This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

UNITED STATES
Americas

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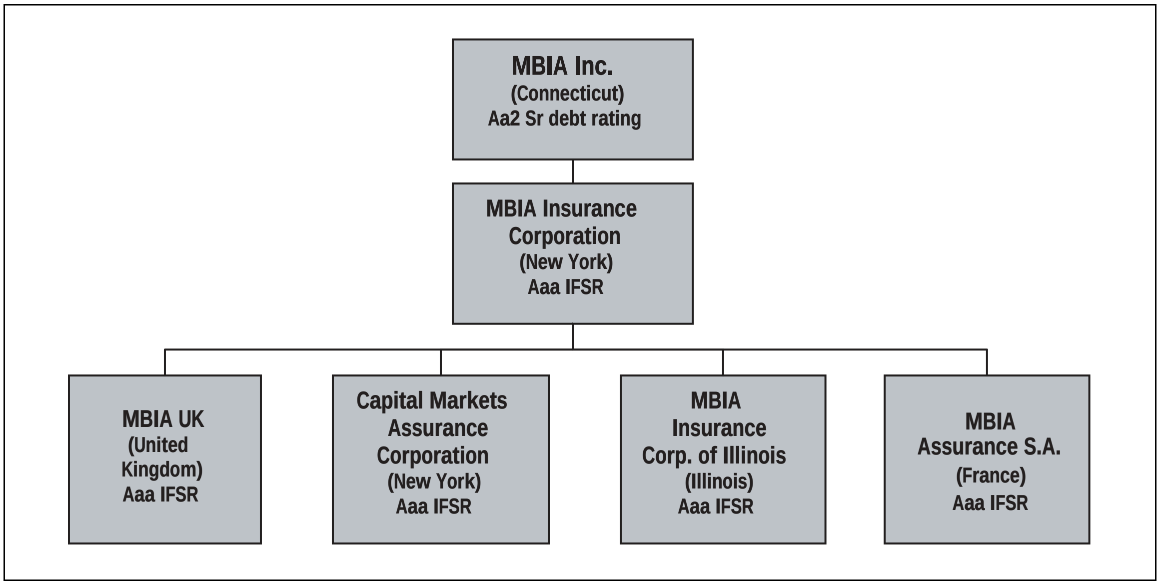
MBIA Insurance Corporation

Company Profile

MBIA Insurance Corporation (MBIA) is the largest global provider of financial guaranty insurance based on par outstanding. The company insures municipal, structured, and corporate obligations in the US and international markets. Domiciled in the state of New York, MBIA is the key operating entity in the corporate structure of MBIA Inc., a publicly owned financial services company (NYSE: MBI). MBIA Inc., through some of its other subsidiaries, provides municipal guaranteed investment contracts, investment management and advisory services.

SIMPLIFIED ORGANIZATIONAL CHART[1]



1. See Appendix for more detail.

Key Rating Drivers and Expectations

The following expectations are incorporated into MBIA's current ratings:

- The firm maintains its pricing and underwriting discipline, which are core to its strong credit profile, without significantly hurting its market standing;
- MBIA prudently manages its capital resources given the more limited growth opportunities available in the current competitive environment, and maintains hard and total capital ratios above 1.3x;
- MBIA maintains a 3-year-average holding company operating ROE of 12%.
- A successful resolution of the investigations is key to maintaining the stable outlook. While the potential for adverse outcomes in the regulatory settlement process remain, these are perceived to be highly unlikely.

In our view, the following five interdependent factors form the basis of a financial guarantor's operating dynamics and, in aggregate, provide a comprehensive picture of its overall credit profile. The relationship between each of the five factors can be summarized as follows: A guarantor's franchise value and strategy determine the characteristics of its insured portfolio; these portfolio characteristics, in turn, determine the level of capitalization that is necessary to support its claims-paying ability; the firm's capital requirements impact its core profitability; and the level of profits that can be generated influence its franchise value and, ultimately, its commitment (or lack thereof) to the current business strategy over time. These operating dynamics are further influenced by the firm's financial flexibility, especially its ease and cost of capital access, as well as by certain external factors such as market trends, the competitive and regulatory environment, and other industry-specific risks and constraints.

Franchise Value & Strategy

- 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. It has substantial embedded earnings as a result of its large portfolio of well priced insurance exposures.

Insurance Portfolio Characteristics

- MBIA's portfolio quality is strong and improving as some problems within certain sectors such as EETC and manufactured housing are being worked out. The firm still has, however, one of the largest concentrations of below investment grade risks among the Aaa guarantors. The combined effect of underwriting discipline and a large capital base resulted in MBIA having one of the lowest single risk concentrations in the industry.

Capital Adequacy

- MBIA's healthy risk-adjusted capital ratios are improving, reflecting a combination of some successful loss mitigation efforts, capital accumulation and no growth in insurance-in-force since 2004. The firm has historically been a relatively large user of reinsurance but its overall reliance on reinsurance is coming down. We expect that MBIA will prudently restart its equity buyback program post regulatory settlement.

Profitability

- MBIA has historically achieved strong results. We expect that the effect of a more challenging competitive environment on profits will be mitigated by MBIA's focus on operational and capital efficiency.

Financial Flexibility

- The firm has good overall financial flexibility as a result of prudent leverage and strong market access. Regulatory constraints on insurance company dividends do, however, limit holding company liquidity.

Recent Events

REGULATORY INVESTIGATIONS

The SEC, the New York State Attorney General's Office and the New York State Insurance Department have been investigating MBIA for some time on issues related to its use of reinsurance, some of its accounting policies and its sale of credit linked notes referencing its insurance subsidiary. The Wells notice received by MBIA Inc. in August 2005 addressed only the AHERF reinsurance suggesting the possibility that regulatory investigations have narrowed and may be tracking toward some resolution. During the third quarter of 2005, MBIA accrued $75million of expenses which is the company's current estimate of aggregate penalties and disgorgement related to the settlement of the investigations. As part of the expected settlement, MBIA had also restated its accounting for the remaining agreements related to the AHERF loss, reporting the $100 million received from two reinsurers in 1998 under deposit accounting as opposed to reinsurance.

The estimated fine and accounting restatements are not material to MBIA's financial condition, however, the settlement process has not been finalized. A successful resolution of the investigations is key to maintaining the stable outlook and while the potential for significant adverse outcomes in the regulatory settlement process remain, these are perceived to be highly unlikely. A board-mandated outside review of risk management and governance have not unearthed any significant risk oversight or control failures.

3Q 2006 EARNINGS COMMENTARY

The difficult underwriting environment continued to constrain production during the third quarter of 2006. In fact, the combined effect of portfolio amortization and lower production resulted in virtually no growth in MBIA's par outstanding since year-end 2004. The sharpest decline in underwriting volume for the third quarter of 2006 occurred in the US municipal segment where production has been severely affected by lower origination, lower insurer penetration and increased competition. International infrastructure finance production has been a bright spot for MBIA during 2006, but quarterly production in the international structured markets fell from their 2005 highs. US structured production volume rose during the quarter due to significant volume in the CDO, CMBS and consumer receivables sectors, although this may reflect the volatility in production volume in these sectors.

MBIA indicated that it had sold its MuniServices business to an investor group led by the management of MuniServices, although it will retain its troubled Capital Asset operations, which are currently in runoff. This transaction will somewhat reduce the overall size of MBIA's non-core operations and increase its focus on the asset management businesses that it retains.

As part of its recent earnings release, MBIA announced that it expects to resume its stock buyback program once the settlement to regulatory investigations is reached. The strengthening trend in MBIA's capital position, in part due to lower production, could free up some resources although our rating incorporates the expectation that the company will remain focused on maintaining its strong capital position over time.

Company Analysis

BUSINESS STRATEGY

Core Financial Guaranty Business

MBIA's primary business objective is to maintain its strong franchise value as a Aaa-rated provider of financial guaranty insurance by underwriting high quality, low-risk transactions that deliver strong risk-adjusted returns for the firm.

MBIA's insurance policy is an unconditional and irrevocable guaranty to pay interest and principal in the event of a default. The policy enhances a security's credit quality up to the current insurance financial strength rating of MBIA, which is Aaa. Financial guarantees benefit issuers through improved marketability and lower debt service cost. Investors also benefit from greatly reduced downgrade risk as well as increased liquidity and price stability with insured securities. For MBIA to fully achieve its business objectives, it must maintain its triple-A ratings. Sensitivity to this point underpins virtually all aspects of the company's strategic and operational business decisions. The challenging competitive environment, and the limited growth opportunities it entails, has led the firm to focus on enhancing its operational efficiency.

