

## ***MBIA Insurance Corp.***

### ***Rationale***

On June 5, 2008, Standard & Poor's Ratings Services lowered its financial strength rating on MBIA Insurance Corp. to 'AA' from 'AAA' and placed the rating on CreditWatch with negative implications.

The rating action on the company reflects our belief that the company will face diminished new business flow in its public finance and structured finance business lines, as well as declining financial flexibility. In addition, we believe that continuing deterioration in key areas of the U.S. residential mortgage sector and related collateralized debt obligation (CDO) structures will place increasing pressure on MBIA's capital adequacy. Resolution of the negative CreditWatch will be dependent on the clarification of ultimate potential losses, future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

For the three months ending March 31, 2008, MBIA reported \$2.9 billion of gross par insured and adjusted gross premiums written of \$43.5 million. Both of these figures are well below the same period in 2007, when the company reported gross par insured and adjusted gross premiums written of \$39.6 billion and \$272.9 million, respectively. In terms of gross par insured, 58% of the business was in the U.S. public finance business line and 40% of the business was in the international structured finance business line. Within the U.S. public finance business line, the business was split between secondary business (58%) and direct primary business (42%). The sector distribution for this business line was relatively even between general obligation, health care, municipal utilities, and tax backed. In our view, while the quality and risk-adjusted pricing of the business may be good, the company has lost the market's confidence and needs to put a plan in place that will generate sufficient volumes to justify the capital employed. With regard to the structured finance business line, the company has suspended writing new business in the near term and has ceased insuring new derivative credit contracts.

***Credit Rating:***

***AA/Watch Neg/—***

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We understand that management is accelerating a plan that would restructure the company in such a way as to ensure public and structured finance business from separate now-dormant insurance subsidiaries. Our view of MBIA will depend in large part on whether we believe it can put together a sustainable business model and demonstrate the ability to generate a profitable stream of revenue that is of sufficient volume and quality to support the capital employed in the business. This would apply to MBIA as it currently exists, as well as for the strategy to restructure the company into separate operating entities. As part of the restructuring, Standard & Poor's would evaluate, among other things, the changes to the risk management function. There have been some changes to the risk management function to date and they are, in our view, valuable but untested. Other proposed changes are still being put in place. We believe that implementing a fully functional risk management platform that is integral to the ongoing strategy and to day-to-day operations is key to ensuring that proper risk management controls are in place.

The 'AA' financial strength rating of the company is supported by currently sound claims-paying ability and liquidity levels, in our opinion. In our view, MBIA's success in accessing \$2.6 billion of additional claims-paying resources is a strong statement of management's ability to address the concerns relating to the capital adequacy of the company. With market concerns relating to the company's exposure to continued deterioration in key areas of the U.S. residential mortgage sector and related CDO structures, MBIA's ability to access the capital markets at this time, in our view, is limited and may place increasing pressure on capital adequacy if additional capital is needed.

With regard to liquidity, the insurance operating company's relatively conservative investment and liquidity strategies produce a 2.34x liquidity ratio, well in excess of the 1.00x thought to be prudent. Available adjusted liquid resources totaled \$3.5 billion as of year-end 2007. Against these resources, MBIA has theoretical payments totaling \$1.5 billion. The investment portfolio is made up predominantly of municipal and government/agency securities, with no CDO exposure and negligible exposure to nonagency residential mortgage-backed securities and commercial mortgage-backed securities. The average quality, giving no effect to any financial guarantees, is 'AA'. At the holding company level, liquid assets totaled in excess of \$1.0 billion. We understand that debt service coming due in the next five years is \$99.3 million in 2010 and \$100.0 million in 2011.

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