

MBIA Inc. And MBIA Insurance Corp.

Major Rating Factors

Strengths:

- Adequate liquidity at both the holding-company level and at the company's subsidiaries.
- Sufficient staff and experience to support surveillance and remediation efforts within the various business segments.

Weaknesses:

- The possibility of adverse loss development within the company's MBIA Insurance Corp. subsidiary, specifically in non-public-finance transactions.
- Sizable exposure to certain asset classes within the insured portfolio, which could create significant losses and balance-sheet volatility.
- Litigation challenges related to the planned legal separation of the company's U.S. public finance business.

Rationale

The ratings on holding company MBIA Inc. (MBIA) and its subsidiary, MBIA Insurance Corp. (MBIA Insurance), reflect macroeconomic conditions, which continue to contribute to losses in the group's structured finance business. We recently downgraded both of these companies, as we now believe that losses on MBIA Insurance's 2005-2007 vintage direct residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs) of asset-backed securities could be higher than previously expected. The downgrades also reflected the potential for increased losses in other asset classes—including, but not limited to, commercial mortgage-backed securities (CMBS)—and, for years prior to 2005, within RMBS.

The rating on MBIA reflects the view that the company is in runoff; and this corporate profile is unlikely to change before late in the fourth quarter of 2009. Longer-term, the

Financial Strength Rating

Local Currency

BB+/Negative/—

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company intends to create a number of operating companies, conducting businesses in U.S. public finance, global structured finance, international infrastructure finance, and asset management. Some separate operating companies may have a distinct holding company, ultimately owned partially or fully by MBIA Inc. (the ultimate holding company), and it is possible that these operating companies may be separately capitalized. Standard & Poor's views this organizational structure as a late-2011 scenario, at the earliest. At the holding company level, we would consider the operating companies' diversification of earnings, potential dividends, and cash flows as being relevant to MBIA Inc.

We believe that the company has adequate liquidity at the holding-company level, supported by cash flows and pure cash amounts that can cover about two years of obligations (including debt obligations). At the operating subsidiary level, we believe there is a potential for longer cash coverage within all the business segments. The company has sufficient staff and experience to support surveillance and remediation efforts within its various business segments, and it is focused on liquidity risk management. Weaknesses to the credit profile include MBIA's sizable exposures to certain asset classes within the insured portfolio, which could create further losses and balance-sheet volatility (even though we expect its liquidity to remain adequate during the next few years).

MBIA is focused on rebranding its U.S. public finance segment, National Public Finance Guarantee Corp. (National), as a separate legal entity, in order to create a viable U.S. public finance franchise. However, there are lawsuits challenging this separation, and this is limiting MBIA's ability to establish an ongoing franchise within the group—one that could increase its earnings and cash flow and have stand-alone financial flexibility.

Factors Specific To Holding Company

MBIA Inc. is a holding company whose subsidiaries provide financial guarantee insurance, advisory and portfolio services for the public finance and structured finance markets, and investment management services (including advisory services, asset/liability products, and conduits). The company provides financial guarantee insurance through MBIA Insurance Corp. (non-U.S. public finance and structured finance) and National (U.S. public finance only).

On Feb. 18, 2009, MBIA announced a restructuring plan, whereby separate legal entities were created within the company. National (formerly known as MBIA Illinois) became a sister company of other MBIA operating entities, one of which (MBIA Insurance) maintains non-U.S. public finance risks. National became the U.S. public finance insurer within the MBIA group and assumed the U.S. public finance book of business on a reinsurance-cut-through basis. This business was previously part of MBIA Insurance. MBIA's other legal entities retained the global structured finance and international infrastructure business. This restructuring separated the more-volatile structured finance book of business from the lower-risk/lower-volatility U.S. public finance book.

However, National is facing three lawsuits challenging this separation. While National has been created legally, the market (i.e., potential issuers and investors) has not accepted this separation, and does not yet appear to view National as a risk entity separate from MBIA Insurance. Further, the market appears unwilling to do business with National until the litigation issues are resolved; and thus, National's competitive position and financial flexibility are constrained at their current levels. National will be relatively inactive (aside from its existing portfolio) until the litigation issues are resolved, possibly by year-end 2009.

National is currently domiciled in Illinois, but it expects to redomesticate to New York in late 2009. Because National had negative earned surplus in 2009, it cannot pay dividends. The redomestication to New York wouldn't automatically reset earned surplus and allow National to pay dividends, but it is the key first step in the process. Special state approval would need to be granted in order for National to pay dividends, but the redomestication process accelerates this potential dividend capacity.

The separation of National from MBIA's other operating subsidiaries is key, if MBIA is to emerge from runoff. MBIA's other operating companies, excluding National, are not significant from an earnings standpoint and cannot return MBIA to active company status. Thus, the separation is necessary so that MBIA can have a viable business franchise.

