MOODY'S INVESTORS SERVICE

Credit Opinion: MBIA Insurance Corporation

Global Credit Research - 09 Oct 2015

Armonk, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	NEG(m)
Insurance Financial Strength	B2
Surplus Notes	Ca (hyb)
MBIA Inc.	
Rating Outlook	NEG
Senior Unsecured	Ba1

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Key Indicators

MBIA Insurance Corporation

	2014	2013	2012	2011	2010
As Reported (U.S. Dollar Millions)					
Gross Par Written	-	-	-	-	-
Present Value Premiums (PVP)	-	-	-	-	-
Net Income	(35)	(494)	(843)	(435)	(434)
Gross Premiums Written	-	-	-	-	353
Net Par Outstanding [1]	54,147	81,208	113,962	135,400	192,084
Regulatory Capital [2]	859	825	1,458	2,303	2,731
Portfolio Leverage of Regulatory Capital [2]	63.0x	98.4x	78.2x	58.8x	70.3x
Claims Paying Resources (Moody's adjusted)	2,491	3,249	5,014	5,813	8,429
Portfolio Leverage of Claims Paying Resources	21.7x	25.0x	22.7x	23.3x	22.8x
Coverage of Moody's Capital Charge at the A3 Level	0.48x	0.46x	--	--	--
PV Premiums divided by gross par written (bps)	--	--	--	--	--
% Of Industry Gross Par Written	-	-	-	-	-
% Par Reinsured	1.9%	1.7%	1.3%	1.2%	1.0%
Underwriting Margin (1 yr)	-38%	-314%	-259%	-166%	-155%
Return on Capital (1 yr)	-4.2%	-43.3%	-44.8%	-17.3%	-14.3%
Sharpe Ratio of ROC (5 yr avg)	NM	--	--	--	--
Financial Leverage [3]	42.9%	45.6%	44.6%	45.9%	47.2%
Total Leverage [3]	47.0%	50.6%	50.8%	55.2%	58.2%
Cashflow Coverage (1 yr) [4]	4.8x	5.4x	3.0x	0.0x	0.0x
Earnings Coverage (1 yr) [3][5]	1.5x	-0.6x	-1.2x	-0.8x	0.6x

[1] Net Par Outstanding is based on GAAP reported amounts [2] Regulatory capital defined as U.S. Statutory Qualified Statutory Capital for U.S. guarantors [3] Based on MBIA Inc. consolidated results [4] Based on holding company data; Cashflow coverage for 2014 and 2013 includes tax escrow release [5] Includes GAAP accured

interest on MBIA Corp. surplus note that is note being paid accrued for statutory purposes

Opinion

SUMMARY RATING RATIONALE

The B2 insurance financial strength (IFS) rating of MBIA Insurance Corporation (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.'s capital adequacy and liquidity positions are highly sensitive to the levels of excess-spread recovery on its insured portfolio of second-lien RMBS. In addition, the company remains exposed to a number of large structured transactions, including the material Zohar CLO notes that are currently the subject of restructuring discussions, that could cause significant stress, including insolvency, in the event of default. If the Zohar I CLO notes are not restructured ahead of their November 20, 2015 maturity, it is likely that they will default, and MBIA Corp. will make a claim payment of all or part of the $151 million in principle due at maturity. A default would trigger MBIA's gaining certain rights and authority over the notes, which would see them in a better position to take steps to mitigate their losses on a potential default of both the Zohar I and II CLOs ($151 million and $808 million in principal at June 30, 2015, respectively). However, we believe that the inability to reach agreement on a favorable restructuring ahead of the Zohar I CLO maturity increases the risk of a default on the Zohar II CLO notes in 2017.

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

The B2 IFS rating, of MBIA Mexico, S.A. de C.V. (MBIA Mexico), with negative outlook, reflects explicit and implicit support from MBIA Corp., in the context of the insurer's limited size and standalone financial profile. Its rating is expected to remain closely linked to that of its parent.

