



## Commercial Real Estate Exposure in MBIA Insurance Corporation's Insured Portfolio

**March 2, 2011**



- *All data included within this presentation reflects the position as of December 31, 2010 unless otherwise stated*

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- This presentation includes statements that are not historical or current facts and are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "anticipate," "project," "plan," "expect," "intend," "will likely result," "looking forward" or "will continue," and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those presently anticipated or projected. Risk factors that could cause actual results to differ materially from estimates contained in or underlying the Company's forward-looking statements are discussed under the "Risk Factors" section in MBIA Inc.'s most recent Annual Report on Form 10-K and any subsequently filed Quarterly Report on Form 10-Q, which are available on our website, [www.mbia.com](http://www.mbia.com), and may be updated or amended in the Company's subsequent filings with the Securities and Exchange Commission. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. The Company undertakes no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.
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# Commercial Mortgage Backed Securities (CMBS) and Commercial Real Estate (CRE) Fundamentals

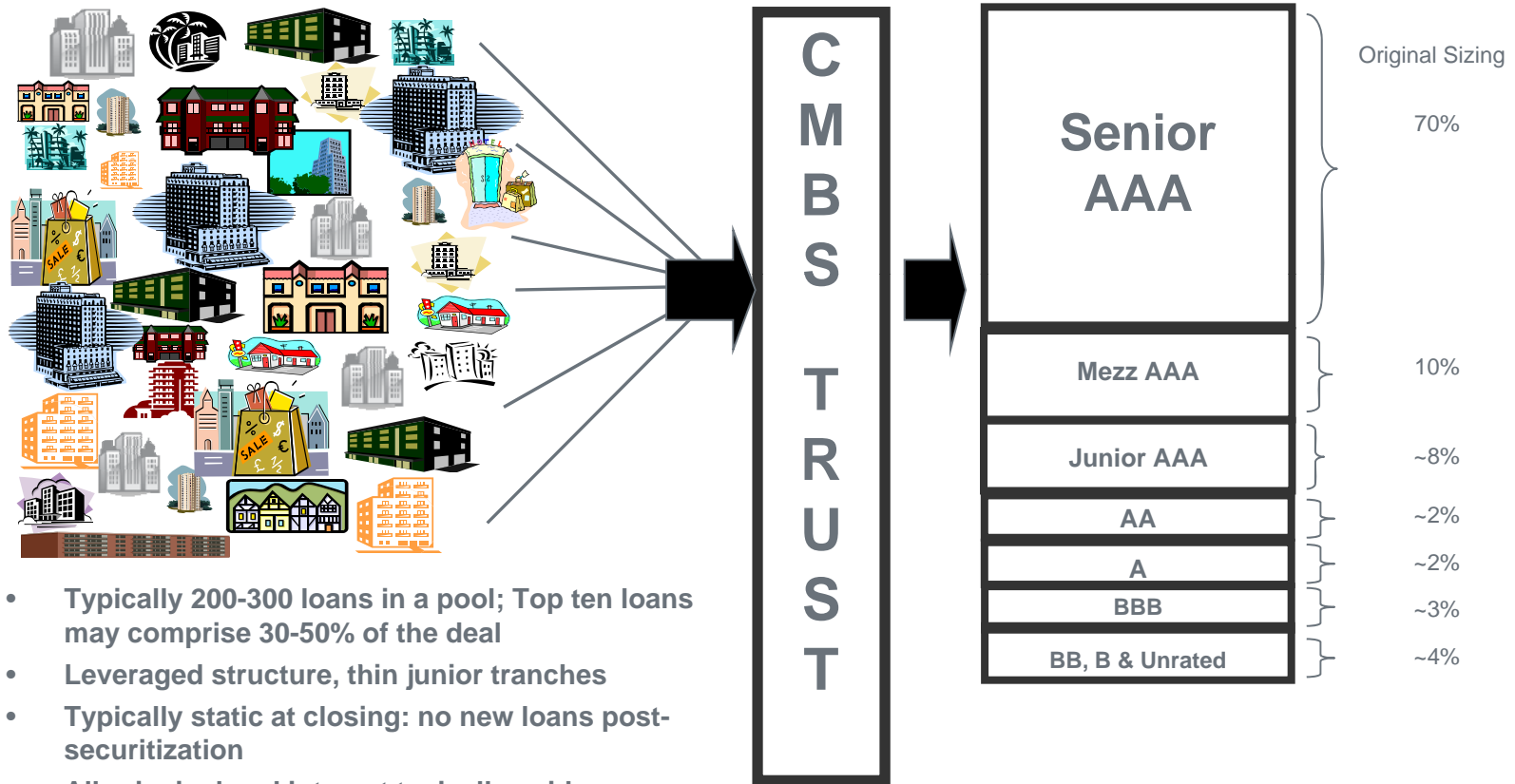
# Typical Commercial Real Estate Loan

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- Mortgage on an INCOME producing property
  - Office: downtown & suburban location buildings
  - Retail: local shopping centers & regional malls
  - Multifamily: apartment high-rises & garden style complexes
  - Hotels: limited service & 5-star establishments
  - Industrial: warehouses & distribution facilities
- Properties located throughout the United States
- Borrowers include REITs, developers, professional real estate management companies, and small local investors
- Loan typically between 70-80% of the appraised value
- Property cash flow typically 120-140% of debt service
- Loan amount ranges from \$1 million to over \$200 million
- Primarily ten year, fixed interest rate loans with bullet maturities
  - As of 12/31/10 approximately 17% of the loans in insured transactions of MBIA Corp. have a stated maturity between 2011 and 2014
  - Limited prepayment optionality

