

MBIA INC  
Form 10-K  
February 27, 2013  
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**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**

For the fiscal year ended December 31, 2012

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)

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**Connecticut**  
(State of incorporation)

**06-1185706**  
(I.R.S. Employer

Identification No.)

**113 King Street, Armonk, New York**  
(Address of principal executive offices)

**10504**  
(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  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

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  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  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  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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2012 was \$1,530,515,614.

As of February 21, 2013, 192,753,457 shares of Common Stock, par value \$1 per share, were outstanding.

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Documents incorporated by reference. Portions of the Definitive Proxy Statement of the Registrant, which will be filed on or before March 31, 2013, are incorporated by reference into Parts III of this Form 10-K.

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### **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 like 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 and Risks and Uncertainties 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.

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**Part I**

**Item 1. Business**

**OVERVIEW OF OUR SERVICES**

MBIA Inc. ( MBIA, the Company, we, our 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 subsidiaries National Public Finance Guarantee Corporation ( National ), our United States ( U.S. ) public finance-only financial guarantee company, and MBIA Insurance Corporation and its subsidiaries ( MBIA Corp. ), which write 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 established in 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 ( U.K. ) and is authorized to carry out insurance business in the U.K. 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 Our Insurance Operations National Insured Portfolio below and the Transformation-related litigation is described more fully under Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. After giving effect to the Transformation, MBIA Corp.'s remaining portfolio consists of global structured finance and non-U.S. public finance business.

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### ***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 operate a financial advisory and asset management business in Europe through our FSA licensed and regulated subsidiary Trifinium Advisors (UK) Limited (Trifinium). Its activities include among other things managing MBIA UK's investment portfolio. In 2012, we exited the financial advisory services business in Latin America.

### **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) pools, commercial real estate (CRE) and collateralized debt obligation (CDO) portfolios, continue to place considerable stress on our economic results. The inclusion of ineligible mortgage loans in the transactions we have insured and the failure of sellers/servicers to cure the breaches or repurchase or replace the ineligible collateral has substantially contributed to the total RMBS losses that the Company has incurred to date. If performance deteriorates further and uncertainty increases in these sectors, our future economic results may be adversely impacted. In addition, as a result of these and other factors, MBIA Insurance Corporation faces certain key risks and contingencies as described herein that increase the possibility that it could be placed in a rehabilitation or liquidation proceeding. Refer to Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K for a detailed description of the risks associated with MBIA Insurance Corporation being placed in a rehabilitation proceeding.

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 into 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 has been 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. 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 (the National Secured Loan) 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.





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***Item 1. Business (continued)***

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. For a complete discussion of our ratings, see *Rating Agencies* below.

The Company is currently involved in several litigations challenging the Transformation both in a proceeding under Article 78 of New York's Civil Practice Law & Rules and in plenary suits. The hearing for the Article 78 proceeding was concluded during the second quarter of 2012 and a decision is pending. Since the case was filed, 16 of the original 18 plaintiffs have dismissed their claims. For a complete description of the litigation challenging the Transformation see *Note 20: Commitments and Contingencies* in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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.

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 2012 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***

We have 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/or breached their contractual obligations by placing ineligible mortgage collateral into the transactions and failing to cure such breaches or repurchase or replace the ineligible collateral. 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.

In September 2008, MBIA initiated litigation against Bank of America Corporation and certain of its subsidiaries including Countrywide Home Loans, Inc. ( *Countrywide* ), and subsequently filed complaints against five additional sellers/servicers to enforce its contractual rights under the respective transaction documents. Additionally, in September 2012 the Company filed a complaint against an underwriter of one of our transactions related to its intentional concealment of certain loan breach findings. We have recorded our largest recoveries against Bank of America/Countrywide, and against two wholly-owned subsidiaries of Residential Capital, LLC ( *ResCap* ), GMAC Mortgage, LLC ( *GMAC* ) and Residential Funding Company, LLC ( *RFC* ), whose ultimate parent company is Ally Financial Inc.

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***Item 1. Business (continued)***

In December 2011, MBIA reached an agreement with one of the six sellers/servicers with whom it had initiated litigation and that litigation has been dismissed. On May 14, 2012, ResCap, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Accordingly, MBIA's put-back litigations against these two sellers/servicers are now stayed and subject to the ResCap bankruptcy proceeding.

Given the scope of the remaining litigations, we expect them to be ongoing for several years; however, we anticipate that our first trial will begin in 2013 or early 2014. Additionally, there have been several important rulings in these matters since 2010, including decisions permitting us to present evidence of liability 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 rescissory damages; and a decision on the applicable standard for proving causation which rejects a defense to liability raised by many defendants. Appeals of certain, though not all, of these decisions are pending; however, these decisions have been accepted and relied on by judges in other cases and we believe will be affirmed by the relevant appellate courts, although such outcomes cannot be assured. For a complete description of our litigation seeking to enforce our contractual rights with respect to securitizations we insure, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. We believe that these decisions, combined with a recent groundbreaking decision by federal Judge Jed Rakoff of the Southern District of New York awarding in full a monoline insurance company's damages for paid claims against one of the sellers/servicers with whom MBIA Corp. has also initiated litigation on similar legal grounds to those asserted by MBIA Corp. in its litigations, as well as prior settlements between sellers/servicers and government sponsored entities and private investors, strengthen the Company's ability to record recoveries related to put-backs.

***Commutations***

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 2012, MBIA Corp. commuted \$13.4 billion of gross insured exposure primarily comprising structured CMBS pools, CRE CDOs, investment grade corporate CDOs, asset-backed securities (ABS) CDOs, and subprime RMBS 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 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. In the fourth quarter of 2012, MBIA Insurance Corporation agreed with a credit default swap (CDS) counterparty on a commutation of certain potentially volatile policies insuring ABS CDO, structured CMBS pools and CRE CDO transactions. The agreement was subject to the approval of the New York State Department of Financial Services (the NYSDFS) of a request to draw on the National Secured Loan in order to finance the commutation, as well as the receipt by MBIA Insurance Corporation of confirmation from the NYSDFS of its non-disapproval of the commutation. MBIA Insurance Corporation requested the NYSDFS to confirm its non-disapproval of the commutation and for approval of a loan under the National Secured Loan or for approval of an alternative financing structure to finance the commutation. Subsequent to December 31, 2012, those requests were denied. The Company's ability to commute insured transactions is limited by available liquidity, including the availability of intercompany loans under the National Secured Loan and the use of other available financing structures and liquidity, all of which could be subject to regulatory approval by the NYSDFS. There can be no assurance that the Company will be able to fund further commutations by borrowing from National or otherwise.

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### ***Item 1. Business (continued)***

#### *Liquidity Risk Management and Intercompany Lending Agreements*

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 general 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 the National Secured Loan, 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 was approved by the NYSDFS and is 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.

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.

#### *Consent Solicitation*

During the fourth quarter of 2012, MBIA successfully completed a consent solicitation pursuant to which it received the consent of its senior noteholders to amend the indentures pursuant to which the senior notes were issued to substitute National Public Finance Guarantee Corporation for MBIA Insurance Corporation in the definition of *Restricted Subsidiary* and *Principal Subsidiaries* in the respective indentures, which provide that an insolvency proceeding with respect to a *Restricted* or *Principal Subsidiary*, as the case may be, that remains in place for a specified period of time constitutes an event of default, which would likely result in the acceleration of the senior notes. In addition, we repurchased approximately \$172 million of the outstanding principal amount of the notes issued under the Senior Indenture, dated as of November 24, 2004, by and between the Company and The Bank of New York (as supplemented by the First Supplemental Indenture, dated as of November 24, 2004, and the Second Supplemental Indenture, dated as of November 21, 2012 (the *Second Supplemental Indenture*)) (collectively, the *2004 Indenture*), governing the Company's \$329 million principal amount of the notes (the *2004 Notes*), in privately negotiated seller initiated reverse inquiry transactions directly from holders that had consented pursuant to the consent solicitation.

