MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ratings of MBIA Inc. and National Public Finance Guarantee; changes outlooks to negative

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New York, July 02, 2014 -- Moody's Investors Service has affirmed the insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation (National) at A3, and the senior debt rating of MBIA Inc., the group's holding company, at Ba1. The outlook on the ratings has been changed to negative, from stable.

SUMMARY RATIONALE

The rating action on National and its parent follows the enactment by the Commonwealth of Puerto Rico of a law (the Puerto Rico Public Corporation Debt Enforcement and Recovery Act) that will allow public corporations to defer or reduce payments on outstanding bonds. By providing for defaults by certain issuers that the central government has long supported, Puerto Rico's new law marks the end of the commonwealth's long history of taking actions needed to support its debt. It signals a depleted capacity for revenue increases and austerity measures, and a new preference for shifting fiscal pressures to creditors, which, in Moody's view, has implications for all of Puerto Rico's debt, including that of the central government. Application of the law may further limit the commonwealth's market access, leaving it more vulnerable to financial risk and unable to fund capital projects.

On July 1, 2014, Moody's lowered the ratings on the general obligation bonds issued by the Commonwealth of Puerto Rico by three notches (B2/negative). The ratings on debt issued by Puerto Rico's public corporations were lowered by four to five notches, including Puerto Rico Electric Power Authority (Caa2/review down), Puerto Rico Highway and Transportation Authority (Caa1/review down) and Puerto Rico Aqueduct and Sewer Authority (Caa1/review down), reflecting the escalating risk that these entities could default voluntarily under the new restructuring law.

As of March 31, 2014, National had gross par exposure of approximately $4.8 billion to Puerto Rico issuers, all of which is rated below investment grade by Moody's, including approximately $2.5 billion of gross par exposure to various public corporations that could use the new law to restructure their debts.

As part of its analysis of National's potential exposure to ongoing stress among Puerto Rico obligors, Moody's contemplated a variety of stress scenarios, including a default of, and losses on some or all of, National's Puerto Rico exposures, across a broad range of loss severity assumptions. Moody's analysis suggests that a default of Puerto Rico with meaningful loss severity could lead to a downgrade of National's ratings. Given the meaningful downward credit migration among Puerto Rico issuers, we view the probability of a potential Puerto Rico default as substantially less remote than was the case several months ago, though there remains significant uncertainty as to the potential loss severity among the various Puerto Rico related issuers if a default (or defaults) were to occur. As a result, the potential rating impact on National from a Puerto Rico default will necessarily depend on a number of variables unknown at this time, including the amount of defaulted par exposure, the most likely range of losses given default, the financial resources available relative to such potential claims, and the actual and prospective capital adequacy profile at the time of loss given the ongoing portfolio amortization and the group's capital management initiatives.

RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

According to Moody's, the change in National's (IFS rating A3/negative) outlook status to negative, reflects the sensitivity of its overall credit profile to potential losses that could emerge, due largely to its elevated exposure to stressed Puerto Rico issuers as a percentage of its capital resources. As of 1Q2014, National had approximately $4.8 billion of total gross par exposure to Puerto Rico issuers, which represented approximately 145% of its qualified statutory capital (QSC), including approximately $2.5 billion of gross par exposure to Puerto Rico's public corporations (75% of QSC).

National's A3 rating reflects the insurer's substantial stand-alone capital resources, the meaningful delinking from, and improving conditions of its weaker affiliates, steady amortization of the legacy book and gradual reduction in risk concentrations, and its ongoing efforts to re-start insuring US municipal debt in the primary and secondary markets. However, National, like its peers, faces significant headwinds from declining fundamentals in the sector, including still depressed levels of insurance usage, moderate prospective profitability and meaningful legacy risk.

RATINGS RATIONALE -- MBIA INC.

The change in MBIA Inc.'s (senior unsecured Ba1/negative) outlook status to negative, reflects the heightened risk of losses on National's Puerto Rico exposures, and the adverse effect it could have on future levels of tax escrow funds to be released, and on dividends from National. In addition, the firm's high debt burden and meaningful asset risks, a large share of which remain at its wind-down operations, remain a distinct weakness. Moody's notching between MBIA Inc.'s senior debt rating and the IFS rating of its lead insurance subsidiary, National, is four notches. This is wider than the typical three notches, reflecting the group's high leverage, and significantly weaker credit profile of MBIA Corp., its other substantial subsidiary.

WHAT COULD CHANGE THE RATINGS UP OR DOWN

Moody's noted the following factors that could lead to an upgrade of National's or MBIA Inc.'s ratings: (1) A significant rebound in business origination at attractive risk-adjusted prices; (2) reduced single risk concentration; (3) improved credit profile of large below investment grade risks, including favorable resolution of Puerto Rico exposures; and (4) substantially lower holding company leverage.

Moody's noted the following factors that could lead to a downgrade: (1) Substantial credit erosion of insured risks, including meaningful impairments of Puerto Rico exposure; (2) provision of material support to weaker affiliates or withdrawal of capital absent an associated reduction of insured risk; (3) a material decrease in profitability; and (4) significant diversification into higher risk business.

RATING LIST

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

..Issuer: MBIA Inc.

....Senior Unsecured Regular Bond, Ba1

..Issuer: National Public Finance Guarantee Corp.

....Insurance Financial Strength, A3

National Public Finance Guarantee Corp., a financial guaranty insurance company based in New York State is a wholly owned subsidiary of MBIA Inc. [NYSE: MBI], the ultimate holding company. As of 31 March 2014, MBIA Inc. had consolidated gross par outstanding of approximately $337.8 billion, and qualified statutory capital of $4.1 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.

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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