STANDARD & POOR'S RATINGS SERVICES

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MBIA Insurance Corp.

Primary Credit Analyst:
David S Veno, New York (1) 212-438-2108; david.veno@standardandpoors.com

Secondary Contacts:
Marc Cohen, CFA, New York (1) 212-438-2031; marc.cohen@standardandpoors.com
Olga Ryabaya, New York (1) 212-438-3843; olga.ryabaya@standardandpoors.com

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MBIA Insurance Corp.

Major Rating Factors

Financial Strength Rating
Local Currency
B/Stable/--

Strengths:

- Well-managed risk mitigation and liquidity strategy that helps maintain solvency
- Sufficient experienced staff to support surveillance and risk remediation efforts

Weaknesses:

- Capital adequacy model results that show significant projected stress-case losses versus capital resources
- Liquidity remains a concern due to nonprime RMBS claims

Rationale

Standard & Poor's Rating Services' financial strength rating on MBIA Insurance Corp. (MBIA) reflect our view of the company's small capital base relative to the risk of its insured portfolio; poor operating performance, which we expect to continue; and potential continued liquidity stress. While the possibility of liquidity stress exists, the experienced management team's liquidity and risk mitigation strategy has helped to maintain solvency. The extension of a $500 million line credit that was part of the recent settlement with Bank of America (BofA) also helps improve the liquidity profile. The ratings also reflect the company's run-off status and our belief that its corporate profile is unlikely to change in the next year.

In our view, MBIA's capital position is very weak. Although commutations have lowered loss projections, cash payments that were part of the commutation settlements and losses generated by the remaining exposure resulted in a capital adequacy ratio of less than 0.5x as of year-end 2012. The recent commutation settlements with BofA and Société Générale (SocGen) lowered loss projections, but not by an amount that would have significantly affect the capital adequacy results.

Outlook

The stable outlook reflects our view that MBIA's capital and liquidity are adequate to meet claim payments for the next 12 months. Given the risk of the remaining insured portfolio relative to MBIA's capital base and limited opportunity to improve its capital position, we expect capital to remain under stress. If capital stabilizes as a result of diminished potential for future adverse loss development, we would view this as positive rating factor. But if the company exhibits increased losses and diminished liquidity so that the time to a possible breach of minimum regulatory levels shortens to less than two years, we could lower the ratings.

Framework Scores

The score for MBIA's adjusted competitive position is '5' and the industry risk is '2', leading to a business risk profile score of '3'. The final capital adequacy score is '5' and operating performance score is '6', leading to a financial risk profile score of '6'. There were no additional factors that led to a notching of the final rating.

Competitive Position: Weak Given The Company's Current Run-Off Status

MBIA's run-off status and lack of any future near-term revenue growth affect its competitive position. The company no longer writes new business as a result of its financial position. Now in run-off, MBIA is focusing on commuting, restructuring, and mitigating losses via exposure reduction, including representation and warranty (R&W) put-backs.

MBIA had $110.8 billion net insured par exposure outstanding as of year-end 2012, with 53% representing U.S. structured finance exposure and about 70% of that comprises collateralized debt obligations (CDOs). The CDO portion of the insured portfolio has performed well and will run off rapidly in the next few years. The overall average life of its structured finance and international policies was eight years. With the run-off of insured exposure and some further deterioration, speculative-grade exposure has risen to 26% of insured net par as of Dec. 31, 2012, from 24% a year earlier.

Table 1

MBIA Insurance Corp. -- Portfolio Statistics*					
	Year ended Dec. 31				
	2012	2012	2011	2010	2009
(Mil $)	**% of par**	**par**	**par**	**par**	**par**
Domestic asset-backed and corporate finance					
MBS	6.7	7,381	8,668	10,147	11,843
Home equity loan	4.9	5,425	7,198	8,278	9,545
Auto loan	-	-	710	2,140	4,131
Other consumer asset-backed	0.6	698	1,107	1,419	1,716
Commercial asset-backed	36.5	40,477	52,443	82,266	89,243
Bank/financial institutions	0.7	793	1,049	1,155	1,269
Other	3.1	3,470	4,690	4,631	4,886
Total	52.5	58,245	75,865	110,036	122,633
International					
Public finance	27.9	30,978	31,079	33,216	32,415
Asset-backed	19.5	21,639	32,778	45,033	49,481
Total	47.5	52,617	63,857	78,249	81,896
Total net par outstanding	100.0	110,862	139,722	188,285	204,529

*U.S. statutory basis.

Prospective

We expect MBIA to remain in run-off and its competitive position to remain weak given losses generated by its insured portfolio and its weak capital position.

