How to Save the Bond Insurers

November 28, 2007

Pershing Square Capital Management, L.P.

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Overview

- **The Holding Companies are <u>not</u> Bond Insurers**
- **The economics of the Bond Insurance business**
- **Exposures: Subprime is just the beginning**
- **Do Bond Insurers have liquidity risk?**
- **Apparent violations of law**
- **How to save the Bond Insurers and protect policyholders**

A Holding Company Is Not A Bond Insurer

Holding Company

Typically publicly traded

Investment management activities

AA-rated

→ Dividends

→ Stock Buybacks

→ Debt Service

↑ Dividends ↑

Bond Insurance Subsidiary

Wholly owned subsidiary of Holdco

Regulated by State Insurance Depts.

AAA-rated

→ Guarantees Bonds

→ Sells Credit Protection (CDS)

← Insurance Premiums

→ Pays Claims

Pershing Square is short the stock of Holding Companies of Bond Insurers and their debt via ownership of credit default swaps

A Holding Company Is Not A Bond Insurer

Holding Company
Typically publicly traded
Investment management activities
AA-rated

↑ Dividends ↑

Bond Insurance Subsidiary
Wholly owned subsidiary of Holdco
Regulated by State Insurance Depts.
AAA-rated

Holding Companies
MBIA Inc. (MBI)
Ambac Financial Group (ABK)

Bond Insurance Subsidiaries
MBIA Insurance Corporation
Ambac Assurance Corporation

A Holding Company Is Not A Bond Insurer

- **Analysts, Investors, and the Media have not distinguished between the Bond Insurers and the Holding Companies that control them**
- **Holding Companies exist purely for the benefit of their public shareholders and senior management who own options and restricted stock in the Holding Companies**
- **Holding Companies receive dividends from Bond Insurers and use them to pay overhead costs, interest to their bondholders, and dividends and buybacks to their shareholders**
- **Nearly all of their cash needs are met through regular and special dividends from their regulated bond insurance subsidiaries**
- **Bond Insurers may dividend 10% of policyholders' surplus per year to the Holding Companies and pay special dividends subject to regulatory approval**

A Holding Company Is Not A Bond Insurer

- State insurance regulators act to protect the policyholders of insurance companies which, in the case of Bond Insurers, means that they work to protect the interests of bondholders who own wrapped or guaranteed obligations

- Regulators will stop the payment of dividends to the Holding Companies if they believe that Bond Insurers have insufficient capital to meet their obligations to policyholders

- Without dividends from the Insurance Subsidiaries, Holding Companies will quickly become insolvent

- We believe that most Bond Insurance Subsidiaries are insufficiently capitalized to withstanding impending losses and we have brought this issue to the attention of the NY State Insurance Department

Does the Bond Insurance / Financial Guaranty Business Make Sense?

We will be using MBIA and Ambac as examples, but believe our analysis applies to the bond insurance industry generally

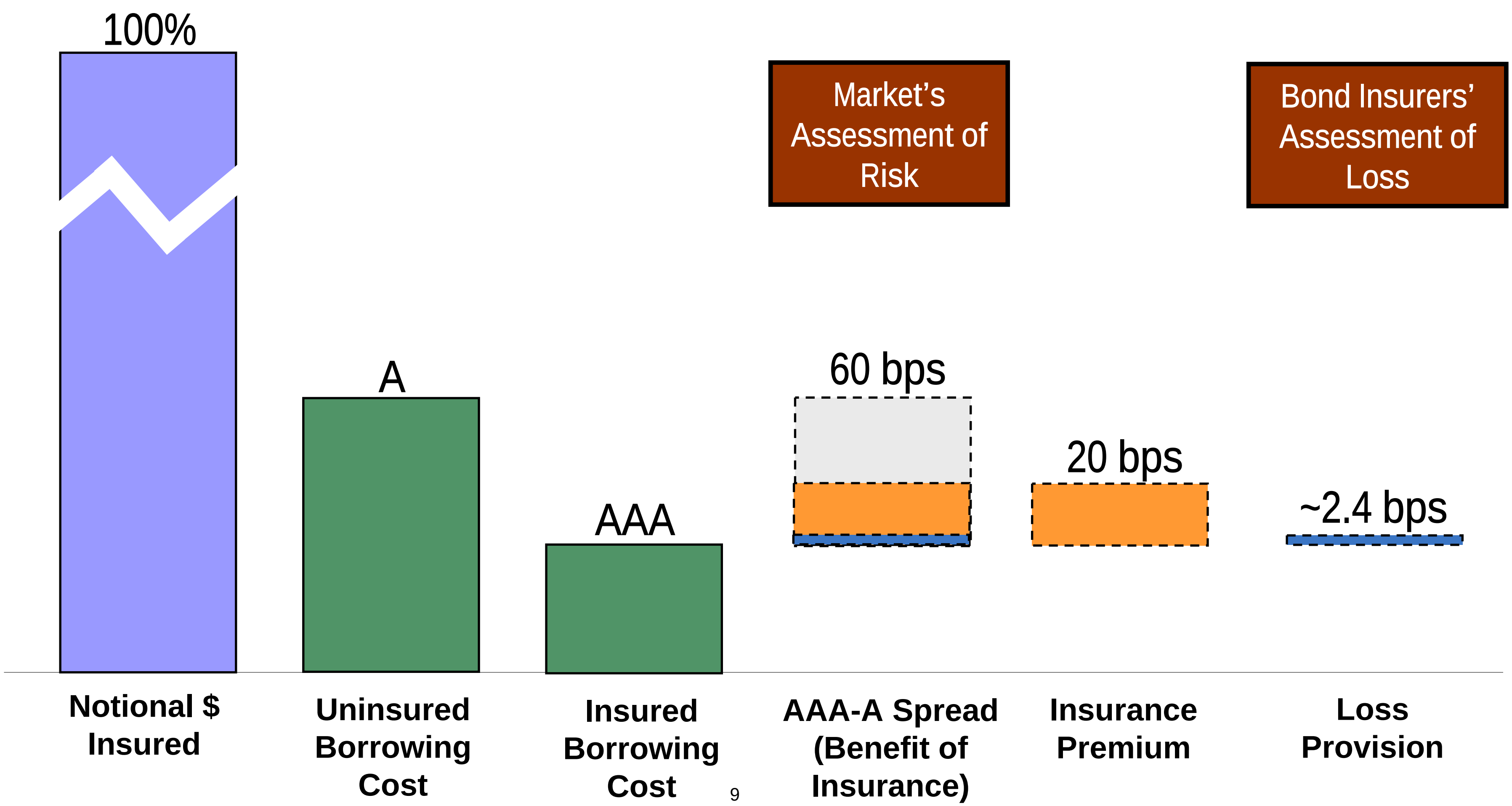
The Bond Insurance Business Model

- **Triple-A rated Bond Insurers guarantee lower-rated, usually investment-grade obligations and make them Triple-A**
- **Underwrite to a so-called “no-loss” standard**
- **Issuers benefit from lower borrowing cost**
  - Benefit = Spread between cost of Triple-A debt and cost of uninsured obligation minus bond insurance premium
  - Absolute size of the spread depends on the credit environment
  - Issuer pays Bond Insurer a portion of the spread benefit, typically 1/3 to 1/2 of spread between underlying rating and Triple-A rating

Regardless of market conditions Bond Insurers ALWAYS accept credit risk at less than the market clearing price

How Do Bond Insurers Generate Revenue?

They earn insurance premium by undercutting the credit-risk premium required by the market, an illustrative example:



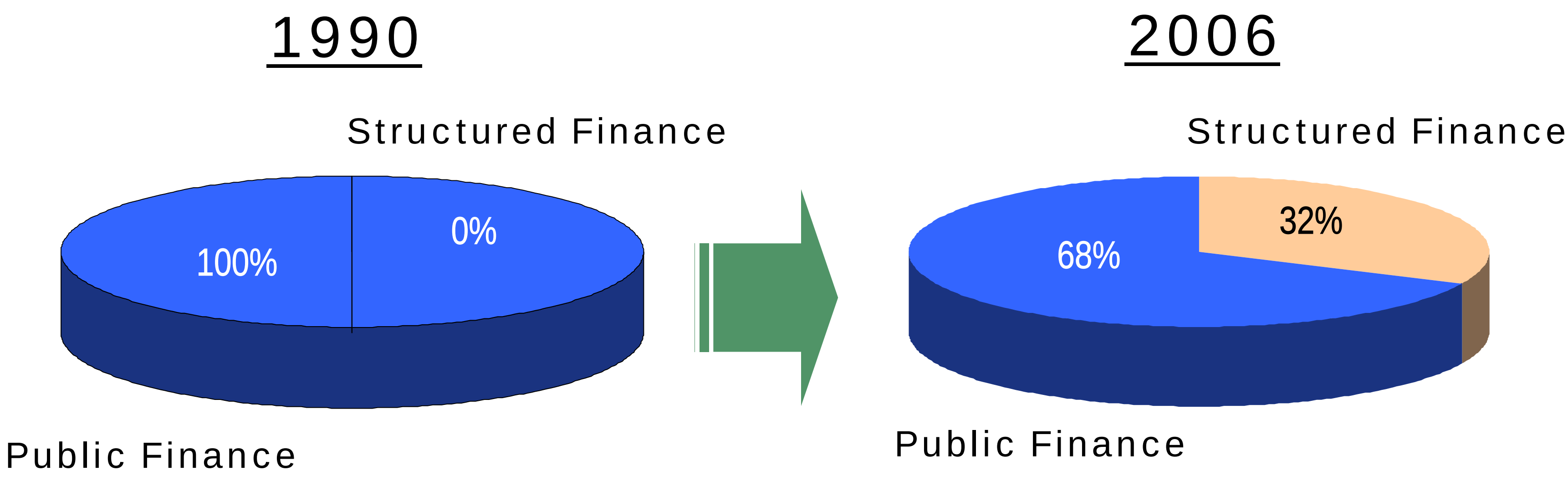
History of Bond Insurance: The Early Days

- **At the inception of the industry in the 1970’s, guarantors insured municipal general obligation bonds which rarely defaulted**
- **The risk of bond insurance was similar to that of title insurance**
- **Almost no claims were paid so they could operate with high leverage and garner Triple-A ratings**
- **Information arbitrage allowed Bond Insurers to profit**
- **New entrants and competitive bidding compressed returns**
- **Began to insure obligations with riskier credit profiles**
  - Utilities, Hospitals, Toll Roads, etc. where credit profile was based on meeting projections rather than tax-payer support

History of Bond Insurance: Taking On More Risk

Competition compressed returns further. In search of higher returns, Bond Insurers began to guarantee Structured Finance transactions

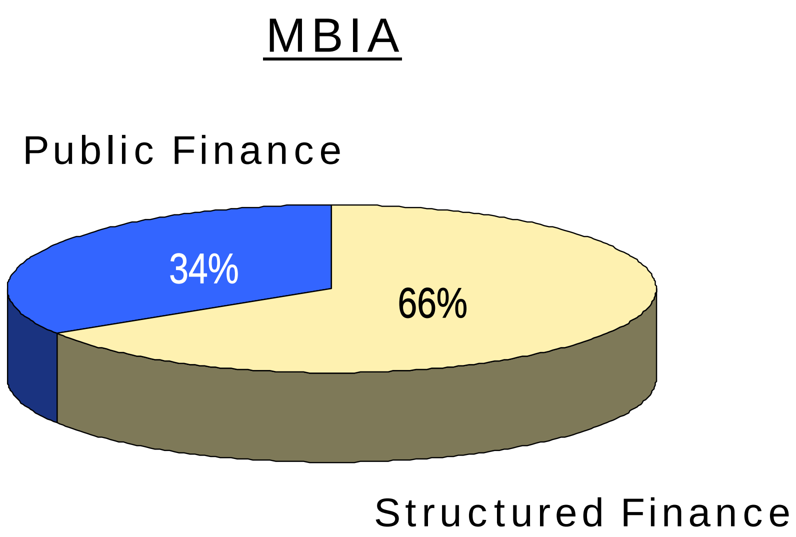
MBIA's mix of Insured Net Par Outstanding

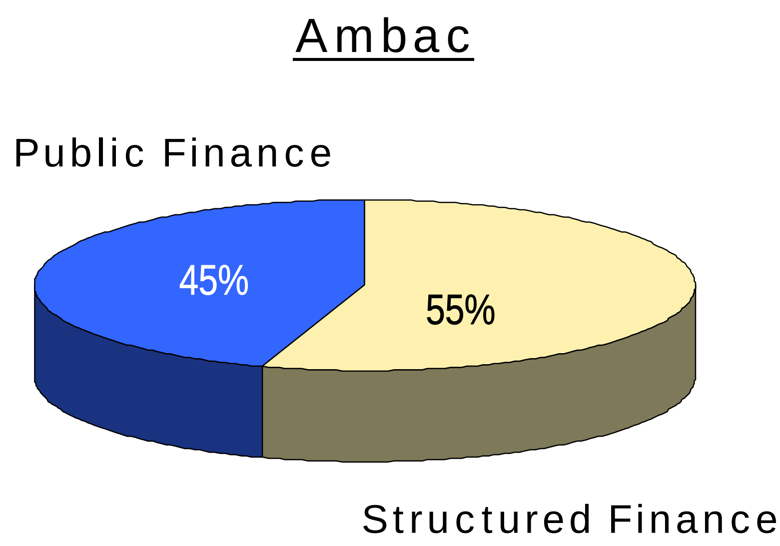


Bond Insurance: Taking On More Risk (Cont'd)

Year to date, Structured Finance transactions have accounted for 66% and 55% of insurance written by MBIA and Ambac, respectively

<u>% Net Par Insured</u>





Structured Finance Brings Much Higher Risks

Public Finance	Structured Finance
Due diligence fee / information arbitrage	Same information as market
Rarely default, typically secured by tax paying authority of municipality	Defaults as losses occur
Cash up front	Cash over time based on outstanding balance
Long-duration guarantees	Weighted-average life of of 5-7 years subject to acceleration
Municipal rating scale gives AAA-worthy credits a lower rating	Taking risk on already AAA-credits for fraction of coupon
Can be remediated or refinanced	No ability to impact performance of underlying collateral

Structured Finance Premiums Are Insufficient

Premiums for Structured Finance guarantees, expressed as a % of net exposure, are tiny and paid annually (vs. upfront in Public Finance)

($ in millions)

	Year-Ended 12/31/06	
	MBIA	**Ambac**
Structured Finance Earned Premium	$332	$317
Strucutured Finance Net Par (Avg.)	$189,650	$153,500
Annual Premium as % of Exposure	**18 bps**	**21 bps**

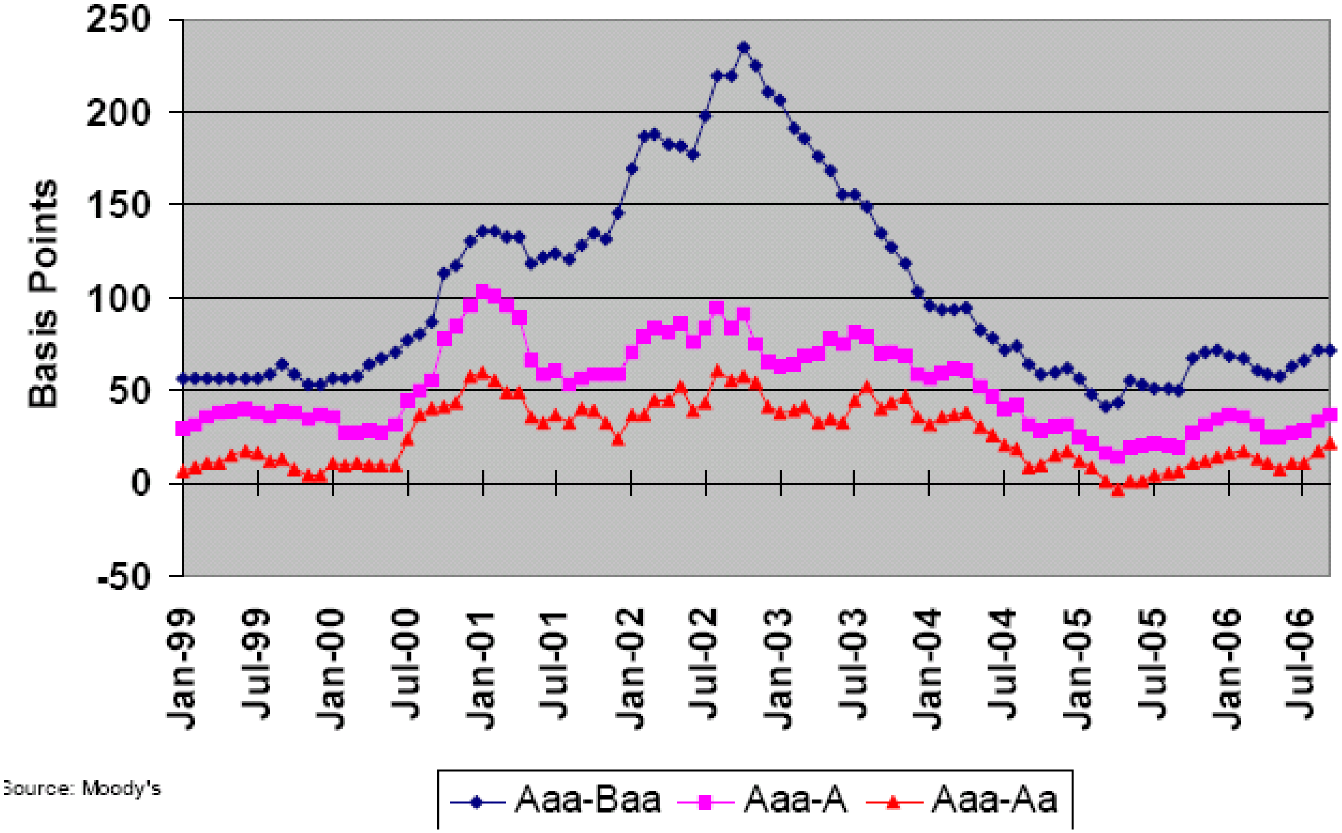
Note: Ambac data reflects only U.S. Structured Finance

Pricing by Bond Insurers implies near-zero losses

Bond Insurance Sets Price Below The Market

Bond Insurers write new business regardless of market conditions and credit spreads

Corporate Credit Spreads



Source: Moody's

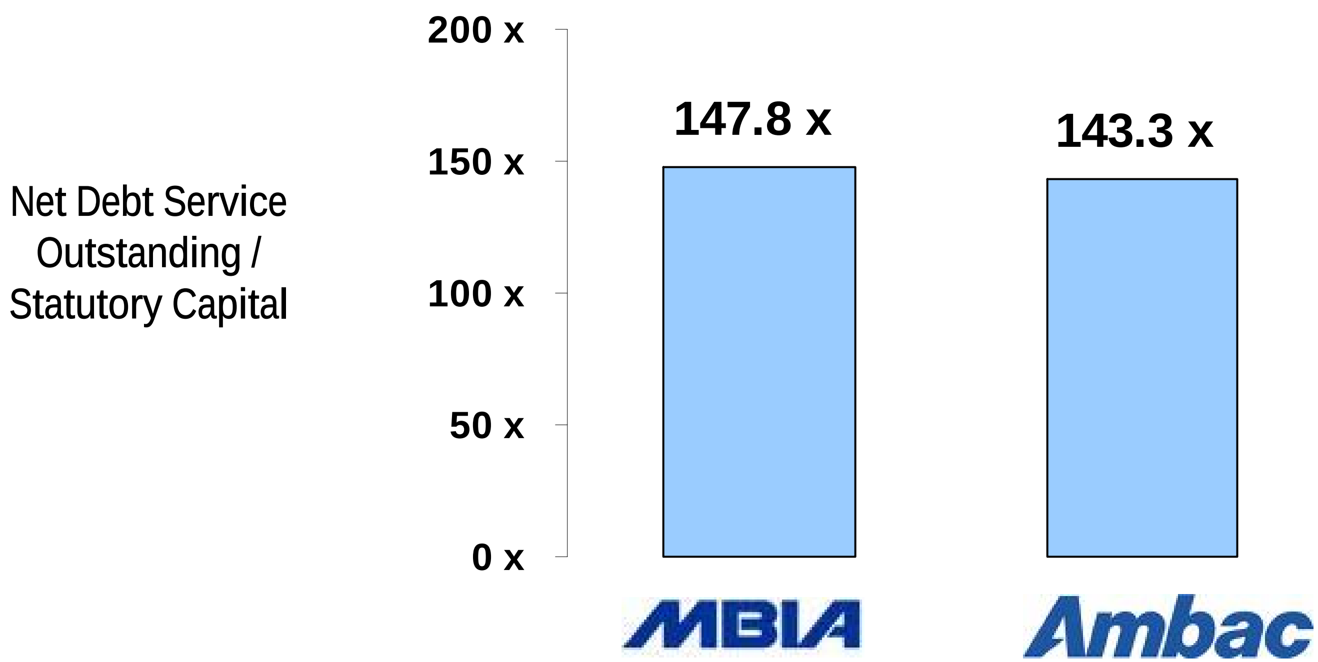
“Excess Capital” Allows No Margin For Error

($ millions)	MBIA	Ambac
Excess Capital above AAA Requirement	$ 1,200	$ 1,182
Net Par Value of Guaranteed Exposures	$ 672,934	$ 556,173
Excess Capital / Credit Exposure (bps)	**18 bps**	**21 bps**

Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated excess capital as of 9/30/07

Bond Insurers Employ Extreme Leverage

Insurers accept tiny premiums relative to exposure, so they must operate with extreme leverage to generate acceptable returns (~12% ROE)



"Diversification" combined with minimal capital, <u>increases</u> risk of being exposed to wrong asset class and experiencing catastrophic loss

Warren Buffett On The Bond Insurance Business

"We see a Baa credit enhanced to a Aaa credit by someone guaranteeing it for a 10-15 basis point charge. Yet, the spread in the market yield might be 100 basis points. Well, that doesn't strike us as smart. … I would say that at some point, you can get into a lot of trouble at 140-to-1 insuring credits."

