



MBIA's Selective Approach to Subprime RMBS and Multi-Sector CDOs



August 2, 2007

What Gets Marked

- Mostly CDOs where our protection is in CDS format
- Generally
 - Corporate CDOs
 - Multi Sector CDOs
 - CMBS and CRE CDOs
- Single name credit default swaps, and wraps of equity-index funds
- Hedging instruments in the investment portfolio

Where Are the Marks Recorded?

Income Statement	<u>Q2 2007</u>	<u>Q1 2007</u>
Net gains (losses) on financial instruments at fair value and foreign exchange		
Insurance segment	\$ (14,058)	\$ 1,847
Investment management series segment *	\$ 6,412	\$ (18,029)
Corporate	\$ (303)	\$ 137
	<u>\$ 7,949</u>	<u>\$ 16,045</u>
Balance Sheet	<u>June 2007</u>	<u>Dec. 2006</u>
Derivative assets		
Insurance Company	\$ 31,659	\$ 29,466
Consolidated	\$ 710,528	\$ 521,278
Derivative liabilities		
Insurance Company	\$ 44,495	\$ 25,992
Consolidated	\$ 528,295	\$ 400,318

* Cash flow hedges go directly to OCI

Methodology

- Independent dealer quotes for investment management derivatives, a few CDOs
- Binomial expansion technique for most CDOs
 - BET market input hierarchy
 - CDS spreads where consistent with collateral
 - actual credit spreads
 - sector specific cash index
 - corporate cash index
 - benchmark for Corporate Cash index
 - BET model assumptions
 - diversity score, based on collateral
 - recovery rate, considering rating agency levels
 - Transaction structure has substantial impact

Is the ABX a Good Proxy for our Multi-Sector CDOs?

	TABX/ABX	Multi-sector CDOs
Portfolio	Static	Managed
Concentration	40 names for TABX 20 names for ABX	100-200 names or more
Principal Repayment	Sequential	Generally pro-rata initially, then sequential
Excess Spread	Not Available	Available
Subprime Exposure	100%	Approximately 20-50%
Vintage	2006	Diversified
Cash Diversion Triggers	No	Yes
Portfolio Quality	Low	Higher

Sample Transactions

Deal	Sector	Spread Source	3/31/2007 Spread	6/30/2007 Spread	Subordination	Net P/L for Q2 2007
1	CMBS	Trustee reported	130	231	47%	(2,748)
2	Middle market loans	Corporate spread table	281	268	89%	-
3	CMBS	ABS Spread Table	143	187	30%	(3,614,707)
4	RMBS	RMBS Spread Table	165	234	37%	(132,091)
5	CMBS	ABS Spread Table	299	427	51%	(1)
Total Q2 2007						(\$14,058M)

What's the Economic Impact of Our Marks?

- In the absence of credit impairment
 - Mark goes to \$0 over the life of the instrument
- If credit is impaired
 - Disclosure would cover that portion of the mark in our disclosure of claim liability
- Experience to date
 - No protection contract written as CDS has been impaired

Downgrade Sensitivities

Portfolio Segment	Net Par Outstanding	Average Rating
Direct Subprime RMBS	\$5.1 Billion	AA
Multi-Sector CDOs with Subprime exposures	\$15.9 billion	AAA

Sensitivity	Rating Agency Capital Requirements		
1-Notch Downgrade	\$25M	-	\$50M
3-Notch Downgrade	\$100M	-	\$150M
10% BIG, 1-Notch for Remainder	\$150M	-	\$425M

Subprime & CDOs

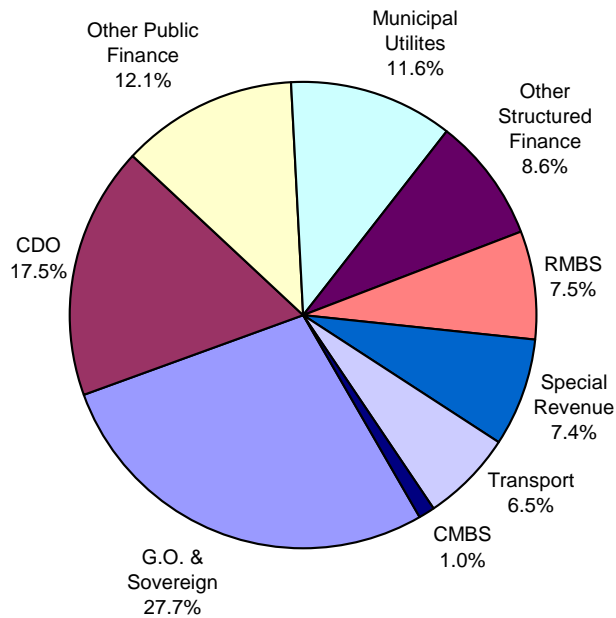
MBIA's highly diversified \$651.8 billion insured portfolio of solid single-A net par weighted average credit quality mitigates correlation risk

