MBIA INC
Form 10-K
February 29, 2012
Table of Contents

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
December 31, 2011 For the fiscal year ended December 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (914) 273-4545

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $1 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2011 was $925,005,859.

As of February 23, 2012, 193,154,204 shares of Common Stock, par value $1 per share, were outstanding.

Documents incorporated by reference. Portions of the Definitive Proxy Statement of the Registrant, which will be filed on or before March 31, 2012, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Note Regarding Forward-Looking Statements

Statements included in this Form 10-K which are not historical or current facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, anticipate, project, plan, expect, intend, will likel or will continue, and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if we later become aware that such result is not likely to be achieved.

Important factors that could cause our actual results and financial condition to differ materially from estimates contained in or underlying the Company s forward-looking statements include, among others, those discussed under Risk Factors in Part I, Item 1A and Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking and Cautionary Statements in Part II, Item 7. In addition, refer to Note 1: Business Developments, Risks and Uncertainties, and Liquidity in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

Note Regarding Reliance on Statements in Our Contracts

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MBIA Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Table of Contents

Part I

Item 1. Business

OVERVIEW OF OUR SERVICES

MBIA Inc. (MBIA, the Company, we or us) provides financial guarantee insurance, as well as related reinsurance, advisory and portfolio services, for the public and structured finance markets, and asset management advisory services, on a global basis. The Company was incorporated as a business corporation under the laws of the state of Connecticut in 1986.

Financial Guarantee Business

Our financial guarantee insurance generally provides investors with an unconditional and irrevocable guarantee of the payment of the principal, interest or other amounts owing on insured obligations when due or, in the event that we have the right at our discretion to accelerate insured obligations upon default or otherwise, upon our election to accelerate. Because our ratings are generally assigned to issuers obligations that we insure, the principal economic value of our financial guarantee insurance for capital markets issuers has been to lower the interest cost of an insured obligation relative to the interest cost on the same obligation issued on an uninsured basis. For investors, our insurance provides not only an additional level of credit protection but also the benefit of our portfolio monitoring and remediation skills throughout the life of the insurance policy. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations have historically received greater market acceptance than uninsured obligations.

We conduct our financial guarantee business, as well as related reinsurance, advisory and portfolio services, through our wholly-owned subsidiaries National Public Finance Guarantee Corporation (National), our United States (U.S.) public finance only financial guarantee company, and MBIA Insurance Corporation (MBIA Corp.), which together with its subsidiaries writes global structured finance and non-U.S. public finance financial guarantee insurance. Related advisory and portfolio services are provided by Optinuity Alliance Resources Corporation (Optinuity), a service company that we established in the first quarter of 2010, which provides support services such as surveillance, risk management, legal, accounting, treasury and information technology, among others, to our businesses on a fee basis. MBIA Corp. is the successor to the business of the Municipal Bond Insurance Association (the Association), which began writing financial guarantees for municipal bonds in 1974. MBIA Corp. also owns MBIA UK Insurance Limited (MBIA UK), a financial guarantee insurance company that is regulated and supervised by the Financial Services Authority (FSA) in the United Kingdom and is authorized to carry out insurance business in the United Kingdom and in the European Economic Area on a cross border services basis. MBIA UK s principal line of business is the guarantee of both structured finance and public finance debt obligations in selected international markets. In addition, MBIA Corp. writes financial guarantee insurance in Mexico through MBIA México, S.A. de C.V. (MBIA Mexico). Generally, throughout the text, references to MBIA Corp. include the activities of its subsidiaries.

MBIA Insurance Corporation was the parent of Capital Markets Assurance Corporation (CMAC) until September 2010, when CMAC was merged into MBIA Insurance Corporation. CMAC was a financial guarantee insurer that had been acquired in February 1998 and whose net insured exposure was 100% reinsured by MBIA Insurance Corporation after that acquisition.

