



Rating Action: **MBIA Insurance Corporation**

Moody's confirms MBIA's Aaa rating, changes outlook to negative

New York, February 26, 2008 -- Moody's Investors Service has confirmed the Aaa insurance financial strength ratings of MBIA Insurance Corporation and its affiliated insurance operating companies. Moody's has also confirmed the Aa2 rating on surplus notes issued by MBIA Insurance Corporation, and the Aa3 senior unsecured ratings of parent company, MBIA Inc. These rating actions reflect Moody's assessment of MBIA's ongoing efforts to strengthen its capital position in light of its troubled mortgage and mortgage-related CDO exposures, as well as changes the company is implementing to reduce the volatility associated with its insured portfolio. The rating outlook is negative.

OVERVIEW OF RATING APPROACH

As outlined in Moody's Rating Methodology for Financial Guarantors, we have evaluated MBIA along five key rating factors: 1) franchise value and strategy, 2) insurance portfolio characteristics, 3) capital adequacy, 4) profitability, and 5) financial flexibility.

Of these factors, capital adequacy is given particular emphasis. To estimate capital adequacy, Moody's has applied its traditional portfolio risk model for determining stress losses on the non-mortgage related portion of MBIA's insured portfolio and alternative stress tests for the mortgage and mortgage-related CDO exposure. For mortgage-related exposures, stress losses were estimated using assumptions consistent with a scenario where 2006 subprime first lien mortgages realize an average of 21% cumulative pool losses, with other vintages and products stressed accordingly. Stress-level losses for RMBS transactions were assessed on a transaction-by-transaction basis, while loss estimates for ABS CDOs were derived using a stochastic simulation model which applied stress to specific underlying collateral tranches within the CDOs. Estimated tranche-level losses were computed based on the structure of those tranches (e.g. attachment and detachment points) and estimates of their performance relative to the average.

Losses estimated under the approach described above were present valued to reflect estimates of the payout pattern that would emerge, based on the collateral type. For ABS CDOs, consideration was given to the specific contractual features within associated CDS contracts. These factors resulted in aggregate present value discounts to principal loss estimates of approximately 9% for RMBS and 33% for ABS CDOs. Non mortgage risks are discounted within the portfolio model based on estimates of payout patterns as well.

In comparing estimated stress losses to claims paying resources and associated rating levels, Moody's combines an estimated loss distribution for mortgage risks with one for non-mortgage risks, assuming a correlation between the two that ranges from 90% (for Aaa) down to 30% (for Baa3). Claims paying resources are then compared to the indicated capital need, at the target benchmark (1.3x capital needed to cover stress-case losses).

KEY RATING FACTORS -- CAPITAL ADEQUACY

Based on the risks in MBIA's portfolio, as assessed by Moody's according to the approach outlined above, estimated stress-case losses would be in the range of \$13.7 billion. This compares to Moody's estimate of MBIA's claims paying resources of approximately \$16.1 billion, resulting in a total capital ratio of about 1.2x, which is significantly in excess of the "minimum" Aaa level, but short of the 1.3x Aaa "target" level by about \$1.7 billion. Moody's said that, as outlined in its rating methodology, the shortfall in capitalization from the Aaa target was considered in relation to MBIA's plans for closing the gap through a combination of capital strengthening measures, and was determined to be consistent with a Aaa rating. Moody's further noted that in the most likely or "expected" scenario, MBIA's insured portfolio will incur lifetime losses of approximately \$4 billion in present value terms, and that MBIA's current claims-paying resources cover this expected loss estimate by roughly 4x.

Over the past two months, MBIA has completed transactions to raise \$1.6 billion in equity and \$1 billion in

surplus notes, demonstrating a strong commitment to its policyholders. MBIA is considering a number of initiatives that should enable it to meet the Aaa target threshold over the next six to twelve months. Moody's said that the already announced dividend elimination and six-month suspension of new structured finance underwriting, in combination with normal portfolio runoff and targeted reinsurance strategies, should significantly contribute to that objective.

KEY RATING FACTORS -- BUSINESS AND FINANCIAL PROFILE

In Moody's opinion, MBIA's significant exposure to mortgage-related risk has had consequences for its business and financial profile beyond the associated impact on capitalization, and affects our opinion about MBIA's other key rating factors. Nonetheless, despite some of the recent challenges faced by the company related to investor confidence, Moody's believes that MBIA is better-positioned relative to certain less-established competitors with respect to business franchise, prospective profitability and financial flexibility.

With respect to underwriting and risk management, Moody's believes that MBIA's significant exposure to the mortgage sector is indicative of a risk posture somewhat greater than would be consistent with a Aaa rating going forward. Moody's also believes that the company's non-core asset management activities, including GICs, place incremental negative pressure on its ratings.

