

July 15, 2010

BY HAND

Honorable William D. Johnston
Lafayette County Circuit Court
Lafayette County Courthouse
626 Main Street
PO Box 40
Darlington, WI 53530-0040

Re: *In the Matter of the Rehabilitation of Segregated
Account of Ambac Assurance Corporation,
Case No. 10CV1576 (Dane County Circuit Court)*

**Motion of LVM Bondholders and Wells Fargo:
Proposed Order**

Dear Judge Johnston:

As your Honor requested at Friday's hearing, we are hereby submitting a proposed form of Order granting (a) the motion of the LVM Bondholders challenging the allocation of the LVM Bond Policy to the Segregated Account, and (b) the related motion of Wells Fargo, as indenture trustee to the LVM Bondholders, as modified by Wells Fargo's joinder and partial withdrawal filed on June 21, 2010.

In addition, in the event your Honor denies these two motions, we are submitting certain limited comments to the proposed order denying these motions filed on July 8, 2010 by the Wisconsin Insurance Commissioner (the "OCI Proposed Order"). We have enclosed clean and blacklined copies incorporating our comments to that proposed order. Our comments address three issues.

First, the OCI Proposed Order contains certain factual inaccuracies concerning the motion papers filed by the parties. Our markup corrects these inaccuracies.

Second, the OCI Proposed Order requests that your Honor "reaffirm" certain findings of facts made in the May 27 Order. We respectfully submit that, because neither the Wisconsin Insurance Commissioner (the "OCI") nor Ambac Assurance Corporation ("Ambac") has submitted any evidence in connection with the present motions, no basis exists for the Court to "reaffirm" any of its prior findings of fact.

KRAMER LEVIN NAFTALIS & FRANKEL LLP

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Third, the OCI Proposed Order requests that your Honor "reaffirm" certain conclusions of law from the May 27 Order. Such a "reaffirmation" is unwarranted because the issues on which the Court ruled in its May 27 Order are not before the Court in connection with the present motions.

We provided copies of the enclosed documents to counsel for OCI and Ambac yesterday evening. However, no consensus was reached between OCI and Ambac on the one hand, and the LVM Bondholders and Wells Fargo on the other, regarding the proper contents of the order.

We are available at the Court's convenience should your Honor have any questions. Because I am out of the office this week, I would ask that any communications be directed to my partner Amy Caton.

Respectfully submitted,

Handwritten signature of Philip Bentley in cursive script, with the initials "me" written at the end.

Philip Bentley

cc: attached service list
(via email and first-class mail)