- 65% Global Public Finance
 - Largest single risk is 0.6% of MBIA's total portfolio; top 25 are 7%
 - Net par weighted average rating is Single-A.
- 35% Global Structured Finance
 - Largest single risk is 0.5% of MBIA's total portfolio; top 25 are 7%
 - Net par weighted average rating is Double-A
 - CDO net par weighted average rating is Triple-A
 - RMBS net par weighted average rating is Single-A
 - Direct subprime RMBS net par weighted average rating is Double-A
 - Subprime collateral within Multi-Sector CDOs and direct subprime RMBS comprise less than 2% of MBIA's portfolio; net par weighted average rating is Double-A

Highly Diversified Portfolio

As of June 30, 2007

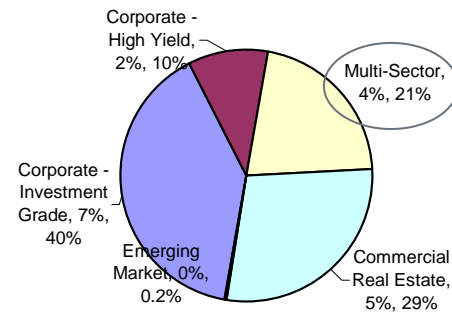
MBIA Net Par Outstanding: \$651.8 billion



CDOs and RMBS comprise 25% of MBIA's total portfolio

CDO Sub-Portfolio: \$114.3 billion 17.5% of Aggregate Portfolio

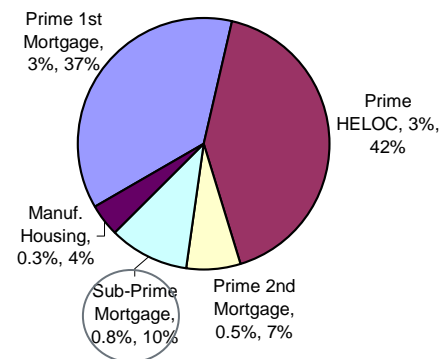
Risk Type, % MBIA, % CDO



Multi-sector CDOs comprise 21% of CDOs, 4% of MBIA. Subprime RMBS within Multi-sector CDOs is 1% of MBIA's total portfolio.

RMBS Sub-Portfolio: \$48.9 billion 8% of Aggregate Portfolio

Risk Type, % MBIA, % RMBS



Subprime collateral within Multi-sector CDOs and direct subprime total 1.8% of MBIA's total portfolio.

Direct subprime weighted average rating is Double-A

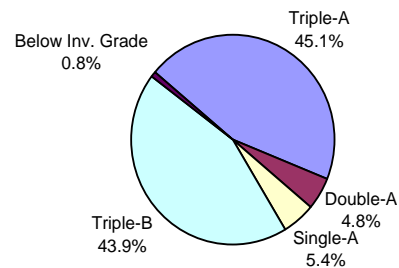
Solid Credit Quality

As of June 30, 2007

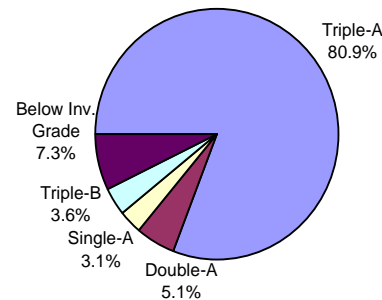
High proportion of Triple-A ratings improves rating stability, mitigates correlation risk

- MBIA aggregate portfolio net par weighted average credit quality is Single-A.
 - CDO sub-portfolio is 17.5% of aggregate portfolio and 95% Triple-A, 99% Double-A or better
 - RMBS sub-portfolio is 8% of aggregate portfolio and 45% Triple-A
 - Sub-Prime portion of RMBS is 0.8% of aggregate portfolio and 81% Triple-A

