

MBIA Insurance Corp. And MBIA Inc. Ratings Lowered; National Public Finance Guarantee Corp. 'A' Ratings Affirmed

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Overview

- We have increased concern about the continued adverse loss development within MBIA Corp., specifically with non-public finance transactions.
- In addition, sizeable exposures to certain asset classes within the insured portfolio could create significant losses and balance-sheet volatility.
- As a result, we have downgraded MBIA Insurance Corp. and MBIA Inc.; the outlook is negative.
- We have affirmed our 'A' ratings on National Public Finance Guarantee Corp., and the outlook remains developing.

Rating Action

On Sept. 28, 2009, Standard & Poor's Ratings Services lowered its counterparty credit, financial strength, and financial enhancement ratings on MBIA Insurance Corp. (MBIA) to 'BB+' from 'BBB'. At the same time, Standard & Poor's lowered its counterparty credit rating on MBIA Inc., the group holding company, to 'BB-' from 'BB'. The outlook on MBIA and the holding company is negative.

In addition, Standard & Poor's affirmed its 'A' counterparty credit, financial strength, and financial enhancement ratings on MBIA affiliate National Public Finance Guarantee Corp. (National). The outlook on National remains developing.

Rationale

Publication Date

Sept. 28, 2009

We downgraded MBIA and the holding company because macroeconomic conditions continue to contribute to losses on the group's structured finance products. Losses on MBIA's 2005–2007 vintage direct RMBS and CDO of ABS could be higher than we had expected. However, the downgrade also reflects potentially increased losses in other asset classes, including but not limited to CMBS and—for other years prior to 2005—within RMBS.

We affirmed our ratings on National, which assumed MBIA's U.S. public finance business, because it is not exposed to structured products. The rating on National reflects our view of both its uncertain business and capital-raising prospects. Management's stated goals are to raise additional capital to bolster National's current resources and effectively ring-fence National from MBIA and its more volatile book of business. However, the ring-fencing actions it has taken so far have had limited impact in that we view National as no more or less ring-fenced than any typical bond insurance subsidiary operating in a consolidated group. In addition, the legal challenges the company faces as a result of its restructuring are, in our opinion, an impediment to both business prospects and capital-raising efforts.

Outlook

The negative outlook on MBIA and the holding company reflects our view that adverse loss development on the structured finance book could continue. In the next few years, liquidity will likely be adequate to meet debt-service and holding-company obligations (including operating expenses). However, increased losses and earnings volatility could still occur. We expect that the company will maintain a sufficient number of experienced staff members to support surveillance and remediation efforts within the various business segments, with a focus on liquidity risk management. Considering the runoff nature of the franchise, it is unlikely that we would raise the rating. Alternatively, if there were increased losses within the investment portfolio, potential reserve charges, or diminished liquidity, we could take a negative rating action.

The outlook on National is developing. We could raise the rating if there is a favorable resolution of the current litigation, which in turn could facilitate capital-raising efforts and lead to more tangible separation of National from MBIA and MBIA Inc. Improving business acceptance could be an outgrowth of these developments, which could lead to a rating in the 'AA' category. Alternatively, an ongoing lack of market acceptance and continued weak financial flexibility could result in a downgrade to the 'BBB' category.

Related Research

- “ Bond Insurance Industry Overview And Analytical Focus,” June 29, 2006, RatingsDirect.
- “ The Interaction Of Bond Insurance And Credit Ratings,” Aug. 24, 2009, RatingsDirect.

The complete list of ratings affected by today's actions 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; click on Ratings on the left-hand navigation bar and then select Bond Insurance. Ratings information is also available on RatingsDirect. Our analysis of the impact of these rating actions is ongoing; we will post any additional rating changes at the same locations.

Ratings List

Downgraded

MBIA Insurance Corp. And MBIA Inc. Ratings Lowered; National Public Finance Guarantee Corp. 'A' Ratings Affirmed

	To	From
MBIA Insurance Corp.		
MBIA Assurance S.A.		
Capital Markets Assurance Corp.		
Counterparty Credit Rating		
Local Currency	BB+/Negative/—	BBB/Negative/—
MBIA Insurance Corp.		
MBIA U.K. Insurance Ltd.		
MBIA Assurance S.A.		
Capital Markets Assurance Corp.		
Financial Strength Rating		
Local Currency	BB+/Negative/—	BBB/Negative/—
MBIA Insurance Corp.		
MBIA U.K. Insurance Ltd.		
MBIA Assurance S.A.		
Financial Enhancement Rating		
Local Currency	BB+/-/-	BBB/-/-
MBIA Inc.		
Counterparty Credit Rating		
Local Currency	BB-/Negative/—	BB/Negative/—
MBIA Insurance Corp.		
Senior Unsecured	B+	BB
Preferred Stock	B+	BB
MBIA Global Funding LLC		
Senior Secured	BB+	BBB
Senior Unsecured	BB+	BBB
MBIA Inc.		
Senior Unsecured	BB-	BB
Ratings Affirmed		
Municipal Bond Insurance Assn.		
National Public Finance Guarantee Corp		
Counterparty Credit Rating		
Local Currency	A/Developing/—	
Financial Strength Rating		
Local Currency	A/Developing/—	
National Public Finance Guarantee Corp		
Financial Enhancement Rating		
Local Currency	A/-/-	

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