The pursuit of overseas opportunities is an essential part of MBIA's strategy. The firm's goal is to create a global financial guaranty insurance franchise that rivals its U.S. franchise. While MBIA has already established a presence in certain non-U.S. markets, particularly in Europe, management hopes to expand its reach by leveraging its domestic public finance and structured resources and, if appropriate, by establishing strategic alliances with global market participants to promote a steady flow of global business opportunities.

Non Financial Guaranty Activities

While MBIA's main focus continues to be on its core business of writing financial guaranty insurance, the firm's affiliated asset management activities have grown considerably in stature and are seen by management as an important part of the company's strategy in future years. MBIA Inc. is a provider of investment management services including cash management products, guaranteed investment contracts, and fixed income funds, primarily to its financial guaranty clients. These businesses have expanded substantially over the years primarily through internal growth, and now represent a noticeable part of the group's consolidated net income.

MBIA's current non-core activities, of which asset management represents the lion's share, are well managed and remain broadly related to their core financial guaranty business. At current levels, the diversification activities of MBIA are not generating undue risk or materially changing its business model in our opinion, and do not present a threat to its rating. However, growth in prominence of such non-core activities beyond Moody's established ranges could affect our view of MBIA's credit profile.

MBIA's asset management activities are undertaken by various subsidiaries of MBIA Asset Management LLC, which is in turn a subsidiary of MBIA Inc. MBIA participates in the investment management business through the issuance of three products: Guaranteed Investment Contracts (GICs), Medium Term Notes (MTNs) and Asset Backed Commercial Paper (ABCP). The GIC and MTN liabilities issued by the firm are guaranteed by MBIA Insurance Corporation, as are all of the assets acquired by its ABCP program.The company also offers an array of investment management services such as municipal revenue enhancement, cash management and fixed income management services.

Asset/Liability business

MBIA Investment Management Corp. (MBIA-IMC) and MBIA Inc issue guaranteed investment contracts (GICs) primarily to municipal issuers. MBIA GFL issues MTNs to institutional investors. The proceeds of this GIC and MTN issuance are invested in highly rated assets and MBIA-IMC retains the spread between the investment returns and the funding costs after paying credit enhancement fees to MBIA and administrative expenses.

Some guarantors recently disclosed that they had received subpoenas from the Antitrust Division of the U.S. Department of Justice and/or from the Securities and Exchange Commission (SEC) in connection with an ongoing criminal investigation of alleged bid rigging of awards of municipal GICs. MBIA had not received such subpoena at the time of the writing of this report.

Conduits issuing MTN and ABCP

MBIA has two active funding program vehicles, in addition to one entity that is in runoff. Through these conduits, MBIA insured issuers can issue paper at attractive rates by transferring high quality assets to bankruptcy remote vehicles. These programs are managed on a cash-matched basis, with the conduits earnings administrative fees.

MBIA guarantees the assets held by its ABCP conduit, Triple-A One Funding, although it does not insure the liabilities. The liquidity risk associated with mismatched asset and liability maturities is managed with backup liquidity lines from highly rated banks that, if drawn, will be repaid based on the scheduled maturity of the underlying assets.

MTN/ABCP Programs	Activity	September 30, 2006 Outstanding ($ million)
Meridian Funding	Active MTN conduit	2,786.3
Polaris Funding	MTN conduit in runoff	95.0
Triple-A One Funding	Active ABCP conduit	757.0

Fee-based services

MBIA offers investment management and advisory services through MBIA Capital Management Corp. As of the third quarter of 2006, this entity managed approximately $20 billion in assets[2].

RISK MANAGEMENT AND CONTROLS

Corporate Governance

We believe that there is an unusually high degree of alignment of shareholder and creditor interests in the financial guarantor sector because a guarantor's financial strength is so essential to the franchise and, ultimately, the underlying value of the business. This alignment mitigates the overriding governance concern that management will act in the interests of shareholders to the detriment of creditor interests. However, it also places a special burden on each financial guarantor's board and management team to act in a manner that gives unusual weight to the interests of creditors. In this context, at present, we believe MBIA has important governance strengths from a creditor standpoint that would cause us to view governance as a positive factor, although not a rating driver, were it not for the still unsettled regulatory investigations. Consequently, we believe that governance today is neither positive nor negative. A regulatory settlement that does not bring up additional significant governance failures would lead us to take a more positive view. Conversely, findings of significant governance failures, although not expected, would lead us to take a more negative position.

2. *Excluding the $7.0 billion portfolio of MBIA-IMC*

Underwriting Discipline

Given the industry's modest capital base relative to other financial institutions, the risk profile of the insured portfolio is of utmost importance. In this context, MBIA's underwriting philosophy is conservative, aiming to build a diversified portfolio of high quality municipal and structured finance transactions in a manner that is consistent with its Aaa financial strength rating. MBIA underwrites to an "investment grade" standard at the individual transaction level. The firm also imposes net exposure limits to avoid the accumulation of large single-risks and other highly correlated exposures.

MBIA has an experienced underwriting team, and has established detailed credit policies and exposure limits. All transactions are subject to an internal review of risk and pricing parameters to assess individual transaction risk and the impact on portfolio risk distributions. In our view, the second part of this analysis is especially critical in an environment where transaction sizes are increasing exponentially. MBIA also focuses on seller/servicer financial analysis, and financial triggers are often used by the firm. Such triggers allow MBIA to renegotiate with the issuer and/or take earlier remedial action in the event of weak performance of the wrapped securities. In light of several well publicized fraud cases in the corporate and structured finance sectors, management has placed additional emphasis on improving their diagnostics to detect fraud. MBIA's growing international exposure has led to efforts to ensure global consistency in underwriting criteria, as well as to closely monitor global regulatory and accounting trends.

Surveillance Capabilities

Surveillance and loss remediation skills are key competencies for a financial guaranty company. Unlike most passive fixed-income investors, financial guarantors typically have a greater ability to influence the outcome in workout situations due to being the control party as the senior creditor, the relative size of their exposures, rights granted as per policy terms, and their expertise within particular industries and sectors. For example, many asset-backed transactions are structured to allow the guarantor to control servicing and capture cash flow if certain triggers are breached. When properly managed, these techniques can lower the potential severity of loss on an insured transaction relative to regular investor positions.

MBIA has an experienced portfolio surveillance and workout team, which has helped the firm navigate through the global credit crunch of the late 1990's and the financial problems that drove a number of sub-prime seller/servicers into bankruptcy. More recently the team has been actively involved in remediation actions related to distressed exposures in the EETC and manufactured housing sectors, resulting in significant reductions in actual or potential loss severities.

Portfolio Risk Management

MBIA adheres to insurance regulatory guidelines on single risk limits, and also uses its own more restrictive single obligor, state and sector limits to manage its portfolio risks. To date, MBIA's aggregate portfolio and single risk exposures are in line with its Aaa rating. The firm's relatively large capital base is a distinct competitive advantage as it can insure larger transactions than many of its peers without creating the same level of single risk concentrations. The company uses its own capital adequacy model to supplement its pricing analysis and to evaluate its liquidity needs under stressed conditions.

