

[FORM OF]

COLLATERAL AGREEMENT

made by

AMBAC ASSURANCE CORPORATION

in favor of

THE BANK OF NEW YORK MELLON

as Note Collateral Agent, Trustee and Paying Agent

Dated as of [●], 2017

TABLE OF CONTENTS

Page

ARTICLE I

DEFINED TERMS

Section 1.1	<u>Definitions</u>	1
Section 1.2	<u>Other Definitional Provisions</u>	3

ARTICLE II

GRANT OF SECURITY INTEREST

Section 2.1	<u>Grant</u>	4
Section 2.2	<u>Establishment of the Collateral Account</u>	4

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1	<u>Representations and Warranties of the Company</u>	4
-------------	--	---

ARTICLE IV

COVENANTS

Section 4.1	<u>Covenants of the Company</u>	7
-------------	---------------------------------------	---

ARTICLE V

REMEDIAL PROVISIONS

Section 5.1	<u>Application of Proceeds</u>	9
Section 5.2	<u>Code and Other Remedies</u>	9
Section 5.3	<u>Waiver; Deficiency</u>	10
Section 5.4	<u>Control of the RMBS Litigation</u>	10

ARTICLE VI

THE NOTE COLLATERAL AGENT

Section 6.1	<u>Duty of the Note Collateral Agent</u>	11
Section 6.2	<u>Financing Statements</u>	11
Section 6.3	<u>Custody and Related Services</u>	11
Section 6.4	<u>Authority of the Note Collateral Agent</u>	12

Section 6.5 Rights of the Note Collateral Agent..... 13

ARTICLE VII

MISCELLANEOUS

Section 7.1 Amendments in Writing..... 13
Section 7.2 Notices 13
Section 7.3 No Waiver by Course of Conduct; Cumulative Remedies 13
Section 7.4 Successors and Assigns..... 14
Section 7.5 Counterparts 14
Section 7.6 Severability 14
Section 7.7 Section Headings 14
Section 7.8 Integration 14
Section 7.9 GOVERNING LAW..... 14
Section 7.10 Submission to Jurisdiction; Waivers..... 14
Section 7.11 Acknowledgments..... 15
Section 7.12 WAIVER OF JURY TRIAL..... 16
Section 7.13 Releases..... 16

SCHEDULES

- 1 Notice Address of the Company
- 2 Perfection Matters
- 3 Financing Statements from Permitted Collateral Liens or Liens to be Terminated on Issue Date

COLLATERAL AGREEMENT

COLLATERAL AGREEMENT, dated as of [●], 2017, (as amended, supplemented or otherwise modified from time to time, this “Agreement”) made between Ambac Assurance Corporation, a Wisconsin-domiciled insurance company (the “Company”), as issuer, and The Bank of New York Mellon, as Trustee, Paying Agent and Note Collateral Agent (in such capacity, and together with its successors and assigns in such capacity, the “Note Collateral Agent”) for the Secured Parties (as such term is defined herein).

WITNESSETH:

WHEREAS, pursuant to that certain Indenture, dated as of [●], 2017, (as amended, amended and restated, waived, supplemented or otherwise modified from time to time, together with any agreement extending the maturity of, or restructuring, refunding, refinancing or increasing the Indebtedness under such agreement or successor agreements, the “Indenture”), between the Company and The Bank of New York Mellon, as trustee and note collateral agent on behalf of the Holders, the Company has issued 8.5% Senior PIK Notes Secured by Junior Interests in RMBS Litigation Due 2055 issued on the Issue Date in an initial aggregate principal amount of \$240 million (collectively, with any notes issued in respect thereof pursuant to Sections 304, 305, 306, 312(c), 312(d) or 1008 of the Indenture, the “Notes”) upon the terms and subject to the conditions set forth therein;

WHEREAS, in accordance with the terms of the Indenture, the Company shall execute and deliver this Agreement to the Note Collateral Agent for the benefit of the Secured Parties.

NOW, THEREFORE, in consideration of the premises and to induce the Trustee and Note Collateral Agent to enter into the Indenture on the Issue Date and to induce the Holders to purchase the Notes issued on the Issue Date, and in consideration of other valuable consideration (which receipt is hereby acknowledged), the Company hereby agrees with the Note Collateral Agent, for the benefit of the Secured Parties, as follows:

ARTICLE I

DEFINED TERMS

Section 1.1 Definitions.

