For Immediate Release

ACA Financial Guaranty Sues Goldman Sachs for Fraud

Suit Seeks $30 Million in Compensatory and $90 Million in Punitive Damages from Goldman Sachs Over Its Role in Developing and Marketing the Synthetic CDO "ABACUS"

New York, NY — January 6, 2011 — ACA Financial Guaranty Corporation (ACA), a monoline bond insurance company now operating in run off, filed suit today against Goldman Sachs & Co. (Goldman Sachs) for fraud and unjust enrichment in connection with a synthetic collateralized debt obligation (CDO) called ABACUS 2007-AC1 (ABACUS), which Goldman Sachs developed and sold on behalf of its hedge fund client Paulson & Co. Inc. (Paulson) in 2007. ACA was misled by Goldman's fraudulent activities and is seeking $30 million in compensatory and $90 million in punitive damages.

According to the complaint, filed in the Commercial Division of the Supreme Court of the State of New York, New York County, this fraud action arises from the egregious conduct of Goldman Sachs in developing and marketing ABACUS based on a portfolio of investment securities selected largely by its hedge fund client, Paulson. Goldman Sachs's scheme was to design ABACUS to fail, so that Paulson could reap huge profits by shorting the portfolio and Goldman Sachs could reap huge investment banking fees. Goldman Sachs fraudulently induced ACA to take a long position in and provide guaranty insurance for ABACUS. Goldman Sachs did so by deceiving ACA into believing that Paulson also was to be a long investor in ABACUS. In fact, as Goldman Sachs knew, Paulson intended instead to take an enormous short position in ABACUS, reaping nearly $1 billion when the portfolio failed.

As the complaint alleges: "ABACUS was worthless at the time Goldman Sachs marketed it to ACA. Had Paulson's true role as a short investor selecting the portfolio been known, neither ACA nor anyone else would have taken a long position in it. Because of Goldman Sachs's deceit -- which led ACA to reasonably believe that ABACUS was a valuable product selected by the equity investor with identical objectives -- ACA invested in what was in fact a worthless product. Goldman Sachs engaged in this egregious misconduct notwithstanding that it expressly acknowledged that its participation presented 'reputational risk' and after at least one other major investment bank declined to participate for that very reason." Goldman Sachs has since settled SEC civil charges arising out of this fraudulent conduct, agreeing to pay a $550 million fine.

ACA is represented by Marc E. Kasowitz of Kasowitz, Benson, Torres & Friedman LLP.

About ACA Financial Guaranty Corporation

Founded in 1997, ACA Financial Guaranty Corporation is a monoline bond insurance company licensed in 50 states and 5 territories and regulated by the Maryland Insurance Administration. On August 8, 2008, the Company and counterparties to its structured finance products reached an agreement on a restructuring plan for ACA. The plan, approved by the Maryland Insurance Administration, provided for settlement of the structured finance obligations and protection for ACA's municipal policyholders. ACA will operate as a runoff insurance company and focus on actively monitoring its remaining insured municipal obligations. ACA's portfolio consists of approximately 700 policies guarantying timely payment of principal and interest on more than $7 billion of generally high yield municipal bonds.

Contact:

Elliot Sloane
212-446-1860
esloane@sloanepr.com

Whit Clay
212-446-1864
wclay@sloanepr.com