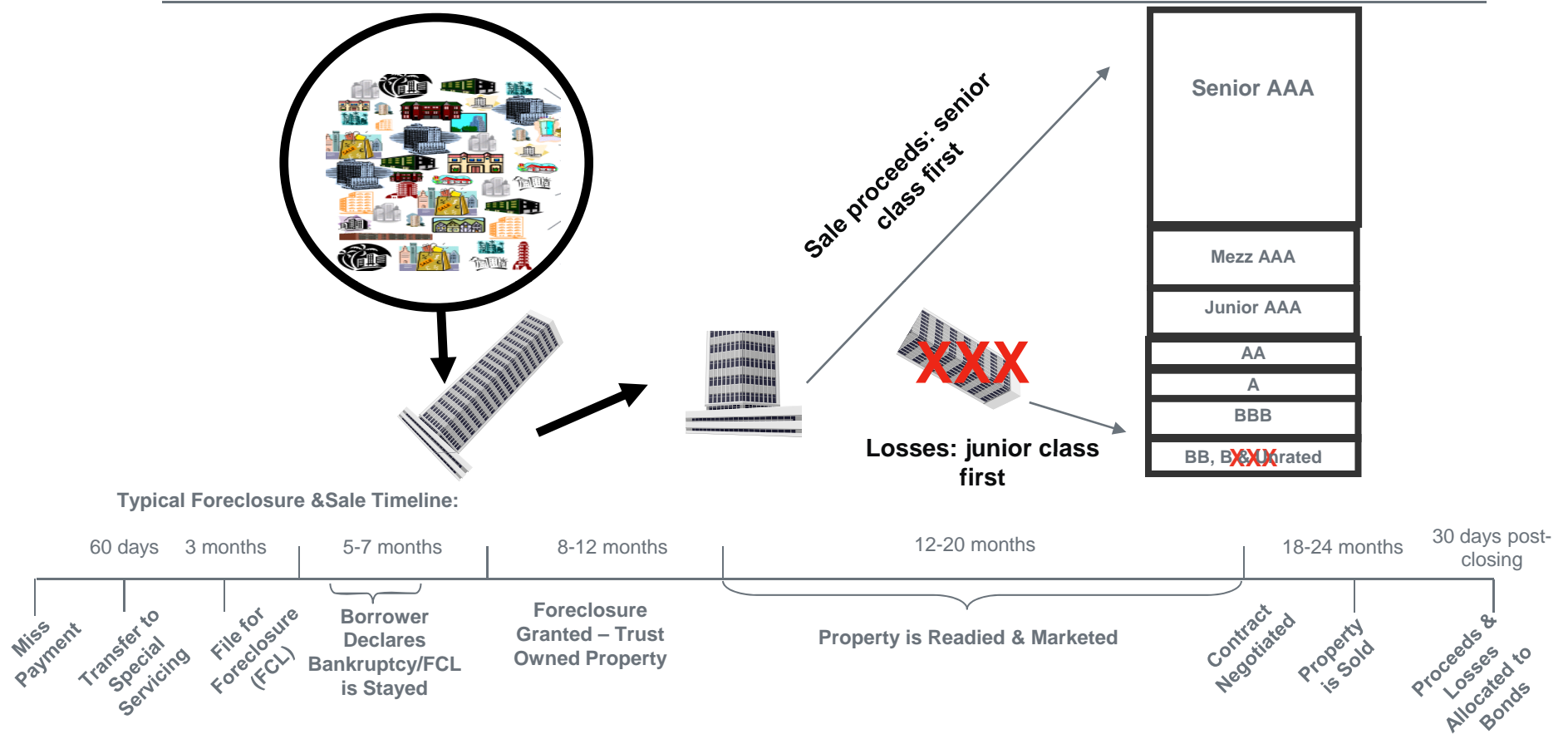
# Commercial Mortgage Backed Securities: Pools of Loans packaged into a Single Structure



- Typically 200-300 loans in a pool; Top ten loans may comprise 30-50% of the deal
- Leveraged structure, thin junior tranches
- Typically static at closing: no new loans post-securitization
- All principal and interest typically paid sequentially according to relevant principal and interest waterfalls; typical waterfall directs cash flow to the senior most class until retired, then to the next most senior class, etc.

# Allocation of Loan Repayments and Losses

## Strict Priority of Payments



- Principal and interest are typically paid sequentially: senior class first
- Losses are typically allocated in reverse sequential order: most junior class first

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# MBIA Corp. Insured Commercial Real Estate Portfolio

# MBIA Corp. Insured CRE Related Portfolio as of December 31, 2010

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- MBIA Corp.'s portfolio of pooled Commercial Real Estate transactions is grouped into three categories:
  - **Structured CMBS Pools** (*static pools*) \$35.9 billion gross par
  - **CRE CDOs** (*managed pools*) \$7.4 billion gross par
  - **CRE Loan Pools** (*static pools*)\* \$4.1 billion gross par
  - **Total CRE Exposure** \$47.4 billion gross par

\* Primarily European deals of very high credit quality.

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# Insured Structured CMBS Pools Portfolio