In 2008, MBIA and MBIA Insurance raised more than \$2.6 billion in new capital through the issuance of common stock and surplus notes and retired \$127 million par value of corporate debt and \$47 million of surplus notes. The company also eliminated MBIA's dividend, which provided an additional \$174 million of capital flexibility. In addition, MBIA raised \$400 million through the issuance of preferred stock. The new capital included \$1.1 billion of equity (ultimately retained at the holding company level) that has significantly supported the liquidity needs of MBIA's asset/liability management (ALM) segment.

On Jan. 16, 2008, MBIA Insurance issued surplus notes due Jan. 15, 2033. The surplus notes have an initial interest rate of 14% until Jan. 15, 2013, and thereafter, an interest rate of three-month LIBOR plus 11.26%. The surplus notes are callable at par at MBIA Insurance's option on the fifth anniversary of the date of issuance and every fifth anniversary thereafter, subject to prior approval by the Superintendent of the New York State Insurance Department (NYSID) and other restrictions.

At year-end 2008, MBIA had total shareholders' equity of \$994 million and total long-term debt of \$2.4 billion. Long-term debt to total capital was 43 % in 2008 and decreased to 40% as of the second quarter of 2009. Long-term debt includes debt issued by MBIA for general corporate purposes, surplus notes issued by MBIA Insurance, and bank loans under liquidity facilities. Standard & Poor's adjusts these figures for credit default swap impairments and preferred stock. The increase in the long-term debt-to-capital ratio in 2008 from 2007's 24% reflected the issuance of surplus notes, net of repurchases, and liquidity facility drawdowns in 2008, as well as a substantial reduction in total shareholders' equity. In addition, MBIA recorded significant realized losses in its investment portfolio and non-U.S. public finance financial guarantee book, and this offset the growth in shareholders' equity that had resulted from the common stock issuance during 2008.

MBIA's debt-service and operating-expense obligations are supported by cash amounts and cash flows expected in the next few years. The 2009 cash coverage figure of about 2.4 years is an important factor for the rating; and thus, negative changes in this figure would likely cause us to lower the rating.

In 2009, MBIA commenced an action in the Superior Court of California against Countrywide Financial Corp., several of its senior officers, and the underwriters of certain RMBS transactions insured by MBIA. The complaint alleges state securities law violations and seeks damages for alleged fraudulent, material representations and omissions in Countrywide's offering documents that have allegedly resulted in substantial damages to MBIA. This action reflects MBIA's determination that it will aggressively pursue all claims related to potential fraud and misrepresentation by Countrywide.

On July 8, 2009, in a separate suit MBIA filed against Countrywide, the New York State Supreme Court ruled that MBIA's fraud claims against Countrywide will be allowed to proceed. The majority of total loss reserves for MBIA Insurance relate to Countrywide and Residential Capital LLC (RESCap)

litigation. MBIA expects the total present value of ultimate losses to be about \$3 billion for these transactions. This process will take years to complete.

Outlook

The negative outlook on MBIA and MBIA Insurance reflects the possibility 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, there could be increased losses and earnings volatility. 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 not likely that we will raise the rating. Further, if the company exhibits increased losses within its investment portfolio or demonstrates potential reserve charges or diminished liquidity, we could lower the rating.

Management And Corporate Strategy: Seeks To Operate Successfully Through Separate, Independent Operating Companies

We view MBIA's competitive position as marginal, with the company in runoff. With MBIA's brand name suffering significant deterioration, its National subsidiary had to be rebranded. However, we believe that MBIA will maintain sufficient staff with the experience to support surveillance and remediation efforts for its remaining portfolio.

Table 1

MBIA Insurance Corp./Portfolio Statistics					
<i>(Mil. \$)</i>	<i>—June 30, 2009—</i>		<i>—Year ended Dec. 31—</i>		
	<i>% of par</i>	<i>Par</i>	<i>2008 par</i>	<i>2007 par</i>	<i>2006 par</i>
Public finance					
Total	N.A.	N.A.	553,683	404,365	386,409
Domestic asset-backed securities and corporate finance					
Mortgage-backed securities	6.2	13,338	14,768	11,466	7,918
Home equity loans	4.9	10,549	11,431	19,938	20,108
Auto loans	2.4	5,160	6,319	9,803	9,454
Other consumer asset-backed securities	0.9	1,861	2,924	8,595	10,593
Commercial asset-backed securities	44.3	96,031	99,825	100,073	68,181
Banks/financial institutions	0.6	1,355	1,422	1,452	1,568
Other	2.3	5,012	5,239	5,495	3,894
Total	61.5	133,306	141,928	156,822	121,717
International					
Public finance	14.0	30,328	29,242	36,531	33,569
Asset-backed securities	24.5	52,981	61,686	80,943	76,113
Other	-	-	-	-	-
Total	38.5	83,309	90,928	117,474	109,682
Total net par outstanding	100.0	216,615	786,539	678,661	617,808

N.A.—Not available.

