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MBIA Inc. And MBIA Insurance Corp.

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MBIA Inc. And MBIA Insurance Corp.

Major Rating Factors

Financial Strength Rating
Local Currency
B/Negative/--

Strengths:

- Adequate liquidity at both the holding company and at its insurance operating company subsidiaries
- Sufficient staff and experience to support surveillance and remediation efforts within the various business segments

Weaknesses:

- Capital adequacy model results that show a significant excess of projected stress-case losses versus capital resources
- Sizable portfolio exposure to certain asset classes that could create significant losses and balance sheet volatility
- Litigation challenges related to the legal separation of the company's U.S. public finance business, which it completed in February 2009

Rationale

The ratings on holding company MBIA Inc. (MBIA; 'B-/Negative' issuer credit rating) and its subsidiary, MBIA Insurance Corp. (MBIA Insurance; 'B/Negative' financial strength rating), reflect Standard & Poor's Ratings Services' view that MBIA Insurance has relatively low capital for its needs. The rating on MBIA also reflects the company's run-off status and our view that this corporate profile is unlikely to change unless restructuring-related litigation related to MBIA's restructuring is resolved in the group's favor. The timing of the litigation resolution is uncertain.

The ratings reflect the current economy, which has contributed to losses in the group's structured finance business, as well as Standard & Poor's expectations for the future, which we factor into our stress-case loss projections. Stress-case loss projections do not reflect the losses we expect to occur; rather, they reflect the losses we think could occur in a 'AAA' stress environment. In particular, our stress-case loss projections for MBIA's collateralized debt obligations (CDOs) of asset-backed securities and its commercial real estate exposure significantly exceed the company's capital resources. However, these loss expectations do not require immediate cash outflows, and we believe the company has adequate liquidity for the next few years.

Over the longer term, the company intends to create a number of operating companies conducting businesses in U.S. public finance, global structured finance, international infrastructure finance, and asset management. Some separate operating companies might have a distinct holding company, owned partially or fully by MBIA Inc. (the ultimate holding company), and it is possible that these operating companies will be separately capitalized. We would consider the operating companies' diversification of earnings, potential dividends, and cash flows as being relevant to the holding company (MBIA).

We believe that the holding company has adequate liquidity, supported by cash flows and pure cash holdings that can cover at least three years of obligations (including debt obligations). We believe that the operating insurance subsidiaries' cash could cover their respective obligations for longer periods. The company has sufficient staff and

experience to support surveillance and remediation efforts within its various business segments, and it is focused on liquidity risk management. MBIA's sizable exposures to certain asset classes within the insured portfolio could create further losses and balance sheet volatility (even though we expect its liquidity to remain adequate during the next few years).

MBIA is focused on rebranding its U.S. public finance segment, National Public Finance Guarantee Corp. (National), as a separate legal entity to create a viable U.S. public finance franchise. However, pending lawsuits are challenging this separation and limiting MBIA's ability to establish an ongoing franchise--one that could increase its earnings and cash flow and have stand-alone financial flexibility--within the group.

Factors Specific To Holding Company

MBIA's key subsidiaries provide financial guarantee insurance and asset-management advisory services. The company is winding down other subsidiaries (currently inactive) that provided asset/liability products and operated conduits. The company provides financial guarantee insurance through MBIA Insurance (non-U.S. public finance and structured finance) and National (U.S. public finance only).

On Feb. 18, 2009, MBIA announced a restructuring plan, whereby it created separate legal entities within the company. National (formerly known as MBIA Illinois) became a sister company of other MBIA operating entities, one of which (MBIA Insurance) maintains non-U.S. public finance risks. National became the U.S. public finance insurer within the MBIA group and assumed the U.S. public finance book of business previously part of MBIA Insurance. MBIA's other legal entities retained the global structured finance and international infrastructure business. This restructuring separated the more-volatile structured finance book of business from the lower-risk, lower-volatility U.S. public finance book.

However, MBIA Inc. is facing four lawsuits challenging this separation. Although the New York Department of Insurance approved National's creation, the market (i.e., potential issuers and investors) does not appear to have accepted this separation--National likely will be relatively inactive (aside from its existing portfolio) until the litigation issues are resolved, possibly by early 2012. As a result, we believe National's competitive position and financial flexibility have limited near-term potential to increase.

National redomesticated to New York from Illinois in December 2009. As a result of establishing a contingency reserve and a large ceding commission expense related to the restructuring, which resulted in a substantial deficit in earned surplus, the company was prohibited from paying dividends unless it received regulatory approval to do so. Effective Jan. 1, 2010, the New York Insurance Department approved a reset of the company's earned surplus, which allowed National to be eligible to pay dividends as earned surplus grows. As of Dec. 31, 2010, National had $91 million of dividend-paying capacity. We believe the company will not declare dividends until the restructuring litigation has been resolved.