(a) Unless otherwise defined herein, terms defined in the Indenture and used herein shall have the meanings given to them in the Indenture.

(b) The following terms shall have the following meanings:

“Agreement”: this Collateral Agreement, as the same may be amended, restated, supplemented, waived or otherwise modified from time to time.

“Code”: the Uniform Commercial Code as from time to time in effect in the State of New York.

“Collateral”: as defined in Section 2.1

“Collateral Account”: as defined in Section 2.2.

“Company”: as defined in the Preamble hereto.

“Default”: as defined in the Indenture.

“Event of Default”: as defined in the Indenture.

“Foreign Jurisdiction”: a jurisdiction other than the United States of America or a jurisdiction in which the Company is organized, incorporated, formed, registered or domiciled.

“Governmental Authority”: the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supranational bodies such as the European Union or the European Central Bank).

“Holder” or “Noteholder”: as defined in the Indenture.

“Indebtedness”: as defined in the Indenture.

“Indenture”: as defined in the recitals hereto.

“Lien”: as defined in the Indenture.

“Note Collateral Agent”: as defined in the Preamble hereto.

“Note Documents”: the collective reference to the Indenture, the Notes, this Agreement, and the other Note Security Documents, as the same may be amended, supplemented, waived, modified, replaced and/or refinanced from time to time in accordance with the terms hereof and Article IX of the Indenture.

“Note Security Documents”: as defined in the Indenture.

“Notes”: as defined in the recitals hereto.

“Obligations”: the collective reference to: all obligations and liabilities of the Company in respect of the unpaid principal of and interest on (including interest and fees (if any) accruing after the maturity of the Notes and interest and fees (if any) accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Notes and all other obligations and liabilities of the Company to the Secured Parties, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Indenture, the Notes or the other Note Documents entered into or any other

document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, amounts payable in connection with any such agreement or a termination of any transaction entered into pursuant to any such agreement, fees, indemnities, costs, expenses or otherwise (including all reasonable and documented out-of-pocket fees, expenses and disbursements of counsel to the Trustee or Note Collateral Agent that are required to be paid by the Company pursuant to the terms of the Indenture or any other Note Document).

“Permitted Collateral Liens”: means Permitted Liens (as defined in the Indenture) set forth in clauses (a), (b), (c), (d) and (n) of the definition thereof (and for clause (n) of the definition thereof, only to the extent that such Permitted Liens secure Permitted Indebtedness incurred pursuant to clause (a) of the definition of “Permitted Indebtedness” (as defined in the Indenture)).

“Person”: any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization, Governmental Authority or any other entity.

“Proceeds”: all “proceeds” as such term is defined in the Code.

“RMBS Litigation”: as defined in the Indenture.

“Secured Parties”: the collective reference to the Trustee, the Note Collateral Agent, the Paying Agent, the Holders, and each of their respective successors and assigns and their permitted transferees and endorsees.

“Segregated Account”: as defined in the Indenture.

“Tier II Net Proceeds”: as defined in the Indenture.

Section 1.2 Other Definitional Provisions.

(a) The words “hereof”, “herein”, “hereto” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Annex references are to this Agreement unless otherwise specified. The words “include”, “includes”, and “including” shall be deemed to be followed by the phrase “without limitation”. Unless otherwise expressly provided herein, any definition of or reference to any agreement (including this Agreement and the other Note Documents), instrument or other document herein shall be construed as referring to such agreement, instrument or other document as amended, supplemented, waived or otherwise modified from time to time (subject to any restrictions on such amendments, supplements, waivers or modifications set forth herein).

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(c) All references in this Agreement to any of the property described in the definition of the term “Collateral”, or to any Proceeds thereof, shall be deemed to be references thereto only to the extent the same constitute Collateral.

ARTICLE II

GRANT OF SECURITY INTEREST

Section 2.1 Grant. The Company hereby grants to the Note Collateral Agent, for the benefit of the Secured Parties, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations of the Company a security interest in all right, title and interest of the Company in the following property (wherever located) whether now owned or at any time hereafter acquired by the Company or in which the Company now has or at any time in the future may acquire any right, title or interest:

- (a) the Collateral Account;
- (b) the right to receive Tier II Net Proceeds; and
- (c) to the extent not otherwise included, all Proceeds and products of any of the foregoing (collectively, the “Collateral”).

