MBIA INC
Form 10-Q
May 10, 2012
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 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)

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

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

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 þ 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 þ No ¨

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. (Check one):

Large accelerated filer þ 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 þ

As of May 4, 2012, 193,825,621 shares of Common Stock, par value $1 per share, were outstanding.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions except share and per share amounts)

	March 31, 2012	December 31, 2011
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $5,529 and $6,259)	$ 5,596	$ 6,177
Fixed-maturity securities at fair value	226	295
Investments pledged as collateral, at fair value (amortized cost $533 and $642)	462	543
Short-term investments held as available-for-sale, at fair value (amortized cost $1,711 and $1,577)	1,705	1,571
Other investments (includes investments at fair value of $57 and $96)	68	107
Total investments	8,057	8,693
Cash and cash equivalents	711	473
Premiums receivable	1,344	1,360
Deferred acquisition costs	340	351
Prepaid reinsurance premiums	86	88
Insurance loss recoverable	3,137	3,046
Reinsurance recoverable on paid and unpaid losses	15	16
Property and equipment, at cost (less accumulated depreciation of $141 and $139)	68	69
Receivable for investments sold	98	32
Derivative assets	12	2
Deferred income taxes, net	1,635	1,745
Other assets	101	105
Assets of consolidated variable interest entities:		
Cash	144	160
Investments held-to-maturity, at amortized cost (fair value $2,871 and $3,489)	3,093	3,843
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $886 and $473)	856	432
Fixed-maturity securities at fair value	2,883	2,884
Loans receivable at fair value	2,025	2,046
Loan repurchase commitments	1,076	1,077
Derivative assets	445	450
Other assets	-	1
Total assets	**$ 26,126**	**$ 26,873**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 3,381	$ 3,515
Loss and loss adjustment expense reserves	867	836
Investment agreements	1,576	1,578
Medium-term notes (includes financial instruments carried at fair value $174 and $165)	1,692	1,656
Securities sold under agreements to repurchase	149	287
Long-term debt	1,839	1,840
Payable for investments purchased	35	3

Derivative liabilities		4,830		5,164
Other liabilities		368		388
Liabilities of consolidated variable interest entities:				
Variable interest entity notes (includes financial instruments carried at fair value $4,761 and $4,754)		8,704		8,697
Long-term debt		-		360
Derivative liabilities		803		825
Other liabilities		1		1
Total liabilities		**24,245**		**25,150**
Commitments and contingencies (See Note 13)				
Equity:				
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none		-		-
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 275,488,914 and 274,896,162		275		275
Additional paid-in capital		3,070		3,072
Retained earnings		815		805
Accumulated other comprehensive loss, net of deferred tax of $33 and $105		(26)		(176)
Treasury stock, at cost 81,750,127 and 81,752,966 shares		(2,276)		(2,276)
Total shareholders equity of MBIA Inc.		1,858		1,700
Preferred stock of subsidiary and noncontrolling interest		23		23
Total equity		**1,881**		**1,723**
Total liabilities and equity	**$**	**26,126**	**$**	**26,873**

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions except share and per share amounts)

	Three Months Ended March 31, 2012	2011
Revenues:		
Premiums earned:		
Scheduled premiums earned	$ 96	$ 128
Refunding premiums earned	41	9
Premiums earned (net of ceded premiums of $3 and $3)	137	137
Net investment income	62	114
Fees and reimbursements	7	14
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	(4)	(354)
Unrealized gains (losses) on insured derivatives	303	(1,422)
Net change in fair value of insured derivatives	299	(1,776)
Net gains (losses) on financial instruments at fair value and foreign exchange	(19)	(24)
Investment losses related to other-than-temporary impairments:		
Investment losses related to other-than-temporary impairments	(53)	(7)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(41)	(6)
Net investment losses related to other-than-temporary impairments	(94)	(13)
Net gains (losses) on extinguishment of debt	-	26
Other net realized gains (losses)	1	5
Revenues of consolidated variable interest entities:		
Net investment income	17	17
Net gains (losses) on financial instruments at fair value and foreign exchange	(27)	(107)
Total revenues	383	(1,607)
Expenses:		
Losses and loss adjustment	97	(36)
Amortization of deferred acquisition costs	13	17
Operating	158	75
Interest	73	75
Expenses of consolidated variable interest entities:		
Operating	6	10
Interest	15	15
Total expenses	362	156
Income (loss) before income taxes	21	(1,763)
Provision (benefit) for income taxes	11	(489)
Net income (loss)	**$ 10**	**$ (1,274)**
Net income (loss) per common share:		

Basic	$	0.05	$	(6.37)
Diluted	$	0.05	$	(6.37)
Weighted average number of common shares outstanding:				
Basic		193,489,424		199,972,759
Diluted		194,594,974		199,972,759

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In millions)

	Three Months Ended March 31, 2012	2011
Net income (loss)	$ 10	$ (1,274)
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses) arising during the period, net of tax of $8 and $36	44	109
Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of $39 and $11	73	(20)
Unrealized gains (losses) on available-for-sale securities, net	117	89
Other-than-temporary impairments on available-for-sale securities:		
Other-than-temporary impairments arising during the period, net of tax of $4 and $3	7	5
Less: Reclassification adjustments for other-than-temporary impairments included in net income (loss), net of tax of $15 and $2	26	4
Other-than-temporary impairments on available-for-sale securities, net	33	9
Unrealized gains (losses) on derivative instruments:		
Unrealized gains (losses) on derivative instruments arising during the period, net of tax of $2 and $4	(3)	2
Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of $8 and $1	15	1
Unrealized gains (losses) on derivative instruments, net	12	3
Foreign currency translation, net of tax of $0 and $2	(12)	(36)
Total other comprehensive income (loss)	150	65
Comprehensive income (loss)	**$ 160**	**$ (1,209)**

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2012

(In millions except share amounts)

	Common Stock		Additional		Accumulated Other	Treasury Stock		Total Shareholders	Preferred Stock of Subsidiary and Noncontrolling Interest		
	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Shares	Amount	Equity of MBIA Inc.	Shares	Amount	Total Equity
Balance, December 31, 2011	**274,896,162**	**$ 275**	**$ 3,072**	**$ 805**	**$ (176)**	**(81,752,966)**	**$ (2,276)**	**$ 1,700**	**1,315**	**$ 23**	**$ 1,723**
Net income	-	-	-	10	-	-	-	10	-	-	10
Other comprehensive income (loss)	-	-	-	-	150	-	-	150	-	-	150
Share-based compensation net of tax of $5	592,752	-	(2)	-	-	2,839	-	(2)	-	-	(2)
Balance, March 31, 2012	**275,488,914**	**$ 275**	**$ 3,070**	**$ 815**	**$ (26)**	**(81,750,127)**	**$ (2,276)**	**$ 1,858**	**1,315**	**$ 23**	**$ 1,881**

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 53	$ 85
Investment income received	162	197
Insured derivative losses and commutations paid	(20)	(386)
Financial guarantee losses and loss adjustment expenses paid	(172)	(217)
Proceeds from reinsurance and recoveries	16	28
Operating and employee related expenses paid	(120)	(110)
Interest paid	(149)	(187)
Income taxes (paid) received	(3)	44
Net cash provided (used) by operating activities	(233)	(546)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(938)	(1,743)
Sale and redemption of fixed-maturity securities	1,440	2,690
Proceeds from paydowns on variable interest entity loans	60	84
Redemptions of held-to-maturity investments	750	51
Sale (purchase) of short-term investments, net	(115)	(69)
Sale (purchase) of other investments, net	65	17
(Payments) proceeds for derivative settlements	(51)	(20)
Capital expenditures	(1)	(1)
Net cash provided (used) by investing activities	1,210	1,009
Cash flows from financing activities:		
Proceeds from issuance of investment agreements	16	19
Payments for drawdowns of investment agreements	(18)	(113)
Issuance of medium-term notes	8	4
Principal paydown of medium-term notes	-	(88)
Principal paydown of variable interest entity notes	(262)	(358)
Increase (decrease) in securities sold under agreements to repurchase	(138)	-
Payments for retirement of debt	(361)	(69)
Restricted stock awards settlements	-	(1)
Net cash provided (used) by financing activities	(755)	(606)
Net increase (decrease) in cash and cash equivalents	222	(143)
Cash and cash equivalents - beginning of period	633	1,130
Cash and cash equivalents - end of period	$ 855	$ 987

Reconciliation of net income (loss) to net cash provided (used) by operating activities:

Net income (loss)	$ 10	$ (1,274)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Accrued investment income	3	1
Premiums receivable	37	25
Deferred acquisition costs	11	15
Unearned premium revenue	(149)	(127)
Prepaid reinsurance premiums	3	3
Reinsurance premiums payable	1	(2)
Loss and loss adjustment expense reserves	31	(119)
Reinsurance recoverable on paid and unpaid losses	2	-
Insurance loss recoverable	(91)	(106)
Accrued interest payable	(25)	(22)
Accounts receivable	2	2
Accrued expenses	48	(26)
Deferred fee revenue	(1)	-
Current income taxes	(24)	44
Amortization of bond (premiums) discounts, net	4	(10)
Depreciation	2	2
Amortization of medium-term notes (premiums) discounts, net	(3)	(4)
Net investment losses related to other-than-temporary impairments	94	13
Unrealized (gains) losses on insured derivatives	(303)	1,422
Net (gains) losses on financial instruments at fair value and foreign exchange	46	131
Other net realized (gains) losses	(1)	(5)
Deferred income tax provision (benefit)	32	(489)
(Gains) losses on extinguishment of debt	-	(26)
Share-based compensation	3	1
Other operating	35	5
Total adjustments to net income (loss)	(243)	728
Net cash provided (used) by operating activities	$ (233)	$ (546)

The accompanying notes are an integral part of the consolidated financial statements.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States (U.S.) public finance insurance, structured finance and international insurance, and advisory services. The Company s U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries (National), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and its asset management advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). The holding company, MBIA Inc., and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down. Refer to Note 11: Business Segments for further information about the Company s reporting segments.

Business Developments

As a result of insured losses and realized investment losses during the period from 2007 to March 31, 2012, the Company has seen ratings downgrades, a near cessation of new insurance business written by the Company, and increasing liquidity pressure. The Company has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of the credit ratings of its insurance subsidiaries. As of March 31, 2012, National was rated BBB with a developing outlook by Standard & Poor s Financial Services LLC (S&P) and Baa2 with a negative outlook by Moody s Investors Service, Inc. (Moody s). As of March 31, 2012, MBIA Insurance Corporation was rated B with a negative outlook by S&P and B3 with a review for a possible downgrade by Moody s.

During the quarter ended March 31, 2012, the Company continued to seek to reduce both the absolute amount and the volatility of its obligations and potential future claim payments through the execution of commutations of insurance policies. The combination of payments to reduce liabilities, claims payments and the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured has increased liquidity pressure on MBIA Inc. and MBIA Corp. As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was $482 million and comprised cash and liquid assets of $251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $231 million not pledged directly as collateral for its asset/liability products activities. As of December 31, 2011, MBIA Inc. had $386 million of cash and liquid assets comprising $226 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million not pledged directly as collateral for its asset/liability products activities. The Company believes this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations at least through the next twelve months.

For MBIA Corp., cash and liquid assets decreased to $329 million as of March 31, 2012, from $534 million as of December 31, 2011 principally as a result of claims payments. Claims payments primarily resulted from the failure of certain mortgage-backed securities (MBS) sponsors to honor contractual obligations to repurchase ineligible mortgage loans. During the quarter ended March 31, 2012, MBIA Corp. made $211 million in gross claim payments, and commuted $4.3 billion of gross insured exposure comprising investment grade corporate collateralized debt obligations (CDOs), and commercial real estate (CRE) CDOs, all of which were previously disclosed in MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2011. Subsequent to March 31, 2012, MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising commercial mortgage-backed securities (CMBS), CRE CDOs, asset-backed securities (ABS) CDOs, and subprime residential mortgage-backed securities (RMBS) transactions, totaled $7.2 billion in gross insured exposure. The Company s ability to commute insured transactions may be limited by available liquidity as determined based on management s assessment. The Company currently evaluates different methodologies to mitigate liquidity stress, including intercompany lending arrangements and the monetization of illiquid assets.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Risks and Uncertainties

The Company s financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company s estimates. While the Company believes it continues to have sufficient capital and liquidity to meet all of its expected obligations, if one or more possible adverse outcomes were to be realized, its statutory capital, financial position, results of operations and cash flows could be materially and adversely affected.

Significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods include, but are not limited to, the following:

MBIA Corp. s efforts to recover losses from the second-lien securitization originators could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded on its balance sheets prepared under accounting principles generally accepted in the United States of America (GAAP) and statutory accounting principles (U.S. STAT). Contractual claims could become subject to bankruptcy proceedings of the originators. As of March 31, 2012 and December 31, 2011, the Company s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.1 billion and $2.0 billion, respectively, which was 111% and 119% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. As of March 31, 2012 and December 31, 2011, the related measures calculated under U.S. STAT were 112% and 89%, respectively, of the statutory capital of MBIA Corp. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the Company s second-lien RMBS loss recoveries.

MBIA Inc. may not have sufficient liquidity to make all payments due on its liabilities and to meet other financial requirements, such as posting collateral, primarily as a result of a deficit of invested assets to debt issued to third parties and affiliates. During the quarter ended March 31, 2012, MBIA Inc. s deficit increased as it realized losses from the sale and impairment of invested assets. In addition, it does not expect to receive dividends from its regulated insurance subsidiaries in the near term. If MBIA Inc. were required to continue to sell invested assets at their current market values in order to settle liabilities or to meet minimum required collateral amounts against liabilities, the deficit would increase further. In order to meet liquidity requirements, MBIA Inc. may also finance unencumbered assets through intercompany or third-party facilities, or use free cash or other assets, in some cases with New York State Department of Financial Services (NYSDFS) approval, although there can be no assurance that these strategies will be available or adequate. A failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp. Resolving the deficit will depend on the Company s ability to receive distributions from its operating subsidiaries and raise third-party capital, and there can be no assurance that the Company will be successful in eliminating the deficit through these means, or that they will provide adequate liquidity. Refer to the following Liquidity section for additional information about MBIA Inc. s liquidity position.

