

Announcement: MBIA Insurance Corporation

Correction to text, Nov. 8, 2007 Release: Moody's to Update Rating Opinion on Financial Guarantors

CORRECT RATING FOR CIFG GUARANTY IN FOURTH PARAGRAPH IS Aaa; IN SAME PARAGRAPH SUBSTITUTE "XL FINANCIAL" FOR "SECURITY CAPITAL" Revised release follows

New York, November 08, 2007 -- This comment updates the status of Moody's analysis of the financial guarantors and outlines the process we will follow to assess the impact on their ratings of continuing deterioration in the RMBS market. To evaluate the effect of this development on the ratings of the financial guarantors, Moody's is re-estimating capital adequacy ratios to reflect deterioration in the expected performance of transactions within the guarantors' insured portfolios. At the same time, we are updating our earlier stress-test by determining the impact of higher subprime cumulative loss assumptions on both the guarantors' direct RMBS and ABS CDO exposures, using granular underlying collateral information as it relates to vintage, originator, and performance to date.

On Sept 25, 2007, Moody's published a report on financial guarantors' exposure to subprime mortgage risk. That report cited the risk of guarantors' ABS CDO exposures as potentially significant, given that their performance would magnify deterioration in underlying RMBS collateral. Since that report, continued deterioration in the mortgage market has increased the severity of stress scenarios.

There are meaningful differences among the rated guarantors in the potential for capital deterioration to fall below the levels consistent with their current ratings. As outlined in our September report, the financial guarantors have varying levels of exposure to the mortgage crisis given the specific content of their insured portfolios. While the guarantors' direct exposure to recent vintage subprime RMBS is likely to cause some capital depletion, companies with sizable exposure to CDOs containing higher-risk mortgage-backed securities are at the greatest risk of developing capital shortfalls. This is particularly true when ABS CDO transactions contain large buckets of underperforming 2006-07 vintage subprime RMBS collateral and/or ABS CDO collateral containing subprime risks.

Based on initial analysis of the updated data, we have grouped the guarantors' risk of a capital shortfall due to mortgage market deterioration as follows:

- Financial Security Assurance Inc. (FSA; Aaa), Assured Guaranty Corporation (Aaa) and Radian Asset Assurance Limited (Radian Asset; Aa3) have minimal exposure to ABS CDOs and, for this reason, are highly unlikely to fall below Moody's capital adequacy benchmarks for their rating category.
- MBIA Insurance Corporation's (MBIA; Aaa) is unlikely to fall below Moody's Aaa capital adequacy benchmarks in a stress scenario.
- Ambac Assurance Corporation (Ambac; Aaa), XL Capital Assurance Inc. (SCA; Aaa), and Financial Guaranty Insurance Company (FGIC; Aaa) face moderate risk of falling below Moody's Aaa capital adequacy benchmark under a stress scenario.
- CIFG Guaranty (CIFG, a subsidiary of Aa2-rated Natixis; Aaa) is highly likely to fall below Moody's Aaa capital adequacy benchmark in a stress scenario. The company has the largest exposure to mezzanine CDOs relative to its capital base.

Since this analysis was undertaken, updated granular data will allow for a more definitive analysis of capital adequacy under alternative stress scenarios.

RECENT MORTGAGE PERFORMANCE

There has been further deterioration since Sept 25th in credit performance across a wide range of recent vintage mortgage types including subprime first and second liens, other non-prime mortgages and home equity lines of credit, and on October 12th we increased our cumulative loss assumptions for 2006-vintage subprime pools. Similarly, ABS CDOs have been materially weakened by collateral deterioration given their concentrated exposure to subprime RMBS and other ABS CDO tranches and the leveraged nature of the risks. Our ratings assessment will take into account not only the expected mortgage-related loss for the guarantors but will also consider their ability to withstand a range of other possible outcomes, reflecting the substantial uncertainty in mortgage market outcomes at present.

With the exception of Radian Asset, rated financial guarantors have large US residential mortgage exposures within their insurance portfolios across a range of underlying collateral types and vintages. Within this portfolio, there are large portions of their MBS books that Moody's considers to be well protected, such as earlier-vintage RMBS and recent vintage 1st lien subprime exposures due to the high level of subordination associated with most of these transactions. Other mortgage exposures, especially recent-vintage closed-end second lien mortgages, have experienced significant deterioration, and some of the guarantors are likely to see claims on certain transactions. More importantly, collateral deterioration within recent-vintage ABS CDOs has resulted in substantially reduced levels of protection on a number of insured deals.

MOODY'S CAPITAL ADEQUACY BENCHMARKS

For a Aaa-rated guarantor, capital adequacy is evaluated by comparing its hard capital to estimated losses at a confidence interval of 99.9%. The target capital ratio for a Aaa rating is 1.3x and the minimum is 1.0x, with the difference being a cushion to absorb model, operational and portfolio migration risks. As outlined in previous Moody's research, a capital ratio in the buffer zone between 1.0x and 1.3x may not present an immediate threat to the rating of a guarantor, although it leaves a firm vulnerable to subsequent capital stresses and, consequently, is not seen as a sustainable capital position over an extended period of time.

IMPLICATION FOR RATINGS

By the end of the month, Moody's expects to complete its analysis of the impact of mortgage market exposure on financial guarantors' capital ratios which, for some companies, could result in a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. A key consideration in this analysis will be our view of each firm's current and prospective capital adequacy, as reflected by their capital ratios compared to Moody's established benchmarks. In light of recent trends in the mortgage market, and particularly the potential volatility of the ABS CDO exposures, we will consider capital ratios under a distribution of scenarios.

We will expect Aaa rated guarantors to exceed the 1.3x capital ratio benchmark in the expected base case as well as to exceed the 1.0x level in a range of stress scenarios. Establishing appropriate stress levels in this highly volatile market will be a focus of analytic attention. In addition to capital levels, Moody's will continue to study any capital remediation plans, franchise sustainability, risk management, and all other means of support.

THE BUSINESS OF BOND INSURANCE

Financial guarantors provide credit protection by writing financial guaranty insurance policies and credit default swaps in both the primary and secondary markets, focusing on insuring investment-grade obligations in the municipal and structured finance sectors globally. Of the industry's \$2.3 trillion in insured par, roughly 57% consists of US municipal exposure, with structured and international sectors comprising most of the balance. By providing credit protection on a financial obligation, a guarantor unconditionally and irrevocably guarantees payment of principal and interest of an insured obligation when these payments are due, providing an additional level of credit protection beyond the stand-alone creditworthiness of the underlying obligation. Should an event of default occur, payments under the insurance policy may not be accelerated by the policyholder without the consent of the insurer. Most credit default swap contracts are written with similar financial guaranty-like terms, and do not require collateral posting.

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