Credit Analysis

Moody's
Insurance
Financial Guarantors

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Summary Rating Rationale

National Public Finance Guarantee Corporation's (National) Baa1 insurance financial strength (IFS) rating, with a developing outlook, reflects the uncertainty caused by ongoing litigation challenging the recent restructuring of the group, as well as the extended timeframe over which such uncertainty may persist. Moody's believes that National's ability to write new business will remain essentially constrained while the litigation remains outstanding.

The B3 IFS rating of MBIA Insurance Corporation (MBIA Corp) reflects the severe stress faced by the company due to its exposure to impaired ABS CDOs and RMBS securities, as well as the deterioration in performance of some of its commercial real estate CDO and synthetic corporate CDO risks. The group restructuring reduced MBIA Corp's claims-paying resources relative to the risk retained in its insured portfolio. Without better loss development than currently anticipated by Moody's and/or without a significant reduction in claims as a result of successful remediation, the regulatory capital adequacy profile of MBIA Corp could weaken materially

Moody's rates the senior debt issued by MBIA Inc (MBIA) at Ba3, with a negative outlook. The rating incorporates the weak credit profile of its larger operating subsidiary, MBIA Corp, and the stress in its asset management products business, as well as the uncertainty caused by litigation. However, the rating also reflects the holding company's current cash resources, and its ownership of National, a well-capitalized public finance guarantor.

This Credit Analysis provides an in-depth discussion of credit rating(s) for MBIA Inc. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Moody's Investors Service

MBIA Inc.

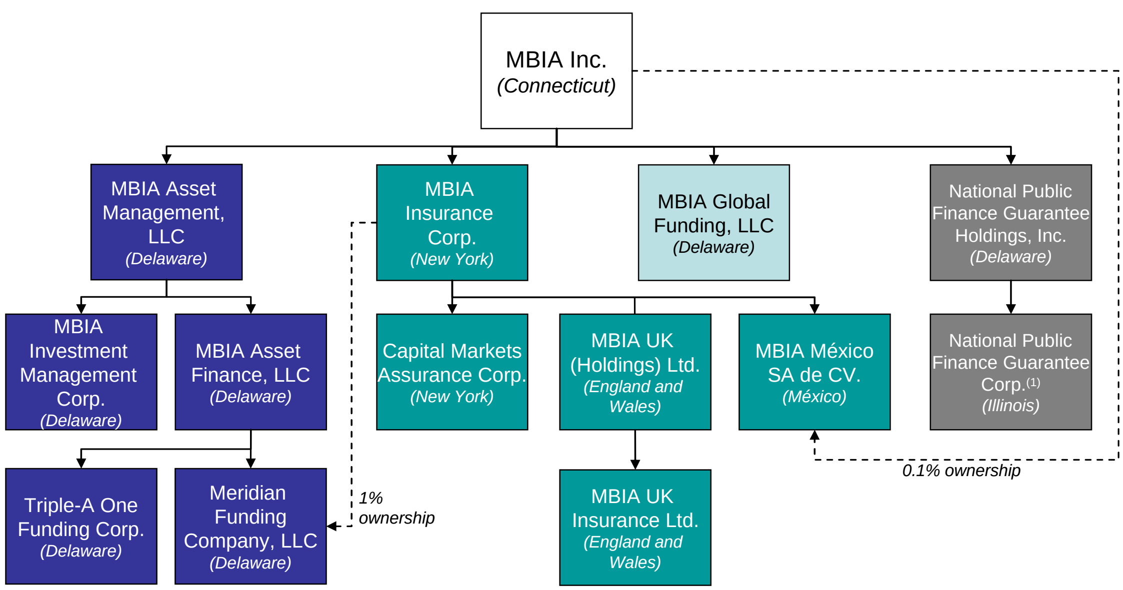
Group Overview

The three main operating units of MBIA, Inc. are MBIA Corp, National, and MBIA Asset Management. As of September 30 2009, the financial guaranty subsidiaries of MBIA insured $1,126 billion of net debt service, making it the largest guarantor in terms of outstanding portfolio size.

