

Ambac Assurance Corporation
3 Second Street, Suite 305
Jersey City, NJ 07302
Tel. 212.208.3111
Fax: 212.208.3568

A member of the Ambac Financial Group, Inc.



June 13, 2025

Glenn E. Ryhanych, CFA
BlueList Partners, LLC
300 Ellicott Street, Suite A3
Occoquan, VA 22125
glenn@bluelistpartners.com



Dear Mr. Ryhanych:

I am writing with reference to your May 28, 2025, letter addressed to Charles Sebaski, the Head of Investor Relations for Ambac Financial Group, Inc., the parent company of Ambac Assurance Corporation ("AAC").

My understanding from your letter is that certain of your clients owned various amounts of Series 2005C bonds issued by the Puerto Rico Infrastructure Financing Authority ("PRIFA"), which bonds formerly were insured by AAC. It appears that some of your clients owned current interest bonds ("CIBs") and others owned capital appreciation bonds ("CABs").

Restructuring Proceedings and the PRIFA Qualifying Modification

As you are aware, the Commonwealth of Puerto Rico and PRIFA were subject to restructuring proceedings under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), a federal law, similar in many respects to a municipal bankruptcy. As part of the PRIFA proceedings, the Financial Oversight and Management Board (the "FOMB"), as the administrative supervisor for PRIFA, proposed a Qualifying Modification under Title VI of PROMESA, which would restructure, among other things, the PRIFA bonds that were owned by your clients. The Qualifying Modification, including all amendments and supplements to it, and the related solicitation statement and a supplemental solicitation statement (together, the "Solicitation Statement") were public documents filed in October 2021 and were the subject of a hearing before the U.S. District Court overseeing the proceedings at which PRIFA creditors (including beneficial holders of PRIFA bonds) could object to the terms of the Qualifying Modification and related documents. We understand that Prime Clerk LLC (now known as Kroll Restructuring Administration), as an agent of the FOMB and PRIFA, distributed to holders of Ambac-insured PRIFA bonds copies of the Qualifying Modification and the Solicitation Statement as part of the Election Notices described below.



The Qualifying Modification and related documents filed by the FOMB provide, among other things, for various treatments of creditors and the obligations they hold. Creditors who were permitted under PROMESA to vote to accept or reject the Qualifying Modification cast their ballots and sufficient creditors voted to accept it. The court hearing to review the Qualifying Modification, including its treatment of creditors, was held in November 2021. On January

20, 2022, the court entered an order approving the Qualifying Modification and, on March 15, 2022, the Qualifying Modification became effective. Distributions to creditors of the consideration to which they were entitled were made over the course of several days after the effective date. At all times, Ambac complied with its obligations under the Qualifying Modification and its financial guaranty insurance policy.

Bondholder Rights to Elect Treatment under PRIFA Qualifying Modification

Under the Qualifying Modification and as approved by the court, Ambac-insured PRIFA bonds were deemed to have been accelerated (meaning the principal amount or compounded amount, as applicable, became due and payable) and PRIFA had no further obligations with respect thereto after implementation of the Qualifying Modification. The Qualifying Modification provided that beneficial holders of such bonds were entitled to make an election as to the type of treatment they would receive with respect to their bond, choosing either the Ambac Commutation Treatment or the Ambac Non-Commutation Treatment. The details of those election options were described in the Qualifying Modification and the applicable Election Notice issued as contemplated in the Qualifying Modification (i.e., the Election Notice for Ambac Insured PRIFA Bond Claims in Connection with Certain Current Interest Bonds (and the supplement thereto dated October 11, 2021) (together, the “CIBs Election Notice”), or the Election Notice for Ambac Insured PRIFA Bond Claims in Connection with Certain Capital Appreciation Bonds (and the supplement thereto dated October 11, 2021) (together, the “CABs Election Notice” and, with the CIBs Election Notice, the “Election Notices”)).¹



Option 1 and Option 2 Descriptions

There were two options that holders of Ambac-insured PRIFA bonds could elect between.

