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## Research Update:

# National Public Finance Guarantee Corp., MBIA Inc. Ratings Raised On Reentry Into Financial Markets; Outlooks Are Stable

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## Research Update:

# National Public Finance Guarantee Corp., MBIA Inc. Ratings Raised On Reentry Into Financial Markets; Outlooks Are Stable

## Overview

- We believe National Public Finance Guarantee Corp. (National) will be successful as it reenters the U.S. municipal financial guarantee market, and we view it as the principal source of funds for debt-servicing and holding company expenses for parent MBIA Inc.
- As a result, we are raising our rating on National to 'AA-' from 'A'. At the same time, we are raising our rating on MBIA to 'A-' from 'BBB'.
- The stable outlook on National reflects our expectation that National will gain market acceptance and become a competitive financial guarantor; the stable outlook on MBIA Inc. reflects our view that it has adequate liquidity to meet its debt-servicing needs.

## Rating Action

On March 18, 2014, Standard & Poor's Ratings Services raised its financial strength rating on National Public Finance Guarantee Corp. (National) to 'AA-' from 'A'. At the same time we raised the counterparty credit rating on MBIA Inc. to 'A-' from 'BBB'. The outlook on both companies is stable.

## Rationale

The rating upgrade on National reflects our view of the company's prospective strong business risk profile and strong financial risk profile, based on our belief that the company will have a strong competitive position and strong operating performance, as well as its current extremely strong capital adequacy position.

We view National's competitive position as strong with a prospective view that the company has the ability to provide value to the U.S. public finance financial guarantee market. We believe National is also well positioned given its U.S. municipal-only platform, its willingness to underwrite a variety of different sectors and deal sizes, and its ability to build upon existing relationships as it begins to write business. We expect that the company will produce a U.S. public finance risk-adjusted pricing ratio above 4%.

We view National's operating performance as strong, and believe the company will begin writing business with favorable pricing characteristics as it demonstrates good operating performance and profitability. We expect the

company will maintain its prudent underwriting standards as evidenced by the minimal losses it has experienced on its insured U.S. public finance portfolio.

The rating upgrade on MBIA Inc. reflects our view that National is its principal source of debt-servicing and holding company expense needs. The rating also reflects MBIA Inc.'s structural subordination to its regulated operating subsidiary. The continued estimated tax escrow release for the foreseeable future related to the tax-sharing agreement and National's ability to pay dividends also support holding company liquidity.

## Outlook

The outlook on both companies is stable based on our expectation that, as National begins to write business, it will gain market acceptance and demonstrate sustainable competitive advantages. We expect National to generate favorable pricing and operating performance metrics. We also expect that, as National begins to write business, it will attain a risk-adjusted pricing ratio above 4%, operate with a combined ratio below 100%, and generate positive cash flow.

We could lower the ratings if National does not meet our pricing and operating performance expectations, or if does not attain adequate market share, indicating a weaker competitive position than that of its peers. We could also lower the ratings if the company's underwriting practices become inconsistent, in our view, with a low-volatility book of business or inadequate risk-adjusted pricing. We are unlikely to raise the rating in the next two years--any potential upgrade will depend on a sustainable material competitive advantage relative to peers.

## Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Bond Insurance Rating Methodology And Assumptions, Aug. 25, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Upgraded

	To	From
National Public Finance Guarantee Corp.		
Municipal Bond Insurance Assn.		
Counterparty Credit Rating		

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Local Currency	AA-/Stable/--	A/Stable/--
Financial Strength Rating		
Local Currency	AA-/Stable/--	A/Stable/--
National Public Finance Guarantee Corp.		
Financial Enhancement Rating		
Local Currency	AA-/--/--	A/--/--
MBIA Inc.		
Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB/Stable/--
MBIA Inc.		
Senior Unsecured	A-	BBB

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