MBIA INC
Form 10-Q
May 10, 2011
Table of Contents

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 quarter ended March 31, 2011

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, 2011, 199,779,431 shares of Common Stock, par value $1 per share, were outstanding.

Table of Contents

		PAGE
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements MBIA Inc. and Subsidiaries (Unaudited)	
	Consolidated Balance Sheets March 31, 2011 and December 31, 2010 (Unaudited)	1
	Consolidated Statements of Operations Three months ended March 31, 2011 and 2010 (Unaudited)	2
	Consolidated Statement of Changes in Shareholders Equity Three months ended March 31, 2011 (Unaudited)	3
	Consolidated Statements of Cash Flows Three months ended March 31, 2011 and 2010 (Unaudited)	4
	Notes to Consolidated Financial Statements (Unaudited)	5-77
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	78-130
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	130
Item 4.	Controls and Procedures	130
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	131-137
Item 1A.	Risk Factors	138
Item 1B.	Unresolved Staff Comments	138
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	138
Item 3.	Defaults Upon Senior Securities	138
Item 4.	(Removed and Reserved)	138
Item 5.	Other Information	139
Item 6.	Exhibits	140
SIGNATURES		141

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands except share and per share amounts)

	March 31, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $8,775,689 and $9,597,732)	$ 8,285,128	$ 9,020,928
Fixed-maturity securities at fair value	28,984	25,041
Investments pledged as collateral, at fair value (amortized cost $514,476 and $547,800)	524,666	551,688
Short-term investments held as available-for-sale, at fair value (amortized cost $2,272,151 and $2,072,955)	2,251,532	2,070,320
Other investments (includes investments at fair value of $248,199 and $256,820)	250,213	258,981
Total	11,340,523	11,926,958
Cash and cash equivalents	277,283	365,841
Accrued investment income	94,104	95,320
Premiums receivable	1,569,851	1,589,005
Deferred acquisition costs	396,717	412,001
Prepaid reinsurance premiums	94,731	97,270
Insurance loss recoverable	2,637,589	2,531,494
Reinsurance recoverable on paid and unpaid losses	15,259	15,111
Goodwill	31,371	31,371
Property and equipment, at cost (less accumulated depreciation of $134,311 and $135,127)	70,814	71,385
Receivable for investments sold	60,769	7,948
Derivative assets	2,257	3,780
Current income taxes	-	41,388
Deferred income taxes, net	1,292,699	907,531
Other assets	46,743	45,195
Assets of consolidated variable interest entities:		
Cash	710,209	763,891
Investments held-to-maturity, at amortized cost (fair value $3,783,866 and $3,908,991)	3,995,418	4,187,644
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $324,775 and $188,937)	326,281	189,554
Fixed-maturity securities at fair value	5,453,580	5,240,742
Loans receivable at fair value	2,327,126	2,183,364
Loan repurchase commitments	866,572	835,047
Derivative assets	524,539	699,072
Other assets	38,627	38,099
Total assets	**$ 32,173,062**	**$ 32,279,011**
Liabilities and Equity		

Liabilities:				
Unearned premium revenue	$	4,033,328	$	4,145,234
Loss and loss adjustment expense reserves		1,009,971		1,129,358
Reinsurance premiums payable		69,288		71,151
Investment agreements		1,911,393		2,005,326
Medium-term notes (includes financial instruments carried at fair value $162,949 and $116,310)		1,704,079		1,739,507
Securities sold under agreements to repurchase		470,444		470,570
Short-term debt		-		64,768
Long-term debt		1,844,255		1,850,532
Current income taxes		6,362		-
Deferred fee revenue		9,824		9,995
Payable for investments purchased		36,977		2,173
Derivative liabilities		5,926,690		4,616,509
Other liabilities		205,812		272,391
Liabilities of consolidated variable interest entities:				
Variable interest entity notes (includes financial instruments carried at fair value $6,989,037 and $6,679,982)		10,899,079		10,589,989
Long-term debt		360,000		360,000
Derivative liabilities		1,910,065		2,104,242
Other liabilities		2,687		968
Total liabilities		**30,400,254**		**29,432,713**
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 274,843,555 and 274,719,578		274,844		274,720
Additional paid-in capital		3,063,717		3,063,914
Retained earnings		986,806		2,123,566
Accumulated other comprehensive loss, net of deferred tax of $193,844 and $228,845		(340,781)		(405,484)
Treasury stock, at cost 75,072,525 and 74,973,978 shares		(2,225,496)		(2,224,577)
Total shareholders equity of MBIA Inc.		1,759,090		2,832,139
Preferred stock of subsidiary		13,718		14,159
Total equity		**1,772,808**		**2,846,298**
Total liabilities and equity	**$**	**32,173,062**	**$**	**32,279,011**

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

1

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands except share and per share amounts)

	Three Months Ended March 31, 2011	2010
Revenues:		
Premiums earned:		
Scheduled premiums earned	$ 127,755	$ 132,302
Refunding premiums earned	9,443	24,515
Premiums earned (net of ceded premiums of $3,074 and $8,967)	137,198	156,817
Net investment income	114,331	121,924
Fees and reimbursements	13,951	121,979
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	(354,391)	(34,130)
Unrealized gains (losses) on insured derivatives	(1,323,005)	(2,211,425)
Net change in fair value of insured derivatives	(1,677,396)	(2,245,555)
Net gains (losses) on financial instruments at fair value and foreign exchange	(23,528)	(45,806)
Investment losses related to other-than-temporary impairments:		
Investment losses related to other-than-temporary impairments	(7,555)	(165,410)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	(5,793)	135,678
Net investment losses related to other-than-temporary impairments	(13,348)	(29,732)
Net gains (losses) on extinguishment of debt	25,891	(2)
Other net realized gains (losses)	4,610	145
Revenues of consolidated variable interest entities:		
Net investment income	16,959	15,170
Net gains (losses) on financial instruments at fair value and foreign exchange	1,064	122,935
Other net realized gains (losses)	-	(74,244)
Total revenues	(1,400,268)	(1,856,369)
Expenses:		
Losses and loss adjustment	(36,153)	214,399
Amortization of deferred acquisition costs	16,512	22,748
Operating	75,232	62,498
Interest	74,896	84,326
Expenses of consolidated variable interest entities:		
Operating	9,709	5,423
Interest	15,333	13,663
Total expenses	155,529	403,057
Income (loss) before income taxes	(1,555,797)	(2,259,426)
Provision (benefit) for income taxes	(419,037)	(779,190)
Net income (loss)	**$ (1,136,760)**	**$ (1,480,236)**

Net income (loss) per common share:

Basic	$	(5.68)	$	(7.22)
Diluted	$	(5.68)	$	(7.22)
Weighted average number of common shares outstanding:				
Basic		199,972,759		204,938,455
Diluted		199,972,759		204,938,455

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

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2011

(In thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary	
	Shares	Amount				Shares	Amount		Shares	Amount
Balance, December 31, 2010	**274,719,578**	**$ 274,720**	**$ 3,063,914**	**$ 2,123,566**	**$ (405,484)**	**(74,973,978)**	**$ (2,224,577)**	**$ 2,832,139**	**1,426**	**$ 14,159**
Comprehensive income (loss):										
Net income (loss)	-	-	-	(1,136,760)	-	-	-	(1,136,760)	-	-
Other comprehensive income (loss):										
Change in unrealized gains and losses on investments net of tax of $25,339	-	-	-	-	88,894	-	-	88,894	-	-
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of $4,787	-	-	-	-	8,891	-	-	8,891	-	-
Change in fair value of derivative instruments net of tax of $4,489	-	-	-	-	3,410	-	-	3,410	-	-
Change in foreign currency translation net of tax of $2,269	-	-	-	-	(36,492)	-	-	(36,492)	-	-
Other comprehensive income (loss)								64,703		
Total comprehensive income (loss)								(1,072,057)		
Share-based compensation net of tax of $3,536	123,977	124	(197)	-	-	4,708	154	81	-	-
Treasury shares acquired under share repurchase program	-	-	-	-	-	(103,255)	(1,073)	(1,073)	-	-
Preferred shares of subsidiary acquired	-	-	-	-	-	-	-	-	(41)	(441)
Balance, March 31, 2011	**274,843,555**	**$ 274,844**	**$ 3,063,717**	**$ 986,806**	**$ (340,781)**	**(75,072,525)**	**$ (2,225,496)**	**$ 1,759,090**	**1,385**	**$ 13,718**

