MBIA INC
Form 10-Q
November 04, 2015
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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 September 30, 2015

or

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

For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer**
	Identification No.)
1 Manhattanville Road, Suite 301, Purchase, New York	**10577**
(Address of principal executive offices)	**(Zip Code)**

(914) 273-4545

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

As of October 29, 2015, 152,955,415 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 expr 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 fiscal stress;
- the possibility that MBIA Corp. will have inadequate liquidity or resources to pay claims as a result of higher than expected losses on certain structured finance transactions, or as a result of 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 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, 2014. In addition, refer to Risk Factors in Part II, Item 1A and Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

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

MBIA.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions except share and per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $5,177 and $5,036)	$ 5,221	$ 5,129
Investments carried at fair value	176	207
Investments pledged as collateral, at fair value (amortized cost $298 and $441)	272	408
Short-term investments held as available-for-sale, at fair value (amortized cost $828 and $1,069)	829	1,069
Other investments (includes investments at fair value of $13 and $13)	16	17
Total investments	6,514	6,830
Cash and cash equivalents	462	729
Premiums receivable	789	875
Deferred acquisition costs	182	217
Insurance loss recoverable	437	533
Assets held for sale	-	802
Deferred income taxes, net	996	1,028
Other assets	198	229
Assets of consolidated variable interest entities:		
Cash	30	53
Investments held-to-maturity, at amortized cost (fair value $2,442 and $2,632)	2,707	2,757
Fixed-maturity securities at fair value	985	421
Loans receivable at fair value	1,351	1,431
Loan repurchase commitments	394	379
Derivative assets	6	-
Total assets	**$ 15,051**	**$ 16,284**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 1,699	$ 1,986
Loss and loss adjustment expense reserves	480	506
Long-term debt	1,882	1,810
Medium-term notes (includes financial instruments carried at fair value of $170 and $197)	1,033	1,201
Investment agreements	485	547
Derivative liabilities	339	437
Liabilities held for sale	-	772
Other liabilities	196	271
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $2,460 and $2,047)	5,166	4,804
Derivative liabilities	57	-

Total liabilities	**11,337**	**12,334**
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 281,820,698 and 281,352,782	282	281
Additional paid-in capital	3,133	3,128
Retained earnings	2,956	2,858
Accumulated other comprehensive income (loss), net of tax of $23 and $7	(10)	21
Treasury stock, at cost 128,874,339 and 89,409,887 shares	(2,659)	(2,359)
Total shareholders equity of MBIA Inc.	3,702	3,929
Preferred stock of subsidiary and noncontrolling interest	12	21
Total equity	**3,714**	**3,950**
Total liabilities and equity	**$ 15,051**	**$ 16,284**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 47	$ 64	$ 153	$ 196
Refunding premiums earned	37	52	123	97
Premiums earned (net of ceded premiums of $2, $4, $7 and $8)	84	116	276	293
Net investment income	38	44	112	136
Fees and reimbursements	1	17	4	25
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(18)	(24)	(30)	(417)
Unrealized gains (losses) on insured derivatives	21	48	121	863
Net change in fair value of insured derivatives	3	24	91	446
Net gains (losses) on financial instruments at fair value and foreign exchange	(55)	57	20	63
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	(1)	(93)	(10)	(93)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(2)	79	-	79
Net investment losses related to other-than-temporary impairments	(3)	(14)	(10)	(14)
Net gains (losses) on extinguishment of debt	-	-	(1)	3
Other net realized gains (losses)	(1)	30	18	31
Revenues of consolidated variable interest entities:				
Net investment income	12	12	37	37
Net gains (losses) on financial instruments at fair value and foreign exchange	13	8	9	34
Net gains (losses) on extinguishment of debt	-	-	-	4
Other net realized gains (losses)	-	(3)	-	(3)
Total revenues	92	291	556	1,055
Expenses:				
Losses and loss adjustment	39	20	79	82
Amortization of deferred acquisition costs	11	13	37	31
Operating	35	46	102	141
Interest	49	52	149	158
Expenses of consolidated variable interest entities:				
Operating	3	2	10	6
Interest	10	10	29	30
Total expenses	147	143	406	448

Income (loss) before income taxes		(55)		148		150		607
Provision (benefit) for income taxes		(20)		(25)		52		58
Net income (loss)	**$**	**(35)**	**$**	**173**	**$**	**98**	**$**	**549**
Net income (loss) per common share:								
Basic	$	(0.23)	$	0.90	$	0.56	$	2.83
Diluted	$	(0.23)	$	0.80	$	0.55	$	2.62
Weighted average number of common shares outstanding:								
Basic		155,239,723		187,104,785		169,610,370		188,428,870
Diluted		155,239,723		188,424,318		170,566,386		191,616,723

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income (loss)	$ (35)	$ 173	$ 98	$ 549
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	51	1	(35)	185
Provision (benefit) for income taxes	19	-	(11)	64
Total	32	1	(24)	121
Reclassification adjustments for (gains) losses included in net income (loss)	6	-	10	15
Provision (benefit) for income taxes	1	-	3	6
Total	5	-	7	9
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	(1)	(79)	(5)	(80)
Provision (benefit) for income taxes	(1)	(28)	(2)	(29)
Total	-	(51)	(3)	(51)
Reclassification adjustments for (gains) losses included in net income (loss)	3	-	3	7
Provision (benefit) for income taxes	1	-	1	2
Total	2	-	2	5
Foreign currency translation:				
Foreign currency translation gains (losses)	(18)	(30)	(19)	(23)
Provision (benefit) for income taxes	(5)	(10)	(6)	(7)
Total	(13)	(20)	(13)	(16)
Reclassification adjustments for (gains) losses included in net income (loss)	-	-	-	4
Total other comprehensive income (loss)	26	(70)	(31)	72
Comprehensive income (loss)	**$ (9)**	**$ 103**	**$ 67**	**$ 621**

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 Nine Months Ended September 30, 2015

