

MBIA INC
Form 10-Q
May 12, 2014
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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2014

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
(State of incorporation)

06-1185706
(I.R.S. Employer

Identification No.)

113 King Street, Armonk, New York
(Address of principal executive offices)

10504
(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 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 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

As of May 7, 2014, 195,209,782 shares of Common Stock, par value \$1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly 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 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 that are experiencing unprecedented fiscal stress;

the possibility that MBIA Corp. will have inadequate liquidity to pay expected claims as a result of increased losses on certain structured finance transactions, in particular residential mortgage-backed securities transactions that include a substantial number of ineligible mortgage loans, or 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 capital and our exposure to significant fluctuations in liquidity and asset values within 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 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 (U.S.) or abroad, and adverse developments in European sovereign credit performance, real estate market performance, credit spreads, interest rates and foreign currency levels;

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

uncertainties that have not been identified at this time.

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 MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2013. In addition, refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions except share and per share amounts)

	March 31, 2014	December 31, 2013
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$5,173 and \$5,064)	\$ 5,200	\$ 4,987
Investments carried at fair value	212	204
Investments pledged as collateral, at fair value (amortized cost \$329 and \$483)	278	424
Short-term investments held as available-for-sale, at fair value (amortized cost \$1,318 and \$1,203)	1,319	1,204
Other investments (includes investments at fair value of \$12 and \$11)	16	16
Total investments	7,025	6,835
Cash and cash equivalents	679	1,161
Premiums receivable	1,009	1,051
Deferred acquisition costs	250	260
Insurance loss recoverable	671	694
Assets held for sale	29	29
Deferred income taxes, net	917	1,109
Other assets	200	222
Assets of consolidated variable interest entities:		
Cash	54	97
Investments held-to-maturity, at amortized cost (fair value \$2,695 and \$2,651)	2,793	2,801
Investments held as available-for-sale, at fair value (amortized cost \$35 and \$136)	35	136
Fixed-maturity securities at fair value	504	587
Loans receivable at fair value	1,557	1,612
Loan repurchase commitments	364	359
Total assets	\$ 16,087	\$ 16,953
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 2,337	\$ 2,441
Loss and loss adjustment expense reserves	602	641
Investment agreements	689	700
Medium-term notes (includes financial instruments carried at fair value of \$215 and \$203)	1,418	1,427
Long-term debt	1,731	1,702
Derivative liabilities	381	1,152
Other liabilities	287	294
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$2,194 and \$2,356)	5,012	5,286
Derivative liabilities	5	11

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Total liabilities	12,462	13,654
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 281,291,579 and 277,812,430	281	278
Additional paid-in capital	3,115	3,115
Retained earnings	2,545	2,289
Accumulated other comprehensive income (loss), net of tax of \$16 and \$54	(13)	(86)
Treasury stock, at cost 86,086,648 and 85,562,546 shares	(2,324)	(2,318)
Total shareholders equity of MBIA Inc.	3,604	3,278
Preferred stock of subsidiary and noncontrolling interest	21	21
Total equity	3,625	3,299
Total liabilities and equity	\$ 16,087	\$ 16,953

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

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In millions except share and per share amounts)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Premiums earned:		
Scheduled premiums earned	\$ 69	\$ 79
Refunding premiums earned	19	41
Premiums earned (net of ceded premiums of \$2 and \$2)	88	120
Net investment income	50	38
Fees and reimbursements	4	6
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	(369)	12
Unrealized gains (losses) on insured derivatives	838	(73)
Net change in fair value of insured derivatives	469	(61)
Net gains (losses) on financial instruments at fair value and foreign exchange	(55)	63
Net gains (losses) on extinguishment of debt	1	4
Other net realized gains (losses)	1	-
Revenues of consolidated variable interest entities:		
Net investment income	12	16
Net gains (losses) on financial instruments at fair value and foreign exchange	3	33
Net gains (losses) on extinguishment of debt	4	-
Total revenues	577	219
Expenses:		
Losses and loss adjustment	50	(194)
Amortization of deferred acquisition costs	10	16
Operating	46	106
Interest	54	60
Expenses of consolidated variable interest entities:		
Operating	3	4
Interest	10	12
Total expenses	173	4
Income (loss) before income taxes	404	215
Provision (benefit) for income taxes	148	51
Net income (loss)	\$ 256	\$ 164
Net income (loss) per common share:		
Basic	\$ 1.33	\$ 0.84
Diluted	\$ 1.32	\$ 0.84
Weighted average number of common shares outstanding:		
Basic	189,033,982	189,111,170
Diluted	190,263,748	190,219,197

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

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(In millions)

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	\$ 256	\$ 164
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses) arising during the period	105	13
Provision (benefit) for income taxes	38	4
Total	67	9
Reclassification adjustments for (gains) losses included in net income (loss)	2	(25)
Provision (benefit) for income taxes	1	(9)
Total	1	(16)
Available-for-sale securities with other-than-temporary impairments:		
Other-than-temporary impairments and unrealized gains (losses) arising during the period	3	5
Provision (benefit) for income taxes	-	2
Total	3	3
Foreign currency translation:		
Foreign currency translation gains (losses)	(2)	(43)
Reclassification adjustments for (gains) losses included in net income (loss)	4	-
Total other comprehensive income (loss)	73	(47)
Comprehensive income (loss)	\$ 329	\$ 117

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2014

(In millions 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 and Noncontrolling Interest		Total Equity
	Shares	Amount				Shares	Amount		Shares	Amount	
Balance, December 31, 2013	277,812,430	\$ 278	\$ 3,115	\$ 2,289	\$ (86)	(85,562,546)	\$ (2,318)	\$ 3,278	1,315	\$ 21	\$ 3,299
Net income (loss)	-	-	-	256	-	-	-	256	-	-	256
Other comprehensive income (loss)	-	-	-	-	73	-	-	73	-	-	73
Share-based compensation net of tax of \$2	3,479,149	3	-	-	-	(524,102)	(6)	(3)	-	-	(3)
Balance, March 31, 2014	281,291,579	\$ 281	\$ 3,115	\$ 2,545	\$ (13)	(86,086,648)	\$ (2,324)	\$ 3,604	1,315	\$ 21	\$ 3,625

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 millions)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Premiums, fees and reimbursements received	\$ 30	\$ 54
Investment income received	110	115
Insured derivative commutations and losses paid	(343)	-
Financial guarantee losses and loss adjustment expenses paid	(86)	(115)
Proceeds from recoveries and reinsurance	20	13
Operating and employee related expenses paid	(111)	(84)
Interest paid, net of interest converted to principal	(48)	(61)
Income taxes (paid) received	4	-
Net cash provided (used) by operating activities	(424)	(78)
Cash flows from investing activities:		
Purchases of available-for-sale investments	(325)	(471)
Sales of available-for-sale investments	16	620
Paydowns and maturities of available-for-sale investments	135	148
Purchases of investments at fair value	(386)	(87)
Sales, paydowns and maturities of investments at fair value	452	151
Sales, paydowns and maturities (purchases) of short-term investments, net	219	(103)
Sales, paydowns and maturities of held-to-maturity investments	8	4
Paydowns and maturities of loans	55	69
Consolidation (deconsolidation) of variable interest entities, net	(1)	-
(Payments) proceeds for derivative settlements	(8)	(31)
Collateral (to) from swap counterparty	46	23
Capital expenditures	(1)	-
Net cash provided (used) by investing activities	210	323
Cash flows from financing activities:		
Proceeds from investment agreements	6	8
Principal paydowns of investment agreements	(20)	(39)
Principal paydowns of medium-term notes	(28)	(23)
Principal paydowns of variable interest entity notes	(270)	(246)
Payments for retirement of debt	-	(1)
Net cash provided (used) by financing activities	(312)	(301)
Effect of exchange rate changes on cash and cash equivalents	1	-
Net increase (decrease) in cash and cash equivalents	(525)	(56)
Cash and cash equivalents beginning of period	1,258	990
Cash and cash equivalents end of period	\$ 733	\$ 934
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	\$ 256	\$ 164

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Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:

Change in:		
Premiums receivable	41	44
Deferred acquisition costs	10	12
Unearned premium revenue	(107)	(130)
Loss and loss adjustment expense reserves	(39)	(68)
Insurance loss recoverable	23	(229)
Accrued interest payable	27	2
Accrued expenses	(63)	57
Realized (gains) losses and other settlements on insured derivatives	30	-
Unrealized (gains) losses on insured derivatives	(838)	73
Net (gains) losses on financial instruments at fair value and foreign exchange	52	(96)
Deferred income tax provision (benefit)	148	53
Interest on variable interest entities, net	18	24
Other operating	18	16
Total adjustments to net income (loss)	(680)	(242)
Net cash provided (used) by operating activities	\$ (424)	\$ (78)

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments and Risks and Uncertainties*****Summary***

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management and advisory services. These activities are managed through three business segments: United States (U.S.) public finance insurance; structured finance and international insurance; and advisory services. The Company's U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries (National), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and its asset management and advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). MBIA Inc. and certain of its subsidiaries also manage certain other business activities, the results of which are reported in the corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down. Refer to Note 10: Business Segments for further information about the Company's reporting segments.

Business Developments***National Ratings and New Business Opportunities***

National's ability to write new business and compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by major rating agencies. During the first quarter of 2014, Standard & Poor's Financial Services LLC (S&P) upgraded National to a rating of AA- with a stable outlook and Moody's Investors Services, Inc. (Moody's) reaffirmed National's rating of Baa1 with a positive outlook.

National seeks to generate shareholder value through appropriate risk adjusted pricing; however, current market conditions and the competitive landscape may limit National's new business opportunities and its abilities to price and underwrite risk with attractive returns. Refer to Risks and Uncertainties below for a discussion of business risks related to National's strategy.

MBIA Inc. Liquidity

MBIA Inc.'s liquidity resources support the Company's corporate and asset/liability products segments. The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, servicing investment agreements and medium-term notes (MTNs) issued by MBIA Inc. and its subsidiary, MBIA Global Funding, LLC (GFL), posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries and payments under the MBIA group's tax sharing agreement (the Tax Escrow Account) from subsidiaries of the Company once the payments become unrestricted.

As of March 31, 2014, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products segments, was \$499 million and comprised cash and liquid assets of \$443 million available for general liquidity purposes, excluding the amounts held in the Tax Escrow Account, and \$56 million not pledged directly as collateral for its asset/liability products segment. As of December 31, 2013, MBIA Inc. had \$359 million of cash and liquid assets comprising \$307 million available for general corporate liquidity purposes, excluding the amounts held in the Tax Escrow Account, and \$52 million not pledged directly as collateral for its asset/liability products segment. MBIA Inc.'s liquidity position has substantially improved during the first quarter of 2014 due to the release of \$173 million from the Tax Escrow Account. The Company expects that MBIA Inc. will generate sufficient cash to satisfy its debt obligations and its general corporate needs over time from expected subsidiary dividends and additional anticipated releases from the Tax Escrow Account.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments and Risks and Uncertainties (continued)***MBIA Corp. Strategic Initiatives*

During the first quarter of 2014, the Company continued to focus on the collection of excess spread and put-back recoveries and the mitigation of MBIA Corp.'s high risk insurance exposure, primarily through terminations of insurance policies. During the three months ended March 31, 2014, MBIA Corp. commuted \$3.8 billion of gross par exposure, primarily comprising structured commercial mortgage-backed securities (CMBS) pools, in which the referenced CMBS were originally rated single-A, commercial real estate (CRE) collateralized debt obligations (CDOs), and first-lien residential mortgage-backed securities (RMBS). The difference between the fair values of the Company's derivative liabilities for the commuted policies and the aggregate cost of the commutation was reflected in earnings for the three months ended March 31, 2014. In connection with this commutation, on February 14, 2014, Moody's placed the current rating of MBIA Corp., B3 with a positive outlook, on review for upgrade.

Risks and Uncertainties

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

U.S. Public Finance Market Conditions

The majority of National's new business is expected to be in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, there are attractive opportunities in the secondary market with respect to bonds issued in recent years which were not insured upon issuance and which currently meet National's underwriting criteria. Nonetheless, as a result of intense competition and the diminished use of financial guarantee insurance in the municipal finance market, among other factors, there can be no assurance that National will be able to write business that generates attractive returns. Financial guarantee insurance competes in nearly all instances with the issuer's alternative of foregoing insurance and paying a higher interest rate. If the interest savings from insurance are not greater than the cost, the issuer will generally choose to issue bonds without insurance.