Section 2.2 Establishment of the Collateral Account. The Note Collateral Agent shall establish a single, segregated securities account in its records as securities intermediary and in the name of the Company which shall be designated as the “Collateral Account”. For purposes of Articles 8 and 9 of the Code, the “securities intermediary’s jurisdiction” of the Note Collateral Agent shall be the State of New York and the law in force in the State of New York shall be applicable to all issues specified in Article 2(1) of the Hague Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary. The Note Collateral Agent in its capacity as securities intermediary and the Company acknowledge that there are no other account agreements governing the Collateral Account or if there are, the parties agree that such agreements are amended to provide that their governing law is consistent with the preceding sentence. The Note Collateral Agent also represents that it has a physical office in the State of New York which is engaged in a business or other regular activity of maintaining securities accounts.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of the Company. The Company hereby represents and warrants to the Note Collateral Agent on the date hereof that:

3.1.1 Title; No Other Liens. Except for the security interests granted to the Note Collateral Agent for the benefit of the Secured Parties pursuant to this Agreement and

Permitted Collateral Liens, the Company owns each item of the Collateral free and clear of any and all Liens securing Indebtedness. To the knowledge of the Company, no currently effective financing statement or other similar public notice with respect to any Lien securing Indebtedness on all or any part of the Collateral is on file or of record in any public office in the United States of America, any state, territory or dependency thereof or the District of Columbia, except, in each case, such as have been filed in favor of the Note Collateral Agent for the benefit of the Secured Parties pursuant to this Agreement or other than as listed on Schedule 3 hereto.

3.1.2 Perfected First Priority Liens.

(a) This Agreement is effective to create, as collateral security for the Obligations of the Company, valid and enforceable Liens on the Collateral in favor of the Note Collateral Agent for the benefit of the Secured Parties, except as to enforcement, as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, rehabilitation, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(b) Except with regard to any rights in favor of the United States government as required by law (if any), upon the completion of the Filings, the Liens created pursuant to this Agreement will constitute valid Liens on and (to the extent provided herein) perfected security interests in the Collateral in favor of the Note Collateral Agent for the benefit of the Secured Parties, and will be prior to all other Liens on the Collateral of all other Persons securing Indebtedness, in each case other than Permitted Collateral Liens, and enforceable as such as against all other Persons, except as to enforcement, as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, rehabilitation, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing. As used in this Section 3.1.2(b), the following terms shall have the following meanings:

“Filings”: the filing or recording of the Financing Statements as set forth in Schedule 2.

“Financing Statements”: the financing statements filed or authorized for filing by the Company in the jurisdictions listed in Schedule 2.

3.1.3 Jurisdiction of Organization. On the date hereof, the Company's jurisdiction of organization is Wisconsin.

3.1.4 Good Standing of the Company. The Company has been duly incorporated and is validly existing and in good standing under the laws of the State of Wisconsin, with power and authority (corporate or otherwise) to own, lease and operate its properties and conduct its business and to enter into and perform its obligations under the Note Documents; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the

conduct of its business requires such qualification, except where the failure to so qualify or be in good standing would not, individually or in the aggregate, be reasonably likely to materially and adversely affect the ability of the Company to perform its obligations under the Note Documents.

3.1.5 Note Documents. Each of the Note Documents has been duly authorized by the Company, and when executed and delivered by the Company (assuming due authorization, execution and delivery by the counterparties thereto, as applicable), will be duly executed and delivered by the Company and will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

3.1.6 Absence of Existing Defaults and Conflicts. The Company is not in violation of its charter or by-laws or in default (or with the giving of notice or lapse of time would be in default) under any existing obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties is subject, except such defaults that would not, individually or in the aggregate, be reasonably likely to materially and adversely affect the ability of the Company to perform its obligations under the Note Documents to which it is a party.

