

Credit Opinion: MBIA Insurance Corporation

MBIA Insurance Corporation

Armonk, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	NEG
Insurance Financial Strength	B3
Surplus Notes	Caa3
MBIA Inc.	
Rating Outlook	NEG
Senior Unsecured	Ba3
MBIA UK Insurance Limited	
Rating Outlook	NEG
Insurance Financial Strength	B3
MBIA Mexico, S.A. de C.V.	
Rating Outlook	NEG
Insurance Financial Strength	B3
Insurance Financial Strength--National Scale	B1.mx

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Key Indicators

MBIA Insurance Corporation

	2008	2007	2006	2005	2004
Gross Par Written (\$ million)	\$ 5,008	\$ 167,886	\$ 121,511	\$ 126,299	\$ 112,111
Gross Premiums Written (\$ million)	\$ 1,553	\$ 819	\$ 796	\$ 976	\$ 1,110
Net Par Outstanding (\$ million) [1]	\$ 786,538	\$ 678,661	\$ 617,553	\$ 585,003	\$ 585,575
Hard Capital (\$ million)	\$ 8,425	\$ 12,760	\$ 11,633	\$ 12,043	\$ 11,306
Net Income (\$ million) [2]	\$ (2,673)	\$ (1,922)	\$ 819	\$ 711	\$ 843
Strategy & Franchise Value					
% of Industry Net Par Outstanding [1]	35.2%	25.8%	28.4%	28.4%	31.4%
% of Industry Gross Par Written	0.0%	26.2%	21.5%	24.3%	n/a
Portfolio Characteristics					
Credit Risk Ratio	461	74.0	40.5	46.6	49.6
Tail Risk Ratio	786	170.6	126.0	131.6	140.1
Capital Adequacy					
Aaa Hard Capital Ratio	0.48x	1.05x	1.48x	1.55x	1.36x
Aaa Total Capital Ratio	0.43x	0.95x	1.40x	1.47x	1.31x
Par Reinsured	6.5%	11.0%	11.1%	13.8%	14.6%
Profitability					
Return on Equity	-33.2%	2.2%	12.4%	11.0%	14.2%
Loss Ratio (SAP)	339.0%	114.2%	12.6%	25.5%	17.1%
Expense Ratio (SAP)	24.0%	24.9%	29.8%	21.9%	17.9%
Financial Flexibility [2]					
Earnings Coverage	-2.1x	2.6x	14.5x	11.4x	16.3x

Cash Flow Coverage	0.0x	4.5x	5.1x	4.2x	4.4x
Double Leverage	135.5%	115.2%	103.3%	109.9%	101.8%

[1] Net par outstanding as of 1Q2009, after the restructuring, was \$224,808 million; market share after restructuring was 10.4% [2] Metrics for MBIA Inc.

Opinion

SUMMARY RATING RATIONALE

The B3 insurance financial strength (IFS) rating of MBIA Insurance Corporation (MBIA Corp.) and Ba3 senior debt rating of MBIA Inc. reflect the continued severe stress faced by the group as a result of its exposure to ABS CDOs and RMBS securities and the deterioration in other sectors such as commercial real estate CDOs. The recent group restructuring reduced MBIA Corp.'s claims-paying resources relative to the retained higher-risk exposures in its insured portfolio, given the removal of capital, and the transfer of unearned premium reserves associated with the ceding of its municipal portfolio to National Public Finance Guarantee Corporation (National).

The recent confirmation of National's Baa1 IFS rating with a developing outlook, despite its strong capital profile and operational infrastructure, reflects the uncertainty caused by ongoing litigation challenging the recent restructuring of the group, and the extended timeframe over which such uncertainty may persist. Creditors and counterparties have sued MBIA, requesting that the February 17, 2009 restructuring of the group that led to National's capitalization with some of MBIA Insurance Corporation's (MBIA Corp.) resources be reversed. National's ability to write new business may be substantially constrained while the litigation remains outstanding, given the uncertainty as to its outcome.