In February 2009, MBIA announced the restructuring of its financial guaranty insurance operations following the approval of the New York and Illinois insurance regulators. MBIA's restructuring segregated its financial guaranty insurance operations into two separately capitalized sister companies, with one entity (National) assuming the risk associated with its US municipal exposures, and with the other (MBIA Corp) insuring the remaining exposures including all international and structured finance exposures. National provided cut-through reinsurance on MBIA Corp's entire existing portfolio of US municipal credits through a 100% quota-share agreement, including the municipal exposure that MBIA Corp assumed from FGIC[1]. To support its ability to pay claims, National received a $2.1 billion capital infusion sourced from MBIA Corp through a dividend and return of capital, in addition to $2.9 billion in net unearned premiums (net of ceding commissions) and loss and loss adjustment expense reserves associated with the municipal portfolio. National, previously named MBIA Insurance Corp. of Illinois, was a dormant insurance company.

The insurance policies written by the MBIA insurance companies are unconditional irrevocable guarantees to pay interest and principal when due in the event of issuer default. MBIA has also provided credit protection in CDS form, the terms of which generally mimic insurance- policy language. New primary production has been negligible in the last 18 months as a result of the deterioration of the group's credit profile. MBIA did, however, reinsure a large portion of FGIC's US public finance portfolio in 2008.

MBIA also provides investment management services to public and private clients in the United States. The three main operating segments of the investment management business are asset-liability products (ALM product), advisory services, and conduits. The GICS and MTNS issued by the ALM product business are insured by MBIA Corp, and MBIA's investment advisory platform manages the assets. The downgrade of MBIA Corp. led to a major downsizing of the ALM portfolio; outstanding GICs/MTN liability as of September 30, 2009, was $5.3 billion. For similar reasons, the conduit portfolio funded by issuance of MBIA Corp insured MTNs is also in a run-off mode. In the advisory segment, MBIA offers cash management, asset management, and investment- consulting services to third- party clients such as US public finance entities, other insurance companies, and funding vehicles.



(1) National Public Finance Guarantee Corporation is in the process of redomesticating to New York.

[1] The FGIC policies reinsured by National do not carry National's Baa1 rating because the terms of the reinsurance agreement do not meet Moody's standards for credit substitution.

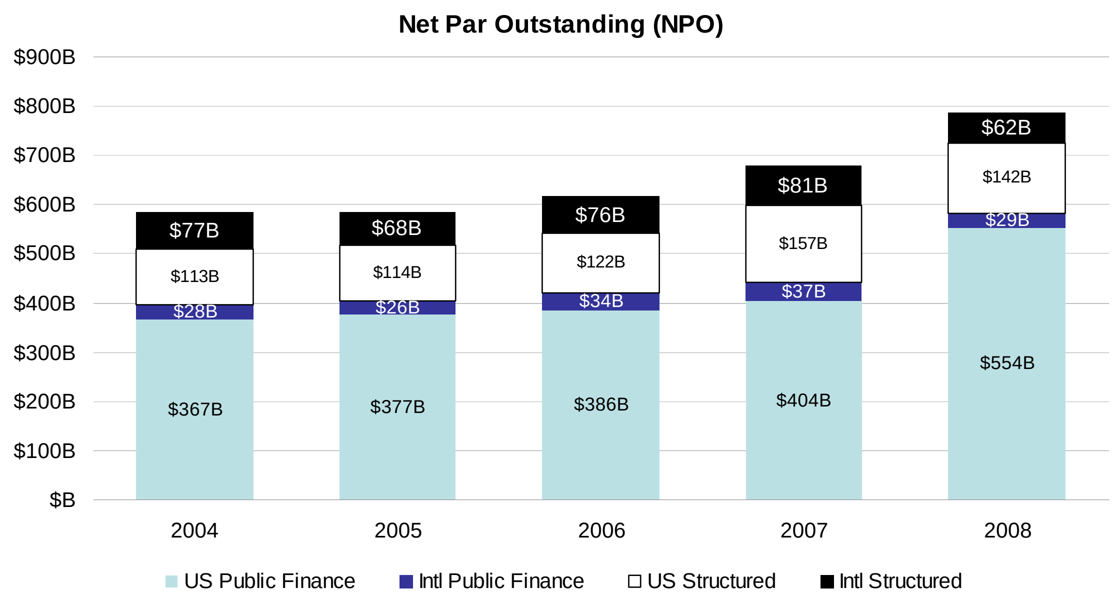
MBIA Inc.