3.1.7 Absence of Defaults and Conflicts Resulting from Transaction. The execution, delivery and performance of the Note Documents, and compliance with the terms and provisions hereof and thereof, will not violate, conflict with, result in a breach of, or constitute a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) under (a) the charter or by-laws of the Company (other than any violation of or conflict with any such charter or by-laws that would not, individually or in the aggregate with all such other violations or conflicts, be reasonably likely to materially and adversely affect the ability of the Company to perform its obligations under the Note Documents), (b) any order, law, treaty, rule, regulation, judgment or determination applicable to the Company of any court, governmental agency or body (including, without limitation, any insurance regulatory agency or body) or arbitrator having jurisdiction over the Company (other than any violation of or conflict with any such order, law, treaty, rule, regulation, judgment or determination that would not, individually or in the aggregate with all such other violations or conflicts, be reasonably likely to materially and adversely affect the ability of the Company to perform its obligations under the Note Documents) or (c) the terms of any bond, debenture, note, other evidence of indebtedness, agreement, indenture, lease or other instrument to which the Company is a party or by which it is bound or by which any of its properties is subject, or result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company pursuant to the terms of any such bond, debenture, note, other evidence of indebtedness, agreement, indenture, lease or other instrument (other than any conflict, breach or default or lien, charge or encumbrance that would not, individually or in the aggregate, be reasonably likely to

materially and adversely affect the performance by the Company of its obligations under the Note Documents.

3.1.8 Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental agency or body (including, without limitation, any insurance regulatory agency or body) is required for the execution by the Company of the Note Documents, or the consummation of the transactions contemplated hereby or thereby, or for the performance by the Company of its obligations under the Note Documents, except those that have been already obtained.

ARTICLE IV

COVENANTS

Section 4.1 Covenants of the Company. The Company covenants and agrees with the Note Collateral Agent and the other Secured Parties that, from and after the date of this Agreement until the release of all of the Collateral or the termination of this Agreement in accordance with the terms of the Indenture:

4.1.1 Maintenance of Perfected Security Interest; Further Documentation.

(a) The Company shall use commercially reasonable efforts to maintain the security interest created by this Agreement in the Collateral as a perfected security interest as and to the extent described in Section 3.1.2 and to defend the security interest created by this Agreement in the Collateral against the claims and demands of all Persons whomsoever (subject to the other provisions hereof) for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted by the Company.

(b) Except as otherwise permitted by the Indenture, the Company will not impair the rights of the Note Collateral Agent in the Collateral.

(c) The Company shall use commercially reasonable efforts to take any and all actions reasonably necessary or required or reasonably requested by the Note Collateral Agent (acting at the direction of the requisite Holders pursuant to the terms of the Indenture and in each case at the sole expense of the Company), so as at all times to maintain the validity, perfection, enforceability and priority of the security interest in and Lien on the Collateral granted to the Note Collateral Agent in this Agreement or to enable the Note Collateral Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including (i) immediately discharging all Liens on the Collateral other than Permitted Collateral Liens, (ii) filing any financing and continuation statements or similar documents, and (iii) promptly executing and delivering control agreements, and, during the continuance of an Event of Default pursuant to Section 601(i) of the Indenture, instruments of pledge, notices and assignments and other documents, in each case solely relating to the creation, validity, perfection, maintenance or continuation of the Note

Collateral Agent's security interest in and Lien on the Collateral; provided that, notwithstanding any other provision of this Agreement or any other Note Document, the Company will not be required (x) to take any action in any Foreign Jurisdiction, or required by the laws of any such Foreign Jurisdiction, or to enter into any security agreement or pledge agreement governed by the laws of any such Foreign Jurisdiction, in order to create any security interests (or other Liens) in Collateral located or titled in any Foreign Jurisdiction, or in order to perfect any security interests (or other Liens) in any such Collateral, other than in each case, Collateral consisting of the Collateral Account or the Eligible Investments on deposit therein, if such Collateral consisting of the Collateral Account is located in a Foreign Jurisdiction or (y) to deliver control agreements with respect to, or confer perfection by "control" over, any deposit, bank or securities account or other Collateral, other than with respect to the Collateral Account or any other deposit, bank or securities account into which the Tier II Net Proceeds or Eligible Investments may be deposited.

(d) Upon the occurrence and during the continuance of an Event of Default pursuant to Section 601(i) of the Indenture, the Note Collateral Agent may liquidate, or notify any bank or securities intermediary in control of any deposit account or securities account or any related investment property to liquidate, such Collateral and remit the proceeds thereof to the Note Collateral Agent.

4.1.2 Changes in Name, Jurisdiction of Organization, etc. The Company will give prompt written notice to the Note Collateral Agent of any change in its name or location (as determined by Section 9-307 of the Code) (whether by merger or otherwise) (and in any event within 30 days of such change); and within 10 days after such notice, the Company shall deliver to the Note Collateral Agent copies (or other evidence of filing) of all additional filed financing statements and other documents reasonably necessary to maintain the validity, perfection and priority of the security interests created hereunder and other documents reasonably requested by the Note Collateral Agent to maintain the validity, perfection and priority of the security interests as and to the extent provided for herein.