Prevailing interest rate levels can affect demand for financial guarantee insurance. Higher interest rates and higher levels of issuance of new municipal debt in 2014 would present new business opportunities for National in the U.S. public finance market. Lower interest rates are typically accompanied by narrower spreads between insured and uninsured obligations. This is, in part, due to the fact that investors may choose to forego insurance to increase the yield on their investment. Therefore, the purchase of insurance during periods of relatively narrower interest rate spreads will generally provide lower cost savings to the issuer than during periods of relatively wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guarantee insurance.

National's insured portfolio continued to perform satisfactorily on the whole, however portions of the obligations that the Company insures were issued by a few of the state and local governments and territories that remain under extreme financial and budgetary stress. In addition, a few of these local governments have filed for protection under the United States Bankruptcy Code or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. The Company monitors and analyzes each situation closely, and the overall extent and duration of this stress is uncertain.

MBIA Inc. Liquidity

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While MBIA Inc. s liquidity position improved during the first quarter of 2014 and management believes that MBIA Inc. has sufficient liquidity resources to meet all of its obligations for the foreseeable future, MBIA Inc. continues to have liquidity risk. If invested asset performance deteriorates or the flow of dividends from subsidiaries is interrupted and/or access to the capital markets is impaired, its liquidity position could be eroded over time. While the Company expects that MBIA Inc. will generate sufficient cash to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries and payments under the Tax Escrow Account from subsidiaries of the Company once the payments become unrestricted, there can be no assurance that such sources will generate sufficient cash. In addition, a failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments and Risks and Uncertainties (continued)***MBIA Corp. Recoveries and Insured Portfolio*

The amount and timing of projected collections of excess spread and put-back recoverable from Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc. (collectively, Credit Suisse) and the potential of claims from MBIA Corp.'s remaining insured CMBS pools and second-lien RMBS are uncertain. Further, the remaining insured portfolio, aside from these exposures, could deteriorate and result in additional significant loss reserves and claim payments. Management's expected liquidity and capital forecasts for MBIA Corp., which include expected excess spread recoveries and put-back recoveries from Credit Suisse, reflect adequate resources to pay claims when due. However, if MBIA Corp. experiences higher than expected claim payments or is unable to terminate the remaining exposures that represent substantial risk to the Company, MBIA Corp. may ultimately have insufficient resources to continue to pay claims, which could cause the New York State Department of Financial Services (NYSDFS) to put MBIA Corp. into a rehabilitation or liquidation proceeding. Such a proceeding could have an adverse impact on MBIA Inc. and would result in material adverse consequences for MBIA Corp., including the termination of insured credit default swaps (CDS) contracts for which counterparties may assert market-based claims, the acceleration of debt obligations issued by affiliates and insured by MBIA Corp., the loss of control of MBIA Corp. to a rehabilitator or liquidator, and unplanned costs. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about MBIA Corp.'s loss reserves and recoveries. Management does not believe that a rehabilitation or liquidation proceeding of MBIA Corp. by the NYSDFS will result in a rehabilitation or liquidation proceeding of MBIA UK Insurance Limited.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. 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 accounting principles generally accepted in the United States of America (GAAP) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2013. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

The results of operations for the three months ended March 31, 2014 may not be indicative of the results that may be expected for the year ending December 31, 2014. The December 31, 2013 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in the prior year's financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 3: Recent Accounting Pronouncements*****Recently Adopted Accounting Standards******Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11)***

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 requires presentation of an unrecognized tax benefit (UTB) as a reduction to a deferred tax asset when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists in the same tax year and jurisdiction as the UTB. ASU 2013-11 does not affect the recognition or measurement of uncertain tax positions under Income Taxes (Topic 740) and does not affect any related tax disclosures. ASU 2013-11 is effective for interim and annual periods beginning January 1, 2014 with early adoption permitted. The Company previously presented any UTBs as a reduction to a deferred tax asset in accordance with ASU 2013-11 as all of its UTBs relate to the same tax years and jurisdictions in which NOLs exist, therefore, this standard did not affect the Company's consolidated balance sheets, results of operations, or cash flows.

The Company has not adopted any other new accounting pronouncements that had a material impact on its consolidated financial statements. In addition, the Company has reviewed all recently issued, but not yet effective, accounting pronouncements and concluded the future adoption of any such pronouncements will have not have a material impact on the Company's balance sheets, 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 protection to issuers of obligations that may involve issuer-sponsored special purpose entities (SPEs). An SPE may be considered a variable interest entity (VIE) to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics: (i) the power to direct the activities of the SPE that most significantly impact the entity's economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 4: Variable Interest Entities (continued)**

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 (AFS). The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA's wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs.

In the conduit segment, the Company manages and administers a conduit that invested primarily in debt securities and was funded through the issuance of VIE notes. MBIA Corp. insures the debt obligations of this conduit, and provides credit protection on certain assets held by the conduit. The conduit is a VIE and is consolidated by the Company as primary beneficiary.

Nonconsolidated VIEs**Insurance**

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of March 31, 2014 and December 31, 2013, through its insurance operations. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of March 31, 2014 and December 31, 2013. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

In millions	VIE Assets	Maximum Exposure to Loss	March 31, 2014 Carrying Value of Assets			Carrying Value of Liabilities Loss and Loss		
			Investments ⁽¹⁾	Premiums Receivable ⁽²⁾	Insurance Loss Recoverable ⁽³⁾	Unearned Premium Revenue ⁽⁴⁾	Adjustment Expense Reserves ⁽⁵⁾	Derivative Liabilities ⁽⁶⁾
Insurance:								

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Global structured finance:

Collateralized debt obligations	\$ 9,371	\$ 6,516	\$ 125	\$ 34	\$ -	\$ 29	\$ 15	\$ 91
Mortgage-backed residential	16,247	8,537	12	50	639	48	327	5
Mortgage-backed commercial	634	332	-	1	-	1	-	-
Consumer asset-backed	5,486	2,513	-	18	-	17	11	-
Corporate asset-backed	11,481	6,069	1	67	18	82	-	-
Total global structured finance	43,219	23,967	138	170	657	177	353	96
Global public finance	53,364	20,219	-	200	-	242	6	-
Total insurance	\$ 96,583	\$ 44,186	\$ 138	\$ 370	\$ 657	\$ 419	\$ 359	\$ 96

(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.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 4: Variable Interest Entities (continued)**

In millions	December 31, 2013					Carrying Value of Liabilities		
	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	\$ 12,565	\$ 7,693	\$ 120	\$ 43	\$ -	\$ 37	\$ 21	\$ 108
Mortgage-backed residential	21,738	9,251	10	53	658	51	327	5
Mortgage-backed commercial	1,367	447	-	1	-	1	-	-
Consumer asset-backed	7,830	2,740	9	19	-	19	13	-
Corporate asset-backed	13,028	7,248	2	80	18	96	-	-
Total global structured finance	56,528	27,379	141	196	676	204	361	113
Global public finance	52,317	20,162	-	206	-	248	5	-
Total insurance	\$ 108,845	\$ 47,541	\$ 141	\$ 402	\$ 676	\$ 452	\$ 366	\$ 113

(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 maximum exposure to loss as a result of MBIA's variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were \$5.3 billion and \$5.0 billion, respectively, as of March 31, 2014, and \$5.6 billion and \$5.3 billion, respectively, as of December 31, 2013. The carrying amounts of assets and liabilities are presented separately in

Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities on the Company's consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. No additional VIEs were consolidated for the three months ended March 31, 2014, and 2013, respectively. There was an immaterial amount of net realized gains recorded for the three months ended March 31, 2014 and no realized gains or losses recorded for the three months ended March 31, 2013 related to the deconsolidation of VIEs.

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

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

U.S. Public Finance

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, 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. The Company estimates future losses by utilizing probability-weighted scenarios that are customized to each insured transaction. Future loss estimates consider debt service due for each insured transaction, which includes par outstanding and interest due.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

As of March 31, 2014 and December 31, 2013, the Company established loss and loss adjustment expense (LAE) reserves totaling \$62 million and \$87 million, respectively and insurance loss recoverable of \$9 million and \$13 million, respectively. For the three months ended March 31, 2014, losses and LAE incurred was a benefit of \$14 million, primarily related to certain general obligation bonds.

Certain local governments remain under extreme financial and budgetary stress and a few have filed for protection under the United States Bankruptcy Code, or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. The Company monitors and analyzes these situations closely, however, the overall extent and duration of such events are uncertain and the filing for protection under the United States Bankruptcy Code or entering state statutory proceedings does not result in a default or indicate that an ultimate loss will occur. As of March 31, 2014 and December 31, 2013, the Company had \$120.1 billion and \$124.9 billion, respectively, of gross par outstanding on general obligations, of which \$161 million was reflected on the Company's Classified List. Capital appreciation bonds are reported at the par amount at the time of issuance of the insurance policy.

Structured Finance and International

As of March 31, 2014, the majority of the structured finance and international insurance segment's case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured second and first-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives or losses and recoveries on financial guarantee VIEs that are eliminated in consolidation. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company's insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and LAE periodically in a manner similar to the way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Corp.'s expected future claim payments for insured derivatives were discounted using a rate of 5.09%, the same rate it used to calculate its statutory loss reserves as of March 31, 2014. MBIA UK Insurance Limited used a rate of 2.50% to discount its expected future claim payments and statutory loss reserves. These credit impairments, calculated in accordance with statutory accounting principles (U.S. STAT) differ from the fair values recorded in the Company's consolidated financial statements. The Company considers its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to Note 6: Fair Value of Financial Instruments included herein for additional information about the Company's insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries (Financial Guarantees)

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of March 31, 2014 for both second and first-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate losses on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional

stress case).

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)****Second-lien RMBS Reserves**

The Company's second-lien RMBS case basis reserves as of March 31, 2014 relate to RMBS backed by home equity lines of credit (HELOC) and closed-end second mortgages (CES).

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures and Real Estate Owned (REO) is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 28, 2014 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, 2014 (Current Roll to Loss) are also calculated on a transaction-specific basis. A proportion of loans reported current as of February 28, 2014 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. The Company runs multiple scenarios, each with varying periods of time, for which the high levels of Current Roll to Loss rates persist. Loss reserves are calculated by using a weighted average of these scenarios, with the majority of the probability assigned to stressful scenarios where the high levels of Current Roll to Loss rates persist for six or twenty four months before reverting to historic levels. For example, in the base case scenario, 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 28, 2014. If the amount of current loans which become 30-59 days delinquent is 10%, and recent performance suggests that 30% of those loans will be charged-off, the Current Roll to Loss for the transaction is 3%. In the base case, the Current Roll to Loss will then 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 2014 to August 2014). After that six-month period, the Company further reduces the Current Roll to Loss to 0% by late-2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to lower levels of default consistent with history. 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.

In addition, in the Company's loss reserve models for transactions secured by HELOCs, the Company considers borrower draw and prepayment rates and factors that could affect the excess spread generated by current loans, which offsets losses and reduces payments. For HELOCs, the current three-month average draw rate is generally used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the Company uses historical average voluntary prepayment rates to model its loss reserves. For HELOCs, projected cash flows are also based on an assumed constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between prime and London Interbank Offered Rate (LIBOR) interest rates, minus any applicable fees). For all transactions, cash flow models consider allocations and other structural aspects, including managed amortization periods, rapid amortization periods and claims against MBIA Corp.'s insurance policy consistent with such policy's terms and conditions. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA's general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA's probability-weighted estimates of how transactions will perform over time.

As of March 31, 2014 and December 31, 2013, the Company established loss and LAE reserves totaling \$109 million and \$126 million, respectively, related to second-lien RMBS issues after the elimination of \$38 million and \$43 million, respectively, as a result of consolidating VIEs. For the three months ended March 31, 2014, the Company incurred \$25 million of losses and LAE recorded in earnings related to second-lien RMBS issues after the elimination of a \$12 million expense as a result of consolidating VIEs.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, loan performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels for six additional months compared to the probability-weighted outcome currently used by the Company, the addition to the case basis reserves would be approximately \$70 million.

