

August 1, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Forbearance Agreement Between Jefferson County, Alabama and
XL Capital Assurance Inc.

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of October 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent, and JPMorgan Chase Bank, as liquidity provider, relating to Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-2 and the Standby Warrant Purchase Agreements annexed thereto as Schedule 1 (collectively, the "Standby Agreements"); (b) the various Forbearance Agreements and Reservations of Rights, each dated as of March 31, 2008, among the County, the Trustee, XL Capital Assurance Inc. ("XLCA") and each applicable Bank (collectively, the "Banks") (each as amended by a First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008) (collectively, as amended, the "Original Forbearance Agreements"); (c) the letters from each of the Banks to the County dated May 13, 2008, regarding the Standby Agreements and the Original Forbearance Agreements, (d) the Forbearance Agreements between the County, each of the Banks (as applicable), the Trustee, XLCA and FGIC dated on or about May 30, 2008; (e) the Forbearance Agreement between the County and XLCA dated on or about June 2, 2008; and (f) the Forbearance Agreements between the County, each of the Banks (as applicable), the Trustee, XLCA and FGIC dated on or about [July 31], 2008 (the "Subsequent Forbearance Letters") (the documents described in clauses (b), (c), (d), (e), and (f) are collectively referred to as the "Forbearance Agreements"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreements or the Forbearance Agreements, as applicable.

As you know, pursuant to the Forbearance Agreements, the Banks agreed not to exercise any of their rights and remedies in respect of certain Events of Default under the Standby Agreements prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on

November 17, 2008, subject to the provisions set forth below. Such agreement terminates in the event that, among other things, interest and principal payments are not made to the Banks as set forth in Sections 2 and 3 of the Subsequent Forbearance Letters.

The County, XLCA, and the Trustee agree to the terms of this letter agreement on the basis of the representations and agreements set forth herein.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of XLCA's willingness to fully explore that mutual goal, XLCA has agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, XLCA shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that XLCA or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Master Indenture, the Standby Agreements, the Warrants, each Bond Insurance Policy, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Master Indenture or other Related Documents as of the date of this letter agreement; provided that the Forbearance Period shall terminate automatically and without notice (except as set forth below) upon the occurrence of any of the following: (a) the occurrence of an Event of Insolvency in respect of the County under clauses (a), (b), (c), or (f) (as clause (f) relates to clause (a), (b) or (c)) of the definition of such term in the Standby Agreement; (b) the occurrence of an Insurer Event of Default or any default under any DSRF Insurance Policy; (c) the commencement by the County or any other party of an action against Banks, Liquidity Agent, or Trustee with respect to or otherwise challenging the rights of Banks, Liquidity Agent, or Trustee under the Standby Agreements, the Bank Warrants, or other Related Documents or Banks', Liquidity Agent's, or Trustee's actions or omissions in connection therewith; (d) the commencement by any Party of any action against the County or the County commissioners with respect to the Standby Agreements, the Warrants, the Master Indenture, the Bond Insurance Policies, the Swap Agreements, or any Related Documents; (e) the commencement by the County of a case under Chapter 9 of the United States Bankruptcy Code; (f) Trustee's declaration pursuant to the Indenture that the Parity Securities are all immediately due and payable; (g) the County fails to make any payment of principal or interest on any of its outstanding sewer indebtedness as and when due and payable in accordance with the applicable documents governing such indebtedness, as modified by the Forbearance Agreements (other than the amounts expected to be drawn under XLCA's Municipal Bond Insurance Policies, as set forth in Section 3(ii) of certain of the Subsequent Forbearance Letters); (h) the forbearance period under the Subsequent Forbearance Letters terminates or expires; (i) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"); (j) on or before 12:00 p.m. (prevailing Birmingham, Alabama time) on September

29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"); (k) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008; (l) any breach by the County of its agreements or obligations under this agreement; (m) upon five (5) business days written notice by XLCA to the Banks and the County, if XLCA determines in good faith that the County has no prospect of negotiating or has ceased negotiating in good faith with XLCA or the Banks, in each case during the Forbearance Period, the restructuring of the County's sewer related indebtedness (in a manner that will be reasonably acceptable to XLCA); and (n) upon five (5) business days written notice by XLCA to the County, if XLCA, after consultation with its advisors, determines that the County has no reasonable prospect to be able to satisfy the requirements of the Governor of the State of Alabama for convening a special session of the Alabama Legislature for the purpose of approving the elements of the County's plan for the restructuring of its sewer system debt that require legislative approval.

2. Conditions Precedent. The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery of (i) this letter, (ii) each of the Subsequent Forbearance Letters, and (iii) each of the forbearance letters with respect to each of the Swap Agreements. Copies of all such documents shall be provided by the County to the Bond Insurers and the Trustee immediately upon their execution and delivery to the County.