Financial guarantee segment

MBIA's financial guarantee business is operated through two segments: National and MBIA Insurance.

We believe National has a potentially strong competitive position, with strengths in underwriting, brand name, and particularly distribution. Mitigating factors include limited pricing power and National's concentration in writing one product (financial guarantee) in only one sector (public finance).

National is licensed to write financial guarantee insurance in 43 states, as well as Washington, D.C., and Puerto Rico. In the remaining seven states (including California), National is licensed in other lines, but may need to add a financial guarantee line. The company expects to secure the remaining outstanding licenses. National will only write financial guarantee business in the U.S. municipal market using financial guarantee insurance policies. National will not write structured finance or any international business.

Financial guarantee business outside of U.S. public finance is maintained by MBIA Insurance. MBIA Insurance insures and reinsures structured finance and international financial obligations, sold in the new-issue and secondary markets. As of year-end 2008, MBIA Insurance had 1,469 policies outstanding in the portion of its insured portfolio that was not ceded or assigned to National (then known as MBIA Illinois) effective Jan. 1, 2009. In addition, MBIA Insurance has issued 425 policies relating to MBIA asset-management transactions. MBIA Insurance's policies are diversified among 960 credit groups (characterized as any group of issues supported by the same revenue source).

MBIA Insurance is in runoff, but it will continue to insure its remaining book of structured finance and international business, as well as the guaranteed investment contracts (GICs) and medium-term notes (MTNs) managed by MBIA's asset management business.

Since its inception to year-end 2008, MBIA Insurance had 152 financial guarantee insured issues requiring claim payments. There are also currently eight financial guarantee insured issues for which the company has established case loss reserves for expected future claims but the claims have not yet been paid. Further, since its inception, MBIA has had four credit derivative insured issues requiring payments, and there are an additional eight credit derivative insured issues where payments are expected.

From the company's inception to the third quarter of 2007, cumulative incurred losses on financial guarantee insured issues have totaled \$916 million. Beginning in the fourth quarter of 2007, MBIA recognized losses on 41 housing-market-related securities that totaled \$3.8 billion, comprised of losses on 29 financial guarantee insured issues of \$2.1 billion and on 12 insured credit derivatives of \$1.7 billion. The company has made cash payments on 28 of the financial guarantee insured issues, totaling \$2.1 billion, and there is one additional insured issue for which a case loss reserve of \$23 million has been established for expected future claims but the claims have not yet been paid. Since the fourth quarter of 2008, cash payments have been made on four insured credit derivatives issues, representing \$0.5 billion of the \$1.7 billion total, and there are an additional eight insured credit derivatives issues on which payments have not been made, representing \$1.2 billion of the \$1.7 billion total.

Investment management services

MBIA's investment management services operations consist of an asset-management advisory business that provides cash management, discretionary asset management, and structured products to the

public, not-for-profit, corporate, and financial sectors. MBIA also has an asset/liability products business, in which it has issued debt and investment agreements (insured by MBIA Insurance) to capital markets and municipal investors and then purchased assets that largely matched the duration of those liabilities. The ratings downgrade on MBIA Insurance has resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, has caused MBIA to begin winding down its asset/liability products business.

MBIA's assets under management in its conduit business totaled \$1.8 billion as of June 30, 2009, down from \$2.1 billion as of March 31, 2009, and \$2.4 billion as of Dec. 31, 2008. The decline in conduit assets has resulted from the maturity and scheduled amortization of transactions and the repurchase of a medium-term note. MBIA's conduit segment administers two multi-seller conduit financing vehicles through MBIA Asset Finance LLC.

The ALM and conduit businesses continued to wind down through the first half of 2009. As of June 30, 2009, MBIA had \$8.8 billion in outstanding GIC, medium-term note, and repurchase agreement liabilities (all at book value) related to its ALM business (down from \$9.7 billion as of March 31, 2009, and \$12.3 billion as of Dec. 31, 2008). Invested assets in the ALM business totaled \$8.1 billion as of June 30, 2009 (excluding unrealized losses), of which \$1.3 billion consisted of cash and short-term investments.