Second-lien RMBS Recoveries

The Company primarily records two types of recoveries related to insured second-lien RMBS exposures: put-back claims related to those mortgage loans whose inclusion in insured securitizations failed to comply with representations and warranties (ineligible loans) and excess spread that is generated from performing loans in the insured transactions.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)***Excess Spread*

As of March 31, 2014 and December 31, 2013, the Company recorded estimated recoveries of \$651 million and \$681 million, respectively, for the reimbursement of past and future expected claims through excess spread in insured second-lien RMBS transactions. As of March 31, 2014 and December 31, 2013, \$626 million and \$647 million, respectively, was included in Insurance loss recoverable and \$25 million and \$34 million, respectively, was included in Loss and loss adjustment expense reserves on the Company's consolidated balance sheets.

Excess spread is generated by performing loans within insured second-lien RMBS securitizations and is the difference between interest inflows on mortgage loan collateral and interest outflows on insured beneficial interests. The amount of excess spread depends on the future loss trends (which include future delinquency trends, average time to charge-off delinquent loans, and the availability of pool mortgage insurance), the future spread between prime and LIBOR interest rates; and borrower refinancing behavior which results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts collected from excess spread and caused the reduction in estimated recoveries during the first quarter of 2014.

Ineligible Mortgage Loans

To date, MBIA has settled the majority of the Company's put-back claims, with its claims against only Credit Suisse remaining as outstanding. The settlement amounts have been consistent with the put-back recoveries previously included in the Company's financial statements. Additional information on the status of the litigation against Credit Suisse can be found within Note 13: Commitments and Contingencies.

The contract claim remaining with Credit Suisse is related to the inclusion of ineligible mortgage loans in the 2007-2 Home Equity Mortgage Trust (HEMT) securitization. Credit Suisse has challenged the Company's assessment of the ineligibility of individual mortgage loans and the dispute is the subject of litigation for which there is no assurance that the Company will prevail.

As of March 31, 2014 and December 31, 2013, the Company recorded estimated recoveries of \$364 million and \$359 million, respectively, related to second-lien RMBS put-back claims on ineligible mortgage loans, reflected in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company's consolidated balance sheets.

The Company believes that it will prevail in enforcing its contractual put-back rights against Credit Suisse. Based on the Company's assessment of the strength of these claims, the Company believes it is entitled to collect the full amount of its incurred losses, which totaled \$423 million through March 31, 2014. The Company is entitled to collect interest on amounts paid. However, uncertainty remains with respect to the ultimate outcome of the litigation with Credit Suisse, which is contemplated in the scenario based-modeling the Company utilizes. The Credit Suisse recovery scenarios are based on the amount of incurred losses measured against certain probabilities of ultimate resolution of the dispute with Credit Suisse over the inclusion of ineligible mortgage loans in the HEMT securitization. Most of the probability weight is assigned to partial recovery scenarios and are discounted using the current risk-free discount rates associated with the underlying transaction's cash flows.

The Company frequently reviews the approach and assumptions it applies to calculate put-back recoveries. Refer to Note 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for the Company's assessment of the remaining unsettled recoveries related to insured Credit Suisse second-lien RMBS.

First-lien RMBS Reserves

The Company's first-lien RMBS case basis reserves as of March 31, 2014, which primarily relate to RMBS backed by Alternative A-paper and subprime mortgage loans, were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure,

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REO and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. The Current Roll to Loss rates stay at the February 28, 2014 level for one month before declining to 25% of this level over a 24-month period.

The Company estimates future losses by utilizing three different probability-weighted scenarios: base; stress; and additional stress. The three scenarios differ in the Roll Rates to loss of 90+ day delinquent loans. In the base scenario, the Company uses deal-specific Roll Rates obtained from historic loan level Roll Rate data for 90+ day delinquent loans. In the stress scenario, the Company assumes a 90% Roll Rate for all 90+ day delinquent loans. In the additional stress scenario, the Roll Rates for each deal are an average of the deal-specific Roll Rate used in the base scenario and the 90% rate. The Roll Rates are applied to the amounts in each deal's respective 90+ delinquency bucket based on delinquencies as of February 28, 2014 in order to estimate future losses from loans that are delinquent as of March 31, 2014.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

As of March 31, 2014, the Company established loss and LAE reserves totaling \$246 million related to first-lien RMBS issues. As of December 31, 2013, the Company established loss and LAE reserves totaling \$241 million related to first-lien RMBS issues after the elimination of \$2 million as a result of consolidating VIEs. For the three months ended March 31, 2014, the Company incurred \$30 million of losses and LAE recorded in earnings related to first-lien RMBS issues after the elimination of a \$2 million benefit as a result of consolidating VIEs.

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA's insured asset-backed securities (ABS) CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, ABS CDOs, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority currently insured in the form of financial guarantees. Since the fourth quarter of 2007, MBIA's insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of March 31, 2014, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 96% of the insured amount as of December 31, 2007.

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

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

As of March 31, 2014 and December 31, 2013, the Company established loss and LAE reserves totaling \$120 million and \$115 million, respectively, related to ABS CDO financial guarantee insurance policies after the elimination of \$236 million and \$226 million, respectively, as a result of consolidating VIEs. For the three months ended March 31, 2014, the Company incurred \$6 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a \$10 million expense as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase substantially.

Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Financial Guarantees and Insured Derivatives)

MBIA's insured CRE transactions comprise structured CMBS pools, CRE CDOs and CRE loan pools. The majority of this portfolio is accounted for as insured credit derivatives and carried at fair value in the Company's consolidated financial statements. Refer to Note 8: Derivative Instruments for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial statements. Since the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment in the same way that it estimates loss and LAE for its financial guarantee policies. The

following discussion provides information about the Company's process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios, plus actual payments and collections.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

1. A commutation scenario that is customized by counterparty and considers historical commutation prices, the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.
2. Utilize current delinquency rates and current and projected net operating income (NOI) and capitalization rates (Cap Rates) to project losses under two scenarios. These scenarios assume that property performance remains flat for the near term and then improves gradually. Additionally, certain large loans are reviewed individually so that performance and loss severity can be more accurately determined, while other loans are also reviewed for factors that may impact potential performance.
3. A proprietary model was developed by reviewing performance data on over 80,000 securitized CRE loans originated between 1992 and 2011. The Company found property type and the debt service coverage ratio to be the most significant determinants of a loan s average annual default probability, and developed a model based on these factors. The Company then ran Monte Carlo simulations to estimate the timing of defaults and losses at the property level by applying property type-based Cap Rates to estimate the property s NOI.

The loss severities projected by these approaches vary widely. 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.

For the three months ended March 31, 2014, additional credit impairments and LAE for insured derivatives on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be \$20 million as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA s assessment of various commutation possibilities. The cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be \$4.2 billion through March 31, 2014. Since 2013, the Company has been paying claims on a CMBS pool transaction that had experienced deterioration such that all remaining deductible was eliminated.

Loss and LAE Activity**Financial Guarantee Insurance Losses (Non-Derivative and Non-Consolidated VIEs)**

The Company s financial guarantee insurance losses and LAE for the three months ended March 31, 2014 are presented in the following table:

In millions	Three Months Ended March 31, 2014			
	Second-lien RMBS	First-lien RMBS	Other ⁽¹⁾	Total
Losses and LAE related to expected payments	\$ 7	\$ 28	\$ (12)	\$ 23
Recoveries of expected payments	18	2	8	28

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Gross losses incurred	25	30	(4)	51
Reinsurance	-	-	(1)	(1)
Losses and LAE	\$ 25	\$ 30	\$ (5)	\$ 50

(1) - Includes ABS CDOs, CMBS, U.S. public finance and other issues.

The losses and LAE related to expected payments in the preceding table primarily related to increases in previously established reserves on insured first-lien RMBS transactions. The recoveries of expected payments primarily related to decreases in excess spread within the insured second-lien RMBS securitizations.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of March 31, 2014:

\$ in millions	Surveillance Categories				Total
	Caution List Low	Caution List Medium	Caution List High	Classified List	
Number of policies	208	16	5	193	422
Number of issues ⁽¹⁾	30	12	4	140	186
Remaining weighted average contract period (in years)	11.6	4.6	11.3	8.7	9.8
Gross insured contractual payments outstanding: ⁽²⁾					
Principal	\$ 7,585	\$ 1,008	\$ 40	\$ 7,399	\$ 16,032
Interest	5,356	229	23	3,942	9,550
Total	\$ 12,941	\$ 1,237	\$ 63	\$ 11,341	\$ 25,582
Gross Claim Liability	\$ -	\$ -	\$ -	\$ 1,166	\$ 1,166
Less:					
Gross Potential Recoveries	-	-	-	1,006	1,006
Discount, net ⁽³⁾	-	-	-	217	217
Net claim liability (recoverable)	\$ -	\$ -	\$ -	\$ (57)	\$ (57)
Unearned premium revenue	\$ 137	\$ 18	\$ -	\$ 89	\$ 244

(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.

(3) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

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, 2013:

\$ in millions	Surveillance Categories			Total
	Caution List	Caution List	Classified List	

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	List Low	Medium	High		
Number of policies	83	19	5	192	299
Number of issues ⁽¹⁾	26	14	4	136	180
Remaining weighted average contract period (in years)	11.0	4.9	11.5	9.5	9.7
Gross insured contractual payments outstanding: ⁽²⁾					
Principal	\$ 5,290	\$ 1,073	\$ 40	\$ 7,861	\$ 14,264
Interest	3,829	253	24	4,526	8,632
Total	\$ 9,119	\$ 1,326	\$ 64	\$ 12,387	\$ 22,896
Gross Claim Liability	\$ -	\$ -	\$ -	\$ 1,235	\$ 1,235
Less:					
Gross Potential Recoveries	-	-	-	1,085	1,085
Discount, net ⁽³⁾	-	-	-	205	205
Net claim liability (recoverable)	\$ -	\$ -	\$ -	\$ (55)	\$ (55)
Unearned premium revenue	\$ 112	\$ 19	\$ -	\$ 96	\$ 227

(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.

(3) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The gross claim liability in the preceding tables represents the Company's estimate of undiscounted probability-weighted future claim payments. As of March 31, 2014 and December 31, 2013, the gross claim liability primarily related to insured first and second-lien RMBS issues, ABS CDOs and an international road transaction.

The gross potential recoveries represent the Company's estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments. As of March 31, 2014, the gross potential recoveries principally related to insured second-lien RMBS issues. As of December 31, 2013, the gross potential recoveries principally related to insured second-lien RMBS and U.S. public finance issues. The Company's recoveries have been, and remain 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. 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, it is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy. The gross claim liability and gross potential recoveries reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company's loss and LAE reserves and insurance loss recoverable as reported on the Company's consolidated balance sheets as of March 31, 2014 and December 31, 2013 for insured obligations within MBIA's Classified List. The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of March 31, 2014	As of December 31, 2013
Loss reserves (claim liability)	\$ 555	\$ 580
LAE reserves	47	61
Loss and LAE reserves	\$ 602	\$ 641
Insurance claim loss recoverable	\$ (671)	\$ (694)
LAE insurance loss recoverable	-	-
Insurance loss recoverable	\$ (671)	\$ (694)
Reinsurance recoverable on unpaid losses	\$ 7	\$ 7
Reinsurance recoverable on unpaid LAE reserves	-	1
Reinsurance recoverable on paid and unpaid losses	\$ 7	\$ 8

As of March 31, 2014, loss and LAE reserves include \$784 million of reserves for expected future payments offset by expected recoveries of such future payments of \$182 million. As of December 31, 2013, loss and LAE reserves included \$847 million of reserves for expected future

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payments offset by expected recoveries of such future payments of \$206 million. As of March 31, 2014 and December 31, 2013, the insurance loss recoverable primarily related to expected future recoveries on second-lien RMBS transactions resulting from excess spread generated by performing loans in such transactions.

The decrease in insurance loss recoverable was primarily due to decreases in excess spread within insured second-lien RMBS securitizations.