Warren Buffett at

2003 Berkshire Hathaway Annual Meeting

Reported by Outstanding Investor Digest

Another Opinion On The Bond Insurance Business

"I took a look at the business model and said, 'My God, how can this business model possibly work? How can you take less than what the spread is in the marketplace indicates and make it work over time?' You know, essentially what it says, we take a portion of the spread. We [earn] spread on the risk, or the spread on a structured risk is 50 basis points. We take in 15, 20, 30 [basis points] over time. We say that model works. It's called risk selection. And our goal in life is to do it right all the time."

Joseph W. Brown

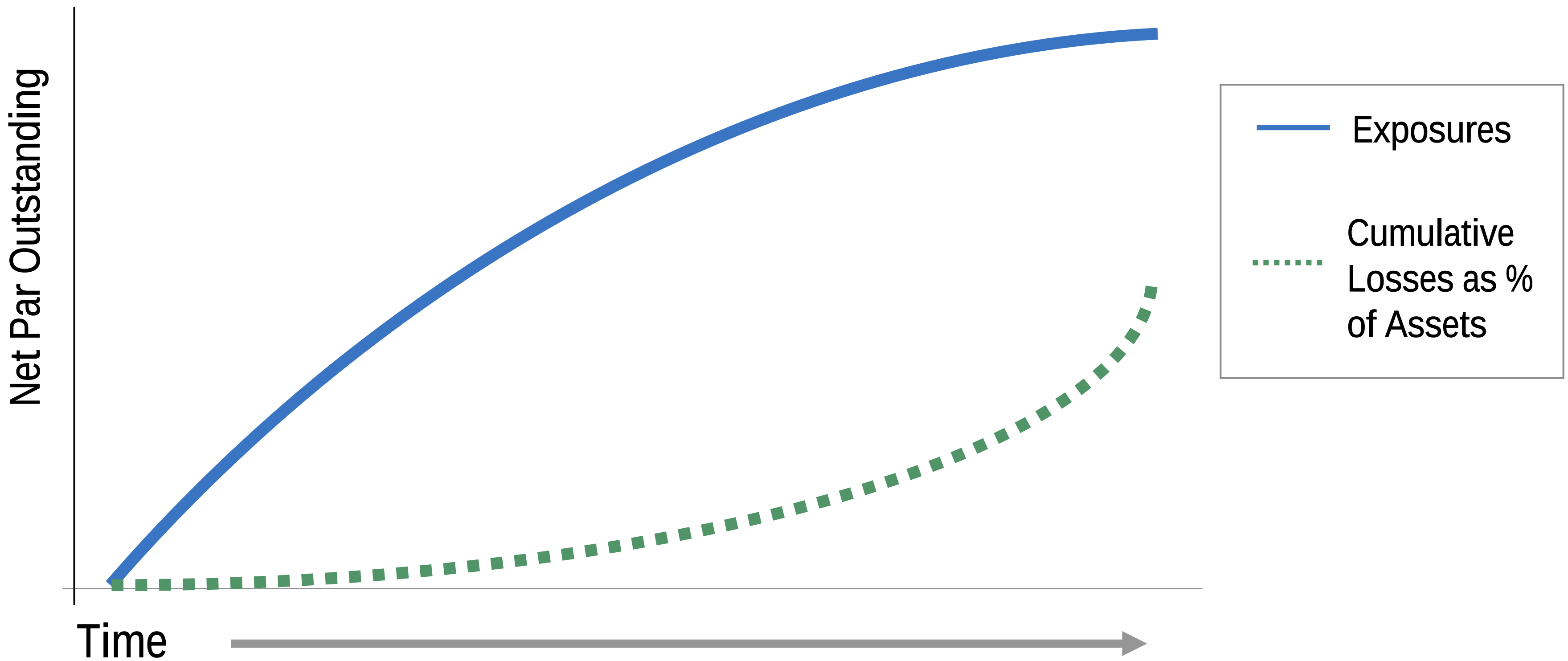
Former Chairman & CEO, MBIA Inc.

12/10/02

Long-Tail Risks Obscure Loss Profile

Losses occur late in policy life, causing losses as a % of insurance written to appear small while insurance is growing. Losses as a % of insurance will rise rapidly as the loss growth outruns that of exposures

Illustrative Example



MBIA's Recent Loss Experience Indicates Losses Are Accelerating

- *"Over 89,000 issues insured, $1.9 Trillion debt service insured from inception, **$434 million** of net paid losses equal to 3 basis points of insured debt service **since inception**"*

  MBIA Fixed-Income Investor Presentation, **12/21/05**

- *"Over 93,000 issues insured, $2.3 trillion debt service insured **from inception**, **$784 million** of net paid losses equal to 4 basis points of aggregate net losses"*

  MBIA Fixed-Income Investor Presentation, **11/7/07**

Current exposures bear little resemblance to historical book of business dominated by low-risk municipal bonds

Ambac's Recent Loss Experience Indicates Losses Are Accelerating

- *"Over our **15-year** period we have only had **$90 million** of claims"*

  Ambac CEO Bob Genader, **3/16/05** Presentation

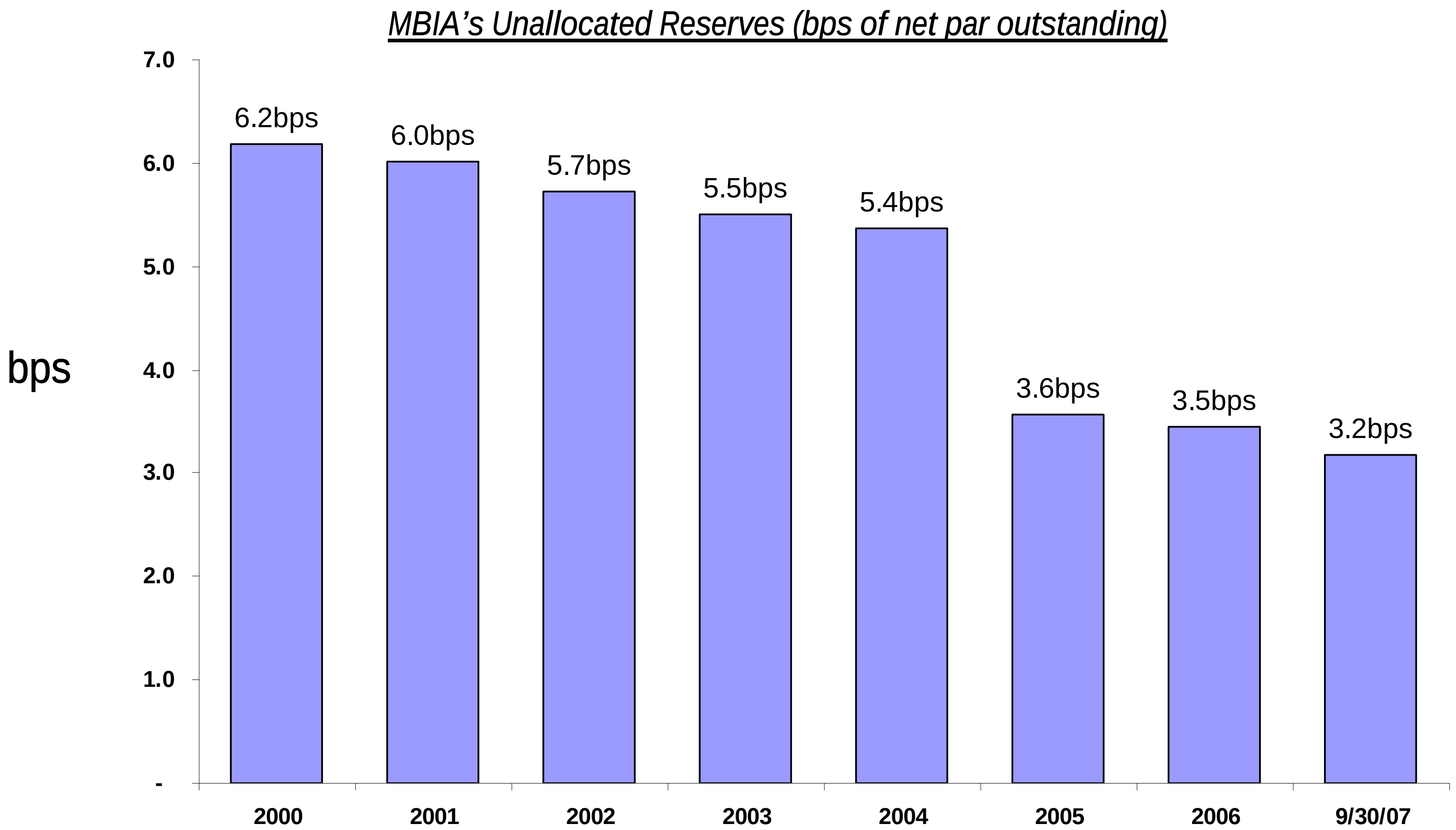
- ***"****I remind you that Ambac has insured almost $1.2 trillion of par **since 1991**…We have made net claims payments of **$272 million** over that time period, (inaudible) claims paid to par insured of about 2.3 basis points."*

  Ambac CEO Bob Genader, **11/7/07** Conf. Call

Current exposures bear little resemblance to historical book of business dominated by low-risk municipal bonds

Reserves In Our View Are Inadequate

MBIA has decreased reserves despite rapidly growing exposure to CDOs and Structured Finance and deteriorating credit profiles



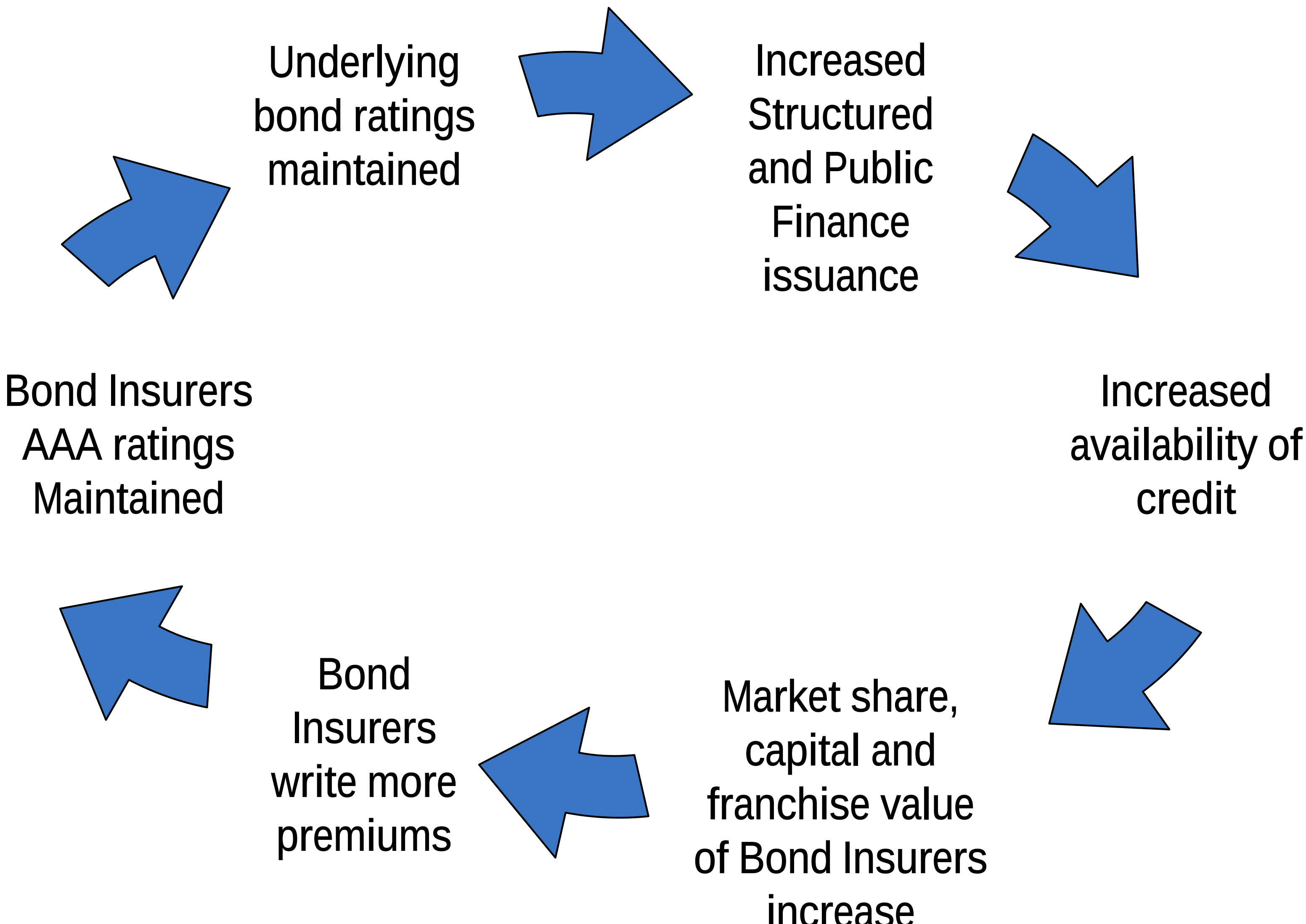
Bond Insurance Is A Confidence Sensitive Business

"The financial guarantee business is highly confidence sensitive...For this reason, concerns about the credit strength or competencies of a particular guarantor would likely have serious negative consequences for its ability to write new business, lessening its franchise value…in no other industry is an entity's strong credit posture so central to its business model."

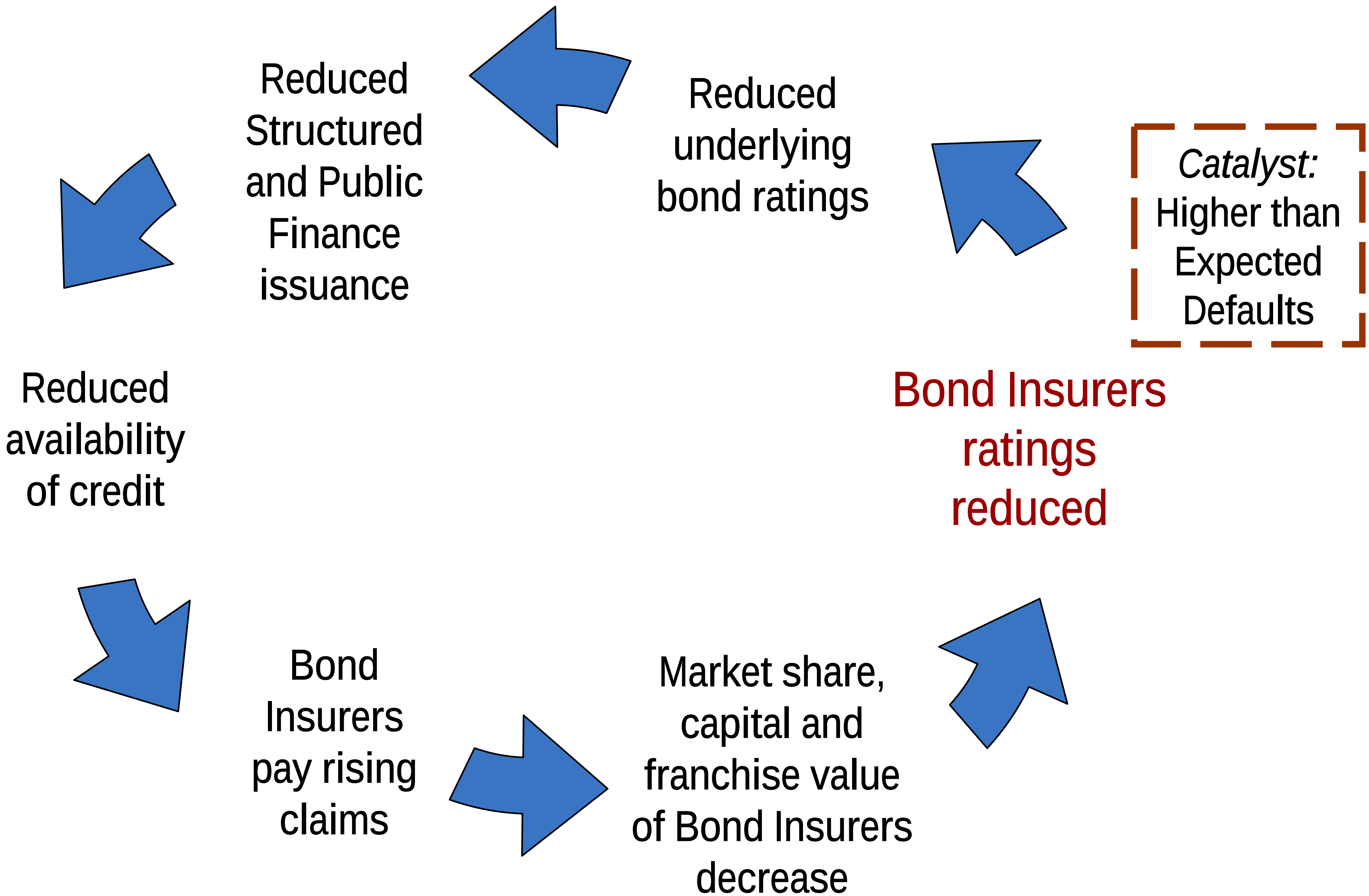
Moody's Special Comment, December 2006

Business viability is "levered" to confidence. A virtuous cycle in good times can become a death spiral in bad times

Bond Insurance is a Confidence Sensitive Business



The Cycle Also Works in Reverse



Business Model Does Not Make Economic Sense

Always accept risk at a discount to the market

- Commodity, price-competitive business. First, they compete with capital markets, then with one another in order to win business

Employ extreme leverage (140+ to 1)

Shifted to higher-risk asset classes in order to maintain accounting“profits”

- Structured Finance offers higher premiums and higher ratings compared with municipal finance

Have appeared profitable because losses are long-tailed, transactions are structured with a cushion to absorb losses in early years, and reserves are *de minimis* (~3 bps)

Viability of business depends on market confidence and no losses—once lost, business model is a proven failure and confidence can never be regained in our opinion

Why Would Anyone Bail Out a Holding Company?

- **In CIFG "rescue", the Holding Company, Natixis, essentially gave its Insurance Subsidiary, CIFG, to certain of its large shareholders who agreed to extend capital to fund losses**
- **Terms were not disclosed, but we expect Natixis will take a near or total writedown of the value of its investment in CIFG**
- **Investors won't invest in a Holding Company because it is structurally subordinate to hundreds of billions of dollars of Insurance Subsidiary exposure**
- **Tens of thousands of individual credits make it practically impossible to gain comfort regarding the magnitude of potential loss exposures**
- **As sums required to bail out Bond Insurers reach into the billions of dollars, new investors would be better off "greenfielding" a new Bond Insurer (in a tax free jurisdiction) without having to assume billions of unknown liabilities**

How can a company be rated "AAA" if it cannot withstand even a single-notch downgrade?

Exposures

Major Risk Exposures

Bond Insurers will likely soon need to fund significant claims. In our view, their capital resources are grossly insufficient to meet these demands

- **CDOs**
- **HELOCs and Closed-End Second Mortgages**
- **CMBS**
- **Below-Investment-Grade (BIG) Credits**

CDOs

Quick Review: What is a Securitization?

Originator of Mortgages
(for immediate sale)

↓

Pool of Subprime Mortgages $1,000,000,000
(5,000 loans, @ ˜ $200K)

↓ Sold to

Subprime Mortgage Backed Security Trust Structure

Bond Tranches *	Thickness of Tranche %	Thickness of Tranche Dollars, millions	"Loss Support" **
AAA	80%	$800	20%
AA	5%	$50	15%
A	6%	$60	9%
BBB+	2%	$20	7%
BBB	1%	$10	6%
BBB-	1%	$10	5%
BB	1%	$10	4%
Overcollateralization (Equity)	4%	$40	0%**
	100%	**$1,000**	

Source: Deutsche Bank Securitization Research

Quick Review: What is a CDO?