# Structured CMBS Pools

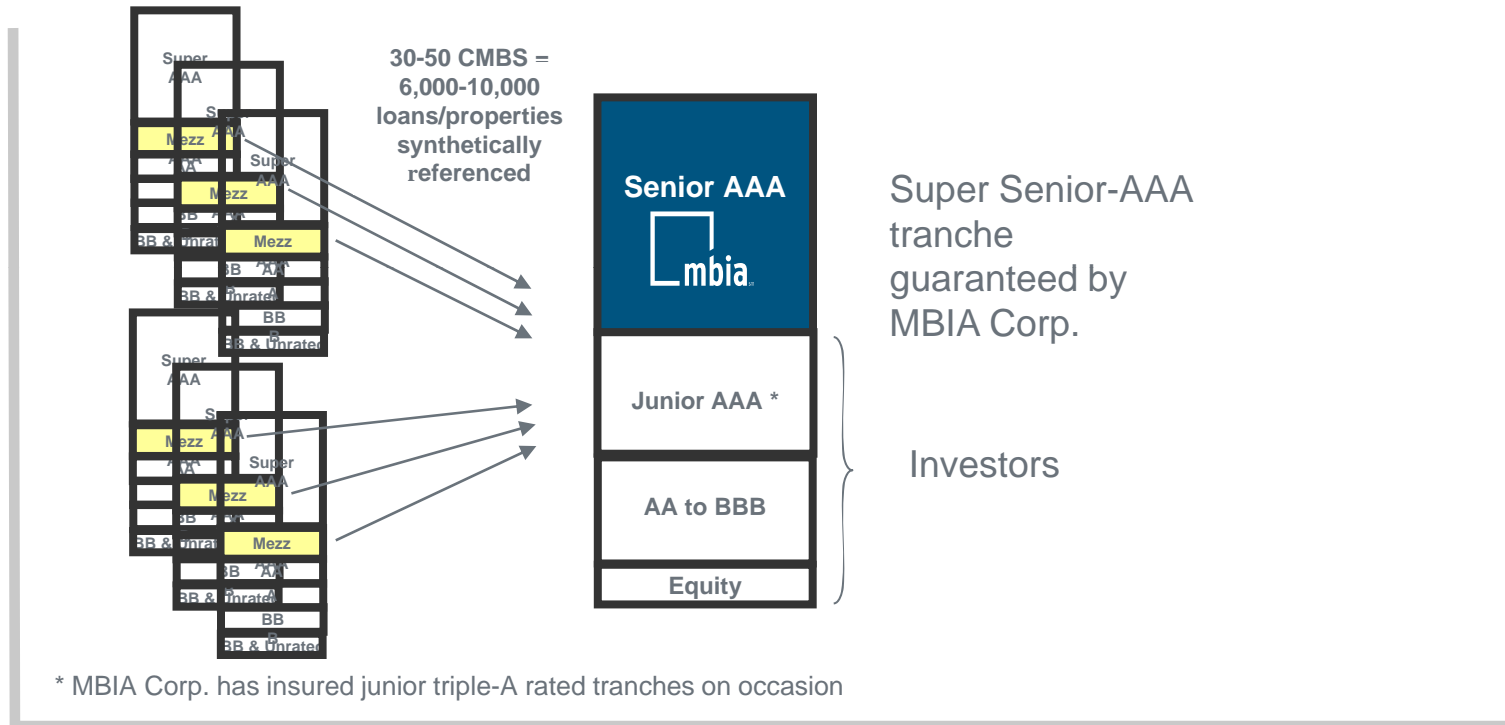
## Static Pools of Diverse Reference Collateral

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- Form of Insurance Coverage (as a percentage of par)
  - 97% executed via CDS; 3% via financial guarantee
- Payment Obligations (as a percentage of par)
  - Timely Interest, Ultimate Principal: 15%
  - Asset Coverage and Deductible: 85%
    - 41% principal and limited interest coverage, 38% principal only and 6% principal and full interest coverage
- Static transactions: no portfolio trading or replenishment of collateral is permitted
- Most pools were comprised of similarly rated collateral when insured
- Deductibles in insured pools vary based on original ratings of the underlying collateral
- Pool collateral typically comprises a portfolio of CMBS; these CMBS are typically supported by a diversified pool of U.S. CRE loans
  - Typically 30-50 different CMBS in one pool
  - Each CMBS typically comprises some 200 plus CRE loans
  - The same CMBS bonds may be referenced in multiple pools
  - Different classes of the same CMBS trust may be referenced in many pools
  - Primarily 10 year fixed rate loans with refinancing requirements in 2015 and beyond

# Sample Transaction: Diversified Collateral with Super Senior Attachment

## CMBS Pool Structure



- Credit enhancement within the underlying collateral varies based on original ratings and vintage
- Most pools were comprised of similarly rated collateral when insured
- Due to the synthetic nature of much of the portfolio, the same CMBS bonds may be referenced in multiple pools

# Structured CMBS Pool

## CMBS Collateral Original Vintage & Rating

### Collateral balance as of 12/31/10

#### Original Vintage and Rating Composition

<u>Rating *</u>	<u>Pre 2005</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
AAA	8.3%	2.1%	14.9%	10.6%	<b>35.9%</b>
AA	0.0%	0.1%	0.5%	1.6%	<b>2.2%</b>
A	0.0%	2.1%	10.2%	2.3%	<b>14.5%</b>
BBB	1.7%	9.3%	23.2%	4.8%	<b>39.1%</b>
BIG/NR	3.0%	2.3%	1.9%	1.1%	<b>8.3%</b>
<b>Total</b>	<b>13.0%</b>	<b>15.9%</b>	<b>50.7%</b>	<b>20.4%</b>	<b>100.0%</b>

- Majority of MBIA Corp.'s insurance policies originated in 2006 and 2007.
- 79.6% of underlying collateral was originated prior to 2007

\*Ratings are lower of Moody's or S&P. NR= Not Rated

# Structured CMBS Pools as of 12/31/10

## Collateral Composition and Deductibles

Year Insured	# of Pools	Gross Par Outstanding (\$mil)	Collateral as a % of Performing Pool Balance				12/31/10 Deductible	Original Deductible
			CMBS	REIT Debt	Other	Total		
2003	1	\$121	65%	31%	4%	100%	39.50%	26.00%
2005	1	2,300	100%	0%	0%	100%	8.00%	8.00%
2006	9	6,464	87%	0%	13%	100%	10.0 - 69.3%	10.0 - 70.0%
2007	30	26,835	97%	0%	3%	100%	5.0 - 85.6%	5.0 - 82.3%
Subtotal	41	35,720						
		161	Insured in the Secondary Market prior to 2005 (7 pools)					
Grand Total		\$35,881						