	2011
Disclosure of reclassification amount:	
Change in unrealized gains and losses and other-than-temporary impairments on investments arising during the period, net of taxes	$ 107,042
Reclassification adjustment, net of taxes	(9,257)
Change in net unrealized gains and losses and other-than-temporary impairment losses, net of taxes	$ 97,785

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

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ (1,136,760)	$ (1,480,236)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Amortization of bond (premiums) discounts, net	(10,364)	(16,318)
Decrease (increase) in accrued investment income	1,603	(7,363)
Decrease in premiums receivable	25,486	94,598
Decrease in deferred acquisition costs	15,284	29,738
Decrease in unearned premium revenue	(126,717)	(201,240)
Decrease in prepaid reinsurance premiums	2,777	62,874
Decrease in reinsurance premiums payable	(2,080)	(42,274)
(Decrease) increase in loss and loss adjustment expense reserves	(119,387)	33,510
(Increase) decrease in reinsurance recoverable on paid and unpaid losses	(148)	1,664
Increase in insurance loss recoverable	(106,095)	(103,710)
Decrease in payable to reinsurers on recoveries	(20)	(30,240)
Depreciation	1,882	1,928
(Decrease) increase in accrued interest payable	(21,598)	14,759
Decrease in accounts receivable	1,677	-
Decrease in accrued expenses	(26,416)	(60,399)
Decrease in deferred fee revenue	(171)	(418)
Amortization of medium-term notes (premiums) discounts, net	(3,425)	8,597
Investment losses on other than temporarily impaired investments	13,347	29,732
Unrealized losses (gains) on insured derivatives	1,323,005	2,211,425
Net losses (gains) on financial instruments at fair value and foreign exchange	22,465	(77,129)
Other net realized (gains) losses	(4,609)	74,099
Increase in current income taxes	44,214	139,097
Deferred income tax benefit	(419,256)	(884,940)
(Gains) losses on extinguishment of debt	(25,891)	2
Share-based compensation	803	1,013
Other operating	4,753	(95,863)
Total adjustments to net income (loss)	591,119	1,183,142
Net cash provided (used) by operating activities	(545,641)	(297,094)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(1,777,806)	(2,350,894)
Increase in payable for investments purchased	34,804	74,295
Sale and redemption of fixed-maturity securities	2,742,857	2,982,901
Increase in receivable for investments sold	(52,685)	(61,620)
Decrease in loans receivable	84,331	77,319
Purchase of held-to-maturity investments	-	(46,106)
Redemptions of held-to-maturity investments	51,294	92,114
Sale of short-term investments, net	(69,105)	358,110
Sale of other investments, net	17,271	12,436
Consolidation of variable interest entities	-	479,490

Capital expenditures	(1,307)	(407)
Net cash provided (used) by investing activities	1,029,654	1,617,638
Cash flows from financing activities:		
Proceeds from issuance of investment agreements	18,716	22,865
Payments for drawdowns of investment agreements	(113,224)	(184,121)
Issuance of medium-term notes	4,077	4,681
Principal paydown of medium-term notes	(88,272)	(70,018)
Principal paydown of variable interest entity notes	(357,334)	(396,295)
Securities sold under agreements to repurchase	(252)	260
Dividends paid	-	(1,005)
Repayments for retirement of debt	(68,655)	(189,000)
(Payments) proceeds for derivative settlements	(19,856)	48,521
Purchase/redemption of subsidiary preferred stock	(441)	(2,459)
Restricted stock awards settlements	(1,012)	(24)
Collateral to swap counterparty	-	(128,650)
Net cash provided (used) by financing activities	(626,253)	(895,245)
Net (decrease) increase in cash and cash equivalents	(142,240)	425,299
Cash and cash equivalents - beginning of period	1,129,732	803,243
Cash and cash equivalents - end of period	$ 987,492	$ 1,228,542
Supplemental cash flow disclosures:		
Income taxes refunded	$ (44,026)	$ (31,159)
Interest paid:		
Investment agreements	$ 16,146	$ 21,529
Medium-term notes	13,739	15,891
Variable interest entity notes	92,033	83,015
Securities sold under agreements to repurchase	530	382
Other borrowings and deposits	982	1,055
Corporate debt	11,094	12,396
Surplus notes	66,686	66,686
Non cash items:		
Share-based compensation	$ 803	$ 1,013

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Businesses, Developments, Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates the largest financial guarantee insurance business in the industry and is a provider of asset management and other 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 operated through National Public Finance Guarantee Corporation and subsidiary (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). MBIA also manages certain business activities through its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. Funding programs managed through the asset/liability products and conduit segments are in wind-down. Refer to Note 11: Business Segments for further information about the Company s business segments.

Business Developments

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, 2011, National was rated BBB with a developing outlook by Standard & Poor s Financial Services LLC (S&P) and Baa1 with a developing outlook by Moody s Investors Service, Inc. (Moody s). As of March 31, 2011, MBIA Insurance Corporation was rated B with a negative outlook by S&P and B3 with a negative outlook by Moody s.

During the first quarter of 2011, the Company continued to seek to reduce both the absolute amount and the volatility of its liabilities and potential liabilities through repurchases of securities and commutations of insurance policies. Additionally, in the first quarter of 2011, the Company undertook actions to mitigate declines in the liquidity of MBIA Corp. and the asset/liability products segment through inter-company lending arrangements and the monetization of illiquid assets. The impact of these actions has been to mitigate erosion and reduce volatility in statutory capital and preserve liquidity in those two businesses. MBIA Corp. had statutory capital of $2.7 billion as of March 31, 2011 and December 31, 2010. MBIA Corp. ended the first quarter of 2011 with $927 million in liquid assets, after claim payments and commutations of insured derivatives, compared with $1.2 billion as of December 31, 2010. Continued positive trends in the U.S. economy, including a decline in the pace at which delinquencies increase in troubled real estate sectors and improvements in asset values, have also contributed to the preservation and stabilization of capital and liquidity in these businesses during the first quarter of 2011.

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. 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:

- If the U.S. economy weakens, commercial real estate values decline and commercial real estate servicer behavior does not continue to mitigate potential or actual credit losses in line with current trends, MBIA could incur substantial additional losses in that sector. As of March 31, 2011, MBIA Corp. had commercial mortgage-backed securities (CMBS) pool and commercial real estate (CRE) collateralized debt obligation (CDO) insured par exposure of approximately $33.5 billion and $7.3 billion, respectively, excluding approximately $4.0 billion of CRE loan pools, primarily comprising European assets. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the Company s estimate of CMBS credit impairments.

While incurred losses from insured residential mortgage-backed securities (RMBS) have declined from their peaks, they could ultimately be in excess of the Company s current estimated loss reserves. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the Company s RMBS loss reserves.

While the Company has settled a substantial part of its insured asset-backed collateralized debt obligation (ABS CDO) exposure at levels within MBIA Corp. s statutory loss reserves related to those exposures, further economic stress might cause increases in the Company s loss estimates.

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 statutory accounting principles and accounting principles generally accepted in the United States of America (GAAP). Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the Company s RMBS loss recoveries.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Businesses, Developments, Risks and Uncertainties (continued)

Currently, the Company s asset/liability products segment has a deficit of cash, investments and other liquid assets at amortized cost to debt issued to third-parties and affiliates at amortized cost of approximately $387 million, but is expected to have positive cash flows through 2012. The Company expects to actively manage this business to reduce that deficit.

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 allowances against some 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 New York State Insurance Department s (NYSID s) 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. Also, municipal and state fiscal distress could adversely affect the Company s operations if they result in larger than expected incurred insurance losses.

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.

While the Company believes it continues to have sufficient capital and liquidity to meet all of its obligations for the foreseeable future, 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. Statutory capital, defined under statutory accounting principles 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.

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 with respect to such mortgage loans, including failure to comply with the related underwriting criteria, based on the Company s assessment, which included information provided by third-party review firms, of such mortgage loans compliance with such representations and warranties. The Company s assessment of the ineligibility of individual mortgage loans could be challenged/disputed by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

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 have created substantial liquidity risk for the Company.

