

## MBIA Insurance Corp. Ratings Lowered To 'BBB+'; MBIA Insurance Corp. of Illinois Downgraded To 'AA-'

### *Rationale*

On Feb. 18, 2009, Standard & Poor's Ratings Services lowered its counterparty credit, financial strength, and financial enhancement ratings on MBIA Insurance Corp. (MBIA) to 'BBB+' from 'AA'. The outlook on MBIA is negative.

At the same time, Standard & Poor's lowered its counterparty credit and financial strength ratings on MBIA Insurance Corp. of Illinois (MBIA Ill.) to 'AA-' from 'AA' and placed them on CreditWatch with developing implications.

Standard & Poor's also lowered its counterparty credit rating on MBIA Inc., the group holding company, to 'BB+' from 'A-'. The outlook on the holding company is negative.

In addition, Standard & Poor's lowered its counterparty credit and financial strength ratings on Municipal Bond Insurance Assn. to 'AA-' from 'AA' and placed the ratings on CreditWatch developing. This rating action mirrors the action taken on MBIA Ill. The association is supported by surety bonds totaling \$340 million from MBIA Ill., which exceeds the outstanding insured par.

Standard & Poor's rating actions follow MBIA Inc.'s announced restructuring, in which MBIA Ill. has become a sister company of MBIA. Management has stated that MBIA Ill. is now the public finance insurer within the group and has assumed the U.S. public finance book of business from MBIA on a reinsurance-cut-through basis. Business recently ceded to MBIA from Financial Guaranty Insurance Co. has been assigned to MBIA Ill. MBIA retains the global structured finance and international infrastructure business. This restructuring separates the more volatile structured finance book of business from the lower-risk public finance book.

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February 18, 2009

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Operational functions at MBIA Ill. will benefit from the stability and continuity of a staff consisting largely of individuals from MBIA who were responsible for the business, underwriting, and risk management of its solidly investment-grade public finance book of business.

The downgrade of MBIA Ill. reflects our view of both its uncertain business prospects and its capital, which is marginally below our 'AA' standard. Management's stated goals are to raise additional capital to bolster MBIA Ill.'s current resources, adopt bylaws and governance practices, and effectively ring-fence MBIA Ill. from MBIA and its more volatile book of business. To facilitate this, the company has established an intermediate holding company between MBIA Ill. and the ultimate holding company, MBIA Inc.

From a future business production perspective, we believe that MBIA Ill.'s competitive position may suffer from legacy MBIA performance. In addition, there is uncertainty regarding investors' acceptance of the restructuring and ring-fencing plan.

We downgraded MBIA because of our view that its retained insured portfolio lacks sufficient sector diversity and with time could become more concentrated. In addition, the company's 2005–2007 vintage direct RMBS, CDO of ABS, and other structured exposures are subject to continued adverse loss development that could erode capital adequacy. Supporting the debt-service needs of the holding company might also place pressure on capital adequacy.

We believe that there is a strong incentive for MBIA to maintain an orderly runoff of its book of business so as not to damage the franchise value of the newly launched public finance only subsidiary. To this end, from a risk-management perspective, management has indicated that it will retain sufficient experienced staff to support surveillance and remediation efforts.

MBIA's retained exposure will total about \$233.5 billion of global structured finance and international infrastructure insured par. Through the use of Standard & Poor's capital adequacy test, MBIA's margin of safety is 0.9x–1.0x, which we view as strong. Analytical adjustments made to the model included:

- No new business written.
- Stress period of model starts immediately and lasts for four years.
- No refundings.
- Expenses are held constant for all four years.

In addition to Standard & Poor's normal stress assumptions for municipal and non-RMBS asset classes, we tested the capital adequacy of MBIA against a scenario that applies stressful default assumptions to various 2005-2007 RMBS-related transactions that the company has insured. We based the default rates for these transactions on stressful cumulative net loss assumptions published on Feb. 6, 2009 (see "Standard & Poor's Revises U.S. Subprime And Prime RMBS Loss Assumptions," RatingsDirect) that vary by asset type and vintage. We have included the Alt-A, subprime, closed-end second, HELOC, and NIM asset types with 2005, 2006, and 2007 vintages in this analysis.

### ***Outlook***

The negative outlook on MBIA reflects Standard & Poor's view that adverse loss development on the structured finance book could continue. A revision of the outlook to stable will depend on, among other factors, greater certainty of ultimate potential losses as well as the orderly runoff of the book of business.

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We could raise the rating on MBIA Ill. if it successfully raises capital and credibly ring fences its operations from MBIA. However, any rating action based on these factors would most likely remain within the 'AA' category. If MBIA Ill. is not able to raise capital or if legal challenges impair management's restructuring efforts, we could lower the ratings.

***Ratings List***

Downgraded

	To	From
MBIA Insurance Corp.		
MBIA Assurance S.A.		
Capital Markets Assurance Corp.		
Counterparty Credit Rating		
Local Currency	BBB+/Negative/—	AA/Negative/—
MBIA Insurance Corp.		
MBIA U.K. Insurance Ltd.		
MBIA Assurance S.A.		
Capital Markets Assurance Corp.		
Financial Strength Rating		
Local Currency	BBB+/Negative/—	AA/Negative/—
MBIA Insurance Corp.		
MBIA U.K. Insurance Ltd.		
MBIA Assurance S.A.		
Financial Enhancement Rating		
Local Currency	BBB+/-/-	AA/-/-
MBIA Inc.		
Counterparty Credit Rating		
Local Currency	BB+/Negative/—	A-/Negative/—
MBIA Insurance Corp.		
Senior Unsecured (1 issue)	BBB-	A
Preferred Stock (8 issues)	BB+	A-
MBIA Global Funding LLC		
Senior Secured (6 issues)	BBB+	AA
Senior Unsecured (22 issues)	BBB+	AA
MBIA Inc.		
Senior Unsecured (7 issues)	BB+	A-
Downgraded; CreditWatch/Outlook Action		
	To	From
MBIA Insurance Corp. of Illinois		
Municipal Bond Insurance Assn.		
Counterparty Credit Rating		
Local Currency	AA-/Watch Dev/—	AA/Negative/—
Financial Strength Rating		
Local Currency	AA-/Watch Dev/—	AA/Negative/—

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The complete list of affected ratings by this rating action will be available in the coming days. When available, the list can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); click on Ratings on the left-hand navigation bar and then select Bond Insurance. Ratings information is also available on RatingsDirect ([www.ratingsdirect.com](http://www.ratingsdirect.com)). Our analysis of the impact of these ratings actions is ongoing; we will post any additional rating changes at the same locations.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

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