Credit Strengths

- o Adequate near-term holding company liquidity
- o Capitalization of National may ultimately allow the group to regain traction in the US municipal market

Credit Challenges

- o RMBS and ABS CDO exposures have resulted in significant losses, which could increase considerably under stress scenarios
- o Continued large claims payments could further constrain liquidity
- o A number of lawsuits are challenging the legality of the recent group restructuring
- o Challenging economic environment is adversely affecting exposures beyond residential mortgages
- o Financial flexibility is currently impaired

Rating Outlook

The negative outlook for MBIA Corp reflects the potential for further deterioration in the insured portfolio. Absent better loss development than currently anticipated by the rating agency, Moody's believes that MBIA will likely pursue a negotiated settlement of some of these exposures under terms similar to a distressed exchange. There is, however, meaningful uncertainty about the actual losses that MBIA will incur due in part to the lack of consensus about the direction of the economy and its effect on portfolio credit performance. MBIA is suing some mortgage lenders for breach of representations and warranties and Merrill Lynch for fraudulent conduct in arranging ABS CDO transactions, both actions could potentially materially reduce losses to MBIA.

What Could Change the Rating - Up

- o Substantial performance improvements to mortgage-related exposures
- o A resolution of litigation with mortgage lenders and an ABS CDO arranger resulting in material reduction to MBIA losses
- o A capital adequacy profile consistent with a Ba or higher rating

What Could Change the Rating - Down

- o Substantial and uncorrected deterioration of portfolio characteristics
- o Failure to maintain cushion relative to regulatory capital requirements

Recent Results and Company Events

On February 18, 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 involves the segregation of 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 remainder of the portfolio, including all international and structured finance exposures. The transaction is being challenged in court by a large number of MBIA counterparties.

Under the terms of the transaction, National Public Finance Guarantee Corporation (previously named MBIA Insurance Corp. of Illinois) provided cut-through reinsurance on all of MBIA Corp's existing portfolio of US municipal credits through a 100% quota-share agreement, including the municipal exposure that MBIA Corp assumed from FGIC. To support its ability to pay claims, National has received a \$2.1 billion capital infusion sourced through a dividend from MBIA Corp, 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. Post transaction, National has approximately \$545 billion in municipal net par outstanding and \$5.4 billion in hard capital, while MBIA Corp has \$225 billion in net par exposure and approximately \$7.8 billion in hard capital (based on 1Q09 financial results).

DETAILED RATING CONSIDERATIONS

Moody's rates MBIA B3 for insurance financial strength, which is 6 notches below the Baa3 rating produced by Moody's unadjusted rating scorecard. As explained below, the adjusted score is largely influenced by our assessment of the company's franchise value and capital adequacy, which reflects the reduced range of new business opportunities available to the firm, portfolio credit deterioration and loss of financial resources as a result of the recent restructuring.

Insurance Financial Strength Rating

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

Factor 1 - Franchise Value and Strategy: B

Moody's has adjusted MBIA Corp's franchise value and strategy score to B to account for the company's lack of new production and constrained opportunities as a result of its weak credit profile. Until recently, MBIA Corp had been a market leader in the sector, but is currently not writing any primary business as a result of continued market concerns about its financial conditions, particularly with respect to potential losses out of its mortgage-related exposures. Going forward, our assessment of MBIA Corp's franchise value will be dependent upon its revised business strategy, as well as its ability to re-establish investor confidence and demand for its product.

Factor 2 - Portfolio Characteristics: B

MBIA Corp's large exposure to some of the sectors most affected by the current mortgage crisis, namely second lien mortgages and ABS CDOs, led to substantial deterioration in the aggregate credit characteristics of the firm's insurance portfolio. Moody's expected losses on ABS CDO and RMBS now approximate 19% and 14.5% of par, respectively.

