

MBIA INC
Form 10-K
February 29, 2016
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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2015

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)

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Connecticut
(State of incorporation)

06-1185706
(I.R.S. Employer

Identification No.)

1 Manhattanville Road, Suite 301,

Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer 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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2015 was \$880,396,155.

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As of February 25, 2016, 136,600,851 shares of Common Stock, par value \$1 per share, were outstanding.

Documents incorporated by reference:

Portions of the Definitive Proxy Statement of the Registrant for its 2015 Annual Meeting, which will be filed on or before March 31, 2016, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This annual report of MBIA Inc. (MBIA , the Company , we , us or our) includes statements that are not historical or current facts and are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe , anticipate , project , plan , expect , estimate , intend , will likely result , looking forward , or will continue and similar expressions are used in the forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

The following are some of the general factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying the Company s forward-looking statements:

increased credit losses or impairments on public finance obligations we insure issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;

the possibility that MBIA Corp. will have inadequate liquidity or resources to pay claims as a result of higher than expected losses on certain structured finance transactions or as a result of a delay or failure in collecting expected recoveries;

the possibility that loss reserve estimates are not adequate to cover potential claims;

a disruption in the cash flow from our subsidiaries or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;

our ability to fully implement our strategic plan, including our ability to maintain high stable credit ratings for National Public Finance Guarantee Corporation and generate investor demand for our financial guarantees;

deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and

the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under Risk Factors in Part I, Item 1A of this annual report on Form 10-K. The Company encourages readers to review these risk factors in their entirety.

This annual report of MBIA Inc. also includes statements of the opinion and belief of MBIA management which may be forward-looking statements subject to the preceding cautionary disclosure. Unless otherwise indicated herein, the basis for each statement of opinion or belief of MBIA management in this report is the relevant industry or subject matter experience and views of certain members of MBIA s management. Accordingly, MBIA cautions readers not to place undue reliance on any such statements, because like all statements of opinion or belief they are not statements of fact and may prove to be incorrect. We undertake no obligation to publicly correct or update any statement of opinion or belief if the Company later becomes aware that such statement of opinion or belief was not or is not then accurate. In addition, readers are cautioned that each statement of opinion or belief may be further qualified by disclosures set forth elsewhere in this report or in other disclosures by MBIA.

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Part I

Item 1. Business

As used in this Annual Report on Form 10-K, (i) MBIA, the Company, we, our and us refer to MBIA Inc., a Connecticut corporation incorporated in 1986 and (ii) unless otherwise indicated or the context otherwise requires, references to MBIA Insurance Corporation are to MBIA Insurance Corporation on a stand-alone basis and references to MBIA Corp. are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited (MBIA UK) and MBIA Mexico S.A. de C.V. (MBIA Mexico).

OVERVIEW

MBIA's primary business is to provide financial guarantee insurance to the United States public finance markets through our indirect, wholly-owned subsidiary, National Public Finance Guarantee Corporation (National). National was established in February of 2009 when we restructured our business through several intercompany transactions (Transformation) and transferred the ownership of National from a subsidiary of MBIA Inc. to a newly established holding company, National Public Finance Guarantee Holdings, Inc., another wholly-owned subsidiary of MBIA Inc.

National's financial guarantee insurance policy provides investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. The principal economic value of our financial guarantee insurance for capital markets issuers is to lower the interest cost of an insured obligation relative to the interest cost on the same obligation issued on an uninsured basis. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations have historically received greater market acceptance than uninsured obligations. For investors, our insurance provides not only an additional level of credit protection but also the benefit of our portfolio monitoring and remediation skills throughout the life of the insurance policy.

MBIA also provides financial guarantee insurance in the international and structured finance markets. We continue to manage the insured portfolio of MBIA Corp. which has been reduced substantially from \$331.2 billion as of December 31, 2007 to \$41.6 billion as of December 31, 2015. We do not expect MBIA Corp. to write any new policies in the foreseeable future in light of current ratings, accumulated losses and non-policy claims related to our subordinate preferred stock holders and surplus note holders. As of December 31, 2015, MBIA Corp. had statutory capital of \$885 million, approximately \$662 million of loss reserves on its insured credits and outstanding surplus notes with \$953 million of outstanding principal and \$392 million of unpaid interest. See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources in Part II, Item 7 of this Form 10-K for a further discussion of MBIA Corp.'s insurance statutory capital.