INSURED PORTFOLIO REVIEW

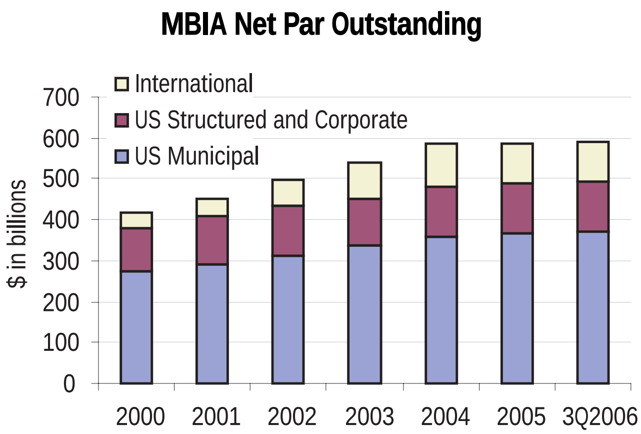
Limited growth in market demand for product; marginal improvement in portfolio quality

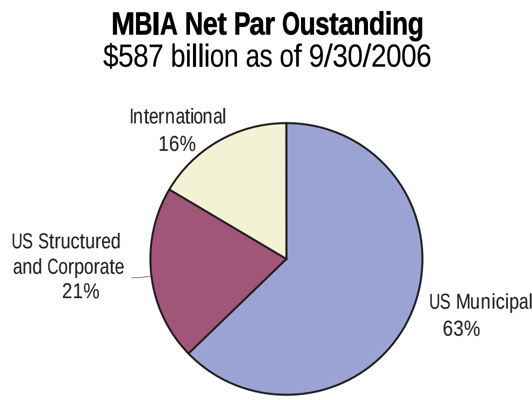
The tight corporate credit spread environment continues to impact the relative attractiveness of credit enhancement products, including financial guaranty insurance. MBIA's net par outstanding was essentially flat at the end of the third quarter of 2006 relative to year-end 2004. Increasing investor familiarity with some mature asset classes has reduced the demand for financial guaranty insurance in those segments along with the effect of high market liquidity and subordinate investor appetite in the debt capital markets. Volumes in the international structured markets have been growing but are still mainly in established products such as CDOs and MBS. Deal flow in the international project finance area, which many see as the 'sunrise' segment, has been erratic to date although the sector has provided a significant boost to production in some quarters.

The bond insurers are increasingly diversifying into new asset types such as emerging market infrastructure and structured life insurance risks to offset the loss of some of their traditional markets. In this environment, where opportunities for new business are limited, the guarantors have opted to retain a greater portion of business written and are using reinsurance to mainly address portfolio concentration issues.

Portfolio credit quality improved marginally as the proportion of non-investment-grade exposure declined. Over the last few years credits in the manufactured housing and EETC sectors have been the most problematic for MBIA. Although some of these problems still persist, there has been significant improvement in certain transactions due to the proactive remediation strategies adopted by the company.

Par Outstanding Trends





MBIA HISTORICAL PRODUCTION VOLUME AND MIX

MBIA"s Annual Production Volume

Gross Premiums & Par Written ($ Bil., unless noted)

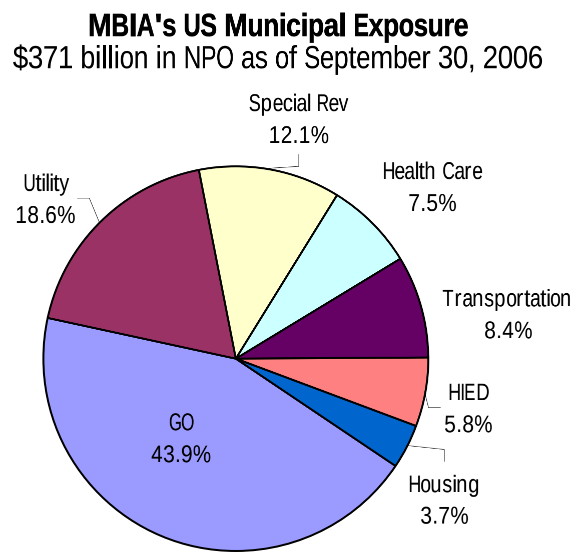
	2005		2004		2003		2002	
	Gross Par Written	Par Written Mix	Gross Par Written	Par Written Mix	Gross Par Written	Par Written Mix	Gross Par Written	Par Written Mix
US Municipal								
General Obligation	28.4	22%	30.2	27%	28.0	23%	26.0	19%
Utilities	11.2	9%	8.9	8%	15.6	13%	9.3	7%
Special Revenue	7.9	6%	8.0	7%	8.8	7%	8.5	6%
Health Care	1.8	1%	1.4	1%	2.6	2%	1.8	1%
Transportation	5.5	4%	3.1	3%	4.4	4%	4.5	3%
Higher Education	4.5	4%	2.9	3%	1.4	1%	2.3	2%
Housing	3.4	3%	1.6	1%	3.0	2%	2.5	2%
Total US Municipal	62.7	50%	56.1	50%	63.9	52%	54.9	39%
US Municipal ADP($MM)	105.9		106.8		124.5		163.9	40%
US Structured								
CDO	18.2	14%	14.1	13%	11.1	9%	28.3	20%
MBS	10.0	8%	12.5	11%	5.2	4%	10.3	7%
Auto ABS	5.1	4%	4.7	4%	7.1	6%	11.5	8%
Credit Cards	0.0	0%	0.2	0%	1.1	1%	3.1	2%
Other ABS	1.9	26%	1.3	1%	2.1	2%	3.1	2%
Total US Structured	35.2	28%	32.8	29%	26.5	22%	56.3	40%
US Structured Finance ADP($MM)	78.9		126		91.6		61.2	
International								
Sovereign	1.6	1%	0.7	1%	3.8	3%	0.6	0%
CDO	17.0	13%	9.3	8%	10.4	9%	15.0	11%
MBS	4.8	4%	8.4	7%	7.8	6%	5.3	4%
Other Public Finance	2.0	46%	3.0	3%	7.0	6%	3.3	2%
Other ABS	2.2	2%	0.7	1%	2.9	2%	2.4	2%
Other Corporate	0.4	0%	0.2	0%	0.0	0%	1.8	1%
Total International	28.1	22%	22.3	20%	31.9	26%	28.4	20%
International ADP($MM)	36.6		151.1		224.5		88.2	
Global Corporate	0.6	0%	1.2	1%	0	0%	0.2	0%
Grand Total Par	126.6	100%	112.3	100%	122.3	100%	139.7	100%
AGP Written ($MM)	221.4		383.9		440.6		313.3	

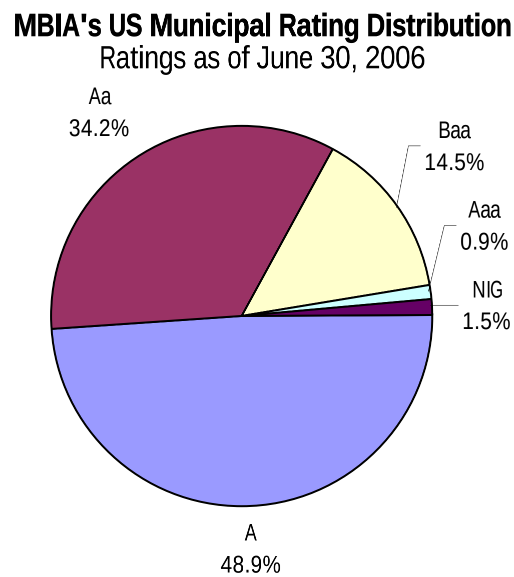
Municipal Portfolio: Municipal underwriting mix largely unchanged; some improvement in credit quality

Insurance penetration in the US municipal market, which increased steadily between 2001 and 2004, has been declining since 2005 in tandem with lower origination volume. In addition, increased competition among the monolines has been influencing the market share of MBIA and other established players, while firms such as SCA, CIFG, Assured Guaranty Corp and Radian Asset Assurance have increased their share, writing approximately 16% of the industry's new production during the first nine months of 2006. MBIA's production within the US municipal segment has largely tracked the sector's macro trends, with par written increasing by 11% in 2005 and declining by 38% in the first nine months of 2006.

MBIA's municipal exposure to Katrina-related credits that are on Moody's watchlist is approximately $1.6 billion, although most of these credits continue to be rated in the investment grade range. To date, the company has made claims payments of $8.3 million and has since recovered all of these payments. MBIA has set up a case reserve to account for outstanding claims payments, but has not made changes to its general reserve allocation for Katrina. The long-term impact of Hurricane Katrina on the guarantors' insurance portfolios is still unclear at this time, although it appears that credit fundamentals for most of the affected issuers are improving, primarily due to federal aid, insurance proceeds and charitable contributions. Some significant challenges remain, however, especially for issuers in areas that have experienced a large outward migration of residents.

Municipal Rating Distribution: The rating distribution of the municipal book has not changed significantly in the last few years. The proportion of Aa rated exposures has increased slightly while the share of Baa rated exposures fell.





