

## MBIA Insurance Corp.

### **Credit Ratings**

Financial Strength Rating

### **Local Currency**

AA/Negative/—

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### **Rationale**

On Aug. 14, 2008, Standard & Poor's Ratings Services affirmed its 'AA' financial strength rating on MBIA Insurance Corp. and removed it from CreditWatch Negative. The outlook is negative due to MBIA's significant exposure to domestic nonprime mortgages and related exposures to collateralized debt obligations (CDO) of asset-backed securities (ABS).

In addition, the negative outlook reflects our belief that the MBIA franchise has been damaged and that the company will face diminished new business flow. Removal of the negative outlook will be dependent on clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

The 'AA' financial strength rating on the company is supported, in our opinion, by currently sound claims paying ability and liquidity levels. MBIA's margin of safety, as measured by Standard & Poor's capital adequacy test, is in the 1.0x–1.1x range, satisfactorily above the level required for a 'AA' rating.

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. MBIA did not, however, receive value in the capital adequacy model for the \$1.1 billion of capital retained at the holding company as this money may be used to fund its proposed new insurance subsidiary or support other initiatives. It is worth noting that, although this money sits at the holding company, management has stated that it will maintain a high capital level to support current policyholders. Notwithstanding this commitment and funds at the holding company, in our view, the company's ability to access the capital markets at this time is limited because of market concerns about the company's exposure to a continued deterioration in key areas of the U.S. residential mortgage sector and related CDO of ABS structures. This limitation may place increasing pressure on capital adequacy if additional capital is needed.

Standard & Poor's understands that management has initiated a plan that would restructure its business in such a way that, according to MBIA, the public finance business would be insured by a separate now-dormant insurance subsidiary and stabilize MBIA's 'AA' rating. With regard to the current financial guarantee operations, management has indicated that over the next 12 to 18 months, new business underwritten will be negligible as management works toward this goal.

Our ultimate view of the restructuring will depend in large part on whether we believe management 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.

### ***Outlook***

The negative outlook reflects Standard & Poor's concerns relating to MBIA's exposure to domestic nonprime mortgages and related CDO of ABS exposures, as well as our belief that the MBIA franchise has been damaged and that the company will face diminished new business flow. A revision of the negative outlook will depend on, among other factors, clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

### ***Management And Corporate Strategy***

Standard & Poor's understands that management has initiated a plan to restructure its business in such a way that the public finance business would be insured by a separate now-dormant insurance subsidiary and stabilize MBIA's 'AA' rating. Our ultimate view of this restructuring will depend in large part on whether we believe management 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.

As part of the evaluation, Standard & Poor's would assess, 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, potentially valuable but untested. Other proposed changes are still being put in place. We believe that implementing a risk management platform that is fully functional and which is integral to the ongoing strategy as well as the day-to-day operations is key to ensuring that proper risk management controls are in place.

With regard to the current financial guarantee operations, MBIA has begun to deleverage due to refundings, prepayments, normal runoff, and minimal new business written. Over the next 12 to 18 months, new business underwritten is expected to be negligible as management works to stabilize the rating of the company. Management has said it will maintain a high capital level to support the current policyholders. Part of this strategy is evaluating reserves to ensure resources are in place to meet the long-term needs of the company. Once management has determined the most opportune time to reenter the market, structured finance may be a component of business volume.

The structured finance business plan will be conducted around a set of core principles developed following the recent market disruption. Management believes these core principles will help reduce volatility in the insured portfolio and minimize headline risk. A limited number of asset classes in the consumer ABS, financial institutions, and commercial ABS sectors, as well as collateralized loan

obligations, have been preliminarily identified as meeting these core principles. All prospective asset classes are subject to a review of criteria and underwriting procedures before reentering the market.

Operationally, senior management is led by Joseph Brown, chairman, CEO, and president of holding company MBIA Inc., and C. Edward Chaplin, CFO. Tom McLoughlin, managing director, heads public finance, while Christopher Weeks, managing director, is head of international business, and William Fallon, managing director, is head of structured finance. Ruth M. Whaley is the chief risk officer, and Mitchell I. Sonkin is head of insured portfolio management.