4.1.3 Maintenance of Records. The Company will keep and maintain at its own cost and expense reasonably satisfactory and complete records of its Collateral, including a record of all payments received and all credits granted with respect to such Collateral, and shall mark such records to evidence this Agreement and the Liens and the security interests created hereby.

4.1.4 Delivery of Collateral Account Statement. The Note Collateral Agent agrees to allow the Noteholders access (including electronic access) to copies of all monthly account statements it delivers to the Company in respect of the Collateral Account.

4.1.5 Payment Direction for Tier II Net Proceeds. The Company shall direct any defendant in the RMBS Litigation to pay any cash Tier II Net Proceeds directly into the Collateral Account; provided that the failure on the part of any such defendant to so pay shall not constitute a Default hereunder.

ARTICLE V

REMEDIAL PROVISIONS

Section 5.1 Application of Proceeds. It is agreed that if an Event of Default pursuant to Section 601(i) of the Indenture shall occur and be continuing, any and all Proceeds of the Collateral (as defined in the Indenture) received by the Note Collateral Agent (whether from the Company or otherwise) shall be held by the Note Collateral Agent for the benefit of the Secured Parties as collateral security for the Obligations of the Company (whether matured or unmatured), and/or then or at any time thereafter may, in the sole discretion of the Note Collateral Agent, be applied by the Note Collateral Agent against the Obligations of the Company then due and owing in the following order of priority:

First: to the payment of all amounts due the Trustee under Section 707 of the Indenture;

Second: to the payment of all amounts due the Note Collateral Agent under Section 1210 of the Indenture; and

Third: to the payment of the amounts then due and unpaid upon the other Obligations of the Company ratably, without preference or priority of any kind, according to the amounts due and payable on such Obligations; provided that any such application of Proceeds shall be made on a pro rata basis as between and among the Holders and their respective successors and assigns and their permitted transferees and endorsees;

Fourth: to be held as Collateral in the Collateral Account to secure all Obligations under or in respect of the Notes until the payment in full in cash of all Obligations (other than contingent indemnification obligations) on the Notes; and

Fifth: to the Company.

Section 5.2 Code and Other Remedies. If an Event of Default pursuant to Section 601(i) of the Indenture shall occur and be continuing, the Note Collateral Agent, on behalf of the Secured Parties, may (but shall not be obligated to) exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations to the extent permitted by applicable law, all rights and remedies of a secured party under the Code (whether or not the Code applies to the affected Collateral) and under any other applicable law and in equity. Without limiting the generality of the foregoing, to the extent permitted by applicable law, the Note Collateral Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Company or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances (but shall not be obligated to), forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith, subject to any existing reserved rights or licenses, sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's

board or office of the Note Collateral Agent or any other Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. To the extent permitted by law, the Note Collateral Agent or any other Secured Party shall have the right, upon any such sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Company, which right or equity is hereby waived and released. The Note Collateral Agent shall apply the net proceeds of any action taken by it pursuant to this Section 5.2, after deducting all reasonable and documented out-of-pocket costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Note Collateral Agent and the other Secured Parties hereunder, including reasonable and documented attorneys' fees and disbursements, to the payment in whole or in part of the Obligations of the Company then due and owing, in the order of priority specified in Section 5.2. To the extent permitted by applicable law, (i) the Company waives all claims, damages and demands it may acquire against the Note Collateral Agent or any other Secured Party arising out of the repossession, retention or sale of the Collateral, other than any such claims, damages and demands that may arise from the gross negligence or willful misconduct of any of the Note Collateral Agent or such other Secured Party, and (ii) if any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. Notwithstanding the foregoing, unless an Event of Default pursuant to Section 601(i) of the Indenture has occurred and continues, the Note Collateral Agent shall not take any action without the prior written consent of the Company (A) to collect and receive payments in respect of Obligations or (B) to foreclose on the Collateral or apply Collateral or proceeds thereof to payments of Obligations or any other obligations; provided that the mere exercise of control over the Collateral Account (without the application of any assets in such Collateral Account to the Obligations or to any other obligations) shall not constitute a foreclosure hereunder.

