MOODY'S INVESTORS SERVICE

Credit Opinion: MBIA Insurance Corporation

Global Credit Research - 28 Dec 2011

Armonk, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	RUR
Insurance Financial Strength	B3
Surplus Notes	Caa3 (hyb)
MBIA Inc.	
Rating Outlook	NEG
Senior Unsecured	B2
MBIA UK Insurance Limited	
Rating Outlook	RUR
Insurance Financial Strength	B3
MBIA Mexico, S.A. de C.V.	
Rating Outlook	RUR
Insurance Financial Strength	B3
Insurance Financial Strength--National Scale	B1.mx

Contacts

Analyst	Phone
Ranjini Venkatesan/New York City	1.212.553.1653
Helen Remeza/New York City	
Stanislas Rouyer/New York City	
Myra Shankin/New York City	

Key Indicators

MBIA Insurance Corporation

	3q2011	2010	2009	2008	2007
Gross Par Written ($ milllion)	$ -	$ -	$ -	$ 5,008	$ 167,886
Gross Premiums Written ($ million) [1]	$ 337	$ 353	$ (509)	$ 1,455	$ 819
Net Par Outstanding ($ million)	$ 161,070	$ 188,284	$ 204,529	$ 786,538	$ 678,661
Hard Capital ($ million)	$ 3,601	$ 4,924	$ 6,007	$ 8,308	$ 13,820
Net Income ($ million) [2]	$ (693)	$ 53	$ 623	$ (2,673)	$ (1,922)
Strategy & Franchise Value					
% of Industry Net Par Outstanding	14.4%	16.2%	11.7%	24.8%	25.8%
% of Industry Gross Par Written	0.00%	0.00%	0.0%	0.0%	26.2%
Portfolio Characteristics					
Credit Risk Ratio	na	Less than Baa	Less than Baa	461.5	74.0
Tail Risk Ratio	na	Less than Baa	Less than Baa	786.0	170.6

Capital Adequacy					
Hard Capital Ratio	**na**	**Less than Baa**	**Less than Baa**	**0.47x**	**1.09x**
Total Capital Ratio	**na**	**Less than Baa**	**Less than Baa**	**0.43x**	**0.98x**
Par Reinsured	**1.1%**	**1.0%**	**12.6%**	**11.7%**	**11.0%**
Profitability					
Return on Equity [2]	**-4.7%**	**-6.7%**	**-10.3%**	**-96.1%**	**2.2%**
Loss Ratio (SAP)	**121.1%**	**256.1%**	**483.0%**	**339.0%**	**114.2%**
Expense Ratio (SAP)	**26.7%**	**24.4%**	**21.3%**	**24.0%**	**24.9%**
Financial Flexibility					
Earnings Coverage [2]	**-0.1x**	**-0.2x**	**0.1x**	**-0.6x**	**2.6x**
Cash Flow Coverage [2]	**0.0x**	**0.0x**	**0.0x**	**0.0x**	**4.5x**
Double Leverage [2]	**na**	**129.3%**	**135.6%**	**147.6%**	**115.2%**

[1] Gross premiums written on GAAP basis for 2008 and prior periods, 2009 through 3q2011 on a statutory basis [2] Data and ratios for MBIA Inc. consolidated

Opinion

SUMMARY RATING RATIONALE

The B3 insurance financial strength (IFS) rating, under review for possible downgrade, of MBIA Insurance Corporation (MBIA Corp) reflects the capital and liquidity stress faced by the insurer due, for the most part, to its exposure to, and credit deterioration within, its residential and commercial mortgage risks. The rating incorporates some level of implicit support from its affiliates. The commutation of about a third of its outstanding CDO risk in 2011 has materially reduced exposure to extreme tail events, but also contributed to continued erosion of the insurer's claims paying and liquidity resources already strained by substantial claims and commutation payments for mortgage exposures. As part of the review, Moody's will evaluate the risk profile of the firm's remaining insurance obligations, including potential commutations, in relation to its capital and liquidity resources. The analysis will also assess the potential effect of ongoing restructuring and putback litigations on the firm's credit profile.

MBIA Corp has four outstanding lawsuits against mortgage originators and sellers and has been increasing its expected putback recoveries over recent quarters, but actual recoveries have been very modest so far relative to aggregate outstanding putback claim. One of the companies that MBIA has sued, Bank of America, is a plaintiff in the restructuring lawsuits against MBIA and its regulator. The substantial recent settlements with some CDO 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.