MBIA Corp. has commuted most of its higher risk CMBS pool exposures. However, if the U.S. economy weakens, commercial real estate values decline or commercial real estate servicer behavior does not continue to mitigate potential or actual credit losses in line with current trends, MBIA Corp. could incur substantial losses in that sector. As of March 31, 2012, MBIA Corp. had CMBS pool and CRE CDO insured par exposure of approximately $19.2 billion and $4.3 billion, respectively, excluding approximately $3.3 billion of CRE loan pools, primarily comprising European assets. Since the end of 2007 through March 31, 2012, MBIA Corp. s CMBS pool and CRE CDO gross par exposure has decreased by approximately $30.5 billion, primarily from negotiated commutations and early settlements. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the

Company s estimate of CMBS credit impairments.

Incurred losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible mortgage loans included within MBIA Corp. s insured second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp. s current estimated loss reserves. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about MBIA Corp. s RMBS loss reserves.

While MBIA Corp. has settled a substantial portion of its insured ABS CDO exposure at levels, on average, within MBIA Corp. s statutory loss reserves related to those exposures, further economic stress might cause increases in MBIA Corp. s loss estimates on its remaining exposure. As of March 31, 2012, MBIA Corp. s ABS CDO gross par outstanding was approximately $6.0 billion, and had decreased approximately $31.3 billion since 2007.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

In recent years, key components of the Company s strategy have included commuting volatile insured exposures, purchasing instruments issued or guaranteed by the Company in order to reduce future expected economic losses and managing the liquidity requirements and risk in MBIA Inc. In order to implement this strategy, the Company put in place intercompany agreements that allocate liquidity resources among its entities in order to fund commutations and provide liquidity, where needed. The intercompany agreements with the Company s insurance subsidiaries have required the approval of the NYSDFS. The Company s ability to continue to draw on intercompany financing, provide other intercompany liquidity and capital support, obtain permission for contingency reserve releases, and the ability of its insurance subsidiaries to pay dividends to MBIA Inc. will in most cases require further approvals from the NYSDFS, and there can be no assurance that the Company will be able to obtain such approvals. In addition, in connection with providing such approvals, the NYSDFS may require the Company or its insurance subsidiaries to agree to take, or refrain from taking, certain actions.

The Company s recent financial results have been volatile, which has impacted management s ability to accurately project future taxable income. Insurance losses incurred beyond those currently projected may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to Note 10: Income Taxes for information about the Company s deferred tax assets.

Litigation over the NYSDFS approval of National s creation or additional hurdles to achieving high stable ratings may impede National s ability to resume writing municipal bond insurance for some time, reducing its long-term ability to generate capital and cash from operations.

Municipal and state fiscal distress in the U.S. could adversely affect the Company s operations if it results in larger-than-expected incurred insurance losses. Additionally, the sovereign debt crisis in the Eurozone could have an adverse impact on insured European exposures and/or cause a global slowdown in growth, thereby adversely affecting U.S. insured exposures.

In the event the economy and the markets to which MBIA is exposed do not improve, or decline, the unrealized losses on insured credit derivatives could increase, causing additional stress in the Company s reported financial results. In addition, volatility in the relationship between MBIA s credit spreads and those on underlying collateral assets of insured credit derivatives can create significant unrealized gains and losses in the Company s reported results of operations. Refer to Note 6: Fair Value of Financial Instruments for information about the Company s valuation of insured credit derivatives.

As of March 31, 2012, the Company had $1.9 billion of shareholders equity and MBIA Insurance Corporation and National had $1.9 billion and $2.9 billion, respectively, of statutory capital. Statutory capital, defined as policyholders surplus and contingency reserves, is a key measure of an insurance company s financial condition under insurance laws and regulations. Failure to maintain adequate levels of statutory surplus and total statutory capital could lead to intervention by the Company s insurance regulators in its operations and constitute an event of default under certain of the Company s contracts, thereby materially and adversely affecting the Company s financial condition and results of operations. Pursuant to approval granted by the NYSDFS in accordance with New York Insurance Law (NYIL), as of March 31, 2012, MBIA Insurance Corporation released to surplus an aggregate of $196 million of excessive contingency reserves.

Liquidity

As a financial services company, MBIA has been materially adversely affected by conditions in global financial markets. Current conditions and events in these markets, in addition to the failure by the originators of RMBS to repurchase the ineligible mortgage loans in securitizations that the Company has insured, have put substantial stress on the Company s liquidity resources.

The Company has utilized a liquidity risk management framework, the primary objectives of which are to monitor liquidity positions and projections in its legal entities and guide the matching of liquidity resources to needs. The Company monitors its cash and liquid asset resources using stress-scenario testing. Members of MBIA s senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis. As part of the Company s liquidity risk management framework, the Company evaluates and manages liquidity on a legal-entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise.

The majority of the Company s liquidity management efforts focus on:

The liquidity resources of MBIA Inc., which are subject to uncertainty in the timing and amount of cash inflows from dividends paid by National and MBIA Corp., the necessity of having to support the liquidity needs of the asset/liability products business, and potential cross-defaults of holding company debt with other obligations in the consolidated group. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third-party derivative contracts;

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

The liquidity resources of MBIA Corp. which are subject to payments on insured exposures, and in some cases may be large bullet payments; payments to counterparties in consideration for the commutation of insured transactions; and delays in the collection of contract claim recoveries related to ineligible mortgage loans in certain insured transactions. MBIA Corp. is currently subject to negative cash flow as a result of these payments and delays in collecting recoveries; and

The liquidity resources of National, for which the Company has not observed material liquidity risk to date, but which are exposed to unexpected loss payments on its insured transactions and potential negative cash flow, and liquidity support arrangements with its affiliates.

In order to address these liquidity risks and efficiently manage liquidity across the entire enterprise, certain of the Company s subsidiaries which are less liquidity constrained have entered into intercompany agreements that provide resources to subsidiaries that are more liquidity constrained. These resources include intercompany agreements described further below between the Company s primary insurance subsidiaries and between these insurance subsidiaries and the asset/liability products business (through MBIA Inc.), which in each case were approved by the NYSDFS and are subject to ongoing monitoring by the NYSDFS.

Key Intercompany Lending Agreements

National Secured Loan

National provided a secured loan to MBIA Insurance Corporation (National Secured Loan) in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. This loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National. The National Secured Loan has a fixed annual interest rate of 7% and a maturity date of December 2016. As of March 31, 2012, the outstanding principal amount under this loan was $1.1 billion. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation has elected to defer the interest payment due under the loan. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of March 31, 2012, which collateral comprised the following future receivables of MBIA Corp.: (i) its right to receive put-back recoveries related to ineligible mortgage loans included in its insured second-lien RMBS transactions; (ii) future recoveries on defaulted insured second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; and (iii) future installment premiums. Since March 31, 2012, MBIA Insurance Corporation has borrowed an additional $443 million under the National Secured Loan with the approval of the NYSDFS at the same terms as the original loan to fund additional commutations of its insurance policies. MBIA Insurance Corporation may seek to borrow additional amounts under the loan in the future. Any such increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS.

Asset Swap

National maintained simultaneous repurchase and reverse repurchase agreements (Asset Swap) with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement and derivative contracts in the asset/liability products business. As of March 31, 2012, the notional amount utilized under each of these agreements was $1.0 billion and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $1.0 billion and $1.1 billion, respectively. The net average interest rate on these transactions was 0.88% and 0.23% for the three months ended March 31, 2012 and 2011, respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York. National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintained a master repurchase agreement with MBIA Inc. (MBIA Corp. Secured Loan) for the benefit of MBIA Inc. s asset/liability products business, which totaled $2.0 billion at inception and was scheduled to mature in May 2012, as amended. The average interest rate on the MBIA Corp. Secured Loan was 2.53% for the three months ended March 31, 2012. As of March 31, 2012, the amount outstanding under the MBIA Corp. Secured Loan was $300 million and the fair value of the collateral pledged by MBIA Inc. to MBIA Corp. under this agreement was $166 million. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. Also in May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan to May 2013 with a maximum outstanding amount of $450 million, subject to MBIA Corp. obtaining prior approval from the NYSDFS for any draws under the facility.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Conduit Repurchase Agreement

MBIA Inc. maintained a repurchase agreement with Meridian Funding Company, LLC (Conduit Repurchase Agreement), under which $1.0 billion notional amount may be utilized, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during the three months ended March 31, 2012 of 2.51%. As of March 31, 2012, the notional amount utilized by MBIA Inc. under this agreement and the fair value of the collateral pledged by MBIA Inc. were $55 million and $63 million, respectively.

MBIA Inc. Liquidity

MBIA Inc. s liquidity resources support the Company s corporate and asset/liability products segments. The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, investment agreements and medium-term notes (MTNs) issued by the asset/liability products and conduits segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc. s corporate debt, investment agreements, MTNs, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding with respect to MBIA Corp. MBIA Inc. s obligations under its loans from MBIA Global Funding, LLC (GFL) may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to Note 11: Business Segments for a description of the GFL loans. In the event of any acceleration of the Company s obligations, including under its corporate debt, investment agreements, MTNs, or derivatives, the Company likely would not have sufficient liquid resources to pay amounts due with respect to its corporate debt and other obligations that are not already collateralized.

During the three months ended March 31, 2012, pursuant to the tax sharing agreement, National settled with MBIA Inc. its taxes related to the 2010 and 2011 tax years of $1 million and $11 million, respectively. In addition, National paid to MBIA Inc. estimated 2012 taxes of $23 million. Consistent with the tax sharing agreement, these amounts were placed in an escrow account until the expiration of National s two-year net operating loss (NOL) carry-back period under U.S. tax rules. At the expiration of National s carry-back period, any funds remaining after any reimbursement to National in respect of any NOL carry-backs would be available for general corporate purposes, including to satisfy any other obligations under the tax sharing agreement. As of March 31, 2012, $293 million remained in escrow for the 2010 through 2012 tax years.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, the Company seeks to maintain cash and liquid investments in excess of its expected cash requirements over a multi-year period. The Company seeks to maintain cash and liquidity resources that it believes will be sufficient to make all payments due on its obligations and to meet other financial requirements, such as posting collateral at least through the next twelve months.

Liquidity risk within MBIA Inc. is primarily a result of the following factors:

Currently, the majority of the assets of MBIA Inc. are pledged against investment agreement liabilities, intercompany and third-party financing arrangements and derivatives, which limit its ability to raise liquidity through asset sales. In addition, if the market value or rating eligibility of the assets which are pledged against these obligations were to decline, the Company would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, the Company may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany or third-party facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet liquidity requirements.

There is a deficit of invested assets to liabilities issued to third parties and affiliates of $783 million as of March 31, 2012, which increased from $591 million as of December 31, 2011. This deficit is a result of selling investments at losses, and may further increase as a result from selling investments and terminating interest rates swaps at losses in the future. In addition, this deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. The Company expects that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third-party capital, although there can be no assurance that MBIA Inc. will be able to eliminate the deficit through such means.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Because the majority of MBIA Inc. s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in fair value of the asset/liability products business assets as of March 31, 2012 from instantaneous shifts in credit spread curves. This table assumes that all credit spreads move by the same amount; however, it is more likely that the actual changes in credit spreads will vary by investment sector and individual security. The table presents hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads.

	Change in Credit Spreads (Asset/Liability Products Business)			
In millions	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**50 Basis Point Increase**	**200 Basis Point Increase**
Estimated change in fair value	$ 210	$ 67	$ (64)	$ (233)

In the three months ended March 31, 2012, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products business: the Asset Swap, the MBIA Corp. Secured Loan and the Conduit Repurchase Agreement. Refer to the preceding Key Intercompany Lending Agreements section for a description of these facilities.

Stressed credit market conditions for the remainder of 2012 could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements. Management has identified certain actions to mitigate this risk. These actions include: (1) additional sales of encumbered and other invested assets exposed to credit spread stress risk, which may occur at losses and increase the deficit of invested assets to liabilities; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that the Company cannot implement the actions identified above to raise liquidity, or eliminate the deficit, it may have insufficient assets to make all payments on its obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was $482 million and comprised cash and liquid assets of $251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $231 million not pledged directly as collateral for its asset/liability products activities. As of December 31, 2011, MBIA Inc. had $386 million of cash and liquid assets comprising $226 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million not pledged directly as collateral for its asset/liability products activities. The Company believes this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations at least through the next twelve months.

MBIA Corp. Liquidity

Liquidity available in the structured finance and international insurance segment is affected by the Company s ability to collect on receivables associated with loss payments, the payment of claims on insured exposures, payments made to commute insured exposure, the repayment of the National Secured Loan, a reduction in investment income, any unanticipated expenses, or the impairment or a significant decline in the fair value of invested assets. The Company may also experience liquidity constraints as a result of NYIL requirements that the Company maintains specified, high quality assets to back the Company s reserves and surplus.

The Company believes the current liquidity position of MBIA Corp. is adequate to make expected future claims payments. However, the liquidity position of MBIA Corp. has been stressed due to the failure of the sellers/servicers of RMBS transactions insured by MBIA Corp. to repurchase ineligible mortgage loans in certain insured transactions and payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. While MBIA Corp. has made and may in the future make payments to counterparties in consideration for the commutation of insured transactions, MBIA Corp. s ability to commute insured transactions will depend on management s assessment of available liquidity.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which the Company has recorded loss reserves. Insured transactions that require payment in full of the principal insured at maturity could present liquidity risks for MBIA Corp. since payment of the principal is due at maturity but any salvage could be recovered over time after payment of the principal amount. MBIA Corp. has insured transactions with substantial principal amounts due at maturity that are scheduled to mature in the near term. While MBIA Corp. expects the transactions to be refinanced on or prior to the maturity date, there is no assurance that such refinancing will occur. In the event that the refinancing does not occur, MBIA Corp. will be required to pay the full insured principal amount at maturity. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through the Company s monitoring process. While MBIA Corp. s financial guarantee policies generally cannot be accelerated, thereby mitigating liquidity risk, the insurance of CDS contracts may, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, the Company uses the same methodology as it uses to monitor credit quality and losses within its insured portfolio, including stress scenarios. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for a discussion of the Company s loss process. Additionally, the Company s structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes.