(In millions except share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest		Total
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount		Shares	Amount	Equity
Balance, December 31, 2014	**281,352,782**	**$ 281**	**$ 3,128**	**$ 2,858**	**$ 21**	**(89,409,887)**	**$ (2,359)**	**$ 3,929**	**1,315**	**$ 21**	**$ 3,950**
ASU 2015-02 transition adjustment	-	-	-	-	-	-	-	-	-	(9)	(9)
Net income (loss)	-	-	-	98	-	-	-	98	-	-	98
Other comprehensive income (loss)	-	-	-	-	(31)	-	-	(31)	-	-	(31)
Share-based compensation,net of tax of $9	467,916	1	5	-	-	(523,289)	(3)	3	-	-	3
Treasury shares acquired under share repurchase program	-	-	-	-	-	(38,941,163)	(297)	(297)	-	-	(297)
Balance, September 30, 2015	**281,820,698**	**$ 282**	**$ 3,133**	**$ 2,956**	**$ (10)**	**(128,874,339)**	**$ (2,659)**	**$ 3,702**	**1,315**	**$ 12**	**$ 3,714**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 66	$ 122
Investment income received	263	317
Errors and omissions insurance recoveries received	-	30
Insured derivative commutations and losses paid	(42)	(401)
Financial guarantee losses and loss adjustment expenses paid	(68)	(181)
Proceeds from recoveries and reinsurance	61	93
Operating and employee related expenses paid	(99)	(198)
Interest paid, net of interest converted to principal	(130)	(136)
Income taxes (paid) received	(9)	4
Net cash provided (used) by operating activities	42	(350)
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,497)	(1,220)
Sales of available-for-sale investments	630	594
Paydowns and maturities of available-for-sale investments	463	379
Purchases of investments at fair value	(324)	(457)
Sales, paydowns and maturities of investments at fair value	447	550
Sales, paydowns and maturities (purchases) of short-term investments, net	582	318
Sales, paydowns and maturities of held-to-maturity investments	50	29
Purchases of loans at fair value	-	(195)
Paydowns and maturities of loans at fair value	172	172
Consolidation of variable interest entities including cash acquired	7	221
Deconsolidation of variable interest entities	-	(1)
(Payments) proceeds for derivative settlements	33	(23)
Collateral (to) from swap counterparty	(64)	99
Capital expenditures	(3)	(9)
Other investing	47	-
Net cash provided (used) by investing activities	543	457
Cash flows from financing activities:		
Proceeds from investment agreements	21	23
Principal paydowns of investment agreements	(88)	(72)
Principal paydowns of medium-term notes	(116)	(166)
Principal paydowns of variable interest entity notes	(392)	(516)
Principal paydowns of long-term debt	(11)	-
Purchases of treasury stock	(300)	(23)
Net cash provided (used) by financing activities	(886)	(754)
Effect of exchange rate changes on cash and cash equivalents	11	(5)
Net increase (decrease) in cash and cash equivalents	(290)	(652)
Cash and cash equivalents beginning of period	782	1,258

Cash and cash equivalents end of period	$	492	$	606
Reconciliation of net income (loss) to net cash provided (used) by operating activities:				
Net income (loss)	$	98	$	549
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Change in:				
Premiums receivable		63		92
Deferred acquisition costs		35		30
Unearned premium revenue		(274)		(303)
Loss and loss adjustment expense reserves		(24)		(124)
Insurance loss recoverable		96		119
Accrued interest payable		78		79
Realized (gains) losses and other settlements on insured derivatives		-		30
Unrealized (gains) losses on insured derivatives		(121)		(863)
Net (gains) losses on financial instruments at fair value and foreign exchange		(29)		(97)
Other net realized (gains) losses		(18)		(28)
Deferred income tax provision (benefit)		50		49
Interest on variable interest entities, net		51		56
Other operating		37		61
Total adjustments to net income (loss)		(56)		(899)
Net cash provided (used) by operating activities	$	42	$	(350)

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments 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 was a provider of asset management and advisory services. MBIA manages three operating segments: 1) United States (U.S.) public finance insurance; 2) international and structured finance insurance; and 3) corporate. The Company s U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries (National) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). Unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited (MBIA UK) and MBIA Mexico S.A. de C.V (MBIA Mexico).

Prior to 2015, MBIA managed two other operating segments, advisory services and conduit. The advisory services segment was primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). Effective on January 1, 2015, the Company exited its advisory services business through the sale of Cutwater. During the second quarter of 2014, the Company dissolved its conduit segment through the liquidation of Meridian Funding Company, LLC (Meridian). Refer to Note 10: Business Segments for further information about the Company s operating 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. As of September 30, 2015, the major rating agencies affirmed the following ratings of National: AA+ with a stable outlook by Kroll Bond Rating Agency; AA- with a stable outlook by Standard & Poor s Financial Services LLC (S&P); and A3 with a negative outlook by Moody s Investors Service, Inc. (Moody s).

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 insured portfolio.

Sale of MBIA Inc. Common Stock

During the nine months ended September 30, 2015, investment funds affiliated with Warburg Pincus LLC (Warburg), the largest holder of MBIA Inc. common stock, sold all of its 45.7 million shares of the Company s common stock. Warburg received all of the net proceeds from this offering. In connection with this sale, National and the Company repurchased 8 million shares and 7.6 million shares, respectively.

Held For Sale Classifications

Armonk, New York Facility

During the nine months ended September 30, 2015, the Company sold its Armonk, New York facility and recorded an impairment charge of $4 million to adjust the carrying amount to the sale price less costs to sell. The impairment charge was reflected in the results of the Company s U.S. public finance insurance segment and included in Other net realized gains (losses) on the Company s consolidated statements of operations.