National had \$537.5 billion of net municipal par in force as of the second quarter of 2009. As of the second quarter, the credit quality distribution of the net insured portfolio was predominately in the 'AA' (45.7%) and 'A' (40.8%) categories, with about 0.5% of the portfolio composed of non-investment-grade credits; 'AAA' (3.6%) and 'BBB' (9.4%) accounted for the remainder. The company had \$147 million in statutory reserves as of the second quarter of 2009. The largest sectors in the portfolio are general obligation (GO), at 45.8%; municipal utilities, at 17.7%; and the tax-backed sector, at 11.3%. Healthcare accounts for 3.5%; transportation, 9.8%; and higher education, 5.4%.

Affiliates

MBIA's affiliate financial services business lines are part of its asset-management business. These business lines include money management services, investment agreements, MTNs, and customized and pooled investment products offered through:

- MBIA Municipal Investors Service Corp.—an SEC-registered investment adviser that provides investment management programs for state and local governments, with total assets under management of \$18.1 billion as of June 30, 2009.
- MBIA Investment Management Corp.—a provider of customized investment agreements for bond proceeds, other public funds, and funds related to asset-backed or structured-product issuance, with \$2.9 billion outstanding in investment agreements and asset/liability products as of June 30, 2009.
- MBIA Global Funding LLC—a provider of medium-term notes purchased by banks, insurance companies, securities lenders, and mutual funds, with \$2.6 billion of medium-term notes outstanding as of June 30, 2009.
- MBIA Capital Management Corp.—an SEC-registered investment adviser and NASD member firm specializing in fixed-income management for institutional funds, with total third-party assets outstanding of \$16.6 billion as of June 30, 2009.

Although the company's financial services businesses are not its primary source of revenue, the profits generated by these businesses support MBIA's liquidity and cash flow.

MBIA's management is focused on creating separate legal entities within the MBIA corporate structure—each focusing on its own market segment, with separate capital and corporate strategies. However, this strategy will be constrained until National's litigation issues are resolved and that business begins to realize its own brand name and market presence.

MBIA's senior management team is led by Joseph Brown, who serves as CEO of the holding company, and C. Edward Chaplin, who serves as chief financial officer. National's CEO is Tom McLoughlin. The management teams at MBIA, National, and the advisory services and investment services business have all been with MBIA for many years.

Finances: Marginal Operating Performance

We view MBIA's operating performance as marginal, in that its 2009 earnings were supported mainly by reserves releases we believe may potentially be too optimistic and premature, given the continued deterioration in certain asset classes. MBIA recorded net income available to common shareholders of \$1.6 billion for the first half of 2009, compared with a net loss of \$706.4 million during the same period in 2008. The 2009 net income figure was bolstered significantly by \$1.1 billion of pretax estimated recoveries related to potentially ineligible mortgages included in insured second-lien residential mortgage loan securitization exposures that are subject to a contractual obligation by sellers/servicers to remove or replace such mortgages. The appropriateness of MBIA's reserves release won't be known for a few years.

Table 2

MBIA Insurance Corp./Financial Statistics					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>June 30, 2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Insurance company (MBIA Insurance) (1)</i>					
Total assets	5,833.4	13,532.6	11,410.2	10,993.8	11,037.0
Cash plus invested assets	5,591.3	12,849.1	10,981.2	10,733.4	10,786.5
Unearned premiums	730.1	4,005.8	3,544.7	3,664.5	3,508.1
Statutory capital	4,242.5	6,097.3	6,382.0	6,558.7	6,569.4
Net premiums earned	200.9	906.9	767.1	739.0	735.3
Losses and loss adjustment expense	623.1	3,074.4	876.6	94.2	188.8
Underwriting expense	(719.2)	342.1	190.5	217.0	180.4
Investment income including gains	20.2	381.4	498.0	500.9	474.4
Net income	281.2	(1,412.7)	182.1	668.6	632.9
Loss ratio (%)	310.2	339.0	114.3	12.7	25.7
<i>Holding company (MBIA Inc.) (2)</i>					
Total assets	27,296.5	29,030.4	47,415.0	39,763.0	47,415.0
Stockholders' equity	2,781.9	994.4	3,655.8	7,204.3	3,655.8
Net income	1,591.4	(1,159.8)	(1,992.0)	819.3	(1,992.0)
Debt/capitalization (%) (3)	40.4	40.3	26.4	14.4	26.4
Hybrid security tolerance ratio (%) (4)	0.0	0.0	0.0	0.0	0.0

Table 2

MBIA Insurance Corp./Financial Statistics (cont. 'd)					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>June 30, 2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Total hybrid tolerance security ratio (%) (5)	0.0	0.0	4.5	4.5	4.5
Return on average equity (%)	N.M.	N.M.	N.M.	11.9	N.M.