Since the fourth quarter of 2007 through March 31, 2012, MBIA Corp. has made $10.9 billion of cash payments, before reinsurance and collections and excluding loss adjustment expense (LAE) (including payments made to debt holders of consolidated variable interest entities (VIEs)), associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of $785 million made on behalf of MBIA Corp. s consolidated VIEs. Of the $10.9 billion, MBIA Corp. has paid $6.4 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of $3.2 billion of related expected recoveries on its consolidated balance sheets as of March 31, 2012, including expected recoveries recorded in the Company s consolidated VIEs. The Company s put-back claims have been disputed by the loan sellers/servicers and are the subject of certain litigations discussed more fully in Note 13: Commitments and Contingencies. There is some risk that the sellers/servicers or other responsible parties might not be able to fully satisfy any judgment the Company secures in litigation. Further, there can be no assurance that the Company will be successful or that the Company will not be delayed in realizing these recoveries. Such risks are contemplated in the scenarios the Company utilizes to calculate these recoveries, which are recognized on the Company s balance sheets. The Company believes that it has adequate liquidity resources to provide for anticipated cash outflows; however, if the Company does not realize or is delayed in realizing these expected recoveries, the Company may not have adequate liquidity to fully execute the strategy to reduce future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by the Company, or to repay any intercompany borrowings.

A portion of the commutation payments made since the fourth quarter of 2011 were financed through the National Secured Loan. MBIA Insurance Corporation s ability to repay the loan and any accrued interest will be primarily predicated on MBIA Corp. s ability to collect on its future receivables, including its ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from insured securitizations.

MBIA Corp. also insures third-party holders of the Company s asset/liability products segment s obligations. If the Company was unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent $2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan, the outstanding balance of which loan was $300 million as of March 31, 2012. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. Also in May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan to May 2013 with a maximum outstanding amount of $450 million, subject to MBIA Corp. obtaining prior approval from the NYSDFS for any draws under the facility.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

As of March 31, 2012, MBIA Corp. held cash and available-for-sale investments of $1.3 billion, of which $329 million comprised cash and highly liquid assets. As of December 31, 2011, MBIA Corp. held cash and available-for-sale investments of $1.5 billion, of which $534 million comprised cash and highly liquid assets. The Company believes that MBIA Corp. s liquidity resources, including expected cash inflows, will adequately provide for anticipated cash outflows. In the event of unexpected liquidity requirements, the Company may have insufficient resources to meet its obligations or insufficient qualifying assets to support its surplus and reserves, and may seek to increase its cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that the Company will be able to draw on these additional sources of liquidity.

National Liquidity

Despite continued adverse macroeconomic conditions in the U.S., the incidence of default among U.S. public finance issuers remains extremely low and the Company believes that the liquidity position of its U.S. public finance insurance segment is sufficient to meet cash requirements in the ordinary course of business.

Liquidity risk arises in the Company s U.S. public finance insurance segment primarily from the following:

The insurance policies issued or reinsured by National, the entity from which the Company conducts its U.S. public finance insurance business, provide unconditional and irrevocable guarantees of payments of the principal of, and interest or other amounts owing on, insured obligations when due; or, in the event that the insurance company has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon the insurance company s election to accelerate. In the event of a default in payment of principal, interest or other insured amounts by an issuer, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment s financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.

National has entered into certain intercompany transactions to support the liquidity needs of its affiliates. These transactions include the National Secured Loan to MBIA Insurance Corporation and the Asset Swap through which National provides liquid assets to the Company s asset/liability products business. As a result of these transactions, National is subject to repayment risk, which may adversely affect its liquidity. The repayment of the National Secured Loan will primarily be predicated on MBIA Corp. s ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured. In addition, changes in the market value of securities sold to National under its Asset Swap with the asset/liability products business may adversely affect its liquidity position if the asset/liability business were unable to pledge additional eligible assets in order to meet minimum required collateral amounts.

The Company s U.S. public finance insurance segment requires cash for the payment of operating expenses. Declines in operating cash inflows due to the absence of new business writings, declines in cash inflows from investment income, unanticipated expenses, or an impairment or significant decline in the fair value of invested assets could negatively impact its liquidity position.

National held cash and short-term investments of $780 million as of March 31, 2012, of which $690 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. As of December 31, 2011, National held cash and short-term investments of $771 million, of which $703 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. With the exception of its loan to MBIA Insurance Corporation, most of National s investments, including those encumbered by the Asset Swap, are liquid and highly rated.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The following significant accounting policies provide an update to those included in the Company s Annual Report on Form 10-K.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 2: Significant Accounting Policies (continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by GAAP for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2011. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company s consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

The results of operations for the three months ended March 31, 2012 may not be indicative of the results that may be expected for the year ending December 31, 2012. The December 31, 2011 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders equity for all periods presented.

During the second quarter of 2011, the Company identified a model input error related to the measurement of fair value and associated unrealized losses on certain insured derivatives. This error related to the quarter ended March 31, 2011 and had understated pre-tax mark-to-market loss by $207 million. The Company assessed the materiality of the error in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, *Materiality,* and concluded that this error was not material to the consolidated financial statements as of and for the three months ended March 31, 2011 and did not affect any prior consolidated financial statements. However, the cumulative effect of the error was determined to be material if the correction was recorded in the consolidated financial statements as of and for the three months ended June 30, 2011. In accordance with SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, the consolidated financial statements as of and for the three months ended March 31, 2011 were revised in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2011 and are reflected in the prior years financial statements included in the Quarterly Report on Form 10-Q for the period ended March 31, 2012.

Statements of Cash Flows

Previously, the Company reported its consolidated statements of cash flows using the indirect method. The indirect method uses accrual accounting information to present the cash flows from operations. As of March 31, 2012, the Company elected to present its Statements of Cash Flows using the direct method. The direct method uses actual cash flow information from the Company s operations, rather than using accrual accounting values. Using either the direct or indirect method, total cash flows from operations are the same. In addition, the presentation of cash flows from investing and financing activities using either the direct or indirect method are the same. The change to the direct method for calculating and presenting cash flows from operations was implemented retroactively for all statements of cash flows presented herein. Use of the direct method requires a reconciliation of net income to cash flows from operations. This reconciliation is provided as a supplement directly beneath the statements of cash flows.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Presentation of Comprehensive Income (ASU 2011-05)

In June 2011, the Financial Accounting Standards board (FASB) issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income. This amendment eliminates the current option to report other comprehensive income and its components in the statements of changes in equity except for the presentation of reclassification adjustments for which adoption has been deferred by the FASB. The amendment does not change what currently constitutes net income and other comprehensive income. The new guidance is effective for the Company beginning January 1, 2012. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. The Company adopted this standard in the first quarter of 2012. The standard only affected the Company s presentation of comprehensive income and did not affect the Company s consolidated balance sheets, results of operations, or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04)

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This amendment results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. The Company adopted this standard in the first quarter of 2012. This standard only affected the Company s disclosures related to fair value; therefore, the adoption of this standard did not affect the Company s consolidated balance sheets, results of operations, or cash flows.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26)

In October 2010, the FASB issued ASU 2010-26, Financial Services Insurance (Topic 944) Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. This amendment specifies which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The Company adopted this standard on a prospective basis in the first quarter of 2012. As the Company is currently not writing any significant new business, the adoption of this standard did not have a material effect on the Company s consolidated balance sheets, results of operations, or cash flows. The amount of acquisition costs capitalized during the first quarter of 2012 compared with the amount of acquisition costs that would have been capitalized during the period if the Company s previous policy had been applied during that period is not material because the Company did not write any significant new insurance business during the first quarter of 2012.

Recent Accounting Developments

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 creates new disclosure requirements about the nature of the Company s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This amendment does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The disclosure requirements are effective for the Company beginning in the first quarter of 2013. This standard will only affect the Company s disclosures and will not affect the Company s consolidated balance sheets, results of operations, or cash flows.

Refer to the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for further information regarding the effects of recently adopted accounting standards on prior year financial statements.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities

Structured Finance and International Insurance

Through MBIA s structured finance and international insurance segment, the Company provides credit protection to issuers of obligations that may involve issuer-sponsored special purpose entities (SPEs). An SPE may be considered a VIE to the extent the SPE s total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics (i) the power to direct the activities of the SPE that most significantly impact the entity s economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics (i) the power to direct the activities of the VIE that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

The Company evaluates issuer-sponsored SPEs initially to determine if an entity is a VIE, and is required to reconsider its initial determination if certain events occur. For all entities determined to be VIEs, MBIA performs an ongoing reassessment to determine whether its guarantee to provide credit protection on obligations issued by VIEs provides the Company with a controlling financial interest. Based on its ongoing reassessment of controlling financial interest, the Company determines whether a VIE is required to be consolidated or deconsolidated.

The Company makes its determination for consolidation based on a qualitative assessment of the purpose and design of a VIE, the terms and characteristics of variable interests of an entity, and the risks a VIE is designed to create and pass through to holders of variable interests. The Company generally provides credit protection on obligations issued by VIEs, and holds certain contractual rights according to the purpose and design of a VIE. The Company may have the ability to direct certain activities of a VIE depending on facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity s economic performance. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a VIE, to be an obligation to absorb losses of the entity that could potentially be significant to the VIE. At the time the Company determines it has the ability to direct the activities of a VIE that most significantly impact the economic performance of the entity based on facts and circumstances, MBIA is deemed to have a controlling financial interest in the VIE and is required to consolidate the entity as primary beneficiary. The Company performs an ongoing reassessment of controlling financial interest that may result in consolidation or deconsolidation of any VIE.

Wind-down Operations

In its asset/liability products segment, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA s wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs.

In the conduit segment, the Company manages and administers two multi-seller conduit SPEs (Conduits). The Conduits invest primarily in debt securities and fund the investments through the issuance of VIE notes and long-term debt. The liabilities and certain of the assets of the Conduits are supported by credit enhancement provided through MBIA Corp. The Conduits were designed to provide issuers an efficient source of funding for issued obligations, and to provide an opportunity for MBIA Corp. to issue financial guarantee insurance policies. The Conduits are VIEs and are consolidated by the Company as primary beneficiary. During the three months ended March 31, 2012, all debt securities held by one of the Conduits were entirely repaid, and the proceeds were used to repay all outstanding long-term debt of this conduit. The Company no longer provides credit protection to this conduit.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of March 31, 2012 and December 31, 2011. The following tables also present the Company s maximum exposure to loss for nonconsolidated VIEs as well as the value of the assets and liabilities the Company has recorded for its interest in these VIEs as of March 31, 2012 and 2011. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company s variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

			March 31, 2012					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments (1)	Premiums Receivable (2)	Insurance Loss Recoverable (3)	Unearned Premium Revenue (4)	Loss and Loss Adjustment Expense Reserves (5)	Derivative Liabilities (6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 25,175	$ 13,686	$ 39	$ 60	$ -	$ 52	$ 3	$ 175
Mortgage-backed residential	45,442	15,851	11	84	2,854	82	442	6
Mortgage-backed commercial	5,046	2,655	-	2	-	2	-	-
Consumer asset-backed	7,326	4,056	12	23	-	22	20	-
Corporate asset-backed	27,455	13,309	87	170	20	185	-	-
Total global structured finance	110,444	49,557	149	339	2,874	343	465	181
Global public finance	42,975	22,042	-	215	-	270	-	-
Total insurance	$ 153,419	$ 71,599	$ 149	$ 554	$ 2,874	$ 613	$ 465	$ 181

(1) - Reported within Investments on MBIA s consolidated balance sheets.

(2) - Reported within Premiums receivable on MBIA s consolidated balance sheets.

(3) - Reported within Insurance loss recoverable on MBIA s consolidated balance sheets.

(4) - Reported within Unearned premium revenue on MBIA s consolidated balance sheets.

(5) - Reported within Loss and loss adjustment expense reserves on MBIA s consolidated balance sheets.

(6) - Reported within Derivative liabilities on MBIA s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

			December 31, 2011					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments (1)	Premiums Receivable (2)	Insurance Loss Recoverable (3)	Unearned Premium Revenue (4)	Loss and Loss Adjustment Expense Reserves (5)	Derivative Liabilities (6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 26,507	$ 15,466	$ 42	$ 67	$ -	$ 58	$ 3	$ 113
Mortgage-backed residential	47,669	16,379	25	87	2,773	86	428	5
Mortgage-backed commercial	5,001	2,644	-	2	-	2	-	-
Consumer asset-backed	8,015	4,563	16	26	-	25	23	-
Corporate asset-backed	29,855	15,577	241	192	22	205	-	1
Total global structured finance	117,047	54,629	324	374	2,795	376	454	119
Global public finance	42,106	21,774	-	215	-	270	-	-
Total insurance	$ 159,153	$ 76,403	$ 324	$ 589	$ 2,795	$ 646	$ 454	$ 119

(1) - Reported within Investments on MBIA s consolidated balance sheets.

(2) - Reported within Premiums receivable on MBIA s consolidated balance sheets.

(3) - Reported within Insurance loss recoverable on MBIA s consolidated balance sheets.

(4) - Reported within Unearned premium revenue on MBIA s consolidated balance sheets.

(5) - Reported within Loss and loss adjustment expense reserves on MBIA s consolidated balance sheets.

(6) - Reported within Derivative liabilities on MBIA s consolidated balance sheets.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $10.5 billion and $9.5 billion, respectively, as of March 31, 2012, and $10.9 billion and $9.9 billion, respectively, as of December 31, 2011. The carrying amounts of assets and liabilities are presented separately in Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities on the Company s consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. No additional VIEs were consolidated or deconsolidated during the three months ended March 31, 2012 and 2011.