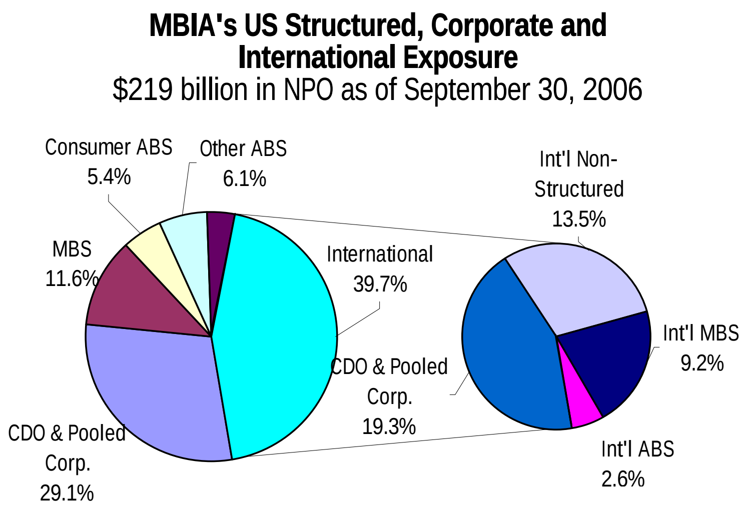
US Structured, Corporate and International Portfolio: International PFI is a bright spot; improving credit characteristics in some sectors

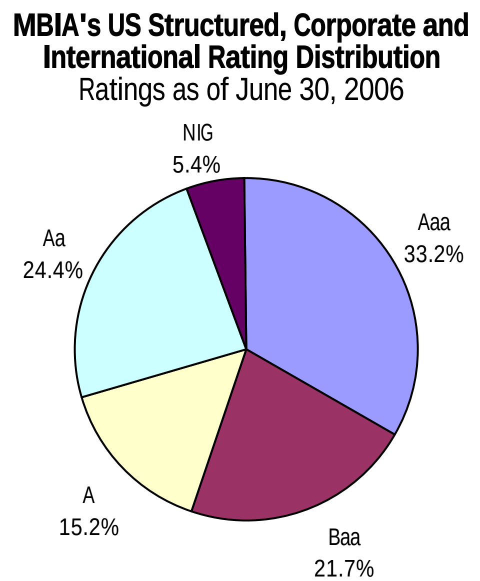
The low interest rate environment and increased use of securitization technology resulted in explosive growth in the issuance of ABS securities in the first half of this decade. Insurance penetration rates in the early years of this boom were in the 20-25% range for most asset classes. However, as corporate credit spreads declined and investors became more familiar with the risks associated with these securities, the guarantors were priced out of many segments of the market. In 2005, issuance volumes grew, but par written by the bond insurers was unchanged.

Corporate default activity in 2002 resulted in a substantial drop in CDO issuance during 2003. Issuance volumes rebounded thereafter, largely driven by tight credit spreads and increased use of CDO technology to repackage other asset backed securities. This technology has been a mixed blessing for the financial guaranty industry, expanding the guarantors' market opportunity on the one hand, but increasing the availability of credit and driving down the price of credit enhancement on the other. The net impact for the guarantors is likely to be an improvement in risk quality within the structured finance sector but with lower returns.

The guarantors are increasing their participation in new asset categories and are underwriting more complex transactions in traditional sectors to maintain production volumes. In 2005, transactions in non-traditional asset classes[3] accounted for 5% of MBIA's structured finance underwriting mix.

Non-Muni Rating Distribution: Improving underlying credit quality and remediation efforts undertaken by MBIA during the last 12 months have, to some extent, influenced the recovery in non-muni credit quality. On an aggregate level, 57% of the US Structured and International portfolio is rated Aa or higher, although a relatively high 5.4% of this portion of the portfolio is rated below investment grade.

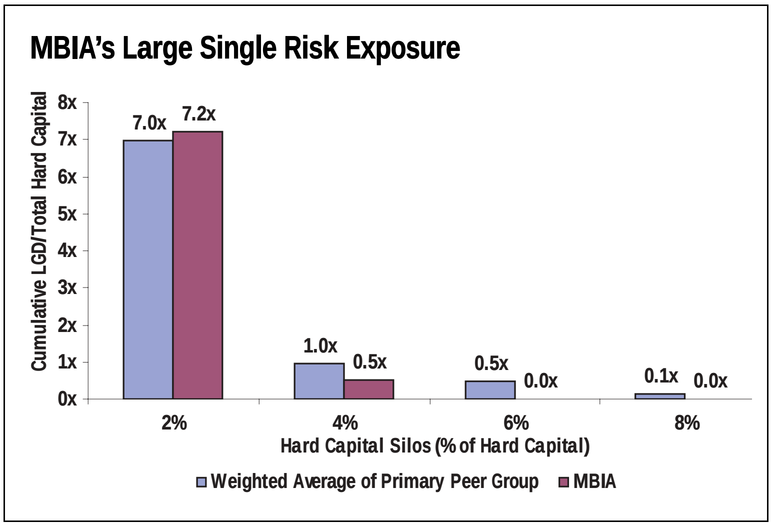




Large Single and Correlated Risks

MBIA continues to manage its single and correlated risks prudently, helped by its large capital base relative to most other industry participants. This is evidenced by the chart below that shows the cumulative expected loss given default (LGD) of MBIA's portfolio (as modeled by Moody's) relative to hard capital, broken down by transaction level LGD relative to hard capital. (For example, the cumulative LGD for those transactions that have a LGD of less than 2% of MBIA's hard capital equals 7.2 times hard capital.) In MBIA's case, virtually no transactions have an expected loss given default in excess of 4% of hard capital, which indicates very low levels of large single risks relative to capital.

Within the US municipal segment, MBIA's largest single risks are backed by state general obligations. In the structured and international portions of the portfolio, most of the large exposures are highly rated synthetic CDOs or RMBS transactions. When underwriting CDO structures, MBIA generally insures super senior tranches (i.e., senior most in the structure and senior to a Aaa-rated tranche), where loss content is likely to be low despite their large notional amounts. The company is also exposed to some large and complex risks in sectors such as project finance and XXX securitizations where the underlying rating can be in the low investment grade range.



Due to high growth in the domestic MBS area during 2004 and consolidation among seller/servicers, MBIA's exposure to certain seller/servicers has increased noticeably. The largest five servicers account for 41% of MBIA's ABS/MBS portfolio relative to 19.3% as of year end 2003, reflecting consolidation in the mortgage industry. The average credit profile of the servicers improved through this process.

3. Segments other than CDOs, RMBS, Auto ABS and Credit card ABS

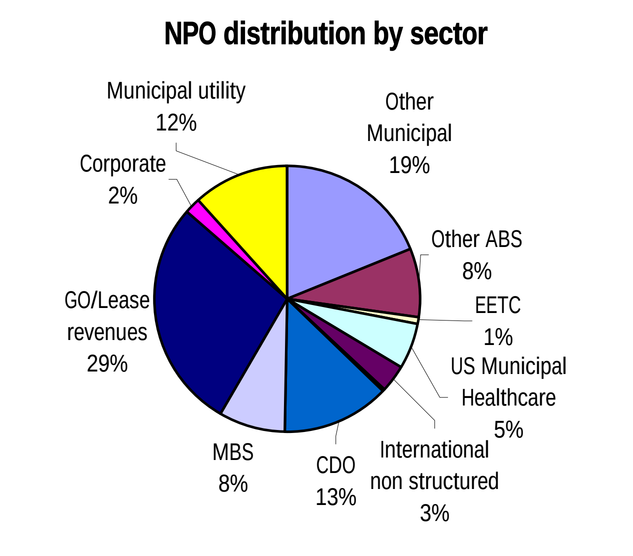
Non-Investment Grade Exposure

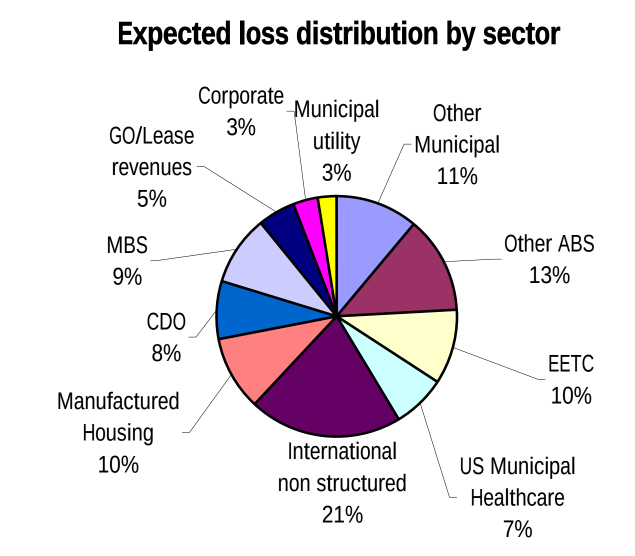
The proportion of non-investment grade exposure in MBIA's portfolio as of year end 2005 was 2.9%, having improved slightly during the year. However, this portion of the portfolio accounts for 48% of aggregate expected loss (as modeled by Moody's), primarily due to the greater likelihood of default for lower-rated exposures (which increases exponentially as transactions move down the rating scale.)