Given MBIA Corp.'s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc., except for any impact it may have on the consolidated deferred tax asset relating to the Company's net operating loss carryforwards. See Note 11: Income Taxes in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K for a further discussion of income taxes. We do not expect MBIA Corp. to have sufficient capital to fully pay the outstanding principal and accrued interest on the surplus notes. Furthermore, any payments on the surplus notes would require the prior approval of the New York State Department of Financial Services (the NYSDFS). If the NYSDFS does not approve a payment of principal or interest on the surplus notes, then, under the terms of the surplus notes, any failure to make that payment of principal or interest on the surplus notes will not constitute a default under the notes.

MBIA Insurance Corporation owns MBIA UK and MBIA Mexico, and together, the three companies manage our legacy global structured finance and non-U.S. public finance financial guarantee insurance portfolios. MBIA UK is a financial guarantee insurance company located in the United Kingdom which wrote structured and public finance debt obligations in selected international markets, and MBIA Mexico is a financial guarantee insurance company located in Mexico which wrote a limited number of structured finance policies in Mexico.

We also own MBIA Services Corporation (MBIA Services), a service company which provides support services such as surveillance, risk management, legal, accounting, treasury and information technology, among others, to our businesses on a fee-for-service basis.

MBIA completed the previously announced sale of its asset management advisory services business operated under Cutwater Holdings LLC, during the first quarter of 2015.

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Item 1. Business (continued)

OUR BUSINESS STRATEGY

National Ratings and New Business Opportunities

National is the largest U.S. public finance-only bond insurer in the financial guarantee industry as measured by total gross insured par outstanding of \$161.0 billion as of December 31, 2015. Our primary activity is to insure new issue and secondary market municipal bonds while providing ongoing surveillance of National's existing insured portfolio. National's ability to write new business and to compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by the rating agencies. As of December 31, 2015, National was rated AA+ with a stable outlook by Kroll Bond Rating Agency (Kroll), AA- with a stable outlook by Standard & Poor's Financial Services LLC (S&P), and A3 with a negative outlook by Moody's Investors Services, Inc. (Moody's).

National pursues opportunities for new business in most municipal sectors. Based on our underwriting and pricing criteria, the majority of our new business is in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, we are pursuing opportunities in the secondary market with respect to bonds issued in recent years that were not insured and that meet our underwriting criteria.

National seeks to generate shareholder value at appropriate risk-adjusted pricing; however, current market conditions and the competitive landscape limit National's new business opportunities and our ability to price and underwrite risk with attractive returns.

For the issuer, the value of financial guarantee insurance is largely determined by the spread between the interest rate on insured versus uninsured debt. The current environment of low interest rates and narrow spreads between insured and uninsured debt reduces the value of insurance to a level which may be unattractive to the issuer (insufficient reduction in interest costs) as well as the guarantor (insufficient revenue relative to the risk assumed and capital deployed). Furthermore, investors may choose to purchase uninsured bonds to increase returns. An environment of higher interest rates and/or wider spreads would likely enhance the new business opportunities for National. We also believe the current stress in certain sectors of the municipal bond market reinforces the value of National's guarantee of timely payment of interest and principal.

MBIA Inc. Capital Management

The Company manages its capital and liquidity in order to ensure that it can service its debt and other financial obligations and pay its operating costs while maintaining an adequate cushion against adverse events. The stabilization of the liquidity position at the holding company as a result of consistent dividends from National and releases from the tax escrow account allows the Company more strategic flexibility in deploying its capital.

In 2015, the Company repurchased 31.9 million shares at a cost of \$233 million under repurchase authorizations in October of 2014 and July of 2015. In addition, National purchased eight million shares at a cost of \$70 million under a one-time Board authorization in May of 2015. On October 28, 2015, the Company's Board of Directors authorized the repurchase of up to \$100 million additional of its outstanding shares. Subsequent to December 31, 2015, we exhausted all of the remaining capacity under the October 28, 2015 repurchase program by repurchasing an additional 14.9 million common shares of MBIA Inc. at an average share price of \$6.30. Management and the Board views these repurchases as the best use of capital available at the holding company compared with available alternatives.

Our strategy is to balance leverage by: (i) the repurchase of outstanding MBIA Inc. common shares when management deems appropriate; and (ii) reducing our unsecured debt through calls and repurchases, while continuing to move toward an investment-grade capital structure. Unsecured debt includes MBIA Inc. s senior notes and medium-term notes (MTNs) issued by MBIA Global Funding, LLC (GFL). During the fourth quarters of 2015 and 2014, National declared and paid dividends of \$114 million and \$220 million, respectively, to its ultimate parent, MBIA Inc. In addition, during the first quarters of 2015 and 2016, MBIA Inc. received a total of \$333 million in cash from an escrow account held by MBIA Inc. under the MBIA group s tax sharing agreement as described further under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity. During 2015, we repurchased \$50 million of debt issued by MBIA Inc. or its subsidiary GFL. In addition, \$78 million of debt issued by GFL matured during 2015.

