Moody's Investors Service

Global Credit Research
Credit Opinion
17 MAR 2009

Credit Opinion: Syncora Holdings Ltd.

Syncora Holdings Ltd.

Hamilton, Bermuda

Ratings

Category	**Moody's Rating**
Rating Outlook	NOO
Syncora Guarantee Inc.	
Rating Outlook	DEV
Insurance Financial Strength	Ca
Syncora Guarantee (U.K.) Ltd.	
Rating Outlook	DEV
Insurance Financial Strength	Ca

Contacts

Analyst	**Phone**
James Eck/New York	1.212.553.1653
Shafquat Rabbee/New York	
Jack Dorer/New York	

Key Indicators

[1]
Syncora Holdings Ltd.

	9M2008	2007	2006	2005	2004
Gross Par Written [2]	$ 190	$ 66,973	$ 50,561	$ 32,750	$ 33,655
Gross Premiums Written	$ 83	$ 378	$ 409	$ 285	$ 277
Net Par Outstanding	$ 140,175	$ 165,012	$ 118,012	$ 81,891	$ 66,934
Hard Capital (Statutory)	$ 4,471	$ 3,359	$ 2,834	$ 1,934	$ 1,462
Net Income to Common Shares (GAAP)	$ (1,928)	$ (1,225)	$ 117	$ 80	$ 59
Strategy & Franchise Value					
% of Industry Net Par Outstanding	5.7%	6.3%	5.1%	3.9%	3.5%
% of Industry Gross Par Written [2]	0.2%	10.6%	8.8%	6.1%	7.2%
Portfolio Characteristics					
Credit Risk Ratio (bps) [3]	274	86	52	52	44
Tail Risk Ratio (bps) [3]	554	289	168	169	154
Capital Adequacy					
Aaa Hard Capital Ratio [3]	0.61x	0.78x	1.43x	1.38x	1.45x
Aaa Total Capital Ratio [3]	0.53x	0.72x	1.39x	1.35x	1.42x
Reinsurance Utilization	1.0%	10.2%	23.6%	30.2%	na
Profitability					
Adjusted Return on Equity	NM	-48.7%	11.0%	10.2%	6.7%
Loss Ratio (GAAP)	1113.6%	334.0%	8.2%	17.1%	18.3%
Expense Ratio (GAAP on NPE)	82.2%	55.1%	52.0%	52.6%	57.3%
Financial Flexibility					
Earnings Coverage	NM	NM	17.2x	10.8x	4.0x
Cash Flow Coverage	0.0x	6.6x	46.2x	na	na
Double Leverage	na	98.0%	97.1%	na	na

[1] Dollar Amounts in Millions [2] Excludes reinsurance gross par written [3] as of June 30, 2008

Opinion

SUMMARY RATING RATIONALE

Moody's Ca insurance financial strength ratings on the operating subsidiaries of Syncora Holdings Ltd. (formerly Security Capital Assurance Ltd), including Syncora Guarantee Inc. ("SG" - formerly XL Capital Assurance Inc.), reflect the company's run-off status, its impaired capital adequacy position due to large incurred losses among mortgage-related exposures, including direct RMBS and ABS CDOs, as well as its impaired financial flexibility. In its year-end 2008 annual statement, SG reported a statutory policyholders' deficit of approximately $2.4 billion, which permits the New York Insurance Department to intervene in SG's operations and seek court appointment as rehabilitator or liquidator of the company. Syncora is currently engaged in settlement negotiations with its CDS counterparties and has launched a tender offer for insured RMBS securities as part of a broader restructuring initiative.

Syncora Holdings Ltd. (OTC: SYCRF.PK), based in Hamilton, Bermuda, is a holding company whose primary operating subsidiary, Syncora Guarantee Inc., provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. As of September 30, 2008, Syncora had net par outstanding of approximately $140 billion.

Credit Strengths

Key credit strengths for Syncora include:

- 2008 transaction with XL Capital Ltd to terminate/commute various reinsurance arrangements and guarantees provided meaningful additional claims-paying resources.

- 2008 termination of 8 Merrill Lynch CDS contracts on ABS CDOs eliminates significant tail loss contribution, additional CDS settlement negotiations ongoing

- Excluding mortgage-related exposures, well-diversified insured portfolio

- Ability to pay claims over an extended period of time

Credit Challenges

Key credit challenges for Syncora include:

- Non-compliance with minimum regulatory capital requirements at year-end 2008, which heightens the risk of regulatory action

- Impaired capital position resulting from losses among RMBS and ABS CDO exposures

- Sensitivity of insurance portfolio to credit cycle and some large single-name exposures

- Access to capital is impaired

Rating Outlook

On March 9, 2009, Moody's downgraded SG's insurance financial strength rating to Ca, from Caa1, with a developing outlook. The developing outlook reflects the possibility of both positive and negative pressure on SG's insurance financial strength ratings. Moody's notes that most of Syncora's bank counterparties have signed a non-binding letter of intent to commute certain ABS CDO exposures. To the extent Syncora is able to commute these exposures under terms that are consistent with those outlined in Syncora's recent SEC filings, SG's insurance financial strength ratings could be affirmed or upgraded. If, however, the company is unable to execute a settlement that improves its capital adequacy profile, the insurance financial strength ratings would likely be downgraded to C.