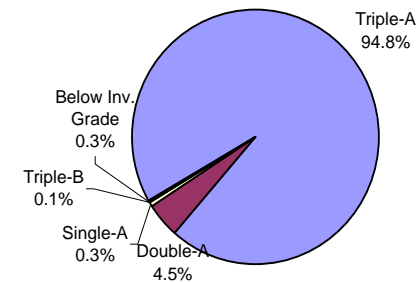
RMBS Sub-Portfolio: \$48.9 billion
8% of Aggregate Portfolio
50% Double-A or better



Sub-Prime Portion of RMBS: \$5.1 billion
0.8% of Aggregate Portfolio
86% Double-A or better



CDO Portfolio: \$114.3 billion
17.5% of Aggregate Portfolio
99% Double-A or better



Approach to Subprime RMBS

Direct Portfolio

- In late 2003, MBIA enacted a conservative strategy towards subprime RMBS collateral and issuers given material market growth and the potential fragility of the business models of second and third tier issuers.
- MBIA has provided insurance only at the AAA class of subprime transaction structures since the beginning of 2004.
- Issuer focus largely weighted to top tier players; MBIA has minimal exposure to monoline subprime issuers that have experienced issues in the current marketplace.

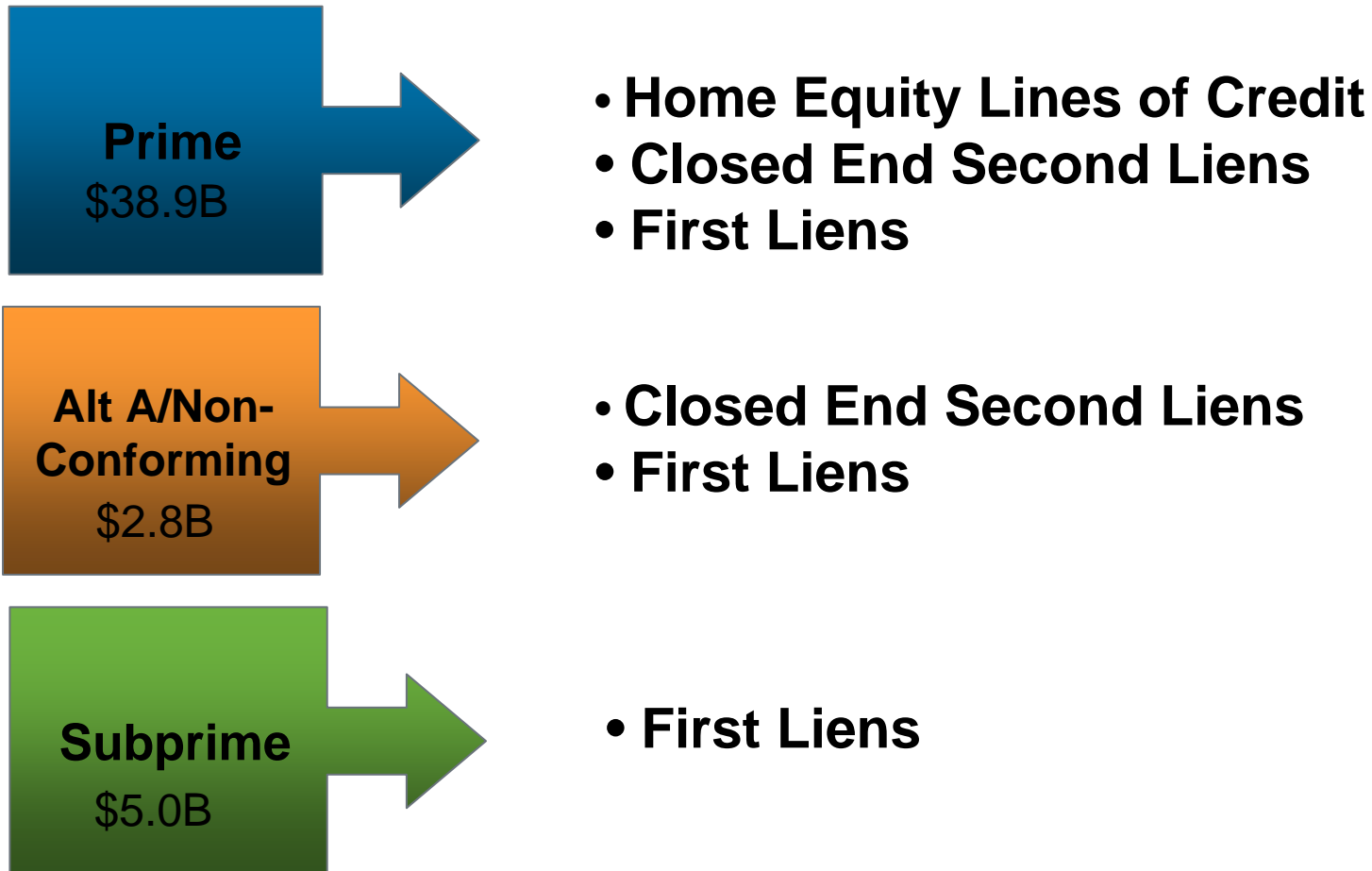
CDO Portfolio

- MBIA's CDO strategy followed suit starting in 2004 by de-emphasizing the Mezzanine ABS CDO sector and moving up in credit to High Grade ABS CDOs, which feature more highly rated collateral and strong negotiated structural features.