In order to manage liquidity risk, the Company maintains a liquidity risk management framework with the primary objective of monitoring potential liquidity constraints in its asset and liability portfolios and guiding the proactive matching of liquidity resources to needs. The Company s liquidity risk management framework seeks to monitor the Company s 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.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Businesses, Developments, Risks and Uncertainties (continued)

As part of MBIA s liquidity risk management framework, the Company seeks to evaluate and manage liquidity on both a legal entity basis and a segment basis. Legal entity liquidity is an important consideration as there are legal, regulatory and other limitations on the Company s ability to utilize the liquidity resources within the overall enterprise. MBIA seeks to manage segment liquidity primarily between its corporate and asset/liability products segments as they relate to MBIA Inc. Unexpected loss payments arising from ineligible mortgage loans in securitizations that the Company has insured, dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of MBIA Corp. s triple-A insurance financial strength ratings in 2008 significantly increased the liquidity needs and decreased the financial flexibility in the Company s legal entities and segments. MBIA continued to satisfy all of its payment obligations and the Company believes that it has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, the Company could face additional liquidity pressure in all of its operations and businesses through increased liquidity demands or a decrease in its liquidity supply if (i) loss payments on the Company s insured transactions were to rise significantly, including due to ineligible mortgage loans in securitizations that it has insured, (ii) market or adverse economic conditions persist for an extended period of time or worsen, (iii) the Company is unable to sell assets at values necessary to satisfy payment obligations or is unable to access new capital through the issuance of equity or debt, (iv) the Company experiences an unexpected acceleration of payments required to settle liabilities or (v) the Company is unable to collect or is delayed in collecting on its contract claim recoveries related to ineligible mortgage loans in securitizations. These pressures could arise from exposures beyond residential mortgage-related stress, which to date has been the main cause of stress.

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 fiscal year ended December 31, 2010. The following significant accounting policies provide an update to those included in the Company s Annual Report on Form 10-K.

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 fiscal year ended December 31, 2010. 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.

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. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results. Actual results could differ from those estimates.

The results of operations for the three months ended March 31, 2011 may not be indicative of the results that may be expected for the year ending December 31, 2011. The December 31, 2010 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. This includes the reclassification of gains and losses from sales of investment securities to Net gains (losses) on financial instruments at fair value and foreign exchange from the previously reported line Net realized gains (losses) on the Company s consolidated statements of operations. Such reclassification of gains and losses from sales of investment securities had no impact on total revenues, expenses, assets, liabilities, or stockholders equity for all periods presented.

Consolidation

The consolidated financial statements include the accounts of MBIA Inc., its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest. All material intercompany balances and transactions have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether an entity is a voting interest entity or a variable interest entity (VIE).

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable an entity to finance its activities independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Voting interest entities are consolidated when the Company has a majority voting interest.

VIEs are entities that lack one or more of the characteristics of a voting interest entity. The consolidation of a VIE is required if an entity has a variable interest (such as an equity or debt investment, a beneficial interest, a guarantee, a written put option or a similar obligation) and that variable interest or interests give it a controlling financial interest in the VIE. A controlling financial interest is present when an enterprise has both (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The enterprise with the controlling financial interest, known as the primary beneficiary, is required to consolidate the VIE. The Company consolidates all VIEs in which it is the primary beneficiary. Refer to Note 4: Variable Interest Entities for additional information.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Improving Disclosures about Fair Value Measurements (ASU 2010-06)

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The standard also clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard as of the first quarter of 2010 except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which was adopted in the first quarter of 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company s consolidated balance sheet, results of operations, or cash flows. Refer to Note 6: Fair Value of Financial Instruments for these disclosures.

See the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for further information regarding the effects of recently adopted accounting standards on prior year financials.

Recent Accounting Developments

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 new guidance is effective for the Company beginning January 1, 2012 with early adoption as of January 1, 2011 permitted. The Company did not early adopt the guidance as of January 1, 2011. The adoption of this standard will not have a material effect on the Company s consolidated balance sheet, results of operations, or cash flows.

Note 4: Variable Interest Entities

Structured Finance and International Insurance

Through MBIA s structured finance and international insurance segment, the Company provides credit enhancement services 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

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 does not have a controlling financial interest in any issuer-sponsored VIEs and is not the primary beneficiary of any issuer-sponsored VIEs. The Company s exposure to the aforementioned VIEs is limited to its investments in these entities. The asset/liability products segment includes the consolidation of one VIE that holds fixed-maturity securities at fair value consisting of alternative A-paper (Alt-A) non-agency RMBS securities. The Company formed and sponsored the VIE and is the primary beneficiary.

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.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011 and December 31, 2010. The following tables 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, 2011 and December 31, 2010. 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 credit default swaps (CDS) and any investments in obligations issued by nonconsolidated VIEs.

			March 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	$ 30,589	$ 17,689	$ 110	$ 75	$ -	$ 66	$ -	$ 406
Mortgage-backed residential	54,180	17,901	81	95	2,368	93	497	5
Mortgage-backed commercial	5,652	3,171	-	2	-	2	-	-
Consumer asset-backed	10,799	6,142	18	29	-	29	17	-
Corporate asset-backed	35,917	20,765	333	308	4	324	-	-
Total global structured finance	$ 137,137	$ 65,668	$ 542	$ 509	$ 2,372	$ 514	$ 514	$ 411
Global public finance	43,612	23,726	-	227	-	283	-	-
Total insurance	$ 180,749	$ 89,394	$ 542	$ 736	$ 2,372	$ 797	$ 514	$ 411

(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.

10

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

	December 31, 2010							
			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	$ 30,628	$ 18,068	$ 126	$ 78	$ -	$ 68	$ -	$ 360
Mortgage-backed residential	56,828	18,494	71	95	2,270	93	598	3
Mortgage-backed commercial	5,547	3,138	-	2	-	2	-	-
Consumer asset-backed	11,709	6,780	19	30	-	29	-	-
Corporate asset-backed	42,380	22,468	246	325	5	340	-	-
Total global structured finance	$ 147,092	$ 68,948	$ 462	$ 530	$ 2,275	$ 532	$ 598	$ 363
Global public finance	42,370	21,201	-	225	-	280	-	-
Total insurance	$ 189,462	$ 90,149	$ 462	$ 755	$ 2,275	$ 812	$ 598	$ 363

(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.

The Company s maximum exposure to loss as a result of its variable interests in nonconsolidated VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest that may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs, assuming a full credit event occurs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $14.2 billion and $13.2 billion, respectively, as of March 31, 2011, and $14.1 billion and $13.1 billion, respectively, as of December 31, 2010. 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 gains or losses were recognized on initial consolidation of additional VIEs during the three months ended March 31, 2011, and a $74 million pre-tax loss was recognized on initial consolidation of additional VIEs during the three months

ended March 31, 2010. The Company recognized no impact to earnings related to deconsolidation of VIEs during the three months ended March 31, 2011 and March 31, 2010.

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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense (LAE) Process

The Company s insured portfolio management groups within its U.S. public finance insurance and structured finance and international insurance businesses (collectively, IPM) monitor MBIA s outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by MBIA. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, MBIA typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset-related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems, or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

Insured obligations are monitored periodically. The frequency and extent of such monitoring is based on the criteria and categories described below. Insured obligations that are judged to merit more frequent and extensive monitoring or remediation activities due to a deterioration in the underlying credit quality of the insured obligation or the occurrence of adverse events related to the underlying credit of the issuer are assigned to a surveillance category (Caution List Low, Caution List Medium, Caution List High, or Classified List) depending on the extent of credit deterioration or the nature of the adverse events. IPM monitors insured obligations assigned to a surveillance category more frequently and, if needed, develops a remediation plan to address any credit deterioration.

The Company does not establish any case basis reserves for insured obligations that are assigned to Caution List Low, Caution List Medium or Caution List High. In the event MBIA expects to pay a claim with respect to an insured transaction, it places the insured transaction on its Classified List and establishes a case basis reserve. The following provides a description of each surveillance category:

Caution List Low Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. IPM subjects issuers in this category to heightened scrutiny.

Caution List Medium Includes issuers where debt service protection is adequate under current and anticipated circumstances, although adverse trends have developed and are more pronounced than for Caution List Low. Issuers in this category may have breached one or more covenants or triggers. These issuers are more closely monitored by IPM but generally take remedial action on their own.

Caution List High Includes issuers where more proactive remedial action is needed but where no defaults on debt service payments are expected. Issuers in this category exhibit more significant weaknesses, such as low debt service coverage, reduced or insufficient collateral protection or inadequate liquidity, which could lead to debt service defaults in the future. Issuers in this category have breached one or more covenants or triggers and have not taken conclusive remedial action. Therefore, IPM adopts a remediation plan and takes more proactive remedial actions.

