style-type: none"> <li>• SHL</li> <li>• SGI</li> <li>• SCAI</li> </ul>	Delete restriction	Improve Insurers' Claims-Paying Ability
Assignment, sale, transfer, encumbrance of rights under the SCAI Surplus Notes (§5.14(d))	SGI	Delete restriction	Improve Insurers' Claims-Paying Ability  Increase Operational Flexibility
<b><u>OTHER MODIFICATIONS</u></b>			
Amendment of SCAI Surplus Notes (§5.13(g)(C))	SCAI	Revise consent threshold from 75% to 50% in Vote and Value of Noteholders and Swapholders	Increase Operational Flexibility

This Term Sheet (i) assumes the receipt of all required consents from third parties and the NYDFS, (ii) is non-binding, subject to change, and does not purport to describe all of the terms and conditions of the transactions, and (iii) is not intended to express the agreement of the Parties and is not intended to be binding on the Parties now or at any point in the future. This Term Sheet does not contain an exhaustive summary of the provisions that will be contained in the definitive documentation and is intended to be used solely as a negotiation aid by the Parties.

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