MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms MBIA's ratings; outlook remains positive

Global Credit Research - 10 Feb 2014

New York, February 10, 2014 -- Moody's Investors Service has affirmed the insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation (National) at Baa1, MBIA Insurance Corporation (MBIA Corp.) at B3, MBIA Mexico S.A de C.V. (MBIA Mexico) at B3, and MBIA UK Insurance Limited (MBIA UK) at B1. In the same rating action, Moody's also affirmed the Ba3 senior unsecured debt ratings of MBIA Inc., the group's ultimate holding company. The outlook for the ratings remains positive. A full list of rating actions on MBIA Inc. and its subsidiaries is provided below.

RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

According to Moody's, the Baa1 IFS rating of National, positive outlook, reflects the insurer's strong overall capital profile and ongoing de-risking through insured portfolio amortization. These strengths are tempered by the fact that National is currently not writing any material new business, operates in an industry that has not recovered from the financial crisis and, like its peers, the company faces significant headwinds from declining fundamentals in the sector, including a dramatic reduction in insurance usage, moderate prospective profitability and still-meaningful legacy risk.

The positive outlook of National also reflects the improving capital and liquidity trends at MBIA Corp., which reduce the need and likelihood of support by National of its weaker affiliate. While the credit quality of National's insured portfolio is generally good and is supported by substantial claims paying resources, its business position is characterized by a lack of participation in the market. We are also cautious about some of National's large single risks and the linkages between these obligations.

Moody's notes that there has been downward credit rating migration among certain large exposures within the insured portfolios of National, most notably the general obligation bonds issued by the Commonwealth of Puerto Rico (Ba2/negative) and bonds of Puerto Rico issuers linked to, or capped by, the general obligation (GO) bond rating, as well as Detroit related exposures, including GO bonds (Caa3/negative), certificate of participation bonds (Ca/negative) and Detroit Water/Detroit Sewer revenue bonds (B1 senior lien/B2 second lien/negative). In the case of Puerto Rico, given the various linkages of these obligors and their reliance on the same local economy to support revenues, we view National's exposures to Puerto Rico to be more highly correlated than is typical across public sector obligors. As outlined in our rating methodology for financial guaranty insurers, single risk concentrations such as these exposures to Puerto Rico can meaningfully increase risk, because they can define the "weakest link" in a chain of enterprise financial strength.

As of 30 September 2013, National had gross par exposure of approximately $5.1 billion to Puerto Rico issuers, of which approximately $4.4 billion is currently rated below investment grade by Moody's; and approximately $2.4 billion of exposure to Detroit, of which approximately $2.3 billion is rated below investment grade by Moody's.

As part of its analysis, Moody's contemplated a variety of stress scenarios, including a default of, and losses on, National's Puerto Rico exposures, with loss severities consistent with those observed during the most recent credit cycle for municipal credits. Moody's analysis suggests that a default of Puerto Rico with meaningful loss severity could lead to a downgrade of National's rating. However, given the still low likelihood of a Puerto Rico default, and the likely moderate rating impact of such potential default under Moody's central stress scenarios, Moody's believes National's ratings remain well positioned at current levels, reflecting both the insurer's substantial current financial resources and its otherwise improving capital adequacy profile given the ongoing portfolio amortization.

Moody's views National (IFS rating Baa1 positive) is well positioned to withstand some pressures from its insured public finance book, due to its strong capital profile, the earn-out of unearned premiums and through investment income on its large fixed income portfolio. However, single risk concentration and pockets of deterioration within its insured book are notable weaknesses for National. As of 30 September 2013, National's gross par of below investment grade (BIG) credits increased to $4.6 billion, or 1.6% of the insured book, from $2.9 billion as of year-end 2012, primarily as a result of deterioration in Detroit City water and sewer exposures. National's insured portfolio totaled $291 billion gross par outstanding in U.S. public finance risks, and BIG gross par exposure as a percentage of qualified statutory capital (QSC) was 138%, as of 30 September 2013. Pro forma including recent Puerto Rico downgrades, the BIG concentration increased further.

