MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms B2 IFS rating of MBIA Insurance Corporation; changes outlook to negative

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New York, March 03, 2015 -- Moody's Investors Service, ("Moody's") has affirmed the B2 insurance financial strength (IFS) rating of MBIA Insurance Corporation (MBIA Corp.), and changed the outlook on the rating from stable to negative. As part of the same rating action, Moody's affirmed the senior debt rating of MBIA Inc., the group's holding company at Ba1, the IFS rating of National Public Finance Guarantee Corporation (National) at A3, and the IFS rating of MBIA UK Insurance Limited (MBIA UK) at Ba2. The outlook for all ratings is negative, with the exception of MBIA UK that has a stable outlook.

SUMMARY RATIONALE

Moody's stated that today's actions reflect the heightened risk in the Zohar I and II CLO notes that MBIA Corp. insures. Given the material size of these exposures, and the lack of transparency into the value of the underlying collateral, Moody's believes that, absent a successful remediation, these exposures could result in meaningful strain on the company's capital and liquidity profiles. The manager of the Zohar CLOs recently notified stakeholders that it had appointed a restructuring advisor and has initiated discussions about restructuring the notes. Moody's commented that MBIA Corp.'s exposure to the first Zohar CLO, maturing in November 2015, is manageable, however failure to reach a global settlement on all Zohar deals would expose MBIA Corp to meaningful claim payments and losses on the much larger Zohar II CLO, that matures in 2017.

In addition, Moody's noted that any credit deterioration at MBIA Corp. should have limited direct financial effect on the broader group given the substantial delinking following the removal of the cross--default provision with MBIA Inc.'s debt, and MBIA Corp.'s repayment of the loan from National. However, further deterioration at MBIA Corp., could still adversely impact MBIA Inc., and to a lesser extent, National, through reputational damage caused by their affiliation with MBIA Corp.

RATINGS RATIONALE -- MBIA INSURANCE CORPORATION

The B2 IFS rating of MBIA Corp., with negative outlook, reflects the company's weak capitalization relative to its remaining insured exposures, and its modest liquidity position. Recent transactions, including significant commutations of insured exposures, and the settlement of RMBS put-back claims, have improved the firm's capital adequacy and liquidity profile such that a restructuring or insolvency is no longer the most likely scenario. The majority of MBIA Corp.'s structured finance book is expected to run off within the next five years, freeing up capital resources. However, MBIA Corp. remains exposed to a number of large structured transactions that could cause significant stress, including insolvency, in the event of default with a large liquidity call and/or a high severity of loss. In addition, the company's capital adequacy and liquidity positions are highly sensitive to the levels of excess-spread recovery on its insured portfolio of second-lien RMBS.

Excluding holdings at its subsidiaries, MBIA Corp. had $443 million of cash and cash equivalents, and other liquid assets at December 31, 2014. Moody's expects the company's liquidity to improve over time, assisted by RMBS excess spread recoveries, putback settlements proceeds and likely future dividends from MBIA UK. However, there is still meaningful volatility around excess spread collections as a result of uncertainty about residential mortgage prepayments, servicing and rates reset experience as well as uncertainty about the timing and proceeds from any remaining putback settlement. On the statutory reporting basis, the company attributed $576 million salvage value to RMBS excess spread as of December 31, 2014.

Moody's added that the ratings of MBIA Corp.'s preferred stock (C hyb) and surplus notes (Ca hyb), stable outlook, reflect their high expected loss content given the company's still weak capital profile and the subordinated nature of these securities.

RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

National Public Finance Guarantee Corporation's (National) A3 IFS rating, with negative outlook, reflects the insurer's substantial stand-alone capital resources, the meaningful delinking from its weaker affiliates, steady amortization of its legacy book, and its ongoing efforts to re-start insuring US municipal debt in the primary and secondary markets. National has substantial exposure to below investment grade credits, which represent approximately 2.6% of its insured book and 173% of qualified statutory capital at December 31, 2014, including approximately $4.5 billion gross exposure to debt issued by Puerto Rico and its public enterprises. In addition, National, like its peers, faces significant headwinds from weak fundamentals in the sector, including still depressed levels of insurance usage, moderate prospective profitability and meaningful legacy risk.