What Could Change the Rating - Up

The following factors could result in an upgrade:

- The ability of the company to commute or restructure certain mortgage-related exposures that results in an improved capital adequacy profile for remaining exposures and successfully restores compliance with regulatory minimum capital requirements

What Could Change the Rating - Down

The following factors could result in a downgrade:

- Placement of the company into regulatory rehabilitation or liquidation

Recent Results and Developments

As of Decmeber 31, 2008, SG had a statutory policyholders' deficit of $2.4 billion. SG is attempting to reach a comprehensive settlement with its bank counterparties on certain exposures, including most of the company's insured ABS CDOs. The company also intends to repurchase wrapped RMBS securities from investors through a tender offer. In Moody's opinion, if the company is unable to reach such settlements in the near term, the company could be placed into rehabilitation or liquidated by the New York regulator.

DETAILED RATING CONSIDERATIONS

Moody's rates SG Ca for insurance financial strength, which is 8 notches below the Ba2 rating produced by Moody's unadjusted rating scorecard (for additional details, please refer to the "other credit considerations" section, below).

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 - Franchise Value and Strategy: < Baa

Moody's adjusts Syncora's scorecard rating for this factor downward to < Baa, reflecting the company's run-off status.

Factor 2 - Portfolio Characteristics: < Baa

Moody's adjusts Syncora's scorecard rating for this factor downward to < Baa from Baa. Syncora's 2Q2008 credit risk and tail risk ratios of 274 basis points and 554 basis points, respectively, reflect large estimated losses among mortgage-related exposures. As calculated by Moody's, Syncora's non-investment grade insured portfolio exposures approximated 10% at 3Q2008, largely due to significant downward credit rating migration among RMBS and ABS CDO exposures.

Factor 3 - Capital Adequacy: < Baa

Syncora's estimated 2Q2008 Aaa total capital ratio, at 0.53x, is consistent with a target 1.3x capital adequacy ratio in the single-B category. The company's capital adequacy ratios have likely deteriorated in recent months as Moody's estimates of loss on mortgage-related exposures have increased. Moody's notes that the company also has significant exposure to the Jefferson Country Alabama Sewer system, which is currently facing financial stress, and could result in meaningful losses. Syncora's reinsurance utilization was 1% at 3Q2008, reflecting significant reinsurance commutation activity during 2008.

Factor 4 - Profitability: < Baa

During 2007 and 2008, Syncora recorded large losses on its mortgage related exposures, primarily second lien RMBS and ABS CDOs, with loss ratios at many multiples of core annual earnings power.

Factor 5 - Financial Flexibility: < Baa

Moody's adjusts Syncora's financial flexibility in the scorecard downward to non-investment grade, reflecting the company's impaired access to the capital markets and prospective earnings and fixed charge coverage metrics that have been adversely impacted by incurred losses among mortgage-related exposures. Syncora has omitted dividends on both its holding company preference shares and operating company preferred shares.

Other Considerations

SG's Ca insurance financial strength rating is 8 notches below the Ba2 rating produced by Moody's unadjusted rating scorecard. The difference is primarily due to the downward adjustments made due to the group's greatly diminished franchise value, its impaired financial flexibility, the continued deterioration in insured portfolio characteristics and the likelihood that some policyholders will receive claims payments for substantially less than the face value of potential claims.

Rating Factors

Syncora Holdings Ltd.

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**Adjusted Score**
Strategy & Franchise Value (25%)						**A**	**< Baa**
% of Industry Net Par Outstanding		**5.7%**					
% of Industry Gross Par Written [3]					**0.2%**		
Moody's Adjusted Book Value/Book Value	**2.40x**						
Client Concentration	**x**						
Management, Governance & Risk Management Oversight				**x**			
Portfolio Characteristics (20%)						**Baa**	**< Baa**
Credit Risk Ratio					**274**		
Tail Risk Ratio					**554**		
% Below Investment Grade				**10.0%**			
S (WCL > 10% of HC) / HC	**16%**						
Capital Adequacy (30%)						**< Baa**	**< Baa**
Hard Capital Ratio					**x**		
Total Capital Ratio					**x**		
Par Reinsured	**1.0%**						
Profitability (15%)						**< Baa**	**< Baa**
Return on Equity - 3 year average					**NM**		
Loss Ratio (SAP) - 3-year average					**485.3%**		
Expense Ratio (SAP) - 3-year average				**63.1%**			
Financial Flexibility (10%)						**Baa**	**< Baa**
Earnings Coverage					**0.0x**		
Cash Flow Coverage					**0.0x**		
Double Leverage	**98.0%**						
Ease of Access to Capital					**x**		
Aggregate Profile						**Ba2**	**Ca**

[1] Metrics as of September 30, 2008 (unless noted) [2] The scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Primary Gross Par Written Only