Table of Contents***Item 1. Business (continued)*****MBIA Corp. Risk Mitigation**

MBIA Corp. has not written a meaningful amount of new business since 2008 as a result of declining financial capacity, ratings downgrades and regulatory limitations placed on its business. Since that time it has experienced considerable stress as a result of unprecedented levels of delinquency and loss in its structured finance business, primarily in its residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) pools, commercial real estate (CRE) and collateralized debt obligation (CDO) portfolios. As a result, since 2008, MBIA Corp. s strategy has focused primarily on recovering losses on insured RMBS transactions related to the failure of certain RMBS sellers/servicers to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. insured, reducing future expected economic losses in the insured portfolio through commutations and other risk mitigation strategies, and managing liquidity. To date, MBIA has settled the majority of the Company s claims related to the inclusion of ineligible mortgage loans in insured securitizations, except with claims against Credit Suisse totaling \$396 million. See Note 6: Loss and Loss Adjustment Expense in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K for further information regarding loss reserves and recoveries.

Our liquidity and capital forecasts for MBIA Insurance Corporation and projected collections of the remaining put-back recoverable and excess spread (the difference between interest inflows on assets and interest outflows on liabilities in our insured RMBS transactions) reflect adequate resources to pay expected claims. However, there are risks to these forecasts, as recoveries from the projected collections of excess spread and the remaining put-back recoverable, and the amount and timing of potential claims from our remaining insured exposures, and in particular potential claims with respect to Zohar II 2005-1, Limited (Zohar II), which matures in January of 2017, are potentially volatile. See Risk Factor Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured RMBS transactions as well as certain other factors may materially and adversely affect MBIA Insurance Corporation s ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if it is not able to pay expected claims under MBIA Corp. Risk Factors . Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any significant long-term liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico.

OUR INSURANCE OPERATIONS

Our U.S. public finance insurance business is conducted through National, and our international and structured finance insurance portfolios are managed through MBIA Corp. We anticipate that for the foreseeable future virtually all of our new insurance business will be written through National in the U.S. public finance sector. We expect the credit ratings of MBIA Insurance Corporation and its subsidiaries will continue to constrain their ability to write new business in the foreseeable future.

We are compensated for our insurance policies by insurance premiums paid upfront or on an installment basis. Our financial guarantee insurance is offered in both the new issue and secondary markets. Transactions in the new issue market may be sold either through negotiated offerings or competitive bidding. We also issue insurance policies to guarantee the payment of principal and interest on municipal obligations being traded in the secondary market upon

the request of a broker or an existing holder of uninsured bonds, where the premium is generally paid by the owner of the obligation. In addition, we have provided financial guarantees or sureties to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. We seek to maintain a diversified insured portfolio and have insured transactions with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

Because we generally guarantee to the holder of an underlying obligation the timely payment of amounts due on the obligation in accordance with its original payment schedule, in the case of a default or other triggering event on an insured obligation, payments under the insurance policy generally cannot be accelerated against us unless we consent to the acceleration. In the event of a default, however, we may have the right, in our sole discretion, to accelerate the obligations and pay them in full. Otherwise, we are required to pay principal, interest or other amounts only as scheduled payments come due, even if the holders are permitted by the terms of the insured obligations to have the full amount of principal, accrued interest or other amounts due, declared due and payable immediately in the event of a default.

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Item 1. Business (continued)

Our payment obligations after a default vary by deal and by insurance type. Our public finance insurance generally insures scheduled interest and principal. Our structured finance policies generally insure (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; or, (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. With respect to the insurance of credit default swap (CDS) contracts written in the international and structured finance insurance segment, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Our U.S. public finance segment did not write insurance in CDS form and therefore does not have this potential trigger.

In the event of a default in payment of principal, interest or other insured amounts by an issuer, the insurance company will make funds available in the insured amount generally within one to three business days following notification. Longer timeframes may apply for international transactions. Generally, our insurance companies provide for this payment upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer or other appropriate documentation.

National Insured Portfolio

National's insured portfolio consists of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions and territories, as well as utilities, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

National's portfolio is primarily comprised of (i) MBIA Corp.'s U.S. public finance financial guarantee policies ceded by MBIA Corp. to National pursuant to the Quota Share Reinsurance Agreement, effective January 1, 2009 (the "MBIA Corp. Reinsurance Agreement"), executed in connection with Transformation, and (ii) certain public finance financial guarantee policies of Financial Guaranty Insurance Company ("FGIC") which were originally reinsured by MBIA Corp. pursuant to the FGIC Reinsurance Agreement, subsequently assigned to and reinsured by National in connection with Transformation, and ultimately novated to National pursuant to a novation agreement between National and FGIC effective August of 2013 (the "FGIC Novation Agreement").