Management And Governance: Satisfactory Based On Successful Commutation Strategy And Liquidity Management

We view MBIA's management and governance as satisfactory and neutral to the rating. Management's near-term strategy is to address issues within the insured portfolio to ensure liquidity and protect the company's long-term capital position. Management's long-term strategy is to write structured finance business in the U.S. and globally. This is a difficult plan given MBIA's weak capital position, exposure to 2005-2007 vintage residential mortgage-backed securities (RMBS), and its current run-off status. MBIA has commuted various exposures, eliminated tail risk in the insured portfolio, and successfully settled R&W cases. The commuted exposures were in the more-volatile commercial mortgage-backed securities (CMBS) insured transactions that exposed MBIA to near-term liquidity stress.

Operational management

The senior management team is experienced and well seasoned. Its strategy of commuting high-risk exposures in the insured portfolio and managing liquidity is fully in sync with the company's capabilities and market conditions. Specialists in the insured portfolio management group have a good track record of achieving its targets.

Financial management

MBIA's current financial condition arises from its historical high-risk tolerance, which led to substantial losses beginning in 2008. The company maintains a watch and reserve committee that reviews various risk exposures quarterly by product line and portfolio trends. Management was successful in raising capital early to address rising loss expectations within the insured portfolio.

Industry Risk: Low

For bond insurers, the industry risk is viewed low. The primary sub-factors for scoring a bond insurer's industry risk are cyclicality and volatility of operating earnings, competitive and growth environment, industry operating and cost structure and risk, capital, funding and liquidity characteristics, and the governmental/legal and regulatory environment.

Capital Adequacy: Remains Very Weak Even With Commutation Settlements

In our view, MBIA's capital position is very weak and its capital adequacy, based on our capital adequacy model and out of the model-testing of certain asset classes over the company's capital resources, is viewed as less vulnerable. Cash payments from commutation settlements and losses from remaining exposures resulted in a capital adequacy ratio of less than 0.5x as of Dec. 31, 2012. Our capital adequacy analysis included the following assumptions:

- No new business written;

- Stress period starts immediately and lasts four years;
- No refundings;
- Expenses constant for all four years; and
- The effective tax rate on projected losses on RMBS, CDOs of ABS, and CMBS losses was zero.

In addition to our normal stress assumptions for international municipal and many non-RMBS asset classes, we tested MBIA's capital adequacy against a scenario that applies stressful default assumptions to various 2005-2007 RMBS-related transactions, all CDO of ABS with 2005 to 2007 vintage RMBS exposure within them, and all remaining CMBS-related transactions the company has insured. These do not reflect the losses we expect, but the losses we believe are possible in a 'AAA' stress scenario.

Table 2

MBIA Insurance Corp. -- Capital Statistics*

	Year ended Dec. 31			
(Mil $)	**2012**	**2011**	**2010**	**2009**
Portfolio risk				
Municipal insurance weighted average capital charge (% of average annual debt service)	25.4	28.9	16.0	15.8
Asset-backed capital charge (% of par)	9.5	7.8	8.0	1.7
Model capital inputs				
Statutory capital	1,458	2,303	2,730	3,332
Letters/lines of credit	-	-	-	-
Contingent capital	-	-	-	-
Stop-loss reinsurance	-	-	-	-
Unearned premiums	600	607	703	726
Loss reserves	(2,448)	(2,266)	155	561
Present value of instalment premiums	1,035	1,226	1,655	1,740
Capital adequacy§				
Capital remaining at end of depression test	N.M.	N.M.	N.M.	N.M.
Margin of safety (x)	<0.50	<0.50	<0.50	N.M.
Reliance on soft capital (%)	-	-	-	-

*U.S. statutory basis. §Capital adequacy results for 2012, 2011, and 2010 are based on the release of our updated bond insurance criteria on Aug. 25, 2011. N.M.--Not meaningful.

We include an adjustment of 50%-75% of the R&W accounting credit on a bond insurer's balance sheet in our capital adequacy analysis. We added this to the statutory surplus, since most cash settlements are reimbursements of claims already paid. As of year-end 2012, MBIA had a number of largest obligors test violations. We did not adjust the capital adequacy score because MBIA's capital is more than 120% of the regulatory minimum solvency standard, $65 million.

Prospective

Given the size of MBIA's insured portfolio versus its capital base and the limited opportunities to improve that base, we do not expect improvement in MBIA's capital adequacy.