Service List

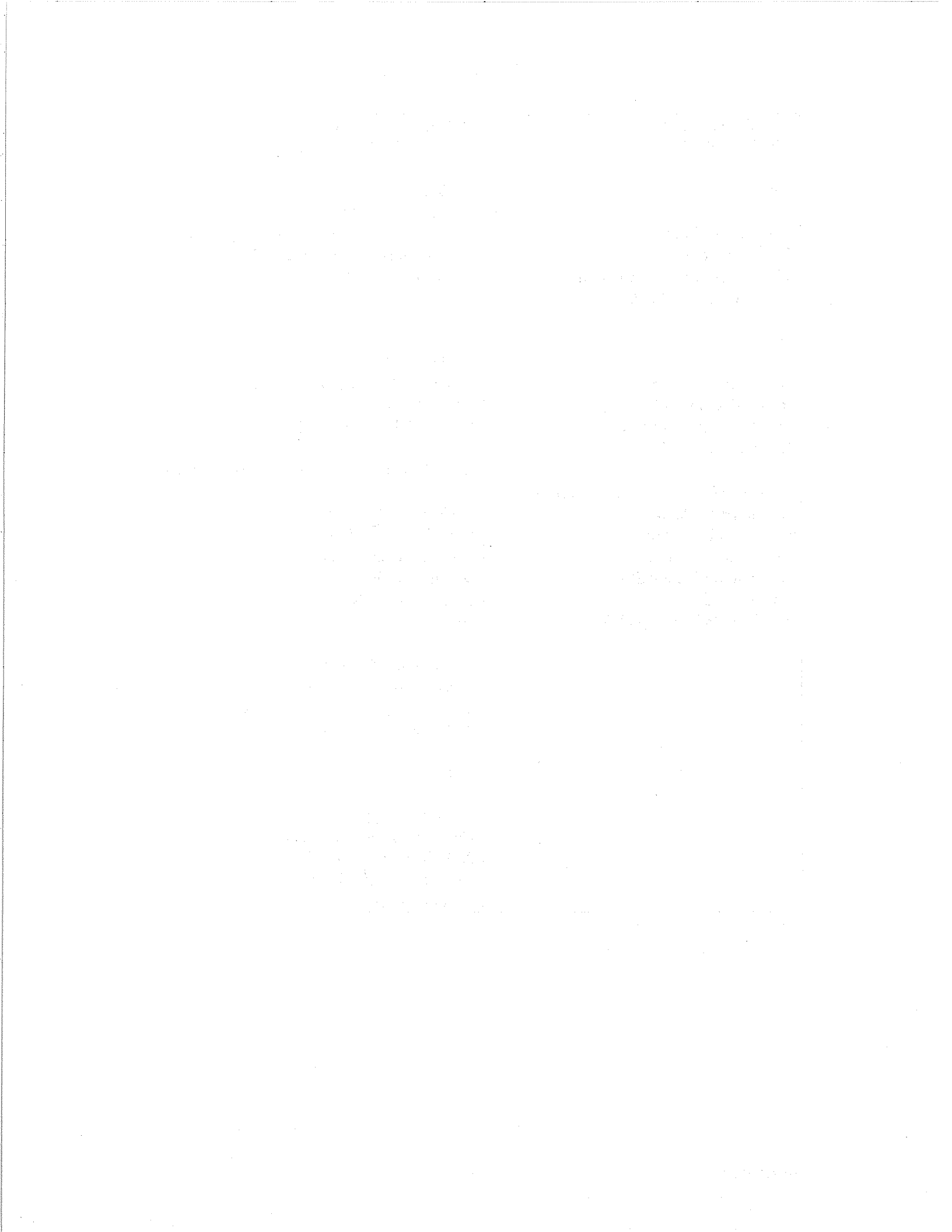
<p>Ambac Assurance Corporation c/o Daniel W. Stolper Stafford Rosenbaum LLP 222 W. Washington Ave., Ste 900 P.O. Box 1784 Madison, WI 53701-1784</p> <p>and</p> <p>c/o William G. Primps Dewey & Leboeuf LLP 1301 Avenue of the Americas New York, NY 10019</p> <p>Wells Fargo Bank, as Trustee of bondholders c/o Steven T. Whitmer Lock Lord Bissell & Liddell LLP 111 South Wacker Drive Chicago, IL 60606</p> <p>and</p> <p>c/o Stephen L. Morgan Murphy Desmond S.C. 33 East Main Street, Suite 500 Madison, WI 53703</p> <p>Bank of New York Mellon c/o Laura E. Callan Solheim Billing & Grimmer, S.C. U.S. Bank Plaza 1 South Pickney Street, Suite 301 P.O. Box 1644 Madison, WI 53701-1644</p> <p>and</p> <p>c/o Dale C. Christensen, Jr. Seward & Kissel LLP One Battery Park Plaza New York, NY 10004</p>	<p>Sean Dilweg, Commissioner of Insurance of the State of Wisconsin Michael B. Van Sicklen Foley & Lardner LLP 150 East Gilman Street Madison, WI 53701</p> <p>and</p> <p>c/o Kevin G. Fitzgerald Foley & Lardner LLP 777 East Wisconsin Avenue Milwaukee, WI 53202</p> <p>RMBS Policyholders John B. Simon Jenner & Block LLP 335 N. Clark Street Chicago, IL 60654</p> <p>and</p> <p>Patrick Trostle Jenner & Block LLP 919 Third Avenue, 37th Floor New York, New York 10022</p> <p>and</p> <p>c/o Bryan K. Nowicki Reinhart Boerner Van Deuren s.c. 22 East Mifflin Street, Suite 600 Madison, WI 53703</p> <p>US Bank National Association AND Deutsche Bank National Trust Company, solely in its capacity as Trustee AND Deutsche Bank Trust Company Americas, solely in its capacity as Trustee c/o Paul E. Benson Michael Best & Friedrich LLP 100 East Wisconsin Avenue, Suite 3300 Milwaukee, WI 53202</p>
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Service List