### ***Business Review***

For the six months ended June 30, 2008, MBIA reported \$5 billion of gross par insured and adjusted gross premiums written of \$73.3 million. Both figures are well below the prior-year results of \$90.2 billion and \$720.3 million, respectively.

In terms of business line contribution to gross par insured, 75% of the business was in U.S. public finance and 24% was in international structured finance. Within U.S. public finance, the business was split between secondary business, 51%, and direct primary business, 49%. The sector distribution of business written for this business line was relatively even between general obligations, 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 in place a plan that will generate sufficient volumes to justify the capital employed. With regard to structured finance, the company has suspended writing new business in the near term and has ceased insuring new derivative credit contracts.

An examination of the components of MBIA's public finance risk-adjusted pricing index illustrates the economic impact of the current financial guarantee market. For the first six months of 2008, the company reported a 68% increase in the U.S. public finance implied premium rate to 69 basis points, and a 13% increase in the period weighted average capital charge over the same risk adjusted pricing data points for 2007. As a result, the risk-adjusted pricing index for this business line rose 48%, to 6.26% from year-end 2007. The movement in the components of the risk adjusted pricing index suggests that MBIA hasn't had to underprice business to gain insured par volume.

Although new-business volume declined late in 2007, MBIA reported an increase in originations for the full year, with gross par written up 38% to \$167.9 billion. A 92% gain in U.S. structured finance par insured was the greatest contributor to overall par insured and accounted for over half to total par insured. The U.S. public finance business line had an 18% increase in business volume, whereas, combined international public finance and asset-backed volume was down 14.1%. The 92% increase in U.S. structured finance gross par written was due to meaningful volume increases in corporate CDOs, CDO of ABS, commercial mortgage-backed securities (CMBS), and direct residential mortgage-backed securities (RMBS).

With regard to MBIA's par exposure to 2005-2007 vintage RMBS at June 30, 2008, the company had the following net exposure: \$9.6 billion of closed-end seconds, \$8.2 billion of home equity lines of credit, \$3.6 million of Alt A's, and \$4.1 billion of subprime mortgages. The company had no exposure to 2005-2007 vintage net interest margin securities. The total amount of CDOs of ABS originated during 2005-2007, which are largely supported by 2005-2007 vintage RMBS, was \$14.6 billion on a net par basis. For the first six months of 2008, MBIA paid \$412.3 million in claims related to its RMBS exposure.

Table 1

<b>MBIA Insurance Corp. Business Statistics</b>					
—Year ended Dec. 31—					
<i>(Mil \$)</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Net par exposure	678,661.0	617,807.7	585,003.0	585,575.0	541,026.0
<b>Adjusted Gross Premiums Written*</b>					
U.S. public finance	406.7	320.1	487.6	457.4	627.0
U.S. asset-backed and other	696.6	296.6	311.2	285.0	341.8
U.S. total	1,103.3	616.7	798.8	742.4	968.8
International public finance	190.4	258.8	97.8	258.2	435.9
International asset-backed and other	203.2	161.8	211.3	142.6	258.0
International total	393.6	420.6	309.1	400.8	693.9
Total adjusted gross premiums written	1,496.9	1,037.3	1,107.9	1,143.2	1,662.7
Net premiums written	892.4	798.0	857.8	958.1	1,050.0
<b>Gross Par Written</b>					
U.S. public finance	54,997.0	46,627.0	63,337.0	57,285.0	63,927.0
U.S. asset-backed and other	87,864.0	46,191.0	35,227.0	32,758.0	26,462.0
U.S. total	142,861.0	92,818.0	98,564.0	90,043.0	90,389.0
International public finance	6,424.0	7,162.0	4,034.0	3,942.0	10,810.0
International asset-backed and other	18,601.0	21,956.0	24,051.0	18,326.0	21,110.0
International total	25,025.0	29,118.0	28,085.0	22,268.0	31,920.0
Total gross par written	167,886.0	121,936.0	126,649.0	112,311.0	122,309.0
Net par written	148,046.0	112,215.0	110,858.0	107,570.0	108,800.0

\*Adjusted gross premiums written include upfront and present value of installment premiums.