3. Representations and Agreements by the County. The County hereby represents and agrees (a) that the redemption schedule set forth in each Redemption Notice, as modified by certain Notice and Officer's Certificates and Redemption Date Deferral Letters (each dated July 30, 2008), sets forth the dates on which such principal installments on the Bank Warrants will be "Due for Payment" as such term is used in the applicable Municipal Bond Insurance Policy; (b) in connection with any consensual restructuring of the County's sewer related indebtedness, the County shall reimburse XLCA for any then existing and unreimbursed draw under any XLCA Municipal Bond Insurance Policy; and (c) to (i) promptly provide the Bond Insurers with all information that is provided to any third party (including, without limitation, any Liquidity Agent, any Bank and/or any Swap Counterparty) in connection with any proposal by the County for the restructuring of its sewer related indebtedness and (ii) make reasonable efforts to arrange and conduct weekly conference calls between the County and the Bond Insurers and their respective professional advisors, at mutually convenient times, to provide the Bond Insurers with updates of the County's progress towards restructuring its sewer related indebtedness.

4. Reservation of Rights. Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by the County or XLCA in relation to the Standby Agreements, the

Forbearance Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, the other Related Documents, and any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County from any of its obligations under the Standby Agreements, the Forbearance Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, or any Related Documents, and the terms and conditions of the Standby Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

5. **Scope of Agreement.** This letter does not constitute a waiver, an amendment or modification of the Standby Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, or any Related Documents, and the terms and conditions of the Standby Agreements, the Warrants, the Bond Insurance Policies, the Master Indenture, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

6. **Representations, Warranties, Covenants and Undertakings of the County.** The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained.

7. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

8. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed

signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

9. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter (and any documents referred to herein) contains the whole agreement among the Parties relating to the subject matter of this letter, and supersedes all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter, it has not relied on any representation or warranty (except those set forth in this letter) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Forbearance Agreements, the Standby Agreements, the Bank Warrants, each Bond Insurance Policy, the Master Indenture, the other Related Documents, and any and all documents related thereto.

10. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that any provision hereof constitutes an amendment to any relevant document requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

XL CAPITAL ASSURANCE INC.

By:


Title: *President and Chief Operating Officer*

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: Betty Jane Collins
Title: **PRESIDENT**

THE BANK OF NEW YORK, AS TRUSTEE

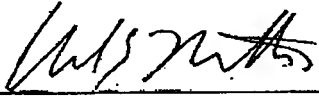
By: _____
Title: _____

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

THE BANK OF NEW YORK MELLON, AS TRUSTEE

By:  _____
Title: Vice President

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and The Bank of Nova Scotia

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of May 1, 2003, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and The Bank of Nova Scotia, as liquidity provider (the "Bank"), relating to the \$73,700,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-4 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008.

Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$3,541,949 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$3,541,949 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount

equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$3,541,949, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$3,541,949; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$3,541,949 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents

related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$4,605,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond-Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter),

the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County. The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

8. Representations of Undersigned Bond Insurers. The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of

this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

9. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

10. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

11. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

12. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

THE BANK OF NOVA SCOTIA

By: _____
 Title: _____

J. ALAN EDWARDS
MANAGING DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title: _____

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title: _____

XL CAPITAL ASSURANCE INC.

By: _____
Title: _____

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

THE BANK OF NOVA SCOTIA

By: 
Title: _____
J. ALAN EDWARDS
MANAGING DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: 
Title: _____
PRESIDENT

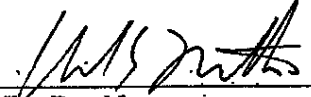
FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title: _____

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: 
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR



THE BANK OF NEW YORK MELLON

August 1, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

**Standby Warrant Purchase Agreement and Related Forbearance Agreement
Between Jefferson County and The Bank of New York Mellon**

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of May 1, 2003, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as Trustee (the "Trustee"), The Bank of New York Mellon, formerly The Bank of New York (the "Bank"), as liquidity provider, and JPMorgan Chase Bank (the "Liquidity Agent"), as liquidity agent, relating to the County's Sewer Revenue Refunding Warrants, Series 2003-B-3 and Series 2003-B-4 (the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA"), the Liquidity Agent, and the Bank, as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008 (the "Original Forbearance Agreement"); (c) the letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement. The documents described in clauses (b), (c), and (d) are referred to as the "Forbearance Agreement." Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise

any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$2,401,534.76 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$2,401,534.76 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby

Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$2,401,534.76, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$2,401,534.76; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$2,401,534.76 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period termination event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under the Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with

the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the redemption of \$3,130,000 principal amount of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not, and may state that it does not, alter in any way the forbearance termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Expiration Date.** The Expiration Date (as such term is defined in the Standby Agreement) shall not occur until the termination or expiration of the Forbearance Period; provided, however, that for purposes of the definition of "Bank Rate" in the Standby Agreement, the Expiration Date shall remain at April 23, 2008 as set forth in the Forbearance Agreement. XLCA confirms that the Bank Rate as calculated in conformity with the preceding sentence constitutes the Bank Rate for purposes of the Municipal Bond Insurance Policy.

5. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

6. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or

delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

7. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or a modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

8. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

9. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms

thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

10. Governing Law. This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

11. Counterparts. This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

12. Due Authorization; Integration. Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

13. Consent. Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections

2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

THE BANK OF NEW YORK MELLON,
formerly the Bank of New York

By: 
Title: Managing Director

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

THE BANK OF NEW YORK MELLON,
formerly the Bank of New York

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: *Walter Gene Collins*
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

THE BANK OF NEW YORK MELLON,
formerly the Bank of New York

By: _____
Title:

CONSENT AND AGREE:


JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: 
Title: _____

THE BANK OF NEW YORK MELLON, formerly The Bank of New York, as Trustee

By: _____
Title: _____

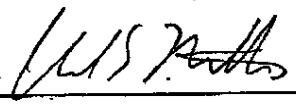
JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title: _____

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON, formerly The Bank of New York, as Trustee

By: 
Title: ~~VICE PRESIDENT~~

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON, formerly The Bank of New York, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and Bank of America, N.A.

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of October 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and Bank of America, N.A., as liquidity provider (the "Bank"), relating to the \$98,300,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-3 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June

2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$4,591,880.55 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$4,591,880.55 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding

sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$4,591,880.55, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$4,591,880.55; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$4,591,880.55 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants,

each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$5,976,250.00 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms

and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County. The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

8. Representations of Undersigned Bond Insurers. The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one

hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

9. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

10. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

11. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

12. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.


We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

BANK OF AMERICA, N.A.

By:

Title:



SVP

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: *Pattye Jane Collins*
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
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FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
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XL CAPITAL ASSURANCE INC.

By:  _____
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By: _____
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JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

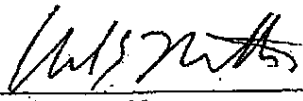
FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By:  _____
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A Austin
Title: EXECUTIVE DIRECTOR



July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and JPMorgan Chase Bank

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of October 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and JPMorgan Chase Bank, as liquidity provider (the "Bank"), relating to the \$73,700,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-2 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June

2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. Forbearance. In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$3,526,194.53 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$3,526,194.53 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. Payment of Interest. On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding

sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$3,526,194.53, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$3,526,194.53; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$3,526,194.53 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants,

each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$4,585,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. Conditions Precedent. The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. Reservation of Rights. Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. Scope of Agreement. Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms

and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County. The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

8. Representations of Undersigned Bond Insurers. The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one

hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

9. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

10. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

11. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

12. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

By: William A. Austin
Title: EXECUTIVE DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: Betty Gene Collins
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

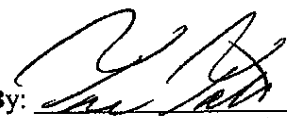
By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

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Sincerely,

JPMORGAN CHASE BANK

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

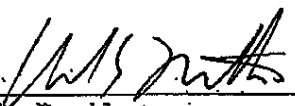
FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By:  _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: 
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR



July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and JPMorgan Chase Bank

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of February 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), and JPMorgan Chase Bank, as liquidity provider (the "Bank"), relating to the \$110,000,000 Jefferson County, Alabama Sewer Revenue Capital Improvement Warrants Series 2002-A (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June

2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's willingness to fully explore that mutual goal, the Bank has agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$8,535,000 as described in Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable

Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. FGIC approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$8,535,000. As set forth in the Bank's letter to the Trustee, dated July 30, 2008, relating to the deferral of redemption dates under the Redemption Notice (the "Redemption Date Deferral Letter"), the Bank agreed to defer to October 1, 2008, \$8,535,000 of the amount that would otherwise be scheduled to be redeemed on August 1, 2008. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of such partial payment of principal by the Bank shall not constitute a waiver of the bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the payment of principal in accordance with the terms of the Standby Agreement, the Bank Warrants and the Related Documents. The Bank and the Trustee agree that until the termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur if the County does not redeem the Bank Warrants under Section 3.02 of the Standby Agreement in excess of the amount paid no later than August 4, 2008 pursuant to this Section 3 so as to enable the Trustee to pay the first quarterly principal installment originally scheduled to be paid on the first Business Day of April 2008, the second quarterly installment originally scheduled to be paid on the first Business Day of July 2008, or the quarterly installment scheduled to be paid on the first Business Day of August 2008. The County and FGIC acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. FGIC approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments

payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 (i) \$8,535,000 of the amount that would otherwise have been scheduled to be redeemed on August 1, 2008, which was deferred to October 1, 2008 pursuant to the Redemption Date Deferral Letter and (ii) the \$8,975,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. Conditions Precedent. The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. Reservation of Rights. Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

8. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. FGIC hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all

documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

9. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

10. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

11. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

12. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby

Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

By: William A. Austin
Title: EXECUTIVE DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: Betty Jane Collins
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

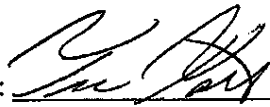
By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