Prior to the restructuring in early 2009, MBIA and MBIA Insurance raised more than $3 billion in new capital in 2008 through the issuance of common stock, surplus notes, and preferred stock. The new capital included $1.6 billion of equity (which the holding company ultimately retained and has significantly supported the liquidity needs of MBIA's asset/liability management [ALM] segment) and $400 million of insurance company preferred stock.

On Jan. 16, 2008, MBIA Insurance issued surplus notes due Jan. 15, 2033. The surplus notes have an initial interest

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rate of 14% until Jan. 15, 2013, after which the interest rate becomes three-month LIBOR plus 11.26%. MBIA Insurance has the option to call the surplus notes at par on the fifth anniversary of the date of issuance and every fifth anniversary thereafter; the notes are also callable at varying premiums after the first five-year period. Calls and ongoing interest payments are subject to prior approval by the Superintendent of the New York State Insurance Department (NYSID) and other restrictions.

As of Dec. 31, 2010, MBIA had total shareholders' equity of $2.8 billion and total long-term debt of $1.9 billion. Long-term debt to total capital was 33% as of Dec. 31, 2010, down from 38% at year-end 2009. Long-term debt includes debt issued by MBIA for general corporate purposes, surplus notes and preferred stock issued by MBIA Insurance, and bank loans under liquidity facilities. Standard & Poor's adjusts shareholders' equity to eliminate unrealized losses on insured credit default swaps net of impairments and the impact of consolidating variable interest entities (VIEs). The decrease in the long-term debt-to-capital ratio in 2010 from 42% as of year-end 2008 primarily resulted from debt maturing, the company's debt repurchases--on the open market--and modest growth in adjusted shareholders' equity.

We expect that MBIA's cash flows and cash and short-term investments should cover its debt-service and operating-expense obligations through 2014, which is an important factor for the rating. Should coverage of cash needs decline to approximately two years or less, we would likely lower the rating.

In 2008 and 2009, MBIA took legal action in various jurisdictions against four defendants, notably Countrywide/Bank of America and Residential Funding Co. (RFC), alleging that MBIA was fraudulently induced to provide financial guarantee insurance and that these entities breached their representations and warranties and contractual obligations, resulting in substantial damages to MBIA. All the cases continue to be active, and none have reached a final resolution that cannot be appealed. (One representation and warranty claim with a counterparty was resolved with a net payment to MBIA of approximately $50 million.) We believe this process could take years to complete. In our view, these actions reflect MBIA's determination that it will aggressively pursue all claims related to potential fraud and misrepresentation by the various seller/servicers. The majority of total loss reserves for MBIA Insurance relate to transactions subject to Countrywide and RFC related litigation. Through 2010, MBIA Insurance has recorded $2.5 billion (statutory) of expected recoveries on these actions as a reduction to its loss reserve.

Outlook

The negative outlook on MBIA Insurance reflects the possibility that adverse loss development on the structured finance book could continue, diminishing liquidity and weakening capital. We currently project that liquidity will be adequate to meet projected claims payments over the next several years, but this could change if losses and earnings volatility increase. We could maintain the rating if MBIA Insurance's capital stabilizes as a result of diminished potential for future adverse loss development. However, if the company exhibits increased losses and diminished liquidity--such that the time horizon to possible breach of minimum regulatory capital levels shortened to less than two years or if surplus fell below $500 million--we could lower the ratings.

The outlook on MBIA Inc. is negative, reflecting the potential risk for liquidity to weaken over time if access to cash from subsidiaries becomes constrained as a result of adverse litigation outcomes. However, in the next few years, liquidity will likely be adequate to meet debt-service and holding-company obligations, including operating expenses. We could raise the rating if the diversity of reliable sources of dividends improved and the level of available dividends relative to holding-company cash needs grew to at least a multiple of two times. We would lower

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the rating if liquidity diminished to where the time horizon to possible bankruptcy or default shortened to two years or less.

Competitive Position: Marginal While MBIA Is In Run-Off

We view MBIA's competitive position as marginal, with the company in run-off. The group had to rebrand its National subsidiary because of the deterioration to the MBIA name. However, we believe that MBIA will maintain sufficient staff with the experience to support surveillance and remediation efforts for its remaining portfolio.