Option 1 (the Ambac Commutation Treatment) provided that holders would receive the consideration available to PRIFA bondholders under the Qualifying Modification (consisting of an amount of cash and contingent value instruments (“CVIs”)) plus additional cash from Ambac, reduced by recent payments made to those holders under the Ambac policy. Holders electing Option 1 were deemed to have agreed to commute the Ambac policy related to their bonds.

Option 2 (the Ambac Non-Commutation Treatment) provided that beneficial holders would not receive the Ambac Commutation Consideration. Instead, the consideration available

¹ For your convenience, the original CIBs Election Notice (which included the Qualifying Modification and Solicitation Statement as exhibits) can be found on the Kroll website here: <https://cases.ra.kroll.com/puertorico/Home-DownloadPDF?id1=MTA1MTM5OA==&id2=-1>, and the supplement (which included a corrected version of the Qualifying Modification as an exhibit) can be found here: <https://cases.ra.kroll.com/puertorico/Home-DownloadPDF?id1=MTA1NDE2OQ==&id2=-1>. The CABs Election Notice is substantially similar, other than with respect to the amount of cash to be paid under Option 1.

under the Qualifying Modification in respect of a holder's bond would be deposited in a subtrust of the Ambac Trust, along with such holder's bond (and, as a result, the benefit of the Ambac financial guaranty insurance policy insuring such holder's bond), which would then be held by the subtrust's trustee. Electing bondholders would receive trust units, representing the right to receive payments from that particular subtrust, the sources for which would include the cash and CVIs that were part of the consideration available under the Qualifying Modification and the benefit of the Ambac policy. So, under this option, the Ambac policy would remain in effect with respect to any bond for which the holder elected Option 2, but such bond and the benefit of the policy would belong to the subtrust.

Holders were entitled to elect either Option 1 or Option 2, choosing between commuting the Ambac policy in exchange for cash and CVIs (Option 1) or keeping Ambac's policy obligations in effect but transferring the benefit of those obligations to the subtrust and having the consideration available under the QM deposited in the trust also (Option 2).

Option 2 Elected by Your Clients, Resulting in Exchange of Bonds and Policy for Trust Units



Although your letter doesn't explicitly state whether your clients elected Option 1 or Option 2, from the attachments provided with your letter, they appear to have received the trust units and, thus, must have elected Option 2. By electing Option 2, as of the effective date of the Qualifying Modification, your clients were no longer holders of the PRIFA bonds because, pursuant to the court order approving the Qualifying Modification, those bonds and the benefit of the Ambac policy that had insured payments under such bonds were transferred to the applicable subtrusts, and your clients received trust units in exchange. Therefore, your clients no longer had any rights with respect to the PRIFA bonds or the Ambac policy, other than to the extent of payments made on the trust units by the applicable subtrusts (the sources for which could include, among other things, payments by Ambac to the subtrust under its policy). Please see Section 6.1(b) of the Qualifying Modification approved by the court for further information.

In particular, please note that Section 6.1(b)(C) of the Qualifying Modification provides that holders of Ambac-insured PRIFA bonds whose bonds were transferred to the subtrusts "have no recourse to Ambac or the Ambac Insurance Policies other than as provided for under the terms of the Ambac Trust." The Ambac Trust is also known as the PRIFA Class 61 Trust and was terminated and cancelled as of December 31, 2023, with Ambac earlier having paid the remaining accelerated principal of, and accrued interest on, or, as applicable, compounded amount of, the Ambac-insured PRIFA bonds. While the Ambac Trust was in effect, the Ambac Trust agreement (a draft of which was publicly filed on the court's PRIFA docket²) did not give the former holders of Ambac-insured PRIFA bonds any direct rights with respect to


² Such document was made available on the Kroll website here:

<https://cases.ra.kroll.com/puertorico/Home-DownloadPDF?id1=MTA3MTA0OA==&id2=-1>

the policy; instead, they were entitled to receive payments in respect of their trust units, a portion of which may have been sourced from Ambac payments made to the trustee for the Ambac Trust. Additionally, as noted in the Notice of Termination Event distributed to holders of trust units by the trustee via DTC (notifying such holders of the cancellation of the Ambac Trust), the Ambac policy was released and cancelled as of such cancellation date and Ambac's obligations under its policy and the Ambac Trust were deemed satisfied and discharged in full.