Subprime ABS Capital Structure

Tranche	Thickness	Loss Support
AAA	80%	20%
AA	5%	15%
A	6%	9%
BBB+	2%	7%
BBB	***1%***	***6%***
BBB-	***1%***	***5%***
BB	1%	4%
O/C (Equity)	4%	0%

ABS CDO Collateral Pool

"Diversified" pool of
~ 100 subprime ABS,
mostly rated BBB or BBB-

ABS CDO Capital Structure

Tranche	Thickness	Support
AAA	80%	20%
AA	10%	10%
BBB	5%	5%
O/C (Equity)	5%	0%

CDO²

CDO³…

This is an example of a "Mezzanine CDO." A "High-Grade CDO" would select collateral primarily from the A and AA tranches mixed with ~25% senior tranches from other, often mezzanine, CDOs

Source: Deutsche Bank Securitization Research

Writedown of AAA CDO Exposure by Major Banks

Major Banks, many of whom originated the underlying securities, wrote down the value of their "Super Senior AAA" CDO Exposures as of September 30, 2007

($ Billions)

		Prior Value		Writedown		New Value	%
Merrill Lynch							
High-Grade	$	10.2	$	(1.9)	$	8.3	(19%)
Mezzanine		8.4		(3.1)		5.3	(37%)
CDO of CDO		1.4		(0.8)		0.6	(57%)
Total	**$**	**20.0**	**$**	**(5.8)**	**$**	**14.2**	**(29%)**
Citigroup (1)							
High-Grade	$	35.0	$	-	$	-	-
Mezzanine		8.0		-		-	-
CDO of CDO		0.2		-		-	-
CDO Subtotal	**$**	**43.2**	**$**	**-**	**$**	**-**	**-**
Loan/CDO Inventory		11.7		**-**		**-**	**-**
Total	**$**	**54.9**	**$**	**(11.3)**	**$**	**43.6**	**(21%)**

(1) Includes writedowns as of 9/30 as well as recent revisions

Rating Agencies' Reaction to Merrill Lynch and Citigroup

*"[Merrill Lynch's] Downgrade follows the company's **startling** announcement that it incurred a **massive** $2.3B net loss…The significantly greater-than-anticipated loss primarily reflects a reconsideration of the marks used as the basis for the valuation of the company's **outsized positions in CDOs and subprime mortgages**. The actual write-down recorded related to these positions was a **staggering** $7.9B…The absolute size of the loss related to CDOs and subprime mortgages, and management's miscues regarding the valuation of its positions, further heighten our concerns regarding the company's risk management practices and business strategy."*

Downgrade with Negative Outlook
S&P, October 10, 2007

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*"Citigroup's announcement that it would have to make $8-$11 billion of additional writedowns on its CDO exposures is unwelcome news…Markets for these securities have deteriorated since the third quarter was announced. However, the **magnitude of the write-downs calls into question risk management**.…Deteriorating credit conditions in the consumer lending space, particularly first and second lien mortgages…could result in a level of **earnings volatility incompatible with a 'AA+' rating**."*

CreditWatch with Negative Implications
S&P, November 5, 2007

Bond Insurers' CDO Exposure

Bond Insurers have guaranteed large amounts of 2005-2007 structured finance securities backed by subprime assets. Most exposure is Super Senior and effectively the same as that of Merrill Lynch and Citigroup

($ in billions)

	MBIA	Ambac
High-Grade CDOs of ABS	$14.8	$25.4
Mezzanine CDOs of ABS	0.5	0.5
CDO-Squared	-	2.5
Guarantee on Pool of CDOs	-	3.0
Total	$15.3	$31.4
Multiples of AAA Excess Capital Cushion (1)	12.7x	26.6x
Multiples of Statutory Capital (1)	2.2x	5.0x

(1) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Bank Write-Downs as Proxy For Losses

Applying Merrill Lynch and Citigroup valuations to guarantors' Super Senior CDO exposure would eliminate 45%-107% of their statutory capital

($ billions)

	MBIA	Ambac
Impairment using MER	$ (2,935)	$ (6,900)
Impairment using C	(3,147)	(6,466)
Average	**$ (3,041)**	**$ (6,683)**
Cushion (Deficit) to Required AAA Capital	$ (1,841)	$ (5,501)
Remaining Statutory Capital	$ 3,784	$ (459)

Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

….and potentially more write-downs to come

Different Rating Standards For Bond Insurers

"Posting reserves when the possibility of losses remains remote, which is what essentially occurs with derivative contract accounting for bond insurers, tends to obscure the actual potential for losses. The mark-to-market changes that result in increases in the derivative liabilities due to widening credit spreads have this effect in spite of the fact that current accounting standards for financial guarantee insurance contracts would not require these loss reserves…we do not expect the negative marks to market that are a feature of the bond insurers' third quarter earnings reports to precipitate any ratings or outlook changes at any of the insurers."

S&P
October 31, 2007

"Standard & Poor's has previously commented that MBIA's $342 million loss for the third quarter due to mark-to-market on credit derivatives under FASB 133 has introduced an element of earnings volatility that has little bearing on either the likelihood of a potential claim or the intrinsic earnings power of a bond insurer."

S&P
October 29, 2007

Mark-to-Market Charges: A Closer Look

MBIA and Ambac took much smaller MTM charges in Q3, yet only a portion of the charge was related to CDOs of ABS

($ millions)

	MBIA	Ambac
Aggregate Mark-to-Market Charge	$ (342)	$ (743)
CMBS	(171)	-
Corporate	-	(122)
Other (not disclosed)	(60)	(92)
CDO of ABS	$ (111)	$ (529)
Total CDO of ABS Derivative Exposure	$ 17,194	$ 29,194
CDO of ABS Charge as % of Exposure	0.6%	1.8%

Source: MBIA Q3 Conference Call and Ambac Q3 10-Q

Bond Insurer CDO of ABS MTM losses are less than 1/10th the ~20% write-downs taken by banks

Rating Agencies Say MTM Losses Are Of No Import For Bond Insurers

Rating Agency view of Bond Insurer MTM losses is based on apparent assumption that spread widening is not related to credit deterioration

*"This volatility—**to the extent that it is not reflective of credit deterioration in the underlying issues**—will not likely precipitate any rating or outlook changes."*

*"While Standard & Poor's assesses the marks for actual credit deterioration, **in the absence of it** we do not ascribe any analytical significance to these negative marks as relating to our assessments of capital adequacy or profitability."*

S&P 10/31/07

Bond Insurers Admit Underlying Credit Deterioration

Yet, Bond Insurers acknowledge that credit deterioration has occurred and underlying collateral performance is worsening

"While a portion of the mark ***reflects real credit deterioration in the underlying collateral, particularly the RMBS space****, none of these transactions were regarded as impaired as of quarter-end."*

"We did have one transaction [that tripped a trigger]. It is a mezzanine CDO of mezzanine collateral that is at the point where cash flows can be diverted to the senior. So ***it has seen collateral deterioration*** *that brings it to that point."*

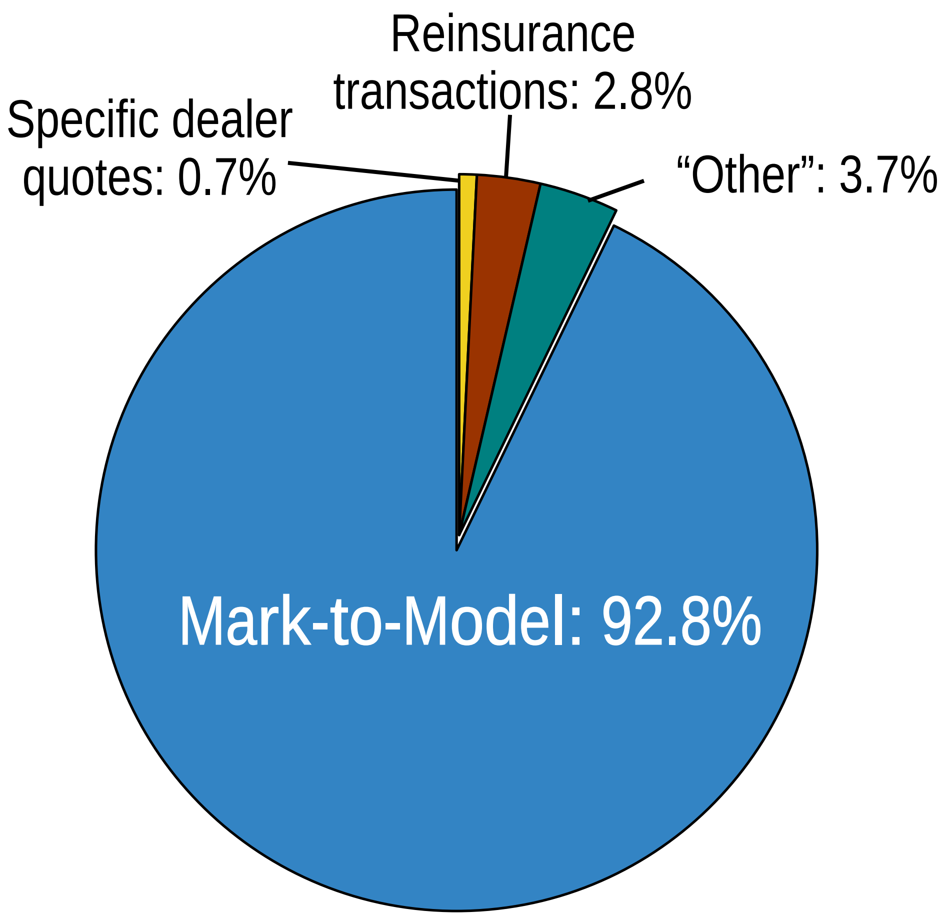
MBIA Q3 Conference Call, 10/25/07

"So far in the fourth quarter of 2007, we have observed a ***continued lack of liquidity and credit deterioration in the collateralized debt obligation market*** *and as a result may experience future mark-to-market losses."*

Ambac 10-Q, 11/9/07

Bond Insurers Use A Mark-to-Model Methodology

Mark-to-Model represents 92.8% of MBIA Insurance's $138B net derivative exposure



Mark-to-Market Methodology

- **Mark-to-Model**
  - $128bn of net par (92.8%)
- **"Other"**
  - $5.4bn of net par (3.7%)
- **Reinsurance transactions**
  - Reinsures a portion of exposure with affiliate and applies price to entire position
  - $3.9bn of net par (2.8%)
- **Specific dealer quotes**
  - $921mm of net par (0.7%)

Mark-To-Model Methodology

Bond Insurers' Mark-to-Model methodology reflects only a fraction of the change in the underlying spreads

"At transaction pricing, we may be charging a premium that is one-third of the originated cash bond spread. So that is used, the particular percentage is used throughout the life of the contract unless we see a reason to change that as a kind of the synthetic price for the risk that we're taking. So if that particular spread would move from 30 to 60, we would move up the price that we would charge—our theoretical price that we would charge underlying the contract, say, from 10 to 20. And effectively that additional 10 basis points that would be theoretically charged would be discounted over the weighted average life of the transaction to arrive at an unrealized loss amount."

Ambac CFO, Q3 Conference Call, 10/24/07

Mark-to-Model Methodology

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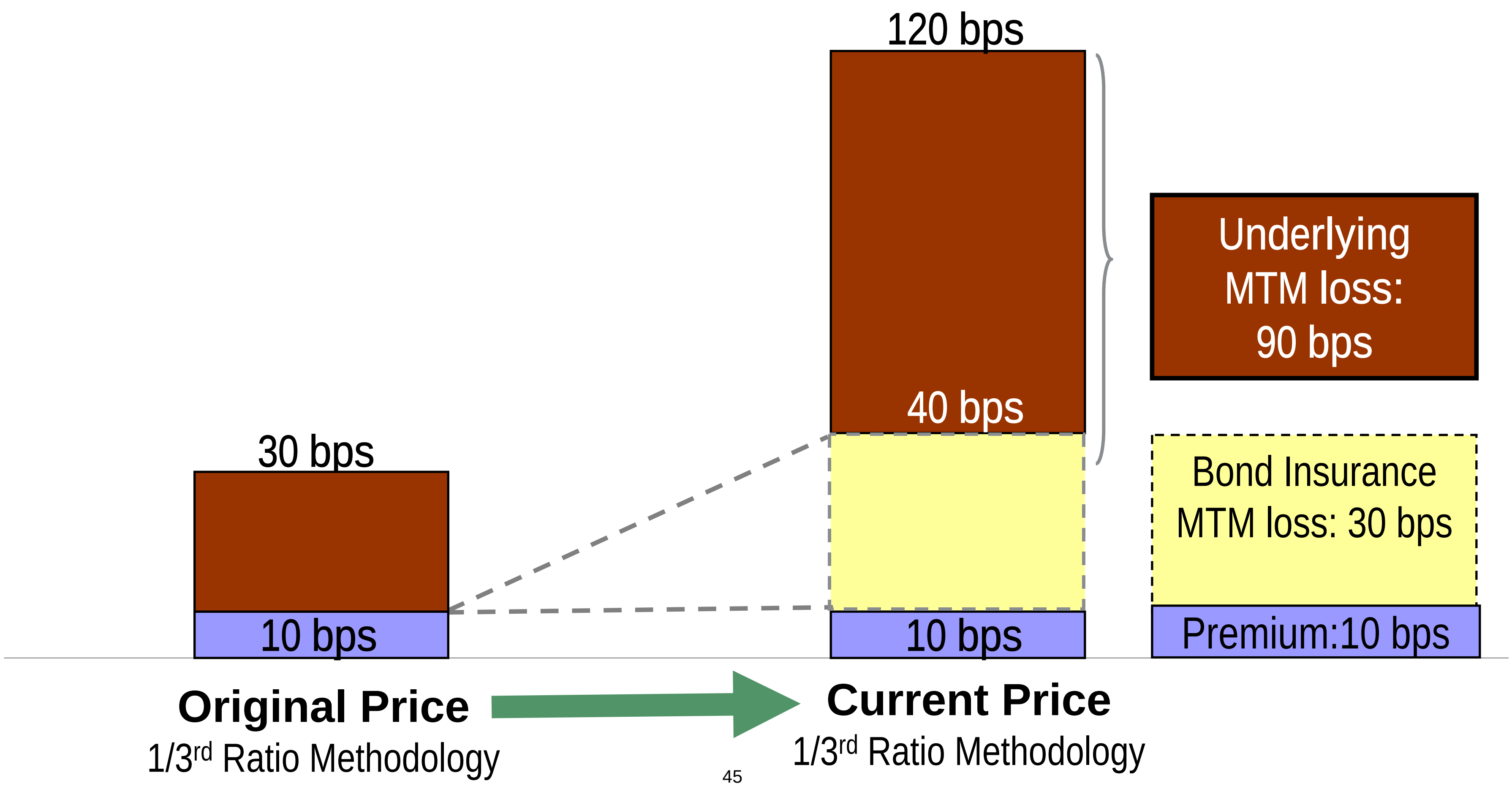


Bond Insurers' MTM Methodology Understates Reality in Our View

- **A Bond Insurers' counterparties account for the insurance as 100% risk transfer. If the Bond Insurers aren't taking the loss, who is?**

- **Bond Insurers are exposed to 100% of loss and therefore should bear 100% of spread movement**
  - Spreads incorporate market's probabilistic assessment of default risk and recovery
  - Bond Insurers' counterparties account for insurance as 100% risk transfer and will book a profit when they purchase CDS from the insurer if the bond insurance premium is less than the underlying spread

Bond Insurer Pricing Methodology Appears Arbitrary

If Bond Insurers charged only 10% of the cash spread as premium, would they then only have to recognize losses equal to 10% of the widening in spreads?

Questionable Mark-to-Model Methodology

Analyst Question: "Just quickly again just highlight the bullet points of why there is a model that the quotes are an input to, rather than just being used purely."

Answer: "If we were to use a bond quote when the transaction originated, the underlying cash spread on the bond is going to exceed the premium that's being charged on a particular transaction due to the various tailoring of the contract and the lack of funding and liquidity type issues inherent in the contract. …"

Follow-Up: "So, you're tracking the actual quotes, but it's on a relative basis and present value [inaudible]?"

Answer: "Yes. If not -- and this is in some of the new accounting standards, but you need to calibrate the model -- **if not, you would have losses upon origination of the contract.**"

Ambac CFO, Q3 Conference Call, 10/24/07

Warren Buffett on Credit Derivative Accounting

"There are dozens of insurance organizations that have written credit guarantee contracts in derivative form in the last few years, in fact, on a huge scale. And I will guarantee you that in virtually every single one of those…whoever wrote it recognized some sort of an income entry. … And you know that many of those are going to go bad and maybe as a category, it's going to be a terrible category. But nobody ever wrote a contract and recorded a loss at the time they wrote it. … In fact, I find it extraordinary that if you have two derivative dealers—Dealer A and Dealer B—and both write a ticket, Dealer A records a profit and Dealer B records a profit, particularly if it's a 20-year contract. That is the kind of world I'd love to live in, but I haven't found it yet."

Warren Buffett
2003 Berkshire Hathaway Annual Meeting
as reported by Outstanding Investor Digest

Mark-To-Model Valuation – Revised

Assuming that the MTM charges reflect a fraction of spread changes (1/3rd), adjusting their MTM to reflect the full spread eliminates most, if not all, of Bond Insurers' Excess Capital

($ in millions)

	MBIA	Ambac
Reported Q3 Mark-to-Market Charge	($342)	($743)
Additional Charge for full spread movement (1)	(684)	(1,487)
Updated Mark-to-Market Charge	($1,026)	($2,230)
Cushion (Deficit) to Required AAA Capital (2)	$174	($1,048)
Remaining Statutory Capital (2)	$5,799	$3,994

(1) Assumes that reported charges only accounted for 1/3 of spread change

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Spreads Have Widened Even More In Q4

- *"As a result of the future market spread widening, including a substantial widening in corporate, residential mortgage-backed and commercial mortgage-backed credit spreads, and the deterioration of asset credit quality ratings in such transactions, the Company could suffer <u>additional substantial mark-to-market losses in the fourth quarter of 2007 and in subsequent quarters</u>, although the ultimate amount of such losses for the fourth quarter will depend on future market developments."*

MBIA 10-Q, 11/9/07

- *"So far in the fourth quarter of 2007, we have observed a <u>continued lack of liquidity and credit deterioration</u> in the collateralized debt obligation market and as a result <u>may experience future mark-to-market losses</u>."*

  "In October 2007, the independent rating agencies downgraded a number of MBS and CDO transactions. Our CDO of ABS transactions contain exposures to some of these downgraded transactions, which may impact pricing of such securities. Reductions to the prices of these securities <u>will cause mark-to-market losses in the fourth quarter of 2007</u>."

Ambac 10-Q, 11/9/07

MTM Valuation: Estimating Q4 Charges

In Q3, MBIA and Ambac disclosed that spreads on their overall CDS exposures widened by >75 and 88 bps, respectively. Since then, spreads on all asset categories have widened dramatically

Estimated Spread Changes in Major Indices

(spread changes measured in basis points)

	6/30	9/30	Q3 Change	11/26	Q4-to-date Change
ABX-HE-AAA 07-1 (1)	9 bps	109 bps	**100 bps**	631 bps	**522 bps**
TABX (07-1 06-2 BBB 35-100) (1)	451 bps	1,064 bps	**613 bps**	1,598 bps	**534 bps**
Wgt. Avg. CMBX Indices (2)	18 bps	45 bps	**26 bps**	150 bps	**105 bps**
CDX-IG 8	41 bps	61 bps	**21 bps**	94 bps	**33 bps**
Ambac Q3 Underlying Spread Change (3)			**88 bps**		**?**
MBIA Q3 Underlying Spread Change (3)			**> 75 bps**		**?**
MTM Charge Taken in Q3 ($millions)					
Ambac			**($743)**		**?**
MBIA			**($342)**		**?**

(1) Spreads derived from quoted prices as of stated dates and assume 5-year duration

(2) Assumes 55%, 30%, 10% and 5% of MBIA's underlying CMBS exposure relates to CMBX-NA-AAA-1, CMBX-NA-AA-1, CMBX-NA-A-1 and CMBX-NA-BBB-1, respectively (MBIA does not disclose the percent breakdown of CMBS collateral underlying its CDO exposures)

(3) Impact of wider spreads from Q3 10-Q's (ABK, pg 58; MBI, pg. 50)

Mark-To-Model Valuation: Q4 is much worse

By comparing changes in indexes with Bond Insurers' exposures, we estimate that MBIA and Ambac will incur $2.2 bn and $4.2 bn of losses, respectively

	Q3 Change	Q4-to-date Change	Q4 to date vs. Q3	MBIA mix % (1)	Ambac mix % (1)
ABX-HE-AAA 07-1 (2)	100 bps	522 bps	522%	33%	64%
TABX (07-1 06-2 BBB 35-100) (2)	613 bps	534 bps	87%	0%	7%
Wgt. Avg. CMBX Indices (3)	26 bps	105 bps	399%	50%	0%
CDX-IG 8	21 bps	33 bps	159%	17%	29%
Ambac Q3 Underlying Spread Change (4)	88	?	386%		
MBIA Q3 Underlying Spread Change (4)	> 75	?	397%		
10-Qs Disclose Impact ($millions) of additional spread widening of 75 bps (5)					
Ambac	($922)	?	**($4,176)**		
MBIA	($561)	?	**($2,226)**		
Mark-to-Market - Using Full Spread (6)					
Ambac			**($12,528)**		
MBIA			**($6,677)**		

(1) Company mix percentages reflect company statements and Pershing estimates.