Sale of Cutwater Business

As a result of the agreement to sell Cutwater, the assets and liabilities of Cutwater were classified as held for sale as of December 31, 2014 and presented within Assets held for sale and Liabilities held for sale on the Company s consolidated balance sheet and measured at the lower of its carrying value or fair value less costs to sell. The Company completed this sale effective January 1, 2015, and recorded a gain of approximately $24 million. This gain was reflected in the results of the Company s corporate segment and included in Other net realized gains (losses) on the

Company s consolidated statements of operations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Assets and Liabilities Held for Sale by Major Category

The following table summarizes the components of assets and liabilities held for sale as of December 31, 2014:

In millions		December 31, 2014
Assets		
Investments carried at fair value	$	6
Cash and cash equivalents		15
Facility		26
Other assets		4
Assets of consolidated variable interest entities:		
Cash		40
Loans receivable at fair value		711
Total assets held for sale	$	802
Liabilities		
Other liabilities	$	18
Liabilities of consolidated variable interest entities:		
Variable interest entity notes		431
Payable for loans purchased		323
Total liabilities held for sale	$	772

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. 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

National s insured portfolio continued to perform satisfactorily against a backdrop of strengthening domestic economic activity. While this trend will generally benefit tax revenues and fees charged for essential municipal services which secure National s insured bond portfolio, some state and local governments and territory obligors National insures remain under financial and budgetary 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 and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

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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

MBIA Corp. s primary focus is the collection of excess spread and put-back recoveries and the mitigation of MBIA Corp. s insurance exposures, primarily through commutations of insurance policies. MBIA Corp. may make negotiated settlement payments to counterparties and/or forego its right to all or some termination premiums when it commutes insurance exposures.

The amount and timing of projected collections from excess spread from second-lien residential mortgage-backed securities (RMBS) and the put-back recoverable from Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc. (collectively, Credit Suisse) 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 put-back recoveries from Credit Suisse and excess spread recoveries, 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 Insurance Corporation, exclusive of MBIA UK and MBIA Mexico, into a rehabilitation or liquidation proceeding. Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, the Company does not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by NYSDFS would have any significant long-term liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico. Such a proceeding could have 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 Insurance Corporation 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.

Corporate Liquidity

As of September 30, 2015 and December 31, 2014, the liquidity position of MBIA Inc. was $306 million and $498 million, respectively. The term liquidity position refers to cash and liquid assets available for general liquidity purposes. During the nine months ended September 30, 2015, $228 million was released to MBIA Inc. under the MBIA group s tax sharing agreement (the Tax Escrow Account). Subsequent to September 30, 2015, National declared and paid a dividend of $114 million to its ultimate parent, MBIA Inc. Based on the Company s projections of National s dividends, payments into the Tax Escrow Account, and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk which could be triggered by deterioration in the performance of invested assets, interruption of or reduction in dividends received from operating subsidiaries, impaired access to the capital markets, as well as other factors which cannot be anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

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, 2014. 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, 2014. 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 2. Significant Accounting Policies (continued)

The results of operations for the three and nine months ended September 30, 2015 may not be indicative of the results that may be expected for the year ending December 31, 2015. The December 31, 2014 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.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08)

In April of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for determining whether a disposal of a component or group of components of an entity qualifies for discontinued operations presentation and requires new disclosures. ASU 2014-08 amends the definition of discontinued operation to a disposal of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity s operations and financial results. ASU 2014-08 was effective for interim and annual periods beginning January 1, 2015. The adoption of ASU 2014-08 did not affect the Company s consolidated financial statements.

Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASU 2014-11)

In June of 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The repurchase agreements and similar transactions guidance is amended by ASU 2014-11 to change the accounting for i.) repurchase-to-maturity transactions to secured borrowing accounting and ii.) linked repurchase financing transactions to secured borrowing accounting. ASU 2014-11 amends disclosure requirements for transfers accounted for as sales, and for repurchase transactions accounted for as secured borrowings. ASU 2014-11 was effective for interim and annual periods beginning January 1, 2015. The adoption of ASU 2014-11 did not affect the Company s consolidated financial statements.

Consolidation (Topic 810): Amendments to the Consolidation Analysis (ASU 2015-02)

In February of 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 amends the accounting guidance for consolidation of legal entities including consolidated variable interest entities (VIEs). ASU 2015-02 eliminates the specialized consolidation model and guidance for limited partnerships, amends the conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest in a VIE, amends the related party guidance for the determination of the primary beneficiary of a VIE, and requires certain investment funds designed as VIEs, except money market funds, to apply the amended consolidation guidance. ASU 2015-02 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective or modified retrospective basis. The Company adopted ASU 2015-02 in the second quarter of 2015, and deconsolidated a VIE upon adoption. The adoption of ASU 2015-02 did not materially impact the Company s consolidated financial statements.

The Company has not adopted any other new accounting pronouncements that had a material impact on its consolidated financial statements.

Recent Accounting Developments

Revenue from Contracts with Customers (Topic 606) (ASU 2014-09) and *Deferral of the Effective Date (ASU 2015-14)*

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date. ASU 2015-14 defers the effective date of ASU 2014-09 to interim and annual periods beginning January 1, 2018, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the impact of adopting ASU 2014-09.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (A Consensus of the FASB Emerging Issues Task Force) (ASU 2014-12)

In June of 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after an employee s requisite service period be accounted for as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a prospective basis or retrospective basis. The adoption of ASU 2014-12 is not expected to materially impact the Company s consolidated financial statements.

Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASU 2014-13)

In August of 2014, the FASB issued ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. ASU 2014-13 applies to a consolidated collateralized financing entity defined as a consolidated VIE that holds financial assets and issues beneficial interests in those financial assets that are classified as financial liabilities. The Company may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using a measurement alternative provided in ASU 2014-13. The measurement alternative requires both the financial assets and the financial liabilities of the consolidated collateralized financing entity to be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities with the changes in fair value recognized to earnings. Upon adoption, a reporting entity may apply the measurement alternative to existing consolidated collateralized financing entities. ASU 2014-13 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted. The adoption of ASU 2014-13 is not expected to materially impact the Company s consolidated financial statements.

Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (ASU 2014-15)

In August of 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ending December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company s consolidated financial statements.