Given the facts and terms of relevant documents described above, including the court-approved Qualifying Modification, your clients, as former holders of Ambac-insured PRIFA bonds, would not be able to make a claim on the Ambac policy, which is no longer in effect.

Scope of Formerly Insured Obligations


In your letter, you seem to indicate that you believe your clients would be entitled to submit a claim on the Ambac policy for "the loss of income upon reinvestment of advancement proceeds" (i.e., the risk that capital returned to an investor must be reinvested at a lower rate of return than the original investment). That is not correct. "Loss of income" is a market risk, not an event insured under the Ambac policy. By its express terms, the Ambac policy insures against one specific event: "Nonpayment," which is defined in the policy as the failure of the bond issuer to have paid principal and interest "Due for Payment." "Loss of income upon reinvestment of advancement proceeds" does not meet that definition. That payment of the returned capital invested by your clients was made sooner than anticipated and may have been reinvested in a lower-yield environment is not a compensable loss under the plain terms of the policy. 

Further, no payment of principal, interest or compounded amounts with respect to your clients' bonds is due and unpaid, given that the bonds were accelerated and eventually paid in full, all in accordance with the court-approved Qualifying Modification and as contemplated under the Option 2 treatment that was elected by your clients. Thus, there was no "Nonpayment" event to trigger any policy payment obligations.

As a result, even if your clients were eligible to submit a claim under the Ambac policy, they could not do so for "loss of income." Further, they would need to follow and comply with, and would be subject to, the terms and conditions in the policy and the PRIFA bond documents related to policy claims for an event of nonpayment. In any event, as described in this letter and pursuant to the court-approved Qualifying Modification and the treatment elected by your clients, Ambac's obligations under its policy and the Ambac Trust have been satisfied and discharged in full.

Acceleration of Ambac-Insured PRIFA Bonds

In your letter, you assert that Ambac "impermissibly modified its insurance policy and impermissibly made advanced payments of interest and principal on non-callable PRIFA

Series 2005C bonds.” That is incorrect. Among other things, please see Section 6.1(c) of the court-approved Qualifying Modification, which provides for the acceleration of the Ambac-insured PRIFA bonds and confirms Ambac’s right under its policy to pay all or portion of the Ambac-insured bonds’ accelerated principal plus accrued interest or, as applicable, compounded amounts. The Election Notices described above that were distributed to Ambac-insured PRIFA bondholders further informed such holders that, under Option 2 as  elected by your clients, Ambac had the sole discretion to pay accelerated principal and accrued interest (or, as applicable, compounded amounts) of all or a portion of the bonds deposited in any subtrust (as the “Ambac Acceleration Price” for such bonds) and that doing so would satisfy Ambac’s obligations under the policy, which would then be fully satisfied, released and discharged as to such bonds. And the Ambac Trust agreement also confirmed that Ambac had the option to prepay in whole or in part the accelerated amounts and that, upon payment, such bonds would be terminated and Ambac and Ambac’s policy obligations would be satisfied and discharged. Accordingly, when the final payments of accelerated principal, accrued interest and compounded amounts were made in respect of the Ambac-insured bonds held by the trustee for the Ambac Trust, Ambac’s policy obligations were satisfied and discharged in accordance with the order of the Title VI court and related documents.

The rights and obligations of all parties, including your clients and Ambac, were determined through a comprehensive federal judicial process governed by PROMESA. After extensive litigation, the U.S. District Court conclusively determined the treatment of all PRIFA bonds. The court’s confirmation order is a final judgment that is binding on your clients and all other bondholders. These matters have been fully and finally adjudicated by a court of competent jurisdiction and are no longer open to collateral attack.

Please let me know if you have any further questions.

Sincerely,



David N. Abramowitz
Managing Director and General Counsel, Public Finance
Ambac Assurance Corporation