Investments: Managed To Support Liquidity Needs

Due to cash settlements related to the BofA and SocGen commutations, loss payments, and management's desire to maintain a high level of liquidity, the composition of the investment portfolio has changed greatly since year-end 2011. Pro forma following the BofA and SocGen settlements, which included the repayment of the intercompany loan from National, roughly 53% of the investments were cash and short-term investments, up from about 34% at year-end 2011. The self-insured bonds in the investment portfolio were bought as part of management's risk-mitigation strategy. The fixed-income assets had a weighted-average credit quality of 'AA' and are made up of U.S. municipal issues and sovereign securities.

Operating Performance: Still Under Pressure Due To Nonprime RMBS Exposure

MBIA has incurred significant losses in the past few years, and claim payments since early 2008 have been sizable. We expect payments to remain large relative to earned premiums and operating performance metrics to remain weak because the company has limited opportunity to improve these metrics through writing new business. Despite the run-off of par outstanding and active reduction of risk exposure via counterparty negotiations, MBIA continues to recognize net premiums earned, which are remitted quarterly and have a present value of $1.0 billion.

Table 3

MBIA Insurance Corp. -- Operating Performance

	Year ended Dec. 31			
(%)	**2012**	**2011**	**2010**	**2009**
Operating return on equity (MBIA Inc.)	N.M.	N.M.	N.M.	N.M.
Statutory combined ratio	371.5	263.3	197.3	504.8
Statutory loss ratio	338.8	240.5	256.2	483.6
Statutory expense ratio	32.7	22.8	(58.9)	21.2
Statutory return on revenue	N.M.	N.M.	N.M.	N.M.
Insured portfolio speculative-grade exposure	25.9	24.0	26.1	15.8

*U.S. statutory basis. N.M.--Not meaningful.

Management has lowered future loss expectations with R&W put-back recoveries from second-lien transactions. The recoveries relate to potentially ineligible mortgages included in insured second-lien RMBS exposures that are subject to contractual obligation by sellers/servicers to remove or replace them.

Table 4

MBIA Insurance Corp. -- Financial Statistics

	Year ended Dec. 31			
(Mil. $)	**2012**	**2011**	**2010**	**2009**
Total assets	1,013	1,612	3,458	4,867
Cash and invested assets	999	1,594	3,299	4,447
Net premiums earned	241	361	408	396
Losses and loss adjustment expense	817	868	1,045	1,915

Table 4

MBIA Insurance Corp. -- Financial Statistics (cont.)				
Underwriting expense	48	92	(5)	(703)
Investment income including gains/(losses)	(194)	145	16	(137)
Net income	(843)	(435)	(434)	(684)

*U.S. statutory basis. N.M.--Not meaningful.

Financial Flexibility: Neutral To The Rating

We view the company's financial flexibility as neutral to the rating and believe MBIA Inc. will be able to access the market to raise capital. With the transformation litigation resolved, management is in a position to create a viable U.S. public finance franchise through National that will be the main contributor to the group's earnings, capital, and dividend capacity. Based on the current quality and composition of the U.S. public finance insured portfolio, we don't expect National will face any significant immediate claim payments. In terms of MBIA's impact on the financial flexibility of the consolidated group, management has successfully commuted a significant portion of the risk in the insured portfolio, including more than half of the total top ten below investment grade exposures, which, in our view, lessens its need for capital and liquidity support.

Enterprise Risk Management: Adequate

Our enterprise risk management (ERM) analysis examines whether insurers execute risk management practices in a systematic, consistent, and strategic manner across the enterprise. As such, we have evaluated ERM on a group basis and have assigned MBIA the group score.

We view MBIA Inc.'s ERM as adequate largely due to strengths within the area of U.S. public finance underwriting and reserving controls. Our view is primarily influenced by scores of neutral for risk culture, risk controls, and risk models at MBIA Inc. This is partially offset by our assessment of emerging risks management and strategic risk as negative. In terms of the structured finance book of business, because MBIA Corp. is in run-off, management is not attempting to optimize earnings or capital, but maintain solvency and liquidity.

Our score on MBIA Inc.'s risk management culture score is neutral, based on its risk management framework that has been restructured to reflect lessons learned. The restructuring realigned functions with oversight by senior management and the board of directors. The board establishes risk tolerances of the firm through three committees.

Our opinion of risk controls relating to underwriting risks, surveillance, and loss mitigation is influenced by the company's a quarterly process of reviewing its entire book of transactions and classifying transactions based on potential reserve charges, including the size of potential charges. The reserving process and meetings are long-standing processes within MBIA/National and has senior management and board involvement, depending on the level of variance each quarter.