The largest expected loss contributors are the manufactured housing, international infrastructure, EETC and CDO sectors, each accounting for more than 5% of total expected loss. With the exception of CDOs, all of these sectors account for a very small portion of par outstanding. Their contribution to expected loss is much higher for two reasons -- lower average credit quality and relatively long average lives. There has, however, been some positive development within MBIA's manufactured housing portfolio, which has benefited from the firm's remediation efforts to transfer servicing and restructure transactions.

MBIA guarantees a portion of the obligations issued by two special financing vehicles that purchased Eurotunnel debt. Following the start of bankruptcy proceedings, the management of Eurotunnel and its senior creditors agreed to a restructuring plan on November 22nd, 2006 that called for the repayment or exchange of all of the various classes of debt of the firm. The junior bond holders approved the plan on December 14, 2006. If the restructuring goes as planned MBIA may have no remaining exposure to Eurotunnel by the second half of 2007. But even if the plan fails to gain approval, MBIA's relatively senior position in the capital structure should keep any losses manageable level for the firm[4].

Stress in the airline industry has also been an important credit issue for some of the guarantors who have large Enhanced Equipment Trust Certificate (EETC) exposures. However, by exercising the rights as defined in the insurance policy, MBIA has been able to remediate these transactions and reduce loss severity substantially. Nevertheless, the firm's exposure to this troubled sector remains high. As of year end 2005, MBIA's net exposure to this sector was approximately $3.6 billion.





Use of Reinsurance

MBIA is becoming less reliant on reinsurance as strong capital accumulation, reduced capital relief from reinsurance due to downgrades of reinsurers and lower business volume contributed to the trend across the industry. Increasingly, guarantors are using reinsurance as a portfolio shaping tool to obtain capital relief on large and risky transactions. In the first nine months of 2006, MBIA's reinsurance usage dropped to 6.7% of new business written. This is in sharp contrast to the period between 1999 and 2002 when MBIA's usage of reinsurance averaged 19% of gross par written.

In early 2004, Channel Re was incorporated to provide monoline reinsurance capacity to MBIA exclusively. MBIA owns 17.4% of Channel Re, the remainder of which is owned by Koch Financial, Partner Re and Renaissance Re. Channel Re opened shop with a book of business that consisted primarily of exposure that MBIA recaptured from other reinsurers following the downgrade of those entities. To date, MBIA's cessions to Channel Re are considerably lower than originally projected, although Channel's share of MBIA's reinsurance business has been maintained.

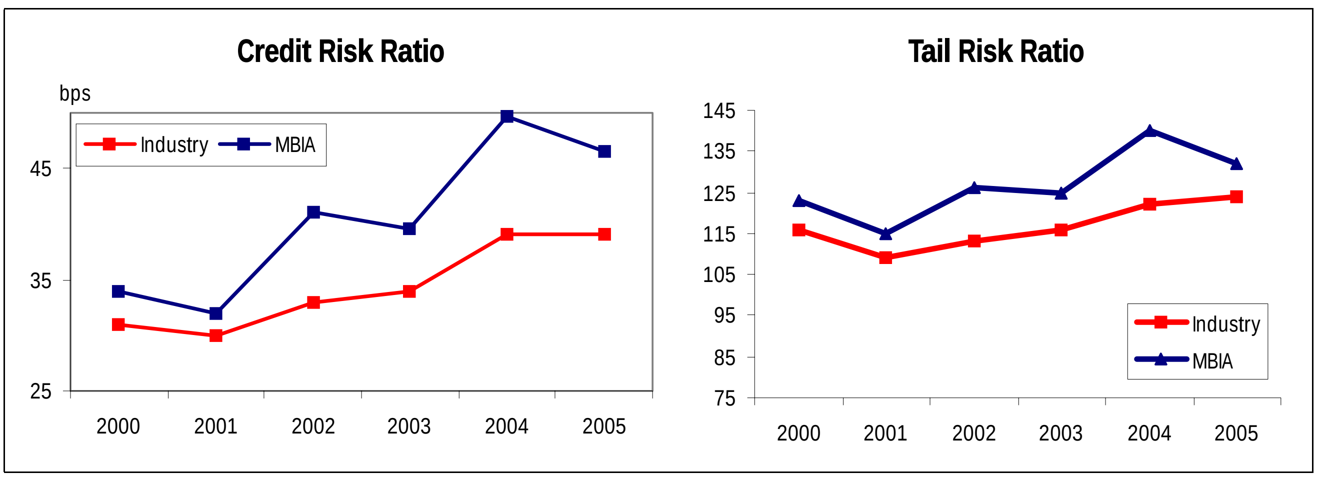
4. *See Moody's report, Financial Guarantors' Exposure to Eurotunnel, August 2006.*

MBIA's Reinsurance in Force				
Ceded Par as of June 30, 2006				
$ in millions				
Reinsurer	**Rating**	**Par Ceded**	**% of Total Ceded**	**% of Gross Par**
Channel Reinsurance	Aaa	$ 32,575	42.0%	4.9%
Assured Guaranty Corporation	Aa1	11,750	15.2%	1.8%
RAM Reinsurance Company, Ltd.	Aa3	8,954	11.5%	1.3%
Ambac Assurance Corporation	Aaa	6,686	8.6%	1.0%
Munich Reinsurance Company	Aa3	6,612	8.5%	1.0%
Mitsui Sumitomo Insurance Company	Aa3	4,454	5.7%	0.7%
Swiss Reinsurance Company	Aa2	2,177	2.8%	0.3%
Radian Asset	Aa3	1,158	1.5%	0.2%
Others (each <1% of total par ceded)	-	3,157	4.1%	0.5%
Total		**77,524**	**100.0%**	**11.7%**

Financial profile

PORTFOLIO RISK RATIOS AND RISK ADJUSTED CAPITALIZATION

Earlier in the decade, MBIA's credit risk and tail risk ratios had been trending higher, due in part to credit stress within the EETC and manufactured housing sectors. For MBIA, this deterioration was significantly higher than for others in the industry given its sizable exposure to these sectors. More recently, however, these ratios have improved, partly because of MBIA's remediation efforts. The company has also reduced its participation in certain sectors that are considered to carry relatively higher levels of risk such as municipal healthcare.

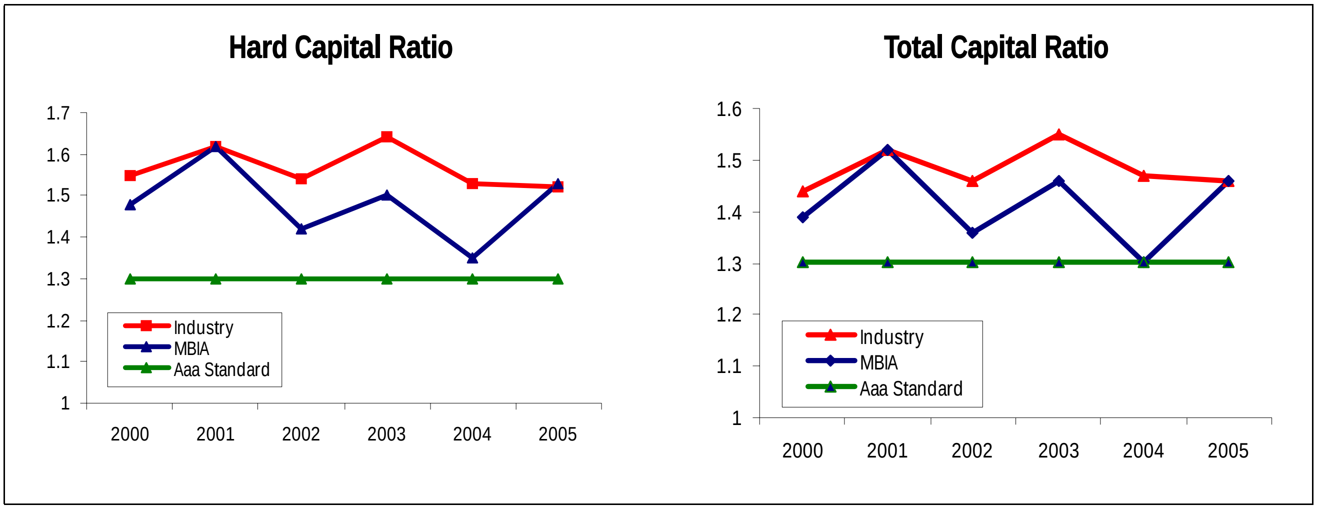


MBIA's hard capital grew by 7.3% in 2005 as the company made only one regular dividend payment during the year. As of June 2006, hard capital was $11.9 billion, slightly down from year end 2005 given a dividend payment of $280 million to MBIA' parent in February 2006.