Classified List Includes all insured obligations where MBIA has paid a claim or where a claim payment is expected. It also includes insured obligations where a significant LAE payment has been made, or is expected to be made, to mitigate a claim payment. This may include property improvements, bond purchases and commutation payments. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

In establishing case basis loss reserves, the Company calculates the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of March 31, 2011. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

As of March 31, 2011, the majority of the Company s case basis reserves and insurance loss recoveries were related to insured RMBS transactions, which are discussed below. The Company s case basis reserves do not include estimated losses on policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value. Refer to Note 6: Fair Value of Financial Instruments for additional information about the Company s insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries

RMBS Reserves

The Company s RMBS case basis reserves as of March 31, 2011, which relate to RMBS backed by home equity lines of credit (HELOCs) and closed-end second mortgages (CES), were determined through 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. 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, the Company estimates the amount of loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) in the future. The Company assumes that such charged-off loans have zero recovery values.

Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off. Generally, Roll Rates are calculated for the previous three months and averaged. The Company assumes that the Roll Rate for 90+ day delinquent loans is 100% except for loans within the additional stress case scenario, where the Company assumes a Roll Rate that is calculated using the actual observed average Roll Rate for 90+ day delinquent loans during the past twelve months. As of March 31, 2011, the Roll Rate used in the Company s additional stress case scenario was 97%. Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction specific basis. The Roll Rates are applied to the amounts in the respective delinquency buckets based upon delinquencies as of February 28, 2011 to estimate future losses from loans that are delinquent as of the current reporting period.

Roll Rates for loans that are current as of February 28, 2011 (Current Roll to Loss) are calculated on a transaction-specific basis. A proportion of loans reported current as of February 28, 2011 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 2011. 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-2012, after which time they will revert to the base case. For example, as of February 28, 2011, if 10% of the loans are in the 30-59 day delinquent bucket, 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 2011 to September 2011). 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 and an economic recovery 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 after six months of delinquency.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

In addition, in the Company s loss reserve models for transactions secured by HELOCs, the Company considers borrower draw and repayment rates. For HELOCs, the current three-month average draw rate is used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional repayment rate is used to project voluntary principal repayments. The current loans generate excess spread which offsets the losses and reduces the payments. Cash flows also assume a constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and 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. For loans that remain current (not delinquent) throughout the projection period, the Company assumes that voluntary prepayments occur at the average rate experienced in the most recent three-month period. 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 were 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). 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 $230 million.

Since the third quarter of 2009, paid claims in each month has been somewhat below that projected in the Company s model. The Company has not modified its expectations to reflect this lower paid claims rate. The difference between actual and projected paid claims has not been significant.

The Company employs a similar approach to Alt-A transactions with limited exceptions. The three major exceptions are: 1) the timelines to charge-off depend on the delinquency bucket of a loan (e.g., a loan in the real estate owned bucket is on average liquidated more quickly than a loan in the foreclosure bucket), 2) the Company does not assume a 100% loss severity for charged-off Alt-A loans. The loss severity used for projections is the three-month average of the current loss severities for loans in an Alt-A transaction and 3) Current Roll to Loss stays at the February 28, 2011 level for five months before declining to 25% of this level over a 24 month period.

RMBS Recoveries

As of March 31, 2011, the Company recorded estimated recoveries of $2.7 billion, gross of income taxes, related to RMBS put-back claims on ineligible loans, consisting of $1.8 billion included in Insurance loss recoverable and $867 million 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, 2011 and December 31, 2010, the Company s estimated recoveries, after income taxes calculated at 35%, were $1.7 billion and $1.6 billion, respectively, which was 99% and 58% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries, respectively. The percentage increase of recoveries relative to shareholders equity was principally driven by unrealized losses on insured derivatives as a result of MBIA s nonperformance risk on the derivative liability and an increase in recorded estimated recoveries related to put-back claims of ineligible loans. As of March 31, 2011 and December 31, 2010, the related statutory measures were 64% and 59%, respectively, of the statutory capital of MBIA Corp. 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. In addition, there is a risk that the sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. While the Company believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Although it has been reported that government-sponsored market participants and bond insurers situated similarly to MBIA have been successful in putting back ineligible mortgages to sellers/servicers and receiving compensation and other guarantee insurers situated similarly to MBIA also have recorded expected recoveries for RMBS transaction losses, there can be no assurance that MBIA will successfully recover its contract claims.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Beginning in 2008, the Company engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying RMBS transactions insured by MBIA. The securitizations on which the Company has recorded losses contain well over 500,000 individual mortgages, of which over 50,000 mortgage loans were reviewed within 32 insured issues containing first and second-lien mortgage loan securitizations. The Company recorded recoveries related to 28 of these 32 issues. It is possible that the Company will review loan files within additional insured issues in the future if factors indicate that material recovery rights exist. During their review, the 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 forensic review 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.

Prior to the fourth quarter of 2009, the Company believed that the distribution of possible outcomes was evenly distributed around the par amount of loans reviewed that were eligible for put-back. Thus, the probability-weighted expected recovery value was equivalent to the par amount of the losses from files that were reviewed and found to have credit or credit and compliance breaches. In the fourth quarter of 2009, based on new information that became available, the Company estimated that it would more likely recover substantially more than the value of files already reviewed than not. Accordingly, the Company developed probability-based scenarios which were primarily based upon loan file reviews combined with extrapolation-based scenarios which included scenarios for the recoupment of expected future charge-offs from non-performing loans as well as a scenario of recovering total incurred losses. Importantly, the Company s put-back claims are not only related to non-performing loans but to any loan where representations and warranties were breached.

During the fourth quarter of 2010, two important developments transpired which have led the Company to conclude that the practice of reviewing loans for purposes of assessing put-back recoveries is no longer necessary. First, the Company determined 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. Second, the Company received a favorable decision on its motion in limine addressing the use of sampling in the Countrywide litigation (MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.)). That decision provided that MBIA can present representative samples of loans from each of the securitizations at issue in the case to establish its causes of action, including its breach-of-contract claims.

As a result of these developments, the Company revised its put-back recovery scenarios in the fourth quarter of 2010. The Company replaced prior scenarios that were primarily based on loan file reviews with probability-based scenarios primarily based on the percentage of incurred losses the Company expects to collect. The Company s recovery estimates are based on 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 are 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, which totaled $4.6 billion through March 31, 2011.

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. The results of the loan file reviews across all insured issues have indicated breach rates in these categories in excess of 80%. 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.

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 assesses the potential financial distress 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 1.96% to 3.58%, depending upon the transaction s expected average life.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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 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 claim liability for a given policy.

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 has 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 $2.7 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. Currently, MBIA has received four decisions with regard to the motions to dismiss the Company s claims, all of which have denied the defendants motions to dismiss, allowing each of the cases to proceed on, at minimum, the fraud and breach-of-contract claims. All of these decisions are being appealed. The motion to dismiss in the fifth case has just been filed. Additional information on the status of these litigations can be found in the Recovery Litigation discussion within Note 13: Commitments and Contingencies.

The Company s assessment of the recovery outlook for insured 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 recent settlement for $1.1 billion on Assured Guaranty s put-back related claims with Bank of America in April 2011;

3. the improvement in the financial strength of issuers 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 announced on December 23, 2010 with Ally Bank and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010, and (iii) the Company s settlement agreement entered into on July 16, 2010 between MBIA Corp. and the sponsor of several MBIA-insured mortgage loan securitizations in which MBIA Corp. received a payment in exchange for a release relating to its representation and warranty claims against the sponsor. This settlement also resolves all of MBIA s representation and warranty claims against the sponsor on mutually beneficial terms and is substantially consistent with the recoveries previously recorded by the Company related to these exposures;

5. the favorable outcome for MBIA on defendants motions to dismiss in the actions captioned MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) MBIA Insurance Corp. v. Residential Funding Co., LLC, Index No. 603552/08 (N.Y. Sup. Ct.), MBIA v GMAC and MBIA Insurance Corp. v. Credit Suisse Securities where the respective courts each allowed MBIA s fraud claims against the Countrywide, RFC, GMAC and Credit Suisse Securities defendants to proceed;

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

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The Company will continue 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 as developments in the pending litigation proceedings occur or new litigation is initiated. 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.

All of the Company s policies insuring 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.

Loss and LAE Activity

The Company s losses and LAE expenses for the three months ended March 31, 2011 are presented in the following table:

In millions	RMBS	Non-RMBS	Total
Losses and LAE related to actual and expected payments	$ (60)	$ (111)	$ (171)
Recoveries of actual and expected payments	(3)	138	135
Gross losses incurred	(63)	27	(36)
Reinsurance	0	0	0
Losses and loss adjustment expenses	$ (63)	$ 27	$ (36)

The $60 million negative RMBS losses and LAE included in the preceding table comprise net reversals of previously established reserves. The $3 million of RMBS recoveries included in the preceding table comprise $118 million in recoveries resulting from 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 offset by the reversal of $115 million related to excess interest cash flows within the securitizations. Non-RMBS losses and LAE were primarily driven by non-RMBS mortgage and ABS CDO transactions and resulted from continued credit deterioration within those sectors. Included in the non-RMBS losses and LAE is a reversal of loss and LAE reserves related to lower expected future claim payments from a tax-backed transaction, which was offset by the reversal of the corresponding recoveries of such payments.