JPMORGAN CHASE BANK

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

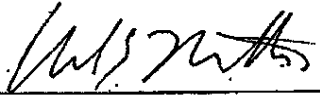
FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: 
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: 
Title: Vice President

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and Lloyds TSB Bank TLC

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of May 1, 2003, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and Lloyds TSB Bank TLC, as liquidity provider (the "Bank"), relating to the \$105,000,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2003-B-7 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June

2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$5,045,072.12 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$5,045,072.12 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding

sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$5,045,072.12, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$5,045,072.12; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$5,045,072.12 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants,

each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$6,565,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Expiration Date.** The Expiration Date (as such term is defined in the Standby Agreement) shall not occur until the end of the Forbearance Period; provided, however, that for purposes of the definition of "Bank Rate" in the Standby Agreement, the Expiration Date shall remain at April 23, 2008 as set forth in the Forbearance Agreement. XLCA confirms that the Bank Rate as calculated in conformity with the preceding sentence constitutes the Bank Rate for purposes of the Municipal Bond Insurance Policy.

5. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

6. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or

delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

7. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

8. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

9. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms

thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

10. Governing Law. This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

11. Counterparts. This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

12. Due Authorization; Integration. Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.


13. Consent. Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections

2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

LLOYDS TSB BANK PLC

By: 
Title: **Jonathan Smith**
Assistant Vice President
Risk Management & Business Support
S025

By: 
Title: **Eric Isban**
Director
1002

CONSENT AND AGREE:
JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

LLOYDS TSB BANK PLC

By: 
Title: **Assistant Vice President
Risk Management & Business Support
S025**

By: 
Title: **Eric Isban
Director
1002**

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: 
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

LLOYDS TSB BANK PLC

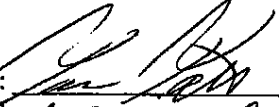
By: 
Title: Assistant Vice President
Risk Management & Business Support
S025

By: 
Title: Eric Isban
Director
1002

CONSENT AND AGREE:
JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: 
Title: AUTHORIZED REPRESENTATIVE

XL CAPITAL ASSURANCE INC.

By: 
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

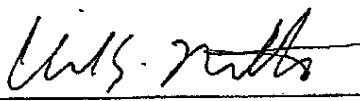
JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

**THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee**

By: 
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR



July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance Agreement
Between Jefferson County and Regions Bank

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of October 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and Regions Bank, as liquidity provider (the "Bank"), relating to the \$49,100,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-7 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due

and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$2,348,870.19 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$2,348,870.19 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per

annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. **Payment of Principal.** The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$2,348,870.19, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$2,348,870.19; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$2,348,870.19 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$3,070,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the

termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

8. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

9. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

10. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

11. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

12. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

REGIONS BANK

By: *N. Ronald Downey III*
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: *Bethy Fine Collins*
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

REGIONS BANK

By: *N. Ronald Downey III*
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: *[Signature]*
Title: *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

REGIONS BANK

By: N. Ronald Jarney III
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: Edward B. [Signature]
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: *W. A. Austin*
Title: ~~VICE PRESIDENT~~

JPMORGAN CHASE BANK, as Liquidity Agent

By: *William A Austin*
Title: EXECUTIVE DIRECTOR

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and Societe Generale, New York
Branch

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of May 1, 2003, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and Societe Generale, New York Branch, as liquidity provider (the "Bank"), relating to the \$55,000,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2003-B-2 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the

Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$2,639,504.44 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$2,639,504.44 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank

interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. Payment of Principal. The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$2,639,504.44, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$2,639,504.44; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$2,639,504.44 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the

Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$3,435,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Expiration Date.** The Expiration Date (as such term is defined in the Standby Agreement) shall not occur until the end of the Forbearance Period; provided, however, that for purposes of the definition of "Bank Rate" in the Standby Agreement, the Expiration Date shall remain at April 23, 2008 as set forth in the Forbearance Agreement. XLCA confirms that the Bank Rate as calculated in conformity with the preceding sentence constitutes the Bank Rate for purposes of the Municipal Bond Insurance Policy.

5. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

6. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and

conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

7. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

8. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

9. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any

governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

10. Governing Law. This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

11. Counterparts. This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

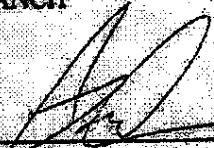
12. Due Authorization; Integration. Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

13. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: 
Title: DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: *Kathryn Jane Collins*
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

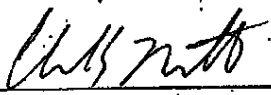
By: _____
Title

XL CAPITAL ASSURANCE INC.