<p><i>Wells Fargo Bank, as Trustees of RMBS certificate holders</i> c/o Jane C. Schlicht Cook & Frank, S.C. 600 East Mason Street Milwaukee, WI 53202-3877</p>	
and	
c/o Michael E. Johnson Alston & Bird LLP 90 Park Avenue New York, NY 10016	
<i>Federal Home Loan Mortgage Corporation</i> c/o David I. Cisar von Briesen & Roper, s.c. 411 E. Wisconsin Avenue, Suite 700 Milwaukee, WI 53202	
and	
c/o Robert A. Zeavin Manatt Phelps & Phillips 11355 Olympic Blvd Los Angeles, CA 90064	
<i>The Bank Insureds</i> c/o James Friedman Godfrey & Kahn, S.C. One East Main Street, Suite 500 Madison, WI 53701	
and	
Donald S. Bernstein Davis Polk & Waldwell LLP 450 Lexington Avenue New York, NY 10017	
<i>One State Street LLC</i> c/o Anne Bensky Garvey, McNeil & Associates, S.C.	
	and
	c/o John M. Rosenthal Morgan, Lewis & Bockus LLP One Market Street Spear Street Tower San Francisco, CA 94105
	<i>HSBC Bank USA, National Association</i> c/o Randall D. Crocker Von Briesen & Roper, s.c. 411 E. Wisconsin Avenue, Suite 700 Milwaukee, WI 53202
	and
	Peter Van Tol Hogan Lovells US LLP 875 Third Avenue New York, NY 10022
	<i>Depfa Bank</i> c/o Seth E. Dizard O'Neil, Cannon, Hollman, DeJong & Laing, S.C. 111 East Wisconsin Ave., Suite 1400 Milwaukee, WI 53202
	and
	c/o Thomas J. Welsh Orrick, Herrington, & Sutcliffe LLP 400 Capitol Mall, Suite 3000 Sacramento, CA 95814-4497
	<i>PNC Bank</i> c/o John Franke Gass Webber Mullins LLC 309 N. Water Street, Suite 700 Milwaukee, WI 53202
	and
	c/o Peter D. Laun Jones Day

Service List

<p>One Odana Court Madison, WI 53719</p> <p>and</p> <p>c/o Mark I. Bane Ropes & Gray LLP 1211 Avenue of the Americas New York, NY 10036</p> <p>and</p> <p>c/o D. Ross Martin Ropes & Gray LLP One International Place Boston, MA 02110</p> <p><i>Assured Guaranty Corporation and Goldman Sachs & Co.</i> c/o James E. Bartzen Boardman Law Firm One South Pickney Street P.O. Box 927 Madison, WI 53701-0927</p>	<p>500 Grant Street, Suite 4500 Pittsburg, PA15219-2514</p> <p><i>All Student Loans</i> c/o Lawrence Bensky Law Offices of Lawrence Bensky, LLC 10 East Doty Street, Suite 800 Madison, WI 53703</p> <p>and</p> <p>c/o James C. Owen McCathy, Leonard & Kaemmerer, L.C. 400 S. Woods Mill Rd. Chesterfield, MO 63017</p> <p><i>Knowledgeworks and Treasurer for State of Ohio</i> c/o Melissa A. Kern Frost Brown Todd LLC 1103 Boundary Road Middleton, WI 53562 c/o Melissa A. Kern and</p> <p>c/o Greg E. Mitchell Frost Brown Todd LLC 2800 Lexington Financial Center 250 West Main Street</p> <p>and</p> <p>Jeffrey A. Lipps Carpenter Lipps & Leland LLP 280 Plaza Suite 1300 280 North High Street Columbus, OH 43215</p>
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In the Matter of the Rehabilitation of:

Case No. 10-CV-1576

Segregated Account of Ambac Assurance Corporation

**ORDER GRANTING MOTIONS OF
WELLS FARGO BANK AND CERTAIN LVM BONDHOLDERS**

This matter came before the Court on the motion filed on April 5, 2010, by Wells Fargo Bank, N.A. (“Wells Fargo”), as indenture trustee to the Las Vegas Monorail bonds (the “LVM Bonds”) to intervene in the judicial action related to the rehabilitation of Ambac Assurance Corporation (“Ambac”) and to modify the March 24, 2010 Injunction Order issued by this Court so as to remove the policy insuring the LVM Bonds (the “LVM Bond Policy”) from the Segregated Account, and the motion filed by certain institutional holders of LVM Bonds (the “LVM Bondholders”) on June 9, 2010, challenging the inclusion of the LVM Bond Policy in the Segregated Account and seeking certain related relief. The Wisconsin Office of the Commissioner of Insurance (the “OCI”) filed a brief in opposition to the Wells Fargo motion on June 10, 2010. Ambac filed a brief in opposition to the Wells Fargo motion on June 11, 2010.

On June 21, 2010, Wells Fargo filed a pleading (the “Partial Withdrawal and Joinder”) that, among other things, (i) withdrew every argument contained in its April 5, 2010 motion, except for the argument that the OCI violated the Equal Protection Clauses of the United States and Wisconsin Constitutions by improperly treating the LVM Bondholders differently from the other municipal bondholder insureds, and (ii) joined the LVM Bondholders’ June 9, 2010 motion. OCI and Ambac filed responsive briefing on June 30, 2010.

Based upon the papers filed by the parties and the arguments advanced by counsel for the parties at the July 9, 2010 hearing on these motions, and for other good cause, **IT IS HEREBY ORDERED THAT:**

1. The allocation of the LVM Bond Policy to the Segregated Account is contrary to law.
2. Ambac and OCI are directed to take all necessary steps to transfer the LVM Bond Policy from Ambac's Segregated Account to Ambac's General Account.
3. The motions of Wells Fargo (as modified by the Partial Withdrawal and Joinder) and the LVM Bondholders are **GRANTED** to the extent set forth above.

Dated this ____ day of _____, 2010.

BY THE COURT

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

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**ORDER DENYING MOTIONS OF WELLS FARGO BANK AND
CERTAIN LVM BONDHOLDERS**

This matter came before the Court on various motions of Wells Fargo Bank, N.A. and the motion filed on April 5, 2010, by Wells Fargo Bank, N.A. ("Wells Fargo"), as indenture trustee to the Las Vegas Monorail bonds (the "LVM Bonds") to intervene in the judicial action related to the rehabilitation of Ambac Assurance Corporation ("Ambac") and to modify the March 24, 2010 Injunction Order issued by this Court so as to remove the policy insuring the LVM Bonds (the "LVM Bond Policy") from the Segregated Account, and the motion filed by certain institutional holders of some Las Vegas Monorail bonds (LVM Bonds (the "LVM Bondholders," and, collectively, with Wells Fargo, the "Movants"); on June 9, 2010, challenging the inclusion of the policy or policies insuring the LVM bonds (the "LVM Bond Policy") in the Segregated Account, seeking to modify the injunction in force in this matter as to the LVM Bond Policy, and seeking to conduct discovery and to intervene as parties. Movants join each other's motions in the respects detailed in their respective motion papers, and seeking certain related relief. The Wisconsin Office of the Commissioner of Insurance (the "OCI") filed a brief in opposition to the Wells Fargo motion on June 10, 2010. Ambac filed a brief in opposition to the Wells Fargo motion on June 11, 2010.