Table 1

MBIA Insurance Corp. Portfolio Statistics

		--Year ended Dec. 31--				
(Mil. $)	**Dec. 31, 2010, % of par**	**2010 par**	**2009 par**	**2008 par**	**2007 par**	**2006 par**
Public finance total	-	-	-	553,683	404,365	386,409
Domestic asset-backed and corporate finance						
MBS	5.4	10,147	11,843	14,768	11,466	7,918
Home equity loan	4.4	8,278	9,545	11,431	19,938	20,108
Auto loan	1.1	2,140	4,131	6,319	9,803	9,454
Other consumer asset-backed	0.8	1,419	1,716	2,924	8,595	10,593
Commercial asset-backed	43.7	82,266	89,243	99,825	100,073	68,181
Bank/financial institutions	0.6	1,155	1,269	1,422	1,452	1,568
Other	2.5	4,631	4,886	5,239	5,495	3,894
Total	58.4	110,036	122,633	141,928	156,822	121,717
International						
Public finance	17.6	33,216	32,415	29,242	36,531	33,569
Asset-backed	23.9	45,033	49,481	61,686	80,943	76,113
Other	-				-	-
Total	41.6	78,249	81,896	90,928	117,474	109,682
Total net par outstanding	100	188,284	204,529	786,539	678,661	617,808

Financial guarantee segment

MBIA's financial guarantee business operates through two subsidiaries: National and MBIA Insurance.

We believe National could have a strong competitive position because of its strengths in underwriting, customer relationships, and particularly distribution. However, National's limited pricing power and product concentration--it writes one product (financial guarantee) in only one sector (U.S. public finance)--mitigate these strengths.

National is licensed to write financial guarantee insurance in 50 states as well as Washington, D.C., and Puerto Rico. National will only write financial guarantee business in the U.S. municipal market using financial guarantee insurance policies. Management has stated the company will not write structured finance or any international business.

National had $468.6 billion of net municipal par in force as of the fourth quarter of 2010. As of the year-end 2010, the credit quality distribution of the net insured portfolio was predominately in the 'AA' (46.8%) and 'A' (37.6%)

categories; obligations in the 'AAA' (5.7%) and 'BBB' (9.3%) rating categories accounted for most of the remainder, with speculative-grade issues making up about 0.6% of the portfolio. The company had $96 million in statutory loss reserves as of Dec. 31, 2010. The largest sectors in the portfolio are general obligation (GO) at 46.3%, municipal utilities at 17.7%, and the tax-backed sector at 12.6%. Health care accounts for 2.7%; transportation, 9.9%; and higher education, 5.4%.

MBIA Insurance insures and reinsures structured finance and international financial obligations, sold in the new-issue and secondary markets. As of year-end 2010, MBIA Insurance had 1,171 policies outstanding in the portion of its insured portfolio that it had not ceded or assigned to National (then known as MBIA Illinois) effective Jan. 1, 2009. In addition, MBIA Insurance has issued 270 policies relating to asset-liability products liabilities issued by MBIA Inc. and its subsidiaries (see "wind-down businesses" section). MBIA Insurance's policies are diversified among 776 credit groups (characterized as any group of issues supported by the same revenue source). The average life of its structured finance and international policies was nine years.

Despite its run-off status, MBIA Insurance will continue to insure its remaining book of structured finance and international business as well as the guaranteed investment contracts (GICs) and medium-term notes (MTNs) managed by MBIA's asset/liability businesses.

MBIA had $188.3 billion net par exposure (i.e., amortized insured securities balance, net of any reinsurance) outstanding as of Dec. 31, 2010, plus an additional $3.8 billion relating to investment agreements and MTNs issued by the ALM affiliates. The largest exposures included non-U.S. public finance (17.6% of total exposure), global structured commercial real estate (22.8%), global corporate CDOs and pools (26.7%), U.S. residential mortgage-backed securities (RMBS; 8.7%), and global CDOs and CDOs-squared (the latter backed by tranches of CDOs) of asset-backed securities (6.0%).

The credit quality distribution of the exposure has deteriorated over time: The percentage of speculative-grade issues grew to 18.2% as of Dec. 31, 2010, from 14.5% as of Dec. 31, 2009. That percentage declined in the fourth quarter from the 19.7% the company reported as of Sept. 30, 2010, due to significant commutation activity in the quarter that terminated exposure to a number of weak credit quality transactions.

Claims payments since late 2007 have been significant, and we expect that future payments will remain large. The group has paid $5.2 billion for losses, net of reinsurance and collections, in the U.S. residential mortgage sector from Sept. 30, 2007, through Dec. 31, 2010, and the present value of future expected claims payments as of Dec. 31, 2010, was $1.3 billion. For the CDO of ABS segment, losses paid (including commutations) over this period totaled $1.3 billion, and the present value of future payments was $2.8 billion.