Section 5.3 Waiver; Deficiency. The Company shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay in full, the Notes, reimbursement obligations constituting Obligations of the Company and, to the extent then due and owing, all other Obligations of the Company and the reasonable fees and disbursements of any attorneys employed by the Note Collateral Agent or any other Secured Party to collect such deficiency.

Section 5.4 Control of the RMBS Litigation. Notwithstanding any of the foregoing, or anything else in this Agreement, the Indenture or the other Note Documents to the contrary, at all times, the Company and the Segregated Account (if not merged with and into the Company) will control the RMBS Litigation in all respects (including, without limitation, all decisions as to strategy, settlement, pursuit and abandonment), and none of (x) the Trustee, (y) any holder of the Notes or of any beneficial interest, or (z) the Note Collateral Agent shall have any right to join or participate in the RMBS Litigation in any way.

ARTICLE VI

THE NOTE COLLATERAL AGENT

Section 6.1 Duty of the Note Collateral Agent. The Note Collateral Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Note Collateral Agent deals with similar property for its own account. None of the Note Collateral Agent or any other Secured Party nor any of their respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Company or any other Person or, except as otherwise provided herein, to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Note Collateral Agent and the other Secured Parties hereunder are solely to protect the Note Collateral Agent's and the other Secured Parties' interests in the Collateral and shall not impose any duty upon the Note Collateral Agent or any other Secured Party to exercise any such powers. The Note Collateral Agent and the other Secured Parties shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and to the maximum extent permitted by applicable law, neither they nor any of their officers, directors, employees or agents shall be responsible to the Company for any act or failure to act hereunder, except as otherwise provided herein or for their own gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and nonappealable decision).

Section 6.2 Financing Statements. Pursuant to any applicable law, the Company authorizes the Note Collateral Agent to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral in such form and in such filing offices at the Note Collateral Agent's sole discretion and as the Note Collateral Agent reasonably determines appropriate to perfect or continue the perfection of the security interests of the Note Collateral Agent under this Agreement, provided, however, such authorization shall not relieve the Company from its obligation to take all actions necessary to perfect and maintain the perfection of the Note Collateral Agent's Lien on the Collateral as provided for herein, which includes the filing of any financing statements or continuation statements. All charges, expenses and fees that the Note Collateral Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be paid by the Company to the Note Collateral Agent immediately upon demand. Notwithstanding the foregoing, nothing in this Section 6.2 obligates the Note Collateral Agent to file or record financing statements or other filing or recording documents or instruments with respect to the Collateral. The Note Collateral Agent agrees to notify the Company of any financing or continuation statement filed by it, provided that any failure to give such notice shall not affect the validity or effectiveness of any such filing.

Section 6.3 Custody and Related Services .

(a) With respect to any action taken by the Note Collateral Agent or the exercise or non-exercise by the Note Collateral Agent of any option, voting right, request, judgment or other right or remedy provided for herein, the Note Collateral Agent shall notify the Company of the date or dates by when such rights must be exercised or such action must be taken provided that

the Note Collateral Agent has received, from the Issuer or the relevant depository, timely notice of such rights or discretionary corporate action or of the date or dates such rights must be exercised or such action must be taken. Absent actual receipt of such notice, the Note Collateral Agent shall have no liability for failing to so notify the Company.

