Credit Opinion: MBIA Insurance Corporation

MBIA Insurance Corporation

Armonk, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	DEV
Insurance Financial Strength	Caa2
Surplus Notes	C (hyb)
MBIA Inc.	
Rating Outlook	DEV
Senior Unsecured	Caa1
MBIA UK Insurance Limited	
Rating Outlook	RUR
Insurance Financial Strength	B3
MBIA Mexico, S.A. de C.V.	
Rating Outlook	DEV
Insurance Financial Strength	Caa2
Insurance Financial Strength--National Scale	Caa2.mx

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Key Indicators

MBIA Insurance Corporation
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	2011	2010	2009	2008	2007
Gross Par Written ($ milllion)	-	-	-	5,008	167,886
Gross Premiums Written ($ million) [1]		353	-509	1,455	819
Net Par Outstanding ($ million)	131,800	188,284	204,529	786,538	678,661
Hard Capital ($ million)	1,513	4,924	6,007	8,308	13,820
Net Income ($ million) [2]	-1,319	53	623	-2,673	-1,922
Strategy & Franchise Value					
% of Industry Net Par Outstanding	11%	16.2%	11.7%	24.8%	25.8%
% of Industry Gross Par Written	0%	0.0%	0.0%	0.0%	26.2%
Portfolio Characteristics					
Credit Risk Ratio	Less than Baa	Less than Baa	Less than Baa	461.5	74
Tail Risk Ratio	Less than Baa	Less than Baa	Less than Baa	786	170.6
Capital Adequacy					
Hard Capital Ratio	Less than Baa	Less than Baa	Less than Baa	0.47x	1.09x
Total Capital Ratio	Less than Baa	Less than Baa	Less than Baa	0.43x	0.98x
Par Reinsured	1.2%	1.0%	12.6%	11.7%	11.0%
Profitability					
Return on Equity [2]	-7.1%	-6.7%	-10.3%	-96.1%	2.2%
Loss Ratio (SAP)	240.5%	256.1%	483.0%	339.0%	114.2%
Expense Ratio (SAP)	31.1%	24.4%	21.3%	24.0%	24.9%
Financial Flexibility					
Earnings Coverage [2]	-0.4	-0.2x	0.1x	-0.6x	2.6x

Cash Flow Coverage [2]	**0**	**0.0x**	**0.0x**	**0.0x**	**4.5x**
Double Leverage [2]	**132.9%**	**129.3%**	**135.6%**	**147.6%**	**115.2%**

[1] Gross premiums written on GAAP basis for 2008 and prior periods, 2009 through 2011 on a statutory basis [2] Data and ratios for MBIA Inc. consolidated

Opinion

SUMMARY RATING RATIONALE

The Caa2 insurance financial strength (IFS) rating of MBIA Insurance Corporation (MBIA Corp.) and Caa1 senior debt rating of MBIA Inc. reflect:

- The insurer's weak liquidity position, with only $386 million of liquid assets at MBIA Corp. as of September 30, 2012

- The ongoing deterioration of the firm's commercial real estate portfolio that could lead to meaningful claims in the near future and threaten MBIA's already strained liquidity

- The likelihood that any potential global settlement with Bank of America over outstanding claims would be consummated at terms characteristic of a distressed exchange

- The likelihood of a claims payment deferral or other regulatory intervention at MBIA Corp., absent a settlement with Bank of America, should significant claims materialize. The limited liquidity at MBIA Inc. At September 30, 2012, MBIA Inc. had $432 million of liquid assets and $897 million of senior notes outstanding.

The insurer has not written any material amount of business since 2009 and has been in litigation with some counterparties including Bank of America which is one of the remaining two plaintiffs in the restructuring lawsuits against MBIA and its regulator.

Credit Strengths

- Potential for substantial recoveries from loan putbacks

- MBIA Corp. benefits from some support from affiliates

- MBIA Inc. benefits from its financially stronger subsidiary National

Credit Challenges

- Potential for substantial losses from commercial real estate (CRE) exposures

- Weakened liquidity position due to material claims, commutation payments and holding company debt repurchases

- Uncertainty about the group's business and financial profile due to the lawsuits challenging restructuring

- Financial flexibility has been impaired

Rating Outlook

The developing outlook of MBIA Corp. and MBIA Inc. reflects the meaningful uncertainty faced by the group and the potential that a global settlement between MBIA and Bank of America and/or changes in the entities' liquidity position could lead to either an improvement or deterioration in their credit profiles, depending on the specific terms.

What Could Change the Rating - Up

For MBIA Corp.

- A global settlement between Bank of America and MBIA that would leave MBIA Corp. solvent and enhance its liquidity

- Substantial improvements in CRE performance that would limit MBIA Corp.'s potential claims

- A meaningful capital infusion into MBIA Corp.

For MBIA Inc.

- A material strengthening of MBIA Inc.'s liquidity through dividends and/or potential capital raises

- A global settlement between MBIA and Bank of America that would leave MBIA Corp. solvent and enhance its liquidity

What Could Change the Rating - Down

For MBIA Corp.

- Inability to reach a global settlement with Bank of America that would leave MBIA Corp. solvent

- Regulatory intervention that could reduce or disrupt payment of claims, such as a payment deferral plan or rehabilitation, that could cause significant loss severity to policyholders incommensurate with the current rating

For MBIA Inc.

- Further deterioration of MBIA Inc.'s liquidity

- Further deterioration at MBIA Corp. may indirectly affect other entities within the group

Recent Results and Company Events

On 7 November, MBIA announced that it would solicit consent from its senior noteholders to amend its debt indentures by substituting National for MBIA Corp. in the definitions of "Restricted Subsidiary" and "Principal Subsidiary." The proposed indenture amendments, if approved by more than 50% of the noteholders of each series of MBIA Inc. notes, would allow MBIA Inc. to avoid a default on its debt if MBIA Corp. were placed into a rehabilitation proceeding.