MBIA supplements its hard capital position with two forms of soft capital: a $700 million seven year bank depression line of credit, and $400 million in Committed Preferred Custodial Trust Securities (CPS). Moody's haircuts the value of the bank line by 50% when calculating total claims-paying resources to reflect the reduced benefit provided by this facility given its limited term and high attachment point on sector coverage. In contrast, the CPS arrangement allows the company to obtain access to new capital at any time subject to specific, pre-set terms, resulting in 100% soft capital credit in our analysis.

As the credit quality of MBIA's portfolio began to recover in 2005, the capital adequacy ratios of the firm improved from the low points reached in 2004. A moderation in new business production also contributed to the improvement in these ratios.

MBIA's hard and total capital ratios as of year end 2005 (with ratings updated through second quarter of 2006) were 1.54x and 1.46x respectively, providing the firm some margin above Moody's minimum requirement of 1.3x for Aaa rated companies. Given the relatively low volume of business written in the first nine months of 2006, Moody's expects the firm's capital ratios to continue to strengthen. The company has expressed an inclination to dividend additional capital out of the operating company if current market conditions do not improve. Moody's rating incorporates the expectation that, when considering such options, MBIA will manage its capital prudently and continue to maintain insurance company capital at appropriate levels for its rating.



FINANCIAL LEVERAGE, INTEREST COVERAGE AND DIVIDEND CAPACITY

As of September 30 2006, MBIA Inc. had outstanding senior notes of $1.3 billion, resulting in financial leverage of 15.3%, which is consistent with our rating expectation for the company. MBIA's financial leverage temporarily exceeded 18% following its $350 million debt issuance in the fourth quarter of 2004, but double leverage remained below 120%, in part due to the management's decision to retain an equity cushion in the form of liquid securities at the holding company.

MBIA's earnings coverage ratio has trended lower than its historical average of 15x, but remains in line with Moody's expectations for Aaa rated operating companies. The company's cash flow coverage ratio as of December 2005 was 4.2x, which is below Moody's expectation for Aaa rated operating companies, reflecting the effect of regulatory constraints on dividends out of the insurance company.

MBIA's asset management programs meet Moody's requirements for treatment as operating leverage. While some programs have a certain degree of asset-liability mismatch, the risks are capital charged in our analysis and remain relatively well-contained in various interest rate stress and downgrade scenarios.

	3Q2006	2005	2004	2003	2002	2001
Financial Leverage	15.3	16.3	18.3%	15.4%	17.3%	15.5%
Double Leverage		109.4	101.9%	106.9%	108.8%	110.2%
Earnings Coverage	15.4	12.2	15.9	17.8	14.6	15.0

Liquidity Risk Management And Rating Triggers[5]

LIQUIDITY POSITION IN THE CORE FINANCIAL GUARANTY OPERATIONS

In general, MBIA's exposure to liquidity risk is relatively modest, given the low default frequency and loss severity associated with its insured portfolio. Additionally, the nature of a financial guaranty contract protects against the acceleration of principal payments in the event of a default. Over the last few years, MBIA has also provided credit insurance by writing credit default swaps; current CDS outstanding is $61 billion. But unlike standard CDS contracts that typically settle on the occurrence of a credit event, the guarantors are now focusing on contracts with terms that mimic a financial guaranty policy with no acceleration of principal or interest payments. Additionally, guarantors generally do not participate in CDS transactions where they could be required to post collateral to swap counterparties; MBIA does not post collateral on any of its CDS transactions.

5. *Segments other than CDOs, RMBS, Auto ABS and Credit card ABS*

The main sources of liquidity for the company are cash flows generated from operations, investment income, maturing investments and bank liquidity lines. The company's investment portfolio is highly liquid, with 7% in cash or other short term investments. MBIA maintains two bank liquidity facilities, aggregating $500 million, with a group of highly rated banks. The liquidity facilities were amended in 2004 to include foreign currency funding capability. As of year end 2005, there were no balances outstanding under these facilities. The company can also access its $400 million in CPS arrangements to meet its liquidity needs.

Dividends paid by MBIA Insurance Corporation represent the main source of liquidity for the parent company, MBIA Inc. The $280 million dividend payment made in February 2006 and the suspension of the stock buyback program in the third quarter of 2005 has boosted the holding company's liquid assets to $339 million as of 3Q2006.

In 2005, MBIA accrued $75 million in expenses based on their estimate of potential fines and penalties associated with the regulatory settlement, of which $50 million has been transferred to a separate trust account. Taking into consideration all of these factors, Moody's views the capital and liquidity positions of the holding company to be adequate.

MBIA's Asset Management Programs

MBIA Inc. has significant asset management operations with approximately $43 billion in assets under management. The active programs of MBIA are: (i) Asset/Liability Products, consisting of Guaranteed Investment Contracts (GICs) and MBIA Global Funding MTNs; (ii) Meridian Funding, a matched-funded medium-term-note program; and (iii) Triple-A One Funding, an asset-back commercial paper program. The insurance company is directly exposed to the risks of these operations because the programs and/or their underlying assets are generally guaranteed by the insurance company. Because MBIA is exposed to asset liability risk in its Global Funding and GIC programs, a capital charge is applied to capture these risks.

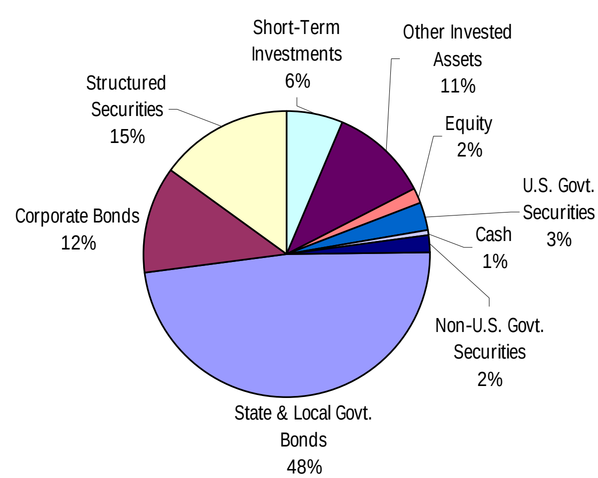
Rating Triggers

In view of the limited scope of activities of MBIA that could require collateral posting in the event of a severe downgrade, as well as (a) the high quality liquid securities that are already matched against such (e.g., GIC) liabilities, (b) the close duration matching of those portfolios, and (c) the substantial liquidity position of the operating insurer which is the ultimate backstop for any incremental funding needs, Moody's does not consider prospective liquidity calls resulting from downgrade triggers to be problematic to MBIA.

Investment Portfolio

MBIA's investment strategy for its core portfolio is, in some respects, different from the one of its peers. Approximately 12% of MBIA's portfolio is invested in corporate debt which, while down from 20% in 2003, is still at the high end of the range for Aaa-rated financial guarantors. In addition, bonds insured by MBIA account for 11% of its portfolio; this percentage has also fallen over time. In aggregate, almost 90% of the long term bond portfolio is rated Aa or higher.