Moody's notes, however, that MBIA is making major changes to its underwriting and risk management strategies in an effort to reduce performance volatility within its insured portfolio. MBIA is developing a principles-based approach to financial guaranty underwriting, significantly narrowing the range of exposures that it will pursue in order to limit the company's exposure to extreme loss outcomes in the event of market crises such as that in US residential mortgages and CDOs holding these mortgages. The company has indicated that it will avoid certain structured finance business, and will no longer underwrite derivatives contracts as it believes that the volatilities these create are inconsistent with the business model. In Moody's opinion, the company's commitment to focusing on reduced single and correlated risk concentrations across its portfolio represents a critical element to its risk management plan going forward.

MBIA's near term profitability is likely to remain below historical levels, as new business production remains lackluster for some time, especially given the firm's temporary moratorium on structured finance underwriting and as possible additional credit losses are realized. However, some stability is provided by the company's large in-force portfolio, which will continue to provide significant premium revenue for years.

The ability of the company to reestablish its strong market position in the US public finance market will take time but should be facilitated by the firm's strategy to separate its municipal, structured finance and asset management businesses into distinct legal entities over time. In Moody's opinion, however, MBIA's broad and deep relationships with issuers, as well as its prominent market position and execution capabilities in several market sectors, provide the company with a good foundation from which to regain a solid market position in the US public finance guaranty business.

In terms of financial flexibility, MBIA, like other financial guarantors, benefits from its ability to pay claims over an extended period of time, typically scheduled interest and principal at maturity. Moody's has also considered in its rating review the potential for calls on liquidity at MBIA in the context of available resources, including the investment profile of the operating insurance entities and its asset management activities. MBIA's financial leverage profile could increase if incurred losses further erode shareholders' equity. Moody's believes that holding company liquidity is currently adequate, supported by dividend capacity from MBIA Insurance Corporation and strong debt service coverage available through cash and investments held at the holding company level.

VIEWS ON POSSIBLE SPLIT OF MUNICIPAL AND STRUCTURED BUSINESSES

MBIA has indicated that it intends, over time, to pursue the public sector and structured finance businesses through distinct legal entities. Moody's current ratings for MBIA do not reflect the impact of such an organizational change. The ratings appropriate for separate insurers operating under such a strategy would depend on their specific business and financial characteristics, including capitalization and underwriting frameworks. In this scenario, Moody's believes that the structured finance guarantor would be more challenged than its public finance affiliate to maintain a Aaa rating, due to the relatively greater complexity of risks and higher risk concentrations evident in that sector of the market. Those risks are more muted within a single-company structure where more granular and lower-risk public finance exposures provide diversification across risk and time dimensions. Moody's further believes that guarantors splitting their business among distinct legal entities might have a greater incentive to allocate capital in favor of the public sector guarantor, given the somewhat greater importance attached to Aaa ratings by customers in that market. The effect of these structural changes would likely be to reduce the risk of downgrade for the

guarantor's insured municipal debt and to increase the risk of downgrade for the insurer's other exposures.

RATING OUTLOOK: NEGATIVE

The negative outlook on MBIA's ratings reflects remaining uncertainties as the company finalizes its capital plan and implements its strategy. Moody's believes that MBIA's plan to regain its footing is reasonable and that the company is committed to maintaining a strong credit profile, although some credit and execution risks remain in the near term, especially given the weakened state of the US economy. The rating agency added that the rating outlook could return to stable within the next six to twelve months, as visibility improves on the firm's likely losses from mortgage-related exposures, and as the details and effectiveness of MBIA's strategies become more apparent. A return of the rating outlook to stable would depend on strengthening capital to meet the target Aaa benchmark and successful execution of contemplated changes in risk strategy.

LIST OF RATING ACTIONS

The following ratings have been confirmed:

MBIA Insurance Corporation -- insurance financial strength at Aaa, and surplus notes at Aa2;

MBIA Insurance Corporation of Illinois -- insurance financial strength at Aaa;

Capital Markets Assurance Corporation -- insurance financial strength at Aaa;

MBIA UK Insurance Limited -- insurance financial strength at Aaa;

MBIA Assurance S.A. -- insurance financial strength at Aaa;

MBIA Mexico S.A. de C.V. -- insurance financial strength at Aaa and Aaa.mx (national scale rating);

MBIA Inc. -- senior unsecured debt at Aa3, provisional senior debt a (P) Aa3, subordinated debt at (P) A1, and provisional preferred stock at (P) A2;

North Castle Custodial Trusts I-VIII -- contingent capital securities at Aa3.

OVERVIEW OF MBIA INC.

MBIA Inc. (NYSE: MBI) is the parent of MBIA Insurance Corporation, which provides financial guarantees to issuers in the municipal and structured finance markets in the United States as well as internationally. MBIA also offers various complementary services such as investment management and municipal investment contracts. MBIA reported a net loss for 2007 of approximately \$1.9 billion, and had shareholders' equity of about \$3.6 billion as of 12/31/07.

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