Footnotes: (1) Pro forma U.S. statutory basis of accounting. (2) U.S. GAAP basis. (3) (Holding company debt + hybrid securities not qualifying as equity)/(holding company debt + shareholders equity + hybrid securities). (4) Hybrid securities/(capital [debt + shareholders equity] + hybrid securities). (5) (Hybrid securities + contingent capital)/(capital + hybrid securities + contingent capital). N.M.—Not meaningful.

During the second quarter of 2009, MBIA observed a continued deterioration in the performance of its insured second-lien residential mortgage loan securitization exposures. The company increased its related case loss reserves, reflecting its expectations for additional claims payments to policyholders in those transactions, and this resulted in a \$353.7 million increase in incurred losses. The net effect of the anticipated recoveries (the reserves release noted above), the increase in incurred losses, and certain other reserve adjustments was a \$729.3 million reduction in loss reserves as of June 30, 2009. MBIA also estimated \$287.0 million in incremental credit impairments on its insured multi-sector CDO exposures in the second quarter.

For the year 2008, MBIA recorded a net loss of \$2.7 billion, compared with a net loss of \$1.9 billion in 2007. The investment management services business had a pretax loss of \$1.4 billion in 2008, versus pretax income of \$310 million in 2007. The decline resulted mainly from a \$1.7 billion realized loss in 2008, when \$774 million of net realized losses were generated from sales of securities in the asset/liability products segment (principally to raise cash to fund investment agreement terminations and to obtain eligible collateral for posting requirements). The company also sold securities during 2008, in order to rebalance the asset portfolio so it would more closely match remaining future liability cash flows. Additionally, \$945 million of net realized losses resulted from writing down certain investments available for sale to their fair value, as a result of management's determination that these assets constituted other-than-temporary impairments. Of this \$945 million, \$553 million was due to issuer credit concerns and \$392 million was related to specific securities that MBIA did not intend to hold to maturity or until fair value recovered to amortized cost.

Prospective

We expect the company's operating performance to remain volatile, based on asset fluctuations and unrealized and realized investment losses. However, we expect that liquidity will remain adequate.

Investments And Liquidity: Holding Company and Operating Subsidiaries Have Adequate Liquidity

We expect that MBIA will maintain adequate liquidity at the holding company level, supported by cash flows and pure cash amounts that can cover about two years of obligations (including debt obligations). At the operating subsidiary level, we believe there is a potential for longer cash coverage within all the business segments. Standard & Poor's reviews liquidity at MBIA Insurance and National, as well as at the holding company level and the ALM segment.

The ALM segment, a segment within MBIA Inc., has faced significant liquidity strain. As of September 2009, ALM's liquidity was supported in part by two repos. The business has a cash repo

agreement with MBIA Insurance for \$2 billion and an asset repo with National for \$2.0 billion. ALM also has a \$600 million loan with MBIA Inc.

The asset repo with National is part of a two-way repo agreement with MBIA's ALM segment, and ultimately, its GICs. National provides MBIA with collateral eligible securities—principally Treasury and agency securities—so that ALM can post eligible collateral for GICs. In return, MBIA provides investment-grade (but ineligible as collateral for its GIC obligations) securities to National (including RMBS securities, but mostly structured and corporate bonds). National is generating a higher yield due to this repo transaction, which increases its net investment income. In addition, a margin maintenance agreement between National and MBIA further reduces investment risk.

ALM has a secured loan facility with MBIA Insurance for \$2 billion; in this case, ALM is required to post collateral with a book value greater than or equal to the drawn amount. The main rationale for the repo was to avoid forcing ALM to sell depressed assets and thereby realize investment losses. Sales of depressed assets would have reduced the asset value supporting ALM, whose obligations are insured by MBIA Insurance, thereby increasing the potential for cash flow issues relative to liabilities and increasing the potential for claims on MBIA Insurance policies. As a result of this loan, ALM received cash and provided MBIA Insurance with an investment portfolio of corporates, asset-backed securities, and CDOs. The market value and book value differences within ALM's balance sheet through Aug. 31, 2009, and its projected cash flows underscore our expectation that the company will maintain adequate liquidity through mid-2011.

The liquidity issue at ALM will hinge on whether its liquidity is strong enough for it to manage through the difference between its obligations on the liability side and its assets. This concern is compounded by the reality that the asset values fluctuate, and the payments of the terminable GIC liabilities are not stable, either.

On a positive note, however, cash, treasuries, and agencies accounted for \$1.8 billion of ALM's investments as of June 30, 2009, supporting our view that the variance in the other asset items does not place ALM into a position of being forced to sell assets and realizing losses on those sales. With no new asset sales, ALM's cash amounts should remain positive through year-end 2010.

The liability side of ALM's balance sheet may be volatile, but this is largely based on the difference between the market and book values of the MTNs. The GICs and other liability items have market and book values that are very similar. MBIA's credit risk is significant, as the company has insured all GICs and MTNs, and its prospective strength will therefore influence the variance between the market and book values.