MBIA UK Insurance Limited's (MBIA UK) Ba2 IFS rating, with stable outlook, reflects the stabilized credit profile of its insured portfolio, and meaningful stand-alone financial resources relative to its insured risks. These factors are somewhat offset by the lack of new business production, and our expectation that, subject to approval by MBIA UK's regulator, the Prudential Regulatory Authority, capital will be extracted from MBIA UK, to support its weaker parent, MBIA Corp. MBIA Corp. provides support to MBIA UK in the form of excess of loss reinsurance and net worth maintenance agreements. MBIA UK's ability to draw on this support is limited by MBIA Corp.'s weak credit profile, and the subordinated nature of the support relative to insurance claims made against MBIA Corp.

National Public Finance Guarantee Corporation's (National) A3 insurance financial strength (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 reestablish its franchise in the primary and secondary US municipal debt markets. National has substantial exposure to below investment grade credits, which represent approximately 3.2% of its insured book and 187% of qualified statutory capital at June 30, 2015, including approximately $4.5 billion gross exposure to debt issued by Puerto Rico and its public enterprises. National's exposure to Puerto Rico is approximately $4.9 billion when including accreted interest on insured zero-coupon, or capital appreciation bonds. 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.

MBIA Corp.'s legacy U.S. Public Finance Exposures Ceded to National

In February 2009, MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its U.S. public finance exposure to National. The reinsurance enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of the cut-through provisions of the reinsurance agreement.

Credit Strengths

- Improved liquidity following settlements of put-back claims;

- Significant reduction in commercial real estate risks;

- Steady amortization of RMBS and CDO exposures, and related de-risking of the portfolio.

Credit Challenges

- Uncertainty about recoveries on mortgage-related exposures, including excess spread on second lien mortgages and the outstanding RMBS put-back claim against Credit Suisse;

- Exposure to higher-risk CMBS, and very weak high-yield corporate (Zohar) CLOs;

- Liquidity improved but remains modest and dependent on excess spread recoveries.

Rating Outlook

The negative outlook reflects MBIA Corp.'s weak capital adequacy and liquidity, and that despite recent improvements, the company remains vulnerable to stress, including insolvency, in the event that anticipated recoveries don't materialize, or that certain large exposures perform worse than expected. Of note is 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, we believe that, absent a successful remediation, these exposures could result in meaningful strain on the company's capital and liquidity profiles.

What to watch for

- Increased potential for significant liquidity and capital strain in the event of a failure to restructure the Zohar CLOs on terms that significantly reduce MBIA Corp.'s potential for loss, ahead of the November 2015 maturity of the Zohar I CLO;

- RMBS performance, particularly HELOCs exposed to payment resets, and recoveries of excess spread on second-lien RMBS.

What Could Change the Rating - Up

- Significant improvement in capital adequacy and liquidity (MBIA Corp., MBIA UK, MBIA Mexico and MBIA Inc.);

- Reduction in MBIA Corp.'s exposure to large single risks, including the Zohar CLO notes.

What Could Change the Rating - Down

- Portfolio losses meaningfully in excess of current expectations;

- Failure to restructure the Zohar CLO notes on terms that significantly reduce MBIA Corp.'s potential for loss, ahead of the November 2015 maturity of the Zohar I CLO (not applicable to MBIA UK).

- Meaningful reduction in excess-spread recoveries on second-lien RMBS;

- Un-remediated deterioration in capital adequacy or liquidity.

DETAILED RATING CONSIDERATIONS

Moody's rates MBIA Corp. B2 for insurance financial strength, which is in line with the B2 score produced by Moody's unadjusted rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are as follows:

MARKET ENVIRONMENT AND PRODUCT STRATEGY: B - NO NEW PRODUCTION ANTICIPATED FOR THE FORESEEABLE FUTURE

MBIA Corp. has not written any material new business since the fourth quarter of 2008, reflecting its weak financial position and overhang of legacy exposures. While these risks have been greatly reduced, the company's credit profile is precarious and we don't expect the company to be in a position to write new business in the foreseeable future. The company's primary focus is to maximize recoveries, including put-back claims, while mitigating potential losses on its insurance exposures.