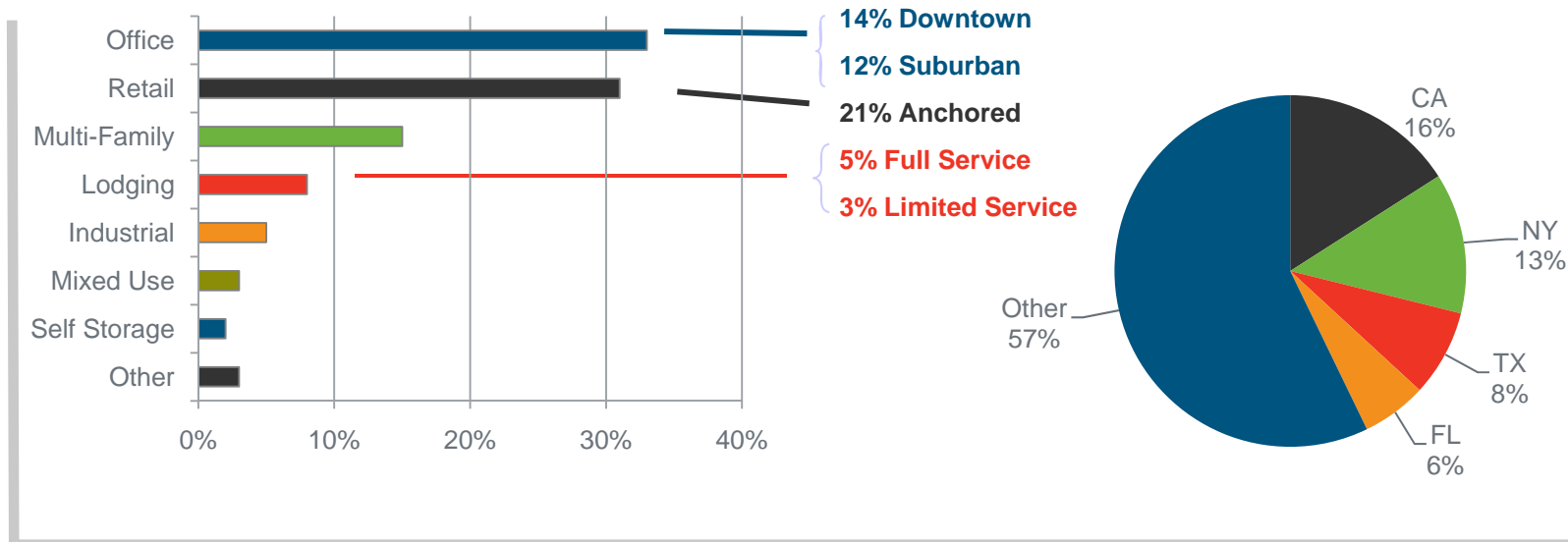
- 21 of the 39 deals insured in 2006 and 2007 were primarily comprised of CMBS tranches originally rated BBB or lower:
  - Original collateral credit enhancement ranged from 0.0% to 11.8% (weighted average credit enhancement 3.4%)
  - 12/31/10 collateral credit enhancement ranged from 0.0% to 75.9% (weighted average credit enhancement 3.1%)
  - Original insured deal deductibles ranged from 20.0% to 82.3% (weighted average deductible 33.9%)
  - 12/31/10 insured deal deductibles ranged from 19.0% to 85.6% (weighted average deductible 32.9%)
  - MBIA Corp.'s estimated \$1.1 billion credit impairment at 12/31/10 for CMBS relates to a subset of these 21 deals

# Structured CMBS Pools

## Key Collateral Characteristics

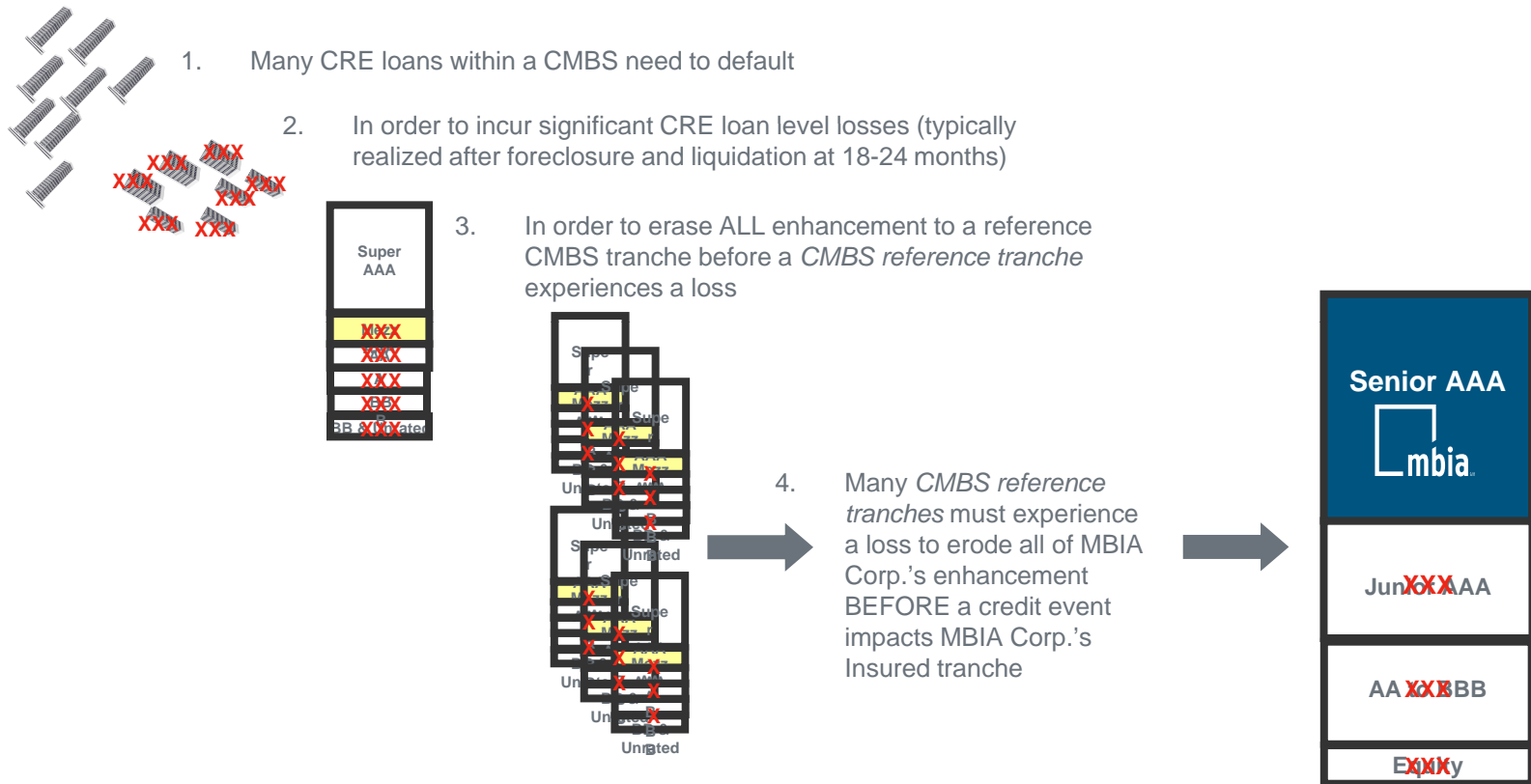
- Referenced CMBS supported by 55,000+ primarily 10-year, fixed rate loans
- Weighted Average Loan- to- Value 76%; 9.5% of loans >85% LTV
- Weighted Average Debt Service Coverage Ratio of 1.69x; 15% <1.0x
- Portfolio exposure (by geography and property type) broadly reflects United States CMBS loan market by value and property type
- Additional collateral description is featured within MBIA Inc.'s most recent SEC filings

