

## **Companies in Liquidation or Rehabilitation**

### **Ambac Assurance Corporation Segregated Account, in Rehabilitation**

Ambac Assurance Corporation Segregated Account was placed in rehabilitation on March 24, 2010, by William D. Johnston, a Lafayette County Circuit Court Judge, presiding by a judicial assignment order of the Circuit Court for Dane County, Wisconsin. Roger A. Peterson was the appointed special deputy commissioner until January 22, 2016. Deputy Commissioner of Insurance Daniel J. Schwartz was appointed special deputy commissioner on February 17, 2016.

Ambac Assurance Corporation (Ambac), headquartered in New York, New York, is the successor to American Municipal Bond Assurance Corporation, which was incorporated in Wisconsin on September 29, 1970. The company operates as a financial guaranty insurer, and its principal business is the guaranty of timely payment of principal and periodic interest when due on credit obligations. The company is licensed in all U.S. states, the District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands.

In the mid-1990s, Ambac began offering financial guaranty insurance on riskier, higher-margin private “structured finance” investments, including residential mortgage-backed securities (RMBS) and collateralized debt obligations of asset-backed securities (CDOs of ABS). When the riskier insured structured finance investments began to deteriorate en masse during the economic crisis of 2008, Ambac’s projected future liabilities grew while its credit ratings and statutory surplus plummeted. Consequently, its prospects for writing new business evaporated, it stopped writing new policies, and it initiated an informal run-off.

These events created a hazard for policyholders. At the time of rehabilitation, Ambac’s investment portfolio assets had a current market value of approximately \$8 to \$9 billion, plus an estimated \$1.5 to \$2 billion in future unearned premiums discounted to present value. Many of Ambac’s assets would not yield fair value if liquidated immediately and used to pay short-term claims. The inopportune sale of Ambac’s long-term, presently undervalued assets would result in a net loss of claims-paying resources available to all policyholders—a “fire sale” as opposed to a fair and equitable distribution for the benefit of policyholders as a whole.

Absent restructuring efforts, there was an increasing risk that Ambac might not have been able to satisfy all claims made under the company’s policies as they

developed over the next 30 years. More specifically, there was an increasing risk that policyholders who presented short-tail claims in the early years would have received payment for a larger percentage of their claims than policyholders who presented claims in the more distant future.

As part of the restructuring and with the approval of the Office of the Commissioner of Insurance, Ambac established an optional segregated account pursuant to s. 611.24, Wis. Stat., effective March 24, 2010, for the purpose of segregating certain segments of its liabilities and consenting to the subsequent rehabilitation of the Segregated Account under ch. 645, Wis. Stat. Policies allocated to the Ambac Assurance Corporation Segregated Account (Segregated Account) are primarily those policies with material projected impairments, including the books of RMBS, most of which were expected to mature within approximately 4 years, and certain CDOs of ABS policies, most of which were not expected to mature for 20 or more years, as well as certain other policies with provisions that could result in loss of control rights or demands to pay non-economic, accelerated damages at the expense of other policyholders of Ambac. Ambac allocated to the Segregated Account all liabilities assumed as reinsurer under reinsurance agreements. To support the Segregated Account, Ambac also allocated to it a \$2 billion secured note (which has now been fully paid) and a last-dollar reinsurance policy limited only by the assets of, and a minimum surplus as regards policyholders of \$100,000,000 in the General Account of Ambac. Ambac also allocated to the Segregated Account its limited liability interest in Ambac Credit Products, LLC, Ambac Conduit Funding LLC, Aleutian Investments LLC and Juneau Investments LLC.

Ambac was appointed as a Management Services Provider to the Segregated Account under a Management Services Agreement for so long as such agreement is in effect. Nothing prevents the Segregated Account from retaining additional service providers. In addition, pursuant to the terms of a Cooperation Agreement, Ambac and the Segregated Account have agreed on certain matters related to decision-making, information sharing, tax compliance and allocation of expenses.

On March 13, 2014, the Rehabilitator announced the receipt of favorable rulings from the IRS regarding certain tax issues associated with potential amendments to the rehabilitation plan for the Segregated Account.