PORTFOLIO CHARACTERISTICS AND CAPITAL ADEQUACY: B - IMPROVING BUT STILL PRECARIOUS CAPITAL ADEQUACY PROFILE

While MBIA Corp.'s capital adequacy has improved as a result of the recent CRE commutations and RMBS settlements, developments in its material Zohar CLO exposures create meaningful uncertainty about the company's capital adequacy on a forward-looking basis. The underlying notes in these transactions have paid down slower than expected due to maturity amendments and extensions of the underlying loans, resulting in increased uncertainty about principal repayment of the notes at the deal's legal final maturity. In addition, there has been deterioration in the credit quality of the underlying loans. The manager of the Zohar CLOs recently notified stakeholders that it had appointed a restructuring advisor and has initiated discussions about restructuring the notes. We believe 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. Given the material size of these exposures, and the lack of transparency into the value of the underlying collateral, we believe that, absent a successful remediation, these exposures could result in meaningful strain on the company's capital and liquidity profiles. Our negative outlook on MBIA Corp.'s rating reflects this heightened risk in the Zohar I and II CLO notes that MBIA Corp. insures.

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.

As of June 30, 2015, MBIA Corp., on a stand-alone basis, reported claims-paying resources (CPR) of $2.1 billion ($2.5 billion including subsidiaries) and qualified statutory capital of $805 million. However, the $2.5 billion in CPR includes $513 million in expected excess-spread recoveries on second-lien RMBS, and $379 million related to the put-back claim on Credit Suisse, the recovery of which are subject to some uncertainty. The company has $731 million in gross statutory loss and LAE reserves, and we believe that the company will likely need to strengthen loss reserves for some segments of the insured book including RMBS.

Portfolio amortization has contributed to de-risking of the portfolio, with net par outstanding (including guarantees to various MBIA affiliates) decreasing to approximately $50 billion at June 30, 2015 from approximately $56 billion and $81 billion at December 31, 2014 and 2013, respectively. However, while the absolute amount of net par outstanding has decreased, portfolio leverage, as measured by net par outstanding relative to adjusted CPR has decreased to approximately 20x at June 30, 2015, compared to approximately 22x and 25x at December 31, 2014 and 2013, respectively. After increasing in 2013, portfolio leverage of qualified statutory capital decreased to approximately 63x at June 30, 2015, as losses stabilized and insured exposure amortized.

Despite steady amortization of the insured portfolio, MBIA Corp. remains exposed to significant concentrations in large, below investment grade (BIG) exposures. At June 30, 2015, the company's ten largest BIG exposures amounted to $4.0 billion, or 1.6x CPR (4Q2015: $4,3 billion or 1.6x CPR). This is an improvement over prior periods, when the company reported its ten largest BIG exposures as approximately $7.6 billion (2.2x CPR) and $11.9 billion (2.3x CPR), for year-ends 2013 and 2012, respectively. In addition, the largest, single BIG exposure is $808 million (32% CPR) at June 31 2015 (4Q2015: $837 million or 31% CPR), versus $1.5 billion (44% CPR) and $2 billion (38% CPR) at year-ends 2013 and 2012, respectively. While the company's exposure to BIG credits has improved, BIG exposures remain elevated relative to capital, and subject MBIA Corp., and its creditors, to a high degree of sensitivity to unexpected loss developments.

In addition to our consideration of the company's significant exposure to BIG credits, the company's insured portfolio contains meaningful amounts of second-lien RMBS backed by HELOCs and CES mortgages ($4.1 billion), high-yield corporate CDOs, including the Zohar CLOs ($3.1 billion), CMBS pools ($1.2 billion) and CRE CDO transactions ($0.8 billion). We consider these classes of exposure to present an elevated risk of unexpected loss development.

However, we do expect the company's structured finance book to run off fairly quickly, reducing potential losses and enhancing capital adequacy.

In addition to its external insured exposures, MBIA Corp. has approximately $1.6 billion in exposure to its affiliates, including approximately $1.1 billion to holders of MBIA Global Funding LLC's (GFL) medium-term-notes (MTNs) and approximately $492 million to holders of MBIA investment agreements. MBIA Inc. is responsible for debt service on these exposures, and MBIA Corp. will be liable in the event that MBIA Inc. defaults on these obligations, or otherwise breaches covenants or representations. MBIA Inc. is dependent on continued dividends and tax escrow releases from National for its ability to continue debt service. As such, MBIA Corp. is indirectly exposed to stress at National, including losses at National, sufficient to prevent dividend payments, or release of funds from the tax escrow for an extended time period.