Structured CMBS Pool Composition



# Loss Allocation Methodology

## Forms of Protection for MBIA Corp. Insured Pool



- For MBIA Corp. to incur a loss, multiple loan level realized losses will need to occur to erode the subordinate “deductible” tranche(s) enhancing MBIA Corp.’s insured risk
- Loss claims, to the extent applied to MBIA Corp.’s insured tranche, only affect the insured tranche for the incremental amount of the loss claim

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# Insured Managed CRE CDOs Portfolio

# CRE CDOs

## Managed Pools of CRE Related Collateral

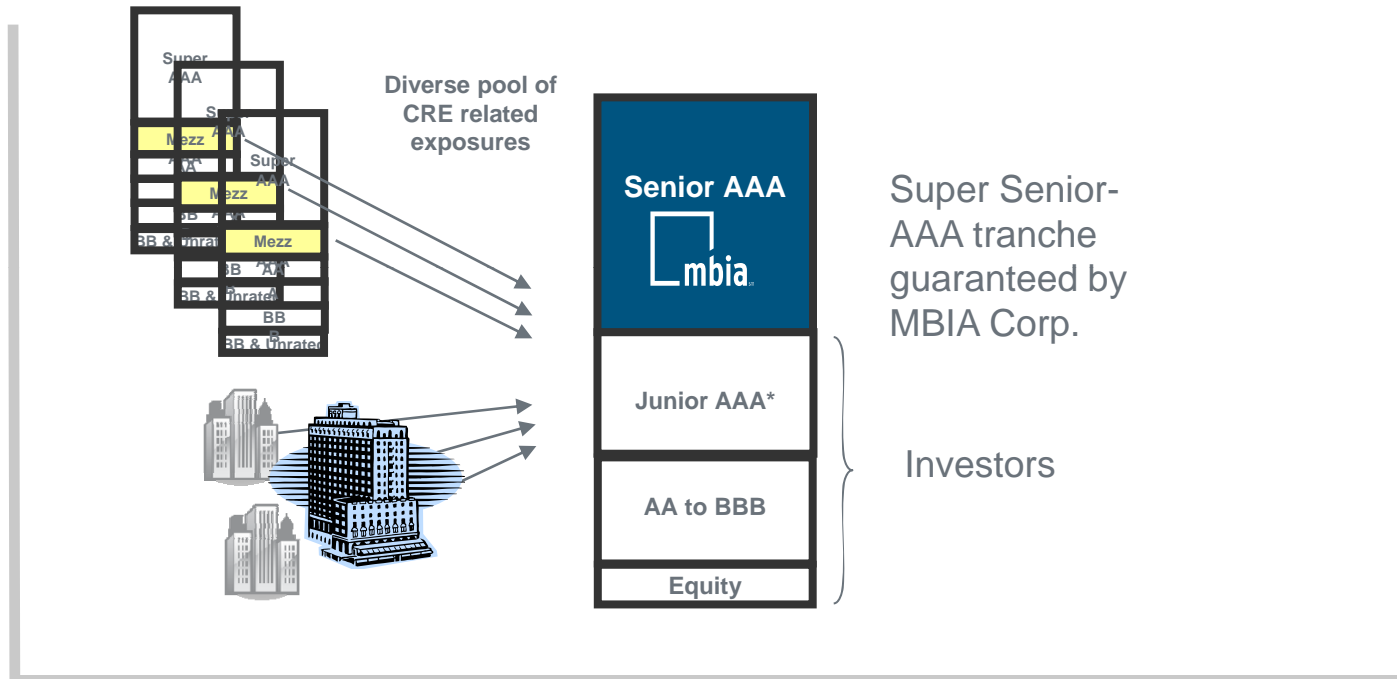
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- **Form of Insurance Coverage (as a percentage of par)**
  - 86% executed via CDS
  - 14% via financial guarantee
- **Payment Obligation (as a percentage of par)**
  - Timely Interest, Ultimate Principal: 89%
  - Asset Coverage and Deductible: 11%
- **Underlying assets are primarily related to commercial real estate**
  - Large concentrations of CMBS (like the static pooled CMBS transactions previously described)
  - First mortgages, B-Notes, mezzanine loans, RMBS, other CRE CDOs and limited allocations to other collateral
- **Managed transactions**
  - Manager personnel with experience in relevant fields of real estate finance
  - Generally a defined reinvestment period with certain limitations and restrictions
  - Generally managers can be replaced if transaction under-performing at MBIA Corp.'s option
- **Structural features provide multiple layers of protection and may include the following:**
  - Subordination
  - Interest Coverage (IC) and Over-collateralization (OC) tests
    - Cash flow diversion triggers to protect senior class if coverage tests are failed
  - Principal may be allocated sequentially or pro rata depending upon the transaction specifics, while triggers are often established which may impact the prioritization of principal and interest depending upon transaction performance
  - Events of Default, and/or rights to accelerate and liquidate collateral

# Sample Transaction

## Diversified Collateral with Super Senior Attachment

### CRE CDO Structure



- Credit enhancement of the underlying collateral varies based on original ratings and vintage
- Note that some CRE CDOs are comprised entirely of securities, some are comprised solely of loans and some include varying combinations of the two.

\* MBIA Corp. has insured junior triple-A rated tranches on occasion.