By: 

Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: 
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title:

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and Societe Generale, New York
Branch

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of October 1, 2002, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and Societe Generale, New York Branch, as liquidity provider (the "Bank"), relating to the \$147,600,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2002-C-6 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the forbearance letter from the Bank to the County dated May 13, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the forbearance letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the

Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. Forbearance. In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$6,958,191.60 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$6,958,191.60 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. Payment of Interest. On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank

interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. **Payment of Principal.** The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$6,958,191.60, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$6,958,191.60; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$6,958,191.60 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the

Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$9,050,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

5. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

6. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the

Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

7. Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County. The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

9. Representations of Undersigned Bond Insurers. The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy,

the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

10. Governing Law. This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

11. Counterparts. This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

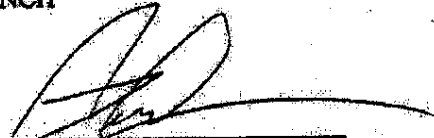
12. Due Authorization; Integration. Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

13. Consent. Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: 
Title: DIRECTOR

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: Betty Jane Collins
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

SOCIETE GENERALE, NEW YORK
BRANCH

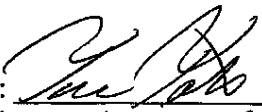
By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

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SOCIETE GENERALE, NEW YORK
BRANCH

By: _____
Title:

CONSENT AND AGREE:

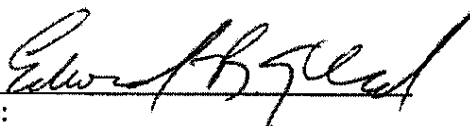
JEFFERSON COUNTY, ALABAMA

By: _____
Title:

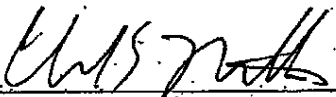
FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title

XL CAPITAL ASSURANCE INC.

By: 
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: 
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Caster
Title: EXECUTIVE DIRECTOR



STATE STREET

July 31, 2008

Jefferson County, Alabama
County Courthouse
716 Richard Arrington Boulevard
Birmingham, Alabama 35203
Attn: President of County Commission

Re: Standby Warrant Purchase Agreement and Related Forbearance
Agreement Between Jefferson County and State Street Bank and Trust
Company

Ladies and Gentlemen:

Reference is made to (a) the Standby Warrant Purchase Agreement, dated as of May 1, 2003, among Jefferson County, Alabama (the "County"), The Bank of New York Mellon, formerly The Bank of New York, as trustee (the "Trustee"), JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), and State Street Bank and Trust Company, as liquidity provider (the "Bank"), relating to the \$75,000,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2003-B-5 and \$15,000,000 Jefferson County, Alabama Sewer Revenue Refunding Warrants Series 2003-B-6 (as amended, supplemented or otherwise modified, the "Standby Agreement"); (b) the Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, among the County, the Trustee, Financial Guaranty Insurance Company ("FGIC"), XL Capital Assurance Inc. ("XLCA") and the Bank (as amended by that certain First Amendment to Forbearance Agreement and Reservation of Rights, dated as of April 15, 2008, the "Original Forbearance Agreement"); (c) the letter from the Bank to the County dated May 14, 2008, regarding the Standby Agreement and the Original Forbearance Agreement; and (d) the letter from the Bank to the County dated May 30, 2008, regarding the Standby Agreement and the Original Forbearance Agreement (the documents described in clauses (b), (c) and (d) are referred to collectively as the "Forbearance Agreement"). Unless otherwise defined, capitalized terms are used herein as defined in the Standby Agreement or the Forbearance Agreement, as applicable.

As you know, pursuant to the Forbearance Agreement, the County has acknowledged that Events of Default have occurred and are continuing under the Standby Agreement, that interest has accrued and continues to accrue at the Default Rate on the Bank Warrants, and that all interest accrued at the Default Rate on the Bank Warrants in

excess of the amount paid by the County to the Bank on April 1, 2008, May 1, 2008, June 2, 2008 and July 1, 2008 shall be due and payable in full on August 1, 2008. Additionally, pursuant to the Forbearance Agreement, the Bank agreed not to exercise any of its rights and remedies in respect of the above-referenced Events of Default prior to 5:00 p.m. (prevailing Birmingham, Alabama time) on July 31, 2008.