The purpose of the consent solicitation was to avoid the risk of a substantial value erosion of the Company in the event of an MBIA Insurance Corporation rehabilitation or liquidation. In addition, by removing this risk, we believe the consummation of the consent solicitation will improve the Company's credit standing over time and improve its ability to raise capital in the future, each of which we believe would inure to the benefit of shareholders and creditors. See *Risk Factors* in Part I, Item 1A of this Annual Report on Form 10-K for a detailed description of the risks associated with MBIA Insurance Corporation being placed in a rehabilitation or liquidation proceeding.

On December 13, 2012, the Company received a letter from Blue Ridge Investments, L.L.C., a subsidiary of Bank of America, addressed to the Company and The Bank of New York Mellon (the *Trustee*) in its capacity as the trustee under the 2004 Indenture. The letter purports to be a *Notice of Default* under Section 501(3) of the 2004 Indenture (the *Purported Notice of Default*) and alleges that the Second Supplemental Indenture was executed without the requisite consent of holders of the 2004 Notes required by the 2004 Indenture. Pursuant to the 2004 Indenture, if a default continues for a period of 60 days after notice, then the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2004 Notes may declare the principal amount of the 2004 Notes to be due and payable immediately. As of the date of this report, the Company has not received a notice of acceleration of the 2004 Notes.

**Table of Contents*****Item 1. Business (continued)***

In addition, pursuant to the Indenture, dated as of August 1, 1990 (as supplemented and amended, the 1990 Indenture), governing the Company's 6.40% Senior Notes due 2022, 7.00% Debentures due 2025, 7.15% Debentures due 2027 and 6.625% Debentures due 2028 (collectively, the 1990 Notes), any acceleration of the amount due under the 2004 Indenture that is not discharged or cured, waived, rescinded or annulled within 10 days after notice from the trustee of the 1990 Indenture or holders of not less than 25% aggregate principal amount of the 1990 Notes (treated as one class) would constitute an event of default under the 1990 Indenture and either the trustee of the 1990 Indenture or the holders of not less than 25% in aggregate principal amount of the 1990 Notes then outstanding (treated as one class) may declare the entire principal of the 1990 Notes then outstanding and interest accrued thereon to be due and payable immediately.

On December 17, 2012, the Company sent the Trustee a letter advising the Trustee that the Purported Notice of Default is meritless and has no force and effect under the 2004 Indenture, directing the Trustee to take no action in furtherance of the Purported Notice of Default, and advising the Trustee that the Company intends to take any and all necessary and appropriate actions to enforce the Second Supplemental Indenture. In addition, on February 7, 2013, the Company filed a complaint for declaratory and injunctive relief seeking, among other things, a declaration that the Purported Notice of Default is invalid. While the Company believes the Purported Notice of Default is meritless, there can be no assurances that the Company will successfully contest its validity or the ability of the holders of the 1990 Notes to declare an event of default under the 1990 Indenture on the basis of any purported acceleration of the 2004 Notes. If the Company is unable to repay the 2004 Notes or the 1990 Notes in the event it is not ultimately successful in contesting the validity of the Purported Notice of Default and any subsequent acceleration, the Trustee or holders of the 2004 Notes or the 1990 Notes would likely exercise their rights as creditors to force repayment and the Company would have an immediate need to pursue other alternatives, including, if the Company is not successful in pursuing out-of-court alternatives, the filing for protection under applicable insolvency laws.

On December 13, 2012, Bank of America also filed a complaint alleging that the Company tortiously interfered with Bank of America's tender offer to buy all of the 2004 Notes and seeking a permanent injunction against the implementation of the Second Supplemental Indenture and money damages. Bank of America filed an amended complaint on February 19, 2013. For a complete description of the litigation around the consent solicitation, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 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 Insurance Corporation 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 National Secured Loan, 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 insured transactions 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.

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***Item 1. Business (continued)***

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 circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, 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 often 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.

**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.

On June 11, 2012, the Superintendent of the NYSDFS (the "Superintendent") commenced a special proceeding for the rehabilitation of FGIC by filing a petition with the New York Supreme Court. On September 27, 2012, the Superintendent filed a proposed plan of rehabilitation for FGIC, which included a form of novation agreement between FGIC and National whereby FGIC transfers by novation to National all rights and liabilities under each of the policies covered under the FGIC Reinsurance Agreement. Approval of the proposed plan, including the proposed novation agreement, by the court is pending.

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### ***Item 1. Business (continued)***

#### *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 MBIA Inc.

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 redomiciled to New York effective December 1, 2009. Litigation challenging the Transformation is still pending and is more fully described under "Note 20: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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 \$200 million as of December 31, 2012. 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 (currently, through April 19, 2013). 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. The impact of the Transformation on the Company's liquidity is described further in "Note 14: Insurance Regulations and Dividends" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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, 2012, National had \$337.1 billion of gross par outstanding on insured U.S. public finance obligations covering 16,886 policies and diversified among 7,702 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, 2012 was \$530.9 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 the National portfolio as of December 31, 2012:

**National U.S. Public Finance Original Gross Par Amount Per Issue as of December 31, 2012**

<b>Original Gross Par Amount Written Per Issue</b>	<b>Number of Issues Outstanding</b>	<b>% of Total Number of Issues Outstanding</b>	<b>Gross Par Amount Outstanding (in billions)</b>	<b>% of Gross Par Amount Outstanding</b>
Less than \$10 million	10,928	64.7 %	\$ 32.9	9.7 %
\$10-25 million	2,916	17.3 %	46.4	13.8 %
\$25-50 million	1,511	9.0 %	53.1	15.8 %
\$50-100 million	866	5.1 %	60.4	17.9 %
\$100-200 million	425	2.5 %	59.9	17.7 %
\$200-300 million	125	0.7 %	30.2	9.0 %
\$300-400 million	54	0.3 %	18.6	5.5 %
\$400-500 million	30	0.2 %	13.5	4.0 %
Greater than \$500 million	31	0.2 %	22.1	6.6 %
Total	16,886	100.0 %	\$ 337.1	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, 2012 was 9.9 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, 2012 was \$31.7 billion.

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2012:

**National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2012**

<b>In millions</b>	<b>Gross Par Amount</b>
<b>Bond Type</b>	
<b>Public finance: United States</b>	
General fund obligation	\$ 125,810
General fund obligation Lease	28,495
Municipal utilities	61,769
Tax backed	44,844
Transportation	30,644
Health care	7,470
Higher education	18,972
Student loans	431
Municipal housing	4,373
Military housing	7,941
Investor-owned utilities	4,987
Other	1,378

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Total United States public finance	\$ 337,114
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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, 2012, National's gross par amount outstanding for its ten largest insured U.S. public finance credits totaled \$19.8 billion, representing 5.9% of National's total U.S. public finance gross par amount outstanding.



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***Item 1. Business (continued)***

**MBIA Corp. Insured Portfolio**

MBIA Corp. has insured and reinsured structured finance and international public finance 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;

bonds and loans used for the financing of projects or other entities located outside of the U.S. that include toll roads, bridges, airports, 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 generally supported by a sovereign state, region or department.

As of December 31, 2012, MBIA Corp. had 899 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 199 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 594 credits, which we define as any group of issues supported by the same revenue source.

*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 in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts.

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 in the U.S. 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.

