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CREDIT OPINION
5 June 2017

Update

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RATINGS

MBIA Insurance Corporation

Domicile	Armonk, New York, United States
Long Term Rating	Caa1
Type	Insurance Financial Strength
Outlook	Developing

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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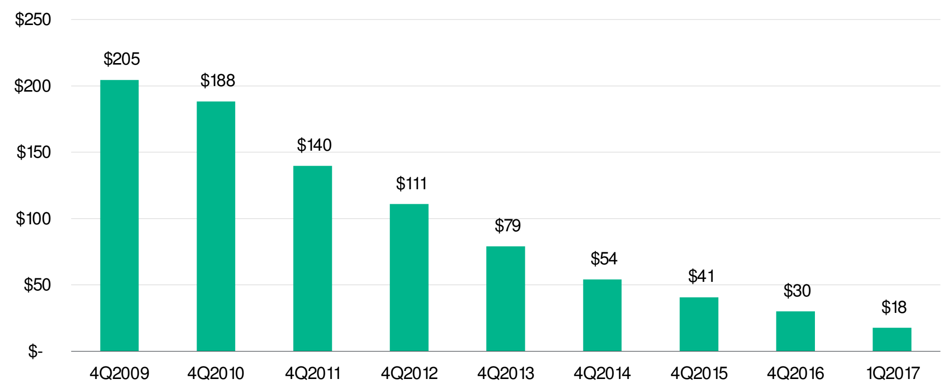
MBIA Insurance Corporation

Semiannual Update

Summary Rating Rationale

MBIA Insurance Corporation's (MBIA Corp.) Caa1 insurance financial strength (IFS) rating (developing outlook) reflects the firm's weak liquidity and capital position following large claims payments related to the defaults of the Zohar I and Zohar II CLO transactions. The ratings on MBIA Corp.'s preferred stock (C (hyb)) surplus notes (Ca(hyb)) reflect the high expected loss content given the company's weak capital profile and the deeply subordinated status of these securities. MBIA Corp. does not currently pay a dividend or interest on these securities.

Exhibit 1
MBIA Insurance Corporation: Net Par Outstanding ($ Bil.)



Source: Company Reports

MBIA Corp.'s insured exposures have amortized rapidly since the firm was placed into run-off. At 1Q2017, MBIA Corp. had approximately $17.7 billion of net par outstanding (down 91% since year-end 2009) and total claims paying resources of approximately $1.6 billion. Given the limited financial resources available at MBIA Corp. relative to its liabilities and outstanding surplus notes (and accrued interest), MBIA Inc. essentially manages the run-off of MBIA Corp. for the benefit of its policyholders and the surplus note investors.

Credit Strengths

- Significant amortization of RMBS and CDO exposures, and related de-risking of the portfolio
- Reduced commercial real estate risks through commutations and amortization

Credit Challenges

- MBIA Corp. remains exposed to a heightened risk of regulatory intervention, which could result in a claims payment freeze, partial claims payments, or rehabilitation proceedings
- Uncertainty about recoveries on Zohar collateral and mortgage-related exposures, including excess spread on second lien mortgages and the outstanding RMBS put-back claim against Credit Suisse
- Stressed liquidity position leaves little room for error

Rating Outlook

MBIA Corp.'s rating outlook is developing, reflecting the potential for both upward and downward rating movement within the next year. The direction of rating movement will largely be determined by the outcome of various recovery efforts (Liquidation of Zohar collateral and outcome of RMBS put-back claim against Credit Suisse).

