MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms A3 IFS rating of National Public Finance Guarantee Corp., with negative outlook

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New York, May 26, 2015 -- Moody's Investors Service, ("Moody's") has affirmed the A3 insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation ("National") and the Ba1 senior debt rating of MBIA Inc., the group's holding company. The outlook for both ratings remains negative.

Today's rating action is in response to further deterioration in the credit profile of the Commonwealth of Puerto Rico and its affiliated enterprises and agencies, including notes issued by the Government Development Bank for Puerto Rico ("GDB") and the Commonwealth of Puerto Rico's general obligation and guaranteed bonds, as reflected in Moody's recent downgrades to Ca and Caa2, respectively. National has substantial exposure to Puerto Rico, amounting to approximately $4.5 billion in gross par outstanding, and $4.9 billion including accreted interest on insured zero-coupon, or capital appreciation bonds.

SUMMARY RATIONALE

Moody's stated that today's affirmation reflects National's substantial statutory capital and claims paying resources that, together with steady amortization of its insured portfolio, support its ability to absorb meaningful losses on its Puerto Rico exposures. While Moody's believes there is a high probability that Puerto Rico will default on, or restructure, some of its debt obligations, there is meaningful uncertainty about the timing of such an event, and about the potential loss severities in any default.

RATINGS RATIONALE -- NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

National Public Finance Guarantee Corporation's (National) A3 IFS rating, with negative outlook, reflects the insurer's substantial stand-alone capital resources, the meaningful delinking from its weaker affiliates, steady amortization of its legacy book, and its ongoing efforts to reestablish its franchise in the primary and secondary US municipal debt markets. National has substantial exposure to below investment grade credits, which represent approximately 3.0% of its insured book and 192% of qualified statutory capital at March 31, 2015, including approximately $4.5 billion gross par exposure to debt issued by Puerto Rico and its public enterprises. In addition, National, like its peers, faces significant headwinds from weak fundamentals in the sector, including still depressed levels of insurance usage, and persistent low interest rates that tend to reduce the attractiveness of insurance.

Moody's noted that the absence of a clear legal framework or precedent for restructuring the Commonwealth's debt, as well as the number of stakeholders involved, suggests that it may be some time before a clear picture of the potential losses to National emerges.

Because of the steady amortization in National's portfolio, and the resultant reduction in leverage relative to claims-paying resources, National's ability to absorb losses will increase over time, said Moody's. However, a default scenario in which losses to National are determined relatively quickly, could place additional negative pressure on the insurer's capital profile.

According to Moody's, the negative outlook on National's rating, reflects the heightened risk of losses on National's Puerto Rico-related exposures; the size of those exposures relative to capital and claims paying resources; and the meaningful level of uncertainty about the possible losses in the event of a default or restructuring. In addition, National has substantial exposure to weaker municipal credits, most notably approximately $2.45 billion gross par exposure to the City of Chicago and its related credits, that were recently downgraded to below investment grade.

RATINGS RATIONALE -- MBIA INC.

The difference between MBIA Inc.'s Ba1 senior debt rating and the A3 IFS rating of its lead insurance subsidiary, National, is four notches. This is wider than the typical three notches for insurance groups, reflecting MBIA's high leverage, and the significantly weaker credit profile of MBIA Insurance Corporation (MBIA Corp, IFS B2/negative), its other substantial subsidiary. The negative outlook on MBIA Inc.'s rating reflects the heightened risk of losses on National's Puerto Rico exposures, and the adverse effect it could have on its liquidity, given its reliance on the future release of tax escrow funds and dividends from National to pay debt service. In addition, the firm's high debt burden and meaningful asset risks, a large share of which reside in its wind-down operations, remain a distinct weakness.

WHAT COULD CHANGE THE RATINGS UP OR DOWN

A substantial reduction in National's exposure to Puerto Rico, or of the range of possible losses relative to National's claims paying resources could lead to a return to a stable outlook. The following could lead to an upgrade of National's rating: (1) the successful, long-term resolution of Puerto Rico's funding and solvency issues; and (2) the establishment of National's financial guaranty franchise in the US municipal market.

The following could lead to a downgrade of National's rating: (1) Substantial credit erosion of insured risks, including meaningful impairments of Puerto Rico exposure; (2) a meaningful withdrawal of capital absent a significant reduction in the uncertainty around its Puerto Rico exposures; (3) the provision of material support to weaker affiliates; (4) a material decrease in profitability; and (5) significant diversification into higher risk businesses.

The principal methodology used in these ratings was Financial Guarantors published in January 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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