In its third quarter earnings release on the same day, MBIA disclosed that it increased CRE loss reserve by $123 million, due to additional stress on Bank of America's CRE risks. In addition, one other CRE deal has deteriorated. The CRE book continues to be the most volatile part of Corp.'s insurance portfolio, but no material CRE claims have been paid to date.

On 13 November, Bank of America Corporation announced that it had made a tender offer to purchase at par any and all of MBIA Inc.'s outstanding senior notes due 2034. Bank of America's tender offer seeks to obtain ownership of at least 50% of one series of MBIA notes in order to block MBIA's consent solicitation.

On 26 November, MBIA announced it had successfully amended its debt indentures, having gained consent from a majority of senior debtholders.

DETAILED RATING CONSIDERATIONS

MBIA Corp.'s adjusted scorecard rating (insurance financial strength) is Caa2, primarily due to the insurer's runoff status and material uncertainty about its ability to meet future claim obligations.

Insurance Financial Strength Rating

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

Factor 1: Franchise value and strategy

MBIA Corp. has not written any material new business since the fourth quarter of 2008 due to market concerns about its financial conditions, particularly with respect to potential losses in real estate related portfolio. The restructuring of its operations left MBIA Corp. financially weaker, magnifying market concerns.

Factor 2: Insurance portfolio characteristics

Between the third quarter of 2007 and the third quarter of 2012, MBIA Corp. paid $6.4 billion in net claims related to its direct residential mortgage exposure risks and the company expects additional present valued claim payments of $0.4 billion. Recovery from lenders for breaches of representations and warranties (R&W), and excess spread generated in the underlying transactions, could materially affect ultimate losses on its insured RMBS portfolio. The firm has noted the amount owed to them from lenders as a result of breaches of R&W could be higher than the $3.3 billion credit booked as reported in the third quarter of 2012. MBIA also estimates that future excess spread benefit from performing loans would reduce aggregate RMBS losses by $0.9 billion. During the nine months ended September 30, 2012, MBIA Corp. made $1.0 billion in gross claim payments, and commuted $13.0 billion of gross insured exposure primarily comprising CRE, CDOs and subprime RMBS.

The company reported it increased CRE loss reserve by $123 million, due to additional stress on Bank of America's CRE risks. In addition, one other CRE deal had deteriorated. The CRE book continues to be the most volatile part of MBIA Corp.'s insurance portfolio, but no material CRE claims have been paid to date. The company also agreed to early settlements which totaled $5.0 billion related to CRE exposure. Since the end of 2007 through September 30, 2012, MBIA Corp.'s CMBS pool and CRE CDO gross par exposure has decreased by approximately $36.1 billion, of which $33.1 billion resulted from negotiated commutations and early settlements.

Among the other risks in the portfolio, performance trends for certain European infrastructure, sub sovereign and asset backed deals bear close monitoring.

Factor 3: Capital adequacy

At the end of the third quarter of 2012, MBIA Corp. had statutory claims paying resources of $5.1 billion. However, there is meaningful uncertainty about ultimate losses, and a potential global settlement with Bank of America over outstanding claims could be consummated at terms characteristic of a distressed exchange. The 2009 transformation restructuring led to a substantial reduction in MBIA Corp.'s claims-paying resources relative to the remaining higher-risk exposures in its insured portfolio. We believe that MBIA Corp. may not have sufficient resources to pay all insurance obligations on its own.

Factor 4: Profitability

We believe that actual losses could be substantially in excess of the firm's forecast and would therefore negatively affect future profitability. The company's 2011 commutation settlements at $500 million above its reserves were supportive of this view. Factors affecting incurred losses include a) recovery on putback claims b) CRE loss trends c) performance trends in the infrastructure transactions d) terms of potential additional commutations.

Factor 5: Financial flexibility

MBIA Corp.'s stand alone liquidity position has weakened due to material claims for RMBS risks and some large CDO commutations. At September 30, 2012, MBIA Corp. had approximately $386 million of liquid assets - a modest amount relative to the insurer's contingent liabilities. MBIA Corp. is in a weak financial position, but putback settlements in favor of MBIA could improve its financial profile. MBIA Inc. had $432 million of liquid assets and $897 million of senior notes outstanding, and its invested asset base declined to $1.7 billion as of September 30, 2012. In addition, holding company could be subject to liabilities at the wind-down operations. The difference between book value of assets and liabilities in the wind-down operations, a wholly owned subsidiary of MBIA Inc., was $1 billion as of September 30, 2012. Existing liquidity lines to this operation include a $522 million asset swap from National. Additional capital and liquidity support may be required in case of additional stress.

MBIA's access to capital has been impaired, as investor interest in the financial guarantors dwindled due to uncertainty about ultimate losses in its structured portfolio and future demand for financial guaranty insurance.

Rating Factors

MBIA Insurance Corporation

MoodysNum: 252400 12/31/2011

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

Par Reinsured	**1.2%**						
Factor 4: Profitability (15%)						**Less than Baa**	**Caa**
Return on Equity - 3 year average (1)					**-7.1%**		
Loss Ratio (SAP) - 3-year average					**326.5%**		
Expense Ratio (SAP) - 3-year average		**25.6%**					
Factor 5: Financial Flexibility (10%)						**Less than Baa**	**Caa**
Earnings Coverage (1)					**x**		
Cash Flow Coverage (1)					**x**		
Double Leverage (1)			**132.9%**				
Ease of Access to Capital					**x**		
Aggregate profile						**Less than Baa**	**Caa2**