

Rating Action: MBIA Insurance Corporation

Moody's downgrades MBIA Inc. to Ba3, removes National from review for upgrade

New York, June 25, 2009 -- Moody's Investors Service has downgraded to Ba3, from Ba1, the senior debt rating of MBIA, Inc.; the outlook is negative. Additionally, the rating agency confirmed the Baa1 rating of National Public Finance Guarantee Corporation (National) with a developing outlook, concluding a review for possible upgrade initiated on February 18, 2009, and changed the rating outlook of MBIA Insurance Corporation (MBIA Corp.) and supported insurance subsidiaries to negative. These rating actions reflect further expected insured portfolio deterioration at MBIA Insurance Corporation and the uncertainty stemming from ongoing litigation challenging MBIA's recent restructuring.

Today's rating actions have implications for the various transactions wrapped and reinsured by National Public Finance Guaranty Corporation as discussed later in this press release.

RATIONALE FOR RATING ACTIONS

Moody's said that the confirmation of National's rating with a developing outlook, despite its strong capital profile and operational infrastructure, reflects the uncertainty caused by ongoing litigation challenging the recent restructuring of the group, and the extended timeframe over which such uncertainty may persist. Creditors and counterparties have sued MBIA, requesting that the February 17, 2009 restructuring of the group that led to National's capitalization with some of MBIA Insurance Corp's resources be reversed. Moody's noted that National's ability to write new business may be substantially constrained while the litigation remains outstanding, given the uncertainty as to its outcome. A resolution of the litigation that provides clarity on the separation of National from MBIA Corp., without reducing the current level of financial resources at National, could lead to an upgrade of National's rating in the future. On the other hand, a resolution that jeopardizes the separation and/or diminishes the financial integrity of National could lead to a downgrade; this potential for divergent outcomes is reflected in Moody's developing rating outlook for National.

The downgrade of MBIA Inc.'s senior debt rating to Ba3, and downgrade of MBIA Insurance Corporation's surplus notes and preferred stocks ratings reflects the continued severe stress faced by MBIA Insurance Corp as a result of its exposure to ABS CDOs and RMBS securities. Taking account of recent performance experience, Moody's updated estimates of losses for ABS CDOs show substantial increases from prior estimates. Estimated losses on direct RMBS exposures have also increased, though not as significantly. Moody's expected losses for ABS CDOs and RMBS now approximate 19% and 14.5%, respectively, of the associated par outstanding, with losses under a stress scenario materially above those levels.

Absent better loss development than currently anticipated by the rating agency, Moody's believes that MBIA will likely pursue a negotiated settlement of some of these exposures under terms similar to a distressed exchange. There is, however, meaningful uncertainty about the actual losses that MBIA will incur due in part to the lack of consensus about the direction of the economy and its effect on portfolio credit performance. The rating agency noted that MBIA's loss reserves are substantially lower than Moody's expected loss on ABS CDOs and RMBS transactions. MBIA is suing some mortgage lenders for breach of representations and warranties and Merrill Lynch for fraudulent conduct in arranging ABS CDO transactions, both actions could potentially materially reduce losses to MBIA.

The downgrade of MBIA Inc.'s senior debt rating to Ba3 also reflects the risks stemming from the ongoing litigations on the group's restructuring, said Moody's. A resolution of such litigations in favor of the plaintiffs could potentially limit MBIA Inc's access to National's resources or further link MBIA Inc. to the fortunes of MBIA Insurance Corporation.

TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

In light of today's confirmation of National Public Finance Guarantee Corporation's Baa1 rating, Moody's will also confirm the rating of securities wrapped by National and reinsured municipal securities of MBIA Insurance Corporation, unless they have higher published underlying ratings.

The FGIC policies reinsured by National Public Finance Guaranty Corporation are unaffected by today's rating action as the reinsurance agreement does not qualify for credit substitution under Moody's methodology because it allows FGIC to terminate the reinsurance agreement without a final payment being made by MBIA.

LIST OF RATING ACTIONS

The following ratings have been downgraded, with a negative outlook:

MBIA Inc. -- senior unsecured debt at Ba3, from Ba1, provisional senior debt at (P) Ba3, from (P) Ba1, provisional subordinated debt at (P) B1, from (P) Ba2, and provisional preferred stock at (P) B2, from (P) Ba3;

MBIA Insurance Corporation -- surplus notes to Caa3, from Caa2; and preferred stock to Ca, from Caa3;

The following rating has been confirmed with a developing outlook:

National Public Finance Guarantee Corporation (previously, MBIA Insurance Corporation of Illinois) -- Baa1 insurance financial strength, previously under review for possible upgrade.

The outlook on the following firms was changed to negative:

MBIA Insurance Corporation -- insurance financial strength at B3;

Capital Markets Assurance Corporation -- insurance financial strength at B3;

MBIA UK Insurance Limited -- insurance financial strength at B3;

MBIA Mexico S.A. de C.V. -- insurance financial strength at B3; and national scale insurance financial strength at B1.mx;

The last rating action was on February 18, 2009 when Moody's adjusted MBIA's ratings as a result of the firm's restructuring.

The principal methodology used in rating MBIA was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating MBIA can also be found in the Credit Policy & Methodologies directory.

OVERVIEW OF MBIA

MBIA Inc. (NYSE: MBI) provides financial guarantees to issuers in the municipal and structured finance markets in the United States, as well as internationally. MBIA also offers various complementary services, such as investment management and municipal investment contracts.

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