PROFITABIILTY: B - COMPANY REMAINS EXPOSED TO SUBSTANTIAL EARNINGS VOLATILITY

The company's profitability outlook improved as a result of the termination of some large volatile and distressed insured risks. However, Moody's expects that ultimate insured losses may be substantially in excess of the firm's reserves and could therefore negatively affect future embedded profitability. Exposure to substantial BIG risks and uncertain recoveries on mortgage related exposures could adversely affect future earnings. In addition, we do not expect the company to write new business, or otherwise create new revenues sources, for the foreseeable future.

FINANCIAL FLEXIBILITY: B - NO CAPITAL ACCESS SINCE EARLY 2008

The group has not demonstrated access to capital markets since 2008, however, in our view its financial flexibility has improved over the past few years, as it has redeemed debt and earnings in its underlying insurance operations have lead to an increase in consolidated shareholders' equity. The group's total adjusted leverage (excluding VIE liabilities) was approximately 47.0% at December 31, 2014, an improvement from 50.6% and 50.8% at year-ends 2013 and 2012, respectively. The group's GAAP-basis earnings coverage was 1.5x for 2014, however this includes interest on MBIA Corp.'s surplus notes that is not currently being paid, or accrued on a statutory basis. Excluding the impact of MBIA Corp. and the interest on its surplus notes, 2014 earnings coverage was approximately 3.5x. In addition, liquidity at MBIA Inc., the holding company, has strengthened with the resumption of dividend payments from National in October 2013, and a steady release of funds from the tax escrow account. At March 31, 2015, the holding company had unencumbered cash and liquid investments of $567 million. We expect the group's financial flexibility and MBIA Inc.'s liquidity to continue to strengthen, however, the heightened risk of losses on National's Puerto Rico exposures could affect future levels of tax escrow funds to be released, as well as dividends from National.

While liquidity has strengthened, the holding company remains dependent on dividends from National and funds from the tax escrow account to service its obligations. As at June 30, 2015, the holding company reported debt (including investment agreements, long-term debt and medium-term note liabilities) of $2.5 billion, and cash and invested assets of $1.75 billion. The company expects to address the shortfall in cash and invested assets over time, through distributions from National and releases from the tax escrow.

MBIA Corp.'s liquidity position has improved as a results of RMBS settlements and recoveries on put-back claims, such that a restructuring or insolvency is no longer the most likely scenario. RMBS excess-spread recoveries, recovery of the Credit Suisse put-back claim and possible future dividends from MBIA UK would further improve the company's liquidity. However, MBIA Corp.'s liquidity position remains exposed to uncertain outcomes of these factors, and is very sensitive to minor deviations from the expected path, including larger than anticipated claim payments related to Zohar. Given its legal separation from the group, and limited embedded economic value, we do not anticipate that the group would provide any meaningful financial support to MBIA Corp, currently, the weakest subsidiary in the group.

MBIA Inc. is required to meet collateral posting requirements under terms of its derivatives and investment agreements. In order to secure access to eligible assets to post as collateral, MBIA Inc. entered into simultaneous repurchase and reverse repurchase agreements (Asset Swap) with National, whereby MBIA Inc. borrows government securities from National, in-turn, collateralized with investment grade assets, from MBIA Inc. A haircut, which varies according to mark-to-market adjustments, is applied to the assets posted by MBIA Inc. While the Asset Swap facility is limited to a notional value of $2 billion, as of June 30, 2015, $224 million was outstanding under the facility.

Rating Factors

MBIA Insurance Corporation

Financial Strength Rating Scorecard [1][2]	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa and lower**	**Score**	**Adjusted Score**

Business Profile								
Market Environment and Product Strategy (25%)							**Ba**	**B**
Industry Environment				x				
Market Position and Product Strategy					x			
Financial Profile								
Portfolio Characteristics and Capital Adequacy (40%)							**B**	**B**
Risk-adjusted capital coverage					x			
Profitability (20%)								**B**
Underwriting Margin (5 yr average)						-186%		
Return on Capital (5 yr average)						-25%		
Sharpe Ratio of ROC (5 yr)						-152%		
Financial Flexibility (15%)							**B**	**B**
Financial Policy					x			
Ease of Access to Capital					x			
Operating Environment							**Aaa - A**	**Aaa - A**
Aggregate Profile							**B2**	**B2**

[1] Financial information based on US Statutory financial statements; [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

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