In addition, until February 2009, MBIA Corp. was the parent of National, also a financial guarantee insurance company that had been acquired by MBIA Corp. in 1989. In February 2009, we restructured our business to re-launch National as a U.S. public finance-only financial guarantee company (the Transformation) through several transactions, including the transfer of National (then known as MBIA Insurance Corp. of Illinois) from MBIA Corp. to a newly established holding company, National Public Finance Guarantee Holdings, Inc., that is 100% owned by MBIA Inc., and the reinsurance by National of the U.S. public finance businesses of MBIA Corp. and a third-party financial guarantor, Financial Guaranty Insurance Company (FGIC). Pending litigation challenging the establishment of National has constrained our new business writings since 2009. The Transformation is described more fully under the Our Insurance Operations National Insured Portfolio section below and the Transformation-related litigation is described more fully under Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. After giving effect to the Transformation, MBIA Corp. s remaining portfolio consists of global structured finance and non-U.S. public finance business.

Table of Contents

Item 1. Business (continued)

Asset Management Advisory Services Business

We conduct our asset management advisory services business primarily through wholly-owned subsidiaries of Cutwater Holdings, LLC (together, Cutwater). Cutwater offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. We offer these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries. Cutwater also provides services to our asset/liability products and conduit programs, which are being wound down.

Other Advisory Services

We began operating other financial advisory services businesses in 2009 in Europe and Latin America. We have decided to exit the financial advisory business in Latin America, and we will focus only on the European business going forward through our subsidiary Trifinium Advisors Limited (Trifinium).

OUR BUSINESS STRATEGY

Our ratings downgrades and concerns about the future of monoline insurers have impaired our ability to write new business since late 2007, and pending litigation challenging the establishment of National has further constrained our ability to write new insurance business since 2009. In addition, unprecedented levels of delinquency and loss in our structured finance business, primarily in our residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and insured credit default swaps (CDS) portfolios, continue to place considerable stress on our economic results. The delinquencies and losses in our RMBS portfolio resulted from misrepresentations made by sponsors of RMBS transactions that we insured who have placed ineligible mortgage loans into the transactions and failed to cure the breaches or repurchase or replace the ineligible collateral. If performance deteriorates further and uncertainty increases in these sectors, our future economic results may be adversely impacted.

The reference herein to ineligible mortgage loans refers to those mortgages that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgages were sold with respect to such mortgages, including failure to comply with the related underwriting criteria. These determinations were the result of analysis provided by third-party review firms. The Company s assessment of the ineligibility of individual mortgages could be challenged/disputed by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

In response to these events, we are continuing efforts that we began in the fourth quarter of 2007 to strengthen our balance sheet and transform our business model.

Strategic Transformation

On February 25, 2008, we announced a strategic plan to restructure our business as soon as feasible, but within five years. A significant component of the plan was the creation of separate legal operating entities for our public finance, structured finance and international financial guarantee businesses as well as our asset management advisory business. The objectives behind this initiative are to provide greater resilience and financial flexibility under extreme market stress, to obtain the highest possible ratings for each business and to create more transparency to investors and policyholders. In February 2009, we completed the first key step in the strategic plan with the establishment of National as a U.S. public finance-only financial guarantee company through the Transformation.

The next step in the Transformation, which is unlikely to occur prior to resolution of certain of the Transformation-related litigation and the repayment of a secured loan from National to MBIA Insurance Corporation described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements National Secured Loan in Part II, Item 7 of this Form 10-K, will be to further position National to write new U.S. public finance financial guarantee insurance policies through the achievement of high stable ratings. It is our intent to capitalize National at a level consistent with the highest achievable credit ratings through internal capital growth at National and potentially by raising third-party capital. However, no assurance can be given that we will be able to achieve such higher ratings.

2

Table of Contents

Item 1. Business (continued)

In particular, in August 2011, Standard & Poor s Financial Services LLC (S&P) issued new guidelines that reflect significant changes to its rating methodology for financial guarantee insurers. These new guidelines were effective immediately. The changes to S&P s rating methodology substantially increase the amount of capital, among other qualitative factors, required to achieve its highest ratings, implement a new Largest Obligors Test and incorporate additional qualitative considerations into the ratings process. In November 2011, S&P affirmed its rating on National at BBB and on MBIA Corp. at B. In December 2011, Moody s Investors Service, Inc. (Moody s) downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative and also downgraded MBIA Inc. s senior debt rating from Ba3 to B2 and placed the ratings of MBIA Corp. under review for possible downgrade. Moody s cited as the primary reason for its rating actions the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Corp. s credit profile. The absence of S&P s and Moody s highest ratings could adversely impact our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products.

