

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's upgrades the MBIA group; National Public Finance at Baa1 and MBIA Corp. at B3

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Global Credit Research - 21 May 2013

New York, May 21, 2013 -- Moody's Investors Service has upgraded the insurance financial strength (IFS) ratings of MBIA Insurance Corporation (MBIA Corp., to B3 from Caa2 IFS), National Public Finance Guarantee Corporation (National, to Baa1 from Baa2 IFS), MBIA UK Insurance Limited (MBIA UK, to B1 from B3 IFS), MBIA Mexico S.A de C.V. (MBIA Mexico, to B3 from Caa2 IFS) as well as the ratings of MBIA Inc. (senior to Ba3 from Caa1), the group's ultimate holding company. A full list of rating actions on MBIA Inc. and its subsidiaries (collectively, MBIA) is provided below. The rating action also has implications for the various transactions wrapped by the MBIA group as discussed later in this press release.

#### SUMMARY RATIONALE

Moody's stated that today's rating actions reflect the overall positive effect that MBIA's recent settlements with various counterparties have had on the group's credit profile. The settlement of put-back recoverables owed to MBIA and of claims owed by MBIA related to insured exposures, including risky commercial real estate resecuritizations, under terms broadly consistent with MBIA's reserves, have, in aggregate, improved the group's liquidity profile and reduced the volatility of its insured risk portfolio. Additionally, the bank-led litigation related to the MBIA group's 2009 restructuring was dismissed as part of these settlements, reducing legal risk.

Specifically, the settlement with Bank of America alleviated liquidity strains that could have triggered regulatory action at MBIA Corp. Proceeds from the Bank of America and Flagstar settlements allowed MBIA Corp. to repay and extinguish a \$1.7 billion loan that National had extended to MBIA Corp., thereby eliminating a substantial risk from National's balance sheet and a major obstacle to National's payment of dividends to MBIA Inc. The end of the restructuring litigation and the reduced financial exposure to MBIA Corp. improves National's prospects for underwriting new transactions.

#### RATINGS RATIONALE --MBIA INSURANCE CORPORATION

The B3 IFS rating, positive outlook, of MBIA Corp. reflects the firm's improved capital and liquidity profile following settlements of putback receivables and insured claims with major counterparties. MBIA Corp. has been able to alleviate liquidity pressures that could have prompted regulatory action. However, the insurer remains exposed to substantial insured risks, including certain commercial real estate exposures that could yield high losses in a stress scenario. Further improvement in the rating is most likely to result from a continuation of the recent trend toward elimination of the insurers' most troublesome exposures via favorable settlements.

The B3 IFS rating, positive outlook of MBIA Mexico, S.A. de C.V. (MBIA Mexico) reflects the formal and informal 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.

#### RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE

The Baa1 IFS rating, positive outlook, of National reflects the insurer's improved credit profile following the repayment of the loan from its weaker affiliate, MBIA Corp., and the termination of the litigation related to the group's 2009 restructuring. While National's insured portfolio is expected to generate losses that are well covered by its claims paying resources, its business position is characterized by a lack of participation in the market for the last five years, and by its continued affiliation with the much weaker MBIA Corp. The positive outlook reflects the trend of developments at MBIA Corp., which would be favorable to National if it were to continue.

#### RATINGS RATIONALE -- MBIA UK

The B1 IFS rating, positive outlook, of MBIA UK reflects its meaningful stand-alone financial resources relative to its insured risks, as well as its limited standalone business profile and pressures stemming from its weaker parent, MBIA Corp. MBIA Corp.'s support of MBIA UK, in the form of excess of loss reinsurance and net worth maintenance agreements, is subordinated to insured claims and thus of limited value, in Moody's opinion, due to MBIA Corp.'s weak credit profile.

## RATINGS RATIONALE -- MBIA INC.

The Ba3 senior unsecured debt rating, positive outlook, of MBIA Inc. reflects the improving credit profile of its subsidiaries and the expected resumption of dividend payments from National. Its high debt burden and meaningful asset risks, reflecting the deterioration of its wind-down operations, remain a distinct weakness, however, resulting in its positioning five rating notches below the IFS rating of its lead insurance subsidiary, National, rather than the more typical three notches.

## WHAT COULD CHANGE THE RATINGS UP OR DOWN

National's rating could be raised if the insurer were able to establish a more solid market position, marked by underwriting of high quality risks at attractive prices. Meaningful improvements at MBIA Corp., either through risk reduction or capital enhancement would also be a positive rating driver for National, as well as for MBIA Corp. itself, as those improvements would reduce the contingent risk of a call on National's resources.

The ratings of MBIA Corp. could be downgraded if the insurer were to experience greater than expected claims that would cause liquidity stress, but the ratings could be upgraded if there were material risk reduction in the insurer's portfolio due to improving credit trends, amortization or commutations.

## RATING LIST

### Upgrades:

..Issuer: MBIA Inc.

....Senior Unsecured Regular Bond, Upgraded to Ba3, from Caa1

..Issuer: MBIA Insurance Corp.

....Insurance Financial Strength, Upgraded to B3, from Caa2

....Subordinate Surplus Notes, Upgraded to Ca (hyb), from C (hyb)

..Issuer: National Public Finance Guarantee Corp.

....Insurance Financial Strength, Upgraded to Baa1, from Baa2

..Issuer: MBIA UK Insurance Limited

....Insurance Financial Strength, Upgraded to B1, from B3

..Issuer: MBIA Mexico S.A de C.V.

....Insurance Financial Strength, Upgraded to B3, from Caa2, and to B1.mx from Caa2.mx

### Affirmations:

..Issuer: MBIA Insurance Corporation

....Pref. Stock Preferred Stock, Affirmed C (hyb)

....Non-cumulative Preferred Stock, Affirmed C (hyb)

### Outlook Actions:

..Issuer: MBIA Inc.

....Outlook, Changed To Positive From Rating Under Review for Downgrade

..Issuer: MBIA Insurance Corporation

....Outlook, Changed To Positive From Rating Under Review for Downgrade

..Issuer: MBIA UK Insurance Limited

...Outlook, Changed To Positive From Negative

..Issuer: National Public Finance Guarantee Corp.

...Outlook, Changed To Positive From Rating Under Review for Downgrade

..Issuer: MBIA Mexico S.A de C.V.

...Outlook, Changed To Positive From Developing

#### TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating).

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

As a result of today's rating action, the Moody's-rated securities that are guaranteed or "wrapped" by MBIA Corp., National, MBIA Mexico, and MBIA UK are upgraded, except those with equal or higher published underlying ratings (and for structured finance securities, except those with equal or higher published or unpublished underlying ratings). For more information on affected credits please refer to the Financial Institutions page at [www.moodys.com/fig](http://www.moodys.com/fig).

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.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

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Helen Remeza  
Vice President - Senior 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  
Associate Managing Director  
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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