1. **Forbearance.** In recognition of the ongoing efforts to reach a consensual restructuring of the County's sewer related indebtedness, and as a further expression of the Bank's and the Liquidity Agent's willingness to fully explore that mutual goal, the Bank and the Liquidity Agent have agreed to proceed as follows: Subject to the terms and conditions hereof, during the period (the "Forbearance Period") from the execution hereof by the Parties hereto until 5:00 p.m. (prevailing Birmingham, Alabama time) on November 17, 2008, the Bank and the Liquidity Agent shall forbear from exercising, and from directing or otherwise taking any action to cause the Trustee to exercise, any rights or remedies that the Bank, the Liquidity Agent or the Trustee has or may have, now or hereafter arising during the Forbearance Period, under or with respect to the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, other Related Documents or applicable law, as a result of any and all defaults and Events of Default existing under the Standby Agreement; provided that the Forbearance Period shall terminate automatically and without notice upon the occurrence of any of the following: (a) any other Forbearance Period Termination Event shall occur (except for those Forbearance Period Termination Events set forth in subsections (a) and (f) of section 1 of the Original Forbearance Agreement), (b) the Bank shall not receive the interest payments described in Section 2 of this letter payable on each of August 1, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, (c) the Bank shall not receive on or before August 4, 2008, (i) a principal payment on account of the Bank Warrants in the amount of \$4,322,154.22 as described in clause (i) of Section 3 of this letter and (ii) an additional principal payment on account of the Bank Warrants in the amount of \$4,322,154.21 as described in clause (ii) of Section 3 of this letter, (d) the forbearance period under the forbearance agreement to be entered into between the County and XLCA shall terminate or expire, (e) the Governor of the State of Alabama shall not have called, on or before August 29, 2008, a special session of the Alabama Legislature for the purpose of enacting legislation and/or proposing an Alabama constitutional amendment that would permit the implementation of a restructuring plan contemplating a refunding in full of the Bank Warrants (the "Proposed Plan"), (f) on or before 12 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, the Alabama Legislature shall not have taken all necessary legislative action required to authorize implementation of the Proposed Plan, including, if applicable, all action required to permit any necessary Alabama constitutional amendment to be on the ballot for the November 4, 2008 general election (the "Referendum"), or (g) the Referendum shall not have received a favorable vote by a majority of votes cast on the Referendum on or before November 4, 2008.

2. **Payment of Interest.** On each of August 4, 2008, September 2, 2008, October 1, 2008 and November 3, 2008, in partial payment of the amount of interest accrued on the Bank Warrants, the County shall pay or cause to be paid to the Bank interest on the Bank Warrants that has accrued at the applicable Bank Rate, as such term

is defined in the Standby Agreement. The interest payable pursuant to the preceding sentence on August 4, 2008 shall include interest on the Bank Warrants in an amount equal to the excess, if any, of (i) the amount of interest calculated pursuant to the Standby Agreement during the period from March 1, 2008 through July 31, 2008 at the applicable Bank Rate over (ii) the interest at the Base Rate plus 1% per annum actually paid to the Bank during such period pursuant to the Forbearance Agreement. Subject only to the forbearance in effect during the Forbearance Period, the acceptance of payments of interest that are not calculated at the Default Rate shall not constitute a waiver of the Bank's rights under the Standby Agreement, the Bank Warrants, the Related Documents, and applicable law to the accrual and payment of interest at the Default Rate in accordance with the terms of the Standby Agreement, the Bank Warrants, and the Related Documents. The County acknowledges that in accordance with the terms of the Standby Agreement, from January 24, 2008, the date of the first occurrence of any continuing Event of Default, interest on the Bank Warrants has accrued and will continue to accrue at the Default Rate, and that all interest on the Bank Warrants accrued and continuing to accrue at the Default Rate shall be due and payable in full by the County upon expiration or termination of the Forbearance Period. The Bank, the Liquidity Agent and the Trustee agree that until the expiration or termination of the Forbearance Period, no additional Event of Default under the Standby Agreement will occur as a result of the County's failure to pay interest on the Bank Warrants calculated at the Default Rate. XLCA approves of the provisions of this Section 2 and acknowledges and confirms that all interest accrued and accruing on the Bank Warrants is insured by the Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

3. **Payment of Principal.** The Bank shall be paid (i) no later than August 4, 2008, a partial principal payment on the Bank Warrants in the amount of \$4,322,154.22, and (ii) no later than August 4, 2008, an additional partial principal payment on the Bank Warrants in the amount of \$4,322,154.21; provided, that the Parties acknowledge and agree that (a) the payment referenced in this clause (ii) shall be made by XLCA pursuant to the applicable Municipal Bond Insurance Policy, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, the applicable Municipal Bond Insurance Policy, the other Related Documents, and all documents related thereto, (b) the failure for any reason of the Bank to receive the \$4,322,154.21 payment referenced in this clause (ii) on or prior to August 4, 2008, shall constitute a Forbearance Period Termination Event, and (c) nothing contained herein shall create or cause to be incurred any separate or independent obligation of or by XLCA to make any payment under any Municipal Bond Insurance Policy or otherwise. The County and XLCA acknowledge that nothing herein is intended or shall be deemed to prejudice or otherwise alter the County's covenants and agreements in accordance with the provisions of Section 3.02 of the Standby Agreement and that such covenants and agreements of the County shall be fully enforceable upon the expiration or termination of the Forbearance Period. XLCA approves of the provisions of this Section 3 and acknowledges and confirms that all quarterly principal installments payable by the County in respect of the Bank Warrants are insured by the Municipal Bond Insurance Policy, subject, to the extent

applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. As long as the Forbearance Period shall not have terminated in accordance with the terms hereof, the Bank agrees to deliver to the Trustee, no later than 12:00 p.m. (prevailing Birmingham, Alabama time) on September 29, 2008, a letter pursuant to the Redemption Notice deferring until November 17, 2008 the \$5,625,000 of Bank Warrants originally scheduled to be redeemed on October 1, 2008 under the Redemption Notice (the "Deferral Notice"). The Deferral Notice shall not alter in any way the termination events set forth in Section 1 hereof, or otherwise limit or alter the Bank's rights upon termination of the Forbearance Period prior to November 17, 2008.

