S&P Global Ratings

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Research Update:

MBIA Insurance Corp. Downgraded To 'CCC' From 'B'; Outlook Negative

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(**Editor's Note**: The version of this release published yesterday incorrectly included MBIA U.K. Insurance Ltd. in the Ratings List. A corrected version follows.)

Overview

- MBIA Corp.'s liquidity positon is weak, and the company may not meet all of its insurance policy obligations in the next 12 months.
- We are lowering our ratings on MBIA Corp. to 'CCC' from 'B'.
- The negative outlook reflects our view that the company's liquidity position is subject to risks that directly affect its claims-paying ability.

Rating Action

On June 15, 2016, S&P Global Ratings lowered its financial strength rating on MBIA Insurance Corp. (MBIA Corp.) to 'CCC' from 'B'. The outlook is negative.

Rationale

MBIA Corp.'s liquidity positon is weak, in our view, and absent favorable developments, the company is not likely to meet all of its insurance policy obligations in the next 12 months.

On Jan. 20, 2017, the insured notes issued by Zohar II 2005-1 Ltd. will mature and likely result in the company paying a claim in excess of $700 million. The claim payment will be an immediate payment. Management's plan to meet MBIA Corp.'s near-term liquidity needs includes various actions, none of which on its own would be sufficient to meet the potential claim payment on Zohar II. If management is successful in meeting the Zohar II payment, the company's liquidity will likely remain weak. MBIA Corp.'s liquidity position is subject to risks from payment timing on credit-default swap contracts, second-lien residential mortgage-backed securities excess spread recoveries and timing of backlog payment demands, and asset put-back success and recovery timing.

The rating action on MBIA Corp. has no effect on our ratings on MBIA Inc. or National Public Finance Guaranty Corp. (National). We view MBIA Corp. as a nonstrategically important subsidiary of MBIA Inc. We do not expect MBIA Inc. or National to provide liquidity support to MBIA Corp.

Our rating on MBIA Inc. reflects its structural subordination to its regulated operating subsidiaries, specifically National. We view National as the principal source of debt-servicing and holding-company expense needs. In addition to National's dividend payments, the continued estimated tax escrow releases related to the tax-sharing agreement also support MBIA Inc.'s liquidity.

Outlook

The negative outlook reflects our view the company's liquidity position is weak and subject to risks that directly affect its claims-paying ability.

Downside scenario

We may lower our ratings if it becomes a virtual certainty the company will not be able to meet insurance policy obligations.

Upside scenario

Given MBIA Corp.'s run-off state and weak liquidity position, we do not expect to raise our rating in the next 12 months.

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
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 12, 2012
- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Downgraded

	To	From
MBIA Global Funding LLC		
Senior Secured	CCC	B
Senior Unsecured	CCC	B
MBIA Insurance Corp.		
Counterparty Credit Rating		
Local Currency	CCC/Negative/--	B/Stable/--
Financial Enhancement Rating		
Local Currency	CCC/Negative/--	B/--/--
Financial Strength Rating		
Local Currency	CCC/Negative/--	B/Stable/--

Senior Secured	CCC	B
Senior Unsecured	CCC	B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.