



## Fitch Comments on MBIA'S Request To Withdraw Ratings [Ratings](#)

07 Mar 2008 6:10 PM (EST)

Fitch Ratings-New York-07 March 2008: Fitch learned earlier this afternoon of MBIA's request that the Insurer Financial Strength Rating (IFS) be withdrawn and that they intended to announce their request at the close of the market today, but that they would like Fitch to continue their debt ratings. Fitch is disappointed and surprised to learn of MBIA's request. A copy of MBIA's letter to us is found in its entirety below.

In commenting on MBIA's letter to Fitch in which MBIA criticized our analysis and our fees, Stephen Joynt, President and CEO of Fitch Ratings, commented that 'Fitch believes that our analysis is of the highest quality and our understanding of MBIA's municipal and structured exposure is very strong.'

It is unclear to us at this time as to whether MBIA will continue to cooperate with us in the rating process to allow us to maintain their IFS and debt ratings. While, in general, Fitch believes that they can rate companies based upon publicly available information, the unique nature of the financial guaranty sector could make maintaining the MBIA IFS and debt ratings difficult without access to the non-public details on their insured portfolio.

Fitch will evaluate its ability to maintain coverage on MBIA over the next few days and make a final announcement after that evaluation.

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Below is the full text of the letter issued by MBIA on March 7, 2008:

March 7, 2008  
Mr. Keith Buckley  
Group Managing Director, Insurance Ratings  
Fitch Ratings  
70 West Madison Street  
Chicago IL 60602

Dear Keith,

As a result of the tremendous market disruption and its effect on the value of the Insurance Financial Strength (IFS) rating, MBIA began a thorough evaluation of the impact each rating has in the various global marketplaces in which we operate, the rating methodologies used by each rating agency, and the costs associated with maintaining the ratings.

Our analysis led us to the following conclusions:

MBIA has decided to withdraw Fitch's Insurance Financial Strength (IFS) credit ratings on the following MBIA companies:

- MBIA Insurance Corporation
- MBIA Insurance Corp. of Illinois
- MBIA UK Insurance Limited
- MBIA Assurance SA
- MBIA Mexico SA de CV (both the global and national scale)
- Capital Markets Assurance Corp.

Additionally, we would like Fitch to continue to rate the actual outstanding debt obligations of the following for MBIA Inc. and its related entities:

MBIA Insurance Corporation subordinated debt rating: 'AA' Rating Watch Negative

- \$1 billion of 14% surplus notes

MBIA Inc. long-term debt ratings: 'AA' Rating Watch Negative

- CHF 175 million 4.50% senior unsecured notes due 2010
- \$100 million 9.38% senior unsecured notes due 2011

- \$297 million 6.40% senior unsecured debt due 2022
- \$75 million 7.0% senior unsecured debentures due 2025
- \$100 million 7.15% senior unsecured debentures due 2027
- \$150 million 6.63% senior unsecured debentures due 2028
- \$350 million 5.70% senior unsecured notes due 2034

Before I address why we are asking that you withdraw just the IFS ratings, let me explain what I observe happening in the capital markets. The IFS ratings were developed to allow investors to evaluate the credit protection provided by a financial guaranty insurance company when it enhanced or "wrapped" an underlying debt instrument. From an issuer's perspective, this rating is an important part of the valuation of insurance on its ability to access the capital markets and at what price. From an investor's perspective, the decision to buy, sell or own the credit-enhanced instrument is a function of both the underlying rating and the IFS rating. In particular, it is this dual assessment of the wrapped instrument that results in the vast range in spreads for the thousands of individual transactions we insure over a multitude of assets as investors evaluate the credit risk of each security.

Unfortunately the global capital markets are currently not functioning in this manner as we have gone through the credit cyclone of the past 6 months. In effect, the IFS ratings have taken on a life of their own, totally disconnected from the underlying credit instruments that they enhance. In the 24/7 information-driven markets of today, the mere rumor of a potential change in ratings methodology or a rating committee meeting can drive the equity market, the CDS markets, and cause wild speculative pricing in the extremely low frequency-of-loss U.S. public finance market.

As such, the actual value of the IFS rating to investors who either hold or are interested in purchasing credit-enhanced instruments or are interested in purchasing has been overwhelmed by the forces of trading markets in unrelated securities on the financial guarantor itself. Consistent with the recommendation I made to you in my February 27th letter, we believe at this point in time, that it is more valuable to investors to have access to a security's underlying rating information without the Fitch IFS rating on them (for those securities for which Fitch actually provides an underlying rating). Of course, investors can then see for themselves if the value of the MBIA enhancement is viewed as added protection or the entire protection. For the holding company (and its related entities), given the modest amount of actual debt outstanding, we believe that Fitch Ratings and their ratings market share of other financial institutions still offer value to investors in those securities. We request that you continue to rate these securities.