Investment-management services

As part of its strategic plan, in February 2010 MBIA restructured its investment-management subsidiaries and rebranded them under the Cutwater name to signify their separation from other group activities. As part of this restructuring, Cutwater no longer manages the asset/liability products or conduits businesses. These businesses (referred to as the wind-down businesses) are no longer active and will run off as the liabilities mature, terminate, or are repurchased by the company.

MBIA's investment-management services operations consist of an asset-management advisory business that provides cash management, discretionary asset management, and structured products to the public, not-for-profit, corporate, and financial sectors. Cutwater seeks to grow its third-party assets under management; currently a majority of assets

under management are from third-party clients. Assets under management in the fourth quarter of 2010 averaged $41.6 billion, of which $25.4 billion were sourced from third-party clients. Average assets from third-party clients have grown 25% since the end of 2008.

Wind-down businesses

MBIA continued to wind down its asset/liability management (ALM) and conduit businesses in 2010. The ALM segment issued debt and investment agreements (insured by MBIA Insurance) to capital markets and municipal investors and then purchased assets that largely matched the duration of those liabilities. Standard & Poor's downgrade of MBIA Insurance to speculative-grade in September 2009 triggered either the termination or collateralization of virtually all investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, caused MBIA to begin winding down the business. MBIA is winding down the conduit business, which administers two multi-seller conduit financing vehicles, for similar reasons.

MBIA's conduit obligations totaled $1.5 billion as of Dec. 31, 2010, down from $1.8 billion as of Dec. 31, 2009. As of Dec. 31, 2010, MBIA had $4.2 billion in outstanding GIC, medium-term note, and repurchase agreement liabilities (all at book value) in its ALM business (down from $5.5 billion as of Dec. 31, 2009). The current market value of invested assets in the ALM business available to support the $4.2 billion of obligations plus $1.0 billion of intercompany loans totaled $4.2 billion as of Dec. 31, 2010, of which $781 million consisted of cash and short-term investments. The $1.0 billion shortfall in the market value of assets versus the book value of obligations is the largest liquidity challenge the company currently faces; closing this gap is a key focus for the company. Strategies to close the gap include investing assets at higher yields and seeking to purchase liabilities at a discount. Management also believes there is potential for the gap between the book values and market values of the assets, which represents about two-thirds of the $1.0 billion shortfall, to narrow reflecting changes in market interest rates and credit spreads.

Management And Corporate Strategy: Marginally Negative Based On Historically High Risk Tolerances

We view MBIA's management and corporate strategy as marginally negative given the high risk tolerances that led to the substantial losses incurred over the past few years. A history of legal confrontations over the years, including the AHERF and transformation litigation, also contributes to our assessment.

MBIA's management is focused on creating separate legal entities within the MBIA corporate structure--each focusing on its own market segment, with separate capital and corporate strategies. However, this strategy will be constrained until National's litigation issues are resolved and that business begins to realize its own brand name and market presence.

MBIA's senior management team is led by Joseph Brown, CEO of the holding company, and C. Edward Chaplin, the president and chief financial officer. William Fallon is president and chief operating officer and also serves as National's interim CEO. The management teams at MBIA, National, and the advisory services and investment services business have all been with MBIA for many years.

Enterprise Risk Management

The enterprise risk management score of weak is largely based on the view that MBIA's insured risks ultimately produced losses greater than MBIA's risk tolerances and have led the company into run-off. The volatility was significantly sizable relative to the balance sheet and highlights weaknesses within capital management and risk controls.

Accounting: Neutral To The Ratings

Standard & Poor's views MBIA's accounting policies as generally consistent with industry standards and neutral to the ratings. MBIA files consolidated statements according to U.S. GAAP, whereas MBIA Insurance and National file financial statements under U.S. GAAP and Statutory Accounting Principles (SAP).

The Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC) 810, "Consolidation," addresses whether certain legal entities often used in securitization and other structured finance transactions should be included in the consolidated financial statements of any particular interested party. The remediation rights MBIA Insurance may gain should an insured structured finance transaction experience stress might give the company power over the most significant activities of the special purpose entity (SPE). As a result, the assets and liabilities of the insured transaction may be consolidated on MBIA's balance sheet. Standard & Poor's does not view consolidation of these transactions as indicative of different or incremental risk relative to the company's consolidated insurance exposure. From a risk perspective, we assess the guaranteed transactions a capital charge for capital adequacy modeling purposes. Because of this, we do not include the debt associated with SPEs in any leverage calculations or fixed-charge coverage ratios.