(2) Spreads derived from quoted prices as of stated dates and assume 5-year duration

(3) Assumes 55%, 30%, 10% and 5% of MBIA's underlying CMBS exposure relates to CMBX-NA-AAA-1, CMBX-NA-AA-1, CMBX-NA-A-1 and CMBX-NA-BBB-1, respectively (MBIA does not disclose the percent breakdown of CMBS collateral underlying its CDO exposures)

(4) Q4-to-date spread changes for MBI / ABK apply wgt. avg. exposures to increases in indices

(5) Impact of wider spreads from Q3 10-Q's (ABK, pg 58; MBI, pg. 50)

(6) Mark-to-Market assumes that Bond Insurer MTM factors only 1/3 of movement in spreads

CDO Losses Using Recent MER & C Valuations

Our estimates of current MTM losses from CDOs are sufficient to eliminate most, if not all, of Bond Insurers' capital

	($ millions)	
	MBIA	**Ambac**
Estimated CDO of ABS Impairments (1)	($3,041)	($6,683)
Cushion (Deficit) to Required AAA Capital (2)	($1,841)	($5,501)
Remaining Statutory Capital (2)	$3,784	($459)

(1) Uses Merrill Lynch and Citigroup recent valuations to estimate economic impairment

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Goldman Sachs Estimate Of Bond Insurer Losses

In response to requests from investors, Ambac recently identified some of the specific CDOs to which it had exposure. Goldman Sachs conducted a "thorough analysis of the unmasked transactions" and reached a "discouraging" conclusion

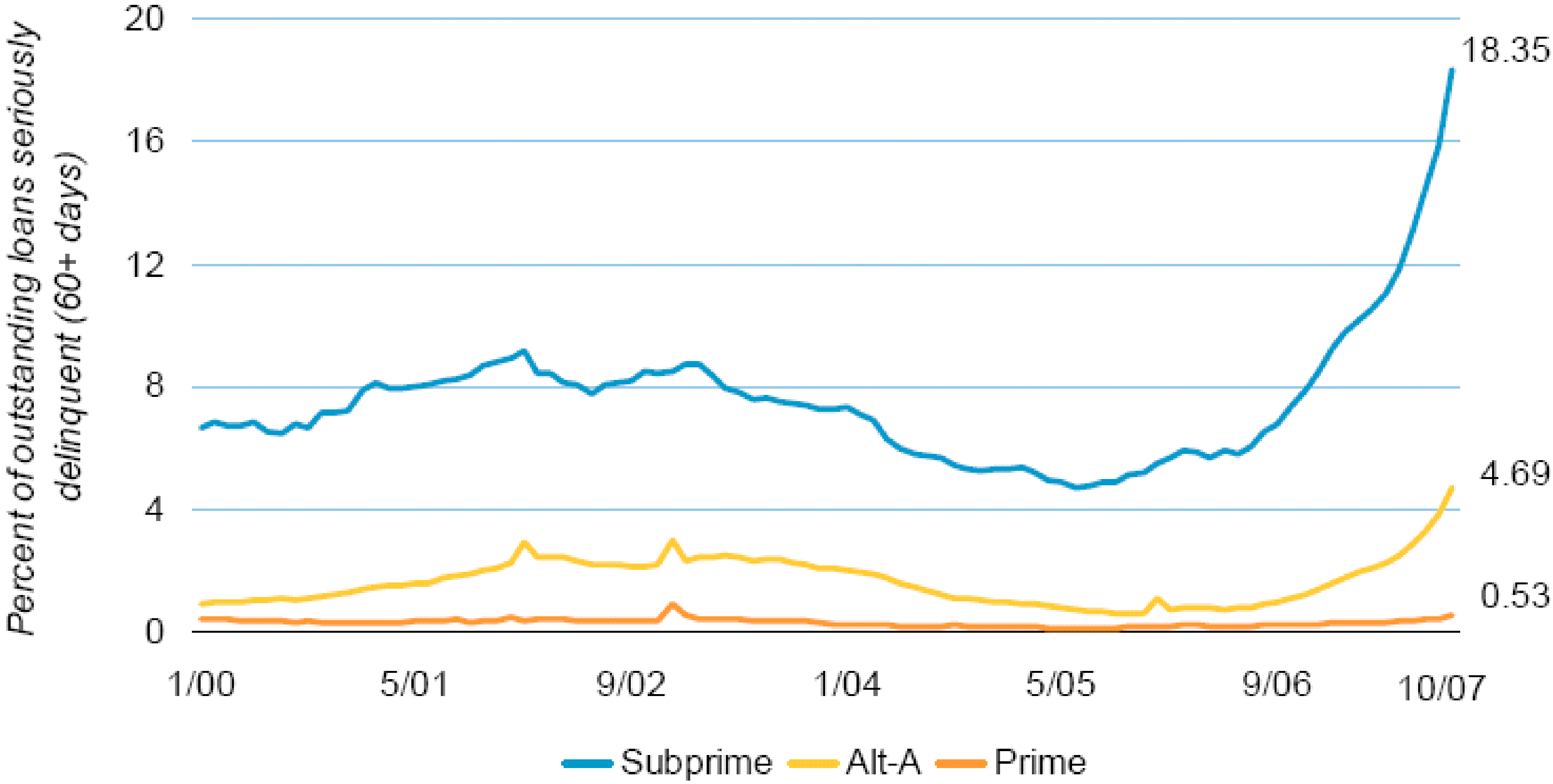
($ millions)

		Ambac	MBIA
Low		($7,400)	($4,800)
High		(10,500)	(7,200)
Cushion (Deficit) to Required AAA Capital			
	Low	($6,218)	($3,600)
	High	($9,318)	($6,000)
Remaining Statutory Capital			
	Low	($1,176)	$2,025
	High	($4,276)	($375)

Source: GS Equity Research, ABK Company Update, 11/13/07

We Are Still In The Early Innings

Subprime and Alt-A delinquencies continue to escalate

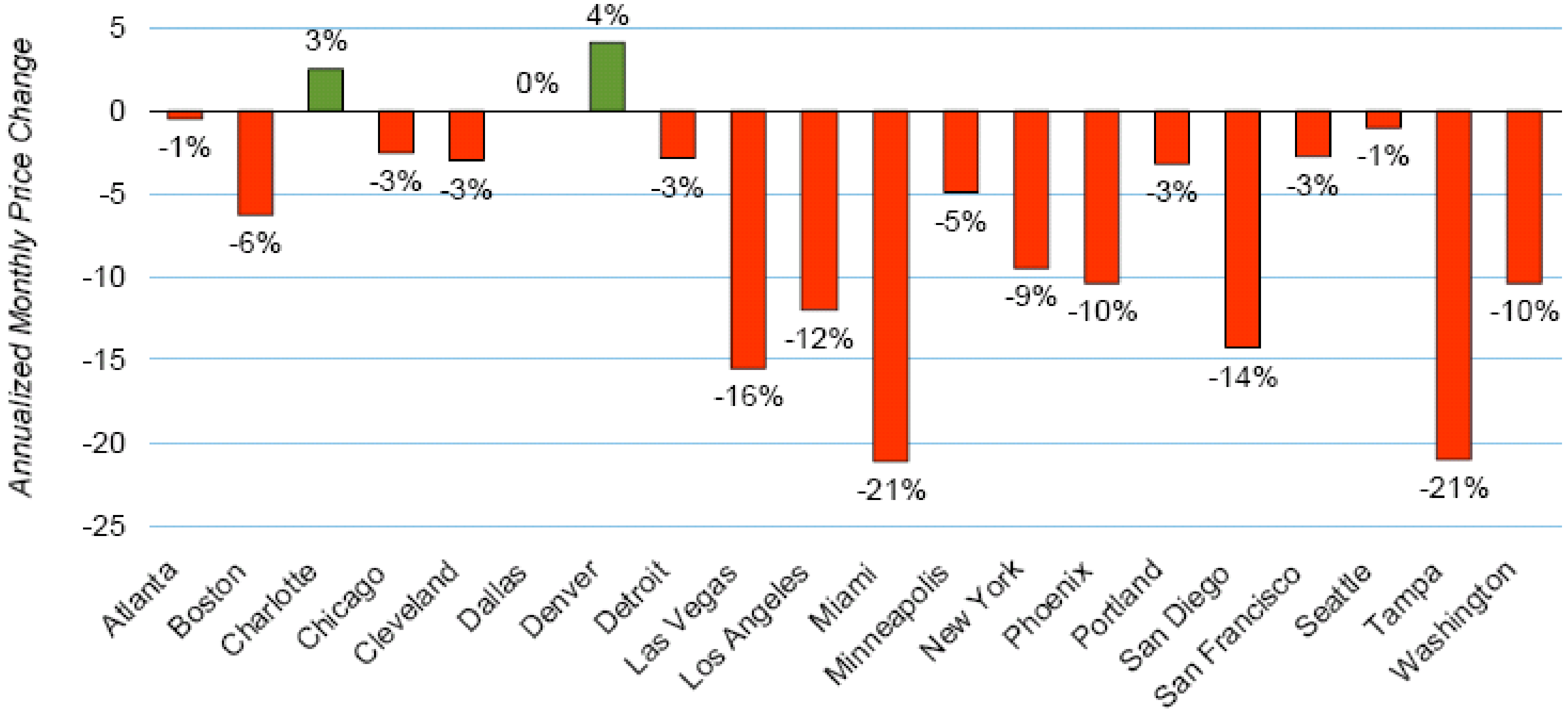


Sources: LoanPerformance, Deutsche Bank

We Are Still In The Early Innings

Home prices are already falling with more stress still ahead

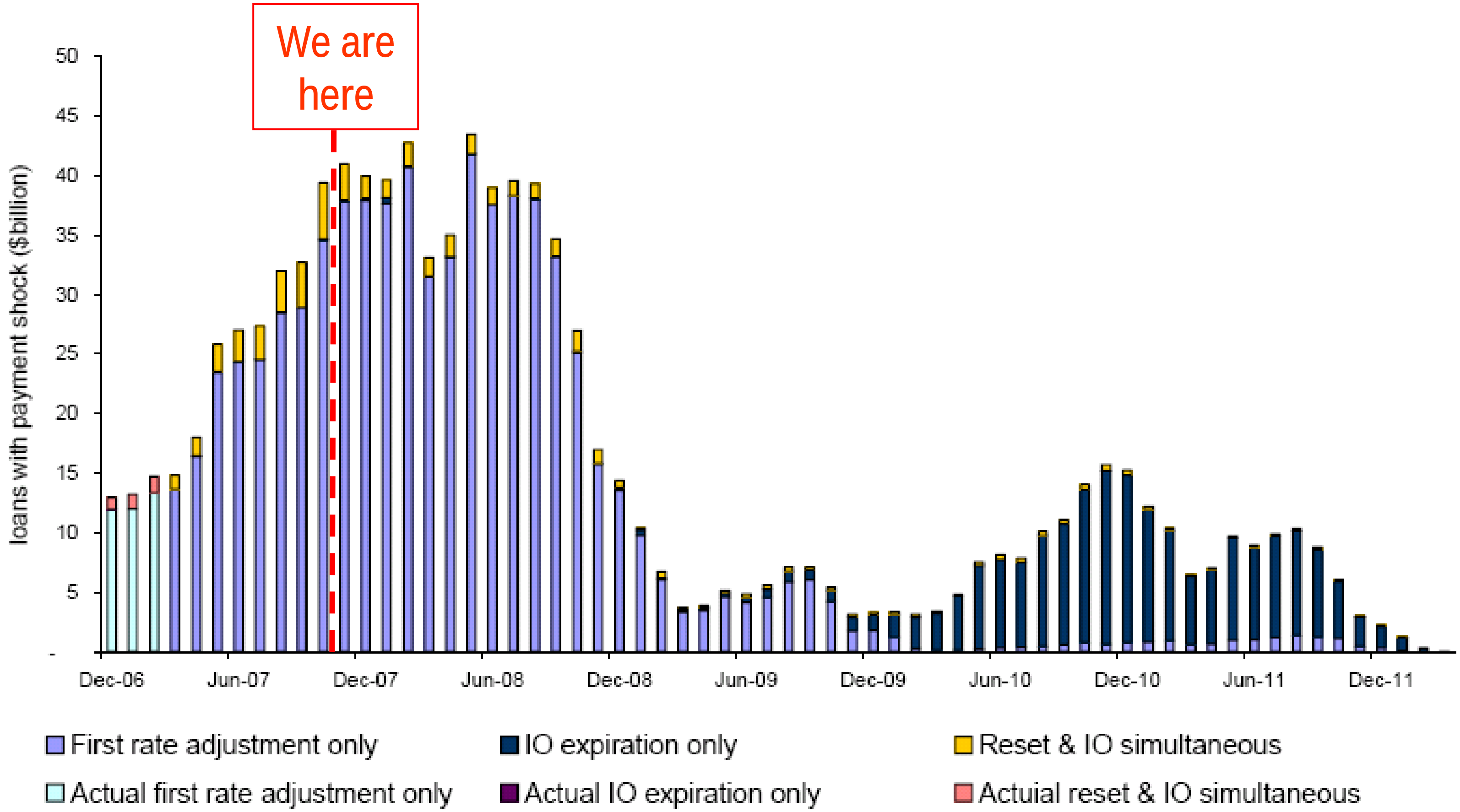
Case-Shiller Home Price Index Top 20 U.S. Markets
(August 2007, *annualized*)



Sources: S&P, Deutsche Bank

We Are Still In The Early Innings

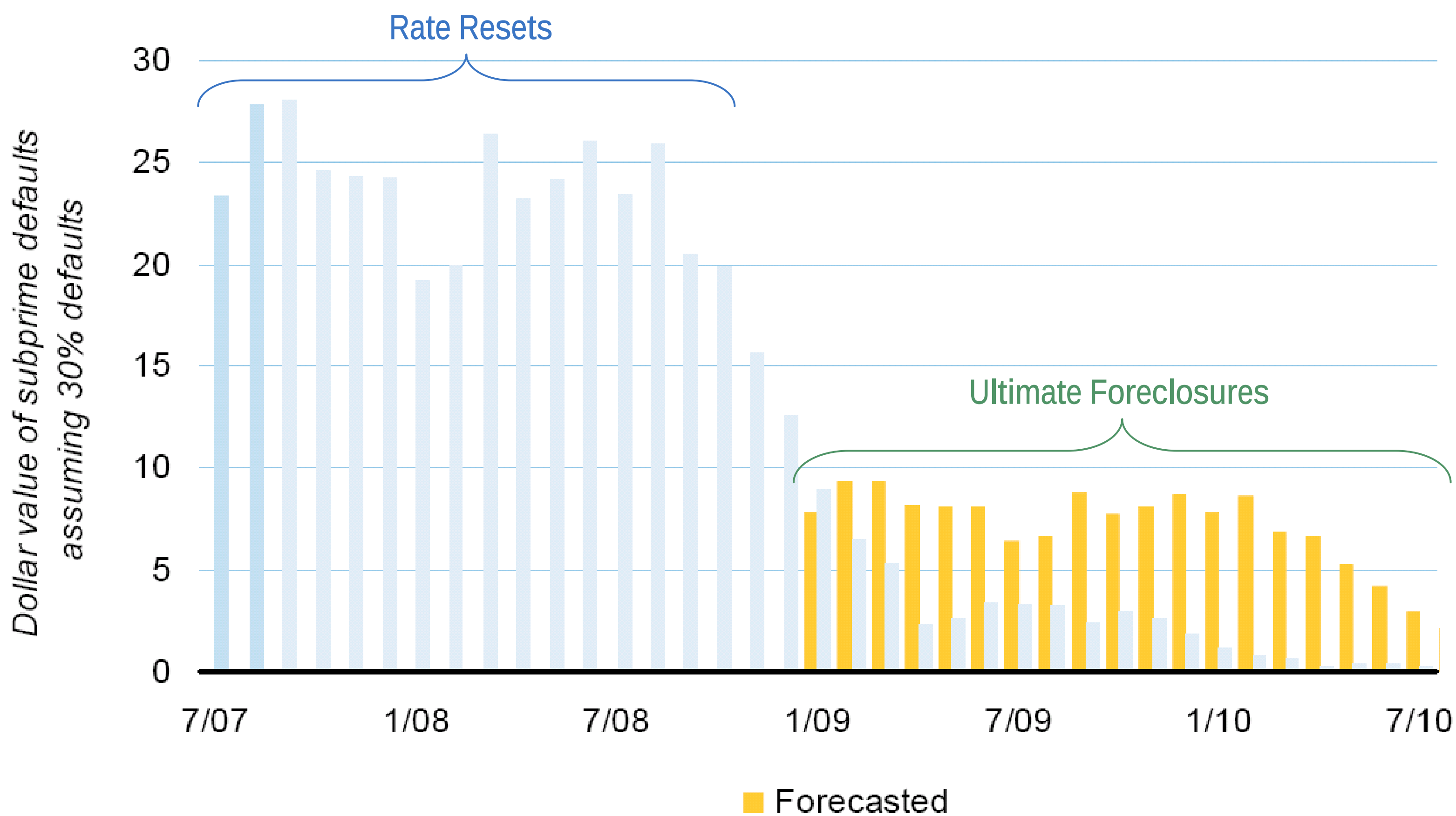
Many months of loan resets in front of us



Sources: LoanPerformance, Deutsche Bank

We Are Still In The Early Innings

Foreclosures predicted to disrupt housing markets through mid-2010

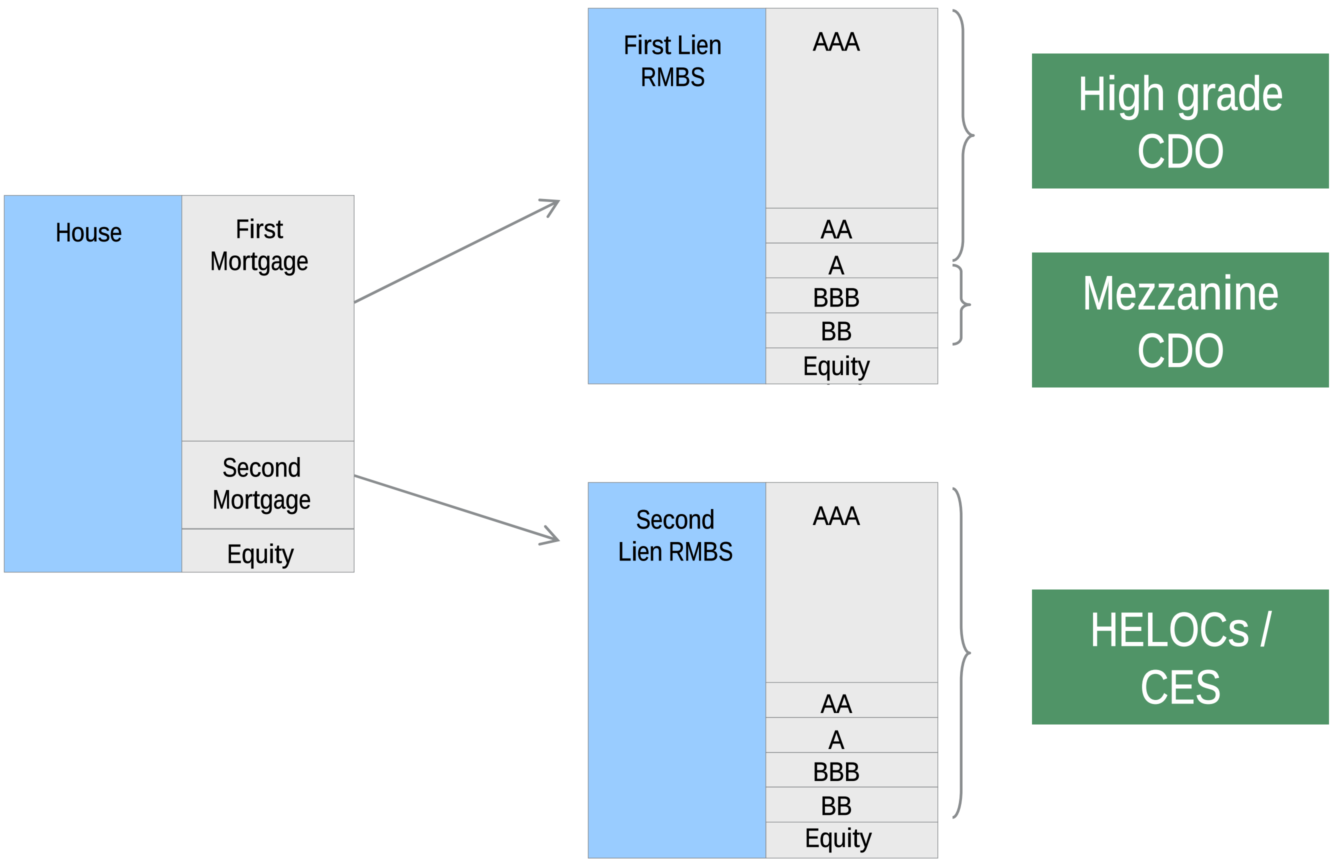


Sources: LoanPerformance, Deutsche Bank

Home Equity Lines of Credit (HELOC) and Second Mortgages (CES)

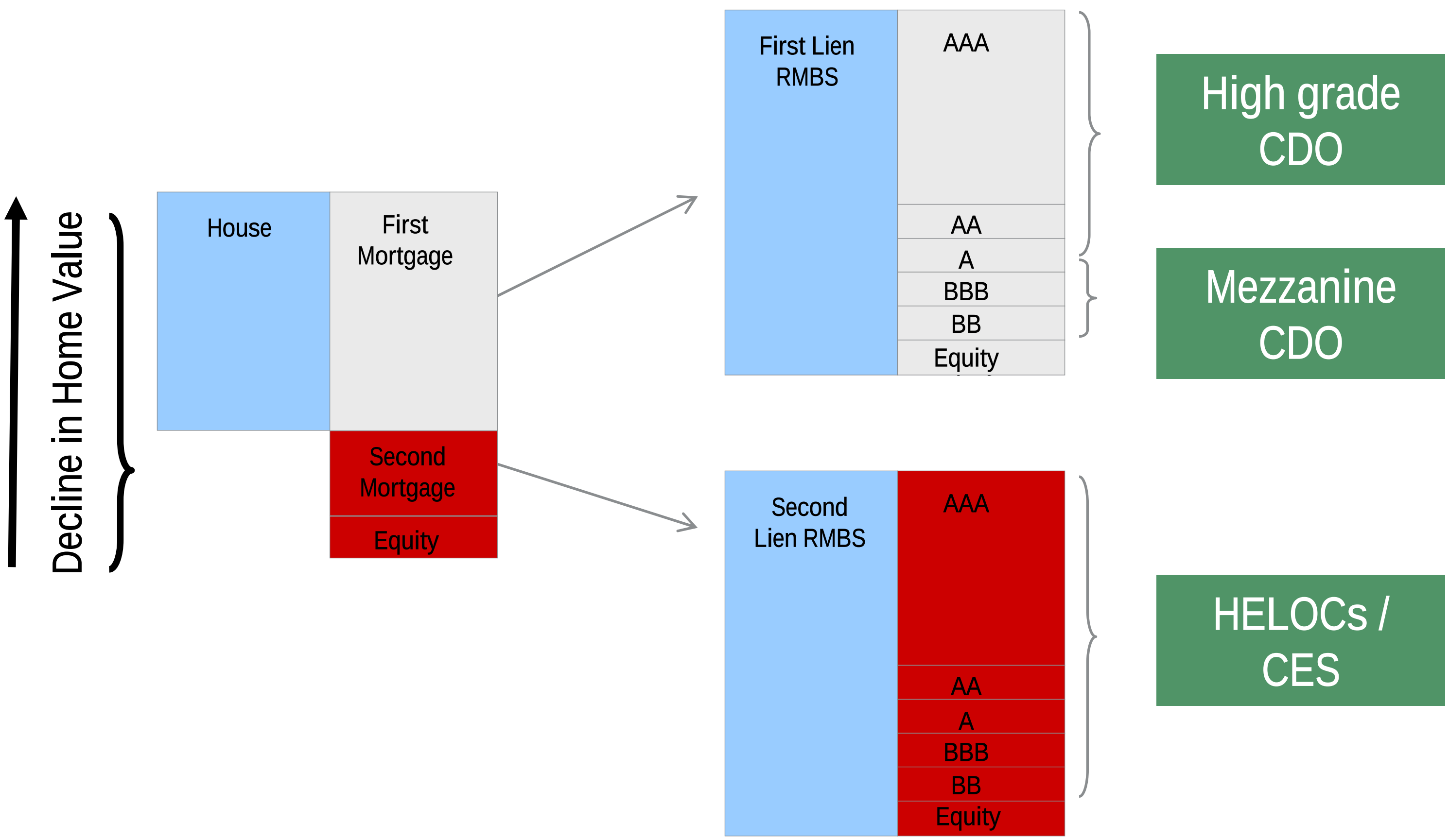
Quick Review: What is a HELOC / CES?