The Company is currently involved in several litigations with groups of plaintiffs challenging the Transformation both in a proceeding under Article 78 of New York s Civil Practice Law & Rules and in plenary suits. Discovery and depositions in the Article 78 case began in 2010 and are nearly complete. Since the case was filed, 14 of the original 18 plaintiffs have dismissed their claims. The trial for the Article 78 proceeding is expected to commence in the second quarter of 2012. That timeframe, however, could be subject to further delays. For a complete description of the litigation challenging the Transformation see Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

In February 2010, the Company took another step in its strategic plan by restructuring its asset management advisory business and renaming its asset management advisory companies under the Cutwater name to reflect and communicate their organizational separation from the Company s insurance operations and the wind-down of the Company s asset/liability products and conduit businesses, which are described further below under Our Wind-Down Businesses . Cutwater plans to increase third-party assets under management by taking advantage of strong demand for advisory services resulting from recent fixed-income market volatility and secular growth in fixed-income asset classes due to demographics and product innovation. Currently, the majority of assets under management are from third-party clients and this proportion has increased over time.

The Company plans to continue to evaluate opportunities to participate in the structured finance and international markets in the future as such opportunities arise and is evaluating opportunities to provide portfolio remediation services to third-party financial guarantors, particularly those that are distressed.

We continue to evaluate our business model and may pursue a different set of strategies in the future. There can be no assurance that the strategies that have been implemented or that will be pursued in the future in connection with this evaluation will result in high stable credit ratings for each of our insurance companies or for MBIA Inc., will enable us to write new financial guarantee business, will otherwise improve our financial condition, business condition or operations or will not result in a material adverse effect on the Company.

Capital Preservation, Liquidity Management and Deleveraging

We continued taking steps in 2011 to preserve capital, enhance liquidity and deleverage the Company, a process that began with our raising $2.7 billion in new debt and equity capital in 2007 and 2008 and converting our $400 million soft capital facility into cash in 2008.

RMBS Recoveries

First, we continued the process begun in 2008 of aggressively pursuing our rights against sellers/servicers whom we believe fraudulently induced us into writing insurance on their securitizations and breached their contractual obligations by placing ineligible collateral into the transactions and failing to cure such breaches or repurchase or replace the ineligible collateral upon demand. If we recover the expected damages for the losses resulting from ineligible loans in these transactions from these sellers/servicers, of which only a portion has been reflected in our loss reserves to date, and we receive other recoveries associated with defaulted RMBS transactions, we will substantially enhance MBIA Corp. s capital position. There can be no assurance, however, that we will recover these damages or expected recoveries in full or in a time frame necessary to meet liquidity requirements.

Table of Contents

Item 1. Business (continued)

Since 2008, a large part of our recovery effort has involved filing lawsuits against five sellers/servicers to enforce our contractual rights. We have recorded our largest recoveries against Countrywide Home Loans, Inc. and certain of its affiliates, including Bank of America Corp., and GMAC Mortgage, LLC and Residential Funding Company, LLC, which are subsidiaries of Ally Financial Inc. In December 2011, MBIA reached an agreement with one of the five sellers/servicers with whom it had initiated litigation and that litigation has been dismissed. Given the scope of these litigations, we expect them to be ongoing for several years; however, we anticipate that our first trial will take place sometime between the fourth quarter 2012 and the second quarter 2013. In addition, we received several important rulings in these matters in 2010 and 2011, including a decision permitting us to present evidence of contract, fraud, and damage claims through presentation of a statistically valid random sample of loans rather than on a loan-by-loan basis, a decision permitting us to collect recissory damages and a decision on causation which eliminates a barrier raised by one set of defendants with regard to their liability related to ineligible loans. While appeals of certain of these decisions are pending, we believe that these decisions will guide future opinions in our other cases. For a complete description of our litigation seeking to enforce our contractual rights with respect to securitizations we insure, see Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. We believe that these decisions combined with prior events related to settlements between sellers/servicers and government sponsored entities and private investors strengthen the Company s ability to record recoveries related to put-backs.

