

August 14, 2008

Research Update:

**MBIA Insurance Corp. 'AA' Rtg
Affirmed With Negative Outlook;
Off Credit Watch Neg**

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Rationale

On Aug. 14, 2008, Standard & Poor's Ratings Services affirmed its 'AA' financial strength rating on MBIA Insurance Corp. and removed it from CreditWatch Negative. The outlook is negative due to MBIA's significant exposure to domestic nonprime mortgages and related exposures to collateralized debt obligations (CDO) of asset-backed securities (ABS).

In addition, the negative outlook reflects our belief that the MBIA franchise has been damaged and that the company will face diminished new business flow. Removal of the negative outlook will be dependent on clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

The 'AA' financial strength rating on the company is supported, in our opinion, by currently sound claims paying ability and liquidity levels. MBIA's margin of safety, as measured by Standard & Poor's capital adequacy test, is in the 1.0x-1.1x range, well above the level required for a 'AA' rating.

In our view, MBIA's success in accessing \$2.6 billion of additional claims-paying resources is a strong statement of management's ability to address the concerns relating to the capital adequacy of the company. MBIA did not, however, receive value in the capital adequacy model for the \$1.1 billion of capital retained at the holding company as this money may be used to fund its proposed new insurance subsidiary or support other initiatives. It is worth noting that, although this money sits at the holding company, management has stated that it will maintain a high capital level to support current policyholders. Notwithstanding this commitment and funds at the holding company, in our view, the company's ability to access the capital markets at this time is limited as a result of market concerns about the company's exposure to a continued deterioration in key areas of the U.S. residential mortgage sector and related CDO of ABS structures. This limitation may place increasing pressure on capital adequacy if additional capital is needed.

Standard & Poor's understands that management has initiated a plan that would restructure its business in such a way that, according to MBIA, the public finance business would be insured by a separate now-dormant insurance subsidiary and stabilize MBIA's 'AA' rating.

With regard to the current financial guarantee operations, management has indicated that over the next 12 to 18 months, new business underwritten will be negligible as management works toward this goal. Our view of the restructuring will depend in large part on whether we believe management can put together a sustainable business model and demonstrate the ability to generate a profitable stream of revenue that is of sufficient volume and quality to support the capital employed in the business.

Outlook

The negative outlook reflects Standard & Poor's concerns relating to MBIA's exposure to domestic nonprime mortgages and related CDO of ABS exposures, as well as our belief that the MBIA franchise has been damaged and that the company will face diminished new business flow. A revision of the negative outlook will depend on, among other factors, clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
MBIA Insurance Corp. MBIA Insurance Corp. of Illinois MBIA Assurance S.A. Capital Markets Assurance Corp. Issuer Credit Rating Local Currency	AA/Negative/--	AA/Watch Neg/--
MBIA Insurance Corp. MBIA U.K. Insurance Ltd. MBIA Insurance Corp. of Illinois MBIA Assurance S.A. Capital Markets Assurance Corp. Financial Strength Rating Local Currency	AA/Negative/--	AA/Watch Neg/--
MBIA Insurance Corp. MBIA U.K. Insurance Ltd. MBIA Assurance S.A. Financial Enhancement Rating Local Currency	AA/--	AA/Watch Neg/--
MBIA Inc. Issuer Credit Rating Local Currency	A-/Negative/--	A-/Watch Neg/--
MBIA Insurance Corp. Senior Unsecured (1 issue)	A	A/Watch Neg
MBIA Global Funding LLC Senior Secured (4 issues) Senior Unsecured (77 issues)	AA AA	AA/Watch Neg AA/Watch Neg
MBIA Inc.		

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Senior Unsecured (7 issues)	A-	A-/Watch Neg
North Castle Custodial Trust I Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust II Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust III Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust IV Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust V Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust VI Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust VII Preferred Stock (1 issue)	A-	A-/Watch Neg
North Castle Custodial Trust VIII Preferred Stock (1 issue)	A-	A-/Watch Neg

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