**Table of Contents****Item 1. Business (continued)**

We have insured both structured finance and public finance obligations in select international markets. 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 have benefited 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, 2012, the gross par amount outstanding on MBIA Corp. s insured obligations, including insured obligations of MBIA UK and MBIA Mexico (excluding \$3.1 billion of MBIA insured investment agreements and medium-term notes ( MTNs ) for our asset/liability products transactions), was \$112.4 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2012 was \$148.2 billion.

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, 2012:

**MBIA Corp. Original Gross Par Amount for the Structured Finance and International****Portfolio Per Issue as of December 31, 2012 <sup>(1)</sup>**

<b>Original Gross Par Amount Written Per Issue</b>	<b>Number of Issues Outstanding</b>	<b>% of Total Number of Issues Outstanding</b>	<b>Gross Par Amount Outstanding (In billions)</b>	<b>% of Gross Par Amount Outstanding</b>
Less than \$10 million	297	33.0 %	\$ 0.9	0.8 %
\$10-25 million	169	18.8 %	2.9	2.5 %
\$25-50 million	116	12.9 %	4.1	3.7 %
\$50-100 million	101	11.2 %	7.4	6.6 %
\$100-200 million	73	8.1 %	10.4	9.2 %
\$200-300 million	42	4.7 %	10.5	9.3 %
\$300-400 million	28	3.1 %	9.9	8.8 %
\$400-500 million	15	1.7 %	6.8	6.1 %
Greater than \$500 million	58	6.5 %	59.5	53.0 %
<b>Total</b>	<b>899</b>	<b>100.0 %</b>	<b>\$ 112.4</b>	<b>100.0 %</b>

(1) Excludes \$3.1 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liability products segment and guaranteed by MBIA Corp.

MBIA Corp. underwrites its policies on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life of its structured finance and international insurance policies in force as of December 31, 2012 was 8.7 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations 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, 2012 was \$12.5 billion.



**Table of Contents****Item 1. Business (continued)**

The table below shows the diversification by type of insurance that was outstanding as of December 31, 2012:

**MBIA Corp. Gross Par Amount Outstanding for the Structured Finance and International****Portfolio by Bond Type as of December 31, 2012 <sup>(1)</sup>**

In millions	Gross Par Amount
<b>Bond Type</b>	
<b>Public finance: non-United States</b>	
Sovereign-related and sub-sovereign	\$ 11,493
International utilities	9,816
Transportation	10,069
Local governments <sup>(2)</sup>	327
Tax backed	80
Health care	41
<b>Total public finance non-United States</b>	<b>31,826</b>
<b>Global structured finance:</b>	
Collateralized debt obligations <sup>(3)</sup>	51,796
Mortgage-backed residential	12,066
Mortgage-backed commercial	2,838
Consumer asset-backed:	
Student loans	644
Manufactured housing	1,275
Other consumer asset-backed	68
Corporate asset-backed:	
Operating assets:	
Aircraft portfolio lease securitizations	2,277
Secured airline equipment securitizations	2,053
Other operating assets	466
Structured insurance securitizations	3,962
Franchise assets	680
Future flow	237
Other corporate asset-backed	2,185
<b>Total global structured finance</b>	<b>80,547</b>
<b>Total</b>	<b>\$ 112,373</b>

(1) Excludes \$3.1 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liability products segment and guaranteed by MBIA Corp.

(2) Includes municipal-owned entities backed by the sponsoring local government.

(3) Includes transactions (represented by structured pools of primarily investment grade corporate credit risks, CMBS or other CRE assets) that may not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

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MBIA Corp. s underwriting guidelines limit the insurance in force for any one insured credit. In addition, MBIA Corp. 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, 2012, MBIA Corp. s gross par amount outstanding for its ten largest non-U.S. public finance credits insured totaled \$14.1 billion, representing 12.5% of MBIA Corp. s total structured finance and international gross par amount outstanding, and the gross par outstanding for its ten largest structured finance credits (without aggregating issues of common issuers), was \$20.0 billion, representing 17.8% of the total.

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### ***Item 1. Business (continued)***

#### **Risk Management**

MBIA's risk management is comprised of different units that oversee credit, market and operational risks at transaction origination and in ongoing portfolio monitoring, surveillance and remediation. MBIA's Insured Portfolio Management Division monitors and remediates structured finance and international infrastructure risks while National's surveillance group performs this function with respect to U.S. public finance transactions. A Special Situations Group is involved in certain transactions that require intensive remediation. National, MBIA Insurance Corporation and MBIA UK each have a credit risk committee to review certain prescribed underwriting decisions. On an enterprise-wide basis, executive committees provide risk oversight with the Risk Oversight Committee focused on transactions not otherwise reviewable by credit risk committees, firm-wide risk review, policies and decisions related to credit, market, operational, legal, financial and business risks, the executive Loss Reserve Committee reviewing reserve activity and the Executive Credit and Market Risk/Investment Committees reviewing specific transactions and portfolios.

The Board of Directors and its Committees oversee different risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses risks associated with strategic initiatives, and the CEO's risk management performance is one of the criteria used by the Board in evaluating the CEO. On an annual basis, the Board also establishes the firm's risk appetite and evaluates and approves the Company's risk tolerance guidelines. The purpose of the risk tolerance guidelines is to delineate the types and amounts of risks the Company can face in light of its stated risk appetite. This policy provides the basis upon which risk criteria and procedures are developed and applied consistently across the Company. The Board's Audit Committee and its Finance and Risk Committee, as well as board committees at National, MBIA Insurance Corporation and MBIA UK, also play an important role in overseeing different types of risks.

The Audit Committee oversees risks associated with financial and other reporting, auditing, legal and regulatory compliance, and risks that may otherwise result from the Company's operations. The Audit Committee oversees these risks by monitoring (i) the integrity of the financial statements of the Company and of other material financial disclosures made by the Company, (ii) the qualifications and independence of the Company's independent auditor, (iii) the performance of the Company's internal audit function and independent auditor, (iv) the Company's compliance policies and procedures and its compliance with legal and regulatory requirements and (v) the performance of the Company's operational risk management function.

The Finance and Risk Committee oversees the Company's credit risk governance framework, market risk, liquidity risk and other material financial risks. The Finance and Risk Committee oversees these risks by monitoring the Company's (i) proprietary investment portfolios, (ii) capital and liquidity risks and risk management, (iii) enterprise market risks and risk management, (iv) credit risk and risk management in the Company's operations and (v) compliance with regulatory financial requirements and risk limits and with management's capital and risk policies, requirements and limits as approved by the Finance and Risk Committee and the Board of Directors from time to time.

At each regular meeting of the Board, the Chairs of each of these committees report to the full Board regarding the meetings and activities of their respective committees.

#### ***Insurance Origination, Monitoring and Remediation***

We monitor and remediate our existing insured portfolios on an ongoing basis. Although our monitoring and remediation activities vary somewhat by sector and bond type, in all cases we focus on assessing event risk and possible losses under stress.

*U.S. Public Finance:* For U.S. public finance, our underwriting at origination and ongoing monitoring focuses on economic and political trends, issuer or project debt and financial management, construction and start up risk, adequacy of historical and anticipated cash flows under stress, satisfactory legal structure and bond security provisions, viable tax and economic bases, including consideration of tax limitations and unemployment trends, adequacy of stressed loss coverage and project feasibility, including satisfactory reports from consulting engineers, traffic advisors and others, if applicable. Depending on the transaction, specialized cash flow analyses may be conducted to understand loss sensitivity. In addition, specialized credit analysts consider the potential event risk of natural disasters or headline events on both single transactions and across a sector, as well as regulatory issues. U.S. public finance transactions are monitored periodically by reviewing trustee, issuer and project financial and operating reports as well as reports provided by technical advisors and counsel. Projects may be periodically visited by National personnel.