Home Equity Lines of Credit (HELOC) and Closed-end Second Mortgages (CES) securitizations are junior to even the most subordinated tranches of a typical Mezzanine CDO



What if Housing Values Decline?

Bond Insurers typically insure HELOCs and CES to the underlying BBB level. HELOCs and CES are in a first-loss position and are leveraged to a decline in housing values



What Does A HELOC / CES Deal Look Like?

- **GMAC Home Equity Loan Trust 2007-HE1**
- **Closing Date: March 2007, ~$300M of proceeds used to purchase additional loans until June 2007**
- **Procceds: $1.2 Billion, 100% of notes issued rated AAA**
- **Collateral: 95% Second Mortgages**
- **100% of issuance is guaranteed by MBIA, <u>fee to MBIA is 15 bps</u>**
- **Overcollateralization: 0.0% growing to max of 1.8% through collection of excess cash flow**
- **Key Collateral Characteristics**
  - Wgt. Average FICO = 716, Wgt. Avg. LTV = 78%
  - 47% Cash-out Refi, 29% Debt Consolidation, 12% purchase
  - 21% CA, 6% FL, 6% NJ

HELOC & CES Exposure Is Effectively Mortgage Insurance

- **Mortgage Insurers insure junior-most ~25% of high-LTV mortgage loans**
- **Bond Insurers' underlying collateral is comprised of Second-liens which are junior to First Mortgages, accrued interest, foreclosure costs, brokerage commissions, and other expenses**
- **HELOC and CES risk is actually structurally inferior to Mortgage Insurance risk**
  - Mortgage Insurers have the option to acquire the underlying First Mortgage in order to improve recoveries

In a flat to declining home price environment, we believe HELOCs and CES are likely to suffer 100% loss severity upon default

HELOC & CES Exposure Is Effectively Mortgage Insurance

Mortgage Insurers have set aside substantial reserves for losses on 2005 – 2007 exposure, yet the markets view these reserves as inadequate. Bond Insurers have taken minimal, if any, reserves

Loss Reserves Relative to Underlying Mortgage Exposures *($ in millions)*

	As of 9/30/07	
	Risk In Force Since 2005	Loss Reserves
Mortgage Insurers		
Radian Group [1]	**$20,002**	**$885**
MGIC [2]	**36,935**	**1,562**
PMI [3]	**19,039**	**698**
	HELOC / CES Since 2005	**Loss Reserves**
Financial Guarantors		
MBIA	**$25,200**	**NM**
Ambac	**14,613**	**NM**

(1) Loss reserves only apply to the Mortgage Insurance segment.
(2) Assumes 69% of MGIC's risk in force is since 2005 per the Q3'07 Investor Presentation.
(3) Assumes 63% of PMI's risk in force is since 2005 per the September Lehman Brothers Conference Investor Presentation.

HELOC & CES Exposure Is Effectively Mortgage Insurance

Applying Mortgage Insurers' own loss estimates to MBIA and Ambac's exposure implies large losses which have not been reserved for

Estimated Losses
($ in millions)

	As of 9/30/07				Cumulative
	HELOC / CES		Estimated Loss		Claim Rate on
Vintage	MBIA	Ambac	MBIA	Ambac	Balance (Prime) (1)
2005	$7,500	$2,308	$375	$115	*5.0%*
2006	7,200	6,823	533	505	*7.4%*
2007	10,500	5,482	788	411	*7.5%*
Total	**$25,200**	**$14,613**	**$1,695**	**$1,031**	

(1) Source: Radian Investor Presentation dated September 5, 2007.

MBIA's HELOC and CES Are Suffering Losses

- *"We do have a meaningful home-equity loan portfolio that we are monitoring very carefully... there were a* ***handful of transactions where we did see some collateral deterioration****. That continues to be the case, but, you know, in the quarter* ***we didn't have any transactions that got to the point where we believed that they were impaired****."*

  "So we do have a heightened level of scrutiny of that area ***[HELOCs]****, but in the quarter* ***we didn't have any increases in reserves for any of those assets****, which would sort of tells you that there was a -- there is a comfort level with our overall position."*

  "By and large, we believe that the ***potential for losses continues to be—continues to be remote****…"*

  MBIA CFO, Q3 Conf. Call, **10/25/07**

- *"The Company has observed deterioration in the performance of several of its prime home equity transactions and* ***has paid small claims on two transactions during the fourth quarter****."*

  MBIA 10-Q, **11/9/07**

Estimated Losses

	($ millions) MBIA	Ambac
Estimated CDO of ABS Impairments [1]	$ (3,041)	$ (6,683)
Estimated HELOC and Second Mortgage Losses	**(1,695)**	**(1,031)**
Combined Estimated Losses	$ (4,736)	$ (7,715)
Cushion (Deficit) to Required AAA Capital [2]	$ (3,536)	$ (6,533)
Remaining Statutory Capital [2]	$ 2,089	$ (1,491)

(1) Uses Merrill Lynch and Citigroup recent valuations to estimate economic impairment

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

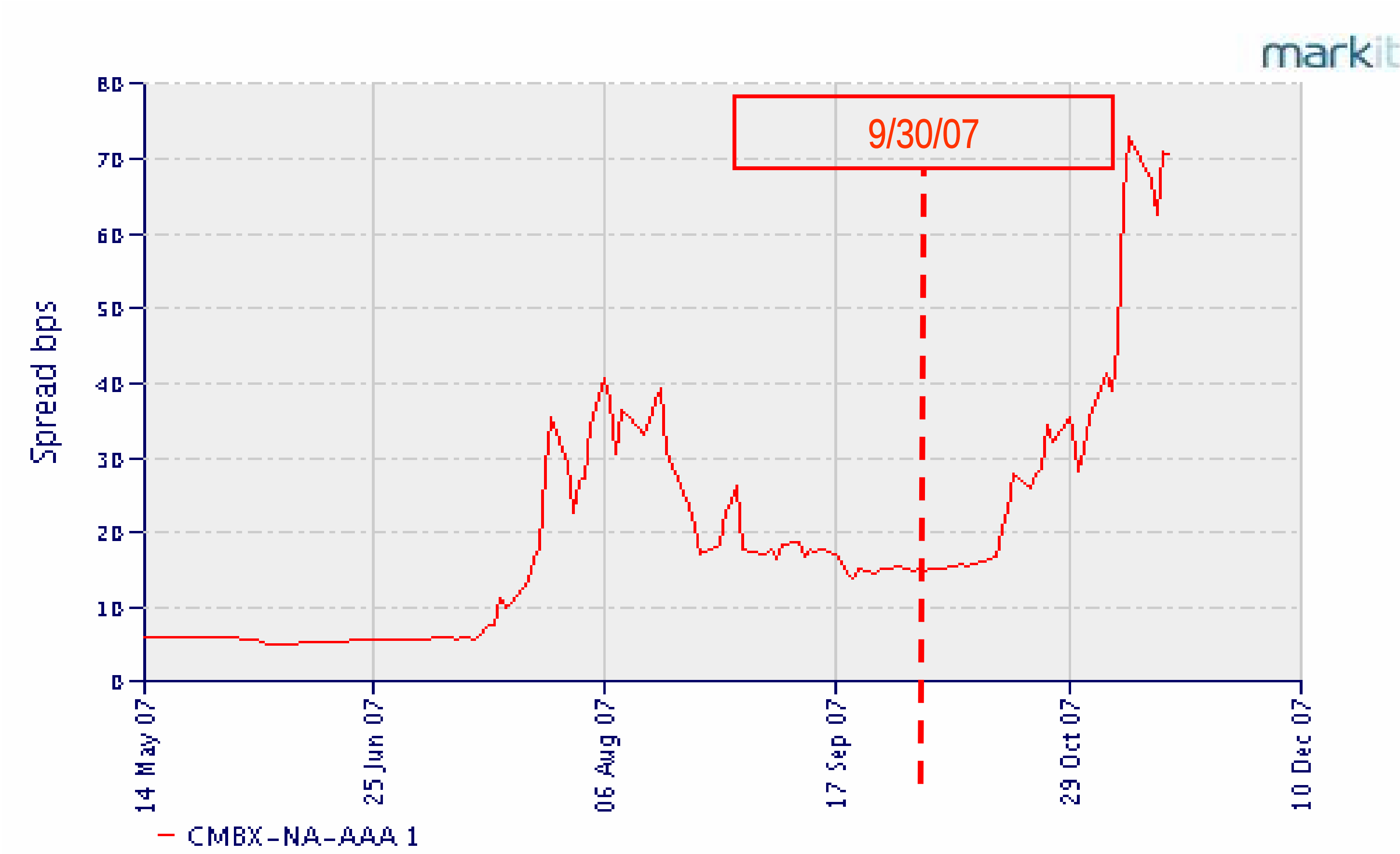
Commercial Mortgage-Backed Securities (CMBS)

CMBS Trends Mirror RMBS Bubble

RMBS	CMBS
Higher LTVs	LTVs > 100%
I/O, Negative amortizing loans	Zero or Negative Amortizing Loans
Cash-out Re-fi	Cash-out Re-Fi
“Liar” loans, limited documentation	Non-recourse financing based on 5-year projected NOI
0% down	Lenders providing equity bridges
Home Appreciation	REIT Index Hits High

Index of CMBS Securitizations Showing Stress

CMBX-NA-AAA-1 Index
(Quoted as a spread)

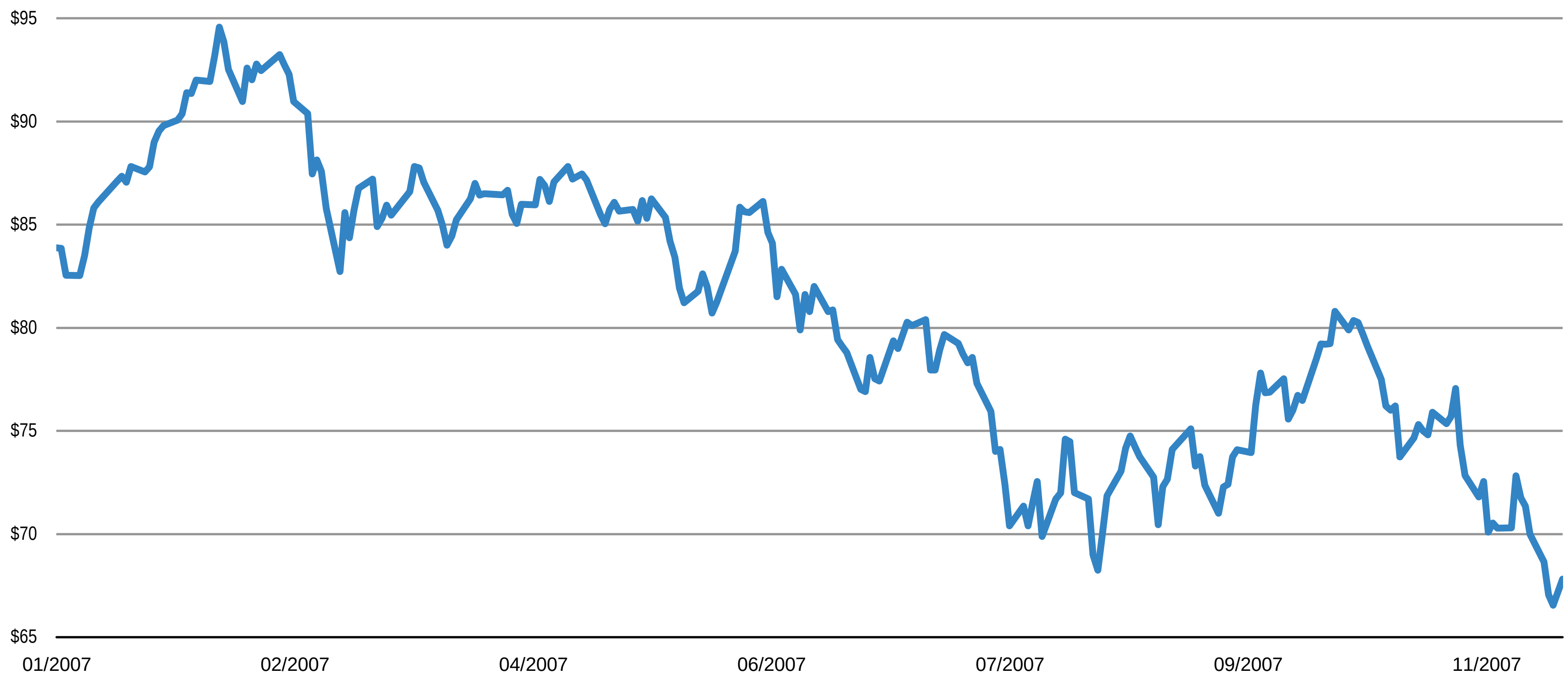


Source: Markit.com.

Index of Real Estate Values Showing Stress

Real Estate Index is down 28% from its 2007 high of ~$95 in February

IYR Year-To-Date Stock Price



MBIA Continues To Write Business Aggressively

“We had robust growth in CMBS in the third quarter. Our outlook for the commercial mortgage markets would say that the fundamentals continue to be quite strong at this time”

MBIA CFO, Q3 Conf. Call, 10/25/07

CMBS Exposure

CMBX spread movement suggests potentially significant impairment in the underlying CMBS securities insured by MBIA

($ in millions)

	Assumed Weighting	6/30/2007	9/30/2007	11/27/2007
Spreads: (1)				
CMBX-NA-AAA-1	*55.0%*	7 bps	16 bps	84 bps
CMBX-NA-AA-1	*30.0%*	23 bps	70 bps	193 bps
CMBX-NA-A-1	*10.0%*	38 bps	75 bps	233 bps
CMBX-NA-BBB-1	*5.0%*	77 bps	150 bps	454 bps
Weighted Average		**18 bps**	**45 bps**	**150 bps**
CMBS Net Par, excl. commercial loans (2)		32,647	43,000	43,000
Estimated Cumulative Loss (3)		**$0**	**$505**	**$2,519**
MBIA Recognized Loss (11/27 Est.)			$171	**$853**

(1) Source: Markit.com.
(2) Source: MBIA operating supplements. Assumes underlying CMBS exposure has not changed since September 30, 2007.
(3) Assumes 5 year average life of underlying CMBS, discounted using a 10-yr treasury.

Estimated Losses

	($ millions) MBIA	Ambac
Estimated CDO of ABS Impairments [1]	$ (3,041)	$ (6,683)
Estimated HELOC and Second Mortgage Losses	(1,695)	(1,031)
Estimated CMBS Losses at Current Market Prices	**(2,519)**	**NA**
Combined Estimated Losses	$ (7,255)	$ (7,715)
Cushion (Deficit) to Required AAA Capital [2]	$ (6,055)	$ (6,533)
Remaining Statutory Capital [2]	$ (430)	$ (1,491)

(1) Uses Merrill Lynch and Citigroup recent valuations to estimate economic impairment

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Below-Investment Grade (BIG) Exposure

MBIA & Ambac Have Material BIG Exposure

Neither MBIA nor Ambac disclose the composition of their below investment grade exposures. Therefore, the analysis below employs Fitch's estimated mean default and recovery rates for BB and B classes to arrive at a loss estimate

($ in millions)	**BIG = BB**		**BIG = B**	
	MBIA	**Ambac**	**MBIA**	**Ambac**
Public Finance:				
Net BIG Exposure	$3,534	$1,890	$3,534	$1,890
Estimated Default Rate (1)	17.5%	17.5%	42.4%	42.4%
Estimated Recovery Rate (1)	70.0%	70.0%	40.4%	40.4%
Estimated PF Loss	$185	$99	$894	$478
Structured Finance:				
Net BIG Exposure	$5,925	$2,815	$5,925	$2,815
Estimated Default Rate (1)	17.5%	17.5%	42.4%	42.4%
Estimated Recovery Rate (1)	58.0%	58.0%	40.0%	40.0%
Estimated SF Loss	$434	$206	$1,508	$716
Total Estimated Loss	**$619**	**$305**	**$2,402**	**$1,195**

(1) Source: Fitch Matrix Financial Guaranty Model, January 2007. Equates BB Public Finance with Municipal Finance Class 5 and B Public Finance with Municipal Finance Class 6.

Estimated Losses

	($ millions) MBIA	Ambac
Estimated CDO of ABS Impairments [1]	$ (3,041)	$ (6,683)
Estimated HELOC and Second Mortgage Losses	(1,695)	(1,031)
Estimated CMBS Losses at Current Market Prices	(2,519)	NA
Estimated Losses on Below-Inv Grade Exposures	**(619)**	**(305)**
Combined Estimated Losses	$ (7,875)	$ (8,020)
Cushion (Deficit) to Required AAA Capital [2]	$ (6,675)	$ (6,838)
Remaining Statutory Capital [2]	$ (1,050)	$ (1,796)

(1) Uses Merrill Lynch and Citigroup recent valuations to estimate economic impairment

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Reinsurance

The Role Of Reinsurance

- **Primary Guarantors' exposures are typically quoted "Net" of reinsurance**
- **Reinsurance reduces Rating Agency capital requirements**

Rating of Reinsurer	% of Capital Credit
AAA	100%
AA	~70%
A	~30%
Below A	0%

The downgrade of a reinsurer would cause reinsured risk to return to the primary insurer, exposing it to increased capital requirements and higher losses

Source: S&P

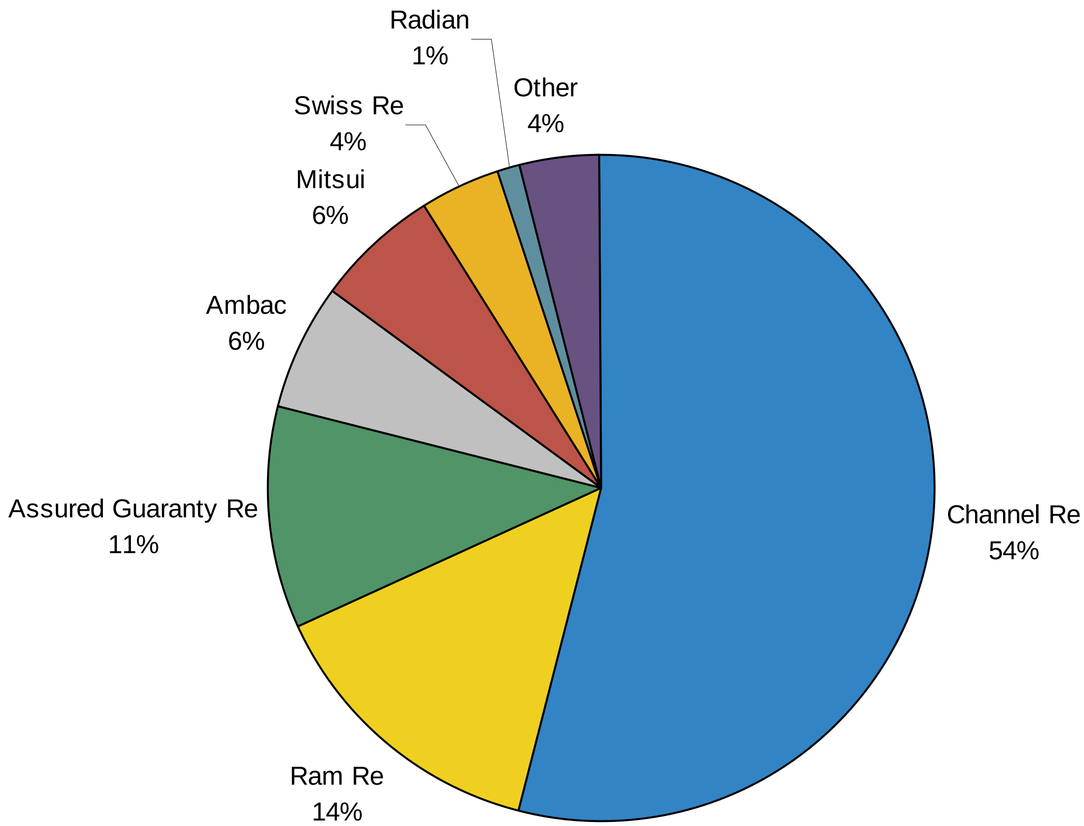
What Exposures Has MBIA Reinsured?

($ in billions)	As of 9/30/2007			
	Gross Par	**Net Par**	**Reinsured**	**% of Total**
CDOs (US)	$100.8	$83.3	$17.5	*21.0%*
Mortgage backed (US)	36.0	33.4	2.6	*3.1%*
Other (US)	49.7	43.1	6.5	*7.8%*
International	99.5	80.3	19.2	*23.0%*
Structured Finance	$286.0	$240.2	$45.8	*54.9%*
Public Finance	470.3	432.7	37.7	*45.1%*
Total	**$756.3**	**$672.9**	**$83.4**	*100.0%*

Source: MBIA operating supplement dated September 30, 2007. Note that the implied reinsured value from the operating supplement ($83.4bn) differs from MBIA's disclosed par ceded in the 10-Q ($79.0bn).