Holders of insured obligations of issuer-sponsored VIEs related to the Company s structured finance and international insurance segment do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA. Creditors of the Conduits do not have recourse to the general assets of MBIA apart from the financial guarantee insurance policies provided by MBIA Corp. on insured obligations issued by the Conduits.

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

As of March 31, 2012, the majority of the Company s case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured first-lien and second-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company s insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company s insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and LAE periodically in the same way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation s expected future claim payments were discounted using a rate of 5.59%, the same rate it used to calculate its statutory loss reserves as of March 31, 2012. These credit impairments, calculated in accordance with U.S. STAT, differ from the fair values recorded in the Company s consolidated financial statements. The Company regards its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for information about the Company s monitoring of outstanding insured obligations and for additional information about its loss reserving process. Refer to Note 6: Fair Value of Financial Instruments included herein for additional information about the Company s insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries

The Company s RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of March 31, 2012 for both first-lien and second-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) or liquidated in the future. The Company assumes that such charged-off loans have zero recovery values.

First-lien RMBS Reserves

The Company s first-lien RMBS case basis reserves as of March 31, 2012, which primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure, Real Estate Owned (REO) and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. Roll Rates for loans that are current as of February 29, 2012 (Current Roll to Loss) stay at the February 29, 2012 level for two months before declining to 25% of this level over a 24-month period. Additionally, the Company runs scenarios where the 90+ day roll rate to loss is set at 90%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 29, 2012 to estimate future losses from loans that are delinquent as of the current reporting period.

In calculating ultimate cumulative losses for first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan s delinquency bucket with the latest three-month average loss severities generally used to calculate losses at loan liquidation. The loss severities are reduced over time to account for reduction in the amount of foreclosure inventory, future increases in home prices, and principal amortization of the loan.

Second-lien RMBS Reserves

The Company s second-lien RMBS case basis reserves as of March 31, 2012 relate to RMBS backed by home equity lines of credit (HELOCs) and closed-end second mortgages (CES).

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures, REO and bankruptcies, is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 29, 2012 to estimate future losses from loans that are delinquent as of the current reporting period.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Current Roll to Loss is calculated on a transaction-specific basis. A proportion of loans reported current as of February 29, 2012 is assumed to become delinquent every month, at a Current Roll to Loss rate that persists at a high level for a time and subsequently starts to decline. A key assumption in the model is the period of time in which the Company projects high levels of Current Roll to Loss to persist. In the Company s base case, the Company assumes that the Current Roll to Loss begins to decline immediately and continues to decline over the next six months to 25% of their levels as of February 29, 2012. In the stress case, the period of elevated delinquency and loss is extended by six months. In the additional stress case, the Company assumes that the current trends in losses will remain through mid-2013, after which time they will revert to the base case. For example, in the base case, as of February 29, 2012, if the amount of current loans which become 30-59 days delinquent is 10%, and recent performance suggests that 30% of those loans will be charged-off, the Current Roll to Loss for the transaction is 3%. In the base case, it is then assumed that the Current Roll to Loss will reduce linearly to 25% of its original value over the next six months (i.e., 3% will linearly reduce to 0.75% over the six months from March 2012 to August 2012). After that six-month period, the Company further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to historically low levels of default. In the model, the Company assumes that all current loans that become delinquent are charged-off.

In addition, in the Company s loss reserve models for transactions secured by HELOCs, the Company considers borrower draw and prepayment rates and factors that could affect the excess spread generated by current loans which offsets losses and reduces payments. For HELOCs, the current three-month average draw rate is generally used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional prepayment rate is generally used to start the projection for trends in voluntary principal prepayments. Projected cash flows are also based on an assumed constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and London Interbank Offered Rate (LIBOR) interest rates, minus any applicable fees). For all transactions, cash flow models consider allocations and other structural aspects of the transactions, including managed amortization periods, rapid amortization periods and claims against MBIA Corp. s insurance policy consistent with such policy s terms and conditions. In developing multiple loss scenarios, stress is applied by elongating the Current Roll to Loss rate for various periods, simulating a slower improvement in the transaction performance. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA s general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA s best estimates of how transactions will perform over time.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, given the large percentage of mortgage loans that were not underwritten by the sellers/servicers in accordance with applicable underwriting guidelines, performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels the Company is modeling for six months longer than in the probability-weighted outcome, the addition to the case basis reserves before considering potential recoveries would be approximately $160 million.

Second-lien RMBS Recoveries

As of March 31, 2012, the Company recorded estimated recoveries of $3.2 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible loans, consisting of $2.1 billion included in Insurance loss recoverable and $1.1 billion included in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets. As of March 31, 2012 and December 31, 2011, the Company s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.1 billion and $2.0 billion, respectively, which was 111% and 119% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. These estimated recoveries relate to the Company s put-back claims of ineligible loans, which have been disputed by the loan sellers/servicers and are currently subject to litigation initiated by the Company to pursue recovery. While the Company believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. Such risks are contemplated in the scenarios the Company utilizes to calculate recoveries.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Beginning in 2008, the Company utilized loan level forensic review consultants to re-underwrite/review mortgage loan files underlying certain first-lien and second-lien RMBS transactions insured by MBIA. The consultants graded the individual mortgages that were sampled into an industry standard three level grading scale, defined as (i) Level 1 loans complied with specific underwriting guidelines, (ii) Level 2 loans contained some deviation from underwriting guidelines but also contained sufficient compensating factors and (iii) Level 3 loans contained material deviation from the underwriting guidelines without any compensating factors. MBIA s forensic review consultants utilized the same underwriting guidelines that the originators were to have used to qualify borrowers when originally underwriting the loans and determined that more than 80% of the loans reviewed were considered to be ineligible mortgage loans. The Company has developed estimates of breach rates primarily based upon loans with credit breaches or credit and compliance breaches because the Company believes that loans with these types of breaches are not judgmental and cannot be cured. Breach rates were determined by dividing the number of loans that contained credit and/or credit and compliance breaches by the total number of loans reviewed for a particular transaction.

Legal decisions have led the Company to conclude that the practice of reviewing individual loans for the purpose of assessing put-back recoveries is no longer necessary. The Company determined in the context of the favorable decision on its motion *in limine* addressing the use of sampling to establish breach-of-contract claims in the Countrywide litigation (MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 602825/08 (N.Y. Sup. Ct.)) that a sufficient number of loans in each securitization have already been reviewed to demonstrate widespread breaches of the contractual provisions of the agreements with the sponsors. Furthermore, MBIA has received subsequent opinions which have confirmed that the Company is not limited to a loan-by-loan put-back remedy and can seek a pool-wide remedy based on sampling and extrapolation, as well as decisions in MBIA s favor related to causation and rescissory damages.

The above-referenced developments have led the Company to utilize probability-weighted scenarios primarily based on the percentage of incurred losses the Company would collect as opposed to recoveries based primarily on loan file reviews. The Company s recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios. However, based on the Company s assessment of the strength of its contract claims, the Company believes it is entitled to collect the full amount of its incurred losses on these transactions, which totaled $4.8 billion through March 31, 2012.

The Company has not recognized potential recoveries related to sellers/servicers that MBIA has determined did not have sufficient capital and resources to honor their obligations. The Company s expected recoveries may be discounted in the future based on a review of the creditworthiness of the sellers/servicers. In particular, the Company believes it is now more likely that GMAC Mortgage, LLC and Residential Funding Company, LLC will file for bankruptcy in light of their reported financial condition and public comments made by Ally Financial Inc. In the event of a bankruptcy filing by GMAC Mortgage, LLC and Residential Funding Company, LLC, the Company will re-assess the value of its expected recoveries against GMAC Mortgage, LLC and Residential Funding Company, LLC and may have to substantially reduce the value of such recoveries depending on the Company s assessment of its likely recovery in the bankruptcy proceeding based on the information available in connection with the bankruptcy. At this time the Company cannot reasonably estimate the amount of the change, if any, in the value of the recoveries, which will depend on whether there is a bankruptcy filing and on other facts and circumstances that are unknown at this time. The Company assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company s probability-weighted scenarios. The indicative scenarios and related probabilities assigned to each scenario based on the Company s judgment about their relative likelihoods of being realized are used to develop a distribution of possible outcomes. The sum of the probabilities assigned to all scenarios is 100%. Expected cash inflows from recoveries are discounted using the current risk-free rate associated with the underlying transaction, which ranged from 1.0% to 2.2%, depending upon the transaction s expected average life.

The Company s potential recoveries are typically based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. The second-lien RMBS transactions with respect to which MBIA has estimated put-back recoveries provide the Company with such rights. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company s claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA s right to recovery is no longer considered an offset to future expected claim payments, but is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

To date, sellers/servicers have not substituted loans which MBIA has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA to initiate litigation against five of the sellers/servicers to enforce their obligations. The Company has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA s aggregate $3.2 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA is seeking to recover the full amount of its incurred losses and other damages on these transactions. MBIA has not collected any material amounts of cash related to these recoveries. Additional information on the status of these litigations can be found in the Recovery Litigation discussion within Note 13: Commitments and Contingencies.

MBIA has received five decisions with regard to the respective defendants motions to dismiss the Company s claims. In each instance, the respective court denied the motion, allowing MBIA to proceed on, at minimum, its fraud and breach-of-contract claims. In December 2011, MBIA reached an agreement with one of the five sellers/servicers with whom it had initiated litigation and that litigation has been dismissed.

The Company s assessment of the recovery outlook for insured second-lien RMBS issues is principally based on the following factors:

1. the strength of the Company s existing contract claims related to ineligible loan substitution/repurchase obligations;

2. the settlement for $1.1 billion of Assured Guaranty s put-back related claims with Bank of America in April 2011;

3. the improvement in the financial strength of the sellers/servicers due to mergers and acquisitions and/or government assistance, which should facilitate their ability to comply with required loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit the successors obligations to honor the obligations of the original sponsor. The Company s assessment of any credit risk associated with these sponsors (or their successors) is reflected in the Company s probability-weighted potential recovery scenarios;

4. evidence of loan repurchase/substitution compliance by sellers/servicers for put-back requests made by other harmed parties with respect to ineligible loans; this factor is further enhanced by (i) Bank of America s disclosure that it has resolved $8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010, and (iii) the Company s settlement agreements entered into on July 16, 2010 and December 13, 2011 respectively, between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which the Company received consideration in exchange for a release relating to its representation and warranty claims against the sponsor. These settlements resolved all of MBIA s representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by the Company related to these exposures;

5. the favorable outcome for MBIA on defendants motions to dismiss in the litigations discussed above, where the respective courts allowed MBIA s contract and fraud claims against the defendants to proceed;

6. the favorable outcome in the Countrywide litigation on MBIA s motion to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis;

7. the favorable outcome in the Countrywide litigation denying Bank of America s motion to dismiss MBIA s claims for successor liability as well as a decision from the New York Supreme Court Appellate Division, First Department, which lifted the stay on discovery related to successor liability claims at Bank of America;

8. the favorable outcome in the Countrywide litigation on MBIA s motion regarding causation and MBIA s right to rescissory damages;

9. the unanimous ruling from the New York Supreme Court Appellate Division, First Department, in the Countrywide litigation allowing MBIA to pursue its fraud claims; and

10. loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers to cover such obligations.

The Company continues to consider all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation, new litigation is initiated and/or changes to the financial condition of sellers/servicers occur. While the Company believes it will be successful in realizing recoveries from contractual and other claims, the ultimate amounts recovered may be materially different from those recorded by the Company given the inherent uncertainty of the manner of resolving the claims (e.g., litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

All of the Company s policies insuring second-lien RMBS for which litigation has been initiated against sellers/servicers are in the form of financial guarantee insurance contracts. The Company has not recorded a gain contingency with respect to pending litigation.

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA s insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, CDOs of ABS, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA s insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of March 31, 2012, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 84% of the insured amount as of December 31, 2007.

The Company s ABS CDOs originally benefited from two sources of credit enhancement. First, the subordination in the underlying securities collateralizing the transaction must be fully eroded and second, the subordination below the insured tranche in the CDO transaction must be fully eroded before the insured tranche is subject to a claim. The Company s payment obligations after a default vary by transaction and by insurance type.

The primary factor in estimating reserves on insured ABS CDO policies written as financial guarantees and in estimating impairments on insured ABS CDO credit derivatives is the losses associated with the underlying collateral in the transactions. MBIA s approach to establishing reserves or impairments in this portfolio employs a methodology which is similar to other structured finance asset classes insured by MBIA. The Company uses a total of five probability-weighted scenarios in order to estimate its reserves or impairments for ABS CDOs.

As of March 31, 2012, the Company had loss and LAE reserves totaling $168 million related to ABS CDO financial guarantee insurance policies. For the three months ended March 31, 2012, the Company had a benefit of $2 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a $16 million benefit as a result of consolidating VIEs. In addition, as of March 31, 2012, the Company estimated insured ABS CDO credit derivative impairments and LAE reserves, net of reinsurance and recoveries, totaling $432 million. For the three months ended March 31, 2012, the change in estimated impairments and LAE related to insured ABS CDO credit derivatives were a benefit of $12 million, which was primarily due to agreed upon commutations of credit derivative exposures at less than previously estimated impairments. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase materially.

Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Accounted for as Derivatives)

Most of the structured CMBS pools, CRE CDOs and CRE loan pools insured by MBIA are accounted for as insured credit derivatives and are carried at fair value in the Company s consolidated financial statements. The following discussion provides information about the Company s process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios, plus actual payments and collections. For the three months ended March 31, 2012, additional credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $295 million as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA s assessment of various commutation possibilities. The cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $3.1 billion through March 31, 2012. Although the pace of increases in the delinquency rate has slowed and many loans are being modified, liquidations have taken place. Some loans were liquidated with minimal losses of 1% to 2%, others experienced near complete losses, and in some cases severities exceeded 100%. These liquidations have led to losses in the CMBS market, and in many cases, have resulted in reductions of enhancement to the individual CMBS bonds referenced by the insured structured CMBS pools. In certain insured transactions, these losses have resulted in deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to the Company. However, some of the transactions reference similar rated subordinate tranches of CMBS bonds.