Factors that Could Lead to an Upgrade

- Improved capital adequacy and liquidity profile
- Reduction in MBIA Corp.'s exposure to large single risks
- Favorable settlement of outstanding RMBS put-back claims

Factors that Could Lead to a Downgrade

- Unfavorable settlement of outstanding RMBS put-back claims
- Inability to recover substantial recoveries on Zohar collateral
- Portfolio losses meaningfully in excess of current expectations
- Meaningful reduction in expected excess-spread recoveries on second-lien RMBS
- Further deterioration in the company's liquidity profile

Key Indicators

Exhibit 2
MBIA Insurance Corporation

MBIA Insurance Corporation[1][2]	2016	2015	2014	2013	2012
(USD Millions)					
Gross Par Written	-	-	-	-	-
Present Value Premiums (PVP)	-	-	-	-	-
Net Income	(323)	25	(35)	(494)	(843)
Gross Premiums Written	67	104	116	151	211
Net Par Outstanding [1]	30,054	40,734	54,147	79,008	110,862
Regulatory Capital [2]	492	885	859	825	1,458
Portfolio Leverage of Regulatory Capital [2]	61.1x	46.0x	63.0x	95.8x	76.0x
Claims Paying Resources	1,945	2,423	2,656	3,461	5,273
Portfolio Leverage of Claims Paying Resources	15.5x	16.8x	20.4x	22.8x	21.0x
Coverage of Moody's Capital Charge at the A3 Level	0.54x	0.55x	0.51x	0.46x	--
PV Premiums divided by gross par written (bps)	--	--	--	--	--
% Of Industry Gross Par Written	0.0%	0.0%	0.0%	0.0%	0.0%
% Par Reinsured	2.6%	2.2%	1.9%	1.7%	1.3%
Underwriting Margin (1 yr)	-258%	1%	-38%	-314%	-259%
Return on Capital (1 yr)	-46.8%	2.8%	-4.2%	-43.3%	-44.8%
Sharpe Ratio of ROC (5 yr avg)	NM	NM	NM	--	--
Financial Leverage [3]	41.8%	39.2%	38.7%	41.9%	41.5%
Total Leverage [3]	47.7%	44.2%	42.9%	45.9%	44.9%
Cashflow Coverage (1 yr) [4]	4.9x	3.5x	4.4x	2.7x	1.5x
Earnings Coverage (1 yr) [4]	1.6x	2.6x	2.9x	-2.6x	0.0x

[1] Net Par Outstanding is based on GAAP reported amounts, including guarantees of investment agreements and medium-term notes issued by various affiliates
[2] Regulatory capital defined as U.S. Statutory Qualified Statutory Capital for U.S. guarantors
[3] Based on MBIA Inc. consolidated results
[4] Based on holding company data excluding Surplus Notes accrued interest; Cashflow coverage includes tax escrow release
Source: Company Reports, Moody's Investors Service

Detailed Rating Considerations

Moody's rates MBIA Corp. Caa1 for insurance financial strength, which is two notches lower than the B2 score produced by Moody's unadjusted rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the ratings and outlook are:

MARKET ENVIRONMENT AND PRODUCT STRATEGY: B - NO NEW PRODUCTION ANTICIPATED

MBIA Corp. has not written any material new business since 4Q2008, reflecting its weak financial position and overhang of legacy exposures. While these risks have been greatly reduced over the years through portfolio amortization and transaction commutations, the company's credit profile is precarious and we don't expect the company to be in a position to write new business in the foreseeable future. The company's primary focus is to maximize recoveries, including put-back claims, while mitigating potential losses on its insurance exposures. As a result of the company's runoff status, we have lowered the factor score to B from the unadjusted score of Ba.

PORTFOLIO CHARACTERISTICS AND CAPITAL ADEQUACY: < B - CAPITAL ADEQUACY PROFILE RELIES ON FUTURE EXCESS SPREAD AND PUT-BACK RECOVERIES

While MBIA Corp.'s capital adequacy has improved as a result of commutations and RMBS settlements, recent developments related to its large Zohar CLO exposures create meaningful uncertainty about the company's capital adequacy and liquidity profile on a forward-looking basis. In November 2015, Zohar I defaulted on its payment of principal on the legal maturity date, resulting in a $149 million claims payment. Approximately $770 million of underlying notes of Zohar II defaulted in January 2017, resulting in the need for MBIA Corp. to sell its UK subsidiary to Assured Guaranty Corp. and to obtain financing from its surplus noteholders to raise the liquidity necessary to pay claims.