MBIA's Investment Portfolio
$10.8 billion as of December 31, 2005



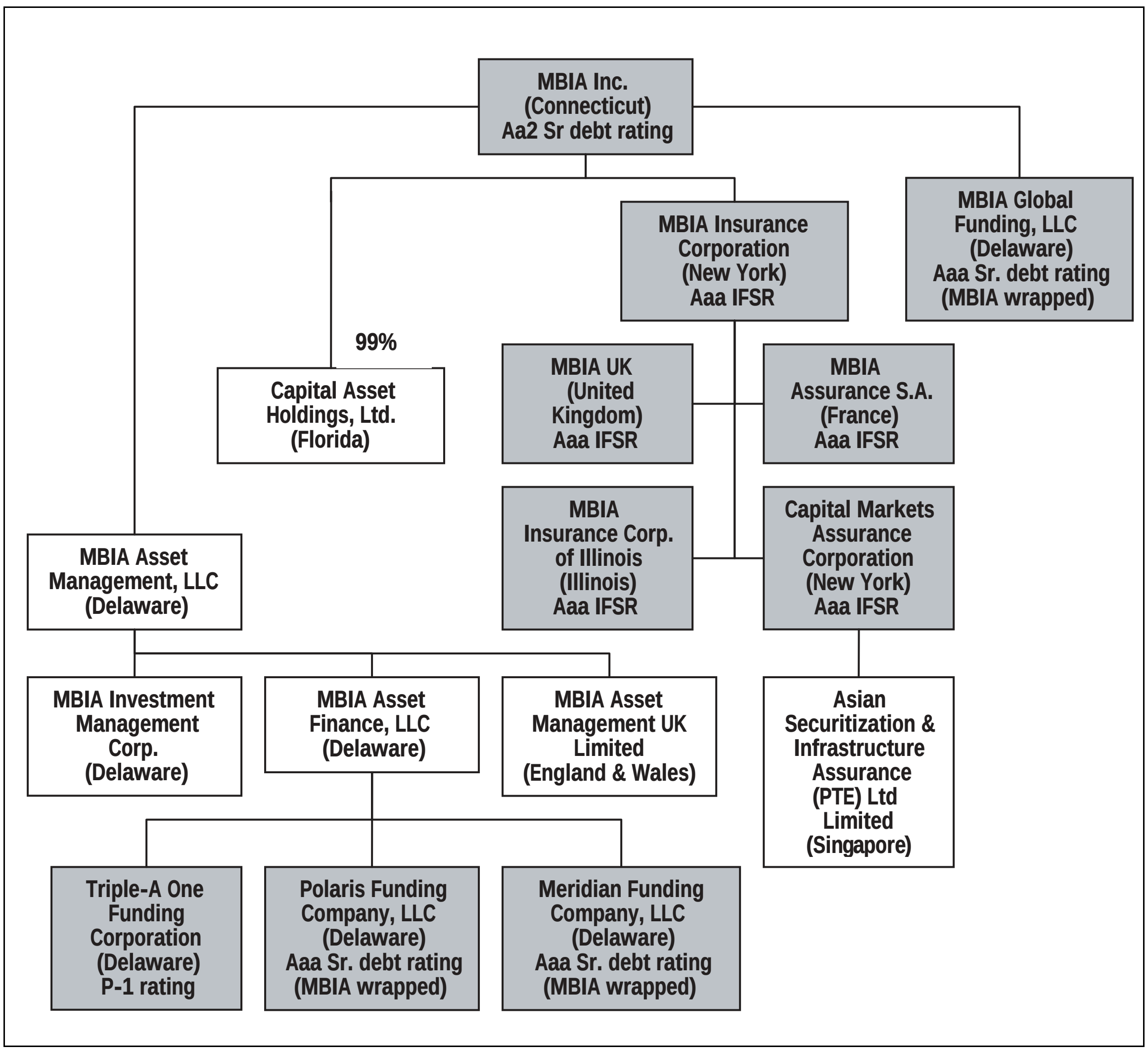
Appendix

ORGANIZATIONAL STRUCTURE

MBIA is the successor to the Municipal Bond Insurance Association, which began writing financial guaranty insurance on municipal bonds in 1974. In 1989, MBIA Inc. purchased Bond Investors Guaranty Insurance Company, another municipal bond insurer, and changed the name of that entity to MBIA Insurance Corp. of Illinois. Subsequent to the purchase, MBIA reinsured the policies issued by MBIA Illinois as it was put in run-off.

In February 1998, MBIA Inc. acquired Capital Market Assurance Corporation (CapMAC), a financial guaranty company that focused on the structured finance markets. CapMAC's exposures are 100% reinsured by MBIA, and CapMAC has issued no new policies since the merger. Through this transaction, MBIA inherited a minority interest in ASIA Ltd., a Singapore-based, regional financial guarantor that is not rated by Moody's. Recently MBIA acquired the remaining equity of this company. ASIA Ltd. is in the process of being liquidated and its outstanding exposures have been assumed by MBIA Insurance Corporation.

In 1990, MBIA formed a French subsidiary, MBIA Assurance S.A., to write financial guaranty business within the European Community. MBIA UK Insurance Limited, a UK based insurance company was created in 2004 to take over from MBIA Assurance S.A. as the main writer of financial guaranty insurance in Europe, which is an important element of the company's growth strategy going forward.



MBIA Inc.: Publicly traded holding company (NYSE: MBI)

MBIA Insurance Corporation: financial guarantor, main subsidiary.

Capital Market Assurance Corporation: financial guarantor in runoff.

Asian Securitization & Infrastructure Assurance (PTE) Ltd Limited (Asia Ltd.): financial guarantor in runoff.

MBIA Insurance Corp. of Illinois: financial guarantor in runoff.

MBIA Assurance S.A.: European financial guarantor

MBIA UK: European financial guarantor in formation.

MBIA MuniServices Company: service provider to municipalities.

MBIA Investment Management Corp.: provider of customized investment agreements (Guaranteed Investment Contracts, GICs)

MBIA Asset Management UK Limited : holding company for the investment in the SIV and repo conduit vehicles

MBIA Global Funding LLC: MTN conduit.

Triple-A One Funding Corporation: Asset-backed commercial paper conduit.

Polaris Funding Company, LLC: MTN conduit in runoff.

Meridian Funding Company, LLC: MTN conduit

RATED AFFILIATES

International Financial Guaranty Subsidiaries

The firm's international subsidiaries are rated Aaa on the basis of intercompany reinsurance and net worth maintenance agreements provided by MBIA Insurance Corporation. These support agreements function to transfer the vast majority of the risks underwritten at the European subsidiaries to the U.S. based financial guaranty parent. For this reason, we evaluate the insured portfolios, capital adequacy, and underwriting and risk management practice of these entities on a consolidated basis.

- First rated in 1991, MBIA Assurance S.A. receives financial support from MBIA Insurance Corporation through the following two agreements:

Excess of Loss Reinsurance Agreement: Covers losses in excess of $500,000 or 40% of MBIA Assurance's net earned premium for a year. Aggregate limit is $100 million/year. This agreement can be terminated but the reinsurance for existing policies continues for the life of the policies.

Net worth Maintenance Agreement: MBIA will maintain minimum capital and surplus of EURO 4.6 million or any other amount prescribed by the French regulators in this subsidiary. There are no termination events for this agreement.

- MBIA (UK) Insurance Limited was created in 2004 with an initial capitalization level of $100 million. It is now the firm's lead business underwriter in Europe, with MBIA Assurance ceasing to write new business and essentially entering an orderly runoff. MBIA provides on-going support to its UK subsidiary through two formal agreements:

Excess of Loss Reinsurance Agreement: Calls for MBIA to cover MBIA UK's incurred aggregate losses (including loss adjustment expenses and case reserves) in excess of $100 million in any calendar year, with a maximum contribution equal to 20% of MBIA UK's aggregate net par outstanding plus the sum of net par outstanding of the two largest exposures as of year-end of the prior year.

Net worth Maintenance Agreement: Requires MBIA to contribute capital sufficient to maintain the higher of the UK regulatory minimum capital level or $100 million.

Other Financial Guaranty Affiliates

• Capital Market Assurance Corporation

CapMAC, a financial guarantor specializing in the structured finance market, was acquired by MBIA Inc. in 1998. MBIA Insurance Corporation reinsures CapMAC's entire outstanding portfolio, allowing for the analysis of these entities on a combined basis. MBIA recently acquired the shares of Asian Securitization & Infrastructure Assurance (PTE) Ltd Limited (Asia Ltd.) it did not already own through CapMAC.