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)

In April of 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective basis. The adoption of ASU 2015-03 is not expected to materially impact the Company s consolidated financial statements.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities

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

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

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

The Company s advisory services segment provided asset management and advisory services to VIEs. During 2014, the Company consolidated three VIEs as the primary beneficiary, pursuant to this segment s activities. As of December 31, 2014, the Company held approximately $4 million of the subordinated notes issued by one of the VIEs. The Company had no obligation or commitment to provide additional financial support or liquidity to these VIEs. Effective January 1, 2015, the Company completed the sale of its Cutwater business and deconsolidated these VIEs. Refer to Note 1: Business Developments and Risks and Uncertainties for additional information about the sale of Cutwater.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

Insurance

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of September 30, 2015 and December 31, 2014, 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 September 30, 2015 and December 31, 2014. 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.

			September 30, 2015					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)	Derivative Liabilities(6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 6,666	$ 3,853	$ 90	$ 14	$ -	$ 10	$ 108	$ 17
Mortgage-backed residential	12,130	6,436	24	33	426	32	275	-
Mortgage-backed commercial	329	233	-	1	-	1	-	-
Consumer asset-backed	5,706	1,778	-	14	-	12	8	-
Corporate asset-backed	5,310	3,629	-	29	6	34	-	-
Total global structured finance	30,141	15,929	114	91	432	89	391	17
Global public finance	44,801	15,373	-	164	-	194	-	-
Total insurance	$ 74,942	$ 31,302	$ 114	$ 255	$ 432	$ 283	$ 391	$ 17

(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.

	December 31, 2014							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	**VIE Assets**	**Maximum Exposure to Loss**	**Investments(1)**	**Premiums Receivable(2)**	**Insurance Loss Recoverable(3)**	**Unearned Premium Revenue(4)**	**Loss and Loss Adjustment Expense Reserves(5)**	**Derivative Liabilities(6)**
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 8,613	$ 5,623	$ 110	$ 24	$ -	$ 20	$ 70	$ 102
Mortgage-backed residential	14,136	7,459	9	41	518	39	307	-
Mortgage-backed commercial	571	279	-	1	-	1	-	-
Consumer asset-backed	6,008	1,989	-	16	-	14	12	-
Corporate asset-backed	6,612	4,608	-	41	6	47	-	-
Total global structured finance	35,940	19,958	119	123	524	121	389	102
Global public finance	49,686	16,698	-	179	-	211	-	-
Total insurance	$ 85,626	$ 36,656	$ 119	$ 302	$ 524	$ 332	$ 389	$ 102

(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 which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $5.5 billion and $5.2 billion, respectively, as of September 30, 2015, and $5.0 billion and $4.8 billion, respectively, as of December 31, 2014. 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. The carrying amounts of assets and liabilities of consolidated VIEs in the Company s advisory services segment were $751 million and $754 million, respectively, as of December 31, 2014, and are presented separately in Assets held for sale and Liabilities held for sale on the Company s consolidated balance sheets. 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. One additional VIE was consolidated during the nine months ended September 30, 2015 and one additional VIE was consolidated during the nine months ended September 30, 2014.

Holders of insured obligations of issuer-sponsored VIEs related to the Company s international and structured finance 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.

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

U.S. Public Finance Insurance

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 using 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.

As of September 30, 2015 and December 31, 2014, the Company established loss and loss adjustment expense (LAE) reserves totaling $31 million and $45 million, respectively, related to U.S. public finance issues. As of December 31, 2014, the Company established insurance loss recoverable of $4 million related to U.S. public finance issues.

Certain local governments remain under 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 necessarily result in a default or indicate that an ultimate loss will occur. As of September 30, 2015 and December 31, 2014, the Company had $76.6 billion and $98.9 billion, respectively, of gross par outstanding on general obligations, of which $79 million and $152 million, respectively, were 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. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the Company s surveillance categories.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

International and Structured Finance Insurance

The international and structured finance insurance segment s case basis reserves and insurance loss recoveries recorded in accordance with GAAP 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 are carried at fair value in the Company s consolidated financial statements 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 these contracts should reverse before or at the maturity of the contracts. 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. 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.

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 September 30, 2015 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 potential losses and recoveries 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 second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) or first-lien loans liquidated in the future. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the Company s second and first-lien Roll Rate Methodology.

Second-lien RMBS Reserves

The Company s second-lien RMBS case basis reserves as of September 30, 2015 relate to RMBS backed by home equity lines of credit (HELOC) and closed-end second mortgages (CES). As of September 30, 2015 and December 31, 2014, the Company established loss and LAE reserves totaling $47 million and $70 million, respectively, related to second-lien RMBS issues after the elimination of $22 million and $21 million, respectively, 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 current 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 $32 million.

Second-lien RMBS Recoveries

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

Excess Spread

As of September 30, 2015 and December 31, 2014, the Company recorded estimated recoveries of $411 million and $523 million, respectively, for the reimbursement of past and future expected claims through excess spread in insured second-lien RMBS transactions after the elimination of $99 million and $137 million, respectively, as a result of consolidating VIEs. As of September 30, 2015, $398 million and $13 million were included in Insurance loss recoverable and Loss and loss adjustment expense reserves on the Company s consolidated balance sheets, respectively, after the elimination of $96 million and $3 million, respectively, as a result of consolidating VIEs. As of December 31, 2014, $496 million and $27 million were included in Insurance loss recoverable and Loss and loss adjustment expense reserves on the Company s consolidated balance sheets, respectively, after the elimination of $132 million and $5 million, respectively, as a result of consolidating VIEs.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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 London Interbank Offered Rate 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.

Ineligible Mortgage Loans

To date, MBIA has settled the majority of the Company s put-back claims. Only its claims against Credit Suisse remain outstanding. Settlement amounts have been consistent with the put-back recoveries previously included in the Company s financial statements.