Any credit deterioration at MBIA Corp. should have a limited direct financial impact on the broader MBIA group given the substantial de-linkage of ratings following the removal of the cross-default provision with MBIA Inc.'s debt, and MBIA Corp.'s repayment of the secured loan from its affiliate National Public Finance Guarantee Corporation ("National" IFS Rating A3/negative). 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.

At 1Q2017, MBIA Corp. reported total claims-paying resources of $1.6 billion. Qualified statutory capital was $524 million. However, the company's reported capital resources include $354 million in expected excess-spread recoveries on second-lien RMBS, and $409 million related to the put-back claim on Credit Suisse, the recovery of which are subject to significant uncertainty. MBIA Corp. had $642 million in gross statutory loss and LAE reserves at 1Q2017.

Portfolio amortization has contributed to the de-risking of the portfolio, with net par outstanding decreasing to approximately $17.7 billion at 1Q2017 from $40.7 billion at YE2015. MBIA Corp. remains exposed to significant below investment grade (BIG) exposures. At 1Q2017, the company's ten largest BIG exposures amounted to $2.1 billion, or 1.32x total claims paying resources. Total BIG exposures at 1Q2017 were $5.8 billion, representing 31.5% of gross par outstanding, 364% of total claims paying resources and 1,104% of qualified statutory capital. This elevated level of BIG exposure results in a capital profile that exhibits a high degree of sensitivity to adverse portfolio developments.

In addition to its external insured exposures, MBIA Corp. had approximately $1.2 billion in exposure to investment agreements and medium-term notes issued by its affiliates at 1Q2017. MBIA Inc. is responsible for debt service on these exposures, and MBIA Corp. will be liable in the event that MBIA Inc. defaults on these obligations, or otherwise breaches covenants or representations. MBIA Inc. is dependent on continued dividends and tax escrow releases from National for its ability to continue to service these debt instruments. As such, MBIA Corp. is indirectly exposed to stress at National, including losses at National large enough to prevent dividend payments or the release of funds from the tax escrow account for an extended period.

Due to the multiple uncertainties faced by MBIA Corp., we have lowered the factor score for portfolio characteristics and capital adequacy to "< B" from the unadjusted level of B.

PROFITABILITY: < B – COMPANY REMAINS EXPOSED TO SUBSTANTIAL EARNINGS VOLATILITY

MBIA Corp.'s profitability is "< B" on both adjusted and unadjusted scores. Profitability has been volatile in recent years as the firm continues to record losses on its insured portfolio. Exposure to substantial BIG risks and uncertain recoveries on mortgage related exposures could adversely affect future earnings. In addition, we do not expect the company to write new business, or otherwise create new revenue sources, for the foreseeable future.

FINANCIAL FLEXIBILITY: B – PARENT'S FINANCIAL FLEXIBILITY IMPROVING, BUT DELEVERAGING REMAINS SLOW DUE TO STOCK BUYBACKS

MBIA's financial flexibility, which scores B on both an adjusted and unadjusted basis, has improved over the past few years, as it has redeemed debt and has the ability to upstream dividends from National. The group's adjusted financial leverage was approximately 41.8% at YE2016. Excluding the principal and accrued interest on the surplus notes of MBIA Corp., MBIA Inc.'s adjusted financial leverage was approximately 31.5% at YE2016. MBIA is expected to continue to delever as the firm's GICs and MTNs amortize over time. However, this process has been slow due to share buybacks ($339 million in 2015 and 2016). The group's cashflow coverage of interest expense (excluding accrued interest on MBIA Corp.'s surplus notes that is not currently being paid) was approximately 4.9x during 2016.

Liquidity Analysis

MBIA Inc.'s liquidity profile strengthened with the resumption of dividend payments from National in October 2013, and the steady release of funds from the National tax escrow account. At 1Q2017, the holding company had unencumbered cash and liquid investments of $340 million. We expect the group's financial flexibility and MBIA Inc.'s liquidity to be adequate absent extraordinarily high losses at National that erode the firm's earned surplus and impair its ability to upstream dividends without regulatory approval and reduce future levels of tax escrow funds that can be released.

