

**Rating Action: Moody's downgrades National Public Finance Guarantee Corporation to Baa2 and MBIA Inc. to B2.**

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New York, December 19, 2011 -- Moody's Investors Service has downgraded to Baa2, from Baa1, the insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation (National) and changed its outlook from developing to negative. The rating agency also downgraded the rating of National's parent company, MBIA Inc. (MBIA; senior debt to B2, from Ba3), and placed the ratings of MBIA Insurance Corporation (MBIA Insurance; IFS at B3) and subsidiaries under review for possible downgrade.

Today's rating actions have implications for the various transactions wrapped and reinsured by National Public Finance Guarantee Corporation and MBIA Insurance Corporation as discussed later in this press release.

**RATIONALE FOR DOWNGRADE OF NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION**

Moody's said that the downgrade of National's rating to Baa2 reflects 1) weakening of the overall MBIA group's market standing as losses grow at National's affiliated companies, principally MBIA Insurance; and 2) the risk that resources at National could be drawn away to support losses elsewhere within the group. MBIA Insurance recently indicated that it commuted \$20 billion of gross insured exposure in the 4th quarter for approximately \$500 million above related third quarter reserves. MBIA Insurance previously disclosed liquid assets of about \$800 million at 3Q 2011, a level that would leave it challenged to meet large liquidity requirements of bulk settlements with its counterparties. Moody's believes that growing losses at MBIA Insurance are negative for National, whose future business prospects are premised on its ability to avoid or minimize negative financial and business impacts from its affiliation with the broader MBIA group. National's negative outlook reflects its credit linkage to the other weaker entities of the group as a result of ongoing restructuring litigation.

**RATIONALE FOR REVIEW OF MBIA INSURANCE CORPORATION**

The rating agency stated that the review for downgrade of MBIA Insurance reflects the continued weakness in the firm's insured portfolio, as highlighted by losses in excess of reserves on recently commuted transactions, and the potential for claims settlements at less than the economic value of the contracts due to its weakened financial position. As part of the review Moody's will assess the company's financial profile in light of insured portfolio trends, ongoing putback litigation and recent commutations.

The substantial recent settlements with Morgan Stanley and other counterparties, plaintiffs' exits from the restructuring litigation, and the April 2012 scheduled trial date may help build momentum for additional settlements over the near term. Some creditors and counterparties are suing MBIA, requesting that the February 17, 2009 restructuring of the group that led to National's capitalization with some of MBIA Insurance's resources be reversed. Only five, including Bank of America, of the original 18 litigants remain in the critical Article 78 lawsuit that challenges the New York State Insurance Department's decision to approve MBIA's restructuring.

MBIA Insurance has commuted about \$35 billion of risk since the beginning of 2011, mainly related to insured CDO exposures. While these settlements have reduced potential volatility, they have been a substantial drain on the capital and liquidity resources of the insurer.

**RATIONALE FOR DOWNGRADE OF MBIA INC.**

The downgrade of MBIA Inc.'s senior debt rating to B2 reflects the increasing stress in the firm's wind-down

operation, and a more negative view of National's and MBIA Insurance's credit profiles and related ability to support the holding company through dividends or otherwise. MBIA's wind-down operation reported a \$600 million book value deficit at 3Q 2011. The negative outlook reflects the holding company's ongoing credit and liquidity issues.

#### 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 outlined in Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

In light of today's downgrade of National Public Finance Guarantee Corporation's rating to Baa2, from Baa1, and review for downgrade of MBIA Insurance Corp.'s B3 rating, Moody's will adjust the rating of securities wrapped by National and MBIA Insurance based on the approach discussed above.

The ratings of transactions subject to insurance policies from Financial Guaranty Insurance Company (FGIC) and reinsured by National Public Finance Guarantee Corporation are unaffected by today's rating action as the reinsurance agreement does not qualify for credit substitution under Moody's methodology because it allows FGIC to terminate the reinsurance agreement without a final payment being made by MBIA.

#### LIST OF RATING ACTIONS

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

National Public Finance Guarantee Corporation (previously, MBIA Insurance Corporation of Illinois) -- insurance financial strength to Baa2, from Baa1;

MBIA Inc. -- senior unsecured debt to B2, from Ba3.

The ratings of the following firms were placed under review for possible downgrade:

MBIA Insurance Corporation: insurance financial strength at B3, surplus notes at Caa3; and preferred stock at Ca

MBIA UK Insurance Limited -- insurance financial strength at B3;

MBIA Mexico S.A. de C.V. -- insurance financial strength at B3; and national scale insurance financial strength at B1.mx.

The last rating action was on June 25, 2009 when Moody's downgraded MBIA Inc. to Ba3.

The principal methodology used in this rating was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, published in September 2006. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### OVERVIEW OF MBIA

MBIA Inc. (NYSE: MBI) provides financial guarantees to issuers in the municipal and structured finance markets in the United States, as well as internationally. MBIA also offers various complementary services, such as investment management and municipal investment contracts.

#### REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 31 January 2012. ESMA may extend the use of credit ratings for regulatory purposes in the European Community for three additional months, until 30 April 2012, if ESMA decides that exceptional circumstances arise that may imply potential market disruption or financial instability. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on [www.moody's.com](http://www.moody's.com).

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Information sources used to prepare the rating are the following : parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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Ranjini Venkatesan  
Asst Vice President - Analyst  
Financial Institutions Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Stanislas Rouyer  
Senior Vice President  
Financial Institutions Group  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653



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