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### *Item 1. Business (continued)*

*International Public Finance:* International public finance transactions are underwritten, monitored and remediated in a manner consistent with U.S. public finance transactions. In addition, specialized credit analysts consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. Analysts also monitor local accounting and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. Furthermore, counterparty exposures are reviewed periodically and generally when a counterparty is downgraded. MBIA personnel also may periodically visit projects or issuers to meet with management.

*Structured Finance Transactions:* For structured transactions, we focus on the historical and projected cash flows generated by the assets, credit and operational strength of the originator, servicer, manager and/or operator of the assets, and the nature of the transaction structure (including the degree of protection from bankruptcy of the originator or servicer). We may use both probability modeling and cash flow sensitivity analysis (both at the transaction and asset specific levels) to test asset performance assumptions and performance covenants, triggers and remedies. In addition, the Insured Portfolio Management Division may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio.

Key to our ongoing monitoring is early detection of deterioration in either transaction credit quality or macroeconomic or market factors that could adversely impact an insured credit. If deterioration is detected, analysts generally evaluate possible remedial actions and, in the event of significant stress, we may involve a dedicated workout unit, the Special Situations Group, to assess and monitor the credit and, if necessary, develop and implement a remediation strategy. The nature of any remedial action is based on the type of insured issue and the nature and scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, we work with the issuer, trustee, legal counsel, servicer, other creditors, underwriters or other related parties to reduce chances of default and the potential severity of loss upon a default. In addition, we may seek to improve our security position and obtain concessions from the issuer of the insured bonds, and, from time to time, the issuer of our insured bond may, with our consent (and, in certain circumstances, the consent of noteholders), restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, sometimes with our insuring the restructured obligation.

We use an internal credit rating system to monitor credits, with frequency of review based on risk type, internal rating, performance and credit quality. Credits with performance issues are designated as Caution List-Low, Caution List-Medium or Caution List-High based on the nature and extent of our concerns, but these categories do not require establishment of any case basis reserves. In the event we determine that a claim for payment is possible with respect to an insured issue using probability-weighted expected cash flows based on available information, including market data, we place the issue on the Classified List and establish a case basis reserve for that insured issue. See Losses and Reserves below for information on our loss reserving process.

#### *Credit Risk Models*

We use credit risk models to test qualitative judgments, to design appropriate structures and to understand sensitivity within transactions and across broader portfolio exposure concentrations. Models are updated to reflect changes in both portfolio and transaction data and also in expectations of stressed future outcomes. For portfolio monitoring we use internal and third-party models based on individual transaction attributes and customized structures and these models are also used to determine case basis loss reserves and, where applicable, to mark-to-market any insured obligations as may be required for financial reporting. When using third-party models, we generally perform the same review and analyses of the collateral, transaction structure, performance triggers and cash flow waterfalls as when using our internal models. See Risk Factors Insured Portfolio Loss Related Risk Factors Financial modeling contains uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential paid claims, loss reserves and mark-to-market in Part I, Item 1A of this Form 10-K.

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### ***Item 1. Business (continued)***

#### *Market Risk Assessment*

We measure and assess market risk on a consolidated basis and in our operating subsidiaries. Key market risks are changes in interest rates, credit spreads and foreign exchange. We use various models and methodologies to test economic exposure under market stress scenarios, including parallel and non-parallel shifts in the yield curve, changes in credit spreads, stressed liquidity scenarios and stressed counterparty exposures. The analyses are used in testing investment portfolio guidelines. The Executive Market/Investment Committee and the Finance and Risk Committee of the Company's Board of Directors receive periodic reports on market risk.

#### *Operational Risk Assessment*

The Operational Risk function assesses potential economic loss or reputational impact arising from processes, systems, or staff actions and seeks to identify vulnerabilities to operational disruptions caused by external events. Operational risk is generally managed using a self-assessment process across our business units, with controls associated with the execution of key processes monitored through Internal Audit reviews. The Operational Risk group reports periodically to management's Risk Oversight Committee and the Audit Committee of the Company's Board of Directors. The Audit Committee reviews the Company's operational risk profile, risk event activity and ongoing risk mitigation efforts.

#### **Losses and Reserves**

Loss and loss adjustment expense (LAE) reserves are established by Loss Reserve Committees in each of our major operating insurance companies (National, MBIA Corp. and MBIA UK) and reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company's loss and LAE reserves as of December 31, 2012 represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company's estimate of expected losses to be paid under an insurance contract, net of potential recoveries and discounted using a current risk-free interest rate, when this amount exceeds unearned premium revenue on the related insurance contract. We record case basis loss reserves on insured obligations which have defaulted or are expected to default.

For a further discussion of the methodology used by the Company for determining when a case basis reserve is established, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Loss and Loss Adjustment Expense Reserves in Part II, Item 7 of this Form 10-K. Management believes that our reserves are adequate to cover the ultimate net cost of claims. However, because the reserves are based on management's judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates or that the timing of claims payments and the realization of recoveries will not create liquidity issues for the insurance companies.

#### **Reinsurance**

State insurance laws and regulations, as well as the rating agencies who rate our insurance companies impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance and the maximum size of any single risk exposure which may be written. Prior to 2008 we decreased the insured exposure in our portfolio and increased our capacity to write new business by reinsuring certain of our gross liabilities with third parties on an aggregate and single risk basis through treaty and facultative reinsurance. In the future, we do not intend to utilize reinsurance to a material degree for these purposes. We may, from time to time, look to reduce risks embedded in our insured portfolio on an individual and portfolio-wide basis by entering into derivative transactions or other types of hedging arrangements.

Since 2008, we have commuted most of the Company's previously outstanding reinsurance. We currently have reinsurance agreements in place with six reinsurers and commuted reinsurance in place with 18 reinsurers between 2008 and 2010, in some cases in exercise of the Company's right to reassume business ceded to reinsurers under certain circumstances, including rating downgrades of the reinsurers. Under its commutation agreements, the Company is generally paid an amount based on estimates of present and future exposures and taking into account the time value of money; this amount generally includes the unearned premium reserves and loss reserves established for the insurance policies associated with the commuted reinsurance.

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***Item 1. Business (continued)***

In exchange for payment of the agreed amount, the reinsurer's exposure to the ceded policies is commuted. Commuted reinsurance includes the termination of reinsurance with Channel Reinsurance Ltd ( Channel Re ) during the third quarter of 2010. The termination of reinsurance was executed following MBIA Corp.'s acquisition of all of the common stock of Channel Re and its parent, ChannelRe Holdings, Ltd., not previously owned by MBIA Corp. Channel Re and its parent were subsequently liquidated. MBIA Corp. previously held a 17.4% ownership interest in Channel Re and Channel Re agreed to provide committed reinsurance capacity to MBIA Corp.

With respect to reinsurance remaining outstanding, our insurance companies, as primary insurers, are required to honor their obligations to their policyholders whether or not our reinsurers and other reimbursement parties perform their agreement obligations to us. We monitor the financial position and financial strength rating of all of our reinsurers on a regular basis. Over the past several years, some of the Company's remaining reinsurers have been downgraded and all are now subject to more frequent rating agency review. A ratings downgrade reduces the overall benefit of the reinsurance to MBIA. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to our insurance companies under rating agency capital adequacy assessment models. Additionally, any significant rating downgrade or financial deterioration of one or more of our reinsurers could require the establishment of reserves against any receivables due from the reinsurer. To offset the counterparty risk, we require certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2012, the amount of funds held for the benefit of MBIA totaled \$8 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

***Intercompany Reinsurance Arrangements***

Under the Transformation, MBIA Corp. and National entered into the MBIA Corp. Reinsurance Agreement as well as an assignment agreement under which MBIA Corp. assigned its rights and obligations under the FGIC Reinsurance Agreement. In addition, National entered into second-to-pay policies covering the policies covered by each of these agreements. Each of these transactions and the terms of those documents are further described under the Our Insurance Operations National Insured Portfolio section above.

