MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades IFS rating of MBIA Insurance Corporation to B3; rating on review for further downgrade

Global Credit Research - 19 Jan 2016

New York, January 19, 2016 -- Moody's Investors Service, ("Moody's") has downgraded the insurance financial strength (IFS) rating of MBIA Insurance Corporation (MBIA Corp.) to B3, from B2. The rating is on review for further downgrade.

The rating action on MBIA Corp. has no impact on the ratings of MBIA Inc. (senior debt Ba1/negative), National Public Finance Guarantee Corporation (National - IFS rating A3/negative) or MBIA UK Insurance Limited (IFS rating Ba2/stable). Moody's will comment on the rating and outlook of MBIA Mexico S.A. de C.V. (MBIA Mexico) in a separate press release.

The rating action also has implications for the various transactions wrapped by MBIA Corp. as discussed later in this press release.

SUMMARY RATIONALE

Moody's stated that today's rating action reflects the heightened uncertainties and risks associated with the remediation of the Zohar I and Zohar II CLO notes transactions that MBIA Corp. insures. The default of Zohar I in November 2015 resulted in MBIA Corp. making a $149 million claims payment to insured noteholders, which meaningfully reduced MBIA Corp.'s liquidity position and heightens concerns related to the company's approximately $808 million of exposure to Zohar II which matures in January 2017. Affiliated entities of Patriarch Partners LLC ("Patriarch"), led by Ms. Lynn Tilton, serve as collateral manager for both Zohar I and Zohar II.

While MBIA Corp. expects to ultimately gain access to certain rights and remedies following the default of Zohar I and the associated payment under its insurance policy, Patriarch Partners XV LLC, an affiliate of Patriarch and a holder of Zohar I's more junior Class A-3 notes, has filed an involuntary bankruptcy petition against Zohar I in U.S. Bankruptcy Court seeking to limit MBIA Corp.'s role in the restructuring of the entity. In addition, on November 2, 2015, Ms. Tilton and Patriarch Partners XV LLC filed a complaint in New York Supreme Court, Westchester County, against MBIA Corp. and its parent, alleging fraudulent inducement arising from purported promises made by MBIA regarding the Zohar I transaction.

These lawsuits have slowed MBIA Corp. from replacing Patriarch as collateral manager and from accessing additional information about the assets held by Zohar I, delaying its ability to recover its losses on the transaction. This delay could also adversely affect the company's ability to mitigate potential losses on Zohar II through a restructuring of the transaction prior to the maturity date. Given the limited transparency into the holdings of Zohar I and Zohar II, we believe there is meaningful uncertainty regarding the value of the collateral held by these CLOs in current market conditions. While Patriarch is expected to present a remediation plan for Zohar I to the Bankruptcy Court within the next couple of weeks, it remains unclear how such hearings will affect MBIA's ability to remediate its losses. A payment default at maturity on Zohar II would exhaust MBIA Corp.'s liquidity, unless the firm is able to access new liquidity sources, and place significant strain on its reported $2.4 billion of total claims paying resources.

According to Moody's, credit deterioration at MBIA Corp. has only a limited impact on the broader MBIA group given the substantial delinking following the removal of the cross-default provision with MBIA Inc.'s debt, and MBIA Corp.'s repayment of a loan from affiliate National. However, further deterioration at MBIA Corp., could still adversely impact MBIA Inc., and to a lesser extent, National, through reputational damage caused by their affiliation with MBIA Corp.

RATINGS RATIONALE -- MBIA INSURANCE CORPORATION

The B3 IFS rating of MBIA Corp., on review for downgrade, reflects the company's weak capitalization relative to its remaining insured exposures, and its strained liquidity position. Recent commutations of insured exposures, and the settlement of RMBS put-back claims have improved the firm's capital adequacy profile, but liquidity remains tight as much of the firm's statutory capital stems from contingent claims on excess spread recoveries on

RMBS transactions and additional RMBS put-back settlement recoveries. The majority of MBIA Corp.'s structured finance book is expected to run off within the next five years, freeing up capital resources. However, MBIA Corp. remains exposed to a number of large structured transactions that could cause significant stress, including insolvency, in the event of default with a large liquidity call and/or a high severity of loss. Excluding holdings at its subsidiaries, MBIA Corp. had approximately $250 million in pro forma cash and cash equivalents, and other liquid assets at September 30, 2015 (following its $149 million claims payment on Zohar I).

Moody's added that the ratings of MBIA Corp.'s preferred stock (C hyb) and surplus notes (Ca hyb), reflect their high expected loss content given the company's still weak capital profile and the deeply subordinated nature of these securities.

WHAT COULD CHANGE THE RATINGS UP OR DOWN

The ratings review on MBIA Corp. will focus on the legal developments and loss remediation results related to the Zohar I transaction, as well as developments related to Zohar II in advance of its January 2017 maturity date. The ratings of MBIA Corp. could be confirmed if the firm's liquidity position improved materially or the outcome of the Zohar I bankruptcy proceedings point to a more favorable outcome for MBIA Corp. Conversely, the ratings could be downgraded if developments related to the Zohar transactions diminish the firm's capital adequacy position and result in the further stress on the company's liquidity profile.

RATING LIST

The following rating has been downgraded and is on review for further downgrade:

MBIA Insurance Corporation -- insurance financial strength to B3 from B2;

The following ratings have been affirmed:

MBIA Insurance Corporation -- surplus notes at Ca(hyb), preferred stock at C(hyb).

TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's methodology "Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts" (December 2015).

MBIA Insurance Corporation is a financial guaranty insurance company based in New York State and is a wholly owned subsidiary of MBIA Inc. [NYSE: MBI]. As of September 30, 2015, MBIA Inc. had consolidated gross par outstanding of approximately $216 billion and qualified statutory capital at its subsidiaries of approximately of $4.2 billion.

The principal methodology used in these ratings was Financial Guarantors published in December 2015. 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 credit rating action on the support provider and in relation to each particular credit 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.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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