Portfolio Profile

As of December 31, 2015, National had \$161.0 billion of insured gross par outstanding on U.S. public finance obligations covering 8,662 policies and diversified among 4,523 credits, which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2015 was \$267.6 billion.

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2015 was 10 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service

insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2015 was \$16.1 billion.

Table of Contents**Item 1. Business (continued)**

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2015:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2015

In millions	Gross Par Amount
Bond Type	
Public finance: United States	
General fund obligation	\$ 56,069
General fund obligation Lease	13,968
Municipal utilities	27,760
Tax backed	22,250
Transportation	15,337
Health care	4,108
Higher education	8,775
Municipal housing	987
Military housing	7,497
Investor-owned utilities	3,374
Other	892
 Total United States public finance	 \$ 161,017

National's underwriting guidelines limit the insurance in force for any one insured credit, and for other categories such as geography. In addition, National is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2015, National's gross par amount outstanding for its ten largest insured U.S. public finance credits totaled \$13.1 billion, representing 8.2% of National's total U.S. public finance gross par amount outstanding.

MBIA Corp. Insured Portfolio

MBIA Corp.'s insured portfolio consists of policies that insure various types of international public finance and structured finance obligations that were sold in the new issue and secondary markets or are referenced in CDS contracts. International public finance obligations include bonds and loans extended to entities located outside of the U.S., including utilities, infrastructure projects and sovereign-related and sub-sovereign issuers, such as regions, departments or their equivalent as well as sovereign owned entities that might be supported by a sovereign state, region or department. Sovereign-related includes Private Finance Initiative transactions that involve private entities that receive contractual payments for providing services to public sector entities. Structured finance obligations include asset-backed transactions and financing of commercial activities that are typically secured by undivided interests or collateralized by the related assets or cash flows or, in the case of certain CDS transactions, reference the underlying obligations. Certain policies include payments due under CDS and other derivatives, including termination

payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts or by the guarantor. See Risk Factor Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured RMBS transactions as well as certain other factors may materially and adversely affect MBIA Insurance Corporation's ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if it is not able to pay expected claims under MBIA Corp. Risk Factors , for further information.

As of December 31, 2015, MBIA Corp. had 539 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 104 insurance policies outstanding relating to liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section Other Financial Obligations below. MBIA Corp.'s total policies in its insured portfolio are diversified among 346 credits, which we define as any group of policies supported by the same revenue source.

Portfolio Profile

As of December 31, 2015, the gross par amount outstanding of MBIA Corp.'s insured obligations (excluding \$1.5 billion of MBIA insured investment agreements and MTNs, and \$4.3 billion of U.S. public finance debt ceded to National), was \$41.6 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2015 was \$59.1 billion.

Table of Contents**Item 1. Business (continued)**

MBIA Corp. underwrote its policies on the assumption that the insurance would remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life of its international and structured finance insurance policies in force as of December 31, 2015 was 9 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2015 was \$4.2 billion.

The table below shows the diversification by type of insurance that was outstanding as of December 31, 2015:

MBIA Corp. Gross Par Amount Outstanding for the International and Structured Finance**Portfolio by Bond Type as of December 31, 2015⁽¹⁾**

In millions	Gross Par Amount
Bond Type	
Public finance: non-United States	
Sovereign-related and sub-sovereign	\$ 8,928
International utilities	7,549
Transportation	5,562
Local governments ⁽²⁾	194
Tax backed	80
 Total public finance non-United States	 22,313
Global structured finance:	
Collateralized debt obligations ⁽³⁾	6,008
Mortgage-backed residential	6,030
Mortgage-backed commercial	454
Consumer asset-backed	1,098
Corporate asset-backed ⁽⁴⁾	5,741
 Total global structured finance	 19,331
 Total	 \$ 41,644

(1) Excludes \$1.5 billion relating to investment agreements and MTNs issued by affiliates of the Company and are guaranteed by MBIA Corp.

- (2) Includes municipal-owned entities backed by the sponsoring local government.
- (3) Includes transactions (represented by structured pools of primarily investment grade corporate credit risks, CMBS or other CRE assets) that may not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.
- (4) Includes \$3.3 billion of structured insurance securitizations.

MBIA Corp. is subject to regulatory single-risk limits. See the Insurance Regulation section below. As of December 31, 2015, MBIA Corp.'s gross par amount outstanding for its ten largest non-U.S. public finance credits insured totaled \$11.2 billion, representing 26.9% of MBIA Corp.'s total international and structured finance gross par amount outstanding, and the gross par outstanding for its ten largest structured finance credits (without aggregating issues of common issuers), was \$7.7 billion, representing 18.5% of the total.