- Mezzanine ABS CDOs on average contain Triple-B rated underlying collateral, while High Grade deals typically are comprised of Triple-A, Double-A and Single-A underlying collateral.
- Attachment points for MBIA's super-senior positions referencing High Grade deals typically is 2.5 to 3.0x the base Triple-A level per the rating agencies.

MBIA's Subprime RMBS Exposure

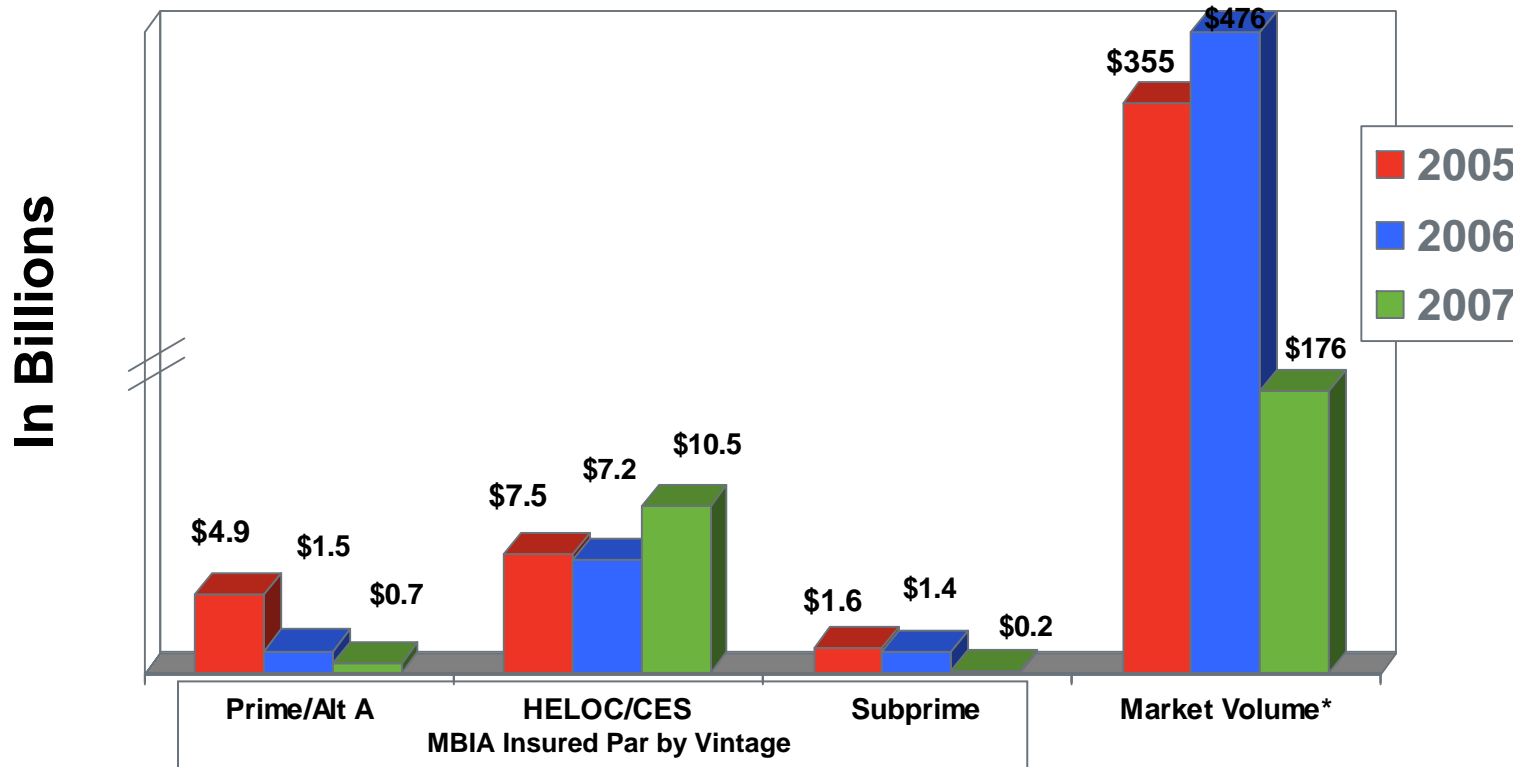
	1Q 2007	2Q 2007
<u>Consumer Mortgage - Direct</u>	\$43.8 billion net	\$46.9 billion net
Subprime	\$5.4 billion	\$5.1 billion
% rated IG	99.5%	99.5%
% rated AAA	83.2%	83.6%
% rated A or better	91.2%	91.4%
% rated BBB	8.3%	8.3%
Subprime rated BIG	0.5%	0.5%
<u>CDO - Total</u>	\$108.8 billion net	\$114.3 billion net
Multi-sector CDOs	\$22.7 billion net	\$24.2 billion net
NPO of CDOs containing RMBS	\$14.7 billion	\$15.9 billion
Subprime content as % of CDOs containing RMBS	28% of collateral pool	31% of collateral pool
% of Multi-Sector CDOs rated AAA	95%	96%
% of Multi-Sector CDOs rated AA or better	99%	99%