The following table presents the amounts of the Company's second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries related to non-consolidated VIEs and consolidated VIEs, included in the Company's Classified List, as of March 31, 2014:

Second-lien RMBS Exposure		Outstanding		Gross Undiscounted	
\$ in billions	Issues	Gross Principal	Gross Interest	Claim Liability	Potential Recoveries
Non-consolidated VIEs	24	\$ 3.3	\$ 1.2	\$ 0.1	\$ 0.7
Consolidated VIEs	11	\$ 1.7	\$ 0.6	\$ 0.1	\$ 0.6

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The following table presents changes in the Company's loss and LAE reserves for the three months ended March 31, 2014. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in amount and timing of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations. As of March 31, 2014, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 2.12%. LAE reserves are expected to be settled within a one-year period and are not discounted.

Changes in Loss and LAE Reserves for the Three Months Ended March 31, 2014								
In millions								Gross Loss and LAE Reserves as of March 31, 2014
Gross Loss								
and LAE Reserves as of								
December 31, 2013	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other⁽¹⁾	2014
\$ 641	\$ (66)	\$ 4	\$ 20	\$ 20	\$ -	\$ (14)	\$ (3)	\$ 602

(1) - Primarily changes in amount and timing of payments.

The decrease in the Company's gross loss and LAE reserves reflected in the preceding table was primarily related to loss payments and changes in LAE reserves associated with issues outstanding as of December 31, 2013. These were partially offset by increases in reserves due to changes in discount rate and changes in assumptions on insured first and second-lien RMBS issues outstanding as of December 31, 2013.

Current period changes in the Company's estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following tables present 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, 2014. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations.

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Three Months Ended March 31, 2014								
In millions	As of December 31, 2013	Collections for Cases	Accretion of Recoveries	Changes in Discount	Changes in Assumptions	Changes in LAE Recoveries	Other⁽¹⁾	As of March 31, 2014

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		with		Rates					
		Recoveries							
Insurance loss recoverable	\$ 694	\$ (17)	\$ 4	\$ 6	\$ (7)	\$ -	\$ (9)	\$ 671	
Recoveries on unpaid losses	206	-	1	7	(32)	-	-	182	
Total	\$ 900	\$ (17)	\$ 5	\$ 13	\$ (39)	\$ -	\$ (9)	\$ 853	

(1) Primarily changes in amount and timing of collections.

The decrease in the Company's insurance loss recoverable and recoveries on unpaid losses during 2014 was primarily due to changes in assumptions associated with insured first and second-lien RMBS and U.S. public finance issues and collections associated with issues outstanding as of December 31, 2013.

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.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

Costs associated with remediating insured obligations assigned to the Company's Caution List Low, Caution List Medium, Caution List High and Classified List are recorded as LAE. LAE is primarily recorded as part of the Company's provision for its loss reserves and included in Losses and loss adjustment expenses on the Company's consolidated statements of operations. The following table presents the gross expenses related to remedial actions for insured obligations. Gross expenses related to remediating insured obligations decreased for the three months ended March 31, 2014 compared with the same period of 2013 due to lower litigation expenses as a result of settlements.

In millions	Three Months Ended March 31,	
	2014	2013
Loss adjustment expense incurred, gross	\$ 4	\$ 18

Note 6: Fair Value of Financial Instruments***Fair Value Measurement***

Fair value is a market-based measure considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurements of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values.

The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing an asset or liability based on the best information available. The fair value hierarchy is broken down into three levels based on the observability and reliability of inputs, as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Valuations are based on quoted prices that are readily and regularly available in an active market, with significant trading volumes.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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Level 3 Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Financial Assets (excluding derivative assets)*

Financial assets, excluding derivative assets, held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, the Company will obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of March 31, 2014 or December 31, 2013. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions.

Financial Liabilities (excluding derivative liabilities)

Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of investment agreements and MTNs within its wind-down operations, debt issued for general corporate purposes, debt in VIEs and warrants. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. The majority of the financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company's or a third-party's estimate of discounted cash flow model estimates, or quoted market values for similar products. These valuations include adjustments for expected nonperformance risk of the Company.

Derivative Liabilities

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

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

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

Internal Review Process

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All significant financial assets and liabilities, including derivative assets and liabilities, are reviewed by committees created by the Company to ensure compliance with the Company's policies and risk procedures in the development of fair values of financial assets and liabilities. These valuation committees review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committees also review any significant impairment or improvements in fair values of the financial instruments from prior periods. From time to time, these committees will consult with the Company's valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. These committees are comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. For each quarter, these committees document their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)*****Valuation Techniques***

Valuation techniques for financial instruments measured at fair value or disclosed at fair value are described below.

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral, Investments Held-to-Maturity, and Other Investments

These investments include investments in U.S. Treasury and government agencies, foreign governments, corporate obligations, mortgage-backed securities (MBS) and ABS (including CMBS and CDOs), state and municipal bonds and perpetual debt and equity securities (including money market mutual funds).

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, CDS spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. Unobservable inputs include cash flow projections and the value of any credit enhancement.

The fair value of the held-to-maturity (HTM) investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and government agency, foreign government and money market investments. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

Cash and Cash Equivalents, Receivable for Investments Sold, Net Cash Collateral Pledged to Swap Counterparties, Payable for Investments Purchased and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, net cash collateral pledged to swap counterparties, payable for investments purchased, and accrued investment income approximate fair values due to the short-term nature and credit worthiness of these instruments. These items are categorized in Level 1 or Level 2 of the fair value hierarchy.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjustments for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are assets of the consolidated VIEs. This asset

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represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to MBIA as reimbursement of paid claims. 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 inputs including:

breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;

recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;

expectations about possible variations in the timing of collections of the cash flows; and

time value of money, represented by the rate on risk-free monetary assets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on contractual cash flows and 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. As the terms of the notes are private, and the timing and amount of contract cash flows are not observable, these investment agreements are categorized as Level 3 of the fair value hierarchy.

Medium-Term Notes

The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid based on the quoted market prices received and the MTNs' stated maturity and interest rate to determine fair value. Nonperformance risk is included in the quoted market prices and the matrix pricing grid. The Company has elected to record these MTNs at fair value as they contain embedded derivatives which cannot accurately be separated from the host debt instrument and fair valued separately, therefore, these MTNs are carried at fair value with changes in fair value reflected in earnings. The remaining MTNs, which are not carried at fair value, do not contain embedded derivatives. As these MTNs are illiquid and the prices reflect significant unobservable inputs, they 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 and unobservable inputs. Observable inputs include interest rate yield curves and bond spreads of similar securities. Unobservable inputs include the value of any credit enhancement. 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.

Variable Interest Entity Derivatives

The VIEs have entered into derivative transactions consisting of cross currency swaps and interest rate caps. Fair values of over-the-counter (OTC) derivatives are determined using valuation models based on observable and/or unobservable inputs. These observable and market-based inputs include interest rates and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

Long-term Debt

Long-term debt consists of notes, debentures, surplus notes and accrued interest on this debt. 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 of the accrued interest expense on the surplus notes due 2033 is determined based on the scheduled interest payments discounted by the market's perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which the Company obtains approval to make such payment.

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments. Long-term debt is categorized as Level 2 of the fair value hierarchy.

Derivatives Asset/Liability Products

The asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps. 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.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

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 segment as of March 31, 2014. 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 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 the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models. The valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to provide the best estimate of how another market participant would evaluate fair value.

Approximately 92% of the balance sheet fair value of insured credit derivatives as of March 31, 2014 was valued based on the Binomial Expansion Technique (BET) Model. Approximately 8% of the balance sheet fair value of insured credit derivatives as of March 31, 2014 was valued based on the internally developed Direct Price Model and the Dual Default model. The valuation of insured derivatives includes the impact of its 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.

The Company has also entered into a derivative contract as a result of a commutation. The fair value of the derivative is determined using a discounted cash flow model. Key inputs include unobservable cash flows projected over the expected term of the derivative, discounted using observable discount rates and CDS spreads.

Description of the BET Model**1. Valuation Model Overview**

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.

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.

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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, are benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;

diversity score of the collateral pool as an indication of correlation of collateral defaults; and

recovery rate for all defaulted collateral.

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

The inception-to-date unrealized gain or loss on a transaction 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Additional structural assumptions of the BET Model are:

Default probabilities are determined by three factors: MBIA Corp. 's credit spread, MBIA Corp. 's 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; and

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. BET Model Inputs

a. Credit spreads

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

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative.

Spread Hierarchy:

Collateral-specific credit spreads when observable;

Sector-specific spread tables by asset class and rating;

Corporate spreads, including Bloomberg spread tables based on rating; and

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

There were some transactions where the Company 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. As of March 31, 2014, sector-specific spreads were used in 5% of the transactions valued using the BET Model. Corporate spreads were used in 53% of the transactions and spreads benchmarked from the most relevant spread source were used for 42% of the transactions. The spread source can also be identified by whether or not it is based on collateral weighted average rating factor (WARF). No collateral-specific spreads are based on WARF. Sector-specific spreads, corporate spreads and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 73% 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 use more observable spread hierarchies defined above. However, the Company may on occasion move to less observable spread inputs due to the discontinuation of data sources or due to the Company considering certain spread 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. While diversity score is a required input into the BET model, due to current high levels of default within the collateral of the structures, diversity score does not have a significant impact on valuation.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****c. Recovery Rate**

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

d. Nonperformance Risk

The Company's valuation methodology for insured credit derivative liabilities incorporates MBIA Corp.'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 Corp.'s CDS spreads as of March 31, 2014. 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 MBIA Corp.'s recovery derivative price multiplied by the unadjusted derivative liability.

Overall Model Results

As of March 31, 2014 and December 31, 2013, the Company's net insured CDS derivative liability was \$309 million and \$1.2 billion, respectively, based on the results of the aforementioned models. A significant driver of changes in fair value is MBIA Corp.'s nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was \$94 million and \$394 million lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of March 31, 2014 and December 31, 2013, respectively. Nonperformance risk is a fair value concept and does not contradict MBIA Corp.'s internal view, based on fundamental credit analysis of MBIA Corp.'s economic condition, that MBIA Corp. will be able to pay all claims when due.

Warrants

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

Financial Guarantees

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

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

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Significant Unobservable Inputs**

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013. These tables exclude inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of March 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 1,557	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 14% (3%)
Loan repurchase commitments	364	Discounted cash flow	Recovery rates ⁽¹⁾ Breach rates ⁽¹⁾	
Liabilities of consolidated VIEs:				
Variable interest entity notes	812	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 31% (14%)
Credit derivative liabilities, net:				
CMBS	282	BET Model	Recovery rates	25% - 90% (74%)
			Nonperformance risk	5% - 23% (20%)
			Weighted average life (in years)	0.9 - 3.3 (2.9)
			CMBS spreads	0% - 32% (10%)
Multi-sector CDO	12	Direct Price Model	Nonperformance risk	55% - 55% (55%)
Other	15	BET Model and Dual Default	Recovery rates	42% - 45% (45%)
			Nonperformance risk	10% - 51% (37%)
			Weighted average life (in years)	0.2 - 8.5 (2.2)
Other derivative liabilities	31	Discounted cash flow	Cash flows	\$ 0 - \$83 (\$42) ⁽²⁾

(1) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.

(2) - Midpoint of cash flows are used for the weighted average.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value as of December 31, 2013	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 1,612	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 17% (3%)
Loan repurchase commitments	359	Discounted cash flow	Recovery rates ⁽¹⁾ Breach rates ⁽¹⁾	
Liabilities of consolidated VIEs:				
Variable interest entity notes	940	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 25% (12%)
Credit derivative liabilities, net:				
CMBS	1,050	BET Model	Recovery rates Nonperformance risk Weighted average life (in years) CMBS spreads	25% - 90% (60%) 8% - 57% (25%) 1.1 - 28.0 (3.3) 1% - 29% (13%)
Multi-sector CDO	12	Direct Price Model	Nonperformance risk	57% - 57% (57%)
Other	85	BET Model and Dual Default	Recovery rates Nonperformance risk Weighted average life (in years)	42% - 90% (45%) 13% - 54% (25%) 0.2 - 8.7 (2.3)

(1) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company's loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As expected cash payments provided by the Company under the insurance policy increase, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are the recovery rates and breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to the Company's determination of breaches of representations and warranties could significantly adversely impact the fair value measurement. Recovery rates and breach rates are determined independently. Changes in one input will not necessarily have any impact on the other input.