MBIA Corp. has entered into a reinsurance agreement with MBIA UK providing for MBIA Corp.'s reimbursement of the losses incurred by MBIA UK in excess of a specified threshold in each calendar year, subject to certain contract limitations, and a net worth maintenance agreement in which MBIA Corp. agrees to maintain a minimum capital and surplus position at MBIA UK at the greater of a specified amount or the amount required by U.K. regulations, subject to certain New York State regulatory requirements as well as certain contract restrictions. MBIA Corp. has also entered into a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Corp. reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation.

**Insurance Regulation**

National and MBIA Corp. are incorporated and subject to primary insurance regulation and supervision by the State of New York. MBIA UK and MBIA Mexico are organized and subject to primary regulation and supervision in the U.K. and Mexico, respectively. The Company's insurance subsidiaries are also licensed to issue financial guarantee policies in multiple jurisdictions as needed to conduct their business activities.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York, the U.K., Mexico and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies, and if our insurance companies fail to meet such requirements our regulators may impose certain remedial actions on us. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Corp. and National each are required to file detailed annual financial statements with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. MBIA UK makes similar filings with the FSA.

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**Table of Contents****Item 1. Business (continued)**

The operations and accounts of the insurance companies are subject to examination by these regulatory agencies at regular intervals. In addition to being subject to the insurance laws in the jurisdictions in which we operate, as a condition to obtaining required insurance regulatory approvals to enter into certain transactions and take certain other corporate actions, including the release of excessive contingency reserves in MBIA Insurance Corporation described below under *Contingency Reserves* and entry into the secured loan between MBIA Inc. and MBIA Corp. and the asset swap between MBIA Inc. and National (each described under *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity - MBIA Inc. Liquidity* in Part II, Item 7 of this Form 10-K), MBIA Inc. and its insurance subsidiaries have and may in the future agree to provide notice to the NYSDFS or other applicable regulators prior to entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval.

*New York Insurance Regulation*

Our domestic insurance companies are licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law (the NYIL). Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation when due. Under Article 69, our domestic insurance companies are permitted to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which they are authorized to transact. In addition, they are empowered to assume or reinsure the kinds of insurance described above.

In light of the substantial losses incurred by financial guarantee companies, the NYSDFS issued in Circular Letter No. 19 (2008) on September 22, 2008, new *Best Practices* guidelines (the *Guidelines*) for financial guarantors, which it stated that it plans to formalize as regulation or legislation. In general, the *Guidelines* impose restrictions on the issuance of financial guarantee insurance policies and increase required capitalization levels. Included among the recommendations are: (1) restrictions on the issuance of policies insuring ABS that consist of other pools of ABS, as well as on policies insuring, and the underlying terms of, insured CDS, a market in which the Company no longer participates; (2) limits on a guarantor's exposure to not only the issuer of debt, but also the initial lender and servicer of each category of obligation, as well as increased reporting obligations regarding exposures to particular categories of debt or exposures over a calendar year period; (3) a requirement that all, rather than a subset, of insured bonds be at least 95% investment grade, based on aggregate net liability; (4) increases in the required amount of paid-in capital to at least \$15 million, the required amount of paid-in surplus to at least \$165 million and the amount of minimum surplus to policyholders to a figure in excess of \$150 million, as well as changes to capital and contingency reserve requirements in connection with certain ABS.

Furthermore, in June 2009 a new bill was introduced at the request of New York's governor to amend the NYIL to enhance the regulation of financial guarantee insurers. The proposed bill would, among other things, (i) eliminate the capacity of financial guarantee insurers to guarantee CDS, (ii) increase minimum capital requirements, (iii) impose tighter underwriting standards that include liquidity adequacy and controls and remediation rights standards, (iv) specify a discount rate applicable to loss reserves, (v) revise single risk limits and impose sector limits and (vi) require reporting of certain decreases in policyholder surplus. A new version of the bill was proposed in April 2010 and again in January 2011 which would, among other things, effectively prohibit issuance of CDS other than for hedging purposes and regulate CDS as financial guarantee insurance. An additional new version of the bill was introduced in June 2010 which would, among other things, permit financial guarantee insurers to use the net value of a qualified trust as an asset with respect to capital and reserve requirements.

*New York State Dividend Limitations*

The laws of New York regulate the payment of dividends by National and MBIA Corp. and provide that a New York domestic stock property/casualty insurance company may not declare or distribute dividends except out of statutory earned surplus.

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**Table of Contents**
**Item 1. Business (continued)**

New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as shown by the most recent statutory financial statement on file with the NYSDFS, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings.

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. During the second quarter of 2010, National received approval from the NYSDFS to reset its unassigned surplus to zero as of January 1, 2010. The reset provides National with dividend capacity of \$200 million as of December 31, 2012. 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 (currently, through April 19, 2013). In addition, in connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013. See Note 14: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

The foregoing dividend limitations are determined in accordance with statutory accounting principles ( U.S. STAT ), which generally produce statutory earnings in amounts less than earnings computed in accordance with accounting principles generally accepted in the U.S. ( GAAP ). Similarly, policyholders' surplus, computed on a U.S. STAT basis, will normally be less than net worth computed on a GAAP basis. See Note 15: Statutory Accounting Practices in the Notes to Consolidated Financial Statements of MBIA Corp. and Subsidiaries and Note 12: Statutory Accounting Practices in the Notes to Financial Statements of National filed as Exhibits to this Form 10-K for additional information.

*Contingency Reserves*

As financial guarantee insurers, our domestic insurance companies are required by the laws and regulations of New York, California, Connecticut, Florida, Illinois, Iowa, Maryland, New Jersey and Wisconsin to maintain, as applicable, contingency reserves on their municipal bond, ABS or other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by an insurance company to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, a financial guarantee insurance company is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to July 1, 1989 (net of reinsurance), and, with respect to policies written on and after July 1, 1989, such an insurer must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.6% to 2.5%, depending upon the type of obligation guaranteed (net of collateral, reinsurance, refunding, refinancings and certain insured securities). California, Connecticut, Florida, Iowa and Maryland laws impose a generally similar requirement, and in California the insurance commissioner can require an insurer to maintain additional reserves if the commissioner determines that the insurer's reserves are inadequate. The contribution to, and maintenance of, the contingency reserve limit the amount of earned surplus that might otherwise be available for the payment of dividends. In each of these states, our domestic insurance companies may apply for release of portions of their contingency reserves in certain circumstances.

Prior to September 30, 2012, MBIA Corp. released to surplus an aggregate of \$1.1 billion of contingency reserves pursuant to approvals granted by the NYSDFS in accordance with the NYIL during 2011 and 2012. Absent these releases MBIA Corp. would have had deficits of qualifying assets to meet its contingency reserve requirements. As of December 31, 2012, MBIA Insurance Corporation had a deficit of \$140 million of qualifying assets required to support its contingency reserves.