Mortgage Product Types Insured



MBIA vs. Market Issuance

MBIA Insured Par to Market Issuance



* Market Volume includes Prime/Alt A, HELOC/CES, Subprime mortgage products
 Source: Asset Securitization Report, Asset Backed Alert and MBIA internal reports

Subprime RMBS Collateral Review

- Collateral Pool
 - Loan level collateral stratification review for consistency of collateral attributes with historical performance metrics
 - Product types
 - Origination channel
 - Affordability features
 - FICO (minimum 600 weighted average)
 - Loan-to-value ratios (maximum 90% weighted average)
 - Documentation type
 - Lien status
 - Property type
 - Loan purpose
 - Geographic concentrations
 - Require significant performance history for all loan programs included in transaction

Subprime RMBS Structural Protections

- Credit support sufficient to cover four to five times historical expected losses for Triple-A rated bonds
- Collateral performance triggers designed to mute the impact of moderately worse than expected performance by accumulating additional credit support or repaying the insured obligations
 - Delinquency
 - Cumulative net loss
 - Excess spread

Subprime RMBS Stress Testing

- Historical collateral performance data used to determine conservative base case loss expectation
- Credit enhancement sized to cover four to five times the Triple-A derived base case loss expectation
- Prepayment and interest rate stresses designed to reduce available excess spread
- Multiple default and recovery timing scenarios
- Recovery assumptions may be adjusted for pools with concentrations in certain geographies

Typical Subprime RMBS Transaction Structure

- Triple-A rated classes
- Risk at a Triple-A attachment point is risk of downgrade, not risk of loss
- If actual subprime loan losses are double original expectations, i.e., 10% instead of 5%, then a downgrade to the single-A range is possible

MBIA Rating	Expected Loss Coverage	Expected Loss Coverage Multiple	Stress Loss Multiple	Revised MBIA Rating
Triple-A	25%	5.0	2.5	Triple-B+
Double-A	20%	4.0	2.0	Triple-B
Single-A	15%	3.0	1.5	Triple-B Minus
Triple-B	10%	2.0	1.0	Below Investment Grade