In February 2009, MBIA Inc. (MBIA) announced the restructuring of its financial guaranty insurance operations which segregated its business into two separately capitalized sister companies. MBIA Corp retained all the structured finance and international exposures and National Public Finance Guarantee (National) reinsured all the US municipal risk in MBIA Corp's portfolio, including the risk assumed from FGIC, on a cut-through basis. National received a $2.1 billion capital infusion from MBIA Inc. (following an extraordinary dividend and return of capital from MBIA Corp. to MBIA Inc.) in addition to the transfer of net unearned premiums from MBIA Corp. ($2.9 billion) and loss and loss adjustment expense reserves ($130 million) associated with the municipal portfolio. There are three lawsuits challenging the restructuring including the critical Article 78 case filed by some bank counterparties that challenges the New York State Insurance Department's decision to approve the transaction. The other two lawsuits, filed by bank counterparties and other investors in wrapped paper allege that the restructuring constituted a fraudulent conveyance. Of the 18 original litigants in the Article 78 and bank fraudulent conveyance lawsuits, 13 have withdrawn their complaints. MBIA Inc, (NYSE:MBI), MBIA Corp's parent company has four main operating units - MBIA Corp, National, Cutwater Asset Management and Optinuity Services Company. As of September 30 2011, the financial guaranty subsidiaries of MBIA insured $870 billion of net debt service.

Credit Strengths

Potential for substantial recoveries from loan putbacks

Some implicit support from affiliates

Credit Challenges

Substantial losses from commercial and residential mortgage exposures

Adverse effect of weak economic environment on insured portfolio performance

Weakened liquidity position due to high claims and commutation payments and secured loan to asset-liability management business (wind-down operations)

Uncertainty about the group's business and financial profile due to the lawsuits challenging restructuring

Financial flexibility is impaired

Rating Outlook

MBIA Corp's rating in on review for possible downgrade.

As part of the review, we will focus on:

Effect of ongoing litigations (putback and restructuring-related)

Potential for, and economics of, additional settlements

Delinquency and loss trends in the residential and commercial mortgage-related exposures

Portfolio performance trends in certain other stressed segments including infrastructure risks in Europe

Liquidity position at MBIA Corp and the group level

What Could Change the Rating - Up

As the rating is on review for possible downgrade, it is unlikely there would be an upgrade in the near term. The following would increase the likelihood of confirmation of the rating:

Substantial performance improvements in its mortgage-related exposures

Resolution of litigation with mortgage lenders and CDO managers that results in material reduction in net losses

A resolution of ongoing restructuring litigation that reallocates substantial financial resources to MBIA Insurance Corp

Capital adequacy profile consistent with a B or higher rating

Adequate liquidity to meet obligations on a timely basis

What Could Change the Rating - Down

Financial resources that are insufficient to meet anticipated claims

Substantial and uncorrected deterioration of portfolio characteristics

Unfavorable outcomes in the putback litigations

Liquidity profile weakens materially

Failure to maintain cushion relative to regulatory capital requirements

Recent Results and Company Events

On a statutory basis, MBIA Corp reported a $37 million loss for the first nine months of 2011 compared to the $213 million loss reported for the same period in 2010. Incurred loss charge decreased from $806 million to $394 million despite substantial deterioration in the firm's commercial mortgage book due to higher putback recovery estimate and commutations of ABS CDO at less than statutory reserves. Reserve charges for pooled commercial mortgage risk increased from $525 million in the first nine months of 2010 to $865 million in the same period in 2011 primarily due to higher delinquencies among the loan population and increase in loss severities for loans liquidated in the broader market.

MBIA Corp has not written any material new business since 2008.

At the end of the third quarter of 2011, MBIA Corp had claims paying resources of $3.8 billion, a portion of which was subsequently used to commute $20 billion of mainly CDO exposure with Morgan Stanley and other counterparties, at a price about $500 million above existing loss reserves.

Only 5 out of the initial 18 plaintiffs remain in the Article 78 lawsuit challenging MBIA's restructuring. One of hedge fund plaintiffs in fraudulent conveyance case, Fir Tree Capital, also withdrew its complaint this year. A separate lawsuit brought by Third Avenue Capital, an investor in MBIA Corp.'s surplus notes, was discontinued in October 2011.

DETAILED RATING CONSIDERATIONS

MBIA Corp's adjusted scorecard rating (insurance financial strength) on a standalone basis is Caa1, primarily due to the insurer's runoff status and material uncertainty about its ability to meet future claim obligations. Moody's rates MBIA Corp one notch higher than the adjusted scorecard rating reflecting potential for capital and liquidity support from affiliates.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are as follows:

Factor 1 - Franchise Value and Strategy: Caa

MBIA Corp has not written any material new business since the fourth quarter of 2008 due to market concerns about its financial conditions, particularly with respect to potential losses in mortgage-related portfolio. The restructuring of its operations left MBIA Corp financially weaker, magnifying market concerns.

Factor 2 - Portfolio Characteristics: B

Between the third quarter of 2007 and the third quarter of 2011, MBIA Corp paid $5.9 billion in claims related to its direct residential mortgage exposure risks and the company expects additional present valued claim payments of $0.7 billion. Recovery from lenders for breaches of representations and warranties and excess spread generated in the underlying transactions could materially affect ultimate losses on the RMBS portfolio. The firm has commented that actual putback recoveries could be as high as $4.6 billion, about 1.6x the value reported in the third quarter 2011 financial statement. MBIA also estimates that excess spread recovery/benefit from performing loans would reduce aggregate RMBS losses by $1.1 billion. Claim payments on second lien transactions continue to drain the company's resources, average quarterly payment in 2011 was about $190 million.