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**Table of Contents*****Item 1. Business (continued)***

The deficit was caused by MBIA Insurance Corporation's sale of liquid assets in order to make claim payments and the failure of certain mortgage originators, particularly Bank of America, to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured. Absent a resolution of the disputes with these parties, the deficit is expected to grow as additional commutation and claim payments are made in the future. The Company has reported the deficit to the NYSDFS. MBIA Insurance Corporation has requested approval from the NYSDFS to release \$97 million of contingency reserves as of September 30, 2012, and \$43 million of contingency reserves as of December 31, 2012, but to date has not received approval. For risks associated with MBIA Insurance Corporation's failure to meet its contingency reserve requirement, see Risk Factors Capital, Liquidity and Market Related Risk Factors. If the Company's insurance subsidiaries fail to meet regulatory capital requirements they may become subject to regulatory action in Part I, Item 1A of this Form 10-K.

***Risk Limits***

Insurance laws and regulations also limit both the aggregate and individual securities risks that our domestic insurance companies may insure on a net basis based on the type of obligations insured. The individual limits are generally on the amount of insured par and/or annual debt service for a given insured issue, entity or revenue source and stated as a percentage of the insurer's policyholders' surplus and contingency reserves. The aggregate risk limits limit the aggregate amount of insured par to a stated multiple of the insurer's policyholders' surplus and contingency reserves based on the types of obligations insured. The aggregate risk limits can range from 300:1 for certain municipal obligations to 50:1 for certain non-municipal obligations.

As a result of the Transformation and the reinsurance of the MBIA Corp. and FGIC portfolios by National, National exceeded as of the closing date certain single and aggregate risk limits under the New York laws and regulations, and MBIA Insurance Corporation exceeded as of the closing date certain single risk limits under New York laws and regulations. These insurers obtained waivers from the NYSDFS of those limits. In connection with the waivers, they submitted a plan to the applicable insurance departments to achieve compliance with the applicable regulatory limits. Under the plans, they agreed not to write new financial guarantee insurance for certain issuers, and in MBIA Insurance Corporation's case, in certain categories of business, until they were in compliance with their single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory risk limits. As a condition to granting the waiver, the NYSDFS required that, in addition to complying with these plans, upon written notice from the NYSDFS, MBIA Insurance Corporation and National, as applicable, would cease writing new financial guarantee insurance if it were not in compliance with the risk limitation requirements by December 31, 2009. To date, we have not received such a notice from the NYSDFS. National came into compliance with the aggregate risk limits in 2011 and has a *de minimis* number of single risk limit overages remaining. In 2012 and 2011, MBIA Insurance Corporation reported additional overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation experienced an aggregate risk limit overage as of September 30, 2012, and continued to exceed its aggregate risk limits by \$56 million as of December 31, 2012. MBIA Insurance Corporation notified the NYSDFS of the overage and submitted a plan to achieve compliance with the limits in accordance with the NYIL. If MBIA Insurance Corporation is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

***Holding Company Regulation***

MBIA Corp. and National also are subject to regulation under the insurance holding company statutes of New York. The requirements of holding company statutes vary from jurisdiction to jurisdiction but generally require insurance companies that are part of an insurance holding company system to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of certain transactions between insurance companies, their parents and affiliates. The holding company statutes impose standards on certain transactions with related companies, which include, among other requirements, that all transactions be fair and reasonable and those transactions not in the ordinary course of business exceeding specified limits receive prior regulatory approval.

***Change of Control***

Prior approval by the NYSDFS is required for any entity seeking to acquire, directly or indirectly, control of National or MBIA Corp.



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**Table of Contents**
***Item 1. Business (continued)***

In many states, including New York, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. The FSA also has a requirement for prior approval of any controlling person. MBIA Corp. would require the prior approval of MBIA Mexico's regulator in order to transfer the shares it currently holds in MBIA Mexico. To the Company's knowledge, each MBIA Inc. shareholder which owns 10% or more of MBIA Inc.'s outstanding common stock as of December 31, 2012 has received appropriate approvals or determinations of non-control in connection with its investment.

***Insurance Guarantee Funds***

National and MBIA Corp. are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most states, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

***Insured Credit Default Swaps***

Certain of our insurance policies guarantee payments due under CDS and other derivatives. In July 2010, the Dodd-Frank Act was signed into law for the purpose of enacting broad financial industry regulatory reform, including enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires swap dealers and major swap participants to register with either or both of the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), and to be subject to enhanced regulation, including capital requirements. The CFTC and SEC have promulgated rules to implement this enhanced regulatory framework, including final rules that require the Company to include its legacy insured derivatives in tests used to determine whether it is a major swap participant. MBIA Insurance Corporation will register as a major swap participant and on an ongoing basis will be required to comply with the CFTC's business conduct rules applicable to swap portfolios in place prior to the enactment of the Dodd-Frank Act. As further rules are enacted we expect to seek exemptions from certain of the rules that we do not believe we will be able to comply with, including capital requirements. The SEC has not yet implemented a registration or reporting framework. Depending on the timing of the enactment of the SEC registration and reporting framework, and the enactment of other final SEC rules, MBIA Insurance Corporation may also be required to register with the SEC as a major swap participant. At the present time, we do not believe National will be required to register under either the CFTC or SEC rules.

Because the CFTC and SEC have not yet issued final rules establishing capital requirements for major swap participants, the ultimate impact of such requirements on the Company is not yet clear. However, to the extent that the Company becomes subject to significant additional capital requirements, it is unlikely that the Company will be able to meet those standards.

**OUR ADVISORY SERVICES**

In our asset management advisory services business our registered investment advisors provide fixed-income asset management services for third parties and the investment portfolios of the Company and its affiliates (including the wind-down businesses) on a fee-for-service basis.

The Company has operated its advisory services segment since 1991 and had \$29.8 billion in institutional assets under management as of December 31, 2012, including \$12.2 billion from the Company and its subsidiaries. The segment has generally produced strong investment performance for its clients and has focused on providing high quality client support. The Company believes there is strong demand for its services given its track record, recent fixed-income market volatility and growth in fixed-income asset classes due to demographic changes and product innovation. In order to develop and grow our third-party advisory business, in 2010 we renamed our advisory services companies under the Cutwater name and re-branded them to reflect and communicate their organizational separation from the Company's insurance operations and the wind-down businesses.



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### ***Item 1. Business (continued)***

In particular, the asset management advisory business now operates under a wholly-owned Cutwater branded holding company of MBIA Inc. that no longer owns the wind-down businesses.

Our advisory services are offered in two major product lines, traditional and structured. Within the traditional product line, Cutwater offers cash management, customized asset management, discretionary asset management and fund accounting services to governments, insurance companies (including the Company's insurance subsidiaries), corporations, pension funds, unions, endowments, foundations and investment companies in both pooled and separate account formats. These services are offered through registered investment advisers, and Cutwater receives asset management and administrative fees as compensation. Within the structured product line, Cutwater manages asset/liability programs and conduits (the wind-down businesses), CDOs and other funding vehicles for banks, insurance companies, program trustees and investment companies, and it earns base and performance fees for its services.

Cutwater's advisory services are offered through two principal operating subsidiaries: Cutwater Asset Management Corp. (Cutwater-AMC), an SEC-registered investment adviser and Financial Industry Regulatory Authority (FINRA) member firm, and Cutwater Investor Services Corp. (Cutwater-ISC), an SEC-registered investment adviser.

### **Advisory Services Regulation**

Cutwater is subject to various federal and state securities and investment regulations. As an SEC-registered investment adviser and a FINRA member firm, Cutwater-AMC is subject to the requirements of the Investment Advisers Act of 1940, a Federal statute which regulates registered investment advisers, and to FINRA rules and regulations. As an adviser to registered investment companies, Cutwater-AMC and Cutwater-ISC are also responsible for compliance with applicable provisions of the Investment Company Act of 1940. As sponsor/administrator of pooled investment programs, Cutwater-ISC is a SEC-registered investment adviser and is subject to the requirements of the Investment Advisers Act of 1940, as well as certain state laws governing the operation of and permitted investments in local government investment pools.