MBIA Insurance's liquidity is an area of high risk within MBIA; however, we note that it is supported by \$1.2 billion in cash at September 2009. MBIA Insurance's liquidity is significant within the group, based on changes in RMBS values. Furthermore, we expect MBIA Insurance to face a declining cash balance into the first quarter of 2010.

As of June 30, 2009, cash at MBIA Insurance totaled approximately \$1.2 billion. The primary difference between this figure and the \$3.1 billion shown in the quarterly statutory statement is that the statement classifies the \$2 billion MBIA Insurance and ALM repo as a short-term investment (as it is renewable annually) and includes some other items we do not view as significant.

MBIA Inc.'s debt-service and operating-expense obligations are balanced by the cash amounts and cash flows we expect in the next few years. The 2009 cash coverage figure of about 2.4 years is a main factor for the rating, and negative changes in this figure would likely lead us to lower the rating. The

company faces debt maturities of \$41 million in 2010 and \$93 million in 2011, with the next maturity in 2022.

We view National's liquidity as good, in that potential claims and payouts will be emerging long-term (during the next 30 years or so), and we expect no significant or immediate cash outflows or needs for the company, largely because of the policy language and public finance coverage National offers. The company estimates that the average life of its domestic public finance insurance policies in force at Jan. 1, 2009, was 11.2 years. From an asset standpoint, liquidity is also strong, in that the company maintains nearly \$300 million in cash and has a high-quality investment portfolio.

Unrealized losses on insured derivatives for MBIA Inc. totaled \$1.8 billion in 2008, compared with \$3.7 billion in 2007. The 2008 unrealized losses were principally driven by a widening of spreads and, to a lesser extent, subordination erosion, collateral rating migration, and lower recovery rates. The impact of these factors was significantly offset by the effects of MBIA's nonperformance risk (see Accounting section, below). In 2008, unrealized losses on insured credit derivatives would have been \$15.0 billion (excluding the effects of MBIA's and reinsurers' nonperformance risk). As of Dec. 31, 2008, MBIA Insurance's five-year credit default swap spread was 46.50% up front plus 5% per annum, compared with 3.3% per annum as of Dec. 31, 2007.

Insured portfolio

For the six months ended June 30, 2009, MBIA's structured finance and international insurance segment's insured portfolio declined in size to \$216.6 billion (versus \$224.8 billion as of March 31, 2009).

Capitalization: 2009 Margin Of Safety Is Below The 'A' Rating Level

MBIA's margin of safety for 2009 remains below the 'A' rating level. Our capital adequacy test run on the retained exposure included the following assumptions and changes to the capital adequacy model:

- 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.
- Effective tax rate on RMBS and CDOs of asset-backed securities losses was 20%.

Table 3

MBIA Insurance Corp./Capital Statistics					
	<i>—Year ended Dec. 31—</i>				
<i>(Mil. \$)</i>	<i>June 30, 2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Portfolio risk</i>					
Asset-backed capital charge (% of par)	1.7	1.6	1.5	1.9	2.0
<i>Claims-paying resources*</i>					
Statutory capital	4,242.5	6,097.3	6,382.0	6,558.7	6,569.4
Contingent capital		400.0	400.0	400.0	400.0
Letters/lines of credit		450.0	450.0	450.0	450.0
Owner capital commitment					

Table 3

MBIA Insurance Corp./Capital Statistics (cont.'d)					
	<i>—Year ended Dec. 31—</i>				
<i>(Mil. \$)</i>	<i>June 30, 2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Stop-loss treaty</i>					
Unearned premiums	730.1	4,005.8	3,544.7	3,664.5	3,508.1
Present value of annual premiums	1,948.0	2,386.0	2,639.0	2,309.4	2,171.0
<i>Other</i>					
Total	6,920.6	13,339.1	13,415.7	13,382.6	13,098.5
<i>Capital adequacy</i>					
Capital remaining at end of depression test	N.M.	N.M.	750-800	2,750-2,800	3,550-3,600
Margin of safety (x)	0.7-0.8	0.9-1.0	1.0-1.1	1.3-1.4	1.4-1.5
Reliance on soft capital (%)	0.0	0.0	17.6	11.4	11.1

*Claims-paying resources excludes loss and loss adjustment expense of \$858 mil. at June 30, 2009. N.M.—Not meaningful.

