MOODY'S INVESTORS SERVICE

Credit Opinion: **MBIA Insurance Corporation**

Global Credit Research - 27 May 2014

Armonk, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	STA
Insurance Financial Strength	B2
Surplus Notes	Ca (hyb)
MBIA Inc.	
Rating Outlook	STA
Senior Unsecured	Ba1
MBIA UK Insurance Limited	
Rating Outlook	STA
Insurance Financial Strength	Ba2
MBIA Mexico, S.A. de C.V.	
Rating Outlook	STA
Insurance Financial Strength	B2
Insurance Financial Strength--National Scale	Ba1.mx

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Key Indicators

MBIA Insurance Corporation

	2013	2012	2011	2010
Gross Par Written ($ milllion)	$ -	$ -	$ -	$ -
Gross Premiums Written ($ million)	$ -	$ -	$ -	$ 353
Net Par Outstanding ($ million)	$ 79,008	$ 110,862	$ 131,800	$ 188,284
Hard Capital ($ million)	$ 3,046	$ 4,854	$ 5,790	$ 8,489
Net Income ($ million) (SAP)	$ (494)	$ (843)	$ (477)	$ (434)
% of Industry Net Par Outstanding	11%	10%	11%	16%
% of Industry Gross Par Written	0%	0%	0%	0%
Par Reinsured	1.7%	1.3%	1.2%	1.0%
Return on Equity (SAP)	-43.3%	-44.9%	-19.0%	-13.9%
Loss Ratio (SAP)	379%	338.8%	240.5%	256.2%
Expense Ratio (SAP)	27.0%	19.8%	25.4%	21.2%
Earnings Coverage[1]	-0.6x	-0.6x	-0.4x	3.8x
Cash Flow Coverage[1]	8.9x	2.2x	0.0x	0.0x
Double Leverage[1]	133.8%	138.2%	132.9%	129.3%

[1] Based on holding company GAAP financial data. CF Coverage includes tax escrow release for 2013

Opinion

SUMMARY RATING RATIONALE

The B2 IFS rating, stable outlook, of MBIA Corp. reflects the firm's relatively weak capital and modest liquidity position. Recent transactions, including the commutation of approximately $3 billion of CRE exposures in the first quarter of 2014 and the settlement of RMBS putback claims, have, however, improved the firm's capital adequacy and liquidity profile so that insolvency is no longer the most likely scenario. In addition, MBIA Corp.'s structured finance book is expected to run off quickly, reducing portfolio losses. The company's liquidity would also strengthen as paid claims continue to decline and premiums are earned over time.

The rating of MBIA Corp.'s preferred stock (C hyb) and surplus notes (Ca hyb), stable outlook, reflects their high expected loss content given the company's still weak capital profile and the subordinated nature of these securities.

The B2 IFS rating, stable outlook, of MBIA Mexico, S.A. de C.V. (MBIA Mexico) reflects 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.

The Ba2 IFS rating, stable outlook, of MBIA UK reflects the improving insured portfolio, and meaningful stand-alone financial resources relative to its insured risks, moderated by a lack of new business production. Moody's also expects pressures from its weaker parent, MBIA Corp., to return capital. 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 weaker credit profile.

The A3 IFS rating of National, stable outlook, reflects the insurer's strong stand-alone capital profile, the meaningful delinking from, and improving conditions of, its weaker affiliates, and its ongoing efforts to re-start insuring US municipal debt in the primary and secondary markets. National is currently not writing any material new business and operates in an industry that has not recovered from the financial crisis. National, like its peers, faces significant headwinds from weak fundamentals in the sector, including a dramatic reduction in insurance usage, moderate prospective profitability and still-meaningful legacy risk. National also has substantial exposure to below investment grade insured credits. Nevertheless, National's credit profile benefited from the improving financial position of the group which provides greater stability to its credit profile.