### **Ambac Assurance Corporation Segregated Account, in Rehabilitation (continued)**

On April 21, 2014, the Rehabilitator filed a motion in the Circuit Court of Dane County, Wisconsin, for approval of certain proposed amendments (the Amendments) to the plan of rehabilitation. The Rehabilitator's motion for approval of the amendments was approved by Judge Johnston on June 11, 2014. The Amendments modify the mechanism for handling claims under the rehabilitation plan. Instead of a combination of cash payments and interest-bearing surplus notes pursuant to the original plan, holders of Permitted Policy Claims would receive a combination of cash payments (Interim Payments) and deferred amounts will be established equal to the remaining balance of such claims (Deferred Amounts). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate, in his sole discretion, based on an analysis of estimated liabilities, available claims-paying resources and other considerations relevant to equitable treatment of claims and the best interests of policyholders. With the exception of adjustments for certain under-collateralized transactions, Deferred Amounts will accrete at an effective annual rate of 5.1%. Permitted General Claims will be entitled to receive Junior Deferred Amounts accreting at 5.1% per year, instead of junior surplus notes bearing interest at 5.1%, as specified by the original rehabilitation plan.

In conjunction with amending the rehabilitation plan, the Rehabilitator increased Interim Payments. The 25% level specified in the original rehabilitation plan was increased to the level of 45%. Hence, the rehabilitation plan, as amended, provides that (i) holders of Permitted Policy Claims will receive Interim Payments in cash equal to 45% of their claims, and (ii) the Segregated Account will record Deferred Amounts on its books in favor of the respective holders in an amount equal to 55% of such claims, which will accrete at an effective annual rate of 5.1%.

To maintain parity among policyholders, the Rehabilitator effectuated a Deferred Payment to provide that policyholders that had received 25% cash payments on Permitted Policy Claims since the Interim Payments began on September 20, 2012, received an equalizing payment in cash in an amount equal to 26.67% of such holders' Deferred Amounts, including the value of Accretion. The Amendments require proportionate redemptions on Segregated Account Surplus Notes, as and when payments are made on Deferred Amounts, including the equalizing payment referenced above. Pursuant to the terms of the Settlement Agreement entered into by Ambac Assurance Corporation and various settling counterparties on June 7, 2010, Ambac Assurance Corporation is also required to make proportionate redemptions on its Surplus Notes if the Segregated Account redeems any Segregated Account Notes.

Following the retirement of Judge William D. Johnston at the conclusion of his term of office on July 31, 2015, the case was reassigned to Judge Richard G. Niess of the Circuit Court for Dane County, Wisconsin.

As of December 31, 2015, the Ambac Assurance Corporation Segregated Account reported assets of \$10,966,341, liabilities of \$(376,666,395), surplus of \$387,632,736, and net income of \$149,481,964. The negative liability exists because the General Account's reinsurance policy provides coverage on surplus notes issued in satisfaction of claims. As of December 31, 2015, the Segregated Account had disbursed \$3,497,469,759 to policyholder trustees and claim submitting agents, including the issuance of \$53,000,000 in surplus notes at par value, on \$6,465,076,726 of permitted policy claims, including amounts paid or permitted to bondholders under commutations.

### **Partnership Health Plan, Inc., in Liquidation**

Partnership Health Plan, Inc. (Partnership Health Plan), a Wisconsin health maintenance organization insurer, was placed into rehabilitation by Dane County Circuit Court, State of Wisconsin, on January 18, 2013. The rehabilitation proceeding was commenced against Partnership Health Plan after it lost its contract with the Wisconsin Department of Health Services (DHS) to provide Family Care Partnership services.

Partnership Health Plan was headquartered in Eau Claire, Wisconsin, and had business in force only in Wisconsin. Partnership Health Plan contracted with the Department of Health Services to provide managed health and long-term care support to participants in the Family Care Partnership Program, a comprehensive program of services for older adults and people with physical disabilities. The 1,394 members were transitioned into either another partnership program or another long-term care program overseen by DHS effective January 1, 2013.

The insurer was ordered to be liquidated by Dane County Circuit Court, State of Wisconsin, on July 25, 2013.

The Court appointed Richard A. Hinkel as Special Deputy Liquidator of Partnership Health Plan, Inc.

On July 29, 2013, 450 notices were mailed to members, creditors and other parties whose interests may in some way be affected by the liquidation. The deadline for filing claims with the liquidator was January 31, 2014. There were 49 proof-of-claim forms filed and they were reviewed to determine amounts payable, if any. To date payments totaling \$1,049,970 have been made to creditors. All claims have been reviewed, and those that have been allowed have been paid. One disputed claim remains to be resolved as well as 2 late-filed claims.

As of December 31, 2015, Partnership Health Plan had assets of \$4,802,564, liabilities of \$95,000, and surplus of \$4,707,564.