Current period changes in the Company s estimate of potential recoveries may impact the amount recorded as an asset for insurance loss recoverable, the amount of expected recoveries on unpaid losses netted against the gross loss and LAE reserve liability, or both. Total paid losses, net of reinsurance and collections, for the three months ended March 31, 2011 was $189 million, including $159 million related to insured RMBS transactions. For the three months ended March 31, 2011, the increase in insurance loss recoverable related to paid losses totaled $105 million, and primarily related to insured RMBS transactions.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011:

$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
	Surveillance Categories				
Number of policies	51	41	11	204	307
Number of issues[1]	35	25	8	116	184
Remaining weighted average contract period (in years)	8.9	5.5	9.0	12.8	10.9
Gross insured contractual payments outstanding[2]:					
Principal	$ 4,340	$ 1,718	$ 1,229	$ 10,892	$ 18,179
Interest	2,814	513	543	6,382	10,252
Total	$ 7,154	$ 2,231	$ 1,772	$ 17,274	$ 28,431
Gross claim liability	$ -	$ -	$ -	$ 2,201	$ 2,201
Less:					
Gross potential recoveries	-	-	-	3,685	3,685
Discount, net	-	-	-	123	123
Net claim liability (recoverable)	$ -	$ -	$ -	$ (1,607)	$ (1,607)
Unearned premium revenue	$ 155	$ 18	$ 70	$ 142	$ 385

(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 gross claim liability of $2.2 billion represents the Company s estimate of undiscounted probability-weighted future claim payments, which primarily relate to insured RMBS transactions. The gross potential recoveries of $3.7 billion represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments primarily related to insured RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

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, 2010:

$ in millions	Surveillance Categories Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	199	43	12	179	433
Number of issues[1]	40	26	12	110	188
Remaining weighted average contract period (in years)	9.4	6.9	9.1	9.4	9.2
Gross insured contractual payments outstanding[2]:					
Principal	$ 5,041	$ 1,419	$ 1,446	$ 11,190	$ 19,096
Interest	3,439	536	746	6,132	10,853
Total	$ 8,480	$ 1,955	$ 2,192	$ 17,322	$ 29,949
Gross claim liability	$ -	$ -	$ -	$ 2,692	$ 2,692
Less:					
Gross potential recoveries	-	-	-	4,045	4,045
Discount, net	-	-	-	27	27
Net claim liability (recoverable)	$ -	$ -	$ -	$ (1,380)	$ (1,380)
Unearned premium revenue	$ 148	$ 16	$ 72	$ 141	$ 377

(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

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

The gross claim liability of $2.7 billion represents the Company s estimate of undiscounted probability-weighted future claim payments, which primarily relate to insured RMBS transactions. The gross potential recoveries of $4.0 billion represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments primarily related to insured 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 insurance loss reserves and recoverables for insured obligations within MBIA s classified list as reported on the Company s consolidated balance sheets as of March 31, 2011 and December 31, 2010. 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, 2011	As of December 31, 2010
Loss reserves (claim liability)	$ 940	$ 1,059
LAE reserves	70	70
Loss and LAE reserves	$ 1,010	$ 1,129
Insurance claim loss recoverable	$ (2,638)	$ (2,531)
LAE insurance loss recoverable	(0)	-
Insurance loss recoverable	$ (2,638)	$ (2,531)
Reinsurance recoverable on unpaid losses	$ 14	$ 14
Reinsurance recoverable on LAE reserves	-	1
Reinsurance recoverable on paid losses	1	-
Reinsurance recoverable on paid and unpaid losses	$ 15	$ 15

As of March 31, 2011, loss and LAE reserves of $1.0 billion include $1.7 billion of reserves for expected future payments offset by expected recoveries of such future payments of $652 million. As of December 31, 2010, loss and LAE reserves of $1.1 billion include $2.0 billion of reserves for expected future payments offset by expected recoveries of such future payments of $896 million. As of March 31, 2011 and December 31, 2010, the insurance loss recoverable reported in the preceding table primarily relates 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 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 year-end 2012.

With respect to the Company s RMBS exposure, before the elimination of amounts related to consolidated VIEs, the Company had 44 insured issues designated as Classified List with gross principal and interest payments outstanding of $9.7 billion and $4.3 billion, respectively. The undiscounted gross claim liability and the undiscounted gross potential recoveries related to these 44 issues were $1.3 billion and $4.3 billion, respectively. The Company has performed loan file reviews on 30 of the 44 issues and recorded recoveries on 28 of those 30 issues. As of March 31, 2011, the 28 insured issues, those for which the Company performed loan file reviews and recorded recoveries, had gross principal

and interest payments outstanding of $8.6 billion and $3.7 billion, respectively. The undiscounted gross claim liability and the undiscounted gross potential recoveries related to the 28 issues were $973 million and $4.2 billion, respectively. The gross potential recoveries of $4.2 billion include estimated recoveries based on the Company s incurred loss to date.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The following table presents changes in the Company s loss and LAE reserve for the three months ended March 31, 2011. Changes in the loss and LAE reserve attributable to the accretion of the claim liability discount, changes in discount rates, changes in assumptions, changes in the timing and amounts of estimated payments and recoveries, and changes in LAE are recorded in Losses and loss adjustment expenses in the Company s statement of operations. As of March 31, 2011, the weighted average risk-free rate used to discount the Company s loss reserve (claim liability) was 2.99%. 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, 2011**

Gross Loss and LAE Reserve as of December 31, 2010	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	Change in LAE Reserves	Gross Loss and LAE Reserve as of March 31, 2011
$ 1,129	$ (166)	$ 4	$ (56)	$ 9	$ (1)	$ 89	$ 3	$ (1)	$ 1,010

The Company s gross loss and LAE reserves reflected in the preceding table decreased $119 million primarily due to a decrease in reserves related to loss payments and changes in discount rates. Offsetting these decreases were changes in assumptions due to additional defaults and charge-offs of ineligible mortgage loans in insured RMBS issues outstanding as of December 31, 2010.

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, 2011. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in assumptions, changes in the timing and amounts of estimated collections and changes in LAE were 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, 2011

In millions	Gross Reserve as of December 31, 2010	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	Change in LAE Recoveries	Gross Reserve as of March 31, 2011
Insurance Loss Recoverable	$ 2,531	$ (2)	$ 16	$ (9)	$ -	$ (54)	$ 156	$ -	$ 2,638
Recoveries on Unpaid Losses	896	-	5	(20)	-	-	(233)	4	652
Total	$ 3,427	$ (2)	$ 21	$ (29)	$ -	$ (54)	$ (77)	$ 4	$ 3,290

The Company s insurance loss recoverable increased $107 million primarily due to changes in assumptions driven by estimates of potential recoveries primarily on issues outstanding as of December 31, 2010 resulting from 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. Recoveries on unpaid losses decreased by $244 million primarily due to changes in assumptions. The Company reduced its expectation of future claim payments on U.S. public finance transactions, which resulted in a corresponding reduction in future expected recoveries.

The following table presents the Company s total estimated recoveries from ineligible mortgage loans included in certain insured first and second-lien mortgage loan securitizations. The total estimated recoveries from ineligible loans of $2.7 billion as of March 31, 2011 includes $1.8 billion recorded as Insurance loss recoverable and $867 million recorded as Loan repurchase commitments on the Company s consolidated balance sheet.

In millions

Total Estimated Recoveries from Ineligible Loans as of December 31, 2010	**Accretion of Future Collections**	**Changes in Discount Rates**	**Recoveries (Collections)**	**Changes in Assumptions**	**Total Estimated Recoveries from Ineligible Loans as of March 31, 2011**
$ 2,517	$ 18	$ (8)	$ -	$ 139	$ 2,666

The $139 million of changes in assumptions in the preceding table primarily resulted from probability-weighted scenarios as described within the preceding RMBS Recoveries section.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 recorded as part of the Company s provision for its loss reserves and included in Losses and loss adjustment expense on the Company s consolidated statement of operations. The following table presents the expenses (gross and net of reinsurance) related to remedial actions for insured obligations:

	Three Months Ended March 31,	
In millions	**2011**	**2010**
Loss adjustment expense incurred, gross	$ 15	$ 14
Loss adjustment expense incurred, net	$ 15	$ 12

Credit Impairments Related to Structured CMBS Pools and CRE CDOs Accounted for as Derivatives

Most of the structured CMBS pools and CRE CDOs insured by MBIA are accounted for as insured credit derivatives and are carried at their fair values in the Company s consolidated financial statements. The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments. In the absence of credit impairments, or the termination of derivatives at losses, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse before or at the maturity of the contracts.