When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance.

In the CRE CDO portfolio, transaction specific structures require managers to report reduced enhancement according to certain guidelines which often include downgrades even when the bond is still performing. As a result, as well as additional collateral defaults, reported enhancement has been reduced significantly in some CRE CDOs. Moreover, many of the CRE CDO positions are amortizing more quickly than originally expected as most or all interest that would have been allocated to more junior classes within the CDO have been diverted and redirected to pay down the senior most classes insured by MBIA.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The Company has developed multiple scenarios to consider the range of potential outcomes in the CRE market and their impact on MBIA. The approaches require substantial judgments about the future performance of the underlying loans, and include the following:

The first approach considers the range of commutation agreements achieved and agreed to since 2010, which included 65 structured CMBS pools, CRE CDOs and CRE loan pool policies totaling $32.9 billion of gross insured exposure. The Company considers the range of commutations achieved over the past several years with multiple counterparties. This approach results in an estimated price to commute the remaining policies with price estimates, based on this experience. It is customized by counterparty and is dependent on the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.

The second approach considers current delinquency rates and uses current and projected net operating income (NOI) and capitalization rates (Cap Rates) to project losses under two scenarios. Loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. These scenarios also assume that Cap Rates and NOIs remain flat for the near term and then begin to improve gradually. Additionally, in these scenarios, any loan with a balance greater than $75 million with a debt service coverage ratio (DSCR) less than 1.0x or that was reported as being in any stage of delinquency, was reviewed individually so that performance and loss severity could be more accurately determined. Specific loan level assumptions for this large loan subset were then incorporated into these scenarios, as well as specific assumptions regarding certain smaller loans when there appeared to be a material change in the asset s financial or delinquency performance over the preceding six months. These scenarios project different levels of additional defaults with respect to loans that are current. This approach relies heavily on year-end financial statements at the property level. In modeling these scenarios, the Company has received financial statements for year-end 2011 for 31% of the properties in the pools and statements from year-end 2010 on another 53% of the properties in the pool.

The third approach stratifies loans into debt service coverage buckets and projects defaults by using probabilities implied by a third-party default study for each bucket and relies on year-end financial statements at the property level. The implied defaults are converted into losses using a loss severity assumption. As the Company continues to see more current market performance statistics regarding modifications and liquidations in this cycle, the Company will continue to de-emphasize this more actuarial-based approach and focus more on those scenarios which best reflect current market observations.

The fourth approach stratifies loans into buckets based on delinquency status (including a current bucket) and utilizes recent Roll Rates actually experienced within each of the commercial mortgage-backed index (CMBX) series in order to formulate an assumption to predict future delinquencies. Ultimately, this generates losses over a projected time horizon based on the assumption that loss severities will begin to decline from the high levels seen in 2010 and 2011. The Company further examines those loans referenced in the CMBX indices which were categorized as 90+ days delinquent or in the process of foreclosure and determined the monthly ratio of such loans which were cured versus those which were liquidated or still delinquent over the past 37 months. The Company then applies the most recent rolling six-month average of this cure ratio to all loans in the 90+ day delinquent bucket or in the foreclosure process (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) and assumes all other loans are liquidated. The Company assumes all loans in the REO category liquidate over the next twelve months.

The fifth approach is based on a proprietary model developed by reviewing performance data on over 80,000 securitized CRE loans originated between 1992 and 2011. The time period covered during the performance review includes the years 2006 through 2011. The Company believes that these five years represent an appropriate time period in which to conduct a performance review because they encompass a period of extreme stress in the economy and the CRE market.

Based on a review of the data, the Company found property type and DSCR to be the most significant determinants of a loan s default probability. Other credit characteristics were less influential. As a result, the Company developed a model in which the loans were divided into 168 representative cohorts based on their DSCR and property type. For each of these cohorts, the Company calculated the average annual probability of default, and then ran Monte Carlo simulations to estimate the timing of defaults. In addition, the model incorporated the following logic:

NOI and Cap Rates were assumed to remain at current levels for loans in the Company s classified portfolio, resulting in no modifications or extensions under the model other than as described in the next bullet point, to reflect the possibility that the U.S. economy and CRE market could experience no growth for the foreseeable future.

Any valuation estimates obtained by special servicers since a loan s origination as well as the Company s individual loan level analysis (which may incorporate additional assumptions regarding modifications and/or extensions in a few select cases) were incorporated as described in the second approach.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The loss severities projected by these scenarios vary widely, from moderate to substantial losses. Actual losses will be a function of the proportion of loans in the pools that are foreclosed and liquidated and the loss severities associated with those liquidations. If the deductibles in the Company s insured transactions and underlying referenced CMBS transactions are fully eroded, additional property level losses upon foreclosures and liquidations could result in substantial losses for MBIA. Since foreclosures and liquidations have only begun to take place during this economic cycle, particularly for larger properties, ultimate loss rates remain uncertain. Whether CMBS collateral is included in a structured pool or in a CRE CDO, the Company believes the modeling related to the underlying bond should be the same. The Company assigns a wide range of probabilities to these scenarios, with lower severity scenarios being weighted more heavily than higher severity scenarios. This reflects the view that liquidations will continue to be mitigated by loan extensions and modifications, and that property values and NOIs have bottomed for many sectors and markets in the U.S. The weightings are customized to each counterparty. If macroeconomic stress were to increase or the U.S. goes into a recession, higher delinquencies, liquidations and/or higher severities of loss upon liquidation may result and the Company may incur substantial additional losses. Relatively little liquidation has taken place to date, so the range of possible outcomes is wider than those for the Company s exposures to ABS CDOs and second-lien RMBS.

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivative)

The Company s financial guarantee insurance losses and LAE for the three months ended March 31, 2012 are presented in the following table:

Losses and LAE

	Three Months Ended March 31, 2012		
In millions	**Second-lien RMBS**	**Other**	**Total**
Losses and LAE related to actual and expected payments	$ 129	$ 18	$ 147
Recoveries of actual and expected payments	(48)	(2)	(50)
Gross losses incurred	81	16	97
Reinsurance	0	0	0
Losses and LAE	$ 81	$ 16	$ 97

The second-lien RMBS losses and LAE related to actual and expected payments included in the preceding table comprise net increases of previously established reserves. The second-lien RMBS recoveries of actual and expected payments comprise $49 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, offset by a $1 million reduction in excess spread.

Current period changes in the Company s estimate of potential recoveries may impact the amount recorded as an insurance loss recoverable asset, the amount of expected recoveries on unpaid losses netted against the gross loss and LAE reserve liability, or both. Total paid losses and LAE, net of reinsurance and collections, for the three months ended March 31, 2012 was $156 million, including $128 million related to insured second-lien RMBS transactions. For the three months ended March 31, 2012, the increase in insurance loss recoverable related to paid losses totaled $91 million, and primarily related to insured second-lien RMBS transactions.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of March 31, 2012:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	54	33	13	204	304
Number of issues[(1)]	31	20	12	132	195
Remaining weighted average contract period (in years)	8.6	4.4	6.6	9.5	8.6
Gross insured contractual payments outstanding[(2)]:					
Principal	$ 3,929	$ 2,005	$ 524	$ 10,281	$ 16,739
Interest	2,752	452	148	5,762	9,114
Total	$ 6,681	$ 2,457	$ 672	$ 16,043	$ 25,853
Gross claim liability	$ -	$ -	$ -	$ 1,782	$ 1,782
Less:					
Gross potential recoveries	-	-	-	3,882	3,882
Discount, net	-	-	-	184	184
Net claim liability (recoverable)	$ -	$ -	$ -	$ (2,284)	$ (2,284)
Unearned premium revenue	$ 149	$ 21	$ 4	$ 129	$ 303

(1) - An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2011:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	54	28	14	200	296
Number of issues[(1)]	32	18	11	130	191

Remaining weighted average contract period (in years)	8.2	5.6	6.0	9.6	8.8
Gross insured contractual payments outstanding(2):					
Principal	$ 4,310	$ 1,213	$ 561	$ 10,420	$ 16,504
Interest	2,653	351	144	5,836	8,984
Total	$ 6,963	$ 1,564	$ 705	$ 16,256	$ 25,488
Gross claim liability	$ -	$ -	$ -	$ 1,812	$ 1,812
Less:					
Gross potential recoveries	-	-	-	3,813	3,813
Discount, net	-	-	-	177	177
Net claim liability (recoverable)	$ -	$ -	$ -	$ (2,178)	$ (2,178)
Unearned premium revenue	$ 155	$ 16	$ 3	$ 134	$ 308

(1) - An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The gross claim liability as of March 31, 2012 and December 31, 2011 in the preceding tables represents the Company s estimate of undiscounted probability-weighted future claim payments, which principally relate to insured first-lien and second-lien RMBS transactions and U.S. public finance transactions. The gross potential recoveries represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments, and principally relate to insured second-lien RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company s loss and LAE reserves and insurance loss recoverable as reported on the Company s consolidated balance sheets as of March 31, 2012 and December 31, 2011 for insured obligations within MBIA s Classified List. The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of March 31, 2012	As of December 31, 2011
Loss reserves (claim liability)	$ 755	$ 781
LAE reserves	112	55
Loss and LAE reserves	$ 867	$ 836
Insurance claim loss recoverable	$ (3,116)	$ (3,032)
LAE insurance loss recoverable	(21)	(14)
Insurance loss recoverable	$ (3,137)	$ (3,046)
Reinsurance recoverable on unpaid losses	$ 14	$ 15
Reinsurance recoverable on LAE reserves	0	0
Reinsurance recoverable on paid losses	1	1
Reinsurance recoverable on paid and unpaid losses	$ 15	$ 16

As of March 31, 2012, loss and LAE reserves include $1.4 billion of reserves for expected future payments offset by expected recoveries of such future payments of $518 million. As of December 31, 2011, loss and LAE reserves included $1.4 billion of reserves for expected future payments offset by expected recoveries of such future payments of $562 million. As of March 31, 2012 and December 31, 2011, the insurance loss recoverable primarily related to estimated recoveries of payments made by the Company resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. The Company expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second quarter of 2013.

The following table presents the Company s second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries, before the elimination of amounts related to consolidated VIEs, as of March 31, 2012. All loan files reviewed with potential recoveries are included within the Classified List.

Second-lien RMBS Exposure		Outstanding		Gross Undiscounted	
		Gross	Gross	Claim	Potential
$ in billions	Issues	Principal	Interest	Liability	Recoveries
Insured issues designated as Classified List	34	$ 7.2	$ 2.7	$ 0.6	$ 4.7
Loan files reviewed with potential recoveries	26	$ 6.7	$ 2.6	$ 0.5	$ 4.6

The Company has performed loan file reviews on 29 of the 34 issues and recorded potential recoveries on 26 of those 29 issues, primarily related to four issuers (Countrywide, RFC, GMAC and Credit Suisse). The gross potential recoveries include estimated recoveries based on the Company s incurred loss to date. In addition, the Company has received consideration on two transactions, including one Alt-A transaction, which has been excluded from the loan files reviewed with potential recoveries in the preceding table.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The following table presents changes in the Company s loss and LAE reserves for the three months ended March 31, 2012. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations. As of March 31, 2012, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 1.73%. LAE reserves are expected to be settled within a one year period and are not discounted.

In millions	Changes in Loss and LAE Reserves for the Three Months Ended March 31, 2012								
Gross Loss and LAE Reserves as of December 31, 2011	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Gross Loss and LAE Reserves as of March 31, 2012
$ 836	$ (114)	$ 3	$ (22)	$ 34	$ (1)	$ 78	$ (4)	$ 57	$ 867

The increase in the Company s gross loss and LAE reserves reflected in the preceding table was primarily due to changes in assumptions and changes in LAE reserves on insured second-lien RMBS issues outstanding as of December 31, 2011. Offsetting these increases were decreases in reserves related to loss payments.

The following table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the three months ended March 31, 2012. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations.

	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Three Months Ended March 31, 2012								
In millions	Gross Reserve as of December 31, 2011	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Changes in LAE Recoveries	Gross Reserve as of March 31, 2012
Insurance loss recoverable	$ 3,046	$ (2)	$ 9	$ (12)	$ -	$ (63)	$ 152	$ 7	$ 3,137
Recoveries on unpaid losses	562	-	2	(15)	-	-	(30)	(1)	518
Total	$ 3,608	$ (2)	$ 11	$ (27)	$ -	$ (63)	$ 122	$ 6	$ 3,655

The Company s insurance loss recoverable increased during 2012 primarily due to changes in assumptions associated with issues outstanding as of December 31, 2011, which related to increases in excess spread and ineligible mortgage loans included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by changes in the amount of collections. Recoveries on unpaid losses decreased primarily due to changes in assumptions as a result of a reduction of excess spread related to first-lien and second-lien RMBS transactions and changes in discount rates.