MBIA Corp has commuted about $35.0 billion of CDO risk so far this including the large commutations completed in the fourth quarter. Most of the commutations are related to ABS CDO and pooled commercial mortgage risks. At the end of the third quarter of 2011, the insurer had $6.9 billion of ABS CDO risk and the firm reported a $591 million statutory loss reserves for this portfolio. The insurer has been steadily increasing its loss expectations for its commercial mortgage exposures; aggregate loss reserve was $1.1 billion for the $40.3 billion of risk outstanding at the end of the third quarter.

Among the other risks in the portfolio, performance trends for certain European infrastructure, sub sovereign and asset backed deals bear close monitoring. According to the insurer, approximately 11% of non US public finance risk carried non-investment grade ratings as of September 30, 2011; the corresponding statistic for the non-US structured finance exposure was 3.2%.

Factor 3 - Capital Adequacy: Caa

At the end of the third quarter of 2011, MBIA Corp had claims paying resources of $3.9 billion, a portion of which was used to commute $20 billion of mainly CDO exposure in the fourth quarter. There is meaningful uncertainty about the actual losses that MBIA Corp will realize as macroeconomic and other factors continue to materially influence credit performance. Realized put-back credit on mortgage deals as well as potential ABS CDO and pooled commercial mortgage commutations (e.g. settlement of sizeable claims at materially less than their expected value that Moody's would likely consider to be distressed exchanges) would also affect ultimate losses.

The 2009 restructuring led to a substantial reduction in MBIA Corp's claims-paying resources relative to the remaining higher-risk exposures in its insured portfolio. We believe that MBIA Corp may not have sufficient resources to pay all insurance obligations on its own.

Factor 4 - Profitability: B

We believe that actual losses could be substantially in excess of the firm's forecast and would therefore negatively affect future profitability. The company's recent settlements at $500 million above 3Q 2011 reserves are supportive of this view. Losses related to the CDO risks assumed generally through a CDS policy are marked to market in the GAAP statements, but the insurer provides specific information about expected economic losses in its supplementary disclosures. Factors that will substantially influence incurred losses in the coming periods are a) actual recovery on putback claims b) loss development trends in the mortgage related risks c) performance trends in the infrastructure transactions and terms of potential additional commutations.

Factor 5 - Financial Flexibility: B

MBIA Corp's stand alone liquidity position has weakened due to still material claims for RMBS risks and some large CDO commutations. The insurer's invested asset base declined from $3.3 billion at year-end 2010 to $2.2 billion as of September 30, 2011 including a $600 million secured loan to the asset liability management business (wind-down operations). In the fourth quarter MBIA commuted a material portion of its CDO risk at $500 million above its existing reserves. With its current standalone financial position, MBIA Corp's capacity to execute substantial new commutations is limited, however actual putback settlements could improve its financial profile.

MBIA's access to capital is currently impaired, as investor interest in the financial guarantors dwindled due to uncertainty about ultimate losses in the structured portfolio and future demand for financial guaranty insurance.

The difference between book value of assets and liabilities in the wind-down operations, a wholly owned subsidiary of MBIA Inc., was $600 million as of September 30, 2011 and the gap is even greater in market value terms. Existing liquidity lines to this operation include the secured loan from MBIA Corp. and a $1.35 billion asset swap from National; additional capital and liquidity support may be required in case of additional stress.

Rating Factors

MBIA Insurance Corporation

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	Less than Baa	Methodology Score	Adjusted Score
Factor 1: Strategy & Franchise Value (25%)						**A**	**Caa**
% of Industry Net Par Outstanding	x						
% of Industry Gross Par Written					x		
Moody's Adjusted Book Value/Book Value	x						
Client Concentration					x		
Management, Governance & Risk Management Oversight					x		
Factor 2: Portfolio Characteristics (20%)						**Less than Baa**	**B**
Credit Risk Ratio					x		
Tail Risk Ratio					x		
% Below Investment Grade					x		
S (WCL > 10% of HC) / HC					x		
Factor 3: Capital Adequacy (30%)						**Less than Baa**	**Caa**
Hard Capital Ratio					x		
Total Capital Ratio					x		
Par Reinsured	**1.0%**						
Factor 4: Profitability (15%)						**Baa**	**B**
Return on Equity - 3 year average					x		
Loss Ratio (SAP) - 3-year average					**286.7%**		
Expense Ratio (SAP) - 3-year average		**24.1%**					
Factor 5: Financial Flexibility (10%)						**Less than Baa**	**B**
Earnings Coverage					x		
Cash Flow Coverage					x		
Double Leverage		**129.3%**					
Ease of Access to Capital					x		
Aggregate profile						**Baa3**	**Caa1**