4. **Expiration Date.** The Expiration Date (as such term is defined in the Standby Agreement) shall not occur until the end of the Forbearance Period; provided, however, that for purposes of the definition of "Bank Rate" in the Standby Agreement, the Expiration Date shall remain at April 23, 2008 as set forth in the Forbearance Agreement. XLCA confirms that the Bank Rate as calculated in conformity with the preceding sentence constitutes the Bank Rate for purposes of the Municipal Bond Insurance Policy.

5. **Conditions Precedent.** The obligations of the Parties hereunder and the enforceability of the terms and conditions of this letter against the Parties are conditioned expressly upon the execution and delivery (a) by the Parties of this letter and (b) of forbearance letters with respect to each of the Other Standby Agreements and Swap Agreement, which letters shall be in a form approved by Bank. Copies of all such documents shall be provided by the County to the Bank, the Liquidity Agent, the Bond Insurers, and the Trustee immediately upon their execution and delivery to the County.

6. **Reservation of Rights.** Nothing contained in this letter is intended as or shall constitute an alteration, waiver or release of any rights, remedies, claims, causes of action, or defenses by any of the Parties in relation to the Standby Agreement (except as set forth in Sections 2 and 3 of this letter), the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, any and all documents related thereto, or at law or in equity, and all such rights, remedies, claims, causes of action, and defenses of the Parties are hereby reserved. Nothing contained in this letter is intended as or shall constitute an admission of liability on the part of any Party, nor shall anything contained in this letter enhance, prejudice, or otherwise alter in any manner any Party's rights, remedies, claims, causes of action, or defenses against any other Party or Person. Nothing contained in this letter shall be deemed to waive any existing Events of Default, or relieve or release the County or the Bond Insurers from any of their respective obligations, as applicable, under the Standby Agreement, the Forbearance Agreement, the Bank Warrants, the Bond Insurance Policies, or any Related Documents, or from the consequences of the existing Events of Default or any other Event of Default. This letter does not constitute an amendment or modification of the Standby Agreement (except as set forth in sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement, the Bank Warrants, the Bond Insurance Policies,

and all Related Documents shall remain in full force and effect. No failure to exercise or delay in exercising any right or power shall preclude any other or further exercise thereof, and nothing contained herein shall be deemed to constitute an election of remedies.

7. **Scope of Agreement.** Except as expressly amended hereby, the terms of the Forbearance Agreement remain in full force and effect. Neither this letter nor the Forbearance Agreement constitutes a waiver, an amendment or modification of the Standby Agreement (except as expressly set forth in Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, or any Related Documents, and the terms and conditions of the Standby Agreement (as modified by Sections 2 and 3 of this letter), the Bank Warrants, the Bond Insurance Policies, and all Related Documents shall remain in full force and effect. This letter shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. The terms of this letter may not be changed, modified, waived, discharged or terminated orally, but only by an instrument or instruments in writing, signed by the Party against whom the enforcement of the change, modification, waiver, discharge or termination is asserted.

8. **Reaffirmation of Representations, Warranties, Covenants and Undertakings of the County.** The County hereby reaffirms that all representations and warranties made by the County in the Forbearance Agreement remain true and correct as of the date of this letter, and hereby reaffirms as of the date hereof each of its covenants and undertakings under the Forbearance Agreement. The execution, delivery and performance of this letter by the County has been duly authorized by all applicable procedures, and does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the County's organizational documents or any contractual restriction binding on the County (including any agreement between the County and any Bond Insurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration with any governmental authority that has not been obtained. The County represents that on August 15, 2008, no funds will be available, or will be used, to make any deposit to the Reserve Fund, the Rate Stabilization Fund and/or the Depreciation Fund (each as defined in the Original Indenture) under Sections 11.3, 11.4 and 11.5 of the Original Indenture, or any other account, and no surplus revenue will be available for withdrawal, or will be withdrawn, by the County under Section 11.6 of the Original Indenture; provided, however, that the County may make deposits into the Reserve Fund from moneys that do not constitute Pledged Revenues (as defined in the Original Indenture).