The following table presents the Company s total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of March 31, 2012. The total estimated recoveries from ineligible loans of $3.2 billion include $2.1 billion recorded as Insurance loss recoverable and $1.1 billion recorded as Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

In millions

Total Estimated Recoveries from Ineligible Loans as of December 31, 2011	**Accretion of Future Collections**	**Changes in Discount Rates**	**Recoveries (Collections)**	**Changes in Amount of Collections**	**Changes in Assumptions**	**Total Estimated Recoveries from Ineligible Loans as of March 31, 2012**
$ 3,119	$ 11	$ (6)	$ -	$ -	$ 44	$ 3,168

The Company s total estimated recoveries from ineligible loans in the preceding table increased primarily as a result of the probability-weighted scenarios as described within the preceding Second-lien RMBS Recoveries section.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation s risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to the Company s Caution List Low, Caution List Medium, Caution List High a Classified List are recorded as LAE. LAE is primarily recorded as part of the Company s provision for its loss reserves and included in Losses and loss adjustment on the Company s consolidated statements of operations. The following table presents the expenses (gross and net of reinsurance) related to remedial actions for insured obligations:

In millions	Three Months Ended March 31, 2012	2011
Loss adjustment expense incurred, gross	$ 75	$ 15
Loss adjustment expense incurred, net	$ 75	$ 15

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on the Company s consolidated balance sheets as of March 31, 2012 and December 31, 2011:

	As of March 31, 2012		As of December 31, 2011	
In millions	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets:				
Investments held as available-for-sale and held at fair value	$ 7,989	$ 7,989	$ 8,586	$ 8,586
Other investments	68	68	107	107
Cash and cash equivalents	711	711	473	473
Receivable for investments sold	98	98	32	32
Derivative assets:				
Insured derivatives	10	10	-	-
Non-insured derivatives	2	2	2	2
Total derivative assets	12	12	2	2
Assets of consolidated VIEs:				
Cash	144	144	160	160
Investments held-to-maturity	3,093	2,871	3,843	3,489
Fixed-maturity securities held as available-for-sale	856	856	432	432
Fixed-maturity securities held as trading	2,883	2,883	2,884	2,884
Loans receivable	2,025	2,025	2,046	2,046
Loan repurchase commitments	1,076	1,076	1,077	1,077
Derivative assets	445	445	450	450
Liabilities:				
Investment agreements	1,576	1,809	1,578	1,853
Medium-term notes	1,692	1,164	1,656	1,187
Securities sold under agreements to repurchase	149	149	287	286
Long-term debt	1,839	1,168	1,840	1,117
Payable for investments purchased	35	35	3	3
Derivative liabilities:				
Insured derivatives	4,513	4,513	4,808	4,808
Non-insured derivatives	317	317	356	356
Total derivative liabilities	4,830	4,830	5,164	5,164
Warrants	22	22	38	38
Liabilities of consolidated VIEs:				
Variable interest entity notes	8,704	8,183	8,697	8,051
Long-term debt	-	-	360	368
Derivative liabilities	803	803	825	825
Financial Guarantees:				
Gross	1,111	1,436	1,305	1,451
Ceded	101	99	104	94

Valuation Techniques

Valuation techniques for financial instruments measured at fair value and included in the preceding table are described below. The Company s assets and liabilities measured at fair value have been categorized according to the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale and Fixed-Maturity Securities Held at Fair Value

U.S. Treasury and government agency U.S. Treasury securities are valued based on quoted market prices in active markets. The fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced (TBA) securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities generally use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Foreign governments Foreign government obligations are generally valued based on quoted market prices in active markets, and are categorized in Level 1 of the fair value hierarchy. When quoted market prices are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. These financial instruments are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3.

Corporate obligations Corporate obligations are valued using recently executed transaction prices or quoted market prices where observable. When observable price quotations are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, CDS spreads for similar instruments, and diversity scores. Corporate obligations are generally categorized in Level 2 of the fair value hierarchy or categorized in Level 3 when significant inputs are unobservable. Corporate obligations are classified as Level 1 of the fair value hierarchy when quoted market prices in an active market for identical financial instruments are available.

Mortgage-backed securities and asset-backed securities MBS and ABS are valued using recently executed transaction prices. When position-specific quoted prices are not available, MBS and ABS are valued based on quoted prices for similar securities. If quoted prices are not available, MBS and ABS are valued using a valuation model based on observable inputs including interest rate yield curves, spreads, prepayments and volatilities, and categorized in Level 2 of the fair value hierarchy. MBS and ABS are categorized in Level 3 of the fair value hierarchy when significant inputs are unobservable.

State and municipal bonds State and municipal bonds are valued using recently executed transaction prices, quoted prices or valuation models based on observable inputs including interest rate yield curves, bond or CDS spreads, and volatility. State and municipal bonds are generally categorized in Level 2 of the fair value hierarchy, or categorized in Level 3 when significant inputs are unobservable.

Investments Held-To-Maturity

The fair values of investments held-to-maturity are determined using recently executed transaction prices or quoted prices when available. When position-specific quoted prices are not available, fair values of investments held-to-maturity are based on quoted prices of similar securities. When quoted prices for similar investments are not available, fair values are based on valuation models using observable inputs including interest rate yield curves, and bond spreads of similar securities.

Other Investments

Other investments are categorized in Level 1, Level 2, or Level 3 of the fair value hierarchy. Other investments include the Company s interest in equity securities. Fair values of other investments are determined by using quoted prices, or valuation models that use observable inputs. For other investments where there are no observable inputs, inputs of similar investments are used in the cash flow modeling to derive a fair value.

Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for investments purchased approximates fair values due to the short-term nature of these instruments.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Loans Receivable at Fair Value

Loans receivable at fair value comprise loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS with similar characteristics and adjusted for the fair values of the financial guarantee obligations provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are consolidated under the amended accounting principles for the consolidation of VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on unobservable inputs including:

- breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;
- recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;
- expectations about possible variations in the timing of collections of the cash flows;
- time value of money, represented by the rate on risk-free monetary assets;
- the price for bearing the uncertainty inherent in the cash flows (risk premium); and
- other case-specific factors that would be considered by market participants.

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company.

Medium-Term Notes

The fair values of MTNs are determined using discounted cash flow techniques based on inputs including observable interest rates currently being offered for similar notes with comparable maturity dates, and nonperformance risk. Nonperformance risk is determined using the Company s own credit spreads.

The Company has elected to record three MTNs at fair value. Fair values of such notes are determined using quoted market prices or discounted cash flow techniques. Significant inputs into the valuation include yield curves and spreads to the swap curve. As these notes are not actively traded, certain significant inputs (e.g., spreads to the swap curve) are unobservable. MTNs are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. When observable quoted prices are not available, fair value is determined based on discounted cash flow techniques of the underlying collateral using observable inputs including interest rate yield curves and bond spreads of similar securities. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Securities Sold Under Agreements to Repurchase

The fair values of securities sold under agreements to repurchase are determined using discounted cash flow techniques based on observable inputs including interest rates on similar repurchase agreements. Securities sold under agreements to repurchase include term reverse repurchase agreements that contain credit enhancement provisions including over-collateralization agreements to sufficiently mitigate the nonperformance risk of the Company.

Long-term Debt

Long-term debt consists of notes, debentures, surplus notes and floating rate liquidity loans. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. The fair value for floating rate liquidity loans are determined using discounted cash flow techniques of the underlying collateral pledged to the specific loans, as these loans are non-recourse and fully backed by a pool of underlying assets.

Derivatives Asset/Liability Products

The asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Fair values of OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company s own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company s exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the asset/liability products and corporate segments. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company s nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

Derivatives Insurance

The derivative contracts insured by MBIA cannot be legally traded and generally do not have observable market prices. MBIA Corp. determines the fair values of insured credit derivatives using valuation models. These models include the Binomial Expansion Technique (BET) Model and an internally developed model referred to as the Direct Price Model. For a limited number of other insured credit derivatives, fair values are determined using a dual-default model. The valuation of insured derivatives includes the impact of its own credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

Description of MBIA s Insured Derivatives

As of March 31, 2012, the Company had $67.4 billion of gross par outstanding on insured derivatives. The majority of MBIA s insured derivatives are credit derivatives that reference structured pools of cash securities and CDS. The Company generally insured the most senior liabilities of such transactions and, at transaction closing, the Company s exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as Super Triple-A exposure). The collateral underlying the Company s insured derivatives consists of cash securities and CDS referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities. As of March 31, 2012, the gross par outstanding of the Company s insured credit derivatives totaled $60.6 billion. The remaining $6.8 billion of gross par outstanding on insured derivatives as of March 31, 2012 primarily related to insured interest rate and inflation-linked swaps for which the Company has insured counterparty credit risk.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

MBIA insures CDS contracts requiring either payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible (deductible) or payments of timely interest and ultimate principal (P&I). MBIA s gross par outstanding and maximum payment obligation under deductible contracts as of March 31, 2012 was $45.9 billion. The underlying referenced collateral for contracts executed in this manner largely consists of investment grade corporate debt, structured CMBS pools and, to a lesser extent, other corporate credit and multi-sector CDOs. MBIA had $14.7 billion of gross par outstanding on insured P&I CDS contracts.

Valuation Models Used

Approximately 79% of the balance sheet fair value of insured credit derivatives as of March 31, 2012 was valued using the BET Model. Approximately 21% of the balance sheet fair value of insured credit derivatives as of March 31, 2012 was valued using the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using the dual-default model.

A. Description of the BET Model

1. Valuation Model Overview

The BET Model was originally developed by Moody s to estimate the loss distribution on a diverse pool of assets. The Company has modified this technique in an effort to incorporate more market information and provide more flexibility in handling pools of non- homogeneous assets. The modifications are (a) the Company uses market credit spreads to determine default probability instead of using historical loss experience, and (b) for collateral pools where the spread distribution is characterized by extremes, the Company models each segment of the pool individually instead of using an overall pool average.

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from the Company at a price equal to what the Company could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into the Company s model, the model estimates such premium, and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, and calculation of the change in value.

- Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under BET Model Inputs below):

  - credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;

  - diversity score of the collateral pool as an indication of correlation of collateral defaults; and recovery rate for all defaulted collateral.

- Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.

- The unrealized gain or loss on a transaction inception-to-date is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

- Default probabilities are determined by three factors: credit spread, recovery rate after default, and the time period under risk.

- Frequencies of defaults are modeled evenly over time.

- Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.

- Collateral asset correlation is modeled using a diversity score which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

2. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market s assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within the Company s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, the Company benchmarks spreads for collateral against market spreads or prices. This data is reviewed on an ongoing basis for reasonableness and applicability to the Company s derivative portfolio. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash security spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences. These factors include CDS spreads driven by speculative activity as the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

Spread Hierarchy:

Collateral-specific credit spreads when observable.

Sector-specific spread tables by asset class and rating.

Corporate spreads, including Bloomberg and Risk Metrics spread tables based on rating.

Benchmark from most relevant market source when corporate spreads are not directly relevant.

If current market-based spreads are not available, the Company applies either sector-specific spreads from spread tables provided by dealers or corporate spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, the Company uses the fourth alternative in its hierarchy. This includes using tranched corporate collateral, where the Company applies corporate spreads as an input with an adjustment for its tranched exposure.

As of March 31, 2012, sector-specific spreads were used in 8% of the transactions valued using the BET Model. Corporate spreads were used in 47% of the transactions and spreads benchmarked from the most relevant spread source were used for 45% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral weighted average rating factor (WARF). No collateral-specific spreads are based on WARF, sector-specific and corporate spreads are based on WARF, and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 78% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company s objective to move to higher levels on the spread hierarchy table defined above. However, the Company may on occasion move to lower priority inputs due to the discontinuation of data sources or due to the Company considering higher priority inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for the Company s senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA s internal modeling of the diversity score is based on Moody s methodology.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

d. Input Adjustments for Insured CMBS Derivatives in the Current Market

Approximately $21.5 billion gross par of MBIA s insured derivative transactions as of March 31, 2012 includes substantial amounts of CMBS and commercial mortgage collateral. Since the CMBX is now quoted in price terms and the BET Model requires a spread input, it is necessary to convert CMBX prices to spreads. Through the third quarter of 2010, the Company assumed that a portion of the CMBX price reflected market illiquidity. The Company assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. The Company assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. The market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate of duration. Beginning in the fourth quarter of 2010, the Company determined that it would not be appropriate to continue to use a CMBS illiquidity component in the models due to increased liquidity in the marketplace.

e. Nonperformance Risk

The Company s valuation methodology for insured credit derivative liabilities incorporates the Company s own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA CDS spreads as of March 31, 2012. The CDS spreads assigned to each deal are based on the weighted average life of the deal. The Company limits the nonperformance impact so that the derivative liability could not be lower than the Company s recovery derivative price multiplied by the unadjusted derivative liability.

B. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model was developed internally to address weaknesses in the Company s BET Model specific to valuing insured multi-sector CDOs, as previously discussed. There are three significant model inputs used in determining fair value using the Direct Price Model. Significant inputs include market prices obtained or estimated for all collateral within a transaction, the present value of the market-implied potential losses calculated for the transaction, and the impact of nonperformance risk.

2. Model Inputs

Collateral prices

Fair value of collateral is based on quoted prices when available. When quoted prices are not available, a matrix pricing grid is used based on security type and rating to determine fair value of collateral which applies an average based on securities with the same rating and security type categories.

Interest rates

The present value of the market-implied potential losses was calculated assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the LIBOR flat swap curve.

Nonperformance risk

The methodology for calculating MBIA s nonperformance risk is the same as used for the BET Model. Due to the current level of MBIA CDS spread rates and the long tenure of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Overall Model Results

As of March 31, 2012 and December 31, 2011, the Company s net insured derivative liability was $4.5 billion and $4.8 billion, respectively, and was primarily related to the fair values of insured credit derivatives, based on the results of the aforementioned pricing models. In the current environment, the most significant driver of changes in fair value is nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $4.4 billion and $5.7 billion lower than the net liability that would have been estimated if the Company excluded nonperformance risk in its valuation as of March 31, 2012 and December 31, 2011, respectively. Nonperformance risk is a fair value concept and does not contradict the Company s internal view, based on fundamental credit analysis of the Company s economic condition, that the Company will be able to pay all claims when due.

The Company reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions are considered, as well as negotiated settlements of existing transactions. MBIA Corp. negotiated settlements of insured CDS transactions in 2011 and 2012. In assessing the reasonableness of the fair value estimate for insured CDS, the Company considered the executed prices for those transactions as well as a review of internal consistency with MBIA s methodology.

Warrants

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividend data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the Assured Guaranty Corp. CDS spread and recovery rate are used as the discount rate for National. Discount rates are adjusted to reflect nonperformance risk of the Company.

The carrying value of MBIA s gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA s consolidated balance sheets.

Ceded Financial Guarantees The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on MBIA s consolidated balance sheets.

Valuation of Financial Instruments

The fair value measurements of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar contracts or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to these variables may produce materially different values.