While liquidity has strengthened, the holding company remains dependent on dividends from National and funds from the tax escrow account to service its obligations. At 1Q2017, the holding company reported debt (including investment agreements, long-term debt and medium-term note liabilities) of approximately $2.0 billion, and cash and invested assets of approximately $1.2 billion. The company expects to address the shortfall in cash and invested assets over time, through distributions from National and releases from the tax escrow (balance of approximately $216 million at 1Q2017).

MBIA Inc. is required to meet collateral posting requirements under terms of its derivatives and investment agreements. In order to secure access to eligible assets to post as collateral, MBIA Inc. entered into simultaneous repurchase and reverse repurchase agreements (Asset Swap) with National, whereby MBIA Inc. borrows government securities from National, in-turn, collateralized with investment grade assets, from MBIA Inc. A haircut, which varies according to mark-to-market adjustments, is applied to the assets posted by MBIA Inc. While the Asset Swap facility is limited to a notional value of $2 billion, as of 1Q2017, $124 million was outstanding under the facility.

MBIA Corp.'s liquidity remains strained, with approximately $111 million of liquidity at 1Q2017. RMBS excess-spread recoveries, recovery of the Credit Suisse put-back claim and the sale of Zohar collateral would improve the company's liquidity. However, MBIA Corp.'s liquidity position remains exposed to uncertain outcomes of these factors, and is very sensitive to minor deviations from the expected path. As part of the financing package to raise liquidity to cover claims on Zohar II, MBIA Inc. has agreed to provide MBIA Corp. with up to $50 million of additional loans, if needed. Beyond this moderate level of support from its parent, MBIA Corp.'s legal separation from the group and limited embedded economic value suggest that meaningful financial support for MBIA Corp. is unlikely going forward.

Profile

MBIA Corp. has been in run-off since early 2009 when the company was restructured through a "transformation" transaction that ceded all of its US public finance exposure and substantial resources to MBIA affiliate National Public Finance Guarantee Corporation, resulting in a remaining insured portfolio consisting of global structured finance and non-US public finance exposures.

MBIA Corp. sold its UK subsidiary to Assured Guaranty Corp. in January 2017 to raise cash to pay $770 million in claims associated with the Zohar II default.

Rating Methodology and Scorecard Factors

Exhibit 3

MBIA Insurance Corporation Scorecard (Year-end 2016)

Financial Strength Rating Scorecard	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								
Market Environment and Product Strategy (25%)							Ba	B
Industry Environment				x				
Market Position and Product Strategy					x			
Financial Profile								
Portfolio Characteristics and Capital Adequacy (40%)							B	<B
Risk Adjusted Capital Coverage					x			
Profitability (20%)							<B	<B
Underwriting Margin (5 yr average)						-173.6%		
Return on Capital (5 yr average)						-27.3%		
Sharpe Ratio of ROC (5 yr)						-124.8%		
Financial Flexibility (15%)							B	B
Financial Policy					x			
Ease of Access to Capital					x			
Operating Environment							Aaa - A	Aaa - A
Aggregate Profile							B2	Caa1

[1] Information based on US GAAP financial statements as of Fiscal YE December 31
[2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis
Source: Company Reports, Moody's Investors Service

Other Considerations

MBIA Corp.'s legacy U.S. Public Finance Exposures Ceded to National

In February 2009, MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its U.S. public finance exposure to National. The reinsurance enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of the cut-through provisions of the reinsurance agreement.

MBIA Mexico

The Caa1/developing global scale rating of MBIA Mexico, S.A. de C.V. (MBIA Mexico) reflects explicit and implicit support from MBIA Corp. in the context of the insurer's limited size and stand-alone financial profile. Its rating is expected to remain closely linked to that of its parent.

Ratings

Exhibit 4

Category	Moody's Rating
MBIA INSURANCE CORPORATION	
Rating Outlook	DEV
Insurance Financial Strength	Caa1
Surplus Notes	Ca (hyb)
MBIA INC.	
Rating Outlook	NEG
Senior Unsecured	Ba1

Source: Moody's Investors Service

REPORT NUMBER 1075561

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