Since insured credit derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, they are evaluated for economic impairment periodically in the same way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments on insured derivatives represent the present value of estimated expected future claim payments, net of recoveries, for such transactions using a discount rate of 5.93%, consistent with the calculation of the Company s statutory loss reserves. These credit impairments calculated using the statutory loss reserves methodology differ from the fair values recorded in the Company s consolidated financial statements. Although the Company s statement of operations includes the changes in the fair values of these transactions, the Company regards the changes in credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make.

For the three months ended March 31, 2011, the additional estimated credit impairment on structured CMBS pools and CRE CDO portfolios was estimated to be $130 million as a result of additional delinquencies and loan level liquidations. The aggregate credit impairment on structured CMBS pools and CRE CDO portfolios was estimated to be $1.3 billion as of March 31, 2011. The impairment is estimated using the Company s loss reserve methodology, determined as the present value of the probability weighted potential future losses, net of estimated recoveries, across multiple scenarios as described below. 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% while others experienced near complete losses. These have led to losses in the CMBS market and, in many cases, have resulted in reductions of enhancement to the individual CMBS bonds within the structured CMBS pools insured by MBIA. In certain insured transactions, these losses have resulted in minimal deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to the Company. As that protection is eroded, impairments increase even in the absence of significant further collateral deterioration.

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. However, because of this, 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 has been diverted and redirected to pay down the senior most classes insured by MBIA.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 commutations achieved in the course of 2010 and 2011, which included commutations of 22 structured CMBS pools and CRE CDO policies totaling $10.3 billion of gross insured exposure. This approach results in an estimated price to commute the remaining policies with price estimates based on this experience.

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. In the first scenario, NOI and Cap Rates remain flat with no improvement over the remaining life of the loans (often six to seven more years). In the second scenario, loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. This scenario also assumes that Cap Rates and NOIs remain flat for the near term and then begin to improve slowly. Additionally, in this scenario, any loan with a balance greater than $75 million with a debt service coverage ratio 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 this scenario.

The third approach stratifies loans into debt service coverage buckets and uses default probabilities implied by a third-party default study for each bucket to project defaults. The implied defaults are converted into losses using a loss severity assumption. This approach relies on year-end financial statements at the property level. In modeling these scenarios, the Company has received financial statements for year-end 2010 for 20.7% of the properties in the pools and statements from year-end 2009 or sometime during 2009 on another 63.3% of the properties in the pools. 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 remain at the peak level for a given time period and then decrease over time. This approach was applied in two scenarios. In the first scenario, the Company assumes that 90% of the loans greater than 90 days delinquent (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) are liquidated. In the second scenario, the Company assumes that 75% of these loans are liquidated and that 25% are modified and returned to current. These estimates are based on the levels of modifications that took place within the corresponding CMBX indices in the previous eighteen months ended March 31, 2011. 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. Additionally for one of the transactions, small allocations of other collateral were included (specifically Real Estate Investment Trust debt and RMBS/asset-backed securities (ABS)). This collateral was modeled in keeping with protocol used for modeling other asset classes, including multi-sector CDOs.

The loss severities projected by these scenarios vary widely, from moderate to substantial losses. 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. Beginning with the first quarter of 2010 through March 31, 2011, the probability-weighted loss estimate was $1.3 billion, and is inclusive of any claim or settlement payments. If macroeconomic stress escalates or there is a double dip recession, higher

delinquencies, higher levels of liquidations of delinquent loans and higher severities of loss upon liquidation, MBIA may incur substantial additional 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 recently begun to take place during this economic cycle, particularly for larger loans and assets, ultimate loss rates remain uncertain.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011 and December 31, 2010:

	As of March 31, 2011		As of December 31, 2010	
In millions	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets:				
Investments held as available-for-sale and held at fair value	$ 11,090	$ 11,090	$ 11,668	$ 11,668
Other investments	250	250	259	259
Cash and cash equivalents	277	277	366	366
Receivable for investments sold	61	61	8	8
Derivative assets:				
Insured derivatives	-	-	0	0
Non-insured derivatives	2	2	4	4
Total derivative assets	2	2	4	4
Assets of consolidated VIEs:				
Cash	710	710	764	764
Investments held-to-maturity	3,995	3,784	4,188	3,909
Fixed-maturity securities held as available-for-sale	326	326	190	190
Fixed-maturity securities held as trading	5,454	5,454	5,241	5,241
Loans receivable	2,327	2,327	2,183	2,183
Loan repurchase commitments	867	867	835	835
Derivative assets	525	525	699	699
Liabilities:				
Investment agreements	1,911	2,056	2,005	2,172
Medium-term notes	1,704	988	1,740	766
Securities sold under agreements to repurchase	470	468	471	454
Short-term debt	-	-	65	65
Long-term debt	1,844	1,194	1,851	1,155
Payable for investments purchased	37	37	2	2
Derivative liabilities:				
Insured derivatives	5,696	5,696	4,375	4,375
Non-insured derivatives	231	231	242	242
Total derivative liabilities	5,927	5,927	4,617	4,617
Warrants	35	35	58	58
Liabilities of consolidated VIEs:				
Variable interest entity notes	10,899	10,650	10,590	10,285
Long-term debt	360	341	360	340
Derivative liabilities	1,910	1,910	2,104	2,104
Financial Guarantees:				
Gross	5,043	4,481	5,275	3,906
Ceded	110	120	112	48

23

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

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.

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 Mortgage-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 include the Company s interest in equity securities. Fair values of other investments are determined by using quoted prices, or valuation models that use market-based and observable inputs. Other investments are categorized in Level 1, Level 2, or Level 3 of the fair value hierarchy.

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 maturities of these instruments.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 RMBS trusts consolidated under the amended accounting principles for the consolidation of VIEs. This asset represents the rights of the trusts against the sellers/servicers for 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 that fail to comply. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to the trusts. 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 observable inputs including:

- estimates of future cash flows for the asset;
- expectations about possible variations in the amount and/or timing of the cash flows representing the uncertainty inherent in 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.

Refer to the discussion of "RMBS Recoveries" within "Note 5: Loss and Loss Adjustment Expense Reserves" for a further description of how these estimates of future cash flows for the assets are determined, as well as the additional risk margins and discounts applied.

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 medium-term notes (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 four 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

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, cross currency, credit default and principal protection guarantees. 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 the Black-Scholes option pricing model and a dual-default model, depending on the type and structure of the contract. 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, 2011, the Company had $106.3 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 backing the Company s insured derivatives was cash securities and CDS referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities. As of March 31, 2011, the gross par outstanding of the Company s insured credit derivatives totaled $97.0 billion. The remaining $9.3 billion of gross par outstanding on insured derivatives as of March 31, 2011 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

Note 6: Fair Value of Financial Instruments (continued)

Most of MBIA s insured CDS contracts require MBIA to make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. MBIA s gross par outstanding and maximum payment obligation under these contracts as of March 31, 2011 was $77.4 billion. The underlying referenced collateral for contracts executed in this manner largely consist of investment grade corporate debt, structured CMBS pools and, to a lesser extent, corporate and multi-sector CDOs (in CDO-squared transactions). MBIA s multi-sector and CDO-squared transactions contain substantial RMBS-related collateral. As of March 31, 2011, MBIA also had $19.6 billion of gross par outstanding on insured CDS contracts that require MBIA to make timely interest and ultimate principal payments.

Considerations Regarding an Observable Market for MBIA s Insured Derivatives

Insured derivatives are not transferable, and quoted prices or market transactions are generally not available for identical or similar contracts. While market prices are generally available for traded securities and market standard CDS contracts, MBIA s insured derivatives are unique which make comparisons to market standard CDS contracts unreliable. Market standard CDS contracts are instruments that reference securities, such as corporate bonds, in which quoted prices are observable for the underlying reference obligation. Market standard CDS contracts also include provisions requiring collateral posting, and cash settlement upon default of the underlying reference obligation.