Table 2

<b>MBIA Insurance Corp. Portfolio Statistics</b>						
—Year ended Dec. 31—						
<i>(Mil \$)</i>	<i>2007 industry average % par</i>	<i>2007 % of par</i>	<i>2007 par</i>	<i>2006 par</i>	<i>2005 par</i>	<i>2004 par</i>
<b>Public Finance</b>						
GO	19.9	25.2	170,884.0	165,067.9	157,225.2	146,751.3
Utility	8.6	11.0	74,872.0	70,152.9	68,431.4	63,905.7
Tax-backed	8.4	6.4	43,208.0	39,537.1	35,948.4	33,716.3
Health care	3.9	3.9	26,137.0	27,615.3	30,775.3	33,351.6
Transportation	4.6	4.8	32,632.0	31,255.8	32,122.8	29,945.9
Colleges and universities	3.0	3.6	24,754.0	22,528.5	21,745.7	19,257.2
Investor-owned utilities	1.2	0.6	3,991.0	3,998.0	4,951.1	5,474.3
Housing	1.7	2.6	17,317.0	15,481.3	15,012.4	15,413.0
Special revenue	0.5	1.0	6,957.0	7,043.0	6,509.5	6,183.8
Other	3.0	0.5	3,613.0	3,728.9	4,425.7	13,234.5
Total	54.8	59.6	404,365.0	386,408.6	377,147.5	367,233.6
Leases contained in above	1.7	5.1	34,543.0	32,760.0	33,413.0	34,111.0

Table 2

**MBIA Insurance Corp. Portfolio Statistics (cont.'d)**

	— Year ended Dec. 31—					
(Mil \$)	2007 industry average % par	2007 % of par	2007 par	2006 par	2005 par	2004 par
<b>Domestic Asset-Backed and Corporate Finance</b>						
MBS	3.2	1.7	11,466.0	7,918.1	8,906.0	10,557.5
Home equity loan	2.6	2.9	19,938.0	20,108.2	17,205.4	16,284.1
Auto loan	1.6	1.4	9,803.0	9,454.1	9,261.6	10,792.2
Other consumer asset-backed	2.0	1.3	8,595.0	10,593.3	4,397.4	7,935.0
Commercial asset-backed	9.9	14.7	100,073.0	68,181.1	45,819.6	60,654.6
Bank/financial institutions	0.2	0.2	1,452.0	1,568.5	1,277.3	1,371.9
Other	10.2	0.8	5,495.0	3,893.8	26,952.2	5,809.2
Total	29.7	23.1	156,822.0	121,717.1	113,819.4	113,404.4
<b>International</b>						
Public finance	5.3	5.4	36,531.0	33,568.6	26,190.4	27,625.4
Asset-backed	8.9	11.9	80,943.0	76,113.5	67,845.7	77,311.1
Other	1.3	0.0	0.0	0.0	0.0	0.0
Total	15.5	17.3	117,474	109,682.1	94,036.1	104,936.5
Total net par outstanding	100.0	100.0	678,661	617,807.7	585,003.0	585,574.5

**Affiliates**

MBIA's affiliate financial services business lines are part of MBIA Inc.'s asset management business and include money management services, investment agreements, medium-term notes (MTNs), and customized and pooled investment products offered through:

- MBIA Municipal Investors Service Corp. (MBIA-MISC): an SEC-registered investment adviser that provides investment management programs for state and local governments, with total assets under management of \$16.9 billion as of June 30, 2008;
- MBIA Investment Management Corp. (IMC): a provider of customized investment agreements for bond proceeds, other public funds, and funds related to asset-backed or structured product issuance, with \$15.5 billion outstanding in investment agreements asset/liability products as of June 30, 2008;
- MBIA Global Funding LLC (GFL): a provider of medium-term notes purchased by banks, insurance companies, securities lenders, and mutual funds, with \$7.1 billion of medium-term notes outstanding at June 30, 2008;
- MBIA Capital Management Corp.: an SEC-registered investment adviser and NASD member firm specializing in fixed-income management for institutional funds, with total third-party assets outstanding of \$5.1 billion as of June 30, 2008.

