Credit Opinion: **RAM Reinsurance Company Ltd.**

RAM Reinsurance Company Ltd.

Hamilton, Bermuda

Ratings

Category	Moody's Rating
Outlook	Stable
Insurance Financial Strength	Aa3
Parent: RAM Holdings, Ltd.	
Outlook	Stable
Preference Stock	Baa1
Blue Water Trust I	
Outlook	Stable
Bkd Preferred Stock	A2

Contacts

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Key Indicators

RAM Reinsurance Company Ltd.
(in millions)

	2006	2005	2004	2003	2002
Gross Par Written	$ 8,246	$ 8,401	$ 8,061	$ 6,164	$ 4,745
Gross Premiums Written	$ 78	$ 68	$ 66	$ 68	$ 36
Net Par Outstanding	$ 31,119	$ 27,054	$ 22,154	$ 19,775	$ 15,860
Hard Capital [1]	$ 592	$ 553	$ 484	$ 409	$ 249
Net Income	$ 41	$ 20	$ 25	$ 21	$ 14
Strategy & Franchise Value					
% of Industry Net Par Outstanding	1.3%	1.3%	1.2%	1.2%	1.1%
Portfolio Characteristics					
Credit Risk Ratio (bps) [1]	54.1	53.5	51.4	45.9	40.5
Tail Risk Ratio (bps) [1]	162	164.3	154.7	163.3	137
Capital Adequacy					
Hard Capital Ratio [1][2]	1.33x	1.32x	1.39x	1.44x	1.30x
Total Capital Ratio [1][2]	1.44x	1.40x	1.50x	1.56x	1.31x
Par Reinsured	0.2%	0.0%	0.0%	0.0%	0.0%
Profitability					
Return on Equity	11.5%	7.0%	7.4%	9.0%	8.8%
Loss Ratio (SAP)	-5.0%	18.3%	15.9%	5.8%	18.1%
Expense Ratio (SAP)	51.2%	50.8%	45.3%	43.7%	53.1%
Financial Flexibility					
Earnings Coverage	15.3x	8.7x	10.9x	NM	NM
Cash Flow Coverage	17.9x	13.1x	17.1x	NM	NM
Adjusted Double Leverage	111.4%	110.1%	113.1%	101.5%	106.0%

[1] 2006 Figures as of June 30, 2006 [2] Hard and Total Capital Ratios measured at Aa Confidence Interval

Opinion

SUMMARY RATING RATIONALE

Moody's Aa3 insurance financial strength rating on RAM Reinsurance Company Ltd. (RAM Re) reflects the company's adequate business profile in the financial guaranty reinsurance market segment with strong business relationships with the primary financial guarantors and strong governance and risk management practices. The company's ratings are also supported by its good financial profile, including its strong capital adequacy metrics and its high-quality, well-diversified insured portfolio. These strengths are tempered somewhat by the company's weak (albeit improving) profitability in recent years and by the sensitivity of the company's franchise to rating triggers in its reinsurance contracts.

RAM Re provides monoline financial guaranty reinsurance to the primary financial guarantors. The company's prudent underwriting standards and moderate single risk limits have enabled it to build a high quality and well-diversified insurance portfolio with approximately $32.5 billion of par exposure at March 31, 2007.

Credit Strengths

Key credit strengths for the company include:

- High quality and well-diversified insured portfolio, as measured by the company's strong credit risk and tail risk ratio metrics

- Highly transparent risks and business strategy

- Experienced management and underwriting staff

- Strong relations with primaries are yielding more treaty volume

- Strong risk-adjusted capitalization following issuance of $75 million of preference shares

- Tax-advantaged status of Bermuda domicile

Credit Challenges

Key credit challenges for the company include:

- Certain single or correlated risk concentrations in the reinsured portfolio could be vulnerable to adverse credit environment and event risks

- Smaller market share and capital base relative to its competitors and reliance on new capital to meaningfully grow portfolio

- Alternatives to monoline reinsurance and new entrants could increase competition

- Sensitivity of the franchise to the primaries' perception of reinsurance benefits and rating triggers in reinsurance contracts

Rating Outlook

The outlook for RAM Re's Aa3 insurance financial strength rating is stable.

What Could Change the Rating - Up

The following factors could result in an upgrade:

- Substantial improvement in firm's market share (e.g. 30%+ of reinsurance gross par written)

- 3 year average ROE in excess of 11% would be a credit positive

- Financial guaranty reinsurers are not anticipated to achieve ratings above Aa levels

What Could Change the Rating - Down

The following factors could result in a downgrade:

- Significant deterioration in the competitive environment or product demand

- Hard and total capital ratios falling below 1.3x without corrective action

- Failure to achieve a 3-year average ROE in excess of 9% over the intermediate term would be a credit negative

- Double leverage in excess of 125%

- Extensive diversification into higher risk businesses

Recent Results and Developments

For the year ended December 31, 2006, RAM Holdings Ltd. reported net income of $41 million, with adjusted net premiums written and net par written of $95.4 million, and $8.2 billion, respectively. As of December 31, 2006, RAM Re's net par outstanding was $31.1 billion, up from $27 billion at year-end 2005. As of December 31, 2006, RAM Holdings Ltd. had reported shareholders' equity (ex-AOCI) of $385 million and adjusted shareholders' equity (ex-AOCI) of $441 million as a result of the $75 million in preference shares that were issued in December 2006 and accorded "Basket D" treatment on Moody's Debt-Equity hybrid continuum.