9. **Representations of Undersigned Bond Insurers.** The execution, delivery and performance of this letter agreement by each undersigned Bond Insurer does not contravene or constitute a default under any statute, regulation or rule of any governmental authority or under any provision of the respective Bond Insurer's organizational documents or any contractual restriction binding on such Bond Insurer (including any agreement between such Bond Insurer and any reinsurer) or require any authorization, consent, approval, exemption or license from, or any filing of registration by any officers or other internal authorities of such Bond Insurer or with any governmental authority that has not been obtained. XLCA hereby ratifies and confirms

the Municipal Bond Insurance Policy and its insurance, in accordance with the terms thereof, of all payments of principal and interest on the Bank Warrants, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Each undersigned Bond Insurer hereby ratifies and confirms the DSRF Insurance Policy issued by it, subject, to the extent applicable, to the terms and conditions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto. Without limiting the generality of the foregoing, as between each undersigned Bond Insurer, on the one hand, and the Bank and the Trustee, on the other, neither the execution and delivery of this letter agreement, nor performance hereunder, shall alter in any way (a) the rights of the Bank or the Trustee, or the obligations of any undersigned Bond Insurer, under each Bond Insurance Policy, nor constitute a defense to payment or release under any Bond Insurance Policy, and each undersigned Bond Insurer expressly waives the benefit of any rule of law or provision of any Related Document that would provide otherwise and (b) the rights and/or defenses of any undersigned Bond Insurer, as such rights and/or defenses existed prior to the execution of this letter agreement, under the Standby Agreement, the Bank Warrants, the Bond Insurance Policies, the other Related Documents, and any and all documents related thereto.

10. **Governing Law.** This letter shall be deemed to be a contract under, and shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York and applicable federal law without regard to choice of law rules.

11. **Counterparts.** This letter may be executed in multiple counterparts, each of which shall be an original and all of which, taken together, shall constitute but one and the same agreement among the Parties. Delivery of a counterpart hereof, or an executed signature hereto, by facsimile or by e-mail (in pdf or similar format) shall be effective as delivery of a manually-executed counterpart hereof.

12. **Due Authorization; Integration.** Each Party hereto represents and warrants that it has taken all necessary corporate or other applicable action to duly authorize its execution and delivery of this letter. This letter and the Forbearance Agreement (and any documents referred to herein or therein) contain the whole agreement among the Parties relating to the subject matter of this letter and the Forbearance Agreement, and supersede all previous understandings and agreements among the Parties relating thereto. Each Party acknowledges that, in agreeing to enter into this letter and the Forbearance Agreement, it has not relied on any representation or warranty (except those set forth in this letter or the Forbearance Agreement) made by or on behalf of the other Party or any other Person whatsoever before the execution of this letter; provided, however, that the Parties have relied on, and nothing in this Section shall alter in any way, the provisions of the Standby Agreement, the Bank Warrants, each Bond Insurance Policy, the other Related Documents, and any and all documents related thereto.

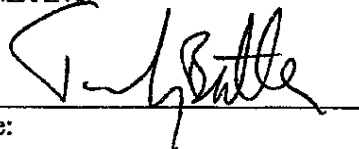
13. **Consent.** Please note that we have requested that the Trustee execute this letter for the sole and limited purpose of indicating its consent to the extent that Sections 2 and 3 of this letter constitute an amendment to the Standby Agreements requiring its consent. Furthermore, the Trustee has not agreed to any amendment, waiver or supplement to the Master Indenture or any Related Document (other than to the Standby Agreement as provided in Sections 2 and 3 of this letter) and has not agreed to forbear from exercising any remedy it has or may have under the Master Indenture or any other Related Document.

We look forward to continuing to work cooperatively in an effort to achieve a consensual restructuring of the County's sewer related indebtedness, and of course, we remain willing to discuss any issue with you at your convenience.

Sincerely,

STATE STREET BANK AND TRUST
COMPANY

By: _____
Title: _____



CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title: _____

FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title: _____

XL CAPITAL ASSURANCE INC.

By: _____
Title: _____

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Sincerely,

STATE STREET BANK AND TRUST
COMPANY

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: Bettye Fern Collins
Title: **PRESIDENT**

FINANCIAL GUARANTY INSURANCE COMPANY

By: YB
Title

XL CAPITAL ASSURANCE INC.

By: _____
Title:

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Sincerely,

STATE STREET BANK AND TRUST
COMPANY

By: _____
Title:

CONSENT AND AGREE:

JEFFERSON COUNTY, ALABAMA

By: _____
Title:

FINANCIAL GUARANTY INSURANCE COMPANY

By:  _____
Title *AUTHORIZED REPRESENTATIVE*

XL CAPITAL ASSURANCE INC.

By: _____
Title:

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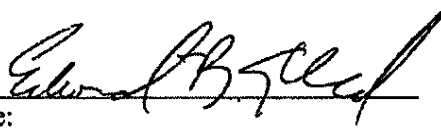
JEFFERSON COUNTY, ALABAMA

By: _____
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FINANCIAL GUARANTY INSURANCE COMPANY

By: _____
Title:

XL CAPITAL ASSURANCE INC.

By:  _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: Chris [Signature]
Title: Vice President

JPMORGAN CHASE BANK, as Liquidity Agent

By: _____
Title:

THE BANK OF NEW YORK MELLON,
formerly THE BANK OF NEW YORK, as Trustee

By: _____
Title:

JPMORGAN CHASE BANK, as Liquidity Agent

By: William A. Austin
Title: EXECUTIVE DIRECTOR

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