Credit Opinion: MBIA Insurance Corporation

MBIA Insurance Corporation

Armonk, New York, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Insurance Financial Strength	Aaa
Parent: MBIA Inc.	
Outlook	Stable
Senior Unsecured	Aa2
Capital Markets Assurance Corporation	
Outlook	Stable
Insurance Financial Strength	Aaa
MBIA Assurance S.A.	
Outlook	Stable
Insurance Financial Strength	Aaa
MBIA Insurance Corporation of Illinois	
Outlook	Stable
Insurance Financial Strength	Aaa
MBIA Mexico, S.A. de C.V.	
Outlook	Stable
Insurance Financial Strength -Dom Curr	Aaa

Contacts

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Key Indicators

MBIA Insurance Corporation

	[1]**2006**	**2005**	**2004**	**2003**	**2002**
Gross Par Written ($ billlion)	**121,511.00**	**126,299.00**	**112,311.00**	**122,309.00**	**139,729.00**
Gross Premiums Written ($ million)	**896.00**	**985.00**	**1,117.00**	**1,269.00**	**952.00**
Net Par Outstanding ($ billion)	**618.00**	**585.00**	**586.00**	**541.00**	**497.00**
Hard Capital ($ million)	**11,744.00**	**11,947.00**	**11,193.00**	**10,860.00**	**9,597.00**
Net Income ($ million)	**819.00**	**711.00**	**843.00**	**825.00**	**587.00**
Strategy & Franchise Value					
% of Industry Net Par Outstanding	**0.28**	**0.28**	**0.31**	**0.32**	**0.35**
% of Industry Gross Par Written	**0.22**	**0.24**	**n/a**	**n/a**	**n/a**
Portfolio Characteristics					
Credit Risk Ratio	**0.00**	**0.00**	**0.01**	**0.00**	**0.00**
Tail Risk Ratio	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**
Capital Adequacy					
Hard Capital Ratio	**1.55x**	**1.53x**	**1.35x**	**1.50x**	**1.42x**
Total Capital Ratio	**1.47x**	**1.46x**	**1.30x**	**1.46x**	**1.36x**
Par Reinsured	**0.11**	**0.14**	**0.15**	**0.20**	**0.22**
Profitability					
Return on Equity	**0.12**	**0.11**	**0.15**	**0.15**	**0.14**
Loss Ratio (SAP)	**0.13**	**0.26**	**0.17**	**0.09**	**0.09**

Expense Ratio (SAP)	**0.30**	**0.22**	**0.18**	**0.13**	**0.17**
Financial Flexibility					
Earnings Coverage	**14.5x**	**11.8x**	**16.7x**	**16.6x**	**16.0x**
Cash Flow Coverage	**4.9x**	**4.2x**	**4.4x**	**5.4x**	**5.4x**
Double Leverage	**1.08**	**1.16**	**1.16**	**1.16**	**1.16**

[1] 2006 values for Hard Capital, Credit Risk Ratio, Tail Risk Ratio, Hard Capital Ratio, and Total Capital Ratio are as of 6/30/2006

Opinion

SUMMARY RATING RATIONALE

Moody's Aaa Insurance Financial Strength Rating (IFSR) for MBIA Insurance Corporation (MBIA) and Aa2 senior debt rating of its parent, MBIA Inc., reflect the strong franchise value of the group's core financial guaranty business, its consistent profitability, highly diversified and low risk insured portfolio, and its strong claims paying resources.

MBIA participates in all segments of the financial guaranty market. MBIA's insurance provides an unconditional and irrevocable guaranty to pay interest and principal in the event of an issuer default, which enhances the credit quality and marketability of the underlying credit obligation while lowering the cost of debt for the issuer.

MBIA's insurance business had been negatively affected by a combination of a cyclical downturn in demand from the peak levels reached in 2003 as evidenced by low credit spreads, and new competition. While the US municipal and structured markets will continue to represent the bulk of MBIA's outstanding insured portfolio, much of the company's future growth is expected to come from outside of the United States, most notably Europe. The firm's strong embedded earnings from its outstanding insurance and investment portfolios are greatly mitigating the earnings consequences of a short-term decrease in business. More recently, credit stress in the US subprime market, while exposing MBIA to some possible deterioration in its insurance portfolio, has been a factor contributing to widening in market credit spreads to the benefit of the firm.

Credit Strengths

Leading global provider of financial guaranty insurance

High quality and well diversified insured portfolio with nominal liquidity needs

Strong risk adjusted capitalization, predictable earnings

Highly transparent risks and business strategy

Management's commitment to Aaa rating reflects sensitivity of franchise to rating

Credit Challenges

Mature US market could hurt demand for credit enhancement

Sensitivity of insurance portfolio to credit cycle

Risk exposure to some volatile sectors (subprime mortgages, ABS CDO, and other consumer ABS)

Rating Outlook

Moody's outlook for MBIA Insurance Corporation's Aaa Insurance financial strength rating and MBIA Inc.'s Aa2 senior debt rating is stable.

What Could Change the Rating - Down

Substantial and uncorrected deterioration of portfolio characteristics or underwriting practices

Deterioration in the competitive environment or product demand

Hard and Total Capital ratios falling below 1.3x without corrective action

Failure to maintain three-year average holding company operating ROE above 12%

Significant diversification in higher risk businesses

Notching Considerations

The spread between MBIA's insurance financial strength rating and the senior debt rating at the holding company is two notches, which is consistent with Moody's typical notching practices for U.S. financial guaranty insurance holding company structures with Aaa-rated operating companies.