Other MBIA Inc. Financial Obligations

Prior to 2008, MBIA Inc. and its subsidiaries raised funds for investment through the issuance of customized investment agreements by MBIA Inc. and one of its subsidiaries and the issuance of MTNs with varying maturities issued by our subsidiary, GFL. Each of these obligations is guaranteed by MBIA Corp. GFL lent the proceeds of its GFL MTN issuances to MBIA Inc. As a result of ratings downgrades of MBIA Corp. MBIA Inc. is required to post collateral for the remaining investment agreements. Since the ratings downgrades of MBIA Corp. that began in 2008, we have not issued new MTNs or investment agreements. The investment agreements are currently fully collateralized with high quality assets. We believe the outstanding investment agreements and MTNs and corresponding asset balances will continue to decline over time as the liabilities mature, terminate, or are repurchased by the Company.

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Item 1. Business (continued)

Risk Management

Our largest risk is the credit exposure in our insured portfolio. MBIA's credit risk management and remediation functions are comprised of different committees and units that oversee risks at transaction origination and in ongoing portfolio monitoring, surveillance and remediation. MBIA's Insured Portfolio Management Division monitors and remediates structured finance and international infrastructure risks while National's portfolio surveillance group performs this function with respect to U.S. public finance transactions. A Restructuring and Remediation Group is responsible for certain transactions that require intensive remediation. National, MBIA Insurance Corporation and MBIA UK each have a risk committee to review certain prescribed underwriting decisions. On an enterprise-wide basis, several executive committees provide risk oversight.

The Company's Risk Oversight Committee (the Risk Oversight Committee) reviews transactions not otherwise reviewable by the subsidiary risk committees, firm-wide risk review, policies and decisions related to credit, market, operational, legal, financial and business risks; the Loss Reserve Committees review reserve activity; and the Investment Committees review specific investment decisions and portfolios.

The Board of Directors and its Committees oversee risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses risks associated with strategic initiatives. On an annual basis, the Board also evaluates and approves the Company's risk tolerance guidelines. The purpose of the risk tolerance guidelines is to delineate the types and amounts of risks the Company is prepared to accept. This policy provides the basis upon which risk criteria and procedures are developed and applied consistently across the Company. The Board's Audit Committee and its Finance and Risk Committee play an important role in overseeing different types of risks.

The Audit Committee oversees risks associated with financial and other reporting, auditing, legal and regulatory compliance, and risks that may otherwise result from the Company's operations. The Audit Committee oversees these risks by monitoring (i) the integrity of the financial statements of the Company and of other material financial disclosures made by the Company, (ii) the qualifications and independence of the Company's independent auditor, (iii) the performance of the Company's internal audit function and independent auditor, (iv) the Company's compliance policies and procedures and its compliance with legal and regulatory requirements and (v) the performance of the Company's operational risk management function.

The Finance and Risk Committee oversees the Company's credit risk governance framework, market risk, liquidity risk and other material financial risks. The Finance and Risk Committee oversees these risks by monitoring the Company's: (i) proprietary investment portfolios, (ii) capital and liquidity, (iii) exposure to changes in the market value of assets and liabilities, (iv) credit exposures in the Insured Portfolios and (v) financial risk policies and procedures, including regulatory requirements and limits.

The Company's Risk Oversight Committee has designated a Models Governance Team. Given the significance of models in the Company's insurance underwriting, surveillance and financial reporting operations, corporate treasury operations, among other activities, the Company has established a Models Risk Governance Policy to enhance the reliability, maintainability and transparency of its models so that models risk can be mitigated on an enterprise-wide basis. The Models Governance Team is responsible for the Models Governance policy as well as other Models Governance related initiatives.

At each regular meeting of the Board, the Chairs of each of these committees report to the full Board regarding the meetings and activities of their respective committees.

Table of Contents***Item 1. Business (continued)******Insurance, Monitoring and Remediation***

We monitor and remediate our existing insured portfolios on an ongoing basis. Although our monitoring and remediation activities vary somewhat by sector and bond type, in all cases we focus on assessing event risk and possible losses under stress.

U.S. Public Finance: For U.S. public finance, our underwriting at origination and ongoing monitoring focuses on economic and political trends, issuer or project debt and financial management, construction and start up risk, adequacy of historical and anticipated cash flows under stress, satisfactory legal structure and bond security provisions, viable tax and economic bases, including consideration of tax limitations and unemployment trends, adequacy of stressed loss coverage and project feasibility, including satisfactory reports from consulting engineers, traffic advisors and others, if applicable. Depending on the transaction, specialized cash flow analyses may be conducted to understand loss sensitivity. In addition, specialized credit analysts consider the potential event risk of natural disasters or headline events on both single transactions and across a sector, as well as regulatory issues. U.S. public finance transactions are monitored by reviewing trustee, issuer and project financial and operating reports as well as reports provided by technical advisors and counsel. Projects may be periodically visited by National personnel.