Analysis of Rating Considerations

Strategy & Franchise Value

The Jury Is Still Out on National / MBIA

MBIA has retained its position as the largest bond insurer in terms of net par outstanding, but the company has not written new primary insurance policies since the first quarter of 2008 as large losses have significantly impaired the company's capital base and franchise. Although early in 2009, the company executed the restructuring strategy that was first announced in February 2008, legal challenges to the restructuring have stalled the firm's efforts to reenter the municipal segment. National's ability to write new business may remain substantially constrained while the restructuring-related litigation remains outstanding (some plaintiffs are asking for a reversal of the restructuring), given the uncertainty about its outcome. Liquidity issues at the holding company are also a source of concern.



Demand for Bond Insurance Has Declined, But Some Municipal Segments Remain Underserved

Sharp deterioration in the performance of the bond insurance industry has raised many questions about the value of the product. In the municipal market, change in perception of guarantor risk has materially affected demand for financial guaranty insurance. Simultaneously, and also as a result of the financial crisis, issuance volumes in some segments, such as structured finance, have declined substantially.

However, small or higher risk municipal issuers are still buying financial guaranty insurance to improve their all-in cost of debt. Some investors also continue to value bond insurance for its credit enhancement of the underlying exposures and for the underwriting and oversight done by the insurer.

Insurance penetration rate in the first six months of 2009 was about 10%, down from about 46% in 2007 as both supply and demand contracted. With only one active financial guaranty insurer, Assured Guaranty, and with many municipal issuers facing an investor base that is unreceptive absent credit enhancement, the market currently appears to be underserved.

MBIA Inc.

Portfolio Characteristics

Direct RMBS – Losses Continue to Climb, but Company Projects Significant Recovery

MBIA Corp has paid $3.3 billion for claims related to its insured mortgage exposures in the last seven quarters; at the end of the third quarter of 2009 loss reserves were $1.0 billion[2]. Performance deterioration on second-lien deals accounts for a large portion of the incurred loss. Like many of its industry peers, MBIA Corp has projected large recoveries, approximately $1.2 billion, from loan put-backs based on forensic review of approximately 27,000 loans that were included in second- lien securitizations.

ABS CDO - Commutations Could Hold the Key

MBIA Corp has a $22.6 billion multisector CDO portfolio, of which approximately 75% was originated in the 2005-2007 time period. Many of these transactions (also referred to as ABS CDOs) have large blocks of subprime RMBS collateral (generally narrow mezzanine tranches). The company has commuted $7 billion of ABS CDO risk to date, including the commutations achieved in the fourth quarter of 2009. In general, the commutations had a positive impact on MBIA Corp's capital position because a) in some cases, the commutation price was lower than the loss reserve for the transaction and because b) it eliminated exposure to future volatility in transactions. Additional successful commutations of ABS CDO exposures could further improve the MBIA Corp's capital adequacy profile, but they may have characteristics of distressed exchanges.

Exposure to commercial mortgage risks is a source of concern

Another segment of MBIA Corp's portfolio that is vulnerable to deterioration in broad macroeconomic factors is the $45 billion CRE CDO portfolio. The underlying risks in a CRE CDO transaction are tranches of CMBS securitizations, some of which have suffered multi notch downgrades to below investment grade. Given the highly leveraged transaction structures and large transaction sizes, higher losses in a few deals could materially affect MBIA Corp's capital performance.

The risk posed by highly levered structures with large single obligor concentrations across transactions is a material issue for synthetic corporate risks (synthetic CDO's) insured by MBIA Corp. However, for most part, the credit deterioration is not widespread.

Municipal Portfolio: Some Credit Specific Issues, but Aggregate Performance Remains Strong

In general, National's portfolio continues to perform as expected with 87% of the portfolio rated A or higher. Weaker macroeconomic conditions have affected some local governments [3]and other public finance entities issuing debt. About $2.5 billion of risk in National's portfolio is now rated in the non-investment- grade range.