*Expected Loss = 5%, Stress Loss = 10%

Subprime RMBS Strategy to Date

- Continual Credit Cycle Consciousness
- Triple-A rated transactions (two rating agencies)
- Top tier originators and servicers (financially & operationally)
- Strong collateral characteristics
- Significant and relevant collateral performance history consistent with underwriting and servicing policies
- Originator and servicer on-site due diligence by experienced MBIA asset specialists

CDO Business Strategy

- **Asset Class Diversification**
 - MBIA’s overall business strategy is to participate in the most senior layer of the CDO capital structure while creating a balanced book of business across multiple underlying asset classes including Investment Grade Corporates, High Yield Loans, ABS/RMBS, CMBS and Emerging Markets.
- **Attachment Point / Credit Support**
 - Beginning in 2000, MBIA made the decision to only transact CDOs at a minimum double-A level. In reality, the vast majority of transactions are transacted at triple-A and above.
- **Multi-Sector CDOs**
 - Beginning in 2004, MBIA made the decision to de-emphasize “Mezzanine” ABS CDOs and instead focus on the High Grade ABS CDO market.
- **CDS Execution**
 - The majority of protection written on CDO exposure is in synthetic form. Payment characteristics under our CDS mimics that of a Financial Guarantee Policy (i.e., no acceleration).

CDO Underwriting Strategy

- **Credit Cycle Consciousness**
 - Recognize where different sectors are in their credit cycle
 - Move into rational markets, out of markets becoming irrational
 - Build transactions to withstand deterioration throughout cycle
- **Triple-A (and above) Attachment Points**
 - Synthetic (88%): Only Triple-A or Super Triple-A
 - Financial Guaranty (12%): Almost all Triple-A since 2002; Double-A Minimum
 - Model to internal thresholds – not solely dependant on outside ratings
- **Asset Class Diversification**
 - Investment grade corporate debt CDOs (40% of CDO)
 - CMBS Pools & Commercial Real Estate CDOs (29%)
 - Multi-sector CDOs (21%)
 - High yield corporate CLOs (10%)
 - Emerging markets CDOs (<0.5%)

CDO Structural Protections

- **Limit Structures**
 - Asset classes
 - Asset managers
 - Single risks within and across collateral pools
- **Market Stress Income Statement Volatility**
 - “Super” Triple-A or Triple-A credit support in front of MBIA
 - Deal-by-deal estimation of mark-to-market impact under stress
 - Deal-by-deal mark-to-market stressed exposure limits
 - Firm-wide aggregate mark-to-market stressed exposure capacity
 - Continual review of mark-to-market valuations and processes for compliance with best market practice

CDO Structural Protections

- **Eligibility Criteria**
 - Deal performance is heavily influenced by initial portfolio selection
 - MBIA sector specialists review each underlying security for compliance with internal sector risk criteria and potential credit rating volatility
 - Exclude specific asset classes and sectors
 - Credit quality and rating distribution targets
 - Tenor restrictions
- **Concentration Limits within Transactions and Asset Classes**
 - Single obligor
 - Industry / sector
 - Servicer
- **Review, Remove, Notch**
 - Review each credit for acceptance
 - Remove or pre-default unacceptable credits
 - Notch rating lower for marginal credits

CDO Structural Protections

- **Policy Coverage (predominantly in CDS form)**
 - CDS terms mimic those of a Financial Guarantee Policy
 - Timely interest, ultimate principal, no acceleration
 - MBIA walk-away upon counterparty default or insolvency
- **Control Rights**
 - Ability to remove & replace asset manager in managed transactions
 - Ability to direct asset portfolio investment or liquidation
- **Interest Coverage & Overcollateralization Tests (Funded Deals)**
 - Customized triggers to improve MBIA's senior level risk position if collateral performance deteriorates
 - Divert cash flow to repay senior insured obligations until cured
 - Haircut asset value for downgraded collateral
 - Haircut asset value for discounted collateral

CDO Structural Protections

- **Collateral Portfolio Quality Tests (Managed Deals)**
 - Restricts manager trading to maintain or improve portfolio after any of the following is breached:
 - Weighted average rating test
 - Weighted average spread test
 - Weighted average maturity or weighted average life
 - Weighted average recovery test
- **Collateral Manager Termination**
 - Performance event of default
 - Failure to pay interest or principal
 - “For Cause Events” including documentation breach, fraud, bankruptcy, indictment or illegality
- **Events of Default**
 - Right to direct collateral liquidation with overcollateralization cushion to our position