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The significant unobservable input used in the fair value measurement of the Company's VIE notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase or decrease in CMBS spreads would result in an increase or decrease in the fair value of the derivative liability, respectively. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates, or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s other credit derivatives, which are valued using the BET Model and Dual Default, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on MBIA Corp.'s estimate of when the principal of the underlying collateral will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s other derivatives, which are valued using a discounted cash flow model, is the estimates of future cash flows discounted using market rates and CDS spreads. Any significant increase or decrease in future cash flows would result in an increase or decrease in the fair value of the derivative liability, respectively.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Fair Value Measurements*

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

In millions	Fair Value Measurements at Reporting Date Using				Balance as of March 31, 2014
	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	
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 462	\$ 109	\$ -	\$ -	\$ 571
State and municipal bonds	-	1,821	62 ⁽¹⁾	-	1,883
Foreign governments	187	78	7 ⁽¹⁾	-	272
Corporate obligations	-	1,972	30 ⁽¹⁾	-	2,002
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,125	29 ⁽¹⁾	-	1,154
Residential mortgage-backed non-agency	-	85	-	-	85
Commercial mortgage-backed	-	27	14 ⁽¹⁾	-	41
Asset-backed securities:					
Collateralized debt obligations	-	39	115 ⁽¹⁾	-	154
Other asset-backed	-	140	85 ⁽¹⁾	-	225
Total fixed-maturity investments	649	5,396	342	-	6,387
Money market securities	579	-	-	-	579
Perpetual debt and equity securities	29	11	15 ⁽¹⁾	-	55
Cash and cash equivalents	679	-	-	-	679
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	58	-	(54)	4
Total derivative assets	-	58	-	(54)	4

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using				Balance as of March 31, 2014
	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	
Assets of consolidated VIEs:					
Corporate obligations	-	24	64 ⁽¹⁾	-	88
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	208	5 ⁽¹⁾	-	213
Commercial mortgage-backed	-	94	3 ⁽¹⁾	-	97
Asset-backed securities:					
Collateralized debt obligations	-	14	14 ⁽¹⁾	-	28
Other asset-backed	-	36	42 ⁽¹⁾	-	78
Money market securities	35	-	-	-	35
Cash	54	-	-	-	54
Loans receivable	-	-	1,557	-	1,557
Loan repurchase commitments	-	-	364	-	364
Total assets	\$ 2,025	\$ 5,841	\$ 2,406	\$ (54)	\$ 10,218
Liabilities:					
Medium-term notes	\$ -	\$ -	\$ 215 ⁽¹⁾	\$ -	\$ 215
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	4	309	-	313
Non-insured derivatives:					
Interest rate derivatives	-	190	-	(153)	37
Other	-	-	31	-	31
Other liabilities:					
Warrants	-	76	-	-	76
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,382	812	-	2,194
Derivative liabilities:					
Currency derivatives	-	-	5 ⁽¹⁾	-	5
Total liabilities	\$ -	\$ 1,652	\$ 1,372	\$ (153)	\$ 2,871

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****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, 2013
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 397	\$ 156	\$ -	\$ -	\$ 553
State and municipal bonds	-	1,765	19 ⁽¹⁾	-	1,784
Foreign governments	112	65	12 ⁽¹⁾	-	189
Corporate obligations	-	1,776	48 ⁽¹⁾	-	1,824
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,173	-	-	1,173
Residential mortgage-backed non-agency	-	86	6 ⁽¹⁾	-	92
Commercial mortgage-backed	-	25	14 ⁽¹⁾	-	39
Asset-backed securities:					
Collateralized debt obligations	-	72	82 ⁽¹⁾	-	154
Other asset-backed	-	130	58 ⁽¹⁾	-	188
Total fixed-maturity investments	509	5,248	239	-	5,996
Money market securities	783	-	-	-	783
Perpetual debt and equity securities	27	13	11 ⁽¹⁾	-	51
Cash and cash equivalents	1,161	-	-	-	1,161
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	46	-	(42)	4
Total derivative assets	-	46	-	(42)	4

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2013
	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	
Assets of consolidated VIEs:					
Corporate obligations	-	41	48 ⁽¹⁾	-	89
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	255	4 ⁽¹⁾	-	259
Commercial mortgage-backed	-	102	3 ⁽¹⁾	-	105
Asset-backed securities:					
Collateralized debt obligations	-	14	22 ⁽¹⁾	-	36
Other asset-backed	-	44	54 ⁽¹⁾	-	98
Money market securities	136	-	-	-	136
Cash	97	-	-	-	97
Loans receivable	-	-	1,612	-	1,612
Loan repurchase commitments	-	-	359	-	359
Total assets	\$ 2,713	\$ 5,763	\$ 2,352	\$ (42)	\$ 10,786
Liabilities:					
Medium-term notes	\$ -	\$ -	\$ 203 ⁽¹⁾	\$ -	\$ 203
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	5	1,147	-	1,152
Non-insured derivatives:					
Interest rate derivatives	-	165	-	(165)	-
Other liabilities:					
Warrants	-	59	-	-	59
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,416	940	-	2,356
Derivative liabilities:					
Currency derivatives	-	-	11 ⁽¹⁾	-	11
Total liabilities	\$ -	\$ 1,645	\$ 2,301	\$ (165)	\$ 3,781

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

Level 3 assets at fair value as of March 31, 2014 and December 31, 2013 represented approximately 24% and 22%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of March 31, 2014 and December 31, 2013 represented approximately 48% and 61%, respectively, of total liabilities measured at fair value.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of March 31, 2014 and December 31, 2013:

In millions	Fair Value Measurements at Reporting Date			Fair Value Balance as of March 31, 2014	Carry Value Balance as of March 31, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)		
Assets:					
Other investments	\$ -	\$ -	\$ 4	\$ 4	\$ 4
Accrued investment income ⁽¹⁾	-	49	-	49	49
Receivable for investments sold ⁽¹⁾	-	30	-	30	30
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,695	2,695	2,793
Total assets	\$ -	\$ 79	\$ 2,699	\$ 2,778	\$ 2,876
Liabilities:					
Investment agreements	\$ -	\$ -	\$ 821	\$ 821	\$ 689
Medium-term notes	-	-	952	952	1,203
Long-term debt	-	1,530	-	1,530	1,731
Payable for investments purchased ⁽²⁾	-	62	-	62	62
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	2,719	2,719	2,818
Total liabilities	\$ -	\$ 1,592	\$ 4,492	\$ 6,084	\$ 6,503
Financial Guarantees:					
Gross	\$ -	\$ -	\$ 3,739	\$ 3,739	\$ 2,268
Ceded	-	-	95	95	74

(1) - Reported within Other assets on MBIA's consolidated balance sheets.

(2) - Reported within Other liabilities on MBIA's consolidated balance sheets.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2013	Carry Value Balance as of December 31, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets:					
Other investments	\$ -	\$ -	\$ 4	\$ 4	\$ 5
Accrued investment income ⁽¹⁾	-	52	-	52	52
Receivable for investments sold ⁽¹⁾	-	22	-	22	22
Net cash collateral pledged ⁽¹⁾	24	-	-	24	24
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,651	2,651	2,801
Total assets	\$ 24	\$ 74	\$ 2,655	\$ 2,753	\$ 2,904
Liabilities:					
Investment agreements	\$ -	\$ -	\$ 814	\$ 814	\$ 700
Medium-term notes	-	-	927	927	1,224
Long-term debt	-	1,412	-	1,412	1,702
Payable for investments purchased ⁽²⁾	-	31	-	31	31
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	2,751	2,751	2,930
Total liabilities	\$ -	\$ 1,443	\$ 4,492	\$ 5,935	\$ 6,587
Financial Guarantees:					
Gross	\$ -	\$ -	\$ 2,843	\$ 2,843	\$ 2,388
Ceded	-	-	71	71	76

(1) - Reported within Other assets on MBIA's consolidated balance sheets.

(2) - Reported within Other liabilities on MBIA's consolidated balance sheets.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2014 and 2013:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2014

In millions	Balance, Beginning of Period	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, 2014
Assets:													
Foreign governments	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5)	\$ -	\$ -	\$ -	\$ 7	\$ -
Corporate obligations	48	(1)	1	(1)	-	-	-	(1)	(19)	3	-	30	-
Residential mortgage-backed agency	-	-	-	-	-	-	-	-	-	29	-	29	-
Residential mortgage-backed non-agency	6	-	-	(1)	-	-	-	-	-	-	(5)	-	-
Commercial mortgage-backed	14	-	-	-	-	-	-	(1)	-	1	-	14	-
Collateralized debt obligations	82	-	-	3	-	5	-	(2)	-	33	(6)	115	-
Other asset-backed	58	-	-	5	-	-	-	(2)	-	24	-	85	-
State and municipal bonds	19	-	-	-	-	-	-	(1)	-	44	-	62	-
Perpetual debt and equity securities	11	-	-	-	-	-	-	-	-	4	-	15	-
Assets of consolidated VIEs:	48	-	-	-	-	-	-	(1)	-	17	-	64	1

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Corporate obligations														
Residential mortgage-backed non-agency	4	-	-	-	-	-	-	-	-	1	-	5	-	
Commercial mortgage-backed	3	-	-	-	-	-	-	-	-	-	-	3	-	
Collateralized debt obligations	22	-	(3)	-	-	-	-	(2)	-	-	(3)	14	(1)	
Other asset-backed	54	-	(12)	-	-	-	-	(4)	-	4	-	42	-	
Loans receivable	1,612	-	(1)	-	-	-	-	(54)	-	-	-	1,557	(1)	
Loan repurchase commitments	359	-	5	-	-	-	-	-	-	-	-	364	5	
Total assets	\$ 2,352	\$ (1)	\$ (10)	\$ 6	\$ -	\$ 5	\$ -	\$ (73)	\$ (19)	\$ 160	\$ (14)	\$ 2,406	\$ 4	

In millions	Balance, Beginning of Period	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, 2014
Liabilities:													
Medium-term notes	\$ 203	\$ -	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215	\$ 12
Credit derivatives, net	1,147	339	(838)	-	-	-	-	(339)	-	-	-	309	(30)
Other derivatives	-	30	1	-	-	-	-	-	-	-	-	31	1
Liabilities of consolidated VIEs:													
VIE notes	940	-	18	-	-	-	-	(105)	(41)	-	-	812	16
Currency derivatives, net	11	-	(6)	-	-	-	-	-	-	-	-	5	(6)
Total liabilities	\$ 2,301	\$ 369	\$ (813)	\$ -	\$ -	\$ -	\$ -	\$ (444)	\$ (41)	\$ -	\$ -	\$ 1,372	\$ (7)

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2013**

In millions	Balance, Beginning of Period	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, 2013
Assets:													
Foreign governments	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ (3)	\$ 8	\$ -
Corporate obligations	76	2	4	1	(2)	-	-	(1)	(23)	-	-	57	4
Residential mortgage-backed non-agency	4	-	-	-	-	-	-	(3)	-	-	-	1	-
Commercial mortgage-backed Collateralized debt obligations	28	-	-	4	-	-	-	-	(19)	1	(1)	13	-
Other asset-backed	31	(1)	-	3	-	-	-	(4)	-	9	(1)	37	-
State and municipal bonds	26	-	-	1	-	-	-	(2)	-	42	-	67	-
Perpetual debt and equity securities	103	2	-	-	-	-	-	(1)	(13)	-	(68)	23	-
Assets of consolidated VIEs:	14	-	-	-	(1)	-	-	-	-	-	(3)	10	-
Corporate obligations	78	-	(2)	-	-	-	-	-	-	3	-	79	-
Residential mortgage-backed non-agency	6	-	6	-	-	-	-	(6)	-	1	(1)	6	1
Commercial mortgage-backed Collateralized debt obligations	7	-	1	-	-	-	-	-	-	20	-	28	1
	125	-	(8)	-	-	-	-	-	-	1	(1)	117	(4)
	64	-	(14)	-	-	-	-	(3)	-	-	-	47	(9)