Commutations

Second, we continued to execute on our strategy of commuting volatile insured exposures and purchasing instruments issued or guaranteed by us where such actions are intended to reduce future expected economic losses, and we may, from time to time, directly or indirectly, seek to purchase or commute additional exposures in the future. The amount of exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time and other considerations. In some cases, these activities may result in a reduction of expected impairments or loss reserves, but in all cases they are intended to limit our debt service requirements, ultimate losses or future volatility in loss development on the related policies.

In 2011, MBIA Corp. commuted or agreed to commute $32.4 billion of gross insured exposure primarily comprising CMBS pools, investment grade corporate collateralized debt obligations (CDOs) and multi-sector CDOs, among other types of exposures. Subsequent to December 31, 2011 MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising investment grade corporate CDOs, totaled $3.7 billion in gross insured exposure. The total amount the Company agreed to pay to commute the above transactions was approximately $500 million in excess of its aggregate statutory loss reserve for such transactions. In consideration for the commutation of insured transactions, including the transactions described above, the Company has made and may in the future make payments to the counterparties the amounts of which, if any, may be less than or greater than any statutory loss reserves established for the respective transactions. The Company enters into commutations in the ordinary course of its business and does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. The Company s ability to commute insured transactions may be limited by available liquidity as determined based on management s assessment.

Liquidity Risk Management and Intercompany Lending Agreements

Third, we have focused on liquidity risk management given the substantial stress on the Company s liquidity resources caused by current conditions and events in the global financial markets and the failure by the originators of RMBS to repurchase the ineligible loans in securitizations the Company has insured. We monitor potential liquidity positions and projections in our businesses and legal entities using stress-scenario testing for purposes of matching liquidity resources to needs. In order to address our liquidity risks and efficiently manage liquidity across the entire enterprise, certain of our subsidiaries which are less liquidity-constrained have entered into intercompany agreements that provide resources to subsidiaries that are more liquidity constrained. These resources include a secured loan from National to MBIA Insurance Corporation, an asset swap between National and the asset/liability products segment and a secured loan between MBIA Corp. and the asset/liability products segment, which in each case were approved by the New York State Department of Financial Services (the NYSDFS) and are subject to ongoing monitoring by the NYSDFS, as well as a repurchase agreement between the conduit segment and the asset/liability products segment. Each of these agreements are discussed in detail under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements in Part II, Item 7 of this Form 10-K.

Item 1. Business (continued)

If liquidity resources were to fall short of our target liquidity cushions at any time, we could be required to sell or finance assets, including through these intercompany facilities, or raise additional third party capital. There can be no assurance that we will be successful in drawing on such resources or that they will be adequate to cover a short-fall. Each of these items are discussed further in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity in Part II, Item 7 of this Form 10-K.

OUR INSURANCE OPERATIONS

Our U.S. public finance insurance business is conducted through National, and our structured finance and international insurance operations are conducted through MBIA Corp. and its subsidiaries. Our ratings downgrades and mounting concerns about monoline insurers have impaired our ability to write new business since late 2007, and pending litigation challenging the establishment of National has further constrained our ability to write new business since 2009. However, we expect that once certain of the pending litigations are favorably resolved and MBIA Insurance Corporation repays the secured loan from National, we will be able to obtain the highest possible credit ratings and achieve the market acceptance necessary to meet our stated objectives.