DETAILED RATING CONSIDERATIONS

Moody's rates RAM Re Aa3 for insurance financial strength, which is consistent with Moody's rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 - Franchise Value and Strategy: A

RAM Re had a 14.5% financial guaranty reinsurance market share in 2005, as measured by gross par written, which falls outside of the range we would consider to be supportive of a Aa rating (e.g. reinsurance market share above 33%). That said, the company continues to grow rapidly and Moody's expects RAM Re to remain a key competitor in the financial guaranty reinsurance market. RAM Re's ABV to BV ratio of 1.10x is below that of its reinsurance peers. In Moody's opinion, RAM Re maintains strong governance and risk management practices, which are supportive of the company's Aa3 insurance financial strength rating.

Factor 2 - Portfolio Characteristics: Aaa

RAM Re's preliminary 2Q2006 credit risk and tail risk ratios of 54 basis points and 162 basis points, respectively, are higher than the reinsurance peer group averages (where lower is better). The company's credit risk ratio is within Aaa-level parameters, while the tail risk ratio falls within Moody's expectations for a Aa-rated company. As calculated by Moody's, RAM Re's non-investment grade insured portfolio exposures are a modest proportion of the overall portfolio. RAM Re's solidly constructed diverse insured portfolio results in light worst case modeled losses relative to capital compared to its peers.

Factor 3 - Capital Adequacy: Aa

RAM Re's preliminary 2Q2006 hard and total capital ratios, at 1.33x and 1.44x, respectively (as measured against Aa level confidence intervals), remain above our 1.3x benchmark, indicating the company maintains an adequate level of capital adequacy for its rating level. Going forward, the company's December 2006 issuance of $75 million in Series A non-cumulative preference shares should meaningfully increase the company's capital adequacy ratios.

Factor 4 - Profitability: A

With a 3 year average ROE at approximately 8.6% (as of YE2006), RAM Re's profitability is below that of its peers. To mitigate potential rating pressure, Moody's expects RAM Re to achieve returns on equity more in line with its competitors in the industry going forward. With a 2006 ROE of 11.5%, things are moving in the right direction. RAM Re's loss and expense ratios (3 year averages of 9.7% and 49.1%, respectively at YE2006) are in line with those of its peers. Moody's views these metrics using a three year average to smooth out the volatility that incurred losses can create from year to year. As the company continues to increase in size, we would expect the expense ratio to continue to move downward, though the expenses associated with being a publicly-traded entity may frustrate significant progress in lowering the expense ratio in the near term.

Factor 5 - Financial Flexibility: Aa

RAM Re's 2006 earnings coverage of interest expense was approximately 15.3x. At year-end 2006, unrestricted dividend capacity coverage of interest expense at levels in excess of nearly 18x is considered to be excellent and supportive of the company's rating. Moody's notes that these measures will decline somewhat in 2007 as the issuance of $75 million of 7.5% preference shares will result in an additional $5.6 million in fixed charges per year. Adjusted double leverage (a proxy for financial leverage) of 111.4% at year-end 2006 is consistent with the range deemed to be reflective of ratings higher than Aa and within our expectation that RAM maintain double leverage below 125%. Finally, in Moody's opinion, RAM Re has adequate access to the capital markets.

Rating Factors

RAM Reinsurance Company Ltd.

Rating Factors [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**Adjusted Score**
Strategy & Franchise Value (25%)						**A**	**A**
% of Industry Net Par Outstanding				1.3%			
% of Industry Reinsurance Gross Par Written [3]			14.5%				
Moody's Adjusted Book Value/Book Value [3]			1.10x				
Client Concentration				X			
Management, Governance & Risk Management Oversight		X					
Portfolio Characteristics (20%)						**Aaa**	**Aaa**
Credit Risk Ratio [4]	54.1						
Tail Risk Ratio [4]		162					
% Below Investment Grade [5]	1.7%						
S (WCL > 10% of HC) / HC [5]	49%						
Capital Adequacy (30%)						**Aa**	**Aa**
Hard Capital Ratio [6]		1.21x					
Total Capital Ratio [6]		1.29x					
Par Reinsured	0.2%						
Profitability (15%)						**A**	**A**
Return on Equity - 3 year average			8.6%				
Loss Ratio (SAP) - 3-year average	9.7%						
Expense Ratio (SAP) - 3-year average			49.1%				
Financial Flexibility (10%)						**Aaa**	**Aaa**
Earnings Coverage	15.3x						
Cash Flow Coverage	17.9x						
Adjusted Double Leverage	111.4%						
Ease of Access to Capital			X				
Total Scorecard Rating						**Aa3**	**Aa3**

[1] Metrics as of YE2006, 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] Metrics as of YE2005 [4] Metrics as of 2Q2006 [5] Metrics as of YE2005. [6] Metrics as of 2Q2006.