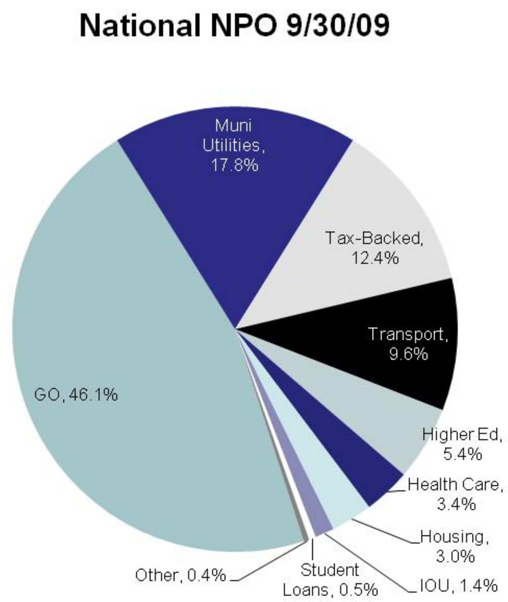
Portfolio Risk ratios

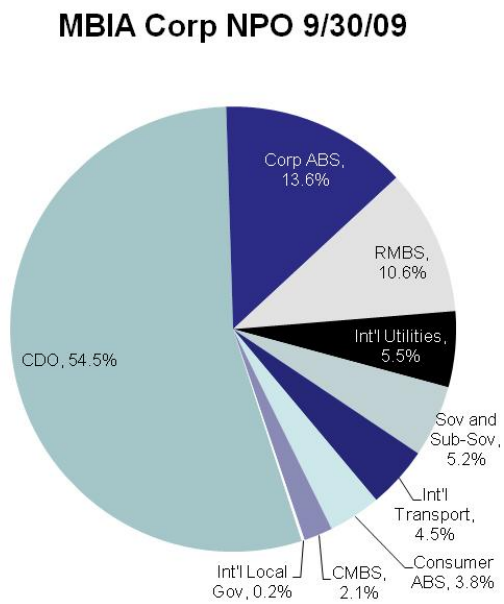
Following the credit trends in the residential mortgage segment and, to lesser degree the commercial mortgage risks, MBIA Corp's credit risk ratio has weakened substantially, to 461bps. The proportion of non-investment grade in its books has increased to almost 18%, with residential mortgage- related risks accounting for 67% of aggregate NIG risk. As discussed earlier, single- risk concentration is significant credit issue for MBIA Corp, given its smaller capital base and the credit deterioration in some of segments with large single risk exposures.

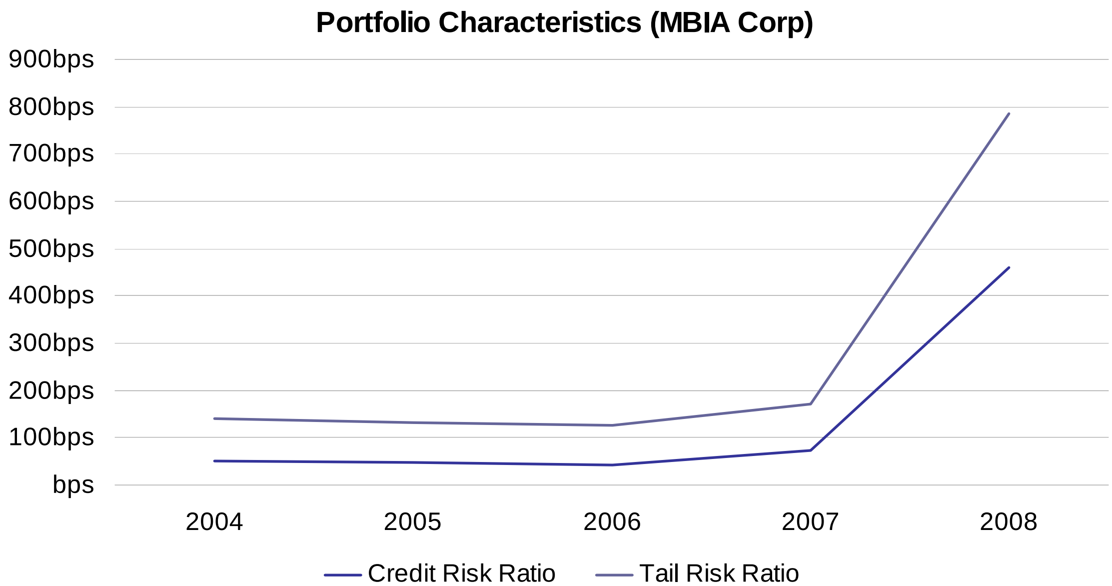
Despite some credit specific concerns, National's credit and tail risk ratios are still strong at 18 bps and 66 bps, respectively. The company is exposed to a number of large single risks, but most of the large exposures are tax-backed credits that are rated in the A-Baa range.