On June 21, 2010, Wells Fargo filed a pleading (the "Partial Withdrawal and Joinder") that, among other things, (i) withdrew every argument contained in its April 5, 2010 motion, except for the argument that the OCI violated the Equal Protection Clauses of the United

States and Wisconsin Constitutions by improperly treating the LVM Bondholders differently from the other municipal bondholder insureds, and (ii) joined the LVM Bondholders' June 9, 2010 motion. OCI and Ambac filed responsive briefing on June 30, 2010.

Based upon the briefing of the parties, other materials and affidavits on file, oral argument presented, and for other good cause, IT IS HEREBY ORDERED THAT:

~~1. The Court reaffirms its May 27, 2010 Decision, Findings of Fact and Conclusions of Law in this matter (particularly Findings 19-31 and 36 and Conclusions 2-5 and 8-9), and further holds as follows:~~

1. ~~2-~~The allocation of the LVM Bond Policy to the Segregated Account was lawful, and did not violate any provision of the Constitutions of either Wisconsin or the United States.

2. ~~3-~~Movants have not established legal grounds or good cause for being permitted to intervene or conduct discovery in regard to their motions. This denial of intervention does not preclude these Movants from asking to be heard in this matter at future proceedings pertaining to the Rehabilitator's plan of rehabilitation.

WHEREFORE, IT IS HEREBY ORDERED that the above-referenced motions are denied.

Dated: _____

BY THE COURT

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

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**ORDER DENYING MOTIONS OF WELLS FARGO BANK AND
CERTAIN LVM BONDHOLDERS**

This matter came before the Court on the motion filed on April 5, 2010, by Wells Fargo Bank, N.A. ("Wells Fargo"), as indenture trustee to the Las Vegas Monorail bonds (the "LVM Bonds") to intervene in the judicial action related to the rehabilitation of Ambac Assurance Corporation ("Ambac") and to modify the March 24, 2010 Injunction Order issued by this Court so as to remove the policy insuring the LVM Bonds (the "LVM Bond Policy") from the Segregated Account, and the motion filed by certain institutional holders of LVM Bonds (the "LVM Bondholders," and, collectively with Wells Fargo, the "Movants") on June 9, 2010, challenging the inclusion of the LVM Bond Policy in the Segregated Account and seeking certain related relief. The Wisconsin Office of the Commissioner of Insurance (the "OCI") filed a brief in opposition to the Wells Fargo motion on June 10, 2010. Ambac filed a brief in opposition to the Wells Fargo motion on June 11, 2010.

On June 21, 2010, Wells Fargo filed a pleading (the "Partial Withdrawal and Joinder") that, among other things, (i) withdrew every argument contained in its April 5, 2010 motion, except for the argument that the OCI violated the Equal Protection Clauses of the United States and Wisconsin Constitutions by improperly treating the LVM Bondholders differently from the other municipal bondholder insureds, and (ii) joined the LVM Bondholders' June 9, 2010 motion. OCI and Ambac filed responsive briefing on June 30, 2010.

Based upon the briefing of the parties, other materials and affidavits on file, oral argument presented, and for other good cause, IT IS HEREBY ORDERED THAT:

1. The allocation of the LVM Bond Policy to the Segregated Account was lawful, and did not violate any provision of the Constitutions of either Wisconsin or the United States.

2. Movants have not established legal grounds or good cause for being permitted to intervene or conduct discovery in regard to their motions. This denial of intervention does not preclude these Movants from asking to be heard in this matter at future proceedings pertaining to the Rehabilitator's plan of rehabilitation.

WHEREFORE, IT IS HEREBY ORDERED that the above-referenced motions are denied.

Dated: _____

BY THE COURT

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