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Other asset-backed																
Loans receivable	1,881	-	8	-	-	-	-	(70)	-	-	-	-	1,819	8		
Loan repurchase commitments	1,086	-	90	-	-	-	-	-	-	-	-	-	1,176	90		
Total assets	\$ 3,532	\$ 3	\$ 85	\$ 9	\$ (3)	\$ -	\$ -	\$ (90)	\$ (55)	\$ 85	\$ (78)	\$ 3,488	\$ 91			

In millions	Balance, Beginning of Period	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, 2013
Liabilities:													
Medium-term notes	\$ 165	\$ -	\$ 21	\$ -	\$ (5)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181	\$ 16
Credit derivatives, net	2,921	1	73	-	-	-	-	(1)	-	-	-	2,994	131
Interest rate derivatives, net	(1)	-	1	-	(1)	-	-	-	-	-	-	(1)	-
Currency derivatives, net	1	-	1	-	(1)	-	-	-	-	-	-	1	-
Liabilities of consolidated VIEs:													
VIE notes	1,932	-	122	-	-	-	-	(153)	-	-	-	1,901	122
Currency derivatives, net	21	-	(1)	-	3	-	-	-	-	-	-	23	2
Total liabilities	\$ 5,039	\$ 1	\$ 217	\$ -	\$ (4)	\$ -	\$ -	\$ (154)	\$ -	\$ -	\$ -	\$ 5,099	\$ 271

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

Transfers into and out of Level 3 were \$160 million and \$14 million, respectively, for the three months ended March 31, 2014. Transfers into and out of Level 2 were \$14 million and \$160 million, respectively, for the three months ended March 31, 2014. Transfers into Level 3 were principally related to state and municipal bonds, CDOs, RMBS agency, other ABS and corporate obligations, where inputs, which are significant to their valuation, became unobservable during the quarter. CDOs and RMBS non-agency, comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became 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. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were \$85 million and \$78 million, respectively, for the three months ended March 31, 2013. Transfers into and out of Level 2 were \$78 million and \$85 million, respectively, for the three months ended March 31, 2013. Transfers into Level 3 were principally related to other ABS, CMBS and CDOs where inputs, which are significant to their valuation, became unobservable during the quarter. State and municipal bonds comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became 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. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended March 31, 2014 and 2013 are reported on the Company's consolidated statements of operations as follows:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2014	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2013
In millions				
Revenues:				
Unrealized gains (losses) on insured derivatives	\$ 838	\$ 30	\$ (73)	\$ (131)
Realized gains (losses) and other settlements on insured derivatives	(369)	-	(1)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	(13)	(16)	(12)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	(23)	(6)	(40)	(37)

Total	\$ 433	\$ 11	\$ (130)	\$ (180)
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Fair Value Option

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

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the three months ended March 31, 2014, and 2013 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended March 31,	
	2014	2013
Investments carried at fair value	\$ 1 ⁽¹⁾	\$ 4 ⁽¹⁾
Fixed-maturity securities held at fair value- VIE	(38) ⁽²⁾	18 ⁽²⁾
Loans receivable at fair value:		
Residential mortgage loans	(56) ⁽²⁾	(74) ⁽²⁾
Other loans	- ⁽²⁾	13 ⁽²⁾
Loan repurchase commitments	5 ⁽²⁾	90 ⁽²⁾
Medium-term notes	(12) ⁽¹⁾	(16) ⁽¹⁾
Variable interest entity notes	121 ⁽²⁾	81 ⁽²⁾

(1) - Reported within Net gains (losses) of financial instruments at fair value and foreign exchange on MBIA's consolidated statements of operations.

(2) - Reported within Net gains (losses) of financial instruments at fair value and foreign exchange-VIE on MBIA's consolidated statements of operations. The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2014 and December 31, 2013 for loans and notes for which the fair value option was elected:

In millions	As of March 31, 2014			As of December 31, 2013		
	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	\$ 1,772	\$ 1,514	\$ 258	\$ 1,846	\$ 1,562	\$ 284
Residential mortgage loans (90 days or more past due)	237	43	194	231	50	181
Total loans receivable at fair value	\$ 2,009	\$ 1,557	\$ 452	\$ 2,077	\$ 1,612	\$ 465
Variable interest entity notes	\$ 2,859	\$ 2,194	\$ 665	\$ 3,787	\$ 2,356	\$ 1,431
Medium-term notes	\$ 275	\$ 215	\$ 60	\$ 276	\$ 203	\$ 73

Substantially all gains and losses included in earnings during the periods ended March 31, 2014 and 2013 on loans receivable and VIE notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

Note 7: Investments

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Investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or HTM. Other invested assets designated as AFS are primarily comprised of money market funds.

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and other-than-temporary impairments (OTTI) for AFS and HTM investments in the Company s consolidated investment portfolio as of March 31, 2014 and December 31, 2013:

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

In millions	Amortized Cost	Gross Unrealized Gains	March 31, 2014 Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments ⁽¹⁾
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 537	\$ 24	\$ (7)	\$ 554	\$ -
State and municipal bonds	1,860	49	(32)	1,877	-
Foreign governments	266	6	-	272	-
Corporate obligations	1,863	33	(34)	1,862	-
Mortgage-backed securities:					
Residential mortgage-backed agency	1,138	10	(22)	1,126	-
Residential mortgage-backed non-agency	72	12	(4)	80	4
Commercial mortgage-backed	38	1	(1)	38	-
Asset-backed securities:					
Collateralized debt obligations	202	4	(55)	151	(11)
Other asset-backed	217	5	(12)	210	-
Total fixed-maturity investments	6,193	144	(167)	6,170	(7)
Money market securities	576	-	-	576	-
Perpetual debt and equity securities	11	1	-	12	-
Assets of consolidated VIEs:					
Money market securities	35	-	-	35	-
Total AFS investments	\$ 6,815	\$ 145	\$ (167)	\$ 6,793	\$ (7)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	\$ 2,793	\$ 57	\$ (155)	\$ 2,695	\$ -
Total HTM investments	\$ 2,793	\$ 57	\$ (155)	\$ 2,695	\$ -

(1) - Represents unrealized gains or losses on other than temporarily impaired securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

In millions	Amortized Cost	Gross Unrealized Gains	December 31, 2013		Other-Than-Temporary Impairments ⁽¹⁾
			Gross Unrealized Losses	Fair Value	
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 528	\$ 16	\$ (9)	\$ 535	\$ -
State and municipal bonds	1,831	22	(73)	1,780	-
Foreign governments	184	5	-	189	-
Corporate obligations	1,682	24	(38)	1,668	-
Mortgage-backed securities:					
Residential mortgage-backed agency	1,167	10	(31)	1,146	-
Residential mortgage-backed non-agency	79	13	(5)	87	4
Commercial mortgage-backed	34	1	(1)	34	-
Asset-backed securities:					
Collateralized debt obligations	205	3	(57)	151	(14)
Other asset-backed	187	2	(15)	174	-
Total fixed-maturity investments	5,897	96	(229)	5,764	(10)
Money market securities	781	-	-	781	-
Perpetual debt and equity securities	10	1	-	11	-
Assets of consolidated VIEs:					
Money market securities	136	-	-	136	-
Total AFS investments	\$ 6,824	\$ 97	\$ (229)	\$ 6,692	\$ (10)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	\$ 2,801	\$ 31	\$ (181)	\$ 2,651	\$ -
Total HTM investments	\$ 2,801	\$ 31	\$ (181)	\$ 2,651	\$ -

(1) - Represents unrealized gains or losses on other than temporarily impaired securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of March 31, 2014. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	AFS Securities		HTM Securities Consolidated VIEs	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value

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Due in one year or less	\$ 664	\$ 665	\$ -	\$ -
Due after one year through five years	1,259	1,280	-	-
Due after five years through ten years	919	923	-	-
Due after ten years	1,684	1,697	2,793	2,695
Mortgage-backed and asset-backed	1,667	1,605	-	-
Total fixed-maturity investments	\$ 6,193	\$ 6,170	\$ 2,793	\$ 2,695

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of March 31, 2014 and December 31, 2013 was \$11 million and \$10 million, respectively. These deposits are required to comply with state insurance laws.

The Company enters into securities borrowing and lending contracts in connection with MBIA's collateralized investment agreement activities. Such contracts are only transacted with high-quality dealer firms. It is the Company's policy to take possession of securities borrowed under these contracts. The Company minimizes credit risk from counterparties that might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral values and requiring additional collateral to be deposited with the Company when deemed necessary.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

Substantially all of the obligations under investment agreements require the Company to pledge securities as collateral. Securities pledged in connection with investment agreement and derivative activities may not be repledged by the investment agreement or derivative counterparty. As of March 31, 2014 and December 31, 2013, the fair value of securities pledged as collateral for these investment agreements and derivative transactions approximated \$757 million and \$735 million, respectively. The Company's collateral as of March 31, 2014 consisted principally of RMBS and U.S. Treasury and government agency bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of \$12 million and \$22 million as of March 31, 2014 and December 31, 2013, respectively.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of March 31, 2014 and December 31, 2013:

In millions	Less than 12 Months		March 31, 2014 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 261	\$ (7)	\$ 1	\$ -	\$ 262	\$ (7)
State and municipal bonds	639	(26)	54	(6)	693	(32)
Foreign governments	110	-	-	-	110	-
Corporate obligations	812	(29)	85	(5)	897	(34)
Mortgage-backed securities:						
Residential mortgage-backed agency	592	(13)	193	(9)	785	(22)
Residential mortgage-backed non-agency	5	-	22	(4)	27	(4)
Commercial mortgage-backed	14	(1)	2	-	16	(1)
Asset-backed securities:						
Collateralized debt obligations	2	-	127	(55)	129	(55)
Other asset-backed	20	-	50	(12)	70	(12)
Total fixed-maturity investments	2,455	(76)	534	(91)	2,989	(167)
Perpetual debt and equity securities	2	-	-	-	2	-
Total AFS investments	\$ 2,457	\$ (76)	\$ 534	\$ (91)	\$ 2,991	\$ (167)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	\$ -	\$ -	\$ 420	\$ (155)	\$ 420	\$ (155)
Total HTM investments	\$ -	\$ -	\$ 420	\$ (155)	\$ 420	\$ (155)

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

In millions	Less than 12 Months		December 31, 2013		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 269	\$ (9)	\$ 1	\$ -	\$ 270	\$ (9)
State and municipal bonds	1,112	(65)	49	(8)	1,161	(73)
Foreign governments	36	-	-	-	36	-
Corporate obligations	788	(30)	82	(8)	870	(38)
Mortgage-backed securities:						
Residential mortgage-backed agency	713	(23)	144	(8)	857	(31)
Residential mortgage-backed non-agency	17	-	22	(5)	39	(5)
Commercial mortgage-backed	11	(1)	-	-	11	(1)
Asset-backed securities:						
Collateralized debt obligations	6	-	124	(57)	130	(57)
Other asset-backed	21	-	57	(15)	78	(15)
Total fixed-maturity investments	2,973	(128)	479	(101)	3,452	(229)
Perpetual debt and equity securities	5	-	-	-	5	-
Total AFS investments	\$ 2,978	\$ (128)	\$ 479	\$ (101)	\$ 3,457	\$ (229)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	\$ -	\$ -	\$ 1,244	\$ (181)	\$ 1,244	\$ (181)
Total HTM investments	\$ -	\$ -	\$ 1,244	\$ (181)	\$ 1,244	\$ (181)

Gross unrealized losses on AFS securities decreased as of March 31, 2014 compared with December 31, 2013 primarily due to market price appreciation caused by declining interest rates. Gross unrealized losses on HTM securities decreased as of March 31, 2014 compared with December 31, 2013 primarily due to market price appreciation caused by shrinking credit spreads.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of March 31, 2014 and December 31, 2013 was 16 and 18 years, respectively. As of March 31, 2014 and December 31, 2013, there were 83 and 77 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which the fair values of 48 and 50 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer by percentage of fair value below book value by more than 5% as of March 31, 2014:

AFS Securities**HTM Securities**

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Percentage of Fair Value Below Book Value	Number of Securities	Book Value (in millions)	Fair Value (in millions)	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	25	\$ 263	\$ 245	-	\$ -	\$ -
> 15% to 25%	11	105	83	-	-	-
> 25% to 50%	4	21	15	1	575	420
> 50%	7	49	8	-	-	-
Total	47	\$ 438	\$ 351	1	\$ 575	\$ 420

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

The following table presents the fair values and gross unrealized losses by credit rating category of ABS, MBS and corporate obligations included in the Company's consolidated AFS investment portfolio as of March 31, 2014 for which fair value was less than amortized cost. The credit ratings are based on ratings from Moody's as of March 31, 2014 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions Asset Type	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS	\$ 16	\$ -	\$ 61	\$ (3)	\$ 2	\$ -	\$ -	\$ -	\$ 118	\$ (63)	\$ 2	\$ (1)	\$ 199	\$ (67)
MBS	787	(22)	9	-	2	-	6	-	9	(1)	15	(4)	828	(27)
Corporate obligations	281	-	187	(6)	259	(7)	45	(3)	15	-	110	(18)	897	(34)
Total	\$ 1,084	\$ (22)	\$ 257	\$ (9)	\$ 263	\$ (7)	\$ 51	\$ (3)	\$ 142	\$ (64)	\$ 127	\$ (23)	\$ 1,924	\$ (128)

The total ABS, MBS and corporate obligations reported in the preceding table include those which are guaranteed by financial guarantors. In addition, the following table presents information on ABS, MBS and corporate obligations guaranteed by the Company and third-party financial guarantors.