CDO Collateral Manager Review

- **Due Diligence & Monitoring (Initial & Ongoing)**
 - Extensive on site due diligence & internal manager ranking
 - Organization history, structure, staffing
 - Institutional affiliation (e.g., bank vs. start-up)
 - Asset class & CDO management experience
 - Track record (e.g., returns, defaults, losses & recoveries)
 - Processes, controls, monitoring & compliance
 - Analyst credit discussion
- **Top Tier Managers**
 - Transaction performance will vary based on the quality of the collateral manager
 - MBIA focuses on top tier collateral managers with broad and deep experience in applicable asset classes
 - 15 managers comprise 76% of net par exposure
- **Alignment of Interests**
 - CDO objective and economic incentives of all parties
 - Equity or subordinated note investment
 - Subordination of management fees

CDO Quantitative Analytics

- MBIA runs its own stress tests in addition to the Rating Agencies' Models - these tests frequently produce triple-A attachments in excess of the rating agencies
- Stress test uses the worse possible permitted portfolio and minimum collateral coupon/spread for life of the deal
- Use of lognormal distribution leads to very high default rates at 99.9% super senior attachment points
- Conservative interest rate and default timing scenarios on top of stressed default rates
- Recovery assumptions based on collateral priority (senior, mezzanine), security (secured or unsecured), instrument type (bond or loan)
- Additional stress for excess sector or obligor concentrations

High Grade Multi-Sector CDO with RMBS & CDO Content: Sample Breakeven Subprime Loss Analysis

Deal Example:

- Structural Assumptions

- 15% credit support in the CDO for Super Triple-A attachment
- 25% combined Single-A and Double-A rated subprime RMBS collateral exposure
 - Single-A and Double-A rated subprime classes are on average 4% of the related capital structure; average 15% loss coverage before they sustain losses
- 10% ABS CDO collateral exposure rated Single-A and Double-A
- 65% Other ABS collateral (e.g., CLOs, prime mortgages, etc.)

- Scenario

- 100% losses on the Single-A and Double-A ABS CDO collateral
- 15% losses on the subprime RMBS, which is three times an assumed 5% expectation for high quality originators
- No other collateral experiences losses

- Outcome

Highly dependent on actual portfolio composition, deal structure and loss timing, but:

- The Super Triple-A has no loss
- The “breakeven” subprime loss rate is ~15.8% before the Super Senior pays a claim. This equals 10% loss on ABS CDOs plus $(15.8\% - 15\%) / 4\% * 25\%$.

CDO Strategy Summary

- MBIA's ABS CDO business strategy over the past three years has focused on Super-Senior attachments on High Grade transactions
- MBIA has a robust underwriting process for ABS CDOs, which include an in-depth review of both the collateral manager and the collateral portfolio to prevent adverse selection
- Structural negotiations lead to collateral, rating and concentration limits that reflect the experience of the manager
- Key control rights within the deals allow for manager transfer and collateral liquidation upon certain performance based events
- Broader market performance will get worse before it gets better, but performance within vintages will be dispersed
- MBIA expects to see better than average performance within our aggregate portfolio of exposures as a result of our selective and disciplined approach

Update on Subprime Mortgage Exposure

Portfolio Performance and Impact of recent Moody's and S&P Downgrades (7/07)

Moody's and S&P downgraded or placed on credit watch over 1500 subprime first lien, closed-end second RMBS securities and classes of CDOs

Impact on Multi Sector CDO Book: Net Par Exposure \$24.2 billion

- *None* of the underlying ratings of MBIA's primary market wrapped CDOs were downgraded by S&P or Moody's. Actions were limited to a small number of individual securities within several MBIA wrapped deals with no material impact.
- *Only 88bps of the total collateral base supporting the multi sector CDO book was downgraded by the rating actions.* (Approximately 65bps of individual RMBS securities within our CDOS and the remaining 23bps CDO collateral within our multi sector CDOs)
- Moody's placed 184 CDO classes on watch for possible downgrade while S&P either placed on watch or downgraded 187 CDO classes. Subordinated classes in 12 MBIA insured secondary market transactions were placed on Watch or downgraded totaling \$579.9 million and the underlying ratings of two MBIA insured classes totaling \$25.4 million of net par were placed on Watch or downgraded. We anticipate no material impact.
- This round of rating actions by S&P and Moody's had a minimal impact on MBIA's positions in the CDO portfolio. The majority of downgraded credits were related to issuers MBIA (and its CDO collateral managers) sought to avoid or minimize exposure to. Subordination levels remain strong.