While these businesses benefit, in our view, from solid management and conservative risk-management systems and procedures, they nonetheless produce capital charges that are assessed against MBIA. Some of the funds managed by MBIA-MISC are rated 'AAAm' on a stand-alone basis and are not assessed a capital charge. While the financial services businesses are not the company's primary source of revenue, the profits generated by these businesses are accretive to MBIA Inc.'s return on equity. We

understand that going forward management is evaluating other product offerings to enhance this business segment's contribution to revenue.

Due to the recent downgrade of MBIA, the investment agreement business segment was required to post collateral and fund some terminations payments. Following a rebalancing of assets within this business segment in the second quarter, the company had sufficient eligible collateral and cash to satisfy these additional requirements. Management is taking steps to position the ALM investment portfolio to prepare for potential collateral posting and terminations so as not to strain the financial resources of MBIA or MBIA Inc.

MBIA Inc. also has two consolidated conduit special-purpose entities (SPEs) that were set up to provide an alternate source of funding for its clients. These vehicles purchase transactions with funds provided by the issuance of medium-term notes (Meridian Funding) or commercial paper (Triple-A One Funding). MBIA insures the transactions that are purchased by the SPEs. MBIA also insures the MTNs issued by GFL. Standard & Poor's reviews each transaction that goes into the SPEs and the assets backing the MTNs to assess a capital charge to MBIA for capital adequacy testing purposes.

### ***Finances***

For 2007, statutory premiums earned were little changed from the prior year at \$767.1 million, but premiums earned from refundings declined 27% to \$167 million. Adjusting earned premiums in 2006 and 2007 for refundings, adjusted earned premiums would have risen by 15%. Premiums relating to the large U.S. public finance insured book of business represented 41% of earned premiums, followed by the U.S. structured finance book of business at 30%. The growth in adjusted earned premiums can be linked to the growth in structured finance premiums written. Because premiums are generally written on an installment basis for this line of business and earned in the year in which they are written, changes in the amount of premiums written on new business could have a great effect on earned premiums in any one year.

The U.S. public finance business, on the other hand, adds a degree of stability to earned premiums. For this business, premiums are written on an upfront basis, with a portion being earned in the year they are written and the balance booked as unearned premiums. As of June 30, 2008, MBIA's statutory unearned premium reserve totaled \$3.4 billion and will be earned over the life of the underlying transactions, thus creating an annuity-like stream of revenue.

The company reported a statutory underwriting loss of \$300 million in 2007. The loss stemmed from losses totaling \$879 million associated mainly with deterioration in the company's 2005–2007 vintage RMBS exposure. Underwriting expenses were down 12% for the year due to an adjustment in 2007, rather than expenses incurred this year. In 2006, MBIA implemented a deferral in ceding commission based on a 2005 audit comment from the company's auditors to defer the difference between the company's underwriting expense ratio and its ceding commission rate. As a result, the company had a one-time catch-up charge in 2006 of approximately \$20 million. Although underwriting expense were down, a greater decline in net premiums written led to a slight increase in the statutory expense ratio to 30.6%. In 2007, a \$2.7 million loss-adjustment expense (LAE) recovery on the statutory income statement was actually an accrual reversal for Royal Student Financial. In 2006, MBIA accrued \$6 million for expected LAE, but only incurred \$3 million, due to the case being closed in the first quarter of 2007.

MBIA's stream of net investment income appears to remain secure as the high-quality investment portfolio is conservatively invested in fixed-income assets. As of June 30, 2008, the portfolio totaled \$11.7 billion. Approximately 48% of the investment portfolio was invested in municipal securities, 15% in securitized agency securities, and 6% in U.S. government securities. There were no CDOs and negligible exposure to non-agency RMBS and CMBS. Direct exposure to Freddie Mac and Fannie Mae senior debt totaled \$110 million. The investment portfolio had an average credit quality of 'AA+' and 'AA' without giving effect to insurance. Investments for which MBIA is the financial guarantor represented 1.8% of the portfolio, and investments for which other financial guarantors were the enhancement provider represented 10.2 % of the portfolio.