(b) The Company shall be liable for all taxes, assessments, duties and other governmental charges, including any interest or penalty with respect thereto (“Taxes”), with respect to any cash or Collateral held on behalf of the Company or any transaction related thereto. The Company shall indemnify the Note Collateral Agent for the amount of any Tax that the Note Collateral Agent or any withholding agent is required under applicable laws (whether by assessment or otherwise) to pay on behalf of, or in respect of income earned by or payments or distributions made to or for the account of the Company (including any payment of Tax required by reason of an earlier failure to withhold). Notwithstanding the foregoing sentence, the Note Collateral Agent acknowledges that the Company is a U.S. corporation for U.S. federal income tax purposes and, therefore, agrees that no U.S. withholding Tax is required to be withheld on any payment made to the Company. The Note Collateral Agent shall, or shall instruct the applicable withholding agent to, withhold the amount of any Tax which is required to be withheld under applicable law upon collection of any dividend, interest or other distribution made with respect to any Collateral and any proceeds or income from the sale, loan or other transfer of any Collateral. In the event that the Note Collateral Agent is required under applicable law to pay any Tax on behalf of the Company, the Note Collateral Agent is hereby authorized to withdraw cash from any cash account in the amount required to pay such Tax and to use such cash for the timely payment of such Tax in the manner required by applicable law. If the aggregate amount of cash in all cash accounts is not sufficient to pay such Tax, the Note Collateral Agent shall promptly notify the Company of the additional amount of cash required, and the Company shall directly deposit such additional amount in the appropriate cash account promptly after receipt of such notice, for use by the Note Collateral Agent as specified herein. In the event that the Note Collateral Agent or the Company reasonably believes that the Company is eligible, pursuant to applicable law or to the provisions of any tax treaty, for a reduced rate of, or exemption from, any Tax which is otherwise required to be withheld or paid on behalf of the Company under any applicable law, the Note Collateral Agent shall, or shall instruct the applicable withholding agent to, either withhold or pay such Tax at such reduced rate or refrain from withholding or paying such Tax, as appropriate; provided that the Note Collateral Agent shall have received from the Company all documentary evidence of residence or other qualification for such reduced rate or exemption required to be received under such applicable law or treaty. In the event that the Note Collateral Agent reasonably believes that a reduced rate of, or exemption from, any Tax is obtainable only by means of an application for refund, the Note Collateral Agent shall have no responsibility for the accuracy or validity of any forms or documentation provided by the Company to the Note Collateral Agent hereunder. The Company hereby agrees to indemnify and hold harmless the Note Collateral Agent in respect of any liability arising from any under withholding or underpayment of any Tax which results from the inaccuracy or invalidity of any such forms or other documentation, and such obligation to indemnify shall be a continuing obligation of the Company, its successors and assigns, notwithstanding the termination of this Agreement.

Section 6.4 Authority of the Note Collateral Agent. The Company acknowledges that the rights and responsibilities of the Note Collateral Agent under this Agreement with respect to

any action taken by the Note Collateral Agent or the exercise or non-exercise by the Note Collateral Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement or any amendment, supplement or other modification of this Agreement shall, as between the Note Collateral Agent and the Secured Parties, be governed by the Indenture and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Note Collateral Agent and the Company, the Note Collateral Agent shall be conclusively presumed to be acting as agent for the Secured Parties with full and valid authority so to act or refrain from acting, and the Company shall not be under any obligation, or entitlement, to make any inquiry respecting such authority. The Note Collateral Agent shall have the benefit of the rights, privileges and immunities contained in Section 1209 of the Indenture.

Section 6.5 Rights of the Note Collateral Agent. The Bank of New York Mellon is acting under this Agreement solely in its capacity as Note Collateral Agent under the Indenture and not in its individual capacity. In acting hereunder, the Note Collateral Agent shall be entitled to all of the rights, privileges and immunities granted to it under the Indenture, as if such rights, privileges and immunities were fully set forth herein.

ARTICLE VII

MISCELLANEOUS

Section 7.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Company and the Note Collateral Agent, subject to Article IX of the Indenture; provided that any provision of this Agreement imposing obligations on the Company may be waived by the Note Collateral Agent in a written instrument executed by the Note Collateral Agent. In addition, the Indenture and any of the other Note Documents may be amended in accordance with the terms thereof.

Section 7.2 Notices. All notices, requests and demands to or upon the Note Collateral Agent or the Company hereunder shall be effected in the manner provided for in Section 109 of the Indenture; provided that any such notice, request or demand to or upon the Company shall be addressed to the Company at its notice address set forth on Schedule 1, unless and until the Company shall change such address by notice to the Note Collateral Agent given in accordance with Section 109 of the Indenture.

Section 7.3 No Waiver by Course of Conduct; Cumulative Remedies. None of the Note Collateral Agent or any other Secured Party shall by any act (except by a written instrument pursuant to Section 7.1 hereof or Article IX of the Indenture), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Note Collateral Agent or any other Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Note Collateral Agent or any other Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or

remedy that the Note Collateral Agent or such other Secured Party would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

Section 7.4 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Company, the Note Collateral Agent and the Secured Parties and their respective successors and assigns; provided that the Company may assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Note Collateral Agent, except as permitted hereby or by the Indenture.