The fair value pricing of assets and liabilities is a function of many components which include interest rate risk, market risk, liquidity risk and credit risk. For financial instruments that are internally valued by the Company, as well as those for which the Company uses broker quotes or pricing services, credit risk is typically incorporated by using appropriate credit spreads or discount rates as inputs.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

1. Financial Assets

Substantially all of the Company s investments are priced by independent third parties, including pricing services and brokers. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of its investment portfolio as of March 31, 2012 or December 31, 2011. Typically the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. When a price is received from more than one source, the Company uses the lower of the prices provided. The Company reviews the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company believes a third-party quotation differs significantly from its internal value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and the Company still does not agree with the price provided, the Company will try to obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions and compliance with internal control and documentation procedures.

In addition to challenging pricing assumptions, the Company obtains independent auditor reports from significant third-party pricing services regarding their key controls over data provided to the Company. These reports are obtained annually and are reviewed by the Company to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at MBIA to ensure proper measurement of the fair values of its investments. In the event that any controls are identified by independent auditors in these reports as insufficient, the Company will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No significant control deficiencies were noted for significant third-party pricing services used.

2. Financial Liabilities

The Company s financial instruments categorized as liabilities primarily consist of insured derivatives within its insurance operations, derivatives used in its wind-down operations, investment agreements and MTNs within its wind-down operations, and debt issued for general corporate purposes. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. Financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company s or a third-party s estimate of discounted cash flows, or quoted market values for similar transactions.

3. Derivatives

The Company s derivative liabilities are primarily insured credit derivatives that reference structured pools of cash securities and CDSs. The Company generally insured the most senior liabilities of such transactions, and at the inception of transactions its exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The types of collateral underlying its insured derivatives consist of cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities.

The Company s insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume the Company s position in the transaction at the measurement date. This pricing would be based on the expected loss of the exposure. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions are considered, as well as negotiated settlements of existing transactions.

The Company may from time to time make changes in its valuation techniques if the change results in a measurement that it believes is equally or more representative of fair value under current circumstances.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have unobservable inputs deemed significant to the instruments overall fair value. The following table provides quantitative information regarding the significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis as of March 31, 2012. This table excludes inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations provided. These primarily relate to fixed-maturity investments with significant unobservable inputs (Level 3 of the fair value hierarchy).

In millions	Fair Value as of March 31, 2012	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable	$ 2,025	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 114% (7%)
Loan repurchase commitments	1,076	Discounted cash flow	Recovery rates	25% - 75% (71%)
			Breach rates	65% - 94% (76%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	2,864	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 26% (3%)
Credit derivative liabilities, net:				
CMBS	2,183	BET Model	Recovery rates	22% - 90% (50%)
			Nonperformance risk	4% - 57% (49%)
			Weighted average life (in years)	0.2 - 6.4 (4.7)
			CMBS spreads	1% - 23% (12%)
Multi-sector CDO	928	Direct Price Model	Nonperformance risk	57% - 57% (57%)
Other	1,376	BET Model	Recovery rates	42% - 75% (47%)
			Nonperformance risk	10% - 57% (44%)
			Weighted average life (in years)	0.2 - 13.4 (3.1)

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company s assets of consolidated VIEs: loans receivable is the impact of the financial guarantee. As the perception of the benefit provided by the Company to the obligations issued by the VIE improves, the credit support of the financial guarantee provides more of the expected future cash flow of the VIE, and there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company s assets of consolidated VIEs: loan repurchase commitments are the recovery rates and the breach rates. Significant increases or decreases in the recovery rate and the breach rate would result in significantly higher or lower, respectively, fair values of the loan repurchase commitments. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumption, which could significantly impact the fair value measurement. Breach rates are determined by the Company. Any significant challenges by the counterparties to the Company s determination of breach of contracts could significantly adversely impact the fair value measurement.

The significant unobservable input used in the fair value measurement of the Company s liabilities of consolidated VIEs: variable interest entity notes is the impact of the financial guarantee. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of the Company s CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. A significant increase or decrease in CMBS spreads or weighted average life would result in an increase or decrease, respectively, in the fair value of the derivative liabilities. Any significant increase or decrease in recovery rates or the Company s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities.

The significant unobservable input used in the fair value measurement of the Company s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. Any significant increase or decrease in the Company s nonperformance risk would result in a decrease or increase, respectively, in the fair value of the derivative liabilities.

The significant unobservable inputs used in the fair value measurement of the Company s other credit derivatives, which are valued using the BET model, are recovery rates, nonperformance risk and weighted average life. Any significant increase or decrease in weighted average life would result in an increase or decrease, respectively, in the fair value of the derivatives. Any significant increase or decrease in recovery rates or the Company s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following fair value hierarchy tables present information about the Company s assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of March 31, 2012
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 888	$ 197	$ -	$ -	$ 1,085
Foreign governments	263	94	12[(1)]	-	369
Corporate obligations	-	1,487	185[(1)]	-	1,672
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,201	9[(1)]	-	1,210
Residential mortgage-backed non-agency	-	219	14[(1)]	-	233
Commercial mortgage-backed	-	27	25[(1)]	-	52
Asset-backed securities:					
Collateralized debt obligations	-	71	35[(1)]	-	106
Other asset-backed	-	118	115[(1)]	-	233
State and municipal bonds	-	952	-	-	952
Total taxable bonds	1,151	4,366	395	-	5,912
Tax exempt bonds:					
State and municipal bonds	-	1,053	27[(1)]	-	1,080
Other fixed-maturity investments	-	13	-	-	13
Total fixed-maturity investments	1,151	5,432	422	-	7,005
Money market securities	953	-	-	-	953
Perpetual preferred securities	-	49	-	-	49
Other	29	-	10[(1)]	-	39
Total	2,133	5,481	432	-	8,046
Derivative assets:					
Insured derivative assets:					
Credit derivatives	-	-	10	-	10
Non-insured derivative assets:					
Interest rate derivatives	-	74	4[(1)]	-	78
Other	-	-	-	(76)	(76)

Total derivative assets	-	74	14	(76)	12

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of March 31, 2012**
Assets of consolidated VIEs:					
Corporate obligations	-	165	75(1)	-	240
Mortgage-backed securities:					
Residential mortgage-backed agency	-	3	-	-	3
Residential mortgage-backed non-agency	-	1,444	25(1)	-	1,469
Commercial mortgage-backed	-	559	15(1)	-	574
Asset-backed securities:					
Collateralized debt obligations	-	331	218(1)	-	549
Other asset-backed	-	211	71(1)	-	282
Total fixed-maturity securities at fair value	-	2,713	404	-	3,117
Money market securities	622	-	-	-	622
Loans receivable	-	-	2,025	-	2,025
Loan repurchase commitments	-	-	1,076	-	1,076
Derivative assets:					
Credit derivatives	-	-	443(1)	-	443
Interest rate derivatives	-	2	-	-	2
Total assets	$ 2,755	$ 8,270	$ 4,394	$ (76)	$ 15,343
Liabilities:					
Medium-term notes	$ -	$ -	$174(1)	$ -	$ 174
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	16	4,497	-	4,513
Non-insured derivatives:					
Interest rate derivatives	-	390	-	-	390
Currency derivatives	-	3	-	-	3
Other	-	-	-	(76)	(76)
Other liabilities:					
Warrants	-	22	-	-	22
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,897	2,864	-	4,761
Derivative liabilities:					
Credit derivatives	-	-	525(1)	-	525
Interest rate derivatives	-	259	-	-	259
Currency derivatives	-	-	19(1)	-	19
Total liabilities	$ -	$ 2,587	$ 8,079	$ (76)	$ 10,590

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2011
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,038	$ 103	$ -	$ -	$ 1,141
Foreign governments	277	62	11	-	350
Corporate obligations	1	1,531	206	-	1,738
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,276	8	-	1,284
Residential mortgage-backed non-agency	-	350	17	-	367
Commercial mortgage-backed	-	34	24	-	58
Asset-backed securities:					
Collateralized debt obligations	-	78	60	-	138
Other asset-backed	-	130	318	-	448
State and municipal bonds	-	924	-	-	924
Total taxable bonds	1,316	4,488	644	-	6,448
Tax exempt bonds:					
State and municipal bonds	-	1,137	28	-	1,165
Other fixed-maturity investments	-	15	-	-	15
Total fixed-maturity investments	1,316	5,640	672	-	7,628
Money market securities	912	-	-	-	912
Perpetual preferred securities	-	106	1	-	107
Other	25	-	10	-	35
Total	2,253	5,746	683	-	8,682
Derivative assets:					
Non-insured derivative assets:					
Credit derivatives	-	1	-	-	1
Interest rate derivatives	-	91	3	-	94
Other	-	-	-	(93)	(93)
Total derivative assets	-	92	3	(93)	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2011**
Assets of consolidated VIEs:					
Corporate obligations	-	170	69	-	239
Mortgage-backed securities:					
Residential mortgage-backed agency	-	3	-	-	3
Residential mortgage-backed non-agency	-	1,437	21	-	1,458
Commercial mortgage-backed	-	559	22	-	581
Asset-backed securities:					
Collateralized debt obligations	-	330	203	-	533
Other asset-backed	-	236	67	-	303
Total fixed-maturity securities at fair value	-	2,735	382	-	3,117
Money market securities	199	-	-	-	199
Loans receivable	-	-	2,046	-	2,046
Loan repurchase commitments	-	-	1,077	-	1,077
Derivative assets:					
Credit derivatives	-	-	447	-	447
Interest rate derivatives	-	3	-	-	3
Total assets	$ 2,452	$ 8,576	$ 4,638	$ (93)	$ 15,573
Liabilities:					
Medium-term notes	$ -	$ -	$ 165	$ -	$ 165
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	18	4,790	-	4,808
Non-insured derivatives:					
Interest rate derivatives	-	445	-	-	445
Currency derivatives	-	4	-	-	4
Other	-	-	-	(93)	(93)
Other liabilities:					
Warrants	-	38	-	-	38
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,865	2,889	-	4,754
Derivative liabilities:					
Credit derivatives	-	-	527	-	527
Interest rate derivatives	-	281	-	-	281
Currency derivatives	-	-	17	-	17
Total liabilities	$ -	$ 2,651	$ 8,388	$ (93)	$ 10,946

Level 3 assets at fair value, as of March 31, 2012 and December 31, 2011 represented approximately 29% and 30% of total assets measured at fair value, respectively. Level 3 liabilities at fair value, as of March 31, 2012 and December 31, 2011, represented approximately 76% and 77% of total liabilities measured at fair value, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following fair value hierarchy table presents information about the Company s assets and liabilities that are disclosed at fair value but not recorded at fair value on the Company s consolidated balance sheet as of March 31, 2012:

	Fair Value Measurements at Reporting Date Using			
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of March 31, 2012**
Assets:				
Other investments	$ -	$ 11	$ -	$ 11
Receivable for investments sold	98	-	-	98
Assets of consolidated VIEs:				
Investments held-to-maturity	-	-	2,871	2,871
Total assets	98	11	2,871	2,980
Liabilities:				
Investment agreements	-	-	1,809	1,809
Medium-term notes	-	-	990	990
Securities sold under agreements to repurchase	-	149	-	149
Long-term debt	-	1,168	-	1,168
Payable for investments purchased	35	-	-	35
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	-	3,422	3,422
Total liabilities	35	1,317	6,221	7,573
Financial Guarantees:				
Gross	-	-	1,436	1,436
Ceded	-	-	99	99

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2012 and 2011:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2012

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of March 31, 2012
Assets:													
Foreign governments	$ 11	$ -	$ -	$ -	$ 1	$ 6	$ -	$ (6)	$ -	$ -	$ -	$ 12	$ -
Corporate obligations	206	(13)	-	17	-	-	-	(1)	(24)	-	-	185	-
Residential mortgage-backed agency	8	-	-	1	-	-	-	-	-	-	-	9	-
Residential mortgage-backed non-agency	17	-	-	1	-	-	-	(1)	-	-	(3)	14	-
Commercial mortgage-backed	24	-	-	2	-	-	-	-	-	-	(1)	25	-
Collateralized debt obligations	60	(3)	-	6	-	-	-	(5)	(2)	6	(27)	35	-
Other asset-backed	318	(116)	-	121	-	1	-	(7)	(202)	2	(2)	115	-
State and municipal tax-exempt bonds	28	-	-	-	-	-	-	(1)	-	-	-	27	-
Perpetual preferred securities	1	-	-	1	-	-	-	-	-	-	(2)	-	-
Other investments	10	-	-	-	-	-	-	-	-	-	-	10	-
Assets of consolidated VIEs:													
Corporate obligations	69	-	1	-	-	-	-	(1)	-	6	-	75	2
Residential mortgage-backed non-agency	21	-	5	-	-	-	-	(2)	-	2	(1)	25	4
Commercial mortgage-backed	22	-	1	-	-	-	-	(2)	-	-	(6)	15	-
Collateralized debt obligations	203	-	3	1	-	-	-	-	-	11	-	218	2
Other asset-backed	67	-	3	-	-	-	-	-	-	1	-	71	3
Loans receivable	2,046	-	39	-	-	-	-	(60)	-	-	-	2,025	39
Loan repurchase commitments	1,077	-	(1)	-	-	-	-	-	-	-	-	1,076	(1)
Total assets	$ 4,188	$ (132)	$ 51	$ 150	$ 1	$ 7	$ -	$ (86)	$ (228)	$ 28	$ (42)	$ 3,937	$ 49

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 [(1)]	Transfers out of Level 3 [(1)]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2012
Liabilities:													
Medium-term notes	$ 165	$ -	$ 5	$ -	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ 174	$ 5
Credit derivatives, net	4,790	20	(303)	-	-	-	-	(20)	-	-	-	4,487	(286)
Interest rate derivatives, net	(3)	-	(1)	-	-	-	-	-	-	-	-	(4)	7
Liabilities of consolidated VIEs:													
VIE notes	2,889	-	158	-	-	-	-	(183)	-	-	-	2,864	158
Credit derivatives, net	80	-	2	-	-	-	-	-	-	-	-	82	2
Currency derivatives, net	17	-	2	-	-	-	-	-	-	-	-	19	2
Total liabilities	$ 7,938	$ 20	$ (137)	$ -	$ 4	$ -	$ -	$ (203)	$ -	$ -	$ -	$ 7,622	$ (112)