[2] Excludes putback credit
[3] Moody's assigns negative outlook to US local government sector; April 2009 (116914)

MBIA Inc.







Capital Adequacy

National: Strong Capital Adequacy Profile

Moody's estimates the capital adequacy ratios for National to be in the Aaa range, reflecting the low risk nature of the municipal credits in the insured portfolio. Portfolio amortization, combined with negligible new business volumes, could result in an improving trend in capital adequacy ratios in the next few quarters. However, single- risk concentration is a material concern for this portfolio, reflecting in part the consolidation of MBIA's and FGIC's portfolios in a company with a smaller capital base.

MBIA Inc.

MBIA Insurance Corp: Loss Mitigation and Potential Commutations Could Improve Picture

Moody's estimate of expected loss for MBIA Corp's insured portfolio exceeds the company's post-restructuring capital base. However, factors such as put-back credit on mortgage deals and commutation prices for ABS CDOs could materially affect net realized losses.

In its third- quarter 2009 financials, MBIA Corp reported $1.2 billion of insurance recoverable related to RMBS loan put-backs; this estimate is based on observed contractual breaches in the loan population that has been reviewed so far. Given that projected put-back credit is 16% of the company's claims paying resources, ultimate outcome on this issue could significantly improve its capital adequacy profile.

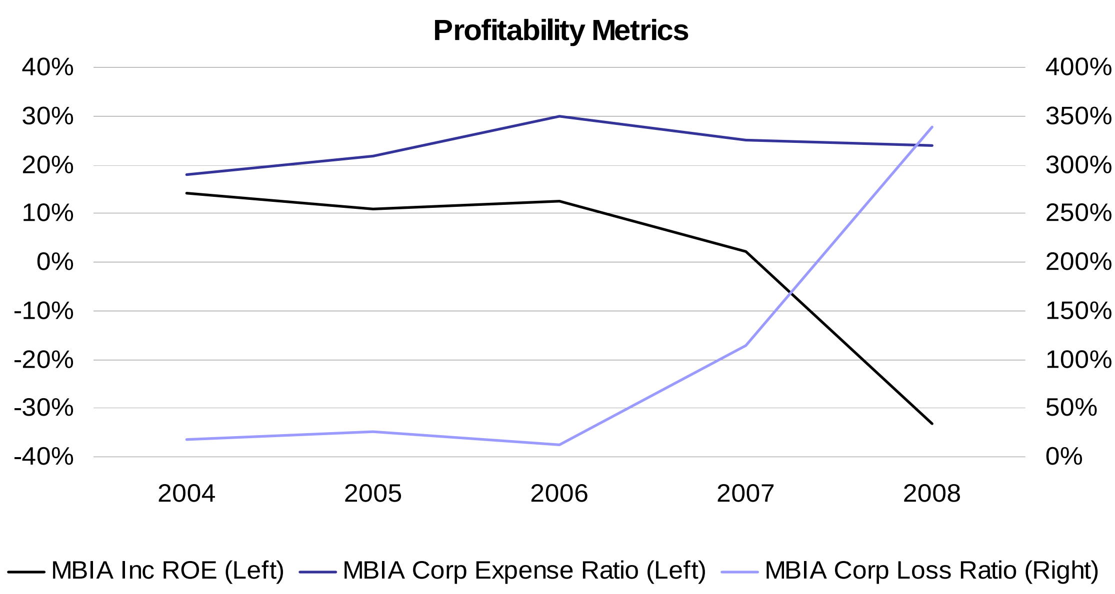
Profitability

National: Strong Embedded Earnings

The unearned premium reserve related to this municipal portfolio and investment income provide a steady revenue stream even though the company has no new business volume. Both the uncertainty caused by the ongoing litigation related to the restructuring and lack of new business volume temper Moody's opinion of National's profitability, however.