Moody's said that, beyond MBIA Corp's affected mortgage related exposures, portfolio risks in other structured sectors, including corporate CDOs and commercial mortgages, are also showing signs of deterioration. Certain commercial real estate CDOs, because of their leveraged structures and risk concentrations, may be more sensitive to severe economic or sector deterioration.

Factor 3 - Capital Adequacy: Caa

MBIA Corp's capital profile has been materially affected by the continued deterioration of its insured portfolio of largely structured credits, with stress reaching sectors beyond residential mortgage-related securities. Additionally, the firm's recent restructuring led to a substantial reduction in claims-paying resources relative to the remaining higher-risk exposures in its insured portfolio, given the removal of capital, and the transfer of unearned premium reserves associated with the ceding of its municipal portfolio to National.

The claims-paying resources of MBIA Corp post restructuring are below Moody's expected loss estimates for the entity. There is, however, meaningful uncertainty about the actual losses that MBIA will incur due in part to the lack of consensus about the direction of the economy and its effect on portfolio credit performance. MBIA is suing some mortgage lenders for breach of representations and warranties and Merrill Lynch for fraudulent conduct in

arranging ABS CDO transactions; both actions could potentially materially reduce losses to MBIA.

Factor 4 - Profitability: Caa

MBIA Corp's mortgage-related losses to date have exceeded the earnings generated over the last few years, highlighting the severity of the stress faced by the firm. Moody's believes that additional losses are likely, given higher loss estimates for subprime mortgages and the substantial uncertainty that remains with respect to the ultimate performance of MBIA's structured finance portfolio; MBIA's loss reserves are substantially lower than Moody's expected loss on ABS CDOs and RMBS transactions. Moody's also expects continued volatility in reported GAAP earnings due to unrealized mark to market movements on CDS.

Factor 5 - Financial Flexibility: B

In Moody's opinion, MBIA Corp's access to capital is currently impaired. The group's current high cost of funds, as exemplified by its low stock price, limits the firm's financial flexibility should it need to access new capital. Moreover, any capital raised by the group would likely to be invested in National, not MBIA Corp., given the former operating company's relatively better new business prospects.

Holding company liquidity remains adequate over the near term as MBIA Inc. did not deploy the proceeds from a February 2008 \$1.1 billion equity raise into investments in its insurance subsidiaries. In addition, MBIA Inc. has substantially improved the liquidity profile of its asset management business by (a) rebalancing the portfolio to absorb the initial effect of GIC terminations triggered by rating downgrades, (b) borrowing \$600 million in holding company liquidity, (c) closing a three-year intercompany repurchase agreement facility with MBIA Corp for up to \$2 billion, and (d) increasing draws on the \$2 billion asset swap facility with National.

Rating Factors

MBIA Insurance Corporation

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa		Score	[1]Adjusted Score
Factor 1: Strategy & Franchise Value (25%)						Aa	B
% of Industry Net Par Outstanding	10.4%						
% of Industry Gross Par Written					x		
Moody's Adjusted Book Value/Book Value	1.54x						
Client Concentration					x		
Management, Governance & Risk Management Oversight					x		
Factor 2: Portfolio Characteristics (20%)						Baa	B
Credit Risk Ratio					4.6%		
Tail Risk Ratio					7.9%		
% Below Investment Grade					x		
S (WCL > 10% of HC) / HC	x						
Factor 3: Capital Adequacy (30%)							Caa
Hard Capital Ratio					0.48		
Total Capital Ratio					0.43		
Par Reinsured	6.5%						
Factor 4: Profitability (15%)						Baa	Caa
Return on Equity - 3 year average					-6.2%		
Loss Ratio (SAP) - 3-year average					155.3%		
Expense Ratio (SAP) - 3-year average		26.2%					
Factor 5: Financial Flexibility (10%)							B
Earnings Coverage					-2.10		
Cash Flow Coverage					0.0%		
Double Leverage				135.5%			

Ease of Access to Capital					x		
Aggregate profile					Baa3		B3

[1] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis.

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