### **Other Advisory Services**

Trifinium is an FSA regulated advisory and asset management firm based in the U.K.

## **OUR WIND-DOWN BUSINESSES**

Since the ratings downgrades of MBIA Corp. that began in 2008, we have not issued debt in connection with either the asset/liability products or conduits businesses, and we believe the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate, or are repurchased by the Company.

### **Asset/Liability Products**

The asset/liability products business historically raised funds for investment through two sources: (1) issuance of customized investment agreements by the Company and one of its subsidiaries for bond proceeds and other funds; and (2) issuance of MTNs with varying maturities issued by our subsidiary MBIA Global Funding, LLC (GFL). Each of these products is guaranteed by MBIA Corp. In addition, GFL would lend the proceeds of its GFL MTN issuances to MBIA Inc. (GFL Loans). Under agreements among MBIA Inc., MBIA Corp. and/or GFL, the Company invested the proceeds of the investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities with a minimum average double-A credit quality rating at purchase and which are pledged to MBIA Corp. as security for its guarantees on investment agreements and GFL MTNs. MBIA Inc. primarily purchased domestic securities and lent a portion of the proceeds from investment agreements and GFL MTNs to its subsidiary Euro Asset Acquisition Limited, which primarily purchased foreign assets as permitted under the Company's investment guidelines. Euro Asset Acquisition Limited no longer holds any investments.

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## **Table of Contents**

### ***Item 1. Business (continued)***

While MBIA Corp. enjoyed triple-A insurer financial strength ratings, the Company generally earned a positive spread between the yields on assets and liabilities in this business, but since the third quarter of 2008, ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements, and the lower yield earned on greater holdings of cash and cash equivalents coupled with the increased cost of funding liabilities has resulted in a negative spread and we are therefore in the process of winding down this business.

The Company is subject to significant liquidity risks through this business. See Risk Factors Capital, Liquidity and Market Related Risk Factors Adverse developments in the credit markets may materially and adversely affect MBIA Inc.'s ability to meet liquidity needs in its asset/liability products segment in Part I, Item 1A of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity in Part II, Item 7 of this Form 10-K for a discussion of the risks facing this business and the actions the Company has taken to manage this business.

### **Conduits**

Our conduit segment is principally operated through Meridian Funding Company, LLC ( Meridian ) and, formerly, Triple-A One Funding Corporation ( Triple-A One ). The conduits were used by banks and other financial institutions to raise funds for their customers in the capital markets. Triple-A One was liquidated during 2012. The conduits provided funding for multiple customers through special purpose vehicles that issued commercial paper and MTNs. The proceeds from these issuances were used to either make loans to customers that are secured by certain assets or to purchase assets from customers. All MTN liabilities issued, and all assets originally purchased, by the conduits were insured by MBIA Corp. and subject to MBIA Corp.'s standard underwriting process. The conduits received an administrative fee as compensation for these services. No new MTNs have been issued by the conduits since 2007 and there have been no outstanding issues of commercial paper since 2008. The conduit segment provides liquidity support through a repurchase agreement between the asset/liability products segment (through MBIA Inc.) and the conduit segment (through Meridian), under which \$32 million was outstanding as of December 31, 2012. This amount may be increased in the future.

The conduits present immaterial liquidity risk to the Company because the assets of Meridian are structured to mature by or before the maturity date of the liabilities.

## **INVESTMENTS AND INVESTMENT POLICY**

Investment objectives, policies and guidelines related to the Company's insurance operations and the wind-down businesses are generally subject to review and approval by the Finance and Risk Committee of the Board of Directors and the Executive Market/Investment Committee of the Company. Cutwater and Trifinium (in the case of MBIA UK) manage the proprietary investment portfolios of the Company and its subsidiaries in accordance with the guidelines adopted for each such portfolio. Investment objectives, policies and guidelines related to investment activity on behalf of our insurance companies are also subject to review and approval by the respective Investment Committee of their Boards of Directors.

To continue to optimize capital resources and provide for claims-paying capabilities, the investment objectives and policies of our insurance operations are tailored to reflect their various strategies and operating conditions. The investment objectives of MBIA Corp. and its subsidiaries are primarily to maintain adequate liquidity to meet claims-paying and other corporate needs and secondarily to maximize after-tax yield within defined investment risk limits. The investment objectives of National set preservation of capital as the primary objective, subject to an appropriate degree of liquidity, and optimization of after-tax income and total return as secondary objectives. The investment portfolio of each insurance subsidiary is managed by Cutwater under separate investment services agreements.

The investment objectives and policies of the wind-down businesses reflect the characteristics of those programs. The primary investment objective is to provide sufficient liquidity to meet maturing liabilities (including intercompany liquidity agreements) and collateral posting obligations, while maximizing the net residual value of assets to liabilities in each program.

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***Item 1. Business (continued)***

**COMPETITION**

Our insurance companies compete with other monoline insurance companies, as well as other forms of credit enhancement, in writing financial guarantee business.

Our ability to attract and compete for financial guarantee business is largely dependent on the financial strength ratings assigned to our insurance companies by the major rating agencies. The actions by the major rating agencies with respect to the Company's and our insurance companies ratings have adversely affected our ability to attract new financial guarantee business. Furthermore, we are unlikely to achieve our desired credit ratings until we resolve the Transformation litigation and MBIA Insurance Corporation repays the National Secured Loan. As a result, we have written virtually no new business since our ratings downgrades in 2008.

Since 2008, every significant monoline financial guarantee insurer has been downgraded by one or more of the major rating agencies. In 2009, the only two financial guarantee insurers that were underwriting significant new business merged, further reducing competition in the market. While there are currently two bond insurers actively engaged in the market, one of which was established in 2012, we have observed other new competitors indicating an interest in entering the bond insurance market and continue to consider strategies for launch. We will continue to monitor the impact that new market participants may have on our ability to compete in the U.S. public finance insurance market in the future. In the future, recapitalized existing bond insurers and/or newly formed entities may begin underwriting new business. Furthermore, changes to Article 69 of the New York Insurance Law, which regulates New York domiciled financial guarantee companies, could lower the barriers to entry for competitors. Finally, the inability of financial guarantee insurers to maintain or achieve high ratings could diminish acceptance of the product and enhance the appeal of other forms of credit enhancement. Since 2008, the percentage of new public and structured finance issuances with a financial guarantee has decreased significantly. In addition, the structured finance industry is generating very few new business opportunities, and it continues to be uncertain as to how or when the Company may re-engage this market.

Financial guarantee insurance also competes with other forms of credit enhancement. Commercial banks provide letters of credit as a means of credit enhancement for municipal securities. In 2012, the use of letters of credit as an alternative to financial guarantee insurance within the U.S. municipal market was far below its peak in 2009; however, letters of credit have remained a significant presence in the market. Furthermore, during 2012, direct lending by banks to municipal issuers increased substantially. Other forms of credit enhancement include senior-subordinated structures, credit derivatives, letters of credit and alternative guarantees (for example, mortgage guarantees where pools of mortgage loans secure debt service payments) provided by banks and other financial institutions, some of which are governmental agencies. Other highly rated institutions, including pension funds and government sponsored entities, also offer third-party credit enhancement on asset-backed and municipal obligations. Financial guarantee insurance and other forms of credit enhancement also compete in nearly all instances with the issuer's alternative of foregoing credit enhancement and paying a higher interest rate. If the interest savings from insurance or another form of credit enhancement are not greater than the cost of such credit enhancement, the issuer will generally choose to issue bonds without third-party enhancement. All of these alternative forms of credit enhancement or alternative executions could also affect our ability to re-enter the financial guarantee business.