Our evaluation also led to a number of observations that I'd like to share with you: First, Fitch's coverage of the underlying credit quality of MBIA's insured portfolio is extremely limited. Based on our research and internal data, about one-third of MBIA's total insured net par outstanding, and less than 20% of our insured structured finance transactions, carries an underlying rating assessment from Fitch. In contrast, over 85% of MBIA's total insured portfolio is covered by each of the other two major rating agencies that do fundamental credit analysis on underlying transactions. As a result, Fitch's capital modeling approach heavily leverages the ratings information of these agencies, but does so in a manner that results in inappropriate capital requirements for our company, more specifically the use of "lower of" ratings. In addition, because your organization does not actually do the fundamental credit analysis on these transactions, it is virtually impossible for us to understand why your approach generates charges inconsistent with the market and other agency models. We believe the assessment of transaction-level credit quality is a critical element of portfolio risk and capital allocation analysis for a financial guarantor and, as previously discussed, is an important consideration in the investment decisionmaking process of fixed-income investors who own both credit enhanced and unenhanced securities.

Second, and related to our first issue, Fitch's capital model assumptions for public finance risks are inconsistent with MBIA's view, the markets in which these securities trade, and the views of the other major rating agencies. As we announced previously, over a five-year period we will transform our insurance business into discrete public finance and structured finance operating entities. As we evaluate the capital structure for a stand-alone public finance business entity, Fitch's capital

allocation is approximately half that of the other rating agency capital models. We believe this level of capitalization at the Triple-A level is inappropriate and would pose a serious financial threat to our insured policyholders. (In fact, this allocation would suggest that a "public finance only" financial guarantor would not be required hold any statutory capital to achieve the AAA rating level in your model). Our concern is underscored by the fact that there are existing financial guarantors and new entrants that will focus exclusively on public finance business. Using Fitch's methodology, we believe these companies will not maintain a level of capitalization consistent with the Triple-A standards that have been long-standing for this industry, and they will not assist the industry in bringing stability back to this important constituency.

On the structured finance side of our business, as you know, we have announced a six-month moratorium for writing structured finance business, and we are in the process of refining our risk management framework that will, among other things, focus on selected asset classes within the global structured finance markets that we believe are consistent with Triple-A underwriting standards. Given Fitch's low market share in the asset classes we intend to underwrite in the future and the fact that we will not be issuing any new structured products for at least six months, we see limited value to fixed-income investors who invest in MBIA-guaranteed debt instruments to have an IFS rating at this time.

Third, Fitch's capital model for financial guarantee insurance companies presents severe operational challenges for capital planning and pricing of our product. Heavy data management requirements, long run time, and the inability to produce stable calculations of transaction-level marginal capital requirements make this model a less useful tool for managing our business. We believe it is inappropriate to expose our policyholders and shareholders to the potential volatility in capital requirements that could occur as a result of these model limitations.

Finally, and in consideration of the above reasons, we can no longer justify the high cost of the Fitch Insurer Financial Strength rating. The fee proposal you gave us is three times the amount you charged in 2005 - a rate of growth well in excess of similar fees charged by the other major rating agencies. While we recognize the investment Fitch has made in its financial guarantors rating group in recent years, we have an obligation to continually evaluate our cost structure and control expense growth in an effort to maintain the highest level of profitability.

We appreciate the service Fitch has provided to MBIA in the past. As we continue to evaluate our five-year transformation plan, and with the expectation of a return to normalcy in the market's valuation of the IFS rating, we look forward to obtaining a Fitch rating for any and all insurance entities that could be established to target specific marketplaces around the globe.

As you might expect, we are making a formal request for you to cease utilizing and immediately destroy or return all non-public information that we supplied on those transactions that you did not rate, including the non-public ratings those transactions received from other rating agencies. Consistent with our license agreement governing the use of your capital model, we will cease use of your program and delete all copies from our computers. We will send you a separate letter certifying destruction of the program and return the CD ROM within five business days.

Sincerely,  
Jay Brown  
Chairman and CEO

cc:  
Stephen Joynt  
Tom Abruzzo  
Joo-Yung Lee  
John Bareiss

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