MBIA s insured CDS contracts are designed to replicate the Company s financial guarantee insurance policies, and do not contain typical CDS market standard features for collateral posting or cash settlement upon default of the underlying reference obligation. The Company s insured CDS contracts provide credit protection on collateralized securities or reference portfolios of securities, and benefit from credit enhancement, including a stated deductible or subordination. The Company is not required to post collateral in any circumstance. MBIA payments under an insured derivative contract are due after an aggregate amount of losses are incurred on the underlying reference obligations in excess of the deductible or subordination amounts. Once such losses exceed the deductible or subordination amounts, MBIA is generally obligated to pay the losses, net of recoveries, on any subsequent defaults on the reference obligations. Certain insured CDS contracts also provide for further deferrals of payment at the option of MBIA. In the event of a failure to pay an amount due under the insured CDS by MBIA Corp. or the insolvency of MBIA Corp., the counterparty may terminate the insured CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between the Company s insured derivatives and typical market standard CDS contracts is that the Company s contract, like its financial guarantee contracts, generally cannot be accelerated by the counterparty in the ordinary course of business but only upon the occurrence of certain events including the failure to pay an amount due under the CDS or the insolvency of the financial guarantee insurer of the CDS, MBIA Corp. or MBIA UK Insurance Ltd (MBIA UK). Similar to the Company s financial guarantee insurance contracts, all insured CDS policies are unconditional and irrevocable obligations of the Company and are not transferable unless the transferees are also licensed to write financial guarantee insurance policies. Since insured CDS contracts are accounted for as derivatives under relevant accounting guidance for derivative instruments and hedging activities, MBIA Corp. did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

Occasionally, insured CDS contracts are terminated by agreement between MBIA and the counterparty. When these contracts are terminated, any settlement amounts paid are evaluated and considered as a data point in pricing other similar insured derivative contracts whenever possible.

Valuation Models Used

Approximately 62% of the balance sheet fair value of insured credit derivatives as of March 31, 2011 was valued using the BET Model. Approximately 37% of the balance sheet fair value of insured credit derivatives as of March 31, 2011 was valued using the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using other methods, including the Black-Scholes option pricing model and a 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 inhomogeneous 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

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;
  - 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.

2. Model Strengths and Weaknesses

The primary strengths of the BET Model:

The model takes account of transaction structure and key drivers of fair value. Transaction structure includes par insured, weighted average life, level of deductible or subordination (if any), and composition of collateral.

The model is a consistent approach to marking positions that minimizes the level of subjectivity. The Company has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

The model uses market-based inputs including credit spreads for underlying reference collateral, recovery rates specific to the type and credit rating of reference collateral, diversity score of the entire collateral pool, and MBIA s CDS and derivative recovery rate level.

The primary weaknesses of the BET Model:

As of March 31, 2011, some of the model inputs were either unobservable or derived from illiquid markets which might adversely impact the model s reliability.

The BET Model requires an input for collateral spreads. However, some securities are quoted only in price terms. For securities that trade substantially below par, the calculation of spreads from price to spread can be subjective.

Results may be affected by using average spreads and a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlations.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

3. 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 actual calculation of pool average spread varies depending on whether the Company is able to use collateral-specific credit spreads or generic spreads as an input.

If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.

If collateral-specific credit spreads are not available, the Company uses generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor (WARF) for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody s where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. The Company obtains WARF from the most recent trustee s report or the Company calculates it based on the collateral credit ratings. For a WARF calculation, the Company identifies the credit ratings of all collateral (using, in order of preference as available, Moody s, S&P or Fitch ratings), then converts those credit ratings into a rating factor on the WARF scale, averages those factors (weighted by par) to create a portfolio WARF, and then maps the portfolio WARF back into an average credit rating for the pool. The Company then applies this pool rating to a market spread table or index appropriate for the collateral type to determine the generic spread for the pool which becomes the market-implied default input into the BET Model.

If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating groups and each group is used in calculating the overall average.

When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA uses its hierarchy of spread sources (discussed below) to identify the most appropriate spread for that asset class to be used in the model.

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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

As of March 31, 2011, sector-specific spreads were used in 7% of the transactions valued using the BET Model. Corporate spreads were used in 36% of the transactions and spreads benchmarked from the most relevant spread source were used for 57% 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 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 85% 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.

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

Current Commercial Mortgage-Backed Index Input Adjustment

Approximately $35.8 billion gross par of MBIA s insured derivative transactions as of March 31, 2011 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, 2011. 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.

30

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

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 Strengths and Weaknesses

The primary strengths of the Direct Price Model are:

- The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, legal final maturity, level of deductible or subordination (if any) and composition of collateral.
- The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented by MBIA s internal controls, creating a strong controls process in execution of the model.
- The model uses market inputs for each transaction with the most relevant being market prices for collateral, MBIA s CDS and derivative recovery rate level and interest rates. Most of the market inputs are observable.

The primary weaknesses of the Direct Price Model are:

- There is no market in which to test and verify the fair values generated by the Company s model.
- The model does not take into account potential future volatility of collateral prices. When the market value of collateral is substantially lower than insured par and there is no or little subordination left in a transaction, which is the case for most of the transactions marked with this model, the Company believes this assumption still allows a reasonable estimate of fair value.

3. 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.

31

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

Overall Model Results

As of March 31, 2011 and December 31, 2010, the Company s net insured derivative liability was $5.7 billion and $4.4 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 results in a pre-tax net insured derivative liability which is $8.4 billion and $12.1 billion lower than the net liability that would have been estimated if the Company excluded nonperformance risk in its valuation as of March 31, 2011 and December 31, 2010, 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 2010 and 2011. 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, (iii) the cost of capital reserves required to support the financial guarantee liability and (iv) 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. Fair value of gross financial guarantees does not consider future installment premium receipts or returns on invested upfront premiums as inputs.

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

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011 and December 31, 2010:

	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, 2011
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 871	$ 149	$ -	$ -	$ 1,020
Foreign governments	367	43	19	-	429
Corporate obligations	-	2,097	211	-	2,308
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,472	-	-	1,472
Residential mortgage-backed non-agency	-	476	43	-	519
Commercial mortgage-backed	-	29	51	-	80
Asset-backed securities:					
Collateralized debt obligations	-	181	123	-	304
Other asset-backed	-	255	323	-	578
State and municipal bonds	-	750	12	-	762
Total taxable bonds	1,238	5,452	782	-	7,472
Tax-exempt bonds:					
State and municipal bonds	-	2,534	34	-	2,568
Other fixed-maturity investments	257	15	-	-	272
Total fixed-maturity investments	1,495	8,001	816	-	10,312
Money market securities	828	-	-	-	828
Perpetual preferred securities	-	166	-	-	166
Other	32	1	-	-	33
Total	2,355	8,168	816	-	11,339
Derivative assets:					
Non-insured derivative assets:					
Credit derivatives	-	2	-	-	2

Interest rate derivatives	-	28	4	-	32
Other	-	-	-	(32)	(32)
Total derivative assets	-	30	4	(32)	2

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011
Assets of consolidated VIEs:					
U.S. Treasury and government agency	7	1	-	-	8
Corporate obligations	3	363	82	-	448
Mortgage-backed securities:					
Residential mortgage-backed agency	-	44	-	-	44
Residential mortgage-backed non-agency	-	2,765	18	-	2,783
Commercial mortgage-backed	-	989	29	-	1,018
Asset-backed securities:					
Collateralized debt obligations	-	686	219	-	905
Other asset-backed	-	316	81	-	397
State and municipal taxable and tax-exempt bonds	-	5	-	-	5
Total fixed-maturity securities at fair value	10	5,169	429	-	5,608
Money market securities	172	-	-	-	172
Loans receivable	-	-	2,327	-	2,327
Loan repurchase commitments	-	-	867	-	867
Derivative assets:					
Credit derivatives	-	-	514	-	514
Interest rate derivatives	-	11	-	-	11
Total assets	$ 2,537	$ 13,378	$ 4,957	$ (32)	$ 20,840
Liabilities:					
Medium-term notes	$ -	$ -	$ 163	$ -	$ 163
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	24	5,672	-	5,696
Non-insured derivatives:					
Interest rate derivatives	-	254	-	-	254
Currency derivatives	-	9	-	-	9
Other	-	-	-	(32)	(32)
Other liabilities:					
Warrants	-	35	-	-	35
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	2,036	4,953	-	6,989
Derivative liabilities:					
Credit derivatives	-	-	1,332	-	1,332
Interest rate derivatives	-	566	-	-	566
Currency derivatives	-	-	12	-	12