The contract claim remaining with Credit Suisse is related to the inclusion of ineligible mortgage loans in the 2007-2 Home Equity Mortgage Trust 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 September 30, 2015 and December 31, 2014, the Company recorded estimated recoveries of $394 million and $379 million, respectively, related to its Credit Suisse put-back claims, reflected in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

Based on the Company s assessment of the strength of its contractual put-back rights against Credit Suisse, which it is pursuing through litigation claims, as well as on its prior settlements with other sellers/servicers and success of other monolines in litigation against other sellers/servicers, the Company believes it will prevail in enforcing its contractual rights and that it is entitled to collect the full amount of its incurred losses, which totaled $424 million through September 30, 2015. The Company is also entitled to collect interest on amounts paid; it believes that in context of its put-back litigation, the appropriate rate should be the New York State statutory rate. However, the Company currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

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

First-lien RMBS Reserves

The Company s first-lien RMBS case basis reserves as of September 30, 2015, which primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans, were determined using the Roll Rate Methodology. As of September 30, 2015 and December 31, 2014, the Company s loss and LAE reserves were $246 million and $263 million, respectively, related to first-lien RMBS issues.

CDO Reserves

The Company also has loss and LAE reserves on certain transactions within its collateralized debt obligation (CDO) portfolio, including its multi-sector CDO and high-yield corporate CDO asset classes. MBIA s insured multi-sector 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, multi-sector and corporate CDOs). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority currently insured in the form of financial guarantees. MBIA s high yield corporate CDO portfolio comprises middle-market/special-opportunity corporate loan transactions. These transactions were insured as financial guarantee insurance policies.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

As of September 30, 2015 and December 31, 2014, the Company s loss and LAE reserves were $149 million and $111 million, respectively, related to the total CDO financial guarantee insurance portfolio after the elimination of $226 million and $225 million, respectively, as a result of consolidating VIEs. For the three and nine months ended September 30, 2015, the Company incurred $5 million and $39 million, respectively, of losses and LAE recorded in earnings related to the total CDO financial guarantee insurance portfolio after the elimination of $14 million and $1 million, respectively, of expense as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in the total CDO portfolio, the amount of losses estimated by the Company could increase substantially.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the Company s process for estimating reserves on these policies. The methods and assumptions for estimating reserves require substantial judgment of the future performance of each transaction. Actual losses will be a function of the proportion of collateral in the pools that default and the loss severities associated with those defaults.

Loss and LAE Activity

Financial Guarantee Insurance Losses (Excluding Derivative and Consolidated VIEs)

The Company s financial guarantee insurance losses and LAE, net of reinsurance for the three and nine months ended September 30, 2015 and 2014 are presented in the following table:

In millions	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
U.S. Public Finance Insurance Segment	$ (7)	$ (8)	$ (5)	$ (5)
International and Structured Finance Insurance Segment:				
Second-lien RMBS	24	16	52	88
First-lien RMBS	18	12	2	39
Other[(1)]	4	-	30	(40)
Losses and LAE expense (benefit)	$ 39	$ 20	$ 79	$ 82

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

For the three months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within the insured second-lien RMBS securitizations and increases in expected payments on first-lien RMBS securitizations.

For the three months ended September 30, 2014, losses and LAE primarily related to decreases of expected recoveries on an international road transaction and projected collections from excess spread within insured second-lien RMBS securitizations, partially offset by decreases in expected payments on an international road transaction.

For the nine months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within the insured second-lien RMBS securitizations and increases in expected payments on CDOs.

For the nine months ended September 30, 2014, losses and LAE primarily related to decreases in projected collections from excess spread within the insured second-lien RMBS securitizations, partially offset by decreases in expected payments of an international road transaction.

Costs associated with remediating insured obligations assigned to the Company s surveillance categories are recorded as LAE and included in Losses and loss adjustment expenses on the Company s consolidated statements of operations. For the three months ended September 30, 2015 and 2014, gross LAE related to remediating insured obligations were $5 million and $3 million, respectively. For the nine months ended September 30, 2015 and 2014, gross LAE related to remediating insured obligations were $10 million and $37 million, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of September 30, 2015:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	156	19	76	166	417
Number of issues[1]	15	6	6	116	143
Remaining weighted average contract period (in years)	7.0	8.2	14.5	6.8	7.6
Gross insured contractual payments outstanding:[2]					
Principal	$ 4,566	$ 250	$ 1,213	$ 6,712	$ 12,741
Interest	3,451	113	847	2,547	6,958
Total	$ 8,017	$ 363	$ 2,060	$ 9,259	$ 19,699
Gross Claim Liability	$ -	$ -	$ -	$ 876	$ 876
Less:					
Gross Potential Recoveries	-	-	-	755	755
Discount, net[3]	-	-	-	79	79
Net claim liability (recoverable)	$ -	$ -	$ -	$ 42	$ 42
Unearned premium revenue	$ 69	$ 2	$ 26	$ 60	$ 157

(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, 2014:

Surveillance Categories			
Caution List	**Caution List**	**Caution List**	**Classified**

$ in millions	Low	Medium	High	List	Total
Number of policies	38	98	4	175	315
Number of issues[(1)]	18	7	3	119	147
Remaining weighted average contract period (in years)	7.2	12.0	10.1	7.0	7.7
Gross insured contractual payments outstanding:[(2)]					
Principal	$ 1,757	$ 1,372	$ 133	$ 8,001	$ 11,263
Interest	696	819	68	3,037	4,620
Total	$ 2,453	$ 2,191	$ 201	$ 11,038	$ 15,883
Gross Claim Liability	$ -	$ -	$ -	$ 850	$ 850
Less:					
Gross Potential Recoveries	-	-	-	860	860
Discount, net[(3)]	-	-	-	14	14
Net claim liability (recoverable)	$ -	$ -	$ -	$ (24)	$ (24)
Unearned premium revenue	$ 63	$ 19	$ 5	$ 80	$ 167

(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.