Likewise, Standard & Poor's does not view consolidation of MBIA's asset/liability product and conduit subsidiaries as indicative of different or incremental risk relative to the company's consolidated insurance exposure. These financial intermediaries are client funding vehicles and do not provide liquidity or capital resources to the bond insurer and its holding company. The bond insurer guarantees the assets going into the subsidiary or debt issued by the subsidiary. From a risk perspective, the guaranteed assets are capital charged by Standard & Poor's for capital adequacy modeling purposes. These entities practice active and extensive ALM, closely match-fund the assets and liabilities, and operate under tight risk-management tolerances. Operating under these strict rules and guidelines, the subsidiaries' liquidity risk, financial market risk, and credit risk are all reduced to relatively insignificant levels. Because of this, and the fact that credit risk is captured in the capital charge, the debt associated with these subsidiaries is not included in any leverage calculations or fixed-charge coverage ratios.

Standard & Poor's evaluates the financial strength of the financial guarantors using the financial statements prepared under SAP. However, Standard & Poor's estimates theoretical losses in a severe economic environment, which may be greater than current losses reported under SAP, to evaluate the adequacy of the bond insurer's claims-paying resources.

ASC 815, "Derivatives and Hedging," requires derivatives to be marked to market at each reporting date. In our opinion, this concept, insofar as it relates to the financial guarantee insurance industry, has introduced some earnings volatility that has little bearing on either the likelihood of a potential claim or a bond insurer's intrinsic earnings power. Unlike other financial sectors for which ASC 815 may be more relevant, bond insurers' contracts

are not traded, and there is no business intention to trade to realize gains. Therefore, recording a marked-to-market loss because of changing spreads in the marketplace does not make a lot of sense from our analytic perspective. Since most credit default swap (CDS) contracts expire without a claim, corresponding marked-to-market positions are usually zeroed out at maturity. Standard & Poor's believes that the insurers' loss reserves are indicative of potential claims and thus a better representation of the economics of the financial guarantee. We also look to our own capital charge evaluations as good indicators of changes to the credit profile of any of the bond insurers' insured sectors.

Under ASC 820, "Fair Value Measurements and Disclosures," MBIA's valuation of its derivative liabilities must incorporate the spreads of MBIA's CDS (to take into account the market's perception of MBIA's nonperformance risk). We don't factor in any market-based fluctuation unrelated to fundamental credit deterioration when considering capital and earnings because, from a ratings perspective, the market's perception of MBIA's ability to settle its obligations does not influence the group's actual ability to do so, nor can MBIA transfer the obligation at the market value. Our ratings analysis therefore doesn't consider any gains taken from the deterioration in MBIA's own creditworthiness.

Our approach to addressing put-back claims relating to potentially ineligible residential mortgage loans contained within insured securitizations reflects our view that the timing and amount of recoveries is uncertain. The statutory accounting practice on put-back claims requires them to be treated as offsets to claim liabilities and not as a separate asset. We don't include booked put-back recoveries as a capital resource or a reduction in losses in our analysis of a bond insurer's capital adequacy until after the insurer actually collects the money. (Please see "An Analytical Approach To Bond Insurer Representation And Warranty Put-Back Claim Recoveries," published April 20, 2011, on the Global Credit Portal for a full discussion of our analytical approach to put-back claims.)

We adjusted MBIA's leverage and return ratios for the impact of ASC 810, 944, 815, and 820 (see table 2). The "Capitalization" section of this analysis provides further detail on the theoretical losses related to ASC 944 and 815, as well as our approach to addressing put-back claims.

Operating Performance: Finances Are Weak

We view MBIA's operating performance as weak in that it has recorded significant incurred losses over the past few years. It has reduced these losses with reserve releases that we believe might be too optimistic and premature, given the continued deterioration in certain asset classes and the uncertain and potentially lengthy time frame for realizing projected representation and warranty recoveries. These recoveries, all being pursued through litigation, relate to potentially ineligible mortgages included in insured second-lien residential mortgage loan securitization exposures that are subject to a contractual obligation by sellers/servicers to remove or replace such mortgages. As of Dec. 31, 2010, $2.5 billion of these recoveries have been reflected in the financial statements. The appropriateness of MBIA's reserves release won't be known for a few years.

MBIA recorded net income available to common shareholders of $52.5 million for 2010 compared with $623.2 million in 2009. Unrealized gains (losses) on insured derivatives, a volatile number from period to period, played a key role in each period's results, with a pretax loss of $606.9 million in 2010 and a pretax gain of $1.7 billion in 2009. On a segment basis, for 2010, National had pretax income of $530.4 million, MBIA Insurance had a pretax loss of $431.3 million, and Cutwater had a pretax loss of $836 thousand. The corporate and wind-down segments had a pretax loss of $214.9 million. For 2009, National had income of $551 million, MBIA Insurance had income

of $823.6 million, Cutwater had income of $5.4 million, and the corporate/wind-down segment had a loss of $165.3 million.