In addition to Standard & Poor’s normal stress assumptions for municipal and non-RMBS asset classes, we tested MBIA Insurance’s capital adequacy against a scenario that applies stressful default assumptions to various 2005-2007 RMBS-related transactions the company has insured. We based the default rates for these transactions on stressful cumulative net loss assumptions that vary by asset type and vintage (see “Standard & Poor’s Revises U.S. Subprime And Alternative-A RMBS Loss Assumptions For Transactions Issued In 2005, 2006, And 2007,” published July 6, 2009, on RatingsDirect). We have included the Alt-A, subprime, closed-end second, home equity line of credit, and net interest margin securities asset types with 2005, 2006, and 2007 vintages in this analysis. For MBIA Insurance, these loss assumptions generated \$4.9 billion of direct RMBS losses and \$3.5 billion of CDOs of asset-backed securities losses.

Historically, MBIA has utilized Channel Re as a reinsurer. However, in 2009, Channel Re’s board voted to officially place the company into runoff. Standard & Poor’s expects that Channel Re will not pay dividends in 2009. This would be a benefit to MBIA, since Channel reinsured sizable MBIA transactions, and if Channel Re can’t pay MBIA back, MBIA would be reassuming this risk on a gross basis. As a result of our withdrawal of Channel Re’s ratings in March 2009, and in accordance with our criteria, our capital adequacy model no longer gives MBIA credit for business it has ceded to Channel Re, which is now an unrated reinsurer.

Standard & Poor’s expects the margin of safety for MBIA Insurance to remain below the ‘A’ level in 2009.

MBIA’s ability to issue debt or capital in the next 12 months is very limited, making for weak financial flexibility. It is unlikely that the company will be able to raise external capital until National’s market presence improves and MBIA’s corporate strategy of creating diversified operating segments is accepted by the market.

In 2008, MBIA Inc. and MBIA Insurance raised more than \$2.6 billion in new capital through the issuance of common stock and surplus notes and retired \$127 million par value of corporate debt and \$47 million of surplus notes. MBIA also eliminated its dividend, providing an additional \$174 million of capital flexibility. In addition, in 2008, MBIA raised \$400 million through the issuance of preferred

stock. The new capital, which included about \$1.1 billion of equity (ultimately retained at the holding-company level), has significantly supported the liquidity needs of MBIA's ALM segment.

On Jan. 16, 2008, MBIA Insurance issued surplus notes due Jan. 15, 2033. The surplus notes have an initial interest rate of 14% until Jan. 15, 2013, and thereafter, an interest rate of three-month LIBOR plus 11.26%. The surplus notes are callable at par at MBIA Insurance's option on the fifth anniversary of the date of issuance and every fifth anniversary thereafter, subject to prior approval by the Superintendent of the NYSID and other restrictions.

At year-end 2008, MBIA had total shareholders' equity of \$994 million and total long-term debt of \$2.4 billion. Long-term debt to total capital was 43% in 2008, and decreased to 40% as of the second quarter of 2009. Long-term debt includes debt issued by MBIA for general corporate purposes, surplus notes issued by MBIA Insurance, and bank loans under liquidity facilities. Standard & Poor's adjusts these figures for credit default swap impairments and preferred stock. The increase in the long-term debt-to-capital ratio in 2008 from 2007's 24% reflected the issuance of surplus notes, net of repurchases, and liquidity facility drawdowns in 2008, as well as a substantial reduction in total shareholders' equity. Significant realized losses recorded in MBIA's investment portfolio and the non-U.S. public finance financial guarantee book have offset the growth in shareholders' equity resulting from the common stock issuance during 2008.

Accounting

Standard & Poor's views holding company MBIA Inc.'s accounting policies as generally consistent with industry standards and neutral to the ratings. MBIA files consolidated statements according to U.S. GAAP. MBIA Insurance and National file financial statements under Statutory Accounting Principles (SAP). Key accounting issues and standards are:

- On May 23, 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) 163, which prescribes loss reserve and revenue recognition practices for the financial guarantors. Standard & Poor's evaluates the financial strength of the financial guarantors using the financial statements prepared under SAP. Under this accounting method, reserves are booked when a loss is incurred. In addition, Standard & Poor's estimates theoretical losses in severe economic conditions, which may be greater than current losses, to evaluate the adequacy of the bond insurer's claims-paying resources.
- Revenue recognition is also covered by SFAS 163 and became effective on Jan. 1, 2009. Prior to its implementation, MBIA's up-front premiums were earned in proportion to the expiration of the insured obligation's related principal balance. Installment premiums are earned over the installment period. We do not expect the implementation of SFAS 163 to materially change revenue recognition on installment premiums. However, there is a material effect on the recognition of up-front premiums, which are recorded as written at the policy's inception. Earnings under SFAS 163 will effectively backload the revenue recognition for up-front premiums compared with current industry methodologies. Although the change in premium recognition under SFAS 163 will affect the financial statements, we do not expect it to have an effect on the credit profile of the company, because the fundamental economics of a transaction or bond insurance business model have not changed.
- The credit default swaps mark-to-market accounting under FASB No. 133, which requires derivatives to be marked to market at each reporting date, adds a degree of volatility to MBIA's earnings. In our opinion, this concept, insofar as it relates to the financial guarantee insurance