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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 September 30, 2015, the gross claim liability primarily related to insured first-lien RMBS issues and CDOs. As of December 31, 2014, the gross claim liability primarily related to insured first and second-lien RMBS issues, 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 September 30, 2015, the gross potential recoveries principally related to insured second-lien RMBS. As of December 31, 2014, 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 September 30, 2015 and December 31, 2014 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 September 30, 2015	As of December 31, 2014
Loss reserves (claim liability)	$ 447	$ 464
LAE reserves	33	42
Loss and LAE reserves	$ 480	$ 506
Insurance claim loss recoverable	$ (437)	$ (533)
LAE insurance loss recoverable	-	-
Insurance loss recoverable	$ (437)	$ (533)
Reinsurance recoverable on unpaid losses	$ 6	$ 6
Reinsurance recoverable on unpaid LAE reserves	-	1
Reinsurance recoverable on paid and unpaid losses	$ 6	$ 7

As of September 30, 2015, loss and LAE reserves include $700 million of reserves for expected future payments, partially offset by expected recoveries of such future payments of $220 million. As of December 31, 2014, loss and LAE reserves include $653 million of reserves for expected future payments, partially offset by expected recoveries of such future payments of $147 million.

As of September 30, 2015 and December 31, 2014, 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 actual collections from excess spread within insured second-lien RMBS securitizations.

The following table presents changes in the Company s loss and LAE reserves for the nine months ended September 30, 2015. Changes in 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 September 30, 2015, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 1.56%. LAE reserves are generally expected to be settled within a one-year period and are not discounted.

In millions		Changes in Loss and LAE Reserves for the Nine Months Ended September 30, 2015						
Gross Loss and LAE Reserves as of December 31, 2014	**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)**	**Gross Loss and LAE Reserves as of September 30, 2015**
$ 506	$ (42)	$ 6	$ (28)	$ 46	$ 13	$ (9)	$ (12)	$ 480

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The decrease in the Company s gross loss and LAE reserves reflected in the preceding table was primarily related to actual loss payments associated with first and second-lien RMBS issues and changes in discount rates on U.S. public finance issues. These were partially offset by changes in assumptions on U.S. public finance issues and changes in timing of payments on insured first and second-lien RMBS issues.

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 table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the nine months ended September 30, 2015. 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 Nine Months Ended September 30, 2015						
In millions	As of December 31, 2014	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other(1)	As of September 30, 2015
Insurance loss recoverable	$ 533	$ (56)	$ 6	$ 6	$ (24)	$ -	$ (28)	$ 437
Recoveries on unpaid losses	147	-	2	1	71	(1)	-	220
Total	$ 680	$ (56)	$ 8	$ 7	$ 47	$ (1)	$ (28)	$ 657

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

The decrease in the Company s insurance loss recoverable and recoveries on unpaid losses during 2015 was primarily due to changes in assumptions on first and second-lien RMBS issues and an international road transaction, actual collections associated with first and second-lien RMBS issues and changes in the amount of expected collections on first and second-lien RMBS issues. These were partially offset by changes in assumptions on CDOs.

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measurement 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 measurement 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 available information. The fair value hierarchy is categorized 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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 financial instrument to financial instrument 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.

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 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 September 30, 2015 or December 31, 2014. 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 debt issued for general corporate purposes within its corporate segment, medium-term notes (MTNs), investment agreements, debt issued by consolidated 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 CDS. 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 CDS referencing primarily corporate obligations, asset-backed securities (ABS), RMBS, commercial mortgage-backed securities (CMBS), commercial real estate (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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

All significant financial assets and liabilities are reviewed by a committee 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. This valuation committee reviews, 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 committee also reviews any significant impairment or improvements in fair values of the financial instruments from prior periods. Occasionally, the committee 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. The committee is comprised of senior finance team members with relevant experience in the financial instruments their committee is responsible for. For each quarter, the committee documents their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

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, state and municipal bonds, foreign governments, corporate obligations, mortgage-backed securities (MBS), ABS, money market securities, and perpetual debt and equity securities.

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, money market securities and perpetual debt and equity securities. 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, Securities Sold Not Yet Purchased, Payable for Investments Purchased, and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, securities sold, not yet purchased, 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 corporate and residential mortgage loans. Fair values of commercial loans are obtained from a pricing service and determined using actively quoted prices obtained from multiple market participants. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted 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 2 or Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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 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.

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 in 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.

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.

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 contractual cash flows are not observable, these investment agreements 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Variable Interest Entity Derivatives

The VIEs have entered into derivative transactions consisting of cross currency swaps, interest rate derivatives 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.

Derivatives

The corporate segment 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.

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 agreements covering derivative transactions in the corporate segment. 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 agreements, 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 validate the fair value estimates determined by the valuation models and to determine the best available estimate of fair value from the perspective of a market participant.

Approximately 88% of the balance sheet fair value of insured credit derivatives as of September 30, 2015 was valued based on the Binomial Expansion Technique (BET) Model. Approximately 12% of the balance sheet fair value of insured credit derivatives as of September 30, 2015 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

Valuation Model Overview

The Company uses the BET Model to estimate 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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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.

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

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 the Company s preference to use more observable spread inputs 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.

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 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 September 30, 2015. 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 September 30, 2015 and December 31, 2014, the Company s net insured CDS derivative liability was $121 million and $244 million, 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 $42 million and $92 million lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of September 30, 2015 and December 31, 2014, 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 as Level 2 of the fair value hierarchy.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Facility

In the fourth quarter of 2013, the Company approved and initiated a plan to sell its Armonk, New York facility and classified it as held for sale as of December 31, 2014. In May of 2015, the Company completed the sale of this facility. As of December 31, 2014, fair market value was estimated based on an independent third-party appraisal. This item is categorized as 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.

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 September 30, 2015 and December 31, 2014. 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 September 30, 2015		Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:					
Loans receivable at fair value	$	1,351	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 6% (2%)
Loan repurchase commitments		394	Discounted cash flow	Recovery rates(1)	
				Breach rates(1)	
Liabilities of consolidated VIEs:					
Variable interest entity notes		1,310	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 44% (9%)
Credit derivative liabilities, net:					
CMBS		105	BET Model	Recovery rates	25% - 90% (66%)

			Nonperformance risk	19% - 29% (21%)
			Weighted average life (in years)	1.1 - 1.7 (1.4)
			CMBS spreads	0% - 67% (20%)
Multi-sector CDO	5	Direct Price Model	Nonperformance risk	48% - 48% (48%)
Other	11	BET Model and Dual Default	Recovery rates	42% - 45% (45%)
			Nonperformance risk	48% - 48% (48%)
			Weighted average life (in years)	0.8 - 7.4 (2.1)
Other derivative liabilities	22	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.