Who has MBIA reinsured with?

Approximately $42.4 billion of MBIA's reinsurance is from Channel Re, a "captive" reinsurer (MBIA is its only customer), that is 17% owned by MBIA



Who has MBIA reinsured with? (Cont'd)

Of MBIA's total ceded par, 86% is reinsured by financial guaranty reinsurers whose underlying exposures are highly correlated with MBIA

($ in billion)

MBIA Par Ceded	**As of 9/30/07 Amt.**	**As of 9/30/07 Pct.**
Channel Re	$42.4	*54%*
Ram Re	11.0	*14%*
Assured Guaranty	8.4	*11%*
Ambac	4.8	*6%*
Radian	0.9	*1%*
Correlated Reinsurers	**$67.6**	***86%***
Mitsui	4.6	*6%*
Swiss Re	3.1	*4%*
Other	3.6	*5%*
Total Par Ceded	**$79.0**	***100%***

Who is Channel Re?

($ in millions)	Channel Re
Year of Formation	*2004*
Credit Rating	*AAA*
Employees	*8*
Customers	*MBIA is the only customer*
Source of Valuation Models	*MBIA*
Source of Underwriting & Surveillance Resources	*MBIA*
Asset Manager	*MBIA*
Book Equity as of 12/31/06	*$366*
Selected Exposures as of 12/31/06:	
CDO, CLO & CBO (US)	*$6,621*
RMBS (US)	*$2,071*
Total Exposure	*$35,389*

Source: http://www.sec.gov/Archives/edgar/data/911421/000095010307001346/dp05270e_ex9902.htm.

Who is Channel Re? (cont'd)

"[Channel Re] is extraordinarily thin operationally for the size of the portfolio and the volume of business underwritten."

– Standard & Poor's, 2005

- **Channel Re's most senior employees are MBIA Alumni:**
  - CEO Michael Maguire, former MBIA Managing Director
  - CFO Elizabeth Sullivan, former MBIA director of internal audit
- **Channel Re's original Chairman, David Elliott, former MBIA Chairman and CEO, resigned in late 2005**

Channel Re assumes exposures based on an automatic treaty. MBIA performs underwriting, surveillance, asset management, and MTM valuations for Channel Re. What do Channel Re's employees actually do?

MBIA Can Send Riskier Policies to Channel Re

"On September 30, 2007, the Company reinsured certain insured credit derivative contracts on a quota share basis with two of its reinsurers and used the reinsurance prices to fair value its aggregate exposure to those derivative contracts. One of the reinsurers was Channel Reinsurance Ltd. ("Channel Re"), a related party."

MBIA 10-Q, 11/9/07

MBIA Can Send Riskier Policies to Channel Re

With MBIA as its only customer and investment manager, MBIA's credit exposures are highly correlated with Channel Re except that Channel Re has been disproportionately allocated Structured Finance and CDO exposure

Premiums as % of Gross Par (through 6/30/07)

Type of Premium	MBIA	Channel Re
Structured Finance	69.6%	92.0%
CDOs	25.5%	77.0%

Problem: If MBIA suffers losses on Structured Finance and CDOs, Channel Re will suffer a disproportionately worse fate

Source: Standard & Poor's Industry Report Card dated October 29, 2007.

MBIA Reinsurance Agreement With Channel Re

Why would Channel Re agree to assume riskier exposures?

- **"MBIA and [Channel Re] agree that if during any calendar year within the Underwriting Period the aggregate of all cessions from MBIA to the Reinsurer do not meet the Risk-Adjusted Parameters (defined below), the Reinsurer shall have the right to select, on a transaction-by-transaction basis, which cessions it will accept into its Comprehensive Automatic Treaties in subsequent years"**

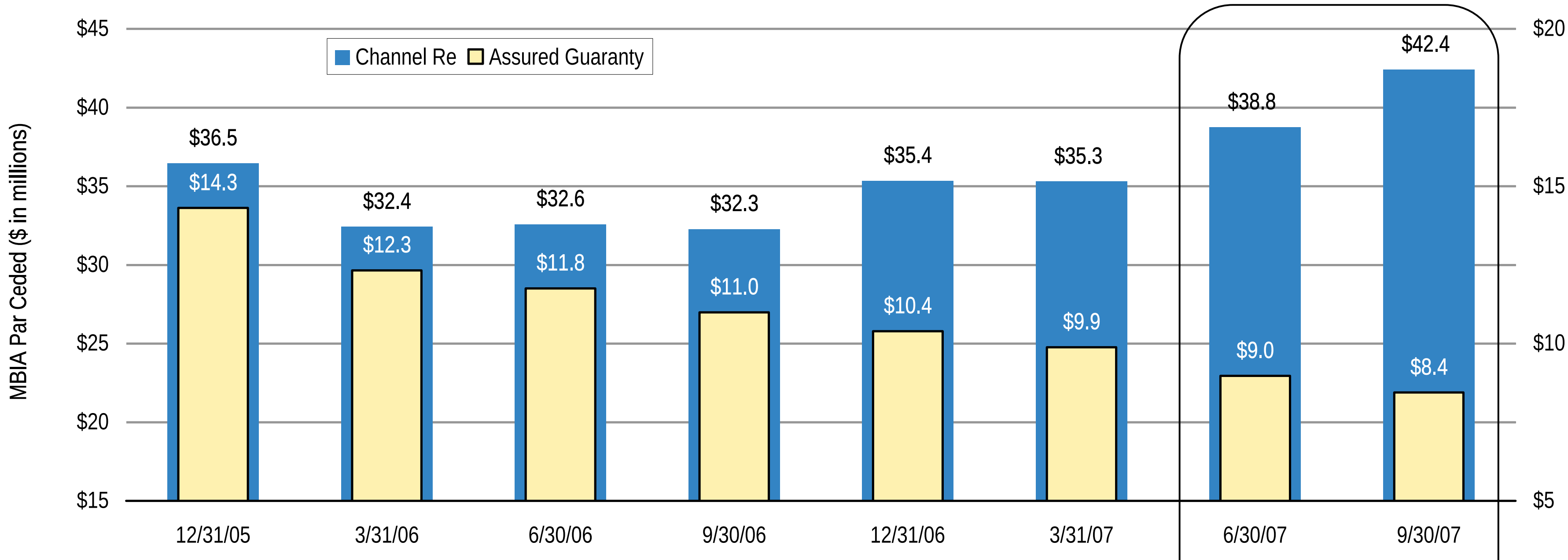
Excerpt from MBIA's Channel Re Reinsurance Agreement

Channel Re has a pay-back provision allowing it to cherry-pick future business if MBIA transfers it a disproportionate amount of higher-risk credits, potentially disqualifying it for reinsurance treatment under GAAP

MBIA has been Ceding Greater Amounts of Reinsurance to Channel Re in Recent Quarters

Channel Re has reinsured an increasing share of MBIA's ceded par over the past six months, whereas MBIA's independent reinsurers are taking on less exposure

Channel Re and Assured Guaranty's Share of MBIA Total Par Ceded (2005 – Current)



Percent of Total MBIA Par Ceded:								
Channel Re	*45.2%*	*45.6%*	*45.9%*	*46.8%*	*49.4%*	*50.0%*	*52.4%*	*53.7%*
Assured Guaranty	*17.7%*	*17.3%*	*16.6%*	*15.9%*	*14.5%*	*14.0%*	*12.1%*	*10.7%*

Note: MBIA par ceded is calculated as the percentage of total MBIA par ceded multiplied by the total reinsured amount as disclosed in the 10-Q.

Channel Re Is Suffering Material MTM Losses

MBIA does not disclose financials of Channel Re. Channel Re's Q3'07 MTM loss can be estimated from the equity accounting disclosures of Channel Re's investors, Partner Re and Renaissance Re

($ in millions)

Company	Q3'07 Loss due to Channel Re	Ownership	Implied Total Charge
Partner Re	$25	20.0%	$125
Renaissance Re	36	32.7%	110
Average			**$118**

Channel Re Q3 Loss Erased 1/3rd of its Book Value

Channel Re's Q3'07 MTM loss <u>using MBIA's valuation methodology</u> represents nearly a third of its book value

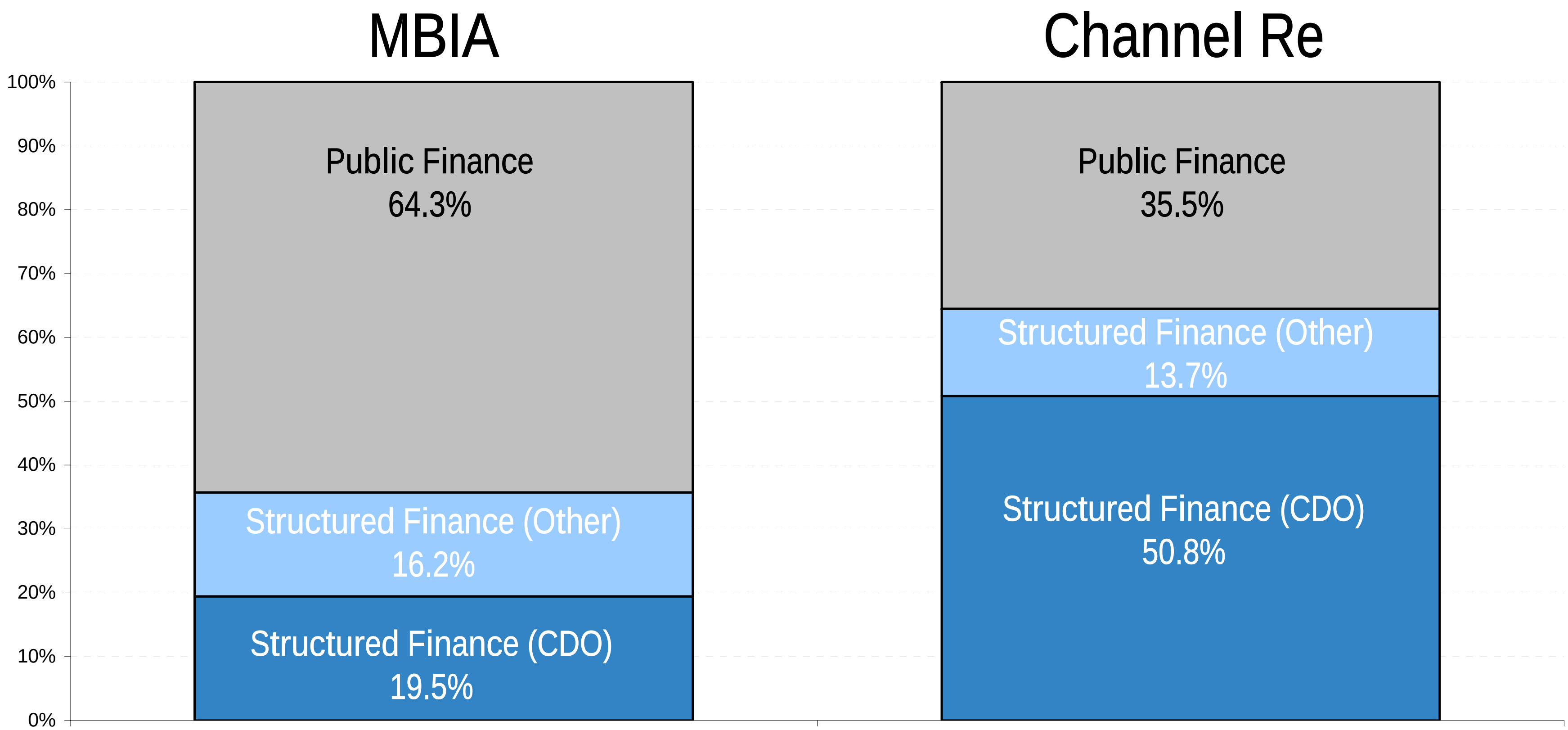
($ in millions)

				Loss as % of	
Company	Q3'07 Loss	Capital Base	CDO / MBS Exposure (US)	Capital Base	CDO / MBS Exposure (US)
MBIA	$342	$6,825	$116,794	5.0%	0.3%
Ambac	743	6,224	132,714	11.9%	0.6%
Ram Re	28	427	9,556	6.6%	0.3%
Channel Re [1]	**118**	**366**	**8,692**	**32.2%**	**1.4%**

[1] Book equity as of December 31, 2006 used as proxy for Channel Re's capital base. Channel Re exposure data is also as of December 31, 2006.

What if Channel Re Collapses?

We believe Channel Re's underlying exposure is even riskier than that of MBIA



Net Par Outstanding (9/30/07)	$673bn	$42bn

Note: Channel Re's exposure as of September 30, 2007 assumes 77%, 15% and 8% of incremental par insured since December 31, 2006 was allocated to Structured Finance (CDO), Structured Finance (Other) and Public Finance, respectively. See page 87 for details.

What if Channel Re Collapses?

Assuming MBIA and Channel Re's underlying CDO portfolios are comparable, MBIA could face an incremental $916 million in losses from Channel Re's CDO exposure alone

($ in millions)	MBIA	Channel Re
Net CDO Exposure	$130,900	$21,572
Est. CMBS & ABS CDO Losses [(1)]	$5,560	**$916**
Losses as % of CDO Exposure	*4.2%*	*4.2%*

In addition to taking on greater losses, MBIA would be required to post significantly more capital were it to take Channel Re's liabilities on balance sheet

[(1)] Channel Re's estimated CMBS & ABS CDO loss is calculated by applying MBIA's losses as a % of CDO exposure (4.2%) to Channel Re's CDO, CBO & CLO exposure ($21,572mm). MBIA's estimated CMBS & ABS CDO losses ($5,560mm) represent the sum of its estimated CDO of ABS impairments and estimated CMBS losses at current market prices. See pages 54 and 74 for more detail.

Estimated Losses

	($ millions) MBIA	Ambac
Estimated CDO of ABS Impairments [1]	$ (3,041)	$ (6,683)
Estimated HELOC and Second Mortgage Losses	(1,695)	(1,031)
Estimated CMBS Losses at Current Market Prices	(2,519)	NA
Estimated Losses on Below-Inv Grade Exposures	(619)	(305)
Estimated Losses From Channel Re Collapse	**(916)**	**NA**
Combined Estimated Losses	$ (8,791)	$ (8,020)
Cushion (Deficit) to Required AAA Capital [2]	$ (7,591)	$ (6,838)
Remaining Statutory Capital [2]	$ (1,966)	$ (1,796)

(1) Uses Merrill Lynch and Citigroup recent valuations to estimate economic impairment

(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Investment Portfolio Risk

Quality of Bond Insurers' Investment Portfolios Appears Overstated

Because 18% of MBIA's assets are insured by MBIA, the market value and liquidity of these assets is correlated with MBIA itself.
<u>MBIA's guarantee is worthless to itself</u>

($ millions)

MBIA Fixed-Income Investment Portfolio

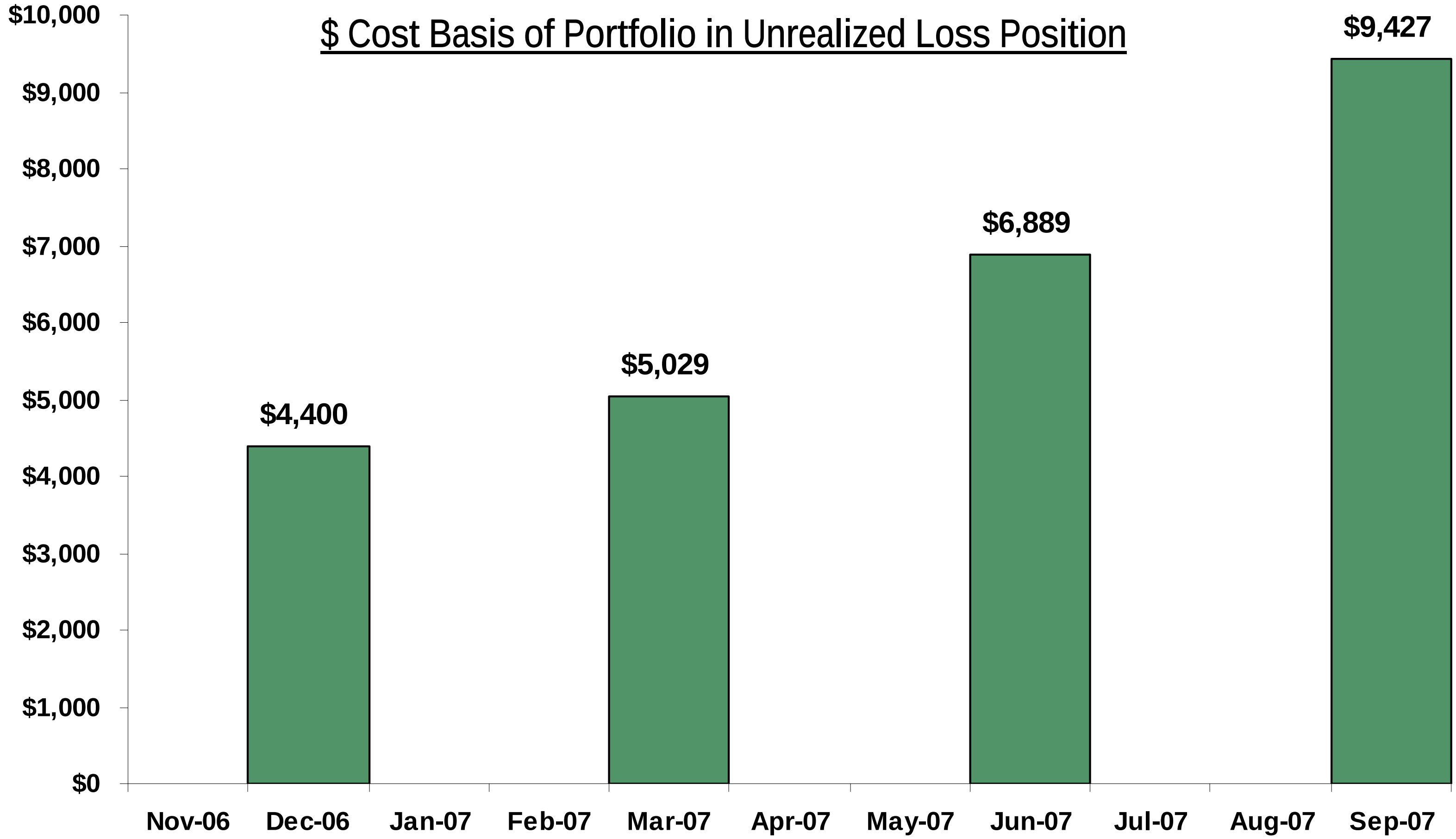
	As Reported		Adjusted to Exclude MBIA Wrap	
	$	%	$	%
AAA	$ 24,473	65%	$ 19,373	51%
AA	7,898	21%	8,600	23%
A	4,953	13%	7,217	19%
BBB	307	1%	2,334	6%
Below Investment Grade	26	0%	133	0%
Total	$ 37,657	100%	$ 37,657	100%

Source: MBIA Q3 10-Q, pg 49

An undisclosed amount is also insured by Ambac and others

Growing Unrealized Losses in Ambac's Investment Portfolio

At 9/30/07, ~50% of Ambac's Portfolio is in an unrealized loss position, more than double the amount at 12/31/06



Estimated Losses

	($ millions)	
	MBIA	**Ambac**
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Estimated Losses From Channel Re Collapse	(916)	NA
Estimated Losses on Investment Portfolio	**?**	**?**
Combined Estimated Losses	$ (8,791)	$ (8,020)
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(2) Excess Capital as estimated by Fitch as of 12/31/06 for Ambac, MBIA stated capital as of 9/30/07

Liquidity Risk

Liquidity Risk

"In general, Moody's believes the guarantors are well-insulated from liquidity risk in core operations since insurance policies and most CDS contracts preclude the acceleration of principal payments upon default. ***However, the issue of liquidity risk is particularly relevant given the guarantors' increased focus on non-core activities (e.g. GICs, conduits, asset mgmt), which present additional operational and liquidity risk***"

