STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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MBIA Insurance Corp.

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

Secondary Contact:
Olga Ryabaya, New York (1) 212-438-3843; olga.ryabaya@standardandpoors.com

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MBIA Insurance Corp.

Rationale

Financial Strength Rating
Local Currency
B/Stable/--

Standard & Poor's Rating Services' financial strength rating on MBIA Insurance Corp. reflect our view of the company's poor financial condition, small capital base relative to the risk of its insured portfolio, and poor operating performance, which we expect to continue. While the possibility of liquidity stress exists, the experienced management team's liquidity and risk mitigation strategy has helped to maintain solvency. The baseline liquidity projections indicate MBIA has sufficient liquidity to meet claim payments through 2015. The rating also reflects the company's run-off status and our belief that its corporate profile is unlikely to change any time soon.

Outlook

The stable outlook reflects our view that MBIA's capital and liquidity is adequate to meet claim payments through 2015. 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.As the company begins realize net cash inflow relating to the 2005-2007 vintage residential mortgage-backed securities (RMBS) due to excess spread payments, we expect the strain on capital to somewhat lessen. If MBIA's capital stabilizes as a result of lower potential adverse loss development, we would view this as positive to the rating. 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 rating. We don't expect MBIA to make any interest payments on its surplus notes in the near future.

Framework Scores

We score MBIA's adjusted competitive position as '5' and the industry risk '2', leading to a business risk profile score of '3'. The final capital adequacy score is '5' and operating performance score '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 Poor Financial Condition

MBIA's competitive position is affected by its poor financial condition, run-off state, and lack of near-term revenue growth potential. In run-off, management has focused on commuting, restructuring, and mitigating losses via exposure reduction, including representation and warranty (R&W) put-backs. We expect MBIA to remain in runoff with a weak competitive position in light of the losses from its insured 2005-2007 RMBS exposure and weak capital position. MBIA had $68.9 billion net insured par exposure outstanding as of March 31, 2014: approximately 45% in U.S. structured finance with a significant portion of this exposure in collateralized debt obligations. The CDO portion of the insured portfolio has performed well and begun to runoff rapidly, and we expect it to continue to decline at an accelerated pass in the next few years.

Table 1

MBIA Insurance Corp. -- Portfolio Statistics					
U.S. statutory basis					
	--Year ended Dec. 31--				
(Mil. $)	**2013**	**2013**	**2012**	**2011**	**2010**
Domestic asset-backed and corporate finance					
Mortgage-backed securities	7.4	5,828	7,381	8,668	10,147
Home equity loans	4.8	3,778	5,425	7,198	8,278
Auto loans	-	-	-	710	2,140
Other consumer asset-backed	0.7	548	698	1,107	1,419
Commercial asset-backed	30.0	23,707	40,477	52,443	82,266
Bank/financial institutions	0.8	650	793	1,049	1,155
Other	3.5	2,787	3,470	4,690	4,631
Total	47.2	37,298	58,245	75,865	110,036
International					
Public finance	36.8	29,056	30,978	31,079	33,216
Asset-backed	16.0	12,654	21,639	32,778	45,033
Total	52.8	41,710	52,617	63,857	78,249
Total net par outstanding	100.0	79,008	110,862	139,722	188,285

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

We view MBIA Inc.'s (parent company) management and governance as satisfactory and neutral to MBIA's rating. Its strategy addresses issues within the insured portfolio to ensure liquidity and protect the company's long-term capital position. These efforts have been successful with various commutations of exposures, eliminating tail risk of the insured portfolio, and successful R&W settlements.

Operational management

Management's strategy of commuting the high-risk exposure of the insured portfolio and managing the asset/liability (ALM) liquidity challenges is in line with its experience and capabilities, especially the insured portfolio management group.

Financial management

MBIA maintains a watch and reserve committee that quarterly reviews various risk exposures by product line and portfolio trends. Management also closely monitors liquidity on individual company and corporate-wide levels, including stress-case scenarios.

Industry Risk: Low

Our view of the industry risk for bond insurers is low. The primary subfactors 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: Very Weak

In our view, MBIA's capital position is very weak and its capital adequacy, based on our capital adequacy model, is less vulnerable. Our capital analysis, which resulted in a capital adequacy ratio of less than 0.5x as of Dec. 31, 2013, includes the following assumptions:

- No new business written;
- Stress period starts immediately and lasts four years;
- No refundings; and
- Expenses constant for all four years.

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

Table 2

MBIA Insurance Corp. -- Capital Statistics					
U.S. statutory basis					
	--Year ended Dec. 31--				
(Mil $)	**2013**	**2012**	**2011**	**2010**	**2009**
Portfolio risk					
Municipal insurance weighted average capital charge (% of average annual debt service)	18.3	25.4	28.9	16.0	15.8
Asset-backed capital charge (% of par)	9.2	9.5	7.8	8.0	1.7
Model capital inputs					
Statutory capital	825	1,458	2,303	2,730	3,332
Letters/lines of credit	-	-	-	-	-
Contingent capital	-	-	-	-	-
Stop loss reinsurance	-	-	-	-	-
Unearned premiums	535	600	607	703	726
Loss reserves	1,251	(2,606)	(2,334)	68	561
Present value of instalment premiums	850	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.	N.M.
Margin of safety (x)	<0.50	<0.50	<0.50	<0.50	N.M.
Reliance on soft capital (%)	-	-	-	-	-

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

We no longer test MBIA's capital adequacy by applying stressful default assumptions to its insured 2005-2007 RMBS transactions. Recent updates to our RMBS criteria and additional seasoning of this exposure no longer require that incremental loss assumptions be applied to this exposure, in our view. Rather, we apply capital charges using the methodology outlined in in paragraphs 58–61 of "Bond Insurance Rating Methodology And Assumptions," published Aug. 25, 2011, on RatingsDirect. As of year-end 2013, MBIA had a number of largest obligors test violations. We made no adjustment to the capital adequacy score a result of these violations because capital is more than 120% of the regulatory minimum solvency standard of $65 million.