Section 7.5 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. The exchange of copies of this Agreement and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Agreement as to the parties hereto and may be used in lieu of the original Agreement for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 7.6 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 7.7 Section Headings. The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

Section 7.8 Integration. This Agreement and the other Note Documents represent the entire agreement of the Company, the Note Collateral Agent and the other Secured Parties with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Company, the Note Collateral Agent or any other Secured Party relative to subject matter hereof not expressly set forth or referred to herein or in the other Note Documents.

Section 7.9 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS TO THE EXTENT SUCH PRINCIPLES OR RULES ARE NOT MANDATORILY APPLICABLE BY STATUTE AND WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

Section 7.10 Submission to Jurisdiction; Waivers. Each party hereto hereby irrevocably and unconditionally:

- (a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Note Documents to which it is a party to the exclusive general jurisdiction of the Supreme Court of the State of New York for the County of

New York (the “New York Supreme Court”), and the United States District Court for the Southern District of New York (the “Federal District Court,” and together with the New York Supreme Court, the “New York Courts”) and appellate courts from either of them; provided that nothing in this Agreement shall be deemed or operate to preclude (i) the Note Collateral Agent from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations (in which case any party shall be entitled to assert any claim or defense, including any claim or defense that this Section 7.10 (a) would otherwise require to be asserted in a legal action or proceeding in a New York Court), or to enforce a judgment or other court order in favor of the Trustee or the Note Collateral Agent, (ii) any party from bringing any legal action or proceeding in any jurisdiction for the recognition and enforcement of any judgment, (iii) if all such New York Courts decline jurisdiction over any Person, or decline (or in the case of the Federal District Court, lack) jurisdiction over any subject matter of such action or proceeding, a legal action or proceeding may be brought with respect thereto in another court having jurisdiction and (iv) in the event a legal action or proceeding is brought against any party hereto or involving any of its assets or property in another court (without any collusive assistance by such party or any of its Subsidiaries or Affiliates), such party from asserting a claim or defense (including any claim or defense that this Section 7.10(a) would otherwise require to be asserted in a legal proceeding in a New York Court) in any such action or proceeding;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at its address referred to in Section 7.2 or at such other address of which the Note Collateral Agent (in the case of any other party hereto) or the Company (in the case of the Note Collateral Agent) shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 7.10 any punitive damages.

Section 7.11 Acknowledgments. The Company hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Note Documents to which it is a party;

(b) none of the Note Collateral Agent or any other Secured Party has any fiduciary relationship with or duty to the Company arising out of or in connection with this Agreement or any of the other Note Documents, and the relationship between the Company, on the one hand, and the Note Collateral Agent and the other Secured Parties, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Note Documents or otherwise exists by virtue of the transactions contemplated hereby among the Secured Parties or among the Company and the Secured Parties.

Section 7.12 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER NOTE DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

Section 7.13 Releases.

(a) Subject to Section 106 of the Indenture, the Collateral shall be released from the Lien and security interest created by this Agreement, all without delivery of any instrument or performance of any act by any party, at any time or from time to time in accordance with the provisions of Section 1202 of the Indenture. Upon such release, all rights in the Collateral so released shall revert to the Company.

(b) The Note Collateral Agent and, if necessary, the Trustee shall, at the Company's expense, execute, deliver or acknowledge such instruments or releases to evidence and shall do or cause to be done all other acts reasonably requested by the Company to effect, in each case as soon as is reasonably practicable, the release of any Collateral permitted to be released pursuant to the Indenture.

[Remainder of page left blank intentionally; signature page to follow.]

IN WITNESS WHEREOF, each of the undersigned has caused this Collateral Agreement to be duly executed and delivered as of the date first above written.

AMBAC ASSURANCE CORPORATION

By: _____

Name:

Title:

Acknowledged and Agreed to as
of the date hereof by:

The Bank of New York Mellon,
in its capacity as Note Collateral Agent

By: _____

Name:

Title:

NOTICE ADDRESS OF THE COMPANY

□

with copies to:

Debevoise & Plimpton

919 Third Avenue

New York, New York 10022

Attention: Steven J. Slutzky and Scott B. Selinger

Facsimile: 212-909-6836

Telephone: 212-909-6000

PERFECTION MATTERS

UCC Filings

<u>State</u>	<u>Filing Office</u>	<u>Document Filed</u>

SCHEDULE 3

FINANCING STATEMENTS FROM PERMITTED COLLATERAL LIENS OR LIENS TO BE
TERMINATED ON ISSUE DATE