We are compensated for our insurance policies by insurance premiums paid upfront and/or on an installment basis. Historically, our financial guarantee insurance was offered in both the new issue and secondary markets on a global basis. Transactions in the new issue market were sold either through negotiated offerings or competitive bidding. In negotiated transactions, either the issuer or the underwriter purchases the insurance policy directly from an insurer. For municipal bond issues involving competitive bidding, the insurance is offered as an option to the underwriters bidding on the transaction. The successful bidder would then have the option to purchase the insurance, or at times the issuer could purchase the insurance. We also issue insurance policies to guarantee the payment of principal and interest on municipal obligations being traded in the secondary market upon the request of a broker or an existing holder of uninsured bonds, where premium is generally paid by the owner of the obligation. In addition, we have provided financial guarantees to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. We seek to maintain a diversified insured portfolio and have designed each insured portfolio with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

Because we generally guarantee to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default or other triggering event on an insured obligation, payments under the insurance policy generally cannot be accelerated against us unless we consent to the acceleration. In the event of a default, however, we may have the right, in our sole discretion, to accelerate the obligations and pay them in full. Otherwise, we are required to pay principal, interest or other amounts only as scheduled payments come due, even if the holders are permitted by the terms of the insured obligations to have the full amount of principal, accrued interest or other amounts due, declared due and payable immediately in the event of a default. Our payment obligations after a default vary by deal and by insurance type. There are three primary types of policy payment requirements: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and, in the case of structured finance policies, (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. With respect to the insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract.

In the event of a default in payment of principal, interest or other insured amounts by an issuer, the insurance company promises to make funds available in the insured amount generally within one to three business days following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policies. Generally, our insurance companies provide for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer or other appropriate documentation. With respect to insurance policies issued by FGIC and reinsured by National under the FGIC Transaction described below, National has agreed to comply with the terms of the original FGIC policies.

Item 1. Business (continued)

National Insured Portfolio

Through its reinsurance of U.S. public finance financial guarantees from MBIA Corp. and FGIC, National s insurance portfolio consists of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

FGIC Transaction

In the third quarter of 2008, MBIA Corp. assumed a significant portion of FGIC s U.S. public finance insurance portfolio, totaling net par of approximately $181 billion as of September 30, 2008, and received upfront unearned premiums, net of a ceding commission paid to FGIC, of approximately $717 million as of September 30, 2008 (the FGIC Transaction). MBIA Corp. subsequently entered into an administrative services agreement with FGIC allowing MBIA Corp. to administer and remediate credits in the portfolio. As part of the Transformation described below, MBIA Corp. assigned its rights, interests, and obligations under the reinsurance agreement (the FGIC Reinsurance Agreement), and subcontracted the administrative services agreement, to National in February 2009. As of the closing date, the reinsured portfolio consisted of investment grade credits, primarily in the general obligation, water and sewer, tax-backed and transportation sectors, and did not contain any CDS contracts, below investment grade credits or other credits that were inconsistent with our credit underwriting standards. The reinsurance was provided on a cut-through basis, which enables FGIC s policyholders to receive the benefit of National s reinsurance by allowing them to present claims directly to National, as MBIA Corp. s assignee. The FGIC Reinsurance Agreement is filed as an exhibit to this Form 10-K and any description of it in this Form 10-K is qualified in its entirety by the agreement.

Transformation

Under the Transformation, the Company executed several transactions to establish National as a U.S. public finance-only financial guarantee company. The stock of National was transferred by MBIA Corp. to the Company and then contributed by the Company to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc., which is itself a wholly-owned subsidiary of the Company.

In addition, on February 17, 2009, MBIA Corp. ceded all of its U.S. public finance business to National by entering into a Quota Share Reinsurance Agreement with National, effective January 1, 2009 (the MBIA Corp. Reinsurance Agreement), and by assigning to National pursuant to a separate assignment agreement its rights, interests and obligations under the FGIC Reinsurance Agreement. The MBIA Corp. Reinsurance Agreement is filed as an exhibit to this Form 10-K and any description of it in this Form 10-K is qualified in its entirety by the agreement. The portfolio transferred to National by reinsurance or through the assignment of the FGIC Reinsurance Agreement consisted entirely of U.S. public finance business with total net par outstanding of approximately $553.7 billion as of January 1, 2009, the effective date of the reinsurance and assignment transactions between MBIA Corp. and National.