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, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,431	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 10% (2%)
Loan repurchase commitments	379	Discounted cash flow	Recovery rates(1)	
			Breach rates(1)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	735	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 35% (16%)
Credit derivative liabilities, net:				
CMBS	224	BET Model	Recovery rates	25% - 90% (59%)
			Nonperformance risk	12% - 29% (25%)
			Weighted average life (in years)	1.3 - 3.2 (2.3)
			CMBS spreads	0% - 41% (19%)
Multi-sector CDO	9	Direct Price Model	Nonperformance risk	53% - 53% (53%)
Other	11	BET Model and Dual Default	Recovery rates	42% - 45% (45%)
			Nonperformance risk	41% - 51% (50%)
			Weighted average life (in years)	0.2 - 7.9 (1.1)
Other derivative liabilities	24	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.

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.

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.

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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following 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 September 30, 2015 and December 31, 2014:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of September 30, 2015**
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 744	$ 112	$ -	$ -	$ 856
State and municipal bonds	-	1,804	47(1)	-	1,851
Foreign governments	141	67	5(1)	-	213
Corporate obligations	-	1,717	8(1)	-	1,725
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,043	-	-	1,043
Residential mortgage-backed non-agency	-	56	-	-	56
Commercial mortgage-backed	-	16	-	-	16
Asset-backed securities:					
Collateralized debt obligations	-	3	61(1)	-	64
Other asset-backed	-	310	57(1)	-	367
Total fixed-maturity investments	885	5,128	178	-	6,191
Money market securities	111	-	-	-	111
Perpetual debt and equity securities	17	192	-	-	209
Cash and cash equivalents	462	-	-	-	462
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	3	-	(1)	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of September 30, 2015
Assets of consolidated VIEs:					
Corporate obligations	-	47	11(1)	-	58
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	183	-	-	183
Commercial mortgage-backed	-	699	-	-	699
Asset-backed securities:					
Collateralized debt obligations	-	16	-	-	16
Other asset-backed	-	20	9(1)	-	29
Cash	30	-	-	-	30
Loans receivable at fair value:					
Residential loans receivable	-	-	1,244	-	1,244
Other loans receivable	-	-	107	-	107
Loan repurchase commitments	-	-	394	-	394
Derivative assets:					
Currency derivatives	-	-	6(1)	-	6
Total assets	$ 1,505	$ 6,288	$ 1,949	$ (1)	$ 9,741
Liabilities:					
Medium-term notes	$ -	$ -	$ 170(1)	$ -	$ 170
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	3	121	-	124
Non-insured derivatives:					
Interest rate derivatives	-	255	-	(62)	193
Other	-	-	22	-	22
Other liabilities:					
Warrants	-	17	-	-	17
Securities sold, not yet purchased	18	-	-	-	18
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,150	1,310	-	2,460
Derivative liabilities:					
Interest rate derivatives	-	57	-	-	57
Total liabilities	$ 18	$ 1,482	$ 1,623	$ (62)	$ 3,061

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2014**
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 573	$ 118	$ -	$ -	$ 691
State and municipal bonds	-	1,724	8(1)	-	1,732
Foreign governments	221	63	6(1)	-	290
Corporate obligations	-	2,048	10(1)	-	2,058
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,162	-	-	1,162
Residential mortgage-backed non-agency	-	56	-	-	56
Commercial mortgage-backed	-	20	2(1)	-	22
Asset-backed securities:					
Collateralized debt obligations	-	6	87(1)	-	93
Other asset-backed	-	156	85(1)	-	241
Total fixed-maturity investments	794	5,353	198	-	6,345
Money market securities	428	-	-	-	428
Perpetual debt and equity securities	22	31	-	-	53
Cash and cash equivalents	729	-	-	-	729
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	83	-	(81)	2
Assets held for sale:					
Equity securities	6	-	-	-	6
Loans receivable at fair value	-	711	-	-	711
Cash and cash equivalents	55	-	-	-	55

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2014**
Assets of consolidated VIEs:					
Corporate obligations	-	10	55(1)	-	65
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	194	3(1)	-	197
Commercial mortgage-backed	-	86	-	-	86
Asset-backed securities:					
Collateralized debt obligations	-	7	5(1)	-	12
Other asset-backed	-	35	26(1)	-	61
Cash	53	-	-	-	53
Loans receivable at fair value:					
Residential loans receivable	-	-	1,431	-	1,431
Loan repurchase commitments	-	-	379	-	379
Total assets	$ 2,087	$ 6,510	$ 2,097	$ (81)	$ 10,613
Liabilities:					
Medium-term notes	$ -	$ -	$ 197(1)	$ -	$ 197
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	2	244	-	246
Non-insured derivatives:					
Interest rate derivatives	-	248	-	(81)	167
Other	-	-	24	-	24
Liabilities held for sale:					
Variable interest entity notes	-	431	-	-	431
Payable for loans purchased	-	323	-	-	323
Other liabilities:					
Warrants	-	28	-	-	28
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,312	735	-	2,047
Total liabilities	$ -	$ 2,344	$ 1,200	$ (81)	$ 3,463