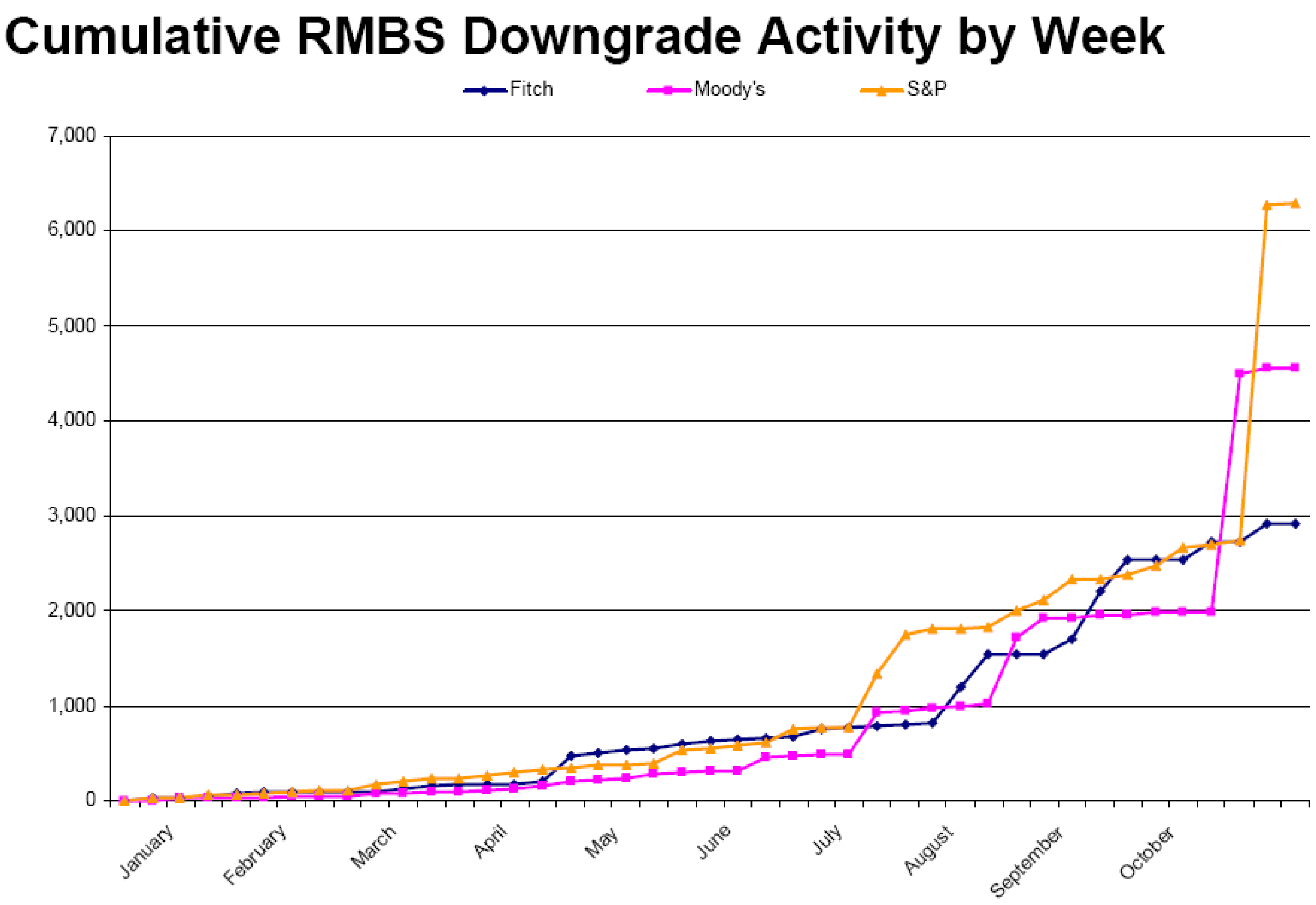
Moody's Investor Briefing, 11/17/06

Rating Agencies Understate True Liquidity Risk of Bond Insurers

One of the largest liquidity risks is the Rating Agency “Margin Call”

- **Credit downgrades of underlying exposures dramatically increase bond insurance capital requirements**
- **Similar to a margin call from a counterparty, but in this case the rating agencies are slow to require additional capital**
- **Reinsurer downgrades compound the impact of the rating agency margin call**

Rating Agencies Are Beginning To Adjust Ratings

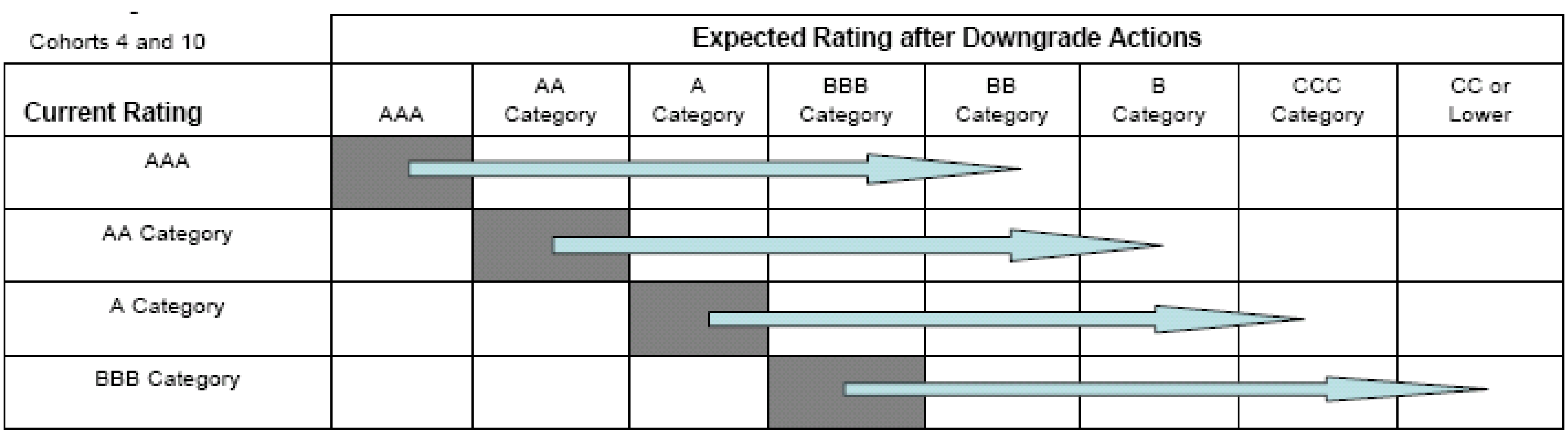


Rapidly rising RMBS downgrades will drive CDO downgrades

CDO Downgrades Are Typically Many Notches

Bond Insurers have described their potential capital requirements in terms of 1- and 3-notch downgrades, but when CDOs are downgraded they tend to be cut by many (10-15) notches

<u>Recent High Grade CDO Downgrades</u>

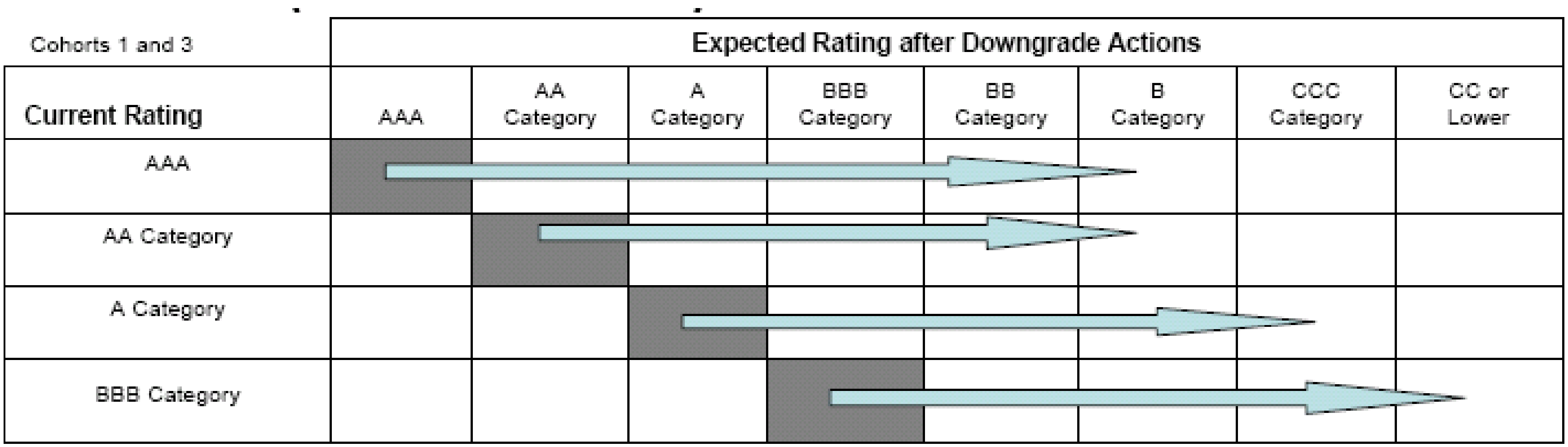


Source: Derivative Fitch CDO Ratings Review 10/30/07

Mezz and CDO² Downgrades Are More Severe

Mezzanine and CDO-squared transactions suffer even more severe downgrades compared to High-Grade CDOs

Recent Mezzanine and CDO² Downgrades



Source: Derivative Fitch CDO Ratings Review 10/30/07

Capital Needs Increase Exponentially with Downgrades

Fitch Ratings Methodology
Structured Finance Composite Default and Recovery Rates

	Mean Default Rate	Mean Recovery Rate	Expected Losses	Ratio of Expected Losses
AAA	43 bps	88%	5 bps	1.0 x
AA	76 bps	75%	19 bps	3.7 x
A	184 bps	68%	59 bps	11.4 x
BBB	580 bps	63%	215 bps	41.6 x
BB	1,745 bps	58%	733 bps	142.0 x
B	4,242 bps	40%	2,545 bps	493.3 x
CCC	6,933 bps	33%	4,645 bps	900.2 x

Source: Fitch Matrix Financial Guaranty Model, January 2007
Calculates Expected Losses as (Probability of Default) X (1 - Recovery Rate)

Capital Requirements Increase Exponentially

MBIA and Ambac have stated that a 3-notch downgrade of their CDO and subprime exposures alone would result in $100-$150 and $650 million, respectively, of additional capital requirements

Fitch Ratings Methodology
Implied Capital Requirements upon Downgrade of Subprime RMBS and CDOs

($ millions)	MBIA	Ambac
AAA	-	-
AA	**125**	**650**
A	387	2,014
BBB	1,412	7,342
BB	4,822	25,073
B	16,745	87,073
CCC	30,560	158,912

Pershing Estimates by applying Fitch methodology to MBIA and Ambac disclosures

Financial Leverage and Liquidity Risk

Financial Leverage and Liquidity Risk

- **Off-balance sheet leverage > 140 : 1**
- **Originally, the Bond Insurers' Triple-A rating was predicated on minimal on-balance sheet risk**
- **Industry balance sheets have changed dramatically in recent years**

MBIA Balance Sheet: Then -- 1990

($ Millions)

Investments	$	1,724
Cash and equivalents		5
Accrued Investment Income		33
Deferred acquisition Costs		89
Goodwill		132
Property & Equipment		31
Receivable for Investments Sold		0
Other Assets		10
Total Assets	**$**	**2,025**
Unearned Premiums	$	768
Loss and LAE Reserves		5
Bank Debt		200
Current and Deferred Taxes		78
Other Liabilities		42
Total Liabilities	**$**	**1,093**
Shareholders Equity	**$**	**932**

Liabilities / Equity = 1.2 x 1

MBIA Balance Sheet: Now – 9/30/07

($ Millions)

Investments	**42,179**
Cash and equivalents	366
Accrued Investment Income	615
Deferred acquisition Costs	467
Prepaid Reinsurance premiums	331
Reinsurance recoverable on unpaid losses	51
Goodwill	79
Property & Equipment	99
Receivable for Investments Sold	209
Derivative assets	**750**
Other Assets	183
Total Assets	**$ 45,329**
Deferred premium revenue	3,118
Loss and LAE Reserves	545
Investment Agreements	**15,063**
Commercial paper	**848**
Medium-term notes	**13,644**
Variable interest entity floating rate notes	**1,372**
Securities sold under agreements to repurchase	**728**
Short-Term Debt	13
Long-term Debt	1,221
Current and Deferred Taxes	243
Deferred Fee Revenue	14
Payable for investments purchased	520
Derivative Liabilities	**922**
Other Liabilities	545
Total Liabilities	**$ 38,798**
Shareholders Equity	**$ 6,531**

Liabilities / Equity = 5.9 x 1

Borrowings at Investment Management Subs & MBIA Inc.

Investment Agreements	**$15,063**
Commercial Paper	**848**
Medium-term Notes	**13,644**
VIE Floating rate Notes	**1,372**

MBIA Global Funding

Investment Agreements

Triple-A One Funding

Polaris Funding

Meridian Funding

(1) Bloomberg market data as of November, 2007.

What Is Global Funding, MBIA's Largest Funding Vehicle?

A Full-Recourse Structured Investment Vehicle (SIV)

- **Global Funding issues medium-term notes with a guarantee from MBIA Insurance Corp. (at AAA rates) and invests proceeds in average "AA-rated" assets, which are also wrapped by MBIA Insurance**

  "The program is also used by MBIA to purchase insured bonds traded at a discount." – Moody's, *MBIA Insurance Corporation*, August 2003

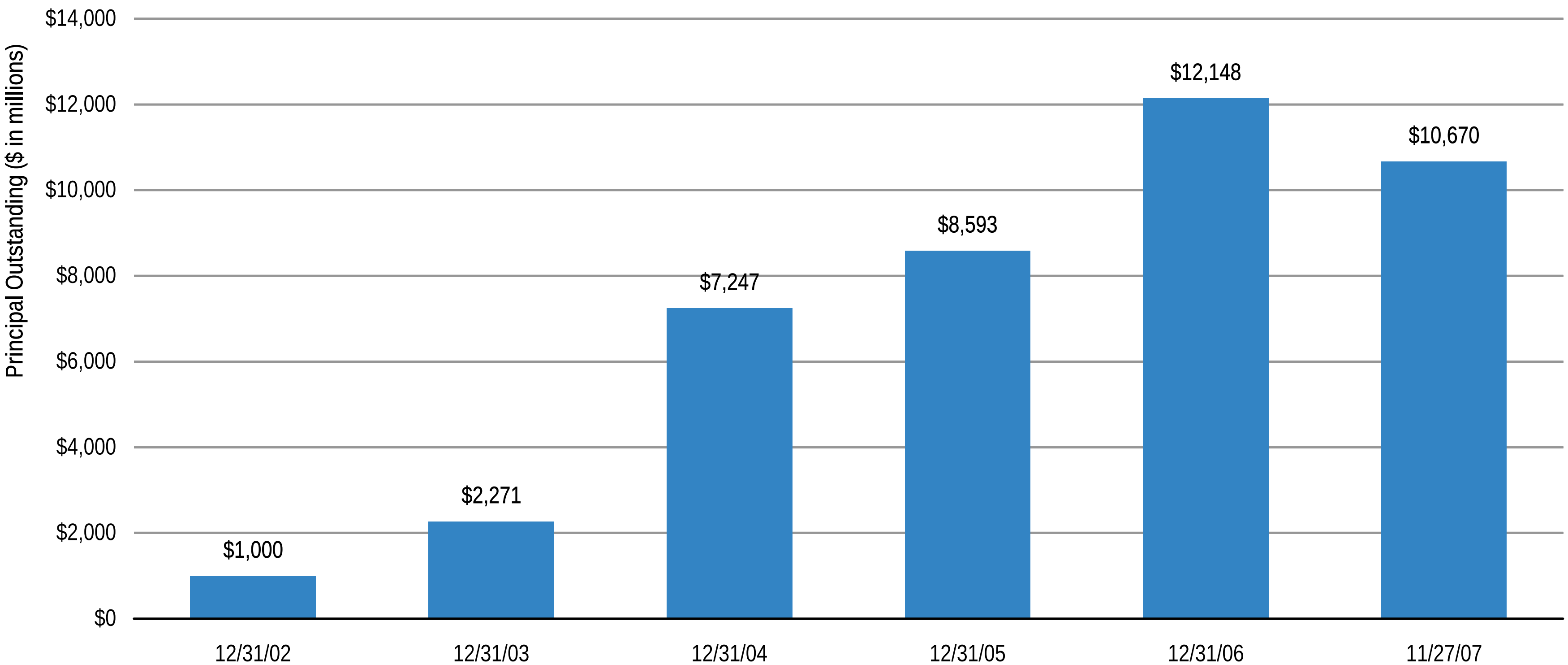
- **MBIA Inc. invests *de minimis* capital in Global Funding**
  - Capitalized with $85 million (<1% equity) at 12/31/06 from MBIA Inc. <u>which was borrowed from Global Funding by MBIA Inc. on an unsecured basis</u>

- **MBIA's $2 billion off-balance sheet SIV, Hudson Thames Capital, is already being unwound and investors are to receive a pro rata share of remaining collateral**

Global Funding in Liquidation?

Global Funding's asset base has declined recently, likely due to difficulties finding buyers for its MTNs

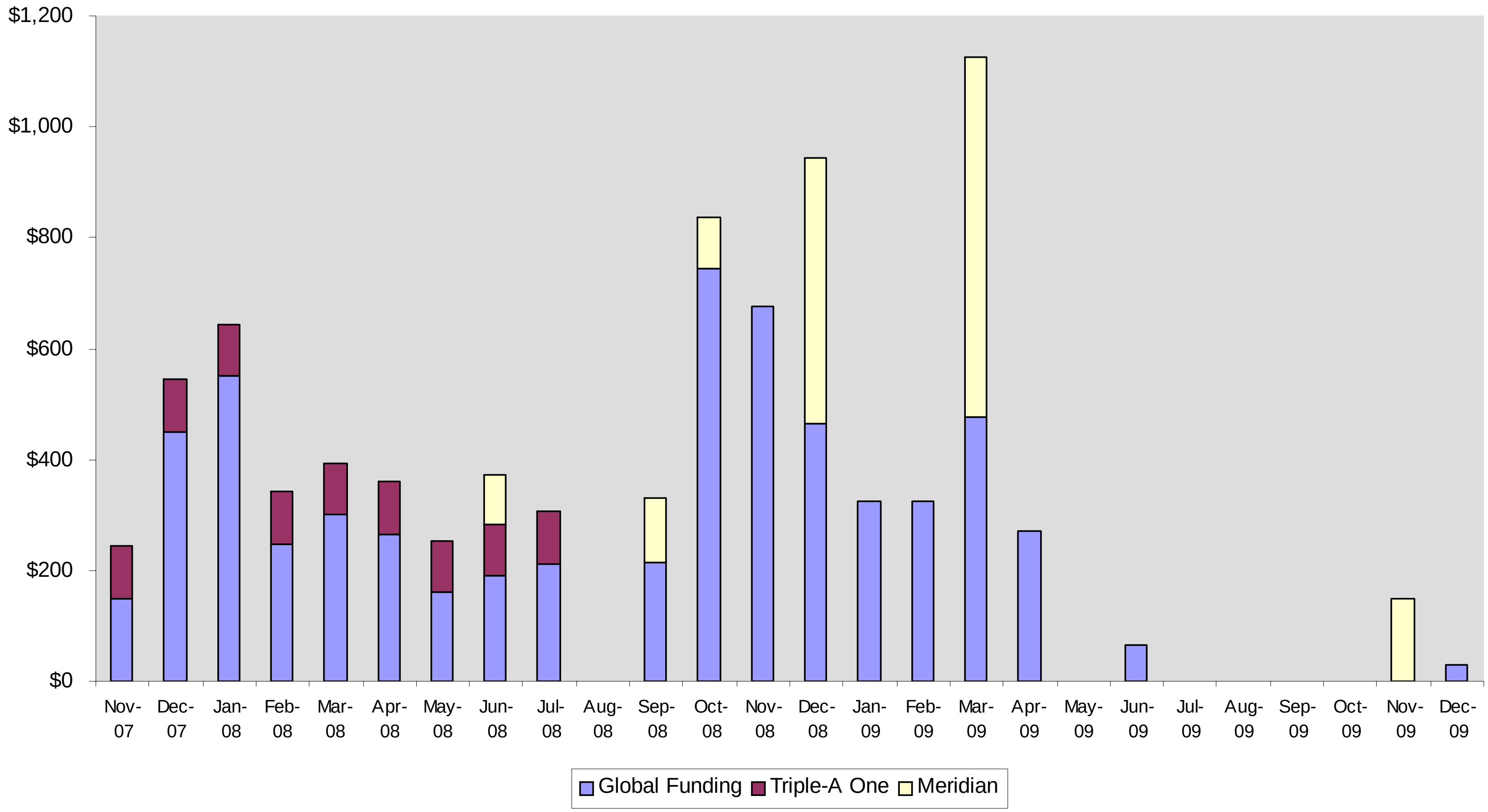
Principal Amount of Debt Outstanding at MBIA Global Funding (2002 – Current)



Source: MBIA 10-Ks and Bloomberg market data as of November 27, 2007.

A Substantial Amount of MBIA Debt Is Short-term

Approximately $5.5 billion of MBIA's on-balance-sheet debt will come due before year-end 2008, $8.5 billion before year-end 2009



Note: Excludes short-term obligations arising from MBIA's off-balance sheet conduits.

The Holding Company's Investment Management Business Is Supported by Guarantees from MBIA's Insurance Sub

MBIA has misled the investing public about the recourse nature of these debts

Question: "…**You carry a lot of debt** in the form of commercial paper and medium term notes…**is there any recourse that could change the risk of that to your balance sheet**?"

Answer: "**That's non-recourse debt**. **It's got only the assets to look at for recovery**…**the debt is the debt of the conduit, it is not technically the debt of MBIA**. It's like any other insurance transaction where we insure the underlying securities issued out of the conduit, and the guarantee is for principal (and) interest as and when due. There's no acceleration rights, there's no liquidity risk, and it's the standard conduit transaction."

Gary Dunton, MBIA CEO, 2/1/05

"The asset/liability products segment raises funds for investment management through the issuance of investment agreements, which are issued by the Company and guaranteed by MBIA Corp., to public entities and as part of asset-backed or structured finance transactions for the investment of bond proceeds and other funds. **This segment also raises funds through the issuance of medium-term notes ("MTNs") which are issued by its affiliate MBIA Global Funding, LLC ("GFL") and guaranteed by MBIA Corp**. "

MBIA 2006 10-K, page 2

MBIA Global Funding Is A Blind Pool

“The terms of the Investments will not be disclosed to prospective investors. Accordingly, the Investments and other assets of the Issuer should not be relied upon by prospective investors in making an investment decision to purchase the Notes. Rather, any investment decision to purchase the Notes should be based solely on the financial strength of the Insurer."

