

### Research Update:

# MBIA Insurance Corp. Ratings Affirmed At 'B'; Outlook Negative

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## Research Update:

# MBIA Insurance Corp. Ratings Affirmed At 'B'; Outlook Negative

## Overview

- We view the combined business and financial risk profile of MBIA Insurance Corp. as weak based on the updated bond insurance criteria Standard & Poor's published on Aug. 25, 2011.
- Stress-case loss projections for the insured portfolio significantly exceed the company's capital resources.
- We have affirmed the financial strength rating at 'B'.
- The outlook remains negative, reflecting concerns that continued adverse loss development could diminish liquidity and weaken capital.

## Rating Action

On Nov. 30, 2011, Standard & Poor's Ratings Services affirmed its financial strength rating on MBIA Insurance Corp. (MBIA) at 'B'. The outlook remains negative.

## Rationale

The 'B' rating on MBIA reflects our view, based on our updated bond insurance criteria, that the company has relatively low capital for its needs; poor operating performance, which we expect to continue; and a lack of any competitive advantages to improve its financial position in the next 12 months. (For more information on the updated criteria, see "Bond Insurance Rating Methodology And Assumptions," published Aug. 25, 2011, on RatingsDirect on the Global Credit Portal.) The rating also reflects the company's run-off status, in our view, and our view that this corporate profile is unlikely to change unless restructuring-related litigation is resolved. The timing of the litigation resolution is uncertain.

The ratings reflect weak economic conditions in the U.S., which have contributed to losses in the company's structured finance business, as well as Standard & Poor's expectations for the future, which we factor into our stress-case loss projections. In particular, our stress-case loss projections for MBIA's collateralized debt obligations (CDOs) of asset-backed securities and its commercial real estate exposure significantly exceed the company's capital resources.

MBIA has no dividend capacity to support parent company MBIA Inc.'s (B-/Negative/--) debt-service obligations. We expect that MBIA Inc.'s short-term investments should cover its debt-service and operating-expense obligations through 2013. In addition, the estimated taxes release related to

the tax sharing agreement could provide additional liquidity.

## Outlook

The negative outlook on MBIA reflects the possibility that adverse loss development in the structured finance business could continue, diminishing liquidity and weakening capital. We expect liquidity will be adequate to meet projected claims payments over the next several years, but this could change if losses and earnings volatility increase. If MBIA's capital stabilizes as a result of diminished potential for future adverse loss development, we would view this as positive to the rating. However, if the company exhibits increased losses and diminished liquidity--such that the time to a possible breach of minimum regulatory capital levels shortens to less than two years or if surplus falls below \$500 million--we could lower the ratings.

## Related Criteria And Research

- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011

## Ratings List

Ratings Affirmed

MBIA Insurance Corp.

Capital Markets Assurance Corp.

Counterparty Credit Rating

B/Negative/--

MBIA Insurance Corp.

MBIA U.K. Insurance Ltd.

Capital Markets Assurance Corp.

Financial Strength Rating

B/Negative/--

MBIA Insurance Corp.

MBIA U.K. Insurance Ltd.

Financial Enhancement Rating

B/--/--

MBIA Inc.

Counterparty Credit Rating

B-/Negative/--

MBIA Insurance Corp.

Senior Unsecured

CCC

Preferred Stock

C

MBIA Global Funding LLC

Senior Secured

B

Senior Unsecured

B

MBIA Inc.

Senior Unsecured

B-

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