industry, has introduced an element of earnings volatility that has little bearing on either the likelihood of a potential claim or the intrinsic earning power of a bond insurer. Unlike other financial sectors for which FASB No. 133 may be more relevant, bond insurers' contracts are not traded, and there is no business intention to realize gains. Therefore, recording a marked-to-market loss because of changing spreads in the marketplace can be misinterpreted when applied to insurance guarantees. Standard & Poor's believes that the insurers' loss reserves are the more appropriate indicators of potential claims, and that our capital charge evaluations are better indicators of changes to the credit profiles of any of the bond insurers' insured sectors.

- The nonperformance risk of marked-to-market accounting for derivative assets and liabilities under SFAS No. 157 ("fair value measurement") is another issue that adds a degree of volatility to MBIA's earnings, in our view. The valuation of MBIA's derivative liabilities must account for the market's perception of MBIA's nonperformance risk by incorporating the spreads of MBIA's credit default swaps. From a ratings perspective, the market's perception of MBIA's ability to settle its obligations does not relieve it of its responsibility to pay on its obligations, nor does it allow MBIA to transfer the obligation at the market value. We do not consider any gains taken from the deterioration in MBIA's own creditworthiness "economic" or "real" for the purposes of our ratings analysis. Furthermore, for our purposes, we reverse any market-based gyrations unrelated to fundamental credit deterioration when evaluating capital and earnings.
- With regard to MBIA's special-purpose entities (SPEs), Standard & Poor's does not view consolidation as indicative of different or incremental risk relative to the company's nonconsolidated insurance exposure. These financial intermediaries are client funding vehicles and do not provide liquidity or capital resources to the bond insurer and its holding company. The bond insurer guarantees the assets going into the SPE and/or debt issued by the SPE. From a risk perspective, the guaranteed SPE assets are capital charged by Standard & Poor's for capital adequacy modeling purposes. These entities practice active and extensive asset/liability management, closely match-fund the assets and liabilities, and operate under tight risk-management tolerances. Operating under these strict rules and guidelines, the SPEs' liquidity risk, financial market risk, and credit risk are all reduced to relatively insignificant levels. Because of this, and the fact that credit risk is captured in the capital charge, the debt associated with SPEs is not included in any leverage calculations or fixed-charge coverage ratios.

Ratings Detail (As Of 04-Nov-2009)

MBIA Insurance Corp.	
Financial Strength Rating	
Local Currency	BB+/Negative/—
Counterparty Credit Rating	
Local Currency	BB+/Negative/—
Financial Enhancement Rating	
Local Currency	BB+/-/—
Preferred Stock (8 Issues)	B+
Senior Secured (3 Issues)	BB+
Senior Unsecured (1 Issue)	B+
Senior Unsecured (26 Issues)	BB+

Ratings Detail (As Of 04-Nov-2009)* (cont. 'd)

Related Entities

Autopista Monterrey-Cadereyta	
Senior Secured (1 Issue)	BBB-/Stable
CaVal (Mexico) National Scale Rating (1 Issue)	mxAA/Stable
Capital Markets Assurance Corp.	
Financial Strength Rating	
Local Currency	BB+/Negative/—
Issuer Credit Rating	
Local Currency	BB+/Negative/—
Senior Unsecured (1 Issue)	BB+
MBIA Global Funding LLC	
Senior Secured (1 Issue)	BB+
Senior Secured (6 Issues)	BB+/Negative
Senior Unsecured (27 Issues)	BB+
Senior Unsecured (8 Issues)	BB+/Negative
MBIA Inc.	
Issuer Credit Rating	
Local Currency	BB-/Negative/—
Senior Unsecured (7 Issues)	BB-
MBIA Mexico S.A. de C.V.	
Financial Strength Rating	
Local Currency	BB+/Negative/—
CaVal (Mexico) National Scale Rating	mxA/Negative
MBIA U.K. Insurance Ltd.	
Financial Strength Rating	
Local Currency	BB+/Negative/—
Financial Enhancement Rating	
Local Currency	BB+/-/—
Municipal Bond Insurance Assn.	
Financial Strength Rating	
Local Currency	A/Developing/—
Issuer Credit Rating	
Local Currency	A/Developing/—
National Public Finance Guarantee Corp	
Financial Strength Rating	
Local Currency	A/Developing/—
Issuer Credit Rating	
Local Currency	A/Developing/—
Financial Enhancement Rating	
Local Currency	A/-/—

Holding Company MBIA Inc.

Domicile New York

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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