# Managed CRE CDOs CMBS Collateral Composition & Current Ratings

- Collateral Composition:

- 53% CMBS
- 29% CRE Loan
- 6% REIT bonds
- 3% RMBS
- 9% CDO & Other (ABS/Cash)

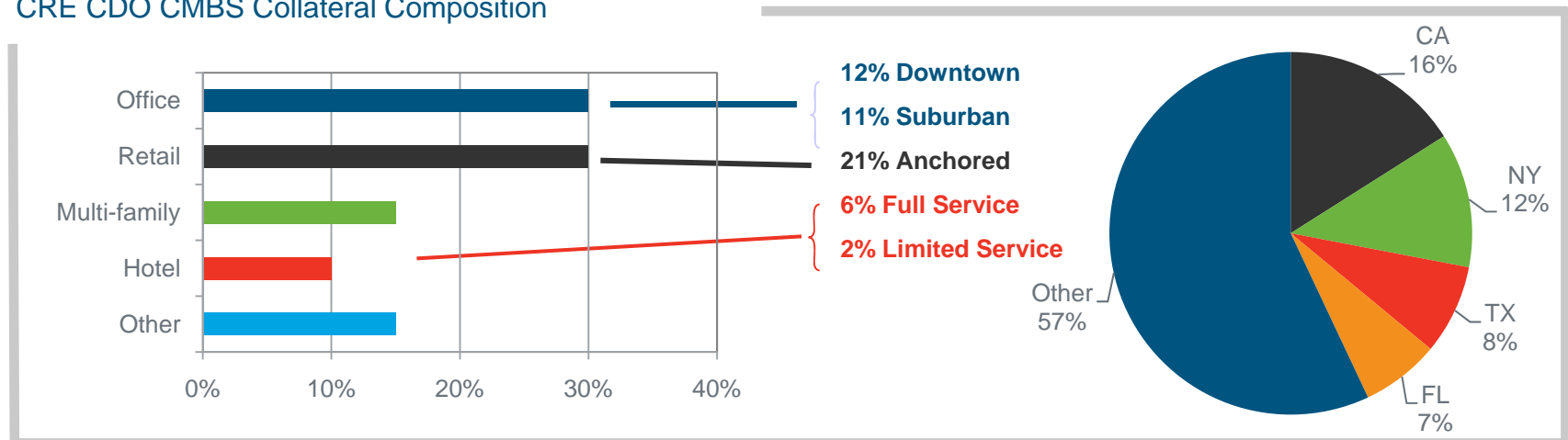
Managed CRE CDO - CMBS Collateral Breakout as of 12/31/10

	Pre 2005	2006	2007	2008	2009	2010	Total
AAA	0.5%	0.1%	0.0%	0.1%	0.0%	0.0%	0.7%
AA	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
A	1.8%	1.2%	0.0%	0.0%	0.0%	0.0%	3.1%
BBB	6.2%	3.5%	2.7%	0.1%	0.0%	0.0%	12.5%
BIG	37.3%	29.8%	15.9%	0.4%	0.0%	0.0%	83.4%
<b>Total</b>	<b>46.2%</b>	<b>34.6%</b>	<b>18.6%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>

CMBS within CRE CDOs is substantially similar in profile to the CMBS in the static pooled CMBS transactions:

- Weighted Average Loan-to-Value = 76.1%; Weighted Average Debt Service Coverage Ratio = 1.77x

## CRE CDO CMBS Collateral Composition



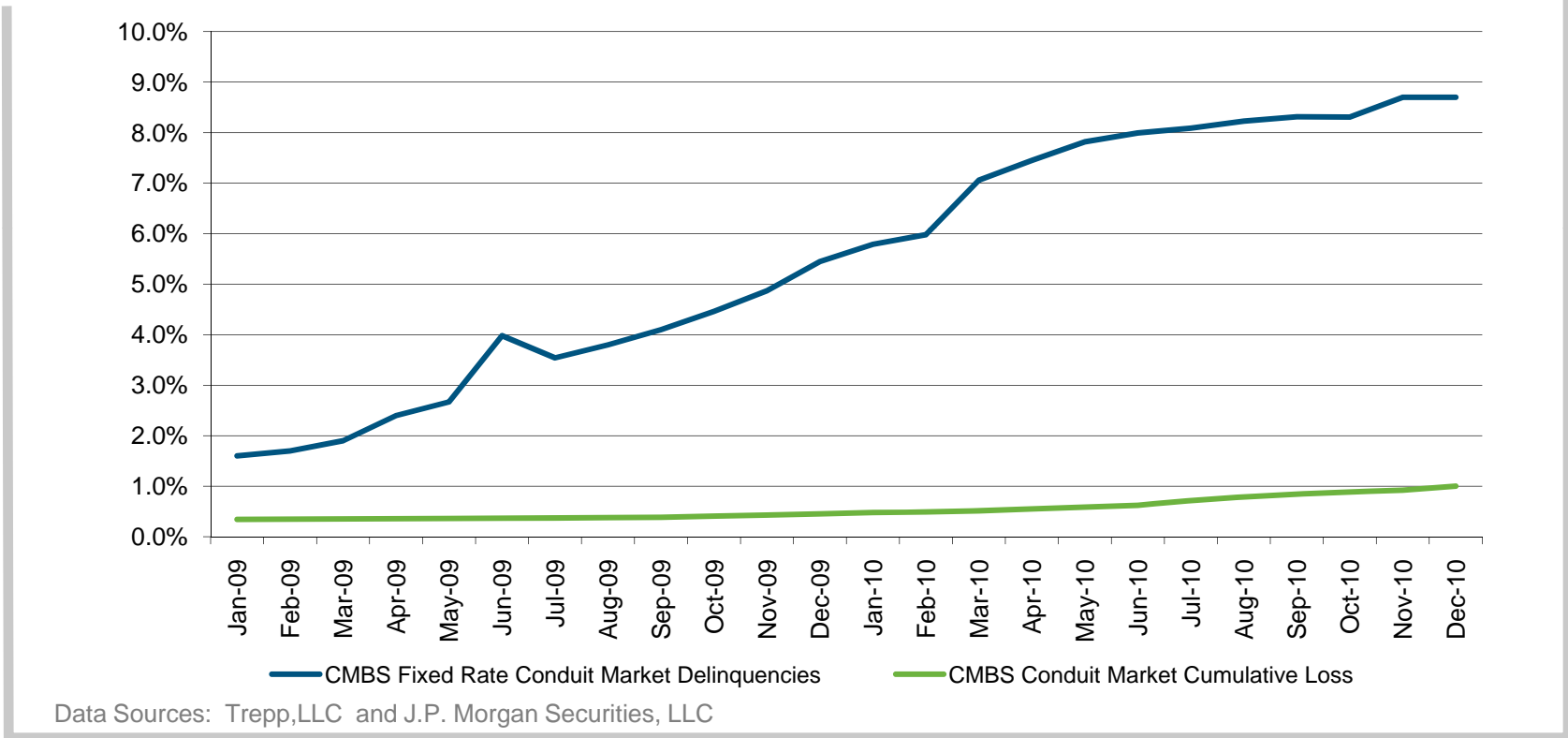
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# CRE Market Overview