RATINGS RATIONALE -- MBIA INSURANCE CORPORATION

The B3 IFS rating, positive outlook, of MBIA Insurance Corp. (MBIA Corp.) reflects the firm's improved capital and liquidity profile following settlements of putback receivables and insured claims with major counterparties, and positive momentum in further de-risking. However, the insurer remains exposed to substantial insured risks, including certain commercial real estate exposures that could yield losses substantially in excess of reserves.

The B3 IFS rating, positive outlook of MBIA Mexico, S.A. de C.V. (MBIA Mexico) reflects the formal and informal support from MBIA Corp., in the context of the insurer's limited size and standalone financial profile. Its rating is expected to remain closely linked to that of its parent.

RATINGS RATIONALE -- MBIA UK

The B1 IFS rating, positive outlook, of MBIA UK reflects its meaningful stand-alone financial resources relative to its insured risks, as well as its limited standalone business profile and pressures stemming from its weaker parent, MBIA Corp. MBIA Corp.'s support of MBIA UK, in the form of excess of loss reinsurance and net worth maintenance agreements, is subordinated to insured claims and thus of limited value, in Moody's opinion, due to MBIA Corp.'s weak credit profile.

RATINGS RATIONALE -- MBIA INC.

The Ba3 senior unsecured debt rating, positive outlook, of MBIA Inc. reflects the improving credit profile of its subsidiaries and the resumption of dividend payments from National. The firm's high debt burden and meaningful asset risks, reflecting the deterioration of its wind-down operations, remain a distinct weakness, however, resulting in its positioning five rating notches below the IFS rating of its lead insurance subsidiary, National, rather than the more typical three notches.

WHAT COULD CHANGE THE RATINGS UP OR DOWN

National's rating could be raised if the insurer were able to establish a more solid market position, marked by underwriting of high quality risks at attractive prices. Meaningful improvements at MBIA Corp., either through risk reduction or capital enhancement would also be a positive rating driver for National, as well as for MBIA Corp., as those improvements would reduce the contingent risk of a call on National's resources. In addition, reduced single risk concentration, improved capital and financial flexibility could also improve National's credit profile.

National's rating could be lowered if the quality of its large insured exposures meaningfully decreased or if capital was withdrawn without an associated reduction of risk, or if profitability reduced materially. The ratings of MBIA Corp. could be downgraded if the insurer were to experience greater than expected claims that would cause liquidity stress, but the ratings could be upgraded if there were material risk reduction in the insurer's portfolio due to commutations, improving credit trends and amortization.

RATING LIST

The following ratings have been affirmed, with a positive outlook:

..Issuer: MBIA Inc.

....Senior Unsecured Regular Bond, Affirmed Ba3

..Issuer: MBIA Insurance Corp.

....Insurance Financial Strength, Affirmed B3

....Subordinate Surplus Notes, Affirmed Ca (hyb)

....Pref. Stock Preferred Stock, Affirmed C (hyb)

....Non-cumulative Preferred Stock, Affirmed C (hyb)

..Issuer: National Public Finance Guarantee Corp.

....Insurance Financial Strength, Affirmed Baa1

..Issuer: MBIA UK Insurance Limited

....Insurance Financial Strength, Affirmed B1

..Issuer: MBIA Mexico S.A de C.V.

....Insurance Financial Strength, Affirmed B3 and B1.mx

National Public Finance Guarantee Corp. and MBIA Insurance Corp. are financial guaranty insurance companies based in New York State. MBIA UK Insurance Limited and MBIA Mexico S.A de C.V. are financial guaranty reinsurance companies based in UK and Mexico respectively. They are wholly owned by MBIA Inc. [NYSE: MBI], the ultimate holding company. As of September 30, 2013, MBIA Inc. had consolidated gross par outstanding of approximately $375.3 billion, qualified statutory capital of $4.4 billion, and total claims paying resources of $9.0 billion.

The principal methodology used in this rating was Moody's Rating Methodology for the Financial Guaranty Insurance Industry published in September 2006. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in October 2012 entitled "Mapping Moody's National Scale Credit Ratings to Global Scale Credit Ratings.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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