In connection with the reinsurance and assignment transactions, MBIA Corp. paid to National a premium to reinsure the policies covered by the MBIA Corp. Reinsurance Agreement and the assignment agreement, net of a ceding commission on the unearned premium reserve, and National was further capitalized through a dividend and return of capital paid by MBIA Corp. to MBIA Inc., which was contributed to National. MBIA Corp. and National received the required regulatory approvals from the New York and Illinois insurance departments prior to executing the Transformation. National was previously domiciled in Illinois and redomesticated to New York effective December 1, 2009. Litigation challenging the Transformation is still pending and is more fully described under Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

Table of Contents

Item 1. Business (continued)

MBIA Corp. continues to insure its remaining book of structured finance and international business, as well as insurance policies outstanding relating to liabilities of the asset/liability products business issued by MBIA Inc. and its subsidiaries. The litigation challenging the Transformation constrained the ability of National and MBIA Corp. to write new business and to pay dividends to MBIA Inc., which affects the holding company s future liquidity. During the second quarter of 2010, National received approval from the NYSDFS to reset its unassigned surplus to zero as of January 1, 2010, which provided National with dividend capacity of $142 million as of December 31, 2011. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset and we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of a release of excessive contingency reserves as of December 31, 2011 in MBIA Insurance Corporation, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period). The impact of the Transformation on the Company s liquidity is described further in Note 17: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

In general, references herein to National-insured or issued policies include those insurance policies reinsured from MBIA Corp. or under the FGIC Transaction, unless indicated otherwise.

Portfolio Profile

As of December 31, 2011, National had $410.4 billion of gross par outstanding on insured U.S. public finance obligations covering 21,272 policies and diversified among 9,199 credits, which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2011 was $656.6 billion.

The table below sets forth information with respect to the original gross par amount insured per issue in the National portfolio as of December 31, 2011:

National U.S. Public Finance Original Gross Par Amount Per Issue as of December 31, 2011

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (In billions)	% of Gross Par Amount Outstanding
Less than $10 million	14,110	66.3 %	$ 42.6	10.4 %
$10-25 million	3,519	16.5 %	56.2	13.7 %
$25-50 million	1,798	8.5 %	63.4	15.5 %
$50-100 million	1,025	4.8 %	71.3	17.4 %
$100-200 million	524	2.5 %	73.6	17.9 %
$200-300 million	156	0.7 %	37.7	9.2 %
$300-400 million	67	0.3 %	23.1	5.6 %
$400-500 million	37	0.2 %	16.5	4.0 %
Greater than $500 million	36	0.2 %	26.0	6.3 %
Total	21,272	100.0 %	$ 410.4	100.0 %

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2011 was 10.4 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2011 was $37.7 billion.

7

Table of Contents

Item 1. Business (continued)

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2011:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2011

In millions	Gross Par Amount
Bond type	
Public finance: United States	
General fund obligation	$ 155,157
General fund obligation Lease	34,475
Municipal utilities	72,850
Tax backed	52,704
Transportation	39,970
Health care	10,294
Higher education	22,491
Student loans	1,226
Municipal housing	5,648
Military housing	7,988
Investor-owned utilities	6,077
Other	1,480
Total United States public finance	$ 410,360

National s underwriting guidelines limit the insurance in force for any one insured credit. In addition, National is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2011, National s gross par amount outstanding for its ten largest insured U.S. public finance credits totaled $25.4 billion, representing 6.2% of National s total U.S. public finance gross par amount outstanding.

MBIA Corp. Insured Portfolio

MBIA Corp. has insured and reinsured structured finance and international financial obligations which are sold in the new issue and secondary markets, including from time to time:

- structured finance and asset-backed obligations, including obligations collateralized by diverse pools of loans or secured by or payable from a specific pool of assets having an identified future cash flow, including pools of bonds or other debt obligations;
- payments due under credit and other derivatives, including termination payments that may become due upon the occurrence of certain events, as further described below;
- privately issued bonds used for the financing of public purpose projects or entities located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities, utilities, hospitals, military housing and other types of infrastructure projects serving a substantial public purpose; and

obligations of sovereign-related and sub-sovereign issuers, which includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.