# CMBS Market

## 30+ day Delinquencies and Cumulative Losses

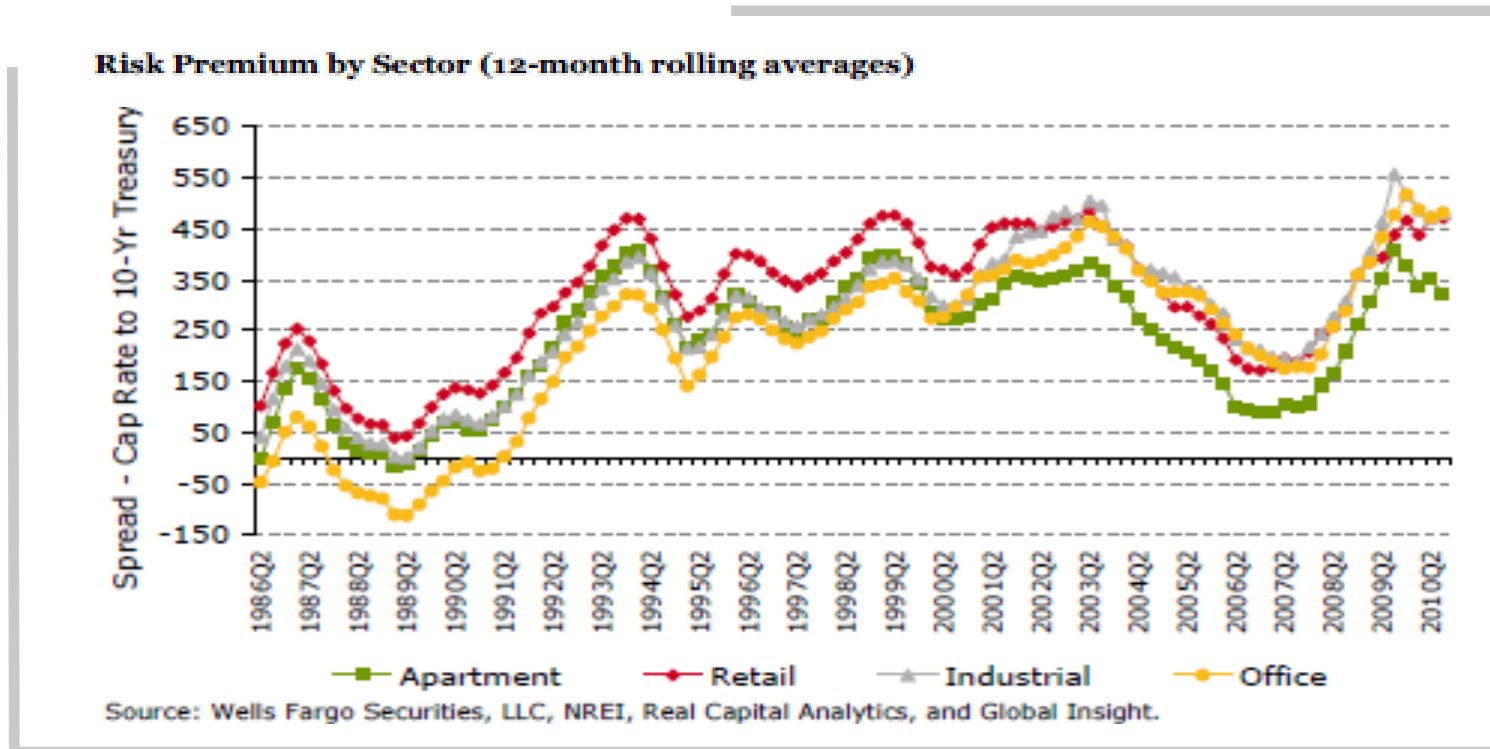
CMBS Market Data Performance



\*30+ day Delinquency (DQ) rates include loans that are 30-59 days DQ, 60-89 days DQ, over 90 days DQ and those in Foreclosure and Real Estate Owned.