The Ba1 senior unsecured debt rating, stable outlook, of MBIA Inc. reflects the improving credit profile of its subsidiaries and its strengthening liquidity profile following the resumption of dividend payments from National and continued release of funds from tax escrow. However, the firm's high debt burden and meaningful asset risks, a large share of which lingers at its wind-down operations, remain a distinct weakness. Moody's narrowed the notching between MBIA Inc.'s senior debt rating and the IFS rating of its lead insurance subsidiary, National, to four from five notches, reflecting the improving financial conditions in the group. However, the notching remains wider than the more typical three notches, reflecting the significantly weaker credit profile of MBIA Corp., its other substantial subsidiary.

Credit Strengths

Improved liquidity following recent putback settlements

Significant reduction in commercial real estate risks

Credit Challenges

Uncertainty about recoveries on mortgage-related exposures, including excess spread on second liens mortgages and putback recovery from Credit Suisse

Exposure to some weak high-yield corporate CDOs

Liquidity improved but remains modest

Rating Outlook

The stable outlook reflects our expectation of MBIA Corp.'s continued de-risking and improvement in its capital and liquidity position, as its insured portfolio runs off and its anticipated excess spread and putback recoveries materialize over time.

What to watch for

- RMBS excess spread trends

- Additional settlements and/or commutations

What Could Change the Rating - Up

The ratings of MBIA Corp., MBIA UK, MBIA Mexico and MBIA Inc. could be raised if MBIA Corp.'s financial profile, both capital adequacy and liquidity, improved materially over the coming years.

What Could Change the Rating - Down

The ratings could be lowered if insured risks perform worse than expected, and/or if MBIA Corp. were to experience material liquidity stress.

DETAILED RATING CONSIDERATIONS

The adjusted IFS rating for MBIA Corp. is B2.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are as follows:

FRANCHISE VALUE AND STRATEGY: B - NO NEW PRODUCTION ANTICIPATED FOR THE FORESEEABLE FUTURE

MBIA Corp. has not written any material new business since the fourth quarter of 2008 reflecting market concerns about its financial conditions, particularly related to losses in its commercial and residential real estate mortgage related portfolio. While these risks have been greatly reduced, we don't expect the company to be able to resume writing new business in the foreseeable future.

PORTFOLIO CHARACTERISTICS: B - FEWER HIGH RISK EXPOSURES BUT STILL LARGE BELOW INVESTMENT GRADE EXPOSURES

The company recently commuted $3 billion of par exposure on commercial mortgage-backed security pools (CRE) and settled significant amount of putback claims. MBIA Corp. had only $626 million of remaining exposure to CRE left with reference obligations originally rated Baa, of which, approximately $378 million has some associated statutory loss reserves as of 31 March 2014. In addition, the company's overall structured finance book is expected to run off quickly, further reducing portfolio losses. MBIA Corp. on a consolidated basis reported $69 billion net par insured risks as of 31 March 2014.

MBIA Corp. still has a very large below investment grade bucket, with gross par outstanding at 21.9% of the company's insured book as of 31 March 2014. MBIA Corp. is also exposed to high-yield corporate CDOs, totaling $4.1 billion as of 30 March 2014. Some of these deals are backed by middle market and distressed corporate loans, which are vulnerable to further credit erosions.

CAPITAL ADEQUACY: B - IMPROVING CAPITAL PROFILE REFLECTS LOWER DOWNSIDE RISK POST MAJOR COMMUTATIONS AND SETTLEMENTS

The company's capital adequacy improved post recent CRE commutations and RMBS settlements. As of 31 March 2014, MBIA Corp.'s reported consolidated claims-paying resources totaled $3.0 billion. However, we expect future insured losses remain material, and it is likely the company has to strengthen loss reserves for some segments of the insured book including RMBS. The company's gross statutory loss and LAE reserves were $882 million before the salvage reserve of $1.1 billion. On a positive side, Moody's expects the company's structured finance book to run off fairly quickly, reducing potential losses and enhancing capital adequacy.