International Public Finance: International public finance transactions are monitored and remediated in a manner relatively consistent with U.S. public finance transactions. In addition, credit analysts consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. Analysts also monitor local accounting and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. Furthermore, exposures are reviewed periodically; the frequency and scope of review is often increased when an exposure is downgraded. MBIA personnel may periodically visit projects or issuers to meet with management.

Structured Finance Transactions: For structured finance transactions, we focus on the historical and projected cash flows generated by the assets, the credit and operational strength of the originator, servicer, manager and/or operator of the assets, and the nature of the transaction's structure (including the degree of protection from bankruptcy of the originator or servicer). We may use both probability modeling and cash flow sensitivity analysis (both at the transaction and asset specific levels) to test asset performance assumptions and performance covenants, triggers and remedies. In addition, the Insured Portfolio Management Division may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio.

Key to our ongoing monitoring is early detection of deterioration in either transaction credit quality or macroeconomic or market factors that could adversely impact an insured credit. If deterioration is detected, analysts generally evaluate possible remedial actions and, in the event of significant stress, we may involve a dedicated workout unit, the Restructuring and Remediation Group, to assess and monitor the credit and, if necessary, help develop and implement a remediation strategy. The nature of any remedial action is based on the type of insured issue and the nature and

scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, we work with the issuer, trustee, legal counsel, financial advisors, servicer, other creditors, underwriters and/or other related parties to reduce chances of default and the potential severity of loss if a default should occur.

We use an internal credit rating system to monitor credits, with frequency of review based on risk type, internal rating, performance and credit quality. Credits with performance issues are designated as Caution List-Low, Caution List-Medium or Caution List-High based on the nature and extent of our concerns, but these categories do not require establishment of any case basis reserves. In the event we determine that a claim for payment is expected with respect to an insured issue using probability-weighted expected cash flows based on available information, including market data, we place the issue on the Classified List and establish a case basis loss reserve for that insured issue. See Losses and Reserves below for information on our loss reserving process.

Table of Contents***Item 1. Business (continued)******Credit Risk Models***

We use credit risk models to test qualitative judgments, to design appropriate structures and to understand sensitivity within transactions and across broader portfolio exposure concentrations. Models are updated to reflect changes in both portfolio and transaction data and also in expectations of stressed future outcomes. For portfolio monitoring we use internal and third-party models based on individual transaction attributes and customized structures and these models are also used to determine case basis loss reserves and, where applicable, to mark-to-market any insured obligations as may be required for financial reporting. When using third-party models, we generally perform the same review and analyses of the collateral, transaction structure, performance triggers and cash flow waterfalls as when using our internal models. See **Risk Factors** **Insured Portfolio Loss Related Risk Factors** **Financial modeling involves uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential paid claims, loss reserves and fair values** in Part I, Item 1A of this Form 10-K.

Market Risk Assessment

We measure and assess market risk on a consolidated basis as well as at the holding company and subsidiaries on a stand-alone basis. Key market risks are changes in interest rates, credit spreads and foreign exchange. We use various models and methodologies to test exposure under market stress scenarios, including parallel and non-parallel shifts in the yield curve, changes in credit spreads, and changes in foreign exchange rates. We also analyze stressed liquidity scenarios and stressed counterparty exposures. The analyses are used in testing investment portfolio guidelines. The Risk Oversight Committee and the Finance and Risk Committee of the Company's Board of Directors receive periodic reports on market risk.

Operational Risk Assessment

The Operational Risk function assesses potential economic loss or reputational impact arising from processes and controls, systems, or staff actions and seeks to identify vulnerabilities to operational disruptions caused by external events. The Operational Risk framework is generally managed using a self-assessment process across our business units, with controls associated with the execution of key processes monitored through Internal Audit reviews. The Operational Risk function reports periodically to the Risk Oversight Committee and the Audit Committee of the Company's Board of Directors. The Audit Committee reviews the Company's operational risk profile, risk event activity and ongoing risk mitigation efforts.