On a statutory accounting basis, MBIA Insurance reported a net loss of $434.0 million for 2010 compared with a net loss of $684.2 million for full-year 2009. Losses in 2010 totaled $1.0 billion, which, though substantial, were smaller than the $1.9 billion loss reported for full-year 2009.

Table 2

MBIA Insurance Corp. Financial Statistics

(Mil. $)	--Year ended Dec. 31--				
	2010	2009	2008	2007	2006
Insurance company*					
Total assets	3,458.4	4,867.1	13,532.6	11,410.2	10,952.3
Cash + invested assets	3,299.2	4,447.8	12,849.1	10,981.2	10,731.1
Unearned premiums	524.3	539.5	4,005.8	3,544.7	3,507.2
Statutory capital	2,730.4	3,332.8	6,097.3	6,382.0	6,558.7
Net premiums earned	408.0	396.0	906.9	767.1	739.0
Losses and loss-adjustment expenses	1,045.2	1,914.8	3,074.4	876.6	94.2
Underwriting expenses	(5.0)	(702.7)	311.4	190.5	217.0
Investment income including gains	15.7	(92.0)	381.4	498.0	500.9
Net income	(434.0)	(684.2)	(1,412.7)	182.1	673.0
Loss Ratio (%)	256.2	483.6	339.0	114.3	12.7
Holding Company (MBIA Inc.)¶					
Total assets	32,279.0	25,684.7	29,657.1	47,415.1	39,763.0
Stockholders' equity	2,832.1	2,590.1	994.4	3,655.8	7,204.3
Net income	52.5	634.1	(2,672.7)	(1,921.9)	819.3
Debt/Capitalization (%)§	33.2	38.3	41.8	24.4	14.4
Total hybrid tolerance security ratio (%)¶¶	0.0	0.0	0.0	4.2	4.5
Return on average equity (%)	1.9	35.4	N.M.	N.M.	11.9

*U.S. statutory basis of accounting. ¶U.S. GAAP basis. §(Holding company debt + hybrid securities not qualifying as equity)/(holding company debt + shareholders equity + hybrid securities). ¶¶(Hybrid securities + contingent capital)/(capital + hybrid securities + contingent capital). N.M.--Not meaningful.

Prospective

We expect the holding company's operating performance to remain volatile based on asset fluctuations and unrealized and realized derivative and investment losses. We expect that MBIA Insurance will continue to report net losses, given that the net losses incurred continue to outpace net premium and investment earnings. However, we expect that liquidity will remain adequate.

Investments And Liquidity: Holding Company And Operating Subsidiaries Have Adequate Liquidity

We expect that MBIA will maintain adequate liquidity at the holding company, supported by cash flows and pure cash amounts that can cover about three years of obligations (including debt obligations). At the operating insurance company subsidiary level, we believe there is potential for longer cash coverage within all the business segments. Standard & Poor's reviews liquidity at MBIA Insurance and National as well as at the holding company and the

ALM segment.

As of Dec. 31, 2010, two intercompany lending facilities supported the ALM segment's liquidity, which is under significant strain. The segment has a secured loan agreement with MBIA Insurance for $975 million ($2 billion original balance) and an asset repo with National for $2.0 billion ($1.8 billion outstanding). ALM also had a $600 million loan with MBIA Inc., but that was extinguished as a result of a $600 million capital contribution by the holding company to the segment.

Under the asset repo, a two-way agreement, National provides MBIA with collateral-eligible securities--principally Treasury and agency securities--that the ALM segment posts as collateral for GICs. In return, MBIA provides National with investment-grade (but ineligible as collateral for its GIC obligations) securities, including RMBS but mostly structured and corporate bonds. National generates a higher yield because of this repo transaction, which increases its net investment income. In addition, a margin maintenance agreement between National and MBIA further reduces investment risk. National has agreed to use good faith efforts to reduce the amount of the swap to no more than 10% of admitted assets no later than December 2011, which could mean a reduction in the outstanding balance of roughly $1 billion.

The main rationale for the secured loan with MBIA Insurance was to avoid forcing the ALM segment to sell depressed assets and thereby realize investment losses. The $975 million facility requires the ALM segment to post collateral with a book value greater than or equal to the drawn amount. Sales of depressed assets would have reduced the asset value supporting ALM, the obligations of which MBIA Insurance insures, thereby increasing the potential for cash flow issues relative to liabilities and increasing the potential for claims on MBIA Insurance policies. As a result of this loan, ALM received cash and provided MBIA Insurance with an investment portfolio of corporate bonds, asset-backed securities, and CDOs.