Asset Type	Average Credit Rating with the Effect of Guarantee	Average Credit Rating without the Effect of Guarantee	Insured Securities Rated Below Investment Grade without the Effect of Guarantee (in millions)	
			Fair Value	Percentage
ABS	Below Investment Grade	Below Investment Grade	\$90	61%
MBS	Below Investment Grade	Below Investment Grade	7	100%
Corporate obligations	Baa	Baa	-	- %

Refer to the table in the Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors section within the OTTI section of this note for information on the insured securities included in the table above.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2014 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

Other-Than-Temporary Impairments

Evaluating AFS Securities for OTTI

The Company has an ongoing review process for all securities in its investment portfolio, including a quarterly assessment of OTTI. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (i) the magnitude and duration of declines in fair value; (ii) the reasons for the declines in fair value, such as general credit spread movements in each asset-backed sector, transaction-specific changes in credit spreads, credit rating downgrades, modeled defaults, and principal and interest payment priorities within each investment structure; and (iii) any guarantees associated with a security such as those provided by financial guarantee insurance companies, including MBIA Corp. and National.

In calculating credit-related losses, the Company utilizes cash flow modeling based on the type of security. The Company's cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash expected to be provided by financial guarantors, including MBIA Corp., resulting from an actual or potential insurance policy claim. In general, any change in the amount and/or timing of cash flows received or expected to be received, whether or not such cash flows are contractually defined, is reflected in the Company's cash flow analysis for purposes of assessing an OTTI loss on an impaired security.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

Each quarter, an internal committee, comprising staff that is independent of the Company's evaluation process for determining OTTI of securities, reviews and approves the valuation of investments. Among other responsibilities, this committee ensures that the Company's process for identifying and calculating OTTI, including the use of models and assumptions, is reasonable and complies with the Company's internal policy.

Determination of Credit Loss on ABS, MBS and Corporate Obligations

Investments with unrealized losses that met the above criteria were tested for OTTI and principally related to ABS, MBS and corporate obligations.

ABS investments are evaluated for OTTI using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security's interest rate used to recognize interest income on the security. For CDO investments, the Company utilizes the same tools as its RMBS investments discussed below, aggregating the bond level cash flows to the CDO investment level. If the present value of cash flows is less than the Company's amortized cost for the security, the difference is recorded as an OTTI loss.

RMBS investments are evaluated for OTTI using several quantitative tools. Loan level data are obtained and analyzed in a model that produces prepayment, default, and severity vectors. The model utilizes macro inputs, including housing price assumptions and interest rates. The vector outputs are used as inputs to a third-party cash flow model, which considers deal waterfall dynamics and structural features, to generate cash flows for an RMBS investment. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income of the security to arrive at a present value amount. If the present value of the cash flows is less than the Company's amortized cost for the investment, the difference is recorded as an OTTI loss.

Corporate obligation investments are evaluated for OTTI using credit analysis techniques. The Company's analysis includes a detailed review of a number of quantitative and qualitative factors impacting the value of an individual security. These factors include the interest rate of the security (fixed or floating), the security's current market spread, any collateral supporting the security, the security's position in the issuer's capital structure, and credit rating upgrades or downgrades. Additionally, these factors include an assessment of various issuer-related credit metrics including market capitalization, earnings, cash flow, capitalization, interest coverage, leverage, liquidity, management and a third-party quantitative default probability model. The Company's analysis is augmented by comparing market prices for similar securities of other issuers in the same sector, as well as any recent corporate or government actions that may impact the ultimate return of principal. If the Company determines that, after considering these factors, a principal default is projected, a recovery analysis is performed using the above data. If the Company's estimated recovery value for the security is less than its amortized cost, the difference is recorded as an OTTI loss.

Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors

The Company does not record OTTI related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for information about the Company's loss reserving policy and Note 5: Loss and Loss Adjustment Expense Reserves for information about loss reserves.

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In considering cash expected to be provided from other third-party financial guarantors, the Company assesses the financial guarantor's ability to make claim payments under a variety of scenarios that test the guarantor's ultimate claims paying ability. The weighted average outcome of these scenarios, combined with the cash flows provided by the insured security, are used to determine the recoverability of the Company's amortized cost.

The following table provides information about securities held by the Company as of March 31, 2014 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve ⁽²⁾
Asset-backed:			
MBIA ⁽¹⁾	\$ 139	\$ (54)	\$ 18
Other	8	(2)	-
Total asset-backed	147	(56)	18
Mortgage-backed:			
MBIA ⁽¹⁾	5	-	-
Other	2	-	-
Total mortgage-backed	7	-	-
Corporate obligations:			
Other	6	(1)	-
Total corporate obligations	6	(1)	-
Other:			
MBIA ⁽¹⁾	64	(6)	-
Total other	64	(6)	-
Total	\$ 224	\$ (63)	\$ 18

(1) - Includes investments insured by MBIA Corp. and National.

(2) - Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured.

Credit Loss Rollforward

The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in accumulated other comprehensive income (AOCI). For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts.

In millions

Three Months Ended
March 31,

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Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	2014	2013
Beginning balance	\$ 175	\$ 197
Reductions for credit loss impairments previously recognized on securities sold during the period	(1)	(2)
Reductions for increases in cash flows expected to be collected over the remaining life of the security	(1)	-
Ending balance	\$ 173	\$ 195

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within Net gains (losses) on financial instruments at fair value and foreign exchange on the Company's consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three months ended March 31, 2014 and 2013 are as follows:

In millions	Three Months Ended	
	March 31,	
	2014	2013
Proceeds from sales	\$ 16	\$ 620
Gross realized gains	\$ 2	\$ 36
Gross realized losses	\$ -	\$ (3)

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Notes 8: Derivative Instruments***Overview*

MBIA has entered into derivative instruments through its financial guarantee of CDS and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. The Company accounts for derivative instruments in accordance with the accounting principles for derivative and hedging activities, which requires that all such instruments be recorded on the balance sheet at fair value. Refer to Note 6: Fair Value of Financial Instruments for the method of determining the fair value of derivative instruments.

U.S. Public Finance Insurance

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception. The Company has also purchased certain investments containing embedded derivatives. All derivatives are recorded at fair value on the Company's consolidated balance sheets with the changes in fair value recorded on the Company's consolidated statements of operations within Unrealized gains (losses) on insured derivatives, for the insured derivatives, or Net gains (losses) on financial instruments at fair value and foreign exchange for the embedded derivatives.

Structured Finance and International Insurance

The Company entered into derivative instruments that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the balance sheet. These insured CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans and CDO securities, are intended to be held for the entire term of the contract absent a negotiated settlement with the counterparty.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange. Changes in the fair value of insured derivatives are recorded each period in current earnings within Net change in fair value of insured derivatives. The net change in the fair value of the Company's insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) premiums received and receivable on sold CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. The Unrealized gains (losses) on insured derivatives include all other changes in fair value of the insured derivative contracts.

In certain instances, the Company's structured finance and international insurance business purchased or issued securities that contain embedded derivatives. In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related security.

The Company has also entered into a derivative contract as a result of a commutation occurring during the three months ended March 31, 2014. Changes in the fair value of the Company's non-insured derivative are included in Net gains (losses) on financial instruments at fair value and foreign exchange on the Company's consolidated statements of operations.

Variable Interest Entities

VIEs consolidated by the Company have entered into derivative instruments consisting of interest rate caps and cross currency swaps. Interest rate caps are entered into to mitigate the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to hedge the variability in cash flows resulting from fluctuations in foreign currency rates.

Asset/Liability Products

The Company's asset/liability products business has entered into derivative instruments primarily consisting of interest rate swaps. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts.

In certain instances, the Company's asset/liability products business purchased or issued securities that contain embedded derivatives. In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related security.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

Changes in the fair value of the Company's asset/liability products business derivatives are recorded on the Company's consolidated statements of operations within Net gains (losses) on financial instruments at fair value and foreign exchange.

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of March 31, 2014 and December 31, 2013. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

\$ in millions	Weighted Average Remaining Expected Maturity	As of March 31, 2014 Notional Value					Below Investment Grade	Total Notional	Fair Value Asset (Liability)
		AAA	AA	A	BBB				
Credit Derivatives Sold									
Insured credit default swaps	2.5 Years	\$ 7,397	\$ 718	\$ 968	\$ 4,736	\$ 2,863	\$ 16,682	\$ (309)	
Insured swaps	17.0 Years	-	77	3,151	1,042	-	4,270	(4)	
Total notional		\$ 7,397	\$ 795	\$ 4,119	\$ 5,778	\$ 2,863	\$ 20,952		
Total fair value		\$ (2)	\$ -	\$ (3)	\$ (4)	\$ (304)		\$ (313)	

\$ in millions	Weighted Average Remaining Expected Maturity	As of December 31, 2013 Notional Value					Below Investment Grade	Total Notional	Fair Value Asset (Liability)
		AAA	AA	A	BBB				
Credit Derivatives Sold									
Insured credit default swaps	2.6 Years	\$ 7,406	\$ 1,972	\$ 1,068	\$ 7,552	\$ 5,956	\$ 23,954	\$ (1,132)	
Insured swaps	18.5 Years	-	77	3,282	1,586	-	4,945	(5)	
All others	28.0 Years	-	-	-	-	36	36	(15)	
Total notional		\$ 7,406	\$ 2,049	\$ 4,350	\$ 9,138	\$ 5,992	\$ 28,935		
Total fair value		\$ (2)	\$ -	\$ (3)	\$ (78)	\$ (1,069)		\$ (1,152)	

Internal credit ratings assigned by MBIA on the underlying collateral are derived by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where

appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future payments that MBIA may be required to make under these guarantees as of March 31, 2014 is \$17.1 billion. This amount is net of \$48 million of insured derivatives ceded under reinsurance agreements in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives and offsetting agreements with a counterparty. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

MBIA may hold recourse provisions with third parties in derivative instruments through both reinsurance and subrogation rights. MBIA's reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it may be entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)*****Counterparty Credit Risk***

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative instruments in the asset/liability products segment. There are no master netting agreements in the structured finance and international insurance or the U.S. public finance insurance segments. The master netting agreements in the asset/liability products segment 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 MBIA or the counterparty is downgraded below a specified credit rating.

Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of March 31, 2014, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$115 million. Of this amount, \$99 million is netted within *Derivative liabilities* and \$16 million is included within *Other liabilities* as cash collateral netted against accrued interest on derivative liabilities. As of December 31, 2013, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$160 million. Of this amount, \$123 million is netted within *Derivative liabilities*, \$16 million is included within *Other liabilities* as cash collateral netted against accrued interest on derivative liabilities and an additional \$21 million is included in *Other assets* on the Company's consolidated balance sheets. As of March 31, 2014, the Company had securities with a fair value of \$65 million posted to derivative counterparties and this amount is included within *Fixed-maturity securities held as available-for-sale, at fair value* on the Company's consolidated balance sheet. As of December 31, 2013, the Company had securities with a fair value of \$42 million posted to derivative counterparties and this amount is included within *Fixed-maturity securities held as available-for-sale, at fair value* on the Company's consolidated balance sheet.