Losses and Reserves

Loss and loss adjustment expense (LAE) reserves are established by Loss Reserve Committees in each of our major operating insurance companies (National, MBIA Insurance Corporation and MBIA UK) and are reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company's loss and LAE reserves as of December 31, 2015 represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company's estimate of expected losses to be paid under an insurance contract, net of potential recoveries and discounted using a current risk-free interest rate, when this amount exceeds unearned premium revenue on the related insurance contract. The Company estimates expected losses net of potential recoveries using the present value of probability-weighted estimated loss payments and recoveries, discounted at a rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract as required by accounting

principles for financial guarantee contracts. We record case basis loss reserves on insured obligations which have defaulted or are expected to default.

For a further discussion of the methodology used by the Company for determining when a case basis reserve is established, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Loss and Loss Adjustment Expense Reserves in Part II, Item 7 of this Form 10-K. Management believes that our reserves are adequate to cover the ultimate net cost of claims. However, because the reserves are based on management's judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates or that the timing of claims payments and the realization of recoveries will not create liquidity issues for the corresponding insurance company.

Table of Contents***Item 1. Business (continued)*****Reinsurance**

We currently have third-party reinsurance agreements in place covering 3% of our insured par outstanding. At this time we do not intend to utilize reinsurance to decrease the insured exposure in our portfolio or increase our capacity to write new business; however, we may, from time to time, look to enter into transactions to reduce risks embedded in our insured portfolios on an individual and portfolio-wide basis.

Intercompany Reinsurance Arrangements

Under the Transformation, MBIA Corp. and National entered into the MBIA Corp. Reinsurance Agreement as well as an assignment agreement under which MBIA Corp. assigned its rights and obligations under the FGIC Reinsurance Agreement. In addition, National entered into second-to-pay policies covering the policies covered by each of these agreements. The FGIC Reinsurance Agreement was terminated in 2013 in connection with the novation of the policies covered by the FGIC Reinsurance Agreement to National pursuant to the FGIC Novation Agreement. Each of these transactions and the terms of those documents are further described under the **Our Insurance Operations National Insured Portfolio** section above.

MBIA Insurance Corporation maintains a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Insurance Corporation reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation, subject to certain New York State regulatory requirements as well as certain contract restrictions. In December of 2015, MBIA Insurance Corporation terminated its reinsurance agreement and its net worth maintenance agreement with MBIA UK by mutual consent.

Insurance Regulation

National and MBIA Insurance Corporation are incorporated and subject to primary insurance regulation and supervision by the State of New York. MBIA UK and MBIA Mexico are organized and subject to primary regulation and supervision in the U.K. and Mexico, respectively. MBIA UK is authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA in the U.K. The Company's insurance subsidiaries are also licensed to issue financial guarantee policies in multiple jurisdictions as needed to conduct their business activities. During 2013, MBIA UK was placed in run-off and varied its scope of permissions such that it is no longer authorized to write new financial guarantee business. It also filed a related scheme of operations with the PRA and the FCA, which they have approved.

The extent of state and national insurance regulation and supervision varies by jurisdiction, but New York, the U.K., Mexico and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies, and if our insurance companies fail to meet such requirements our regulators may impose certain remedial actions on us. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Insurance Corporation and National each are required to file detailed annual financial statements with the NYSDDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. MBIA UK makes similar filings with the PRA and the FCA. The operations and accounts of the insurance companies are subject to examination by regulatory agencies at regular intervals. In addition

to being subject to the insurance laws in the jurisdictions in which we operate, as a condition to obtaining required insurance regulatory approvals to enter into certain transactions and take certain other corporate actions, including the release of excessive contingency reserves in MBIA Insurance Corporation described below under Contingency Reserves and entry into the asset swap between MBIA Inc. and National described under Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity in Part II, Item 7 of this Form 10-K, MBIA Inc. and its insurance subsidiaries have and may in the future agree to provide notice to the NYSDFS or other applicable regulators prior to entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval.

Table of Contents***Item 1. Business (continued)******New York Insurance Regulation***

Our domestic insurance companies are licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law (the NYIL). Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation when due. Under Article 69, our domestic insurance companies are permitted to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which they are authorized to transact. In addition, they are empowered to assume or reinsure the kinds of insurance described above. Since 2009, both the NYSDFS and the New York legislature have proposed enhanced regulation of financial guarantee insurers which would impose limits on the manner and amount of business written by the Company. The timing of any amendments to the statutes or regulations governing financial guarantee insurers is uncertain.

New York State Dividend Limitations

The laws of New York regulate the payment of dividends by National and MBIA Corp. and provide that a New York domestic stock property/casualty insurance company may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders surplus, as shown by the most recent statutory financial statement on file with the NYSDFS, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings.

National declared and paid a dividend of \$114 million to its ultimate parent, MBIA Inc., in the fourth quarter of 2015.

