Moody's Investors Service

Global Credit Research
Announcement
5 DEC 2007

Announcement: MBIA Inc.

Moody's Evaluation Of Financial Guarantors' Mortgage Risk -- An Update

New York, December 05, 2007 -- Last month, Moody's outlined the approach we are taking to assess the impact of deteriorating conditions in the US mortgage market on ratings of monoline financial guaranty insurers. Since that time, we have received numerous inquiries from investors and other market participants regarding our specific analytic methods, our process and timing for concluding this assessment, and the likelihood of ratings reviews or downgrades. This comment is intended to update the market about Moody's analytic work as well as to offer additional detail about methods and process.

ANALYTIC METHODS

To assess the impact of continuing mortgage market deterioration on financial guaranty capital adequacy, Moody's is employing a two-pronged analytical approach. Under the first approach (the "base case"), we are re-estimating financial guarantor capital adequacy ratios using Moody's traditional financial guaranty portfolio model, a transaction-by-transaction stochastic stress model, by updating the risk estimates associated with RMBS and ABS CDO exposures in light of Moody's recent rating actions in these sectors, and, in some cases (e.g., where ratings are under review), forming estimates of potential future ratings migration.

Under the second approach (the "stress case"), we are refining the stress case simulation model described in Moody's September 25, 2007 report on the financial guarantors' exposure to mortgage risk within ABS CDOs. Rather than applying the broad subprime collateral performance assumptions used in that earlier stress model, the new model draws upon Moody's pool level performance assumptions for individual RMBS collateral types, thereby incorporating differences in collateral performance by vintage, asset type and lender. In addition, the new model also considers the impact of projected timing of losses. We intend to apply this updated stress model not just to ABS CDOs, but to other mortgage related exposures as well. These additional refinements are intended to provide greater confidence in the results and enable Moody's to better assess a guarantor's ability to withstand a range of stresses related to the ultimate performance of mortgage risk.

Other key considerations in our ratings assessment will include the impact of recent developments on the financial guarantors' future business models and franchise value. The stability of a guarantor's business model is largely a function of the market's receptivity to its product and strategy. There are a number of factors that influence this analysis including general market conditions and spreads, the robustness of specific markets where financial guaranty insurance is considered to add value, regulatory guidelines, competitive dynamics, access to capital, and the willingness of market participants to purchase and hold a guarantor's wrapped paper in light of investment guidelines and evolving perceptions of credit risk. The views of various investors, financial intermediaries and other market participants will be considered in our analysis.

PROCESS AND TIMING

The decision to undertake additional stress case analysis reflects the uncertainty surrounding future mortgage market performance and the potential effect of different outcomes on guarantors' RMBS and ABS CDO exposures. Our approach is to assess the impact of different scenarios on a firm's capital adequacy by comparing model results against Moody's established capital benchmarks. As part of this process, we are reviewing specific transactions that result in significant modeled loss contributions in order to confirm our understanding of each one's structure and to identify the specific risk characteristics that lead to such modeled losses.

Upon the completion of this analysis -- within two weeks -- we will take any rating actions appropriate, giving consideration to the firm's near- and medium-term capital plans. We will also form a judgment about the likely future demand for the guarantor's core credit enhancement product in light of investor sentiment and general market conditions, as well as the impact that these factors may have on the firm's profitability and financial flexibility.

LIKELIHOOD OF RATING ACTIONS

Key Factors Considered:

There are three factors that will largely determine whether Moody's takes rating actions on those financial

guaranty insurers most exposed to deterioration in the mortgage markets: 1) Current capital adequacy -- whether the guarantor meets Moody's capital adequacy benchmarks for its rating; 2) Prospective capital adequacy -- whether the guarantor will meet Moody's capital adequacy benchmarks in the near and medium term, and 3) Strength of franchise and business model -- whether the guarantor will be able to access, going forward, attractive business opportunities consistent with its rating level. The following is a broad outline of expected outcomes, recognizing that there is a meaningful degree of judgment involved in assessing each factor.

Potential for Capital Shortfalls:

In prior research, Moody's identified five monoline financial guarantor groups as being most exposed to deteriorating performance of residential mortgage-backed securities: CIFG, FGIC, SCA, AMBAC and MBIA. Based on further analysis conducted since early November, we continue to believe CIFG is most likely to fall below Aaa capital benchmarks, though they have announced a capital enhancement plan which would significantly reduce that risk. We also continue to see FGIC, SCA and AMBAC as somewhat likely to exhibit a capital shortfall under one of the stress models previously described. And with regard to MBIA, additional analysis of its direct RMBS portfolio leads Moody's to believe the guarantor is at greater risk of exhibiting a capital shortfall than previously communicated; we now consider this somewhat likely. As indicated above, these analyses will be completed within two weeks.

Ratings Affirmations:

We would expect to affirm ratings where we are satisfied about both the firm's capital adequacy and the robustness of its business franchise. With respect to capital specifically, an affirmation would likely occur only where the company's capital ratios are above Moody's benchmarks for the rating level. If capital fell below Moody's benchmarks, we would assess whether the guarantor's capital remediation plan was reliably expected to result in the company exceeding the relevant benchmarks and over what time frame, and communicate further with the market at that time.

Ratings Reviews:

We would expect to review ratings for possible downgrade where the firm's capital adequacy is less certain over the near term. Specifically, capital would be below Moody's benchmarks for the rating level and any capital remediation plan would be either reliable but take longer to become effective (typically more than one quarter), or shorter term but less reliable.

Ratings Downgrades without Review:

We would expect to downgrade ratings without initiating a review where we believe the current rating no longer reflects the long term financial strength of the firm, even considering the potential benefit of any credible capital remediation plan. Specifically, capital would be below Moody's benchmarks for the rating level and any capital remediation plan would be considered unreliable in returning the company to capital adequacy consistent with the current rating level.

Assessing Execution Risk of Capital Plans:

There are a number of different vehicles that could well be used as part of an overall capital plan. Some of these, including quota share reinsurance, specific excess-of-loss reinsurance, aggregate excess-of-loss reinsurance, and triggering contingent capital facilities, may have little execution risk and could be put in place quickly. Infusion of new capital could also take multiple forms but have more execution risk, varying based on the specific nature of the arrangements. The assessment of execution risk, therefore, will involve judgment that would be difficult to express in a set of criteria, though we would clearly be conservative in evaluating the execution risk of any capital plan.

New York
Jack Dorer
Managing Director
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Stanislas Rouyer
Senior Vice President
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

© Copyright 2007, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."