At June 30, 2008, the unrealized position on MBIA's investment portfolio was a net gain of \$88.6 million and no impairments have been taken. MBIA regularly reviews its investment portfolio with further analysis of other-than-temporary-impairments when a security meets a threshold of impairment at the time of the review or a lesser threshold over a consecutive 12-month period.

MBIA Inc. reported an insurance segment pretax loss of \$3.3 billion for 2007 based on generally accepted accounting principles (GAAP), compared to a pretax gain of \$1.1 billion in 2006. The loss was the result of \$3.6 billion in unrealized losses on financial instruments, principally marked-to-market movements on credit default swap (CDS) contracts. Excluding the marked-to-market impact, the financial guarantee business continues to be the primary source of pretax income from continuing operations. The investment management services business contributed pretax operating income of \$310.2 million, a little over two and a half times the \$120 million in 2006.

For the six months ended June 30, 2008, MBIA Inc. reported a net loss of \$706.4 million, compared to net income of \$410.4 million a year earlier. The loss was due largely to a pretax \$3.6 billion unrealized loss on insured CDS in the first quarter, which included \$800 million of credit impairments, \$742 million of pretax realized investment losses resulting from the rebalancing of the investment management business segment's portfolio, and \$2.9 billion of adjustments relating to Financial Accounting Standards Board (FASB) 157.

The after-tax operating loss of \$339.4 million reported for the same period was due to reserves taken in the first quarter of 2008. Since the company did not materially change its projection of ultimate losses on its 2005–2007 vintage RMBS and CDO of ABS in the second quarter, addition to reserves was due to the accretion of losses paid out over time. The modest increase in reserves and the normal runoff of the unearned premiums reserves led to an after-tax operating income of \$228.9 million for the second quarter.

Table 3

**MBIA Insurance Corp. Financial Statistics**

	— Year ended Dec. 31—				
<i>(Mil \$)</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<i>Insurance Company*</i>					
Total assets	11,410.2	10,993.8	11,037.0	10,342.3	9,985.0
Cash + invested assets	10,981.2	10,733.4	10,786.5	10,091.5	9,799.1
Unearned premiums	3,544.7	3,664.5	3,508.1	3,390.8	3,066.6
Statutory capital	6,382.0	6,558.7	6,569.4	5,985.4	6,083.2
Net premiums earned	767.1	739.0	735.3	746.0	677.5

Table 3

**MBIA Insurance Corp. Financial Statistics (cont. 'd)**

	—Year ended Dec. 31—				
<i>(Mil \$)</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Losses and LAE	876.6	94.2	188.8	126.6	63.3
Underwriting expense	190.5	217.0	180.4	161.4	124.7
Investment income including gains	498.0	504.8	474.4	536.8	445.0
Net income	182.1	668.6	632.9	768.5	661.5
Loss ratio (%)	114.3	12.7	25.7	17.0	9.2
<b><i> Holding Company (MBIA Inc.)¶</i></b>					
Total assets	47,415.0	39,763.0	34,561.4	33,036.3	30,324.3
Stockholders' equity	3,655.8	7,204.3	6,591.6	6,558.8	6,202.2
Net income	(1,992.0)	819.3	711.0	843.0	815.9
Debt/capitalization (%)§	26.4	14.4	15.5	16.8	14.1
Hybrid security tolerance ratio (%)**	0.0	0.0	0.0	0.0	0.0
Total hybrid tolerance security ratio (%)¶¶	4.5	4.5	4.9	4.8	5.3
Return on average equity unadjusted (%)	NM	11.9	10.8	13.2	14.0

\*Pro forma U.S. statutory basis of accounting. ¶U.S. GAAP basis of accounting, XL Capital Ltd. prior to 2005. §(Holding company debt + hybrid securities not qualifying as equity)/(holding company debt + shareholders equity + hybrid securities). \*\*Hybrid securities/(capital [debt plus shareholders equity] + hybrid securities). ¶¶(Hybrid securities + contingent capital)/(capital + hybrid securities + contingent capital). NM—Not meaningful.