Due to its significant negative earned surplus, MBIA Corp. has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends for the foreseeable future. In connection with MBIA Corp. obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Corp. agreed that it would not pay any dividends without prior approval from the NYSDFS.

The foregoing dividend limitations are determined in accordance with statutory accounting principles (U.S. STAT), which generally produce statutory earnings in amounts less than earnings computed in accordance with accounting principles generally accepted in the U.S. (GAAP). Similarly, policyholders' surplus, computed on a U.S. STAT basis, will normally be less than net worth computed on a GAAP basis.

Dividend limitations on MBIA UK

MBIA UK accounts for approximately 50% of MBIA Corp.'s investments as of December 31, 2015. MBIA UK is currently in run-off and would require prior approval from the PRA to pay dividends to MBIA Insurance Corporation.

There is no certainty such approval will be given for the foreseeable future.

Table of Contents***Item 1. Business (continued)******Contingency Reserves***

As financial guarantee insurers, our domestic insurance companies are required by the laws and regulations of New York, California, Connecticut, Florida, Illinois, Iowa, Maryland, New Jersey and Wisconsin to maintain, as applicable, contingency reserves on their municipal bond, asset-backed securities (ABS) or other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by an insurance company to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, a financial guarantee insurance company is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to July 1, 1989 (net of reinsurance), and, with respect to policies written on and after July 1, 1989, such an insurer must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.6% to 2.5%, depending upon the type of obligation guaranteed (net of collateral, reinsurance, refunding, refinancings and certain insured securities). California, Connecticut, Florida, Iowa and Maryland laws impose a generally similar requirement, and in California the insurance commissioner can require an insurer to maintain additional reserves if the commissioner determines that the insurer's reserves are inadequate. The contribution to, and maintenance of, the contingency reserve limit the amount of earned surplus that might otherwise be available for the payment of dividends. In each of these states, our domestic insurance companies may apply for release of portions of their contingency reserves in certain circumstances.

Risk Limits

Insurance laws and regulations also limit both the aggregate and individual securities risks that our domestic insurance companies may insure on a net basis based on the type of obligations insured. The individual limits are generally on the amount of insured par and/or annual debt service for a given insured issue, entity or revenues source and stated as a percentage of the insurer's policyholders' surplus and contingency reserves. The aggregate risk limits limit the aggregate amount of insured par to a stated multiple of the insurer's policyholders' surplus and contingency reserves based on the types of obligations insured. The aggregate risk limits can range from 300:1 for certain municipal obligations to 50:1 for certain non-municipal obligations.

National is in compliance with the relevant aggregate and single risk limits. In 2015 and 2014, MBIA Corp. reported single risk limit overages to the NYSDFS due to changes in its statutory capital. In addition, MBIA Corp. is currently in compliance with its aggregate risk limits as of December 31, 2015. If MBIA Corp. is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Corp. from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

Holding Company Regulation

MBIA Inc., National and MBIA Corp. also are subject to regulation under the insurance holding company statutes of New York. The requirements of holding company statutes vary from jurisdiction to jurisdiction but generally require insurance companies that are part of an insurance holding company system to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of certain transactions between insurance companies, their parents and affiliates. The holding

company statutes impose standards on certain transactions with related companies, which include, among other requirements, that all transactions be fair and reasonable and those transactions not in the ordinary course of business exceeding specified limits receive prior regulatory approval.

Change of Control

Prior approval by the NYSDFS is required for any entity seeking to acquire, directly or indirectly, control of National or MBIA Corp. In many states, including New York, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. The PRA and FCA also require prior approval of changes to any controlling person of MBIA Inc., MBIA Insurance Corporation or MBIA UK. MBIA Corp. would require the prior approval of MBIA Mexico's regulator in order to transfer the shares it currently holds in MBIA Mexico. To the Company's knowledge, each MBIA Inc. shareholder which owns 10% or more of MBIA Inc.'s outstanding common stock as of December 31, 2015 has received appropriate approvals or determinations of non-control in connection with its investment.

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Item 1. Business (continued)

Insurance Guarantee Funds

National and MBIA Corp. are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most states, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

Insured Credit Default Swaps

Certain of our insurance policies guarantee payments due under CDS and other derivatives. In July of 2010, the Dodd-Frank Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law for the purpose of enacting broad financial industry regulatory reform, including by enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires swap dealers and major swap participants to register with either or both of the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), and to be subject to enhanced regulation, including capital requirements. Previously, MBIA Corp. was registered with the CFTC as a major swap participant and had been required to comply with the CFTC s business conduct rules as applied to portfolios in place prior to the enactment of the Dodd-Frank Act. In May of 2015, MBIA Corp. de-registered as a major swap participant as the notional amount and fair value of its CDS exposures declined below the registration thresholds.