Recent Results and Developments

A settlement was reached in January 2007 between MBIA and the Securities and Exchange Commission (SEC), the New York Attorney General's Office (NYAG), and the State of New York Insurance Department. The settlements concluded the investigation of certain transactions entered into by MBIA in 1998 following defaults on insured bonds issued by the Allegheny Health, Education and Research Foundation (AHERF), with MBIA Inc. paying $75 million in penalties and disgorgement. A number of other matters formally under investigation did not give rise to regulatory actions, and a review of various governance and accounting matters by an independent consultant uncovered no issues.A settlement was reached in January 2007 between MBIA and the Securities and Exchange Commission (SEC), the New York Attorney General's Office (NYAG), and the State of New York Insurance Department. The settlements concluded the investigation of certain transactions entered into by MBIA in 1998 following defaults on insured bonds issued by the Allegheny Health, Education and Research Foundation (AHERF), with MBIA Inc. paying $75 million in penalties and disgorgement. A number of other matters formally under investigation did not give rise to regulatory actions, and a review of various governance and accounting matters by an independent consultant uncovered no issues.

DETAILED RATING CONSIDERATIONS

Moody's rates MBIA Aaa for insurance financial strength, which is consistent with Moody's rating scorecard.

INSURANCE FINANCIAL STRENGTH RATING

The key factors currently influencing the rating and outlook are as follows:

Factor 1 - Franchise Value and Strategy: Aaa

MBIA is a market leader among the global financial guarantors with a market share approximating 25% of industry gross par written and an established presence in all sectors. The firm has substantial embedded earnings as a result of its large portfolio of well priced insurance exposures.

Factor 2 - Portfolio Characteristics: Aaa

MBIA's portfolio quality is strong. The firm has worked out, sometimes opportunistically, problem credits in its EETC and manufactured housing portfolio. Eurotunnel successfully restructured its debt, and MBIA emerged whole. Problems in the US subprime mortgage sectors are still emerging and MBIA could see some negative credit migration in its mortgage and ABS CDO portfolio as a result. We, however, do not anticipate material increases in claims at current cumulative loss expectations for 2006 and 2007-vintage ABS CDOs. Under our more stressful scenario, MBIA would remain adequately capitalized for its rating. MBIA has one of the lowest single-risk concentrations in the industry, reflecting the combined effect of having the largest capital base of the industry and good underwriting discipline.

Factor 3 - Capital Adequacy: Aaa

MBIA's healthy risk-adjusted capital ratios have been improving, reflecting a combination of some successful loss mitigation efforts, capital accumulation and limited opportunities to redeploy capital in the business from 2004 to 2006. Overall reliance on reinsurance has been coming down as MBIA has become more discriminate, preferring facultative execution over treaties to better address portfolio concentrations. Post regulatory settlement of AHERF-related issues, MBIA started an aggressive stock buyback program. We expect the firm to maintain strong capital adequacy at the insurance company and liquidity at the holding company consistent with current ratings.

Factor 4 - Profitability: Aaa

MBIA's historically strong results have been affected more recently by a difficult competitive environment, leading to lower production levels. MBIA's renewed focus on operational and capital efficiency, combined with the possibility of increased business opportunities, could help future operating profitability. Recent production, however, was strong, helped by turmoil in the credit markets.

Factor 5 - Financial Flexibility: Aaa

The firm's financial flexibility benefits from its prudent leverage profile and strong market access. MBIA's adjusted double leverage (a proxy for financial leverage that includes adjustments for operating lease debt equivalents) is within our expectation of maintaining double leverage below 120%. Regulatory constraints on insurance company dividends, however, limit holding company liquidity. The firm is committed to maintain at least $300 million of cash at the holding company.

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Rating Factors

MBIA Insurance Corporation

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**Adjusted Score**
Factor 1: Strategy & Franchise Value (25%)						**Aaa**	**A**
% of Industry Net Par Outstanding	**28.4%**						
% of Industry Gross Par Written	**21.6%**						
Moody's Adjusted Book Value/Book Value	**1.4x**						
Client Concentration	**X**						
Management, Governance & Risk Management Oversight	**X**						
Factor 2: Portfolio Characteristics (20%)						**Aaa**	**Aa**
Credit Risk Ratio [3]	**44.0**						
Tail Risk Ratio [3]	**1.30**						
% Below Investment Grade	**2.5%**						
S (WCL > 10% of HC) / HC	**0%**						
Factor 3: Capital Adequacy (30%)						**Aaa**	**Aaa**
Hard Capital Ratio [3]	**1.55x**						
Total Capital Ratio [3]	**1.47x**						
Par Reinsured		**11.1%**					
Factor 4: Profitability (15%)						**Aaa**	**Aa**
Return on Equity - 3 year average	**13.0%**						
Loss Ratio (SAP) - 3-year average		**18.4%**					
Expense Ratio (SAP) - 3-year average		**23.2%**					
Factor 5: Financial Flexibility (10%)						**Aaa**	**Aa**
Earnings Coverage	**14.5x**						
Cash Flow Coverage		**4.9x**					
Double Leverage	**107.9%**						
Ease of Access to Capital	**X**						
Aggregate profile						**Aaa**	**Aaa**

[1] Scorecard as of 12/31/2006. [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Ratios as of 6/30/2006