### ***Accounting***

Standard & Poor's views MBIA's accounting policies to be generally consistent with industry standards and neutral to the rating. MBIA Inc. files consolidated statements according to U.S. GAAP, whereas MBIA Insurance Corp. files financial statements under Statutory Accounting Principles (SAP). In 2006, MBIA Inc. discontinued its municipal service operations. MBIA MuniServices Co. was sold to an investor group led by MuniServices management and all of the Capital Asset operating entities were sold to a third party. Both businesses are included in discontinued operations and are immaterial to the financial results.

In terms of reserving, on a GAAP basis, the company records a general reserve as a fixed percent of the scheduled net earned premium even though an actual default has not occurred. We view MBIA's GAAP reserves as being adequate. On May 23, 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) 163, that prescribes loss reserve and revenue recognition practices for the financial guarantors. Standard & Poor's evaluates the financial strength of the financial guarantors using the financial statements prepared under SAP. Under this accounting method, reserves are booked when a loss is incurred. In addition, Standard & Poor's estimates theoretical losses in a severe economic environment, which may be greater than current losses, to evaluate the adequacy of the claims-paying resources of the bond insurer.

Revenue recognition is also covered by SFAS 163. Currently, MBIA's upfront premiums are earned in proportion to the expiration of related principal balance of the insured obligation. Installment premiums are earned ratably over the installment period. While the change in premium recognition under SFAS 163 will affect the financial statements, it is not expected to have a ratings impact since the fundamental economics of a transaction or bond insurance business model have not changed.

With regard to MBIA's SPEs, Standard & Poor's does not view consolidation as indicative of different or incremental risk relative to the company's nonconsolidated insurance exposure. These financial intermediaries are client funding vehicles and do not provide liquidity or capital resources to the bond insurer and its holding company. The bond insurer guarantees the assets going into the SPE and/or debt issued by the SPE. From a risk perspective, the guaranteed SPE assets are capital charged by Standard & Poor's for capital adequacy modeling purposes. These entities practice active and extensive asset/liability management, closely match-fund the assets and liabilities, and operate under tight risk-management tolerances. Operating under these strict rules and guidelines, the SPE's liquidity risk, financial market risk, and credit risk are all reduced to relatively insignificant levels. Because of this and the fact that credit risk is captured in the capital charge, the debt associated with SPEs is not included in any leverage calculations or fixed-charge converge ratios.

An issue that adds a degree of volatility to MBIA's earnings is the CDS mark-to-market accounting under FASB No. 133, which requires derivatives to be marked-to-market at each reporting date. In our opinion, this concept, insofar as it relates to the financial guarantee insurance industry, has introduced an element of earnings volatility that has little bearing on either the likelihood of a potential claim or the intrinsic earnings power of a bond insurer. Unlike other financial sectors for which FASB No. 133 may be more relevant, bond insurers' contracts are not traded, and there is no business intention to realize gains. Therefore, recording a marked-to-market loss because of changing spreads in the marketplace seems inappropriate. Since almost all CDS contracts will expire without a claim, corresponding marked-to-market positions will be zeroed out at maturity. Standard & Poor's believes that the insurers' loss reserves are the more appropriate indicators of potential claims, and that our capital charge evaluations are the more appropriate indicators of changes to the credit profile of any of the bond insurers' insured sectors.

Another issue that adds a degree of volatility to MBIA's earnings, in our view, is the nonperformance risk marked-to-market accounting for derivative assets and liabilities under SFAS No. 157 "Fair Value Measurement," which took effect on Jan. 1, 2008. It is our understanding that the valuation of MBIA's derivative liabilities must take into account the market's perception of MBIA's nonperformance risk by incorporating the spreads of MBIA's CDS. From a ratings perspective, the market's perception of MBIA's ability to settle its obligations does not relieve it of its obligation to pay the claim in full and neither can it transfer the obligation at the market value. Any gains taken from the deterioration in MBIA's own creditworthiness should not be considered as "economic" or "real" for purposes of our ratings analysis. Furthermore, any market-based gyrations unrelated to fundamental credit deterioration is reversed for our purposes when considering capital and earnings.