Update on Subprime Mortgage Exposure

Portfolio Performance and Impact of recent Moody's and S&P Downgrades (7/07)

Direct Insured Book: MBIA Subprime Net Par Exposure \$5.1 billion

- *None* of the underlying ratings of MBIA's wrapped securities were downgraded by S&P or Moody's. The subordinate tranches of several MBIA secondary AAA wrapped deals were included in the rating actions.
- S&P and Moody's downgraded subordinated classes of 19 transactions of which a senior AAA tranche is wrapped by MBIA in the secondary market. The total of the classes impacted was \$448 million. The highest rating category which was downgraded in any one deal was the single A class with the remaining ratings impacted focused on the BBB+ to BB range.
- Based upon our review of existing enhancement levels and the senior position of the certificates MBIA wrapped, there remains adequate protection for the wrapped certificates. Current credit enhancement for MBIA wrapped bonds is generally robust ranging from 22 - 35%.

Top 15 Direct Subprime RMBS Servicer Exposures

As of March 31, 2007

Rank	Servicer Name ¹	Subprime Net Par Exposure (\$s millions)	Corporate Senior Unsecured		Subprime RMBS Servicer Operational Rating	
			S&P	Moody's	S&P	Moody's
1	Countrywide Financial Corporation	1,260	A	A3	Strong	SQ1 - Strong
2	Wells Fargo & Company	909	AA+	Aa1	Strong	SQ1 - Strong
3	Lehman Brothers Holdings Inc. (Aurora)	628	A+	A1	Average	Not Rated
4	J.P. Morgan Chase & Co.	457	AA-	Aa2	Strong	SQ1 - Strong
5	C-Bass (Litton) ²	314	NR	NR	Strong	SQ2 - Above Average
6	Block H & R Inc. (Option One)	295	BBB+	A3	Strong	SQ2+ - Above average
7	Residential Capital Corp.(GMAC-RFC)	285	BBB-	Baa3	Strong/Above Average	SQ2+ - Above average
8	Ocwen Financial Corporation	175	B-	B2	Strong	SQ2- - Above average
9	Bear Stearns Companies, Inc.	150	A+	A1	Above Average	SQ1 - Strong
10	Credit Suisse Group	128	A+	Aa2	Average	SQ2- - Above average
11	Washington Mutual Inc.	98	A-	A2	Above Average	SQ2 - Above average
12	Barclays Bank PLC	97	AA	Aa1	Strong	SQ1 - Strong
13	Accredited Home Lenders Holding Co.	87	NR	NR	Above Average	SQ3+ - Average
14	Merrill Lynch & Company, Inc.	86	AA-	Aa3	Strong/Above Average	SQ1 - Strong
15	Citigroup Inc.	82	AA	Aa1	Above Average	SQ2 - Above average
Total		5,050				

(1) Servicer may be an operating subsidiary of the named entity.

(2) SQ2 on review for downgrade; S&P rating watch negative

- Loan performance is strongly correlated to originator and servicer quality
- Most servicers are investment grade rated entities or subsidiaries of investment grade rated entities
- Most servicers have strong or above average subprime RMBS operational ratings

Summary and Conclusions

- MBIA has a disciplined approach to underwriting credit protection, enabling the business model to withstand stress over the credit cycle. As a result:
 - 2005 and 2006 vintage insured subprime RMBS and related CDOs are at AAA and higher qualities
 - Only 1 mezzanine CDO deal since 2005
 - No direct exposure to deals downgraded/placed on watch, *de minimis* exposure in CDOs
- MTM entirely non-economic to date; process uses realistic market spread data
- Although housing market stress is expected, there are no probable and estimable losses in our portfolio today

Safe Harbor Disclosure

This presentation contains forward-looking statements. Important factors such as general market conditions and the competitive environment could cause actual results to differ materially from those projected in these forward-looking statements. Risk factors are detailed in our 10K, which is available on our Web site, www.mbia.com. The company undertakes no obligation to revise or update any forward-looking statements to reflect changes in events or expectations.