MBIA Corp: Mortgage Losses Continue to Overwhelm Earnings

MBIA Corp's current loss reserves for some portions of structured finance portfolio, such as ABS CDOs and commercial mortgage risks, are significantly lower than Moody's loss estimates for those risks. Therefore, our outlook for profitability over the medium term reflects the potential for additional loss reserves, but it also includes possible gains due to loss mitigation/remediation, which could reverse the trend.



Financial Flexibility

Access to Capital Is Currently Impaired, but Re-Establishment of Franchise Could Stir Investor Interest

As the credit profile of the guarantors deteriorated and prospects for future profitability grew bleak, investor interest in these companies dwindled. Until there is greater clarity about ultimate losses in the credit- sensitive segments of the portfolio, access to new capital will be constrained for MBIA. National may be able to access the capital markets directly if the litigation related to restructuring is resolved in their favor.

ALM products: Planned Wind-down

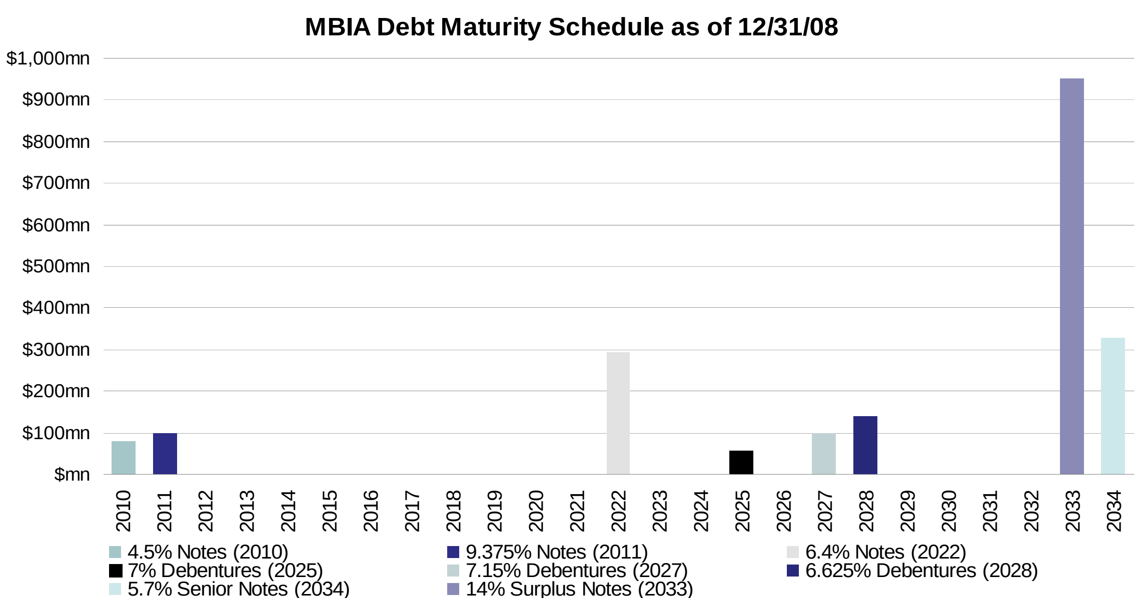
The performance of the asset liability- product business has been improving over the last few quarters because the company has been reducing outstanding liabilities and has maintained a liquid asset portfolio. However, this line of business still benefits from affiliate support, including a $2 billion secured loan from MBIA Corp, $1.7 billion asset swap from National and a $600 million inter-segment loan from MBIA. The difference between the book value of assets and liabilities was $1.0 billion at the end of third quarter 2009; the management expects this gap to be covered as asset values recover and with selective debt repurchases. Ultimately, these instruments are liabilities of MBIA Inc. that are pari passu with other senior debt issued by MBIA Inc.

Moody's believes that the expected shortfall in asset values would likely be absorbed by the $600 million loan from the holding company. The company has bought back a portion of this debt at a significant discount.

Holding Company: Next Hurdle Is Medium-Term Debt Maturities

MBIA Inc.'s stand-alone liquidity of $ 427 million is adequate to cover holding company debt service and operating expenses over the near term. Nevertheless, an inability to extract dividends from the operating companies and/or deterioration in the ALM business could have a bearing on its capacity to meet its 2011 debt repayment obligations. MBIA Corp could have modest dividend capacity in the next two years if the company does not have to increase its loss reserves by a significant amount.