(1) - Transferred in and out at the end of the period.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2011

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of March 31, 2011
Assets:													
Foreign governments	$ 11	$ -	$ -	$ -	$ -	$ 3	$ -	$ (2)	$ -	$ 7	$ -	$ 19	$ -
Corporate obligations	246	-	-	7	2	10	-	(32)	(12)	6	(16)	211	-
Residential mortgage-backed agency	41	-	-	1	-	1	-	(1)	(1)	-	(41)	-	-
Residential mortgage-backed non-agency	48	-	-	5	-	7	-	(5)	(1)	5	(16)	43	-
Commercial mortgage-backed	41	-	-	2	1	8	-	-	-	-	(1)	51	-
Collateralized debt obligations	191	(1)	-	20	-	2	-	(29)	(1)	2	(61)	123	-
Other asset-backed	350	-	-	8	-	1	-	(9)	(1)	2	(28)	323	-
State and municipal taxable bonds	14	-	-	(2)	-	-	-	-	-	-	-	12	-
State and municipal tax-exempt bonds	36	-	-	-	-	-	-	(2)	-	-	-	34	-
Assets of consolidated VIEs:													
Corporate obligations	82	-	-	-	-	-	-	(2)	-	4	-	84	-
Residential mortgage-backed non-agency	40	-	(2)	3	-	-	-	(3)	-	-	(20)	18	1
Commercial mortgage-backed	23	-	6	-	-	-	-	-	-	-	-	29	7
Collateralized debt obligations	245	-	16	-	-	-	-	(2)	-	14	(54)	219	16
Other asset-backed	81	-	(2)	-	-	-	-	(1)	-	1	-	79	(2)
Loans receivable	2,183	-	228	-	-	-	-	(84)	-	-	-	2,327	228
Loan repurchase commitments	835	-	20	-	-	-	12	-	-	-	-	867	20
Total assets	$ 4,467	$ (1)	$ 266	$ 44	$ 3	$ 32	$ 12	$ (172)	$ (16)	$ 41	$ (237)	$ 4,439	$ 270

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2011
Liabilities:													
Medium-term notes	$ 116	$ -	$ 39	$ -	$ 8	$ -	$ -	$ -	$ -	$ -	$ -	$ 163	$ 39
Credit derivatives, net	4,350	386	1,421	-	-	-	-	(386)	-	-	-	5,771	1,580
Interest rate derivatives, net	(5)	-	1	-	-	-	-	-	-	-	-	(4)	1
Liabilities of consolidated VIEs:													
VIE notes	4,673	-	421	-	-	-	-	(141)	-	-	-	4,953	421
Credit derivatives, net	768	-	158	-	-	-	-	-	-	-	-	926	158
Currency derivatives, net	14	-	(2)	-	-	-	-	-	-	-	-	12	(2)
Total liabilities	$ 9,916	$ 386	$ 2,038	$ -	$ 8	$ -	$ -	$ (527)	$ -	$ -	$ -	$ 11,821	$ 2,197

(1) - Transferred in and out at the end of the period.

Transfers into and out of Level 3 were $28 million and $42 million, respectively, for the three months ended March 31, 2012. Transfers into and out of Level 2 were $42 million and $28 million, respectively, for the three months ended March 31, 2012. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, CDOs and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1. For the three months ended March 31, 2012, net unrealized losses on securities transferred into Level 3 were $10 million and net unrealized losses on securities transferred out of Level 3 were $3 million.

Transfers into and out of Level 3 were $41 million and $237 million, respectively, for the three months ended March 31, 2011. Transfers into and out of Level 2 were $237 million and $41 million, respectively, for the three months ended March 31, 2011. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, corporate obligations, RMBS non-agency and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1. For the three months ended March 31, 2011, net unrealized losses on securities transferred into Level 3 were $1 million and net unrealized losses on securities transferred out of Level 3 were $1 million.

All Level 1, 2 and 3 designations are made at the end of each accounting period.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the three months ended March 31, 2012 and 2011 are reported on the consolidated statements of operations as follows:

	March 31, 2012			Consolidated VIEs	
In millions	**Unrealized Gains (Losses) on Insured Derivatives**	**Net Realized Gains (Losses)**	**Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange**	**Net Realized Gains (Losses)**	**Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange**
Total gains (losses) included in earnings	$ 303	$ (152)	$ (4)	$ -	$ (111)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of March 31, 2012	$ 286	$ -	$ (12)	$ -	$ (113)

	March 31, 2011			Consolidated VIEs	
In millions	**Unrealized Gains (Losses) on Insured Derivatives**	**Net Realized Gains (Losses)**	**Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange**	**Net Realized Gains (Losses)**	**Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange**
Total gains (losses) included in earnings	$ (1,421)	$ (387)	$ (48)	$ -	$ (311)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of March 31, 2011	$ (1,580)	$ -	$ (48)	$ -	$ (307)

Fair Value Option

The Company elected to record at fair value certain financial instruments of the VIEs that have been consolidated in connection with the adoption of the accounting guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value included in the Company s consolidated statements of operations for the three months ended March 31, 2012 and 2011 for all financial instruments for which the fair value option was elected:

Net Gains (Losses) on Financial Instruments at Fair Value and

In millions	Foreign Exchange Three Months Ended March 31, 2012	2011
Fixed-maturity securities held at fair value	$ (1)	$ 213
Loans receivable at fair value:		
Residential mortgage loans	18	101
Other loans	(39)	43
Loan repurchase commitments	-	32
Other assets	-	(40)
Long-term debt	(7)	(367)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2012 and December 31, 2011 for loans and variable interest entity notes for which the fair value option was elected:

	As of March 31, 2012			As of December 31, 2011		
In millions	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 2,659	$ 1,850	$ 809	$ 2,769	$ 1,895	$ 874
Residential mortgage loans (90 days or more past due)	274	63	211	259	-	259
Other loans	138	46	92	129	43	86
Other loans (90 days or more past due)	201	66	135	324	108	216
Total loans receivable at fair value	$ 3,272	$ 2,025	$ 1,247	$ 3,481	$ 2,046	$ 1,435
Variable interest entity notes	$ 13,361	$ 4,761	$ 8,600	$ 13,583	$ 4,754	$ 8,829

Substantially all gains and losses included in earnings during the three months ended March 31, 2012 on loans receivable and variable interest entity notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the variable interest entity notes, resulting in depressed pricing of the financial instruments.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments

The Company s fixed-maturity portfolio consists of high-quality (average rating Aa) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method, highly rated perpetual securities and loan receivables that bear interest.

The following tables present the amortized cost, fair value and other-than-temporary impairments of fixed-maturity investments and other investments designated as available-for-sale in the consolidated investment portfolio of the Company as of March 31, 2012 and December 31, 2011:

	March 31, 2012				
In millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Other-Than-Temporary Impairments[1]**
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,039	$ 30	$ (4)	$ 1,065	$ -
Foreign governments	344	23	-	367	-
Corporate obligations	1,558	45	(37)	1,566	(2)
Mortgage-backed securities:					
Residential mortgage-backed agency	1,126	47	-	1,173	-
Residential mortgage-backed non-agency	267	13	(65)	215	(119)
Commercial mortgage-backed	51	-	(7)	44	-
Asset-backed securities:					
Collateralized debt obligations	200	-	(94)	106	(59)
Other asset-backed	243	2	(19)	226	-
State and municipal bonds	924	46	(20)	950	-
Total taxable bonds	5,752	206	(246)	5,712	(180)
Tax-exempt bonds:					
State and municipal bonds	1,035	46	(1)	1,080	-
Total fixed-maturity investments	6,787	252	(247)	6,792	(180)
Other investments:					
Perpetual preferred securities	49	-	-	49	-
Other investments	19	2	-	21	-
Money market securities	951	-	-	951	-
Total other investments	1,019	2	-	1,021	-
Assets of consolidated VIEs:					
Corporate obligations	2	-	-	2	-
Mortgage-backed securities:					
Residential mortgage-backed non-agency	114	-	(19)	95	-
Asset-backed securities:					
Collateralized debt obligations	112	-	(12)	100	-
Other asset-backed	36	1	-	37	-
Other investments:					
Money market securities	622	-	-	622	-

Total available-for-sale investments	$ 8,692	$ 255	$ (278)	$ 8,669	$ (180)

(1) - Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments[1]
			December 31, 2011		
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,091	$ 39	$ -	$ 1,130	$ -
Foreign governments	326	23	-	349	-
Corporate obligations	1,698	43	(106)	1,635	(2)
Mortgage-backed securities:					
Residential mortgage-backed agency	1,198	47	-	1,245	-
Residential mortgage-backed non-agency	325	31	(83)	273	(125)
Commercial mortgage-backed	58	1	(10)	49	-
Asset-backed securities:					
Collateralized debt obligations	251	-	(118)	133	(69)
Other asset-backed	520	2	(82)	440	(37)
State and municipal bonds	903	35	(17)	921	-
Total taxable bonds	6,370	221	(416)	6,175	(233)
Tax-exempt bonds:					
State and municipal bonds	1,122	41	(2)	1,161	-
Total fixed-maturity investments	7,492	262	(418)	7,336	(233)
Other investments:					
Perpetual preferred securities	127	-	(19)	108	-
Other investments	22	1	-	23	-
Money market securities	911	-	-	911	-
Total other investments	1,060	1	(19)	1,042	-
Assets of consolidated VIEs:					
Corporate obligations	2	-	-	2	-
Mortgage-backed securities:					
Residential mortgage-backed non-agency	119	-	(26)	93	-
Asset-backed securities:					
Collateralized debt obligations	112	-	(15)	97	-
Other asset-backed	41	-	-	41	-
Other investments:					
Money market securities	199	-	-	199	-
Total available-for-sale investments	$ 9,025	$ 263	$ (478)	$ 8,810	$ (233)

(1) - Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

The fair value of securities on deposit with various regulatory authorities was $11 million as of March 31, 2012 and December 31, 2011. These deposits are required to comply with state insurance laws.

Substantially all of the obligations under investment agreements require the Company to pledge securities as collateral. As of March 31, 2012 and December 31, 2011, the fair value of securities pledged as collateral with respect to these investment agreements approximated $1.6 billion and $1.9 billion, respectively. The Company s collateral as of March 31, 2012, consisted principally of MBS, state and municipal bonds, and U.S. Treasury and government agency bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of $487 million and $224 million as of March 31, 2012 and December 31, 2011, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of March 31, 2012. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

			Consolidated VIEs	
In millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 842	$ 844	$ -	$ -
Due after one year through five years	1,131	1,166	2	2
Due after five years through ten years	719	746	-	-
Due after ten years through fifteen years	572	590	-	-
Due after fifteen years	1,636	1,682	-	-
Mortgage-backed	1,444	1,432	114	95
Asset-backed	443	332	148	137
Total fixed-maturity investments	$ 6,787	$ 6,792	$ 264	$ 234

Investments that are held-to-maturity are reported on the Company s consolidated balance sheets at amortized cost. These investments, which primarily relate to the Company s consolidated VIEs, principally consist of ABS and loans issued by major national and international corporations and other structured finance clients. As of March 31, 2012, unrecognized gross gains were immaterial and unrecognized gross losses were $222 million. As of December 31, 2011, unrecognized gross gains were $17 million and unrecognized gross losses were $371 million. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost and fair value as of March 31, 2012:

			Consolidated VIEs	
In millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years(1)	1	1	-	-
Due after five years through ten years	-	-	-	-
Due after ten years through fifteen years	-	-	-	-
Due after fifteen years	-	-	-	-
Mortgage-backed	-	-	-	-
Asset-backed	-	-	3,093	2,871
Total held-to-maturity investments	$ 1	$ 1	$ 3,093	$ 2,871

(1) - Relates to tax credit investments reported in Other investments on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of March 31, 2012 and December 31, 2011 related to available-for-sale fixed-maturity and other investments. These tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	March 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 587	$ (4)	$ -	$ -	$ 587	$ (4)
Foreign governments	22	-	1	-	23	-
Corporate obligations	300	(9)	195	(28)	495	(37)
Mortgage-backed securities:						
Residential mortgage-backed agency	13	-	46	-	59	-
Residential mortgage-backed non-agency	22	(4)	148	(61)	170	(65)
Commercial mortgage-backed	12	-	24	(7)	36	(7)
Asset-backed securities:						
Collateralized debt obligations	8	-	93	(94)	101	(94)
Other asset-backed	6	-	124	(19)	130	(19)
State and municipal bonds	145	(4)	70	(16)	215	(20)
Total taxable bonds	1,115	(21)	701	(225)	1,816	(246)
Tax-exempt bonds:						
State and municipal bonds	13	-	24	(1)	37	(1)
Total fixed-maturity investments	1,128	(21)	725	(226)	1,853	(247)
Other investments:						
Perpetual preferred securities	45	-	-	-	45	-
Total other investments	45	-	-	-	45	-
Assets of consolidated VIEs:						
Mortgage-backed securities:						
Residential mortgage-backed non-agency	3	-	92	(19)	95	(19)
Asset-backed securities:						
Collateralized debt obligations	9	-	90	(12)	99	(12)
Total	$ 1,185	$ (21)	$ 907	$ (257)	$ 2,092	$ (278)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 200	$ -	$ -	$ -	$ 200	$ -
Foreign governments	20	-	-	-	20	-
Corporate obligations	297	(15)	418	(91)	715	(106)
Mortgage-backed securities:						
Residential mortgage-backed agency	20	-	49	-	69	-
Residential mortgage-backed non-agency	34	(5)	167	(78)	201	(83)
Commercial mortgage-backed	17	(2)	22	(8)	39	(10)
Asset-backed securities:						
Collateralized debt obligations	13	(2)	117	(116)	130	(118)
Other asset-backed	53	(7)	328	(75)	381	(82)
State and municipal bonds	152	(2)	76	(15)	228	(17)
Total taxable bonds	806	(33)	1,177	(383)	1,983	(416)
Tax-exempt bonds:						
State and municipal bonds	14	-	75	(2)	89	(2)