### ***Capitalization***

As of Dec. 31, 2007, through the use of Standard & Poor's capital adequacy test, MBIA's margin of safety was in the 1.0x-1.1x range. The margin of safety expresses the relationship between theoretical losses generated by the capital adequacy model and capital remaining at the end of a theoretical economic depression. MBIA's margin of safety satisfactorily exceeds Standard & Poor's 1.0x minimum requirement for an 'AA' rated company.

As part of this round of reviews of the financial guarantors, Standard & Poor's tested the capital adequacy of the bond insurers and reinsurers against a scenario that applies stressful default assumptions to various RMBS-related transactions that the companies have insured. The insured direct

RMBS transactions and tranches of uninsured RMBS transactions are components of the collateral backing insured CDOs. We based the default rates for these transactions on stressful cumulative net loss assumptions supplied by our Structured Finance department that vary by asset type and vintage. We have included the Alt-A, subprime, closed-end second, HELOC, and NIM asset types with 2005, 2006, and 2007 vintages in this analysis. For MBIA, these loss assumptions generated \$3.8 billion of direct RMBS losses and \$3 billion of CDO of ABS losses.

Attempting to improve its financial strength in the face of mounting stress stemming from its 2005–2007 vintage RMBS and CDO-ABS exposure, MBIA issued \$1 billion of surplus notes and the holding company issued total equity of \$1.6 billion. For capital adequacy purposes, the company received value for the surplus notes issued and \$500 million of the equity issued by the holding company as it was downstreamed to the insurance operations. MBIA did not receive value in the capital adequacy model for the \$1.1 billion of capital retained at the holding company as this money may be used to fund its proposed new insurance subsidiary or support other initiatives. It is worth noting that, although this money sits at the holding company, management has stated that it will maintain a high capital level to support policyholders.

Standard & Poor’s reviews a bond insurer’s cash position and its ability to raise additional cash against conservatively defined theoretical payments associated with a company’s various product lines. The approach to this analysis is that there might be unexpected liquidity demands on an insurer in periods of economic tranquility as well as stress. The company’s relatively conservative investment and liquidity strategies produce a 2.26x liquidity ratio, well in excess of the 1.0x thought to be prudent. Available adjusted liquid resources totaled \$3.4 billion as of year-end 2007. Against these resources, MBIA has theoretical payments totaling \$1.5 billion in 2008. We understand that debt service coming due at the holding-company level in the next five years will be \$154.6 million in 2010 and \$100 million in 2011.

Table 4

<b>MBIA Insurance Corp. Capital Statistics</b>					
	—Year ended Dec. 31—				
<i>(Mil \$)</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Portfolio Risk</b>					
Municipal insurance weighted average capital charge (% of average annual debt service)	10.8	11.6	12.3	12.6	12.9
Asset-backed capital charge (% of par)	1.5	1.9	2.0	1.8	2.2
<b>Claims-Paying Resources</b>					
Statutory capital	6,382.0	6,558.7	6,569.4	5,985.4	6,083.2
Contingent capital	400.0	400.0	400.0	400.0	400.0
Letters/lines of credit	450.0	450.0	450.0	700.0	700.0
Owner capital commitment	0.0	0.0	0.0	0.0	0.0
Stop-loss treaty	0.0	0.0	0.0	0.0	35.7
Unearned premiums	3,544.7	3,664.5	3,508.1	3,390.8	3,066.6
Present value of annual premiums	2,639.0	2,309.4	2,171.0	2,103.0	2,052.9
Other	0.0	0.0	0.0	0.0	100.0
<b>Total</b>	<b>13,425.7</b>	<b>13,382.6</b>	<b>13,098.5</b>	<b>12,579.2</b>	<b>12,438.4</b>

Table 4

**MBIA Insurance Corp. Capital Statistics (cont.'d)**

<i>(Mil \$)</i>	—Year ended Dec. 31—				
	2007	2006	2005	2004	2003
<b>Capital Adequacy</b>					
Capital remaining at end of depression test	750-800	2,750-2,800	3,550-3,600	3,100-3,150	4,100-4,150
Margin of safety (x)	1.0-1.1	1.3-1.4	1.4-1.5	1.4-1.5	1.5-1.6
Reliance on soft capital (%)	17.6	11.4	11.1	19.2	17.2