Dividend capacity at National would be influenced by the outcome of the litigation and by the company's own capital needs in the event of a relaunch into the municipal market. The ability of the ALM products business to repay the loan from the holding company would depend on the performance of that portfolio, which would in part be influenced by broader market trends with respect to asset prices; recent trends have been beneficial to MBIA in this regard.



MBIA Corp: High Claims Payments Are Pressuring Liquidity

MBIA Corp.'s liquidity profile has been hurt by very large claims payments on second lien mortgages, $3.3 billion as of third quarter 2009, and by a $2 billion loan to its asset management affiliate to prevent asset liquidation at depressed prices. The liquidity profile of the insurance company is likely to remain weak unless claims payments substantially abate and/or the asset management company repays part of the loan. MBIA estimates that it can recover $2.7 billion related to RMBS claims payments due to a) excess spread buildup ($1.5 billion) and b) putback credit ($1.2 billion) relative to lifetime incurred losses of $5.1 billion. MBIA Corp's liquidity profile could be materially affected by the ultimate outcomes on putback credit and excess spreads but they are uncertain and could be many years from now.

Other Credit Considerations

Litigation Related to Restructuring

To date, four lawsuits challenging the restructuring have been filed in various jurisdictions. Three lawsuits identify only MBIA Inc. and its subsidiaries as the defendants, and the prime allegation in all three complaints is fraudulent conveyance. The parties who filed the lawsuits are the following: a) Aurelius Capital Partners, purported holders of instruments that have been guaranteed by MBIA Insurance Corp.; b) Third Avenue Capital, holders of surplus notes issued by MBIA Insurance Corp. and; and c), a group of 19 financial institutions. The fourth lawsuit related to the restructuring is an Article 78 proceeding that challenges the restructuring approval issued by the New York Insurance Department. The lawsuit filed by Third Avenue Trust was dismissed by the presiding judge based on the principle that the entities involved in the surplus notes transaction and the agreements related this transaction are all governed by New York law. This lawsuit could be refiled in another court. Due to the nature of the Article 78 process, the company anticipates expeditious resolution - potentially in 2010. The timing of resolution for the other lawsuits is unclear.

Other Litigation

MBIA has filed lawsuits against some of the large mortgage originators and aggregators, Countrywide, Residential Funding Corporation, IndyMac and Credit Suisse, claiming that they breached representations and warranties. Like many peers, MBIA has undertaken detailed reviews of underlying loan files on troubled RMBS transactions to identify irregularities in mortgage underwriting practices, which would be deemed breaches of contractual representations and warranties. If irregularities are found, the mortgage originator is generally obligated to buy back the loans for the principal amount owed, thereby reducing losses in insured mortgage pools.

MBIA has also filed a lawsuit against Merrill Lynch, alleging breach of contract and misrepresentations related to 11 insured CDS transactions. Aggregate par risk covered in these CDS contracts amounted to $5.7 billion. MBIA has also commenced litigation proceedings against RBC based on similar allegations.

A favorable outcome on these litigations could have a material impact on MBIA's capital position.

MBIA Inc.

Company Annual Statistics

MBIA Insurance Corp.

