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Research Update:

MBIA Inc. Placed On CreditWatch Positive; Subsidiaries Upgraded

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Table Of Contents

Overview

Rating Action

Rationale

CreditWatch

Outlook

Related Criteria And Research

Ratings List

Research Update:

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Overview

- MBIA Corp.'s liquidity position in our view, improved, lessening the likelihood of the company falling under regulatory control during the next 12 months.
- National's capital adequacy position and financial risk profile have also strengthened, in our view.
- We are raising our ratings on MBIA Corp. and National and placing National and MBIA Inc. on CreditWatch Positive.
- The stable outlook on MBIA Corp. reflects our view that the company's capital and liquidity is adequate to meet claim payments for the next 12 months.

Rating Action

On May 8, 2013, Standard & Poor's Ratings Services raised its financial strength rating on MBIA Insurance Corp. (MBIA Corp.) to 'B' from 'CCC'. The outlook is stable. At the same time, we raised our financial strength rating on National Public Finance Guarantee Corp. (National) to 'BBB' from 'BB' and the stand-alone credit profile to 'a' from 'bb'. We placed our rating on National on CreditWatch Positive. We also placed our 'B-' long-term counterparty credit rating on MBIA Inc. on CreditWatch Positive.

Rationale

Our rating action on MBIA Corp. reflects our view that potential stress on the company's liquidity position has lessened as a result of the announced settlement with Bank of America (BoFA), and that the company is unlikely to come under regulatory control during the next 12 months. The settlement included the commutation of all of the MBIA Corp. policies with BoFA insuring a notional amount of approximately \$6.1 billion of credit default swaps referencing commercial mortgage-backed securities transactions that experienced significant deterioration in recent months and a \$500 million three-year secured revolving credit agreement with BoFA. The rating also reflects our view of the company's small capital base relative to the risk of its insured portfolio; poor operating performance, which we expect to continue; and lack of competitive advantage to improve its financial position in the next 12 months. The rating reflects the company's run-off status and our belief that this corporate profile is unlikely to change in the near term.

Our rating action on National reflects our view of the company's strengthened

capital adequacy position and financial risk profile following MBIA Corp.'s repayment of the intercompany loan. As part of the settlement, BofA paid approximately \$1.7 billion, consisting of approximately \$1.6 billion in cash and \$137 million principal amount of MBIA Inc.'s 5.70% senior notes due 2034, both of which will be used to repay the intercompany loan of approximately \$1.6 billion. The rating on National reflects our view that MBIA Corp. continues to act as an anchor on the National rating, pending final resolution of litigation challenging National's split from MBIA. National's stand-alone credit profile of 'a' reflects the company's stable and strong earnings and low potential for stressed losses given the risk profile of the insured portfolio. Minimal volatility of the insured portfolio reflects a history of strong underwriting. Prospectively, National compares favorably with competitors as a result of distribution channels, customer relationships, and management's underwriting expertise. Offsetting factors include the company's current inactive state. While the company does not write new business, its liquidity will be weakened by low cash-flow generation that depends predominantly on investment income.

Our rating on MBIA Inc. reflects the operating companies' limited dividend capacity and the holding company's weak liquidity position. Our rating also reflects MBIA Corp.'s run-off state and National's limited near-term growth opportunities. We expect MBIA Inc.'s cash and short-term investments to cover its debt-servicing needs and operating-expense obligations through 2014--an important factor for the rating. The continued estimated tax escrow release in January 2015 and 2016 related to the tax-sharing agreement could also provide additional liquidity.

CreditWatch

The positive CreditWatch on National and MBIA Inc. reflects our view that the companies will likely settle with the remaining plaintiff in its transformation case in the near term given the recent settlement with BofA. We believe that the settlement and subsequent resolution of litigation would allow National to be recognized as a separate legal entity, maintain the assumed book of business and capital, and begin writing business once it demonstrates favorable market acceptance and competitive characteristics. If a settlement is achieved, National's financial strength rating would be 'A' with a stable outlook, reflecting its stand-alone credit profile. Our view would be that MBIA Corp. would no longer act as an anchor to National's rating. We would raise our rating on MBIA Inc. to 'BBB'. Our rating on MBIA Inc. would be linked to National as the principal source of debt service and holding-company expense needs, and would follow standard holding-company notching criteria.

Outlook

The stable outlook on MBIA Corp. reflects our view that the company's capital and liquidity is adequate to meet claim payments for the next 12 months. Given

the risk of the remaining insured portfolio relative to MBIA Corp.'s capital base and limited opportunity to improve its capital position, we expect capital to remain under stress. If MBIA's capital stabilizes as a result of diminished potential for future adverse loss development, we would view this as positive to the rating. However, if the company exhibits increased losses and diminished liquidity, such that the time to a possible breach of minimum regulatory capital levels shortens to less than two years, or if surplus falls to less than \$500 million, we could lower the ratings.

Related Criteria And Research

- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- Holding Company Analysis, June 11, 2009

Ratings List

Ratings Affirmed

MBIA Insurance Corp.

Subordinated C

Preferred Stock C

CreditWatch Action

To From

MBIA Inc.

Counterparty Credit Rating

Local Currency B-/Watch Pos/-- B-/Negative/--

MBIA Inc.

Senior Unsecured

B-/Watch Pos B-

Upgraded

To From

MBIA Insurance Corp.

MBIA U.K. Insurance Ltd.

Financial Enhancement Rating

Local Currency B/--/-- CCC/--/--

MBIA Global Funding LLC

Senior Secured

B CCC

Senior Unsecured

B CCC

Upgraded; CreditWatch/Outlook Action

To From

MBIA Insurance Corp.

Counterparty Credit Rating

Local Currency B/Stable/-- CCC/Negative/--

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MBIA Insurance Corp.

MBIA U.K. Insurance Ltd.

Financial Strength Rating

Local Currency

B/Stable/--

CCC/Negative/--

Municipal Bond Insurance Assn.

National Public Finance Guarantee Corp.

Counterparty Credit Rating

Local Currency

BBB/Watch Pos/--

BB/Developing/--

Financial Strength Rating

Local Currency

BBB/Watch Pos/--

BB/Developing/--

National Public Finance Guarantee Corp.

Financial Enhancement Rating

Local Currency

BBB/Watch Pos/--

BB/--/--

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