A key issue at ALM is whether its liquidity is sufficient to manage through the difference between its liabilities and its assets. The fluctuation of asset values compounds this concern. Volatility on the liability side of the ALM's balance sheet largely results from the difference between the market and book values of the MTNs. The GICs and other liability items have market and book values that are very similar. MBIA's credit risk is significant, as the company has insured all GICs and MTNs, and its prospective strength therefore will influence the variance between the market and book values.

Liquidity at MBIA Insurance Corp. has improved in 2010, primarily from $625 million from repayments on the loan to the ALM segment, $595 million from the acquisition and liquidation of Channel Re, and $365 million in asset sale proceeds from the remediation of an international infrastructure transaction. However, over the next several years, collecting significant amounts of the representations and warranties putbacks will be important to fund additional commutations, should such opportunities arise, and to pay projected claims.

MBIA Inc.'s liquidity is strong, bolstered by a small dividend from Cutwater and a tax refund in 2010. Currently, cash and short-term investments on hand plus expected cash inflows, excluding dividends from the insurance and asset-management subsidiaries, are sufficient to cover the holding company's cash needs through 2014, including debt service and operating expenses which is a main factor for the rating. Significant declines in expected cash likely would lead us to lower the rating. The next debt maturity does not occur until 2022.

We view National's liquidity as good in that potential claims and payouts will be emerging over the long term (the next 25 years or so), and we expect no significant or immediate cash outflows or needs for the company, largely

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because of the policy language and public finance coverage National offers. The company estimates that the average life of its domestic public finance insurance policies in force as of Dec. 31, 2010, was 10.5 years. From an asset standpoint, liquidity is also strong in that the company maintains nearly $300 million in cash and short-term investments and has a high-quality investment portfolio.

Capitalization: Stress Test Losses Overwhelm Current Capital

In our view, MBIA Insurance's capital adequacy is very weak based on the significant excess of stress test losses we use in our capital adequacy model, particularly for the CDOs of ABS and commercial real estate exposures, over the company's capital resources. Our capital adequacy test run on the retained exposure included the following assumptions and changes to the capital adequacy model:

- No new business written;
- Stress period of model starts immediately and lasts for four years;
- No refundings;
- Expenses are held constant for all four years;
- Effective tax rate on projected losses on RMBS, CDOs of asset-backed securities, and CMBS losses was zero;

Table 3

MBIA Insurance Corp. Capital Statistics

				--Year ended Dec. 31--			
	Dec. 31, 2010	Dec. 31, 2009	June 30, 2009	2008	2007	2006	2005
Portfolio risk							
Asset-backed capital charge (% of par)	8.0	N.A.	1.7	1.6	1.5	1.9	2.0
Claims paying resources (Mil. $)							
Statutory capital	2,730.4	3,332.8	4,242.5	6,097.3	6,382.0	6,558.7	6,569.4
Contingent vapital	0.0	0.0	0.0	400.0	400.0	400.0	400.0
Letters/lines of credit	0.0	0.0	0.0	450.0	450.0	450.0	450.0
Owner capital commitment	0	0	0	0	0	0	0
Stop-loss treaty	703.0	726.0	730.0	4,170.0	3,763.0	3,507.0	3,508.0
Unearned premiums	524.3	539.5	551.2	4,005.8	3,544.7	3,664.5	3,508.1
Present value of annual premiums	1,655.0	1,740.0	1,948.0	2,386.0	2,639.0	2,309.4	2,171.0
Other	0	0	0	0	0	0	0
Total	5,088.4	5,798.8	6,920.5	13,503.3	13,634.0	13,225.1	13,098.4
Capital adequacy							
Capital remaining at the end of depression test (Mil. $)	N.M.	N.A.	N.M.	N.M.	750-800	2,750-2,800	3,550-3,600
Margin of safety (x)	N.M.	N.A.	0.7-0.8	0.9-1.0	1.0-1.1	1.3-1.4	1.4-1.5
Reliance on soft capital (%)	0	N.A.	0	0	17.6	11.4	11.1

N.A.--Not available. N.M.--Not meaningful.

In addition to Standard & Poor's normal stress assumptions for municipal and many non-RMBS asset classes, we tested MBIA Insurance's capital adequacy against a scenario that applies stressful default assumptions to various 2005-2007 RMBS-related transactions and all CRE-related transactions the company has insured. These do not

reflect the losses that we expect but rather the losses that we believe are possible in a 'AAA' stress scenario (i.e., a scenario consistent with economic conditions that existed in past periods of economic stress that have been defined as representing 'AAA' stress).