	3Q2009	2008	2007	2006	2005
Insured Portfolio					
Net Exposure outstanding	281,217	1,198,348	1,021,925	939,969	889,019
Gross Par outstanding	246,159	841,480	762,446	694,922	665,694
Net Par outstanding	215,403	786,538	678,661	617,553	585,003
Gross par written	-	5,008	167,886	121,511	126,299
Claims Paying Resources (SAP) :					
Policyholders' surplus	2,479	3,502	3,663	4,081	3,800
Contingency Reserve	1,432	2,595	2,719	2,478	2,769
Qualified Statutory Capital	3,911	6,097	6,382	6,559	6,569
Capital charges	(58)	(99)	(451)	(319)	(16)
Unearned Premiums	754	4,006	3,544	3,507	3,508
Loss Reserves	546	1,871	926	101	318
Present value of future installment premiums	1,936	2,386	2,514	2,309	2,171
Hard Capital	6,799	13,903	12,538	11,810	12,225
Soft Capital	-	450	850	850	850
Total Capital	6,799	13,678	13,385	12,258	12,668
Key Statutory Data:					
Total Assets	5,380	13,536	11,414	10,955	11,036
Cash and Invested Assets	5,184	12,847	10,977	10,730	10,783
Net Premiums Written [1]	-	1,429	765	723	812
Net Premiums Earned [1]	293	907	767	739	735
Loss and Loss Adj. Expenses incurred [1]	1,022	3,074	877	94	189
Other underwriting expenses incurred [1]	(683)	343	191	217	180
Net underwriting gain [1]	(16)	(2,479)	(300)	428	366
Net investment income earned [1]	37	424	454	497	458
Pre-tax operating income [1]	(81)	(2,026)	146	938	845
Net income [1]	(73)	(1,401)	171	669	633
Dividends paid to stockholders [1]	NA	-	500	839	95
Operating cash flow [1]	(4,145)	(200)	816	557	799
Expense Ratio (%)	21%	24%	25%	30%	22%
Loss Ratio (%)	349%	339%	114%	13%	26%
Combined Ratio (%)	371%	363%	139%	42%	47%
Pretax operating income/average NPO (bps)	(1.6)	(27.6)	2.3	15.6	28.9
Net premiums earned/Average NPO (bps)	5.8	12.4	11.8	12.3	25.1
Liquidity:					
Cash and Short term investments	3,484	5,442	811	866	810
Cash and invested assets/Total assets (%)	96%	95%	96%	98%	98%
Leverage:					
Net par outstanding/Hard Capital (x)	32	57	54	52	48
Net par outstanding / Total Capital (x)	32	58	51	50	46

[1] Year to Date Values for 2009

MBIA Inc.

National Public Finance Guarantee Corp.

	3Q2009
Insured Portfolio	
Net Exposure outstanding	844,431
Gross Par outstanding	546,768
Net Par outstanding	520,751
Gross par written	-
Claims Paying Resources (SAP) :	
Policyholders' surplus	509
Contingency Reserve	1,352
Qualified Statutory Capital	1,861
Capital charges	(38)
Unearned Premiums	3,217
Loss Reserves	173
Present value of future installment premiums	286
Hard Capital	5,456
Soft Capital	-
Total Capital	5,456
Key Statutory Data:	
Total Assets	7,164
Cash and Invested Assets	7,065
Net Premiums Written [1] [2]	-
Net Premiums Earned [1]	287
Loss and Loss Adj. Expenses incurred [1]	89
Other underwriting expenses incurred [1]	809
Net underwriting gain [1]	(596)
Net investment income earned [1]	143
Pre-tax operating income [1]	(451)
Net income [1]	(446)
Dividends paid to stockholders [1]	-
Operating cash flow [1]	2,902
Expense Ratio (%)	23%
Loss Ratio (%)	31%
Combined Ratio (%)	54%
Pretax operating income/average NPO (bps)	-8.7
Net premiums earned/Average NPO (bps)	5.5
Liquidity:	
Cash and Short term investments	2,035
Cash and invested assets/Total assets (%)	99%
Leverage:	
Net par outstanding/Hard Capital (x)	95
Net par outstanding / Total Capital (x)	95

[1] Year to Date Values for 2009.

[2] Excludes Transformation-Related Revenue.

MBIA Inc.

Moody's Related Research

Credit Opinion:

- MBIA Insurance Corporation, July 2009
- National Public Finance Guarantee Corporation, July 2009

Special Comment:

- Financial Guaranty Policies -- What Is Needed For Credit Substitution?, March 2009 (55948)
- The Changing Business of Financial Guaranty Insurance, November 2008 (111991)
- Moody's Financial Guaranty Update: Frequently Asked Questions, August 2008 (110375)
- Moody's will Apply MBIA Illinois' Rating to the Municipal Bonds Subject to the Reinsurance Agreement with MBIA Insurance Corporation February 2009 (114851)
- Interpreting Financial Guarantors' Mark-to-Market Losses, July 2008 (105498)
- Monoline Insurers Push Back on Mortgage Claims, December 2009 (111340)

Rating Methodology:

- Moody's Rating Methodology for the Financial Guaranty Insurance Industry, September 2006 (98408)
- Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade, May 2008 (108924)
- Rating of Transactions Wrapped by Financial Guarantors: Frequently Asked Questions, December 2007 (105934)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

MBIA Inc.

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