• MBIA Insurance Corporation of Illinois

Formerly known as Bond Investors Guaranty Insurance Company ("BIG"), this entity was acquired by MBIA in 1989. Upon acquisition, MBIA reinsured BIG's net book of business and received its unearned premium reserve, although 10% of the reinsured book was retroceded back to BIG because of state licensing requirements. As with CapMac, the portfolio is managed on an aggregate basis, with the entire capital base of MBIA Inc. supporting all outstanding liabilities.

• Municipal Bond Insurance Association

Prior to the establishment of MBIA Insurance Company in 1986, its precursor Municipal Bond Insurance Association ("the Association") wrote financial guaranty policies. The Association was an unincorporated association among five members: Travelers Indemnity Company, The Aetna Casualty and Surety Company, Fireman's Fund Insurance Company, Aetna Insurance Company and The Continental Insurance Company. The companies had a 'several but not joint' agreement to secure exposure underwritten by the Association in an amount proportionate to their contribution to the Association. Upon the formation of MBIA Insurance Company, four of the five Association members joined the Corporation as shareholders and ceded their portion of Association exposure to MBIA. Travelers Indemnity Company chose not to become a shareholder of MBIA and remains liable for its portion of Association insured debt. MBIA has issued a surety bond to cover the potential loss on Travelers' portion of the Association's exposure.

Related Research

Corporate Governance Assessments:

MBIA Inc., December 2006 (100889)

Financial Reporting Assessments:

The Financial Guaranty Insurance Industry, July 2004 (88132)

Industry Outlook:

Global Financial Guaranty Insurance Industry Outlook, December 2006 (101095)

Special Comments:

Moody's Evaluates Financial Guarantors' Non-Core Businesses, December 2006 (101298)

Moody's Comments on Ongoing Investigations of MBIA, November 2005(94892)

Moody's Portfolio Risk Model Results for Financial Guarantors, August 2006 (98601)

Financial Guarantors: Hurricane Katrina Exposure Update, September 2005(98981)

Financial Guarantors' Exposure to Eurotunnel, August 2006 (98611)

Rating Methodologies:

Moody's Rating Methodology for Financial Guaranty Insurance Industry, September 2006 (98408)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

MBIA Insurance Corporation

Financial Strength Rating: Aaa

	2005	2004	2003	2002	2001
Insured Portfolio					
Gross Exposure Outstanding	1,006,920	1,017,165	1,005,787	952,594	876,352
Net Exposure Outstanding	889,019	890,222	835,774	781,589	722,408
Gross Par Outstanding	665,694	671,100	651,233	606,465	547,434
Net Par Outstanding (NPO)	585,003	585,575	541,026	497,343	452,409
Adjusted NPO [1]	591,380	592,699	577,413	533,607	466,701
Gross Par Written	126,649	112,311	122,309	139,729	121,896
Net Par Written	110,858	107,570	108,800	112,636	103,679
Claims-Paying Resources (SAP)					
Policyholders' Surplus	3,800	3,280	3,715	3,158	2,858
Contingency Reserve	2,769	2,705	2,368	2,277	2,082
Qualified Statutory Capital (QSC)	6,569	5,985	6,083	5,435	4,940
Capital Charges [2]	(197)	(186)	(124)	(108)	(172)
Unearned Premium Reserve	3,508	3,391	3,067	2,774	2,607
Losses and Loss Adj. Expenses Reserve	318	272	201	245	211
Present Value of Future Installment Premiums [3]	2,057	2,037	1,922	1,472	1,210
Hard Capital [4]	11,946	11,193	10,861	9,597	8,615
Soft Capital	850	1,100	1,236	1,261	1,261
Total Capital [5]	12,571	11,943	11,679	10,327	9,245
Key Statutory Data					
Total Assets	11,037	10,342	9,986	9,214	8,551
Cash and Invested Assets	10,787	10,092	9,803	9,016	8,371
Gross Premiums Written	947	1,091	1,181	952	847
Net Premiums Written	812	939	972	753	621
Net Premiums Earned	735	746	677	549	476
Losses and Loss Adj. Expenses Incurred	189	127	62	52	44
Other Underwriting Expenses Incurred	180	159	125	119	83
Net Underwriting Gain	367	458	491	378	348
Net Investment Income Earned	444	419	408	428	437
Realized Capital Gains	14	105	51	17	11
Pretax Operating Income	847	997	948	824	786
Net Income	634	773	669	618	571
Dividends Paid to Stockholders	95	747	240	231	212
Operating Cash Flow	803	988	937	861	837
Expense Ratio (%)	21.9	16.9	12.8	15.8	13.4
Loss Ratio (%)	25.5	17.0	9.2	9.4	9.3
Combined Ratio (%)	47.4	34.0	22.0	25.2	22.7
Dividends Paid / Net Income (%)	15.0	96.7	35.9	37.3	37.2
Pretax Operating Income / Average NPO (bps)	14.5	17.7	18.3	17.3	18.1
Net Premiums Earned / Average NPO (bps)	12.6	13.2	13.0	11.6	10.9
Liquidity					
Cash and Short Term Investments	806	903	884	877	682
Liquidity Lines	500	500	675	675	650
Cash and Invested Assets / Total Assets (%)	98	98	98	98	98
Leverage					
Adjusted NPO / Hard Capital (x)	49.5	53.0	53.2	55.6	54.2
Adjusted NPO / Total Capital (x)	47.0	49.6	49.4	51.7	50.5
Cash and Invested Assets (SAP) (% of Total)					
U.S. Government Securities	1.0	1.0	1.5	1.0	4.2
Non-U.S. Government Securities	3.0	2.7	1.7	1.3	1.6
State and Local Government Bonds	47.7	43.8	44.5	46.7	49.2
Corporate Bonds	13.4	17.4	19.8	17.8	17.9
Structured Securities	15.9	14.3	12.6	14.0	10.9
Total Bonds	81.1	79.1	80.1	80.8	83.8
Equity (Common and Preferred Stock)	5.6	5.9	5.5	4.2	3.8
Cash	0.7	1.1	0.9	0.3	0.6
Short Term Investments	6.8	7.9	8.1	9.3	7.5
Other Invested Assets	5.8	6.0	5.3	5.3	4.2

MBIA Insurance Corporation

Financial Strength Rating: Aaa

	2005	2004	2003	2002	2001
Reinsurance (% of Gross Ceded)					
Par Outstanding	12.1	12.7	16.9	18.0	17.4
Par Written	12.5	4.2	11.0	19.4	14.9
Premiums Written	14.3	13.2	17.7	20.9	26.7
Key GAAP Data (MBIA Inc.)					
Total Assets	34,561	33,036	30,301	18,796	16,172
Outstanding Debt	1,269	1,391	1,079	1,033	853
Stockholders' Equity	6,592	6,559	6,150	5,369	4,653
Net Income	711	843	825	585	570
Expense Ratio (%)	24.9	22.2	23.2	24.5	26
Loss Ratio (%)	10.0	10.0	10.0	10.5	11.1
Combined Ratio (%)	34.9	32.2	33.2	35.0	37.1
Return on Average Equity (%) [6]	11.3	14.8	14.8	13.7	13.4
Interest Coverage (x)	11.7	16.6	18.0	14.5	14.7
Double Leverage (%)	109.4	101.9	106.9	108.8	110.2
Financial Leverage (%)	16.3	18.3	15.6	17.6	15.2

Note: All figures are in $ millions except percentages and ratios. na = not available or not applicable.
[1] Adjusted net par outstanding reflects the haircuts assigned to reinsurance provided by non-Aaa reinsurers.
[2] Moody's has assessed capital charges for exposure to MBIA Inc.'s financial service subsidiaries and MBIA Insurance Corporation's investment portfolio .
[3] The Present Value of Installment Premiums is discounted at 6%.
[4] Hard Capital resources consist of Qualified Statutory Capital, Unearned Premium Reserves, Loss and Loss Adjustment Expense Reserves, 85% of Present Value of Future Installment Premiums, and less capital charges for non-financial guaranty business and the investment portfolio .
[5] Total Capital resources are the sum of Hard Capital, contingent capital market facilities and discounted depression lines (discounted to reflect their limited value in certain stress scenarios.)
[6] Operating return on equity = (Net income minus the after-tax impact of accounting for derivatives and foreign exchange) / average equity excluding accumulated other comprehensive income.

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