PROFITABIILTY: B - PROFITABILITY OUTLOOK IMPROVED BUT COMPANY REMAINS EXPOSED TO

SUBSTANTIAL EARNINGS VOLATILITY

The company's profitability outlook improved as a result of the termination of some large volatile and distressed insured risks. However, Moody's expects that ultimate insured losses could be substantially in excess of the firm's reserves and would therefore negatively affect future embedded profitability. Exposure to substantial below investment grade risks and uncertain recoveries on some mortgage related exposures is a source of uncertainty for future earnings. The firm is also not writing any new business to bring in new earnings, while its insured portfolio continues to amortize down.

FINANCIAL FLEXIBILITY: B - NO CAPITAL ACCESS SINCE EARLY 2008

The group's financial flexibility has improved. The liquidity profile of MBIA Inc., the holding company, is expected to continue to strengthen. National has resumed dividend payment since October 2013. In addition, MBIA Inc. continued to release funds from tax escrow, and that further increased holding company liquidity. As of 30 March 2014, the holding company's liquidity stood at $499 million.

MBIA Corp.'s liquidity position has improved post RMBS settlements and the receipt of putback recoveries, and could further strengthen as claims decline and premiums are earned over time. RMBS excess spread recoveries, putback settlements proceeds and likely dividends from MBIA UK in the future would help enhance the company's liquidity further. However, there is still substantial volatility around RMBS excess spread collections as a result of uncertainty about residential mortgage prepayments, servicing and rates reset experiences. MBIA had approximately $350 million of unsettled putback and $826 million excess spread recoveries on its balance sheet as of 31 March 2014. MBIA Corp. had $226 million of cash and cash equivalents at March 31 2014 excluding subsidiaries.

Notwithstanding the aforementioned positive liquidity trend, MBIA Inc's high debt burden and its exposure to wind-down operations pose ongoing credit challenges. The company had $731 million of senior notes outstanding as of 31 March 2014. In addition, MBIA Inc's total consolidated liabilities also include those of the wind-down operations, which are wholly owned by MBIA Inc and include investment agreements and derivative contracts in its Asset Liability Management (ALM) business. The difference between book value of assets and liabilities was a $1.1 billion deficit as of 31 March 2014. Existing liquidity support to this operation includes a $2 billion asset swap with National, with about $470 million utilization as of 31 March 2014. To reduce leverage, as of 31 March 2014, MBIA Inc. retired $192 million of debt from the parent or MBIA Global Funding programs since the third quarter of 2013.

In addition, we view MBIA Corp.'s financial flexibility to be weaker than National's. The group's focus has been to support National's efforts to gain traction in the US municipal market while de-risking and running off MBIA Corp.

Rating Factors

MBIA Insurance Corporation
Org ID: **252400**

Rating Factors Table

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa		Raw Score	Adjusted Score
Factor 1: Strategy & Franchise Value (25%)							**B**
% of Industry Net Par Outstanding		**10.0%**					
% of Industry Gross Par Written					**0.0%**		
Moody's Adjusted Book Value/Book Value					**x**		
Client Concentration					**x**		
Management, Governance & Risk Management Oversight					**x**		
Factor 2: Portfolio Characteristics (20%)							**B**
Credit Risk Ratio					**x**		
Tail Risk Ratio				**4.67%**			
% Below Investment Grade					**23.3%**		
° (WCL > 10% of HC) / HC					**x**		
Factor 3: Capital Adequacy (30%)							**B**
Hard Capital Ratio					**x**		

Total Capital Ratio					x		
Par Reinsured	1.7%						
Factor 4: Profitability (15%)							**B**
Return on Equity (SAP) - 3 year average					-35.7%		
Loss Ratio (SAP) - 3-year average					319.3%		
Expense Ratio (SAP) - 3-year average			27.0%				
Factor 5: Financial Flexibility (10%)						**Baa**	**B**
Earnings Coverage					-0.6		
Cash Flow Coverage*	8.9x						
Double Leverage			1.3				
Ease of Access to Capital				x			
Aggregate profile							**B2**

* Include tax escrow release