MBIA Global Funding
Prospectus Supplement

If MTNs do not roll as notes come due, Global Funding would likely be forced to sell assets to meet principal payments

Guaranteed Investment Contracts (GICs)

- **Municipalities deposit proceeds of bond issues with Bond Insurers until capital is needed**
- **Bond Insurers guarantee minimal return to municipality**
- **Deposits have varying degrees of liquidity risk**
  - Some are subject to fixed draw schedule
  - Others have on-demand withdrawal
  - All deposits have collateral or withdrawal triggers on downgrade of insurers

GIC and Asset/Liability Business

MBIA's Asset Management division operates as an unregulated bank by extracting value from its Insurance Subsidiary

"We started out managing our own portfolio. All fixed-income, all investment grade, safe as can be, because that was one of the stipulations for us to receive and maintain our Triple-A ratings. We then discovered that school districts and municipalities have operating cash balances that they'd like to have managed. They don't always love their banks, so we put together some pools in a variety of states. That's a $10-$11 billion business for us. It's not a terribly high-margin business, but our clients love our service. We then branched out into investment agreements and guaranteed investment contracts, where we manage bond proceeds from a municipal bond issue. We [MBIA Insurance] guarantee the issuer a fixed return, and they give us a deposit, which we reinvest. We [MBIA Inc.] make the arbitrage spread. We've done this business now for ten years, and we're a dominant player in this marketplace."

– Gary Dunton, MBIA Inc. 2003 Annual Report

GICs: Why Does This Business Exist?

- **IRS restricts municipalities from earning profits on proceeds of tax-exempt bond issuances**
- **Guarantors compete on pricing of bond insurance to win contracts**
- **Bond Insurers can be more competitive on bond deal pricing if investment management sub can invest proceeds and earn a spread**
- **Municipality concerned with all-in cost of financing and not concerned with allocation of fees between bond insurance and deposits**

" [O]ur asset management funding business, where we take deposits from insured transactions and for construction fund or reserved fund, we continue to find ourselves in that marketplace at or below LIBOR."

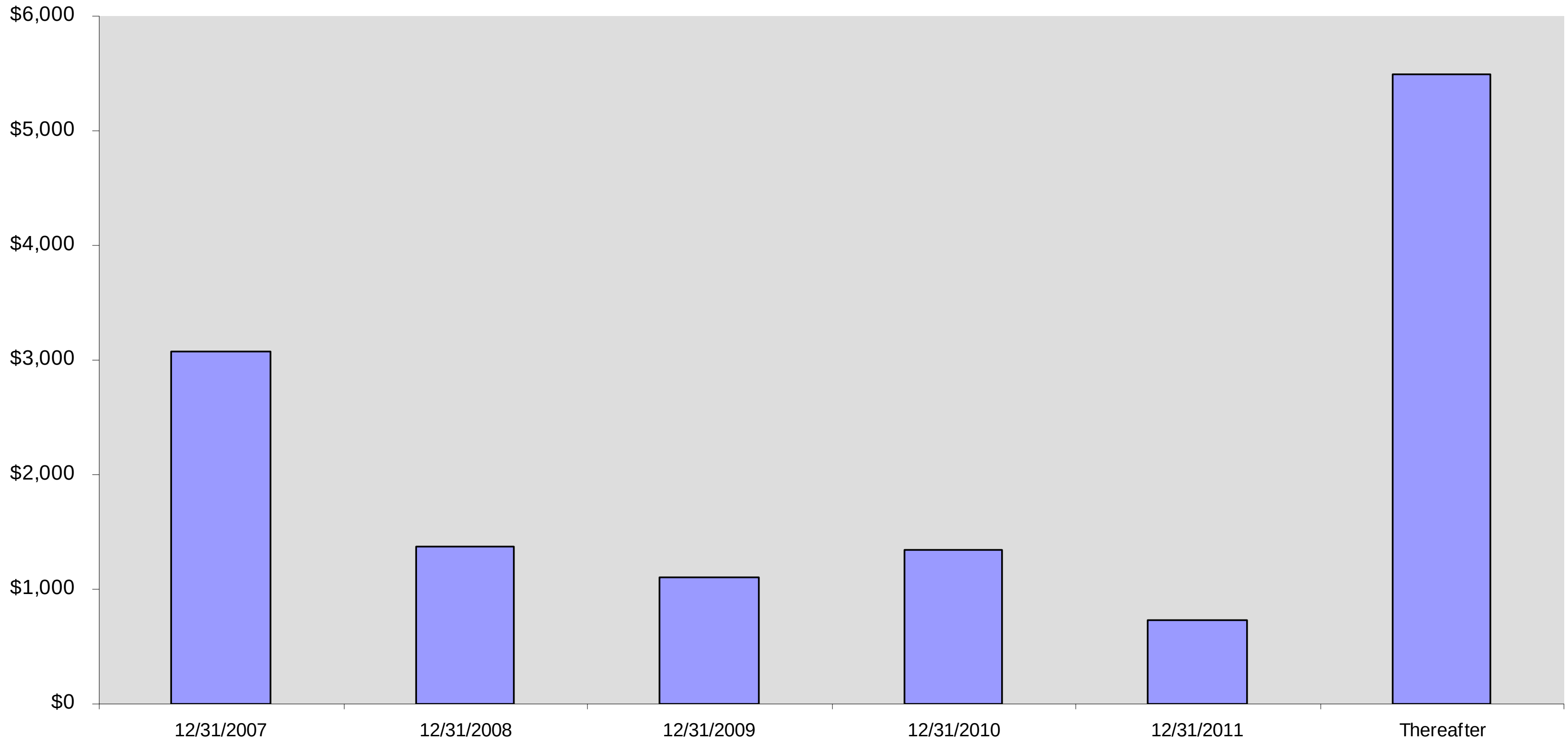
CEO Gary Dunton, KBW Conference, 9/4/07

Even with MBIA Insurance's CDS trading at ~300 bps, asset management apparently still borrows at ~LIBOR, implying that municipalities are not making independent investment decisions

Guaranteed Investment Contracts (GICs)

Approximately $3 billion of MBIA's $13.1 billion of Guaranteed Investment Contracts will expire before year-end 2007, and an additional $2.6 billion before year-end 2009

Scheduled Withdrawals of Municipal Deposits



Note: As of December 31, 2006.

What Is MBIA's Investment Management Business Investing In?

Investments are "restricted to fixed-income securities with an average credit rating of AA and minimum credit quality rating of investment grade." Yet, MBIA has earned 60-70 bps per annum in spread income

($ in millions)

	FY Ended December 31,				
	2002a	2003a	2004a	2005a	2006a
Asset / Liabilities Products:					
Market value of assets	$8,100	$9,400	$12,600	$15,900	$20,500
Average market value of assets		8,750	11,000	14,250	18,200
Revenues (excl. gains)	$350	$354	$405	$623	$957
Less: Interest Expense	(314)	(294)	(330)	(527)	(844)
Pre-overhead Income	$37	$60	$76	$95	$113
Average Yield		**0.69%**	**0.69%**	**0.67%**	**0.62%**
Estimated Average Aaa-Aa Corporate Spread [1]		***0.40%***	***0.25%***	***0.15%***	***0.20%***

[1] Source: Moody's Aaa-Aa corporate credit spreads. See pg. 15 for details.

Investment Management Yields Imply Higher Risk Than AA

If Global Funding and GICs are match-funded, interest-rate hedged, borrow at AAA rates and invest in AA securities, <u>and pay a fee for the guarantee</u>, how are they earning >60bps?

- **Insurance Subsidiary should receive an arm's-length fee for its guarantee**
  - Under typical MBIA contract, fee would represent a fraction of the spread between AAA and the underlying collateral (AA)
- **Over past 3 years, spreads between AAA and AA corporate bonds have rarely been over 40 bps and have averaged close to 25 bps (less for muni's)**
  - After paying fee for guarantee, something less than market spread should be earned by Investment Management
- **The credit quality of the underlying collateral is likely overstated**
  - Asset Mgmt. invests in MBIA wrapped bonds trading at a discount but are treated as "AAA"
  - Asset / Liability business likely purchases Structured Finance securities with high ratings (i.e. CDO's, etc.)
  - AAA assets allow purchases of lower-rated / higher-yielding assets to increase overall yield

Claims Paying Resources

Reported "Claims Paying Resources" Include Unavailable Or Overstated Assets

Actual claims paying resources available for Structured Finance losses are at least $3 billion less than disclosed

MBIA's Claims Paying Resources
As of 9/30/07

Capital Base	**$ 6,825**
Unearned Premium Reserve	3,716
PV of Future Premiums	**2,619**
Loss and LAE Reserves	165
Money-Market Preferred Trust	400
Standby Line of Credit	**450**
Total Claims Paying Resources	$ 14,175
Future Premiums Are Unavailable	(2,619)
Line of Credit Unavailable for SF	(450)
Impairment of Investments	?
Adjusted Claims Paying Resources	**$ 11,106**

- **Capital Base**
  - Quality and Liquidity of Investment Portfolio is inflated by MBIA guarantees and that of other Bond Insurers
- **PV of Future Premiums**
  - Not available to pay claims today
  - Not adjusted for early prepayments
  - Does not consider Bond Insurers' future operating expenses
- **Credit Facilities**
  - $450M credit facility is only available to fund public finance losses and only after $500M deductible

Holdco Faces Liquidity Stress

If unable to access additional capital, MBIA Inc. (Holdco) could be insolvent as soon as Q2’08

Holdco Liquidity Analysis
($ in millions)

	9/30/2007
Cash & Investments at Holdco	$464.0
Quarterly Expenses:	
Less: Interest expense [1]	(20.7)
Less: IMS operating expense	(25.4)
Less: Corporate expense	(6.5)
Less: Dividends	(42.6)
Quarterly Cash Burn	($95.3)
Quarters Remaining	**4.9**

Yet, IMS Requires Capital for Operations
($ in millions)

	9/30/2007
Cash & Investments at Holdco	$464.0
Less: Adj. for IMS subsidiary [2]	(256.8)
Adj. Cash & Invesetments at Holdco	$207.2
Quarterly Cash Burn	(95.3)
Quarters Remaining	**2.2**
Holdco derivative exposure [3]	**$45,569**

(1) Calculated by applying coupon rates to total debt outstanding at MBIA Inc.
(2) Represents Holdco cash contributions to Investment Management subsidiary (IMS), which we believe is necessary to fund collateral and other capital requirements. Assumes September 30, 2007 balance has not changed since December 31, 2006. Source: pg. 125 of the 2006 MBIA 10-K (or verified by Bloomberg).
(3) Source: pg. 26 of the Q3’07 MBIA 10-Q.

Holdco Faces Liquidity Stress (Cont'd)

A $2.4 billion incremental MTM loss could prevent Holdco/MBIA Insurance Sub from accessing its $500 million credit facility

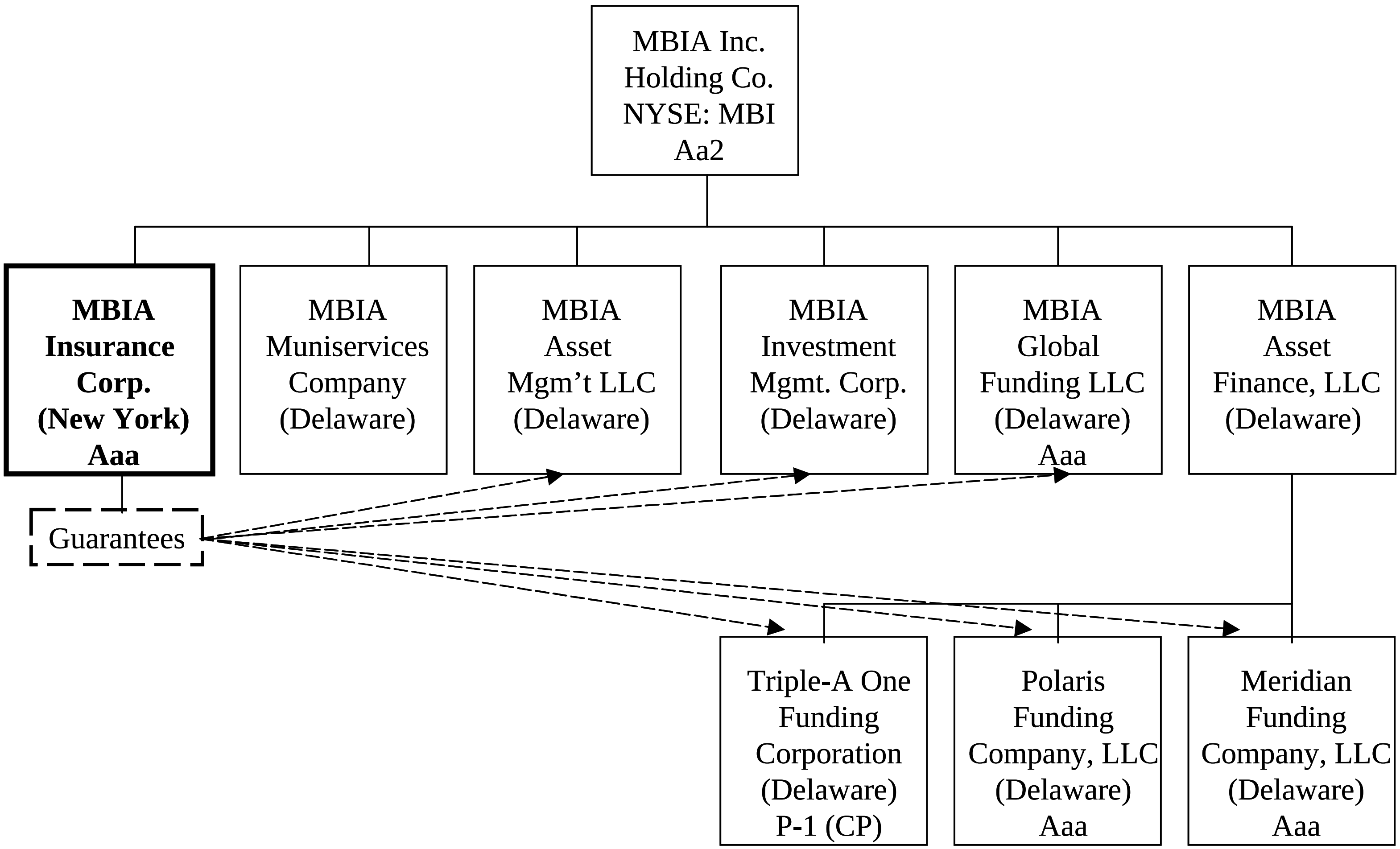
($ in millions)	**9/30/2007**
Shareholders' Equity	$6,531
Holdco debt	1,234
Current Debt-to-Equity	18.9%
Required Shareholders' Equity	$4,114
Incremental Writedown Cushion	**$2,418**
Memo: Credit Facility Covenants (Greater of) [1]	
Net worth minimum	*$2,800*
Debt-to-Equity maximum	*30.0%*

(1) Source: Q3'07 MBIA 10-Q, pg. 46.

Apparent Violations Of Law

HoldCo / Insurance Subsidiary Abuse

MBIA Inc. uses MBIA Insurance guarantees to increase Holding Company profitability at the expense of the insurance subsidiary policyholders



Global Funding

MBIA Inc. leverages the capital of MBIA Insurance without fairly compensating MBIA Insurance for the risk it assumes

- **MBIA Inc. invests *de minimis* capital in Global Funding**
  - Capitalized with $85 million (<1% Equity) as of 12/31/06 from MBIA Inc. <u>which was borrowed from Global Funding by MBIA Inc. on an unsecured basis</u> (1)
- **Global Funding issues medium-term notes with a guarantee from MBIA Insurance Corp. (at AAA rates) and invests proceeds in average "AA-rated" assets, which are also wrapped by MBIA Insurance**
  - As of 12/31/2006, approximately $12.2 billion of debt, all of which is guaranteed by MBIA Insurance
- **"Spread" profits bypass MBIA Insurance entirely and go directly to the Holding Company**
  - We do not believe that MBIA Inc./MBIA Insurance extends these terms to any third parties

(1) MBIA Global Funding Propectus dated 12/31/06??

Global Funding

MBIA Inc. causes MBIA Insurance to take on affiliate risks on unfair, and we believe unlawful terms

- **While MBIA Inc. claims proceeds from note issuances are invested in AA obligations, the business earns >60+ basis points per year, which suggests much higher risks than are implied by yields on AA instruments**

- **This activity effectively amounted to a disguised dividend of $113 million in 2006 (and $381 million over the last 5 years)**

Speculative Derivative Transactions are Illegal Under NY Insurance Law

"Insurer is exposed to derivative transactions through the issuance of guarantees to [LaCrosse Financial] which is a counterparty to derivative transactions or which acquires and trades derivatives…Insurer, by guaranteeing the direct or underlying derivative obligations of [LaCrosse Financial], has exposed its assets to the very risks that N.Y. Ins. Law §1410 prohibits."

Source: Pershing Legal Advisors

How Does This Unfold...

What’s Already Happening…

- **Credit index spreads widening and market values of insured issues declining as market anticipates losses**
- **Rating agencies downgrading underlying exposures**
- **Issuers beginning to reject Bond Insurers and sell bonds uninsured or use Bond Insurers with minimal subprime exposure**
- **Reinsurers suffering major MTM losses**
- **Losses on CDOs, HELOCs/CES, and BIG exposures beginning to erode capital**
- **Bond Insurer sponsored SIV in forced liquidation**
- **Auction-rate notes unable to roll**

We Believe Soon to Come....

- Rating Agencies require Bond Insurers to raise capital in order to maintain Triple-A rating
- Bond Insurers unable to raise capital needed to withstand future downgrades and losses
- Bond Insurer free cash flows deteriorate as premiums written decline and eventually cease
- MTN and CP-backed assets / liabilities unable to roll
- Investment portfolio values decline and become less liquid as guaranteed bonds trade as if uninsured
- Municipalities withdraw from muni GICs
- Bond Insurers forced to sell underlying obligations at a loss to meet redemptions
- Liquidity facility covenant violations on deterioration in book value due to MTM and other losses
- Insurance Subs' dividends to Holdcos suspended by regulators

We Believe Will Ultimately Occur

- ✓ **Rating agencies downgrade Bond Insurers**

- ✓ **Downgrade requires collateral posting by GIC business and Holdco CDS counterparties**

- ✓ **Holding Companies run out of cash and file for bankruptcy**

- ✓ **Regulators put Insurance Subs in receivership**

MBIA Senior Management Exits

What is MBIA management doing to prepare for the upcoming deluge?

- **Resigned (5/30/06): Nicholas Ferreri, *Chief Financial Officer***
- **Resigned (2/16/07): Neil Budnick, *President of MBIA Insurance Co.***
- **Resigned (2/16/07): Mark Zucker, *Head of Global Structured Finance***
- **Retired (5/3/07): Jay Brown, *Former CEO / Chairman of the Board***

MBIA Bought Back Meaningful Stock In 2007

- **MBIA says it repurchased $663M worth of stock in 2007**
- **However, 9/30/07 cash flow statement shows $737M of share repurchases**
- **The difference of $~74M represents sales by insiders back to the Company**
- **The Company continued to buy back equity from insiders even after suspending open-market share repurchases**

How To Save The Bond Insurers

The Holding Companies Are The Problem

- **The relationship between the Holding Companies and the Bond Insurance Subsidiaries has been misunderstood**
- **The Holding Companies have conflicted interests with that of the Bond Insurance Subsidiaries**
  - Holding Companies wants to take out as much capital as possible for dividends and buybacks
  - Policyholiders want Insurance Subsidiaries to retain as much capital as possible
- **Every dollar paid in dividends to a Holding Company is one dollar (plus interest) that is no longer available to meet policyholder obligations**
- **We believe that steps can be taken to address these conflicts and preserve and restore capital adequacy at the Bond Insurers' regulated subsidiaries**

How To Save The Bond Insurers

- **Regulators eliminate Dividends to Holding Companies**

- **Full Transparency**
  - All industry participants should disclose the full details for all of their insured CDOs, HELOC/CES and other Classified and Below-Investment-Grade credits

- **Reverse any disguised dividends and non-arm's-length transfers of value from Bond Insurance Subsidiary**

- **NY State Insurance Dept. ("NYSID") can void insurance subsidiary guarantees of MTN's as illegal under NY State Insurance Law – we believe that bondholders will have junior claim to policyholders**

- **NYSID can void illegal credit derivative contracts, including those on synthetic CDOs and CDS. Counterparties will likely be junior claimants to policyholders**

How To Save The Bond Insurers

- **NYSID may pursue claims against directors of Bond Insurance Subsidiaries**
- **Conflicted directors of Insurance Subsidiaries can be replaced by those representing policyholders’ interests**
- **Independent monitors or receivers can be appointed to oversee Insurance Subsidiary activities**
- **NYSID may be able to void HELOC and CES exposures as illegal Mortgage Guaranty transactions (Bond Insurers are not allowed to be in the mortgage guaranty business)**
- **Insurance Subsidiary portfolio should be prudently invested for long-term appreciation in uncorrelated high-quality underlying assets**

Summary

- ✓ **The Holding Companies and their regulated Bond Insurance Subsidiaries are distinct entities with conflicting interests**

- ✓ **In our view, losses at Bond Insurance Subsidiaries will likely overwhelm capital**

- ✓ **Bond Insurers have real liquidity risk and that risk is correlated with the rest of their business**

- ✓ **The Bond Insurers can be saved with aggressive regulatory intervention**

Parting Thoughts

“The curse of the insurance business, as well as one of the benefits, is that people hand you a lot of money for writing out a little piece of paper, and what you put on that piece of paper is enormously important. But, the money that’s coming in that seems so easy can tempt you into doing very, very foolish things….If you are willing to do dumb things in insurance, the world will find you. You can be in a rowboat in the middle of the Atlantic and just whisper out, “I’m willing to write this,” and then name a dumb price, and you will have brokers swimming to you – you know, with their fins showing, incidentally…you’ll see a lot of cash. And you won’t see any losses. And you’ll keep doing it because you won’t see any losses for a little while. So you’ll keep taking on more and more of it. And then the roof will fall in.”

Warren Buffett
2003 Berkshire Hathaway Annual Meeting
as reported by Outstanding Investor Digest