Total liabilities	$	-	$	2,924	$	12,132	$	(32)	$	15,024

34

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using 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, 2010
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 915	$ 149	$ -	$ -	$ 1,064
Foreign governments	409	49	11	-	469
Corporate obligations	-	2,622	246	-	2,868
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,548	41	-	1,589
Residential mortgage-backed non-agency	-	414	48	-	462
Commercial mortgage-backed	-	120	41	-	161
Asset-backed securities:					
Collateralized debt obligations	-	108	191	-	299
Other asset-backed	-	310	350	-	660
State and municipal bonds	-	738	14	-	752
Total taxable bonds	1,324	6,058	942	-	8,324
Tax-exempt bonds:					
State and municipal bonds	-	2,787	36	-	2,823
Other fixed-maturity investments	13	19	-	-	32
Total fixed-maturity investments	1,337	8,864	978	-	11,179
Money market securities	553	-	-	-	553
Perpetual preferred securities	-	172	-	-	172
Other	16	5	-	-	21
Total	1,906	9,041	978	-	11,925
Derivative assets:					
Non-insured derivative assets:					
Credit derivatives	-	3	-	-	3
Interest rate derivatives	-	57	5	-	62
Other	-	-	-	(61)	(61)
Total derivative assets	-	60	5	(61)	4

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2010
Assets of consolidated VIEs:					
U.S. Treasury and government agency	4	-	-	-	4
Corporate obligations	7	360	80	-	447
Mortgage-backed securities:					
Residential mortgage-backed agency	-	37	-	-	37
Residential mortgage-backed non-agency	-	2,706	40	-	2,746
Commercial mortgage-backed	-	907	23	-	930
Asset-backed securities:					
Collateralized debt obligations	-	583	245	-	828
Other asset-backed	-	352	83	-	435
State and municipal taxable and tax-exempt bonds	-	4	-	-	4
Total fixed-maturity securities at fair value	11	4,949	471	-	5,431
Loans receivable	-	-	2,183	-	2,183
Loan repurchase commitments	-	-	835	-	835
Derivative assets:					
Credit derivatives	-	-	687	-	687
Interest rate derivatives	-	12	-	-	12
Total assets	$ 1,917	$ 14,062	$ 5,159	$ (61)	$ 21,077
Liabilities:					
Medium-term notes	$ -	$ -	$ 116	$ -	$ 116
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	25	4,350	-	4,375
Non-insured derivatives:					
Interest rate derivatives	-	297	-	-	297
Currency derivatives	-	6	-	-	6
Other	-	-	-	(61)	(61)
Other liabilities:					
Warrants	-	58	-	-	58
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	2,007	4,673	-	6,680
Derivative liabilities:					
Credit derivatives	-	-	1,455	-	1,455
Interest rate derivatives	-	635	-	-	635
Currency derivatives	-	-	14	-	14

Total liabilities	$	-	$	3,028	$	10,608	$	(61)	$	13,575

36

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Fair Value of Financial Instruments (continued)

Level 3 assets were $5.0 billion and $5.2 billion as of March 31, 2011 and December 31, 2010, respectively, and represented approximately 24% of total assets measured at fair value. Level 3 liabilities were $12.1 billion and $10.6 billion as of March 31, 2011 and December 31, 2010, respectively, and represented approximately 81% and 78% of total liabilities measured at fair value, respectively. 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, 2011 and 2010:

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	80	-	-	-	-	-	-	(2)	-	4	-	82	-
Residential mortgage-backed non-agency	40	-	(2)	3	-	-	-	(3)	-	-	(20)	18	1
Commercial mortgage-backed	23	-	6	-	-	-	-	-	-	-	-	29	7
Collateralized debt obligations	245	-	14	-	-	-	-	(2)	-	16	(54)	219	16
Other asset-backed	83	-	(2)	-	-	-	-	(1)	-	1	-	81	(2)
Loans receivable	2,183	-	228	-	-	-	-	(84)	-	-	-	2,327	228
Loan repurchase commitments	835	-	20	-	-	-	12	-	-	-	-	867	-
Total assets	$ 4,467	$ (1)	$ 264	$ 44	$ 3	$ 32	$ 12	$ (172)	$ (16)	$ 43	$ (237)	$ 4,439	$ 250

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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	$ -
Credit derivatives, net	4,350	386	1,322	-	-	-	-	(386)	-	-	-	5,672	1,480
Interest derivatives, net	(5)	-	1	-	-	-	-	-	-	-	-	(4)	1
Liabilities of consolidated VIEs:													
VIE notes	4,673	-	421	-	-	-	-	(141)	-	-	-	4,953	421
Credit derivatives, net	768	-	50	-	-	-	-	-	-	-	-	818	50
Currency derivatives, net	14	-	(2)	-	-	-	-	-	-	-	-	12	(2)
Total liabilities	$ 9,916	$ 386	$ 1,831	$ -	$ 8	$ -	$ -	$ (527)	$ -	$ -	$ -	$ 11,614	$ 1,950

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

38

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2010

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, Settlements and Sales, net	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, 2010
Assets:										
U.S. Treasury and government agency	$ 6	$ -	$ -	$ -	$ -	$ (6)	$ -	$ -	$ -	$ -
Foreign governments	12	-	-	-	1	-	-	-	13	-
Corporate obligations	281	-	-	23	(2)	(2)	30	(10)	320	-
Residential mortgage-backed agency	48	-	-	1	-	(3)	-	-	46	-
Residential mortgage-backed non-agency	64	(3)	-	27	-	(17)	-	(5)	66	-
Commercial mortgage-backed	20	-	-	-	(1)	(2)	-	-	17	-
Collateralized debt obligations	245	(7)	-	40	-	(68)	16	(24)	202	-
Other asset-backed	401	-	-	(18)	-	61	8	(10)	442	-
State and municipal tax-exempt bonds	50	-	-	-	-	(5)	-	-	45	-
Other fixed-maturity investments	19	-	-	-	-	(19)	-	-	-	-
Perpetual preferred securities	77	-	-	6	-	-	-	-	83	-
Assets of consolidated VIEs:										
Corporate obligations	-	-	-	-	-	81	-	-	81	-
Residential mortgage-backed non-agency	166	(1)	-	-	-	(87)	7	(3)	82	-
Commercial mortgage-backed	3	-	-	1	-	52	-	-	56	-
Collateralized debt obligations	42	-	-	-	-	284	-	-	326	-
Other asset-backed	193	-	-	-	-	(47)	-	-	146	-
Loans receivable	-	-	-	-	19	2,415	-	-	2,434	-
Loan repurchase commitments	-	-	-	-	-	715	-	-	715	-
Total assets	$ 1,627	$ (11)	$ -	$ 80	$ 17	$ 3,352	$ 61	$ (52)	$ 5,074	$ -

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, Settlements and Sales, net	Transfers into Level 3 (1)	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2010
Liabilities:										
Medium-term notes	$ 110	$ -	$ 14	$ -	$ (6)	$ -	$ -	$ -	$ 118	$ 14
Credit derivatives, net	3,799	63	2,210	-	-	(122)	-	-	5,950	2,223
Interest derivatives, net	(6)	(8)	4	-	4	1	-	-	(5)	4
Currency derivatives, net	(3)	-	(9)	-	-	-	-	-	(12)	(9)
Liabilities of consolidated VIEs:										
VIE notes	-	-	16	-	6	5,318	-	-	5,340	16
Derivative contracts, net	-	-	(18)	-	-	367	-	-	349	(18)
Total liabilities	$ 3,900	$ 55	$ 2,217	$ -	$ 4	$ 5,564	$ -	$ -	$ 11,740	$ 2,230

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

Transfers into and out of Level 3 were $43 million and $237 million, respectively, for the three months ended March 31, 2011. Transfers into and out of Level 2 were $237 million and $43 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 quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, RMBS 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, the net unrealized losses related to the transfers into Level 3 was $518 thousand and the net unrealized losses related to the transfers out of Level 3 was $642 thousand.

Transfers into and out of Level 3 were $61 million and $52 million, respectively, for the three months ended March 31, 2010. Transfers into and out of Level 2 were $52 million and $61 million, respectively, for the three months ended March 31, 2010. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, other ABSs, and corporate obligations comprised the majority of the transferred instruments. There were no transfers in or out of Level 1. For the three months ended March 31, 2010, the net unrealized gains related to the transfers into Level 3 was $1 million and the net unrealized gains related to the transfers out of Level 3 was $11 million.

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

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2011 and 2010 are reported on the consolidated statements of operations as follows:

	March 31, 2011	
In millions	Unrealized Gains (Losses) on Insured Derivatives	Consolidated VIEs