According to Moody's, the negative outlook on National's rating (IFS A3/negative), reflects the heightened risk of losses on National's Puerto Rico related exposures, and the size of those exposures relative to qualified statutory capital and claims paying resources. As of 4Q2014, National's $4.5 billion of total gross par exposure to Puerto Rico issuers represented approximately 137% of its qualified statutory capital (QSC), including approximately $2.5 billion of gross par exposure to Puerto Rico's public corporations (76% of QSC).

RATINGS RATIONALE -- MBIA INC.

Moody's notching between MBIA Inc.'s senior debt rating and the IFS rating of its lead insurance subsidiary, National, is four notches. This is wider than the typical three notches, reflecting the group's high leverage, and significantly weaker credit profile of MBIA Corp., its other substantial subsidiary. The negative outlook on MBIA Inc.'s rating (senior unsecured Ba1/negative), reflects the heightened risk of losses on National's Puerto Rico exposures, and the adverse effect it could have on future levels of tax escrow funds to be released and dividends from National. In addition, the firm's high debt burden and meaningful asset risks, a large share of which reside in its wind-down operations, remain a distinct weakness.

RATINGS RATIONALE -- MBIA UK INSURANCE LIMITED

MBIA UK's Ba2 IFS rating, with stable outlook, reflects the improving insured portfolio, and meaningful stand-alone financial resources relative to its insured risks, moderated by a lack of new business production and Moody's expectation of pressure from its weaker parent, MBIA Corp., to return capital. MBIA Corp.'s support of MBIA UK, in the form of excess of loss reinsurance and net worth maintenance agreements, is subordinated to insured claims and, in Moody's opinion, is of limited value due to MBIA Corp.'s weaker credit profile.

WHAT COULD CHANGE THE RATINGS UP OR DOWN

The ratings of MBIA Corp., MBIA UK and MBIA Inc. could be upgraded if MBIA Corp.'s financial profile, including capital adequacy and liquidity, improved materially. The ratings could be downgraded if insured risks perform worse than expected and/or if MBIA Corp. were to experience material liquidity stress. In addition, the ratings, with the exception of MBIA UK, could be downgraded if the Zohar CLO exposures are not restructured on terms that significantly reduce MBIA Corp.'s potential for loss, ahead of the November 2015 maturity of the Zohar I CLO.

We do not anticipate an upgrade of National's rating until such time as there is meaningful improvement in the credit profiles of its Puerto Rico insured exposures, or that National's exposure to Puerto Rico is meaningfully reduced.

The following could lead to a downgrade in National's rating: (1) Substantial credit erosion of insured risks, including meaningful impairments of Puerto Rico exposure; (2) its provision of material support to weaker affiliates or withdrawal of capital absent an associated reduction of insured risk; (3) a material decrease in profitability; and (4) significant diversification into higher risk businesses.

RATING LIST

The following ratings have been affirmed, with a negative outlook:

..Issuer: MBIA Inc.

....Senior Unsecured Regular Bond, at Ba1

..Issuer: MBIA Insurance Corp.

....Insurance Financial Strength, at B2

..Issuer: National Public Finance Guarantee Corp.

....Insurance Financial Strength, at A3

The following ratings have been affirmed, with a stable outlook:

..Issuer: MBIA Insurance Corp.

....Pref. Stock Preferred Stock (Local Currency), at C (hyb)

....Pref. Stock Non-cumulative Preferred Stock (Local Currency), at C (hyb)

....Subordinate Surplus Notes (Local Currency), at Ca (hyb)

..Issuer: MBIA UK Insurance Limited

....Insurance Financial Strength, at Ba2

TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's methodology "Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts" (March 2013). None of the Moody's-rated securities that are guaranteed or "wrapped" by MBIA Corp. and MBIA UK are affected by this rating action.

National Public Finance Guarantee Corp. and MBIA Insurance Corp. are financial guaranty insurance companies based in New York State. MBIA UK Insurance Limited and MBIA Mexico S.A de C.V. are financial guaranty insurance companies based in UK and Mexico respectively. They are wholly owned by MBIA Inc. [NYSE: MBI], the ultimate holding company. As of December 31, 2014, MBIA Inc. had consolidated gross par outstanding of approximately $277.5 billion, and qualified statutory capital of $4.1 billion.

The principal methodology used in these ratings was Financial Guarantors published in January 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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