Investment Risk: Low Risk To The Rating

As of March 31, 2014, about 75% of the $562 million of investments (excludes investment in affiliates) was in cash and short-term assets, with no self-insured bonds. The fixed-income component (U.S municipal issues and sovereign securities) of the portfolio had a weighted-average credit quality of 'AA'. The investment portfolio presents low risk to the rating.

Operating Performance: Operating Performance Metrics Remain Weak

MBIA has incurred significant losses since early 2008, and we expect claim payments to remain high relative to earned premiums. Despite the run-off of par outstanding and active reduction of risk exposure via counterparty negotiations, MBIA continues to recognize net premiums earned. These premiums are remitted quarterly and had a value of $798 million as of March 31, 2014, down from $1.0 billion at year-end 2012. As the par exposure relating to these premiums runs off, the amount of premiums collected will also decline, placing further pressure operating metrics.

Table 3

MBIA Insurance Corp. -- Operating Performance

U.S. statutory basis

	--Year ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Operating return on equity (GAAP)	N.M.	N.M.	N.M.	N.M.	N.M.
Statutory combined ratio	410.8	371.5	263.3	197.3	504.8
Statutory loss ratio	378.6	338.8	240.5	256.2	483.6
Statutory expense ratio	32.2	32.7	22.8	(58.9)	21.2
Statutory return on revenue	N.M.	N.M.	N.M.	N.M.	N.M.
Insured portfolio speculative grade espouse	22.9	25.9	24.0	26.1	15.8

Table 4

MBIA Insurance Corp. -- Financial Statistics

U.S. statutory basis

	--Year ended Dec. 31--				
(Mil. $)	**2013**	**2012**	**2011**	**2010**	**2009**
Total assets	1,280	1,013	1,612	3,458	4,867
Cash and invested assets	1,274	999	1,594	3,299	4,447

Table 4

MBIA Insurance Corp. -- Financial Statistics (cont.)					
Net premiums earned	169	241	361	408	396
Losses and loss adjustment expense	640	817	868	1,045	1,915
Underwriting expense	61	48	92	(5)	(703)
Investment income including gains/(losses)	22	(194)	103	16	(137)
Net income	(494)	(843)	(477)	(434)	(684)

Financial Flexibility: Neutral To The Rating

The overall group's financial flexibility is linked to MBIA Inc.'s and we view it as neutral to our ratings. National Public Finance Guarantee Corp. (National) is the main contributor to the group's earnings, capital, and dividend capacity, and we believe the market recognizes this. As National begins to write new business, we believe National will continue to maintain a stable book of business that contributes to steady earnings growth at MBIA Inc.

Enterprise Risk Management: Adequate With Strong Risk Controls

Our enterprise risk management (ERM) analysis examines whether insurers execute risk management practices systematically, consistently, and strategically across the organization. So, we evaluate ERM on a group basis, assigning MBIA the group score. Since MBIA is in run-off, management is not focused on optimizing earnings or capital, but maintaining solvency and liquidity, which we view as neutral to the ERM score.

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 settlements and commutations. But continued claim payments relating to nonprime RMBS, the possibility of additional commutations, and liquidity stress in the ALM business could strain liquidity. MBIA has begun to receive net cash inflows from its 2005-2007 RMBS due to excess spread payments, lessening the stress on liquidity.

Table 5

MBIA Insurance Corp. Operating Companies Liquidity Statistics					
U.S. statutory basis					
	--Year ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Underwriting cash flow ratio	19.1	17.9	11.8	11.2	N.M.
Liquid assets	97.0	97.0	76.8	64.0	56.0
High-risk assets rated 'A-' or lower	3.0	3.0	13.6	39.0	45.0
Cash and short-term assets to loss payable ratio	143.0	114.9	114.9	298.2	110.3

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 (SAP).

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. We also 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, such as credit default swaps (CDS), to be marked to market at each reporting date. This concept, insofar as it relates to the financial guarantee insurance industry, introduces 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 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 separate assets. We include 50%-75% of the booked put-back recoveries as an increase to statutory surplus, because most cash settlements represent reimbursement of claims already paid. We included in our analysis, only those put-backs relating to counterparties not in bankruptcy or not part of a prior settlement for which value has already been given.

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, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- General Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of June 26, 2014)	
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	D
Senior Secured	B
Senior Unsecured	B
Subordinated	D
Related Entities	
MBIA Global Funding LLC	
Senior Secured	B
Senior Secured	B/Stable
Senior Unsecured	B
Senior Unsecured	B/Stable
MBIA U.K. Insurance Ltd.	
Financial Strength Rating	
Local Currency	B/Stable/--
Financial Enhancement Rating	
Local Currency	B/--/--
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.