Table 5

**MBIA Insurance Corp. Liquidity Analysis**

	Haircut (%)	Amount (Mil. \$)
<b>Assets/Resources as of Dec. 31, 2007</b>		
Cash and short-term investments	0.0	1,153.4
Treasury and government agency fixed-income securities	10.0	1,229.8
Corporate and ABS/MBS bonds	50.0	995.8
Bank lines of credit	0.0	—
Other	—	0.0
Total	—	3,379.0
Municipal bonds (informational only)	—	5,810.0
<b>Potential Uses (Occurring in the Full Year 2008)</b>		
Largest net total payments in current year associated with a municipal obligor default	—	372.7
Largest net bullet maturity default	—	172.7
Largest debt service reserve draw	—	342.7
90 days of payments associated with the largest servicer default	—	118.2
Largest unscheduled draw on a municipal investment contract	—	369.0
Largest individual "single name" credit default swap	—	0.0
Holding company debt and dividend servicing needs	—	120.0
Total	—	1,495.2
Liquidity ratio (x)	—	2.3

**Ratings Detail (As Of 25-Aug-2008)\***
**MBIA Insurance Corp.**

Financial Strength Rating

**Local Currency**

AA/Negative/—

Counterparty Credit Rating

**Local Currency**

AA/Negative/—

Financial Enhancement Rating

**Local Currency**

AA/—/—

Senior Secured (1 Issue)

AA/Negative

Senior Unsecured (1 Issue)

A

<b>Ratings Detail (As Of 25-Aug-2008)* (cont.'d)</b>	
Senior Unsecured (32 Issues)	AA
<b>Related Entities</b>	
<b>Autopista Monterrey-Cadereyta</b>	
Senior Secured (1 Issue)	AA/Negative
CaVal (Mexico) National Scale Rating (1 Issue)	mxAAA/Stable
<b>Capital Markets Assurance Corp.</b>	
Financial Strength Rating	
<b>Local Currency</b>	AA/Negative/—
Issuer Credit Rating	
<b>Local Currency</b>	AA/Negative/—
Senior Unsecured (1 Issue)	AAA
<b>MBIA Assurance S.A.</b>	
Financial Strength Rating	
<b>Local Currency</b>	AA/Negative/—
Issuer Credit Rating	
<b>Local Currency</b>	AA/Negative/—
Financial Enhancement Rating	
<b>Local Currency</b>	AA/—/—
Senior Secured (1 Issue)	AA/A-
Subordinated (1 Issue)	BBB
<b>MBIA Global Funding LLC</b>	
Senior Secured (6 Issues)	AA/Negative
Senior Unsecured (45 Issues)	AA
Senior Unsecured (8 Issues)	AA/Negative
<b>MBIA Inc.</b>	
Issuer Credit Rating	
<b>Local Currency</b>	A-/Negative/—
Senior Unsecured (7 Issues)	A-
<b>MBIA Insurance Corp. of Illinois</b>	
Financial Strength Rating	
<b>Local Currency</b>	AA/Negative/—
Issuer Credit Rating	
<b>Local Currency</b>	AA/Negative/—
<b>MBIA Mexico S.A. de C.V.</b>	
Financial Strength Rating	
<b>Local Currency</b>	AA/Negative/—
<b>CaVal (Mexico) National Scale Rating</b>	mxAAA/Stable
<b>MBIA U.K. Insurance Ltd.</b>	
Financial Strength Rating	
<b>Local Currency</b>	AA/Negative/—
Financial Enhancement Rating	
<b>Local Currency</b>	AA/—/—
<b>North Castle Custodial Trust I</b>	
Preferred Stock (1 Issue)	A-

<b>Ratings Detail (As Of 25-Aug-2008)* (cont.'d)</b>	
<b>North Castle Custodial Trust II</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust III</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust IV</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust V</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust VI</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust VII</b>	
Preferred Stock (1 Issue)	A-
<b>North Castle Custodial Trust VIII</b>	
Preferred Stock (1 Issue)	A-
<b> Holding Company</b>	MBIA Inc.
<b> Domicile</b>	New York

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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