Certain characteristics of the financial guarantee insurance business act as barriers-to-entry to potential new competitors. For example, there are minimum capital requirements imposed on a financial guarantee insurance company by the rating agencies to obtain and maintain high financial strength ratings and these capital requirements may deter other companies from entering this market. However, there can be no assurance that these capital requirements will deter potential competitors from entering this market or that the market may not increasingly accept guarantees provided by lower rated insurers who have less stringent capital requirements. In addition, under New York law, multi-line insurers are prohibited from writing financial guarantee insurance in New York State. See the [Our Insurance Operations Insurance Regulation](#) section above. However, there can be no assurance that major multi-line insurers or other financial institutions will not participate in financial guarantee insurance in the future, either directly or through monoline subsidiaries.

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## **Table of Contents**

### ***Item 1. Business (continued)***

Our Cutwater advisory services business competes for business with a number of banks, insurance companies and independent companies which provide investment advisory services, as well as with companies who manage their investments in-house. Competition varies by product and typically can range from very large asset management firms to very small operations. Cutwater's ability to compete for new advisory services business and to retain existing accounts is largely dependent on its investment performance for a specific client or in general (typically versus established benchmark indices), the consistency of its performance through market cycles, fee levels charged and the level of client service provided. Cutwater markets itself through its own field sales force as well as through various intermediaries such as investment consultants and financial advisors.

The Company also competes in the advisory services market outside of the U.S. through Trifinium. Trifinium's ability to compete will depend on its ability to leverage its expertise in credit underwriting and structuring infrastructure assets, and the surveillance, management and valuation thereof, in order to attract new financial advisory services clients in the markets in which it competes. Competition in these markets includes local and international investment banks, other diversified financial services providers and specialist infrastructure funds and advisors.

### **RATING AGENCIES**

Rating agencies perform periodic reviews of our insurance companies and other companies providing financial guarantee insurance. In rating financial guarantee companies, rating agencies focus on qualitative and quantitative characteristics in five key areas. Those are: (1) franchise value and business strategy; (2) insurance portfolio characteristics; (3) capital adequacy; (4) profitability; and (5) financial flexibility. Each agency has its own ratings criteria for financial guarantors and employs proprietary models to assess our risk adjusted leverage, risk concentrations and financial performance relative to the agency's standards. The agencies also assess our corporate governance and factor this into their rating assessment. Currently, Standard & Poor's Financial Services LLC (S&P) and Moody's Investor Service Inc. (Moody's) rate the Company and its insurance companies.

Until June 2008, MBIA Corp. held Triple-A financial strength ratings from S&P, which the Association received in 1974; from Moody's, which the Association received in 1984; from Fitch, Inc. (Fitch), which MBIA Corp. received in 1995; and from Rating and Investment Information, Inc. (RII), which MBIA Corp. received in 1998. The deterioration of certain segments of the credit markets beginning in the second half of 2007 and mounting concerns about monoline insurers precipitated a series of ratings downgrades by each of the major ratings agencies that began in June 2008, which were followed by further ratings actions reflecting the impact of the Transformation, among other developments. Furthermore, the pending litigation challenging the establishment of National has constrained our ability to take steps necessary to achieve the highest possible ratings for National and our other insurers.

Fitch withdrew its insurer financial strength ratings for MBIA Corp. and its insurance affiliates as well as all other related ratings in June 2008. At the Company's request, RII canceled its ratings on MBIA Corp. and CMAC in June 2008.

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. In particular, in August 2011, 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. Moody's has not issued new rating criteria for financial guarantee insurers, however, rating actions with respect to other bond insurers and pronouncements by Moody's in January 2013 seem to indicate a change in their rating framework for the financial guarantee industry which could impact National's future potential ratings. 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.

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**Item 1. Business (continued)**

Our current ratings constrain our ability to write new business. National s, MBIA Insurance Corporation s and MBIA Inc. s current financial strength ratings from S&P and Moody s are summarized below:

Agency	Rating / Outlook		
	National	MBIA Insurance Corporation	MBIA Inc.
S&P	BBB / Developing outlook	B / Negative outlook	B- / Negative outlook
Moody s	Baa2 / Negative outlook	Caa2 / Developing outlook	Caa1 / Developing outlook

**CAPITAL FACILITIES**

The Company does not currently maintain a capital facility. For a discussion of the Company s capital resources see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources in Part II, Item 7 of this Form 10-K.

**FINANCIAL INFORMATION**

For information on the Company s financial information by segment and premiums earned by geographic location, see Note 12: Business Segments in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

**EMPLOYEES**

As of December 31, 2012, the Company had 352 employees, including 159 in Optinuity, 29 in National, 32 in MBIA Corp., 113 in Cutwater and 19 in Trifinium Services Limited, our services company in the U.K. None of the Company s domestic employees are covered by a collective bargaining agreement. Certain of the Company s employees outside the U.S. are governed by national collective bargaining or similar agreements. The Company considers its employee relations to be satisfactory.

**AVAILABLE INFORMATION**

The Company maintains a website at www.mbia.com. The Company is not including the information on its website as a part of, nor is it incorporating such information by reference into, this Form 10-K. The Company makes available through its website under the SEC Filings tab, free of charge, all of its SEC filings, including annual reports on Form 10-K, quarterly filings on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as is reasonably practicable after these materials have been filed with or furnished to the SEC.

As a courtesy, the Company posts on its website under the section Legal Proceedings, selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk s office of the respective court where each litigation matter is pending.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of the Company and their present ages and positions with the Company as of February 27, 2013 are set forth below:

Name	Age	Position and Term of Office
Joseph W. Brown	64	Chief Executive Officer and Director (officer since February 2008)
C. Edward Chaplin	56	President, Chief Financial Officer and Chief Administrative Officer (officer since June 2006)
William C. Fallon	53	President and Chief Operating Officer (officer since July 2005)
Clifford D. Corso	51	Executive Vice President and Chief Investment Officer (officer since September 2004)
Ram D. Wertheim	58	Executive Vice President, Chief Legal Officer and Secretary (officer since January 2000)
Anthony McKiernan	43	Executive Vice President and Chief Portfolio Officer (officer since August 2011)



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***Item 1. Business (continued)***

Joseph W. Brown (age 64) is Chief Executive Officer and a director of the Company. Mr. Brown assumed the roles of Chairman, CEO and director in February 2008 after having retired as Executive Chairman of MBIA in May 2007. In May 2009, the Company's Board of Directors accepted Mr. Brown's recommendation to separate the roles of Chairman and CEO and elected Daniel P. Kearney as Non-Executive Chairman, with Mr. Brown continuing in the roles of CEO and director. Mr. Brown also serves as Chairman of MBIA Insurance Corporation. Until May 2004, Mr. Brown had served as Chairman and CEO of MBIA and MBIA Corp. Mr. Brown originally joined the Company as CEO in January 1999 after having been a director since 1986, and became Chairman in May 1999.

Prior to joining MBIA in 1999, Mr. Brown was Chairman and CEO of Talegen Holdings, Inc., an insurance holding company. Before his election as Chairman and CEO of Talegen, Mr. Brown was President and CEO of Fireman's Fund Insurance Company. Mr. Brown joined Fireman's Fund in 1974. He held numerous executive positions including Chief Financial Officer at the time of its IPO in 1985 from American Express and President and Chief Operating Officer at the time of its sale to Allianz AG in 1990.

Mr. Brown served on the board of Oxford Health P