With regard to our view of the company's models, for the U.S. public finance business line, the company uses a redesigned internal portfolio capital model with sector specific default rates, loss severity, and correlation assumptions

For the structured finance business line, MBIA uses liquidity models to project base and stress scenarios to maintain solvency and liquidity.

We base our negative assessment of MBIA Inc.'s strategic risk management on management's current position of not yet finalizing a strategy to re-enter the U.S. public finance financial guarantee market. We expect this strategy to include strong consideration of risk and risk management in decision-making. We base our negative assessment of emerging risk management on the company's reserving and surveillance process, not separate risk scanning approach for new emerging issues.

Liquidity: Well-Managed Strategy Maintains Solvency, But Stress Remains

The near-term stress on MBIA's liquidity position has lessened, in our view, as a result of the recent settlement and commutations with BofA. The settlement included the commutation of MBIA policies insuring a notional amount of about $6.1 billion of credit default swaps (CDS) referencing CMBS transactions that experienced significant deterioration recently, as well as a $500 million three-year secured revolving credit agreement with BofA. But continued claim payments relating to nonprime RMBS and the possibility of additional commutations.

Table 5

MBIA Insurance Corp. And Operating Companies -- Liquidity Statistics				
	Year ended Dec. 31			
(%)	**2012**	**2011**	**2010**	**2009**
Underwriting cash flow ratio	17.9	11.8	11.2	N.M.
Liquid assets	97.0	76.8	64.0	56.0
High-risk assets and assets rated lower than 'A-'	-	13.6	39.0	45.0
Cash and short-term assets to loss payable ratio	114.9	114.9	298.2	110.3

*U.S. statutory basis. N.M.--Not meaningful.

A key ALM issue is whether liquidity is sufficient to manage the difference between liabilities and assets, particularly the fluctuation of asset values. MBIA has pledged nearly all assets to lending agreements, guaranteed investment contracts (GICs), or derivatives. Its ALM's assets are currently less than liabilities. MBIA's credit risk is significant because it has insured all GICs and medium-term notes.

Accounting

We view MBIA's accounting policies as consistent with industry standards and neutral to the ratings. The company files financial statements under both generally accepted accounting principles (GAAP) and statutory accounting principles.

ASC 944 "Financial Services-Insurance," prescribes loss-reserve practices for financial guarantors. Under that accounting, loss reserves are booked on an expected loss basis to the extent that losses exceed the unearned premium return. We evaluate the strength of the financial guarantors using the financial statements prepared under SAP. Under this accounting method, reserves are booked when a loss is incurred. In addition, we estimate theoretical losses in a severe economic environment (which may be greater than current losses) 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. This concept, insofar as it relates to the financial guarantee insurance industry, has introduced some earnings volatility that has little bearing on 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 sense from our analytic perspective. Because almost all CDS contracts expire without a claim, corresponding marked-to-market positions are usually zeroed out at maturity. We believe the insurers' statutory loss reserves indicate potential claims and 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.

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 include 50% to 75% of the booked put-back recoveries as an increase to statutory surplus, as most cash settlements represent reimbursement of claims already paid. Only those put-backs relating to counterparties not in bankruptcy or not part of a prior settlement for which value has already been given are included in the analysis.

The theoretical losses mentioned in the discussion of ASC 944 and 815 are included in the capital adequacy analysis in the Capitalization section.

Related Criteria And Research

- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011

Ratings Detail (As Of June 24, 2013)	
MBIA Insurance Corp.	
Financial Strength Rating	
Local Currency	B/Stable/--
Counterparty Credit Rating	
Local Currency	B/Stable/--
Financial Enhancement Rating	
Local Currency	B/--/--
Preferred Stock	C
Senior Secured	B
Senior Unsecured	B
Subordinated	C

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Ratings Detail (As Of June 24, 2013) (cont.)	
Related Entities	
MBIA Global Funding LLC	
Senior Secured	B
Senior Secured	B/Stable
Senior Unsecured	B
Senior Unsecured	B/Stable
MBIA Inc.	
Issuer Credit Rating	
Local Currency	BBB/Stable/--
Senior Unsecured	BBB
MBIA Mexico S.A. de C.V.	
Financial Strength Rating	
Local Currency	B/Stable/--
CaVal (Mexico) National Scale	mxBB+/Stable/--
Issuer Credit Rating	
Local Currency	B/Stable/--
MBIA U.K. Insurance Ltd.	
Financial Strength Rating	
Local Currency	B/Stable/--
Financial Enhancement Rating	
Local Currency	B/--/--
Municipal Bond Insurance Assn.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
National Public Finance Guarantee Corp.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Enhancement Rating	
Local Currency	A/--/--
Holding Company	MBIA Inc.
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.