The modeling methodology for evaluating the 2005-2007 RMBS exposure is consistent with the approach outlined in "RMBS Surveillance Intex Automation Model," published Aug. 20, 2010. In this analysis, we included the Alternative-A, subprime, closed-end second, and HELOC asset types with 2005, 2006, and 2007 vintages, which had a total par value outstanding of $13.2 billion as of Dec. 31, 2010. The stressed loss projection was $3.0 billion. All loss figures are expressed on a present-value, pretax basis.

Losses for the $11.5 billion CDO of ABS exposure and $35.9 billion of CUSIP CMBS-backed CDO/structured credit exposure were derived using the latest version of CDO criteria. No credit was given for diversification because performance of individual transactions in these sectors over the past several years has been highly correlated. The present value of our stress level of losses on a pretax basis for the CDO of ABS exposure is $6.9 billion and for the CUSIP CMBS-backed CDO/structured credit exposure is $12.2 billion.

For MBIA Insurance's $7.4 billion CUSIP CMBS and CDO of mixed commercial real estate exposure, we based our method for stressing CMBS on the analytical approach outlined in "U.S. CMBS Rating Methodology And Assumptions For Conduit/Fusion Pools," published June 26, 2009, and "U.S. CMBS 'AAA' Scenario Loss And Recovery Application," published July 21, 2009. We calculated expected losses for each transaction to a 'AAA' level of stress. We calculated losses assessed to MBIA Insurance based on the company's position in the capital structure (i.e., the difference between MBIA Insurance's position plus the credit enhancement in the transaction and our loss expectation). Finally, we converted the calculated results to a present value by discounting the losses at 5% per year over the expected average remaining life of the transactions assuming a payout that meets the terms of the CDS contract. The loss assumption for MBIA Insurance's CMBS exposure was $4.1 billion.

The key outputs of the capital adequacy analysis were total claims-paying resources of $5.2 billion and total losses of $31.4 billion. Standard & Poor's expects MBIA Insurance's claims-paying resources will remain well below projected stress test losses for the foreseeable future.

We believe MBIA's ability to issue debt or capital in the next 12 months is very limited, making for weak financial flexibility. It is unlikely that the company will be able to raise external capital until National's market presence improves and MBIA's corporate strategy of creating diversified operating segments is accepted by the market.

Ratings Detail (As Of June 22, 2011)*	
MBIA Insurance Corp.	
Financial Strength Rating	
Local Currency	B/Negative/--
Counterparty Credit Rating	
Local Currency	B/Negative/--
Financial Enhancement Rating	
Local Currency	B/--/--
Preferred Stock (8 Issues)	C
Senior Secured (3 Issues)	B
Senior Unsecured (21 Issues)	B
Senior Unsecured (1 Issue)	CCC

Ratings Detail (As Of June 22, 2011)***(cont.)**	
Related Entities	
Autopista Monterrey- Cadereyta	
Senior Secured (1 Issue)	BBB-/Stable
CaVal (Mexico) National Scale Rating (1 Issue)	mxAA/Stable
Capital Markets Assurance Corp.	
Financial Strength Rating	
Local Currency	B/Negative/--
Issuer Credit Rating	
Local Currency	B/Negative/--
Senior Unsecured (1 Issue)	B
MBIA Global Funding LLC	
Senior Secured (1 Issue)	B
Senior Secured (5 Issues)	B/Negative
Senior Unsecured (25 Issues)	B
Senior Unsecured (5 Issues)	B/Negative
MBIA Inc.	
Issuer Credit Rating	
Local Currency	B-/Negative/--
Senior Unsecured (5 Issues)	B-
MBIA Mexico S.A. de C.V.	
Financial Strength Rating	
Local Currency	B/Negative/--
CaVal (Mexico) National Scale Rating	mxBB+/Negative
Issuer Credit Rating	
Local Currency	B/Negative/--
MBIA U.K. Insurance Ltd.	
Financial Strength Rating	
Local Currency	B/Negative/--
Financial Enhancement Rating	
Local Currency	B/--/--
Municipal Bond Insurance Assn.	
Financial Strength Rating	
Local Currency	BBB/Developing/--
Issuer Credit Rating	
Local Currency	BBB/Developing/--
National Public Finance Guarantee Corp	
Financial Strength Rating	
Local Currency	BBB/Developing/--
Issuer Credit Rating	
Local Currency	BBB/Developing/--
Financial Enhancement Rating	
Local Currency	BBB/--/--
Holding Company	MBIA Inc.

Ratings Detail (As Of June 22, 2011)*(cont.)	
Domicile	New York

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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