# Capitalization Rate Trends

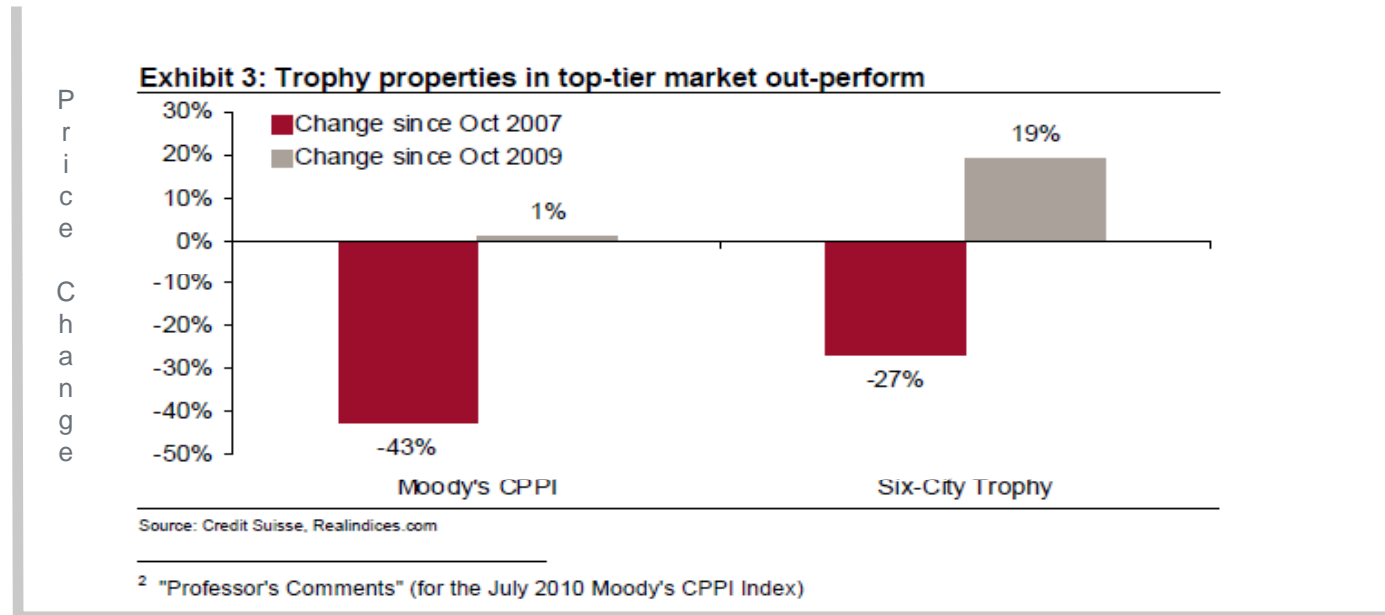
## Declining versus Interest Rates



- Cap rates are often compared to Treasury yields as a measure of evaluating real estate performance versus the risk free rate
- Compared to Treasury Yields, cap rates in all sectors peaked in mid 2009 and are still above historical averages

# Trophy Properties in Large Key Markets Significantly Better Performance than Average Properties

(>\$10MM) in largest metro areas outperform



- Moody's Six-City Trophy Index: Based on larger property transactions (>\$10 Million) in New York, Washington DC, San Francisco, Los Angeles, Chicago and Boston
- Not only has the gap between healthy and distressed properties been growing in recent months, the prices of trophy assets in top-tier markets have led the general index, jumping 19% since October 2009 compared to a 1% jump in the Moody's CPPI over the same time period.

*Professor David Geltner (leads the MIT team that developed the CPPI) as noted throughout the "Professor's Comments" dated September 2010, referring to the July CPPI index*

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# Appendix

# Glossary

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- **Anchored Retail:** a property containing a large tenant (i.e. Wal-Mart)
- **Asset Coverage and Deductible (AC&D):** MBIA Corp. insures principal payments upon settlement of individual collateral losses as they occur after the complete erosion of deal deductibles.
- **Capitalization Rates (Cap Rates):** A measure used to calculate the cash flow yield a property generates based on what investors are willing to pay for a property with a given cash flow generation. Low capitalization rates (i.e. 5%) can be associated with high quality office buildings and regional malls, while high capitalization rates (i.e. 9%) can be associated to low quality retail, limited service hotels, and old suburban office buildings. Please see the diagram on slide 29 for more detail.
- **Current Interest (Timely Interest) and Ultimate Principal (CI&P):** MBIA Corp. insures current interest due and ultimate principal payments at the legal final maturity.
- **Commercial Mortgage Backed Securities (CMBS):** A type of mortgage-backed security, comprised of commercial real estate loans. Commercial mortgages represent mortgage loans for non-residential properties such as office buildings, retail stores, etc.
- **Commercial Real Estate (CRE) CDOs:** Transactions secured by a diversified pool of commercial real estate-oriented loans and/or bonds. Transactions are actively managed pools of collateral with a Collateralized Debt Obligation (CDO) structure with first loss positions provided by subordinated tranches. Transactions are usually managed pools with reinvestment permitted subject to Eligibility Criteria.

# Glossary

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- **Debt Service Coverage Ratio (DSCR):** The ratio represents net income (i.e. rent less operating expense) from the property's leases to the principal and interest due on finance arrangements. This ratio provides an assessment of a property's ability to generate sufficient cash flow to satisfy debt service requirements.
- **Eligibility Criteria:** Criteria used to establish requirements for loans to be included in the securitization. Loans that are subsequently determined to be noncompliant with the eligibility criteria are subject to redress by the collateral manager and/or servicer for the securitization.
- **Full Service Hotels:** Hotels containing upscale restaurants, banquet and conference facilities, business centers, etc.
- **Loan-to-Value (LTV):** The amount of a first mortgage lien (loan amount) as a percentage of the total appraised value of the property.
- **Real Estate Investment Trust (REIT):** A special structure which holds real properties. These properties can be apartments, shopping malls, office buildings or other acceptable real assets. The company must distribute 95 percent of its income to the shareholders in order to qualify for special tax treatment.

# Glossary

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- **Real Estate Owned (REO):** A class of property owned by a lender, typically a bank, after an unsuccessful sale at a foreclosure auction.
- **Residential Mortgage Backed Securities (RMBS):** A type of mortgage-backed security composed of a wide array of different non-commercial mortgage debts. It securitizes the mortgage payments of non-commercial real estate. Different residential mortgages with varying credit ratings are pooled together and sold in tranches to investors.
- **Trophy Assets:** Large, Class A properties which generally dominate their respective markets or sub-markets.
- **Waterfall or Cash Flow Priorities:** A set of rules or priorities that are specified for a securitization that govern how the cash flows generated by the related trust's assets are applied to the trust's payment obligations.
  - *Sequential Pay Waterfall:* A type of payment structure in which higher-tiered creditors receive interest and principal payments, while the lower-tiered creditors receive only interest payments. When the higher tiered creditors have received all interest and principal payments in full, the next tier of creditors begins to receive interest and principal payments.

# Explanation of a Capitalization Rate

## Key Driver of Real Estate Valuations

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$$\text{Value} = \frac{\text{Property's Cash Flow (income - expenses)}}{\text{Capitalization ("Cap") Rate}}$$

Example: Property Cash Flow is \$1,000,000 & the Loan balance is \$12MM

If the Cap Rate is **LOW** at 5%,  
the Value of the building is  
\$20,000,000

If the Cap Rate is **HIGH** at 9%,  
the Value of the building is  
\$11,000,000



Loan = \$12 MM

60% LTV or 108% LTV?

A 4% difference in Cap Rate may lead to a \$9 Million difference in Value