As of March 31, 2014 and December 31, 2013, the fair value on one Credit Support Annex (CSA) was \$4 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of March 31, 2014 and December 31, 2013, the counterparty was rated A2 by Moody's and A by S&P.

Financial Statement Presentation

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments. Insured CDSs and insured swaps are not subject to master netting agreements. VIE derivative assets and liabilities are not presented net of any master netting agreements. Counterparty netting of derivative assets and liabilities offsets balances in *Interest rate swaps* as of March 31, 2014 and December 31, 2013.

As of March 31, 2014, the total fair value of the Company's derivative assets, after counterparty netting of \$54 million, was \$14 million, of which \$4 million was reported within *Other assets* on the Company's consolidated balance sheets. Embedded derivatives of \$10 million were reported within *Medium-term notes* on the Company's consolidated balance sheets.

As of March 31, 2014, the total fair value of the Company's derivative liabilities, after counterparty netting of \$54 million and cash collateral posted by the Company of \$99 million was \$386 million, which was reported within *Derivative liabilities* and *Derivative liabilities* presented under *Liabilities of consolidated variable interest entities* on the Company's consolidated balance sheets. Embedded derivatives of \$21 million were reported within *Medium-term notes* on the Company's consolidated balance sheets.

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The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of March 31, 2014:

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

In millions	Notional Amount Outstanding	Derivative Assets ⁽¹⁾		Derivative Liabilities ⁽¹⁾	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative Instruments					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 16,682	Other assets	\$ -	Derivative liabilities	\$ (309)
Insured swaps	4,270	Other assets	-	Derivative liabilities	(4)
Interest rate swaps	1,487	Other assets	58	Derivative liabilities	(190)
Interest rate swaps-embedded	497	Medium-term notes	10	Medium-term notes	(21)
Currency swaps-VIE	96	Other assets-VIE	-	Derivative liabilities-VIE	(5)
All other	83	Other assets	-	Derivative liabilities	(31)
All other-VIE	263	Other assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	11	Other investments	-	Other investments	-
Total non-designated derivatives	\$ 23,389		\$ 68		\$ (560)

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

As of December 31, 2013, the total fair value of the Company's derivative assets, after counterparty netting of \$42 million, was \$13 million, of which \$4 million was reported within Other assets on the Company's consolidated balance sheets. Embedded derivatives of \$9 million were reported within Medium-term notes on the Company's consolidated balance sheets.

As of December 31, 2013, the total fair value of the Company's derivative liabilities, after counterparty netting of \$42 million and cash collateral posted by the Company of \$123 million, was \$1.2 billion which was reported within Derivative liabilities and Derivative liabilities presented under Liabilities of consolidated variable interest entities on the Company's consolidated balance sheets. Embedded derivatives of \$19 million were reported within Medium-term notes and Other investments on the Company's consolidated balance sheets.

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2013:

In millions	Notional Amount Outstanding	Derivative Assets ⁽¹⁾		Derivative Liabilities ⁽¹⁾	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative Instruments					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 23,954	Other assets	\$ -	Derivative liabilities	\$ (1,132)
Insured swaps	4,945	Other assets	-	Derivative liabilities	(5)
Interest rate swaps	1,495	Other assets	46	Derivative liabilities	(165)
Interest rate swaps-embedded	496	Medium-term notes	9	Medium-term notes	(19)
Currency swaps-VIE	99	Other assets-VIE	-	Derivative liabilities-VIE	(11)

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All other	36	Other assets	-	Derivative liabilities	(15)
All other-VIE	280	Other assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	11	Other investments	-	Other investments	-
Total non-designated derivatives	\$ 31,316		\$ 55		\$ (1,347)

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2014:

In millions			
Derivatives Not Designated as			Net Gain (Loss)
Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative		Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$	823
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives		(339)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange		(23)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE		6
All other	Unrealized gains (losses) on insured derivatives		15
All other	Net gains (losses) on financial instruments at fair value and foreign exchange		(1)
All other	Realized gains (losses) and other settlements on insured derivatives		(30)
Total		\$	451

The following tables present the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2013:

In millions			
Derivatives Not Designated as			Net Gain (Loss)
Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative		Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$	(103)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives		12
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange		3
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE		13
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange		2
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE		(1)
All other	Unrealized gains (losses) on insured derivatives		30
Total		\$	(44)

Note 9: Income Taxes

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2014 and 2013 are as follows:

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In millions	Three Months Ended March 31,	
	2014	2013
Income (loss) before income taxes	\$ 404	\$ 215
Provision (benefit) for income taxes	\$ 148	\$ 51
Effective tax rate	36.6%	23.7%

For the three months ended March 31, 2014, the Company's effective tax rate applied to its pre-tax income was higher than the U.S. statutory tax rate primarily as a result of certain non-tax deductible expenses and the increase in the valuation allowance against its deferred tax asset.

For the three months ended March 31, 2013, the Company's effective tax rate applied to its pre-tax income was lower than the U.S. statutory tax rate primarily as a result of the decrease in the valuation allowance against its deferred tax asset.

The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pretax income for the full year of 2014. A discrete calculation of the provision is calculated for each interim period.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Income Taxes (continued)***Deferred Tax Asset, Net of Valuation Allowance*

The Company establishes a valuation allowance against its deferred tax asset when it is more likely than not that all or a portion of the deferred tax asset will not be realized. All evidence, both positive and negative, needs to be identified and considered in making the determination. Future realization of the existing deferred tax asset ultimately depends, in part, on the generation of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under the tax law.

As of March 31, 2014, the Company reported a net deferred tax asset of \$917 million which is net of a \$95 million valuation allowance. As of March 31, 2014, the Company had a valuation allowance against a portion of the deferred tax asset related to losses from asset impairments. The valuation allowance as of March 31, 2014 reflects an increase of \$2 million from the December 31, 2013 valuation allowance of \$93 million. The increase in the valuation allowance for the three months ended March 31, 2014 was primarily due to asset impairments which are characterized as capital.

Tax Sharing Agreement

The Company has a tax sharing agreement among its members effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). The agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of the New York Insurance Law. Refer to Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for further discussion on the Company's tax sharing agreement.

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in UTB and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. The amounts in the table below do not include accrued interest of \$2 million. All amounts below are reflected before any applicable tax benefit.

In millions

Unrecognized tax benefit as of December 31, 2013	\$ 65
The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken:	
During a prior year	-
During the current year	-
The amounts of decreases in the UTB related to settlements with taxing authorities	-
The reduction in the UTB as a result of the applicable statute of limitations	-
Unrecognized tax benefit as of March 31, 2014	\$ 65

The Company does not anticipate any amount to reverse in the next twelve months based on settling certain issues.

In 2013, the Internal Revenue Service contacted the Company to review the 2011 consolidated return of MBIA Inc. and its subsidiaries, for the purpose of determining whether to formally examine the tax return. To date no formal examination has been initiated.

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The U.K. tax authorities are currently auditing tax years 2005 through 2011. On June 5, 2013, the Company met with the HM Revenue & Customs (HMRC). During the third and fourth quarters of 2013 the Company sent HMRC additional information supporting its position. On January 24, 2014, the Company provided an independent report to HMRC. On April 8, 2014, HMRC responded with comments. The Company will be responding to HMRC in anticipation of another meeting. As of the first quarter of 2014, there has been no resolution.

During 2013, the Company met with New York State Department of Taxation and Finance to discuss the Company's respective positions regarding certain issues related to the 2008 tax year. Discussions are ongoing and the Company has presented its technical position in writing to the State.

As of December 31, 2013, the Company's NOL is approximately \$2.8 billion which will expire between tax years 2029 through 2033. As of December 31, 2013, the Company has an alternative minimum tax credit carryforward of \$22 million, which does not expire. As a result of the commutation of CMBS exposure that occurred during the three months ended March 31, 2014, the Company's NOL is approximately \$3.1 billion as of March 31, 2014.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments

MBIA manages its activities through three principal business operations: U.S. public finance insurance, structured finance and international insurance, and advisory services. MBIA Inc. and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as "wind-down operations" as the funding programs managed through those businesses are in wind-down.

As defined by segment reporting, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available. The following sections provide a description of each of the Company's reportable operating segments.

U.S. Public Finance Insurance

The Company's U.S. public finance insurance segment is principally conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are generally not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National issues financial guarantees for municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, 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, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. National has not written any meaningful amount of business since its formation in 2009.

Structured Finance and International Insurance

The Company's structured finance and international insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, global structured finance and non-U.S. public finance insured obligations when due, or in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. also insures debt obligations of the following affiliates:

MBIA Inc.;

GFL;

Meridian Funding Company, LLC;

MBIA Investment Management Corp. ("IMC"); and

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LaCrosse Financial Products, LLC, a wholly-owned affiliate, in which MBIA Corp. has written insurance policies guaranteeing the obligations under CDS, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

MBIA Corp. s guarantees insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities, utilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign-related and sub-sovereign issuers. Structured finance and ABS typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. The Company is no longer insuring new credit derivative contracts except for transactions related to the reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

Advisory Services

The advisory services segment primarily consists of the operations of Cutwater Investor Services Corp. (Cutwater-ISC) and Cutwater Asset Management Corp. (Cutwater-AMC). Cutwater-ISC and Cutwater-AMC provide advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. Cutwater offers these services to public, not-for-profit, corporate and financial services clients, including MBIA Inc. and its subsidiaries, as well as portfolio accounting and reporting services. Cutwater-ISC and Cutwater-AMC are Securities and Exchange Commission registered investment advisers. Cutwater-AMC is also a Financial Industry Regulatory Authority member firm. As of March 31, 2014, the Company exited the advisory and asset management services business in the European Union.

Corporate

The Company's corporate segment is principally conducted through Optinuity Alliance Resources Corporation (Optinuity), which provides general support services to the corporate segment and other operating businesses. Optinuity is a reportable segment that includes revenues and expenses that arise from general corporate activities, such as fees, net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses. Employees of the service company provide various support services including management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, among others, on a fee-for-service basis. The service company's revenues and expenses are included in the results of the corporate segment.

Wind-down Operations

The Company's wind-down operations consist of the asset/liability products and conduit segments. The asset/liability products segment principally consists of the activities of MBIA Inc., IMC and GFL. IMC, along with MBIA Inc., provided customized investment agreements. It also provided customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raised funds through the issuance of MTNs with varying maturities, which were, in turn, guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc.

The Company's conduit segment administers one conduit through MBIA Asset Finance, LLC. Assets financed by this conduit are currently funded by MTNs.

Table of Contents**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 10: Business Segments (continued)***Segments Results*

The following tables provide the Company's segment results for the three months ended March 31, 2014 and 2013:

In millions	Three Months Ended March 31, 2014						Eliminations	Consolidated
	U.S. Public Finance Insurance	Structured Finance and International Insurance	Advisory Services	Corporate	Wind-down Operations			
Revenues ⁽¹⁾	\$ 88	\$ 34	\$ 3	\$ 8	\$ 9	\$ -	\$ 142	
Net change in fair value of insured derivatives	1	468	-	-	-	-	469	
Net gains (losses) on financial instruments at fair value and foreign exchange	4	(3)	(4)	(14)	(38)	-	(55)	
Net gains (losses) on extinguishment of debt	-	-	-	-	1	-	1	
Other net realized gains (losses)	-	-	-	1	-	-	1	
Revenues of consolidated VIEs	-	20	-	(5)	4	-	19	
Inter-segment revenues ⁽²⁾	12	12	6	16	(3)	(43)	-	
Total revenues	105	531	5	6	(27)	(43)	577	
Losses and loss adjustment	(14)	64	-	-	-	-	50	
Operating	9	16	11	20	-	-	56	
Interest	-	27	-	9	18	-	54	
Expenses of consolidated VIEs	-	13	-	-	-	-	13	
Inter-segment expenses ⁽²⁾	18	19	1	5	2	(45)	-	

Total ex