(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 September 30, 2015 and December 31, 2014 represented approximately 20% of total assets measured at fair value. Level 3 liabilities at fair value as of September 30, 2015 and December 31, 2014 represented approximately 53% and 35%, respectively, of total liabilities measured at fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present 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 September 30, 2015 and December 31, 2014:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of September 30, 2015	Carry Value Balance as of September 30, 2015
Assets:					
Other investments	$ -	$ -	$ 3	$ 3	$ 3
Accrued investment income(1)	-	42	-	42	42
Receivable for investments sold(1)	-	38	-	38	38
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,442	2,442	2,707
Total assets	$ -	$ 80	$ 2,445	$ 2,525	$ 2,790
Liabilities:					
Long-term debt	$ -	$ 1,008	$ -	$ 1,008	$ 1,882
Medium-term notes	-	-	574	574	863
Investment agreements	-	-	638	638	485
Payable for investments purchased(2)	-	19	-	19	19
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	2,661	2,661	2,706
Total liabilities	$ -	$ 1,027	$ 3,873	$ 4,900	$ 5,955
Financial Guarantees:					
Gross	$ -	$ -	$ 3,799	$ 3,799	$ 1,742
Ceded	-	-	107	107	58

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

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

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)	Fair Value Balance as of December 31, 2014	Carry Value Balance as of December 31, 2014
Assets:					
Other investments	$ -	$ -	$ 4	$ 4	$ 4
Accrued investment income(1)	-	43	-	43	43
Receivable for investments sold(1)	-	69	-	69	69
Assets held for sale Facility	-	26	-	26	26
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,632	2,632	2,757
Total assets	$ -	$ 138	$ 2,636	$ 2,774	$ 2,899
Liabilities:					
Long-term debt	$ -	$ 1,172	$ -	$ 1,172	$ 1,810
Medium-term notes	-	-	801	801	1,004
Investment agreements	-	-	705	705	547
Payable for investments purchased(2)	-	42	-	42	42
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	2,779	2,779	2,757
Total liabilities	$ -	$ 1,214	$ 4,285	$ 5,499	$ 6,160
Financial Guarantees:					
Gross	$ -	$ -	$ 4,051	$ 4,051	$ 1,959
Ceded	-	-	109	109	65

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2015 and 2014:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2015

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 September 30, 2015
Assets:													
Foreign governments	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -
Corporate obligations	8	-	-	-	-	-	-	-	-	-	-	8	-
Commercial mortgage-backed	1	-	-	-	-	-	-	-	-	-	(1)	-	-
Collateralized debt obligations	67	-	-	1	-	-	-	(4)	-	-	(3)	61	-
Other asset-backed	83	-	-	-	-	-	-	(2)	-	-	(24)	57	-
State and municipal bonds	5	-	-	-	-	45	-	(3)	-	-	-	47	-
Assets of consolidated VIEs:													
Corporate obligations	35	-	1	-	-	-	-	-	-	3	(28)	11	-
Residential mortgage- backed non-agency	5	-	-	-	-	-	-	-	-	-	(5)	-	-
Collateralized debt obligations	4	-	5	-	-	-	-	-	-	-	(9)	-	-

Other asset-backed	17	-	-	-	-	-	-	(1)	-	-	(7)	9	-
Loans receivable-residential	1,318	-	(12)	-	-	-	-	(62)	-	-	-	1,244	(12)
Loans receivable-other	108	-	(1)	-	-	-	-	-	-	-	-	107	(1)
Loan repurchase commitments	388	-	6	-	-	-	-	-	-	-	-	394	6
Currency derivatives, net	2	-	1	-	3	-	-	-	-	-	-	6	4
Total assets	$ 2,046	$ -	$ -	$ 1	$ 3	$ 45	$ -	$ (72)	$ -	$ 3	$ (77)	$ 1,949	$ (3)

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 September 30, 2015
Liabilities:													
Medium-term notes	$ 166	$ -	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 170	$ 4
Credit derivatives, net	144	18	(21)	-	-	-	-	(20)	-	-	-	121	(21)
Other derivatives	21	-	1	-	-	-	-	-	-	-	-	22	1
Liabilities of consolidated VIEs:													
VIE notes	1,374	-	1	-	-	-	-	(65)	-	-	-	1,310	1
Total liabilities	$ 1,705	$ 18	$ (15)	$ -	$ -	$ -	$ -	$ (85)	$ -	$ -	$ -	$ 1,623	$ (15)

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 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 September 30, 2014
Assets:													
Foreign governments	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ (6)	$ -	$ 7	$ -	$ 6	$ -
Corporate obligations	34	-	-	-	(1)	3	-	(1)	(1)	4	-	38	-
Residential mortgage- backed agency	8	-	-	-	-	-	-	(8)	-	-	-	-	-
Commercial mortgage-backed	1	-	-	-	-	-	-	-	-	-	-	1	-
Collateralized debt obligations	95	-	-	-	-	-	-	(3)	-	-	-	92	-
Other asset-backed	82	-	-	(4)	-	-	-	(4)	-	21	(1)	94	-
State and municipal bonds	57	-	-	-	-	-	-	(1)	-	2	-	58	-
Perpetual debt and equity securities	13	-	-	-	-	-	-	-	-	-	-	13	-
Assets of consolidated VIEs:													
Corporate obligations	62	-	-	-	-	-	-	-	-	7	-	69	-
Residential mortgage- backed non-agency	4	-	-	-	-	-	-	-	-	-	-	4	-
Commercial													
	6	-	-	-	-	-	-	-	-	-	-	6	-

Collateralized debt obligations													
Other asset-backed	26	-	-	-	-	-	-	(1)	-	14	-	39	-
Loans receivable	1,539	-	12	-	-	-	-	(56)	-	-	-	1,495	12
Loan repurchase commitments	363	-	2	-	-	-	-	-	-	-	-	365	2
Total assets	$ 2,295	$ -	$ 14	$ (4)	$ (1)	$ 3	$ -	$ (80)	$ (1)	$ 55	$ (1)	$ 2,280	$ 14

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 September 30, 2014
Liabilities:													
Medium-term notes	$ 217	$ -	$ 2	$ -	$ (17)	$ -	$ -	$ -	$ -	$ -	$ -	$ 202	$ (15)
Credit derivatives, net	332	24	(48)	-	-	-	-	(24)	-	-	-	284	(14)
Other derivatives, net	33	-	5	-	-	-	-	-	-	-	-	38	5
Liabilities of consolidated VIEs:													
VIE notes	802	-	4	-	-	-	-	(60)	-	-	-	746	