As of December 31, 2011, MBIA Corp. had 1,047 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 233 insurance policies outstanding relating to asset/liability products liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section Our Wind-Down Businesses below. MBIA Corp. s total policies are diversified among 691 credits, which we define as any group of issues supported by the same revenue source.

In addition, certain of our insurance policies guarantee payments due under CDS and other derivatives, including termination payments that may become due upon the occurrence of certain events, such as the insolvency of or a payment default by the financial guarantor or the CDS issuer.

Table of Contents

Item 1. Business (continued)

Structured Finance and Asset-Backed Obligations

Structured finance obligations insured by MBIA Corp. typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgage loans, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property, private sector student loans, and infrastructure projects. Structured finance obligations are either secured by undivided interests or collateralized by the related assets. Certain policies include payments due under CDS and other derivatives, including termination payments that may become due upon the occurrence of certain events, such as the insolvency of or a payment default by the financial guarantor or the CDS issuer.

Structured finance transactions are often structured such that the insured obligations are intended to benefit from some form of credit enhancement such as over-collateralization, subordination, excess cash flow or first loss protection, to protect against the associated credit risks. Structured finance obligations contain risks including asset risk, which relates to the amount and quality of asset coverage, structural risk, which relates to the extent to which the transaction structure protects the interests of the investors from the bankruptcy of the originator of the underlying assets or the issuer of the securities, and servicer risk, which relates to problems with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing of the underlying assets. Additionally, the inclusion of a large number of ineligible mortgage loans in MBIA Corp.-insured RMBS transactions has caused, and may continue to cause, material losses beyond any stress analyses undertaken at origination.

In 2008, the Company announced that it had ceased insuring new credit derivative contracts except in transactions related to the reduction of existing insured credit derivative exposure. In addition, the Company announced that it had suspended the writing of all new structured finance business for approximately six months. Since that temporary suspension, we adjusted target structured finance risk sectors and underwriting criteria in this business and are continuing to track developments in the structured finance industry. Currently, the structured finance industry is generating very few credit enhancement opportunities for the Company, and it is uncertain how or when the Company may re-engage this market.

International Obligations

Outside the U.S., financial guarantee insurance has been used by issuers of sovereign-related and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. At the current time we do not insure any direct sovereign debt. We have insured both structured finance and public finance obligations in select international markets and the risk profile of our international exposure is similar to that in the U.S., although there are unique risk factors related to each country and region that are evaluated at origination and on an ongoing basis. These factors include legal, regulatory, economic and political variables, the sophistication of and trends in local capital markets and currency exchange risks. Ongoing privatization initiatives in some regions have shifted the financing of new projects from the government to the capital markets, where investors can benefit from the default protection provided by financial guarantee insurance. The development of structured finance has varied to date by region depending on the development stage of the local capital markets, the impact of financial regulatory requirements, accounting standards and legal systems.

Portfolio Profile

As of December 31, 2011, the gross par amount outstanding on MBIA Corp. s insured obligations, including insured obligations of MBIA UK and MBIA Mexico (excluding $3.6 billion of MBIA insured investment agreements and medium-term notes (MTNs) for our asset/liability products transactions), was $141.4 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2011 was $183.5 billion.

Table of Contents

Item 1. Business (continued)

The table below sets forth information with respect to the original gross par amount insured per issue in MBIA Corp. s insured obligations as of December 31, 2011:

MBIA Corp. Original Gross Par Amount for the Structured Finance and International

Portfolio Per Issue as of December 31, 2011 [(1)]

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (In billions)	% of Gross Par Amount Outstanding
Less than $10 million	323	30.8 %	$ 1.0	0.7 %
$10-25 million	196	18.7 %	3.3	2.4 %
$25-50 million	130	12.4 %	4.7	3.3 %&nbs