UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarter ended September 30, 2009

or

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

For the transition period from _____to _____

Commission File Number 1-9583

MBIA INC.
(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of October 30, 2009, 207,954,051 shares of Common Stock, par value $1 per share, were outstanding.

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except per share amounts)

	September 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $11,330,409 and $13,245,574) (includes hybrid financial instruments at fair value $30,710 and $25,498)	$ 9,955,464	$ 11,223,716
Fixed-maturity securities held as trading, at fair value (amortized cost $115,946)	123,467	-
Investments held-to-maturity, at amortized cost (fair value $2,405,860 and $3,109,248)	2,861,353	3,156,969
Investments pledged as collateral, at fair value (amortized cost $652,992 and $1,101,929)	617,249	845,887
Short-term investments held as available-for-sale, at fair value (amortized cost $2,895,514 and $4,728,090)	2,895,530	4,693,283
Short-term investments held-to-maturity, at amortized cost (fair value $605,650 and $485,857)	1,032,388	498,865
Other investments (includes investments at fair value $373,097 and $216,805)	376,150	220,412
Total investments	17,861,601	20,639,132
Cash and cash equivalents	1,645,453	2,279,783
Accrued investment income	111,558	201,688
Premiums receivable	2,059,389	7,744
Deferred acquisition costs	477,429	560,632
Prepaid reinsurance premiums	367,110	216,609
Insurance loss recoverable	2,207,625	458,512
Reinsurance recoverable on paid and unpaid losses	53,440	173,548
Goodwill	76,938	76,938
Property and equipment, at cost (less accumulated depreciation of $148,453 and $141,295)	84,349	105,364
Receivable for investments sold	203,093	77,464
Derivative assets	780,795	911,188
Current income taxes	75,035	240,871
Deferred income taxes, net	1,309,423	2,374,164
Other assets	539,822	706,812
Total assets	$ 27,853,060	$ 29,030,449
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 5,121,978	$ 3,424,402
Loss and loss adjustment expense reserves	1,322,873	1,557,884
Reinsurance premiums payable	208,422	8,672
Investment agreements	2,881,757	4,666,944
Medium-term notes (includes financial instruments at fair value $142,017 and $176,261)	3,932,747	6,339,527
Variable interest entity notes	2,668,798	1,791,597
Securities sold under agreements to repurchase	501,961	802,938
Long-term debt	2,718,076	2,396,059
Deferred fee revenue	88,000	44,989
Payable for investments purchased	303,949	239
Derivative liabilities	4,988,759	6,470,874
Other liabilities	362,171	504,306
Total liabilities	25,099,491	28,008,431
Commitments and contingencies (See Note 16)		
Equity:		
Preferred stock, par value $1 per share; authorized shares—10,000,000; issued and outstanding—none	-	-
Common stock, par value $1 per share; authorized shares—400,000,000; issued shares – 274,837,483 and 273,199,801	274,837	273,200
Additional paid-in capital	3,056,500	3,050,506
Retained earnings	2,633,690	1,629,187
Accumulated other comprehensive loss, net of deferred income tax of $500,600 and $946,759	(1,044,568)	(1,775,954)

Treasury stock, at cost — 66,892,054 and 65,278,904 shares	(2,183,668)	(2,182,519)
Total shareholders' equity of MBIA Inc.	2,736,791	994,420
Preferred stock of subsidiary	16,778	27,598
Total equity	2,753,569	1,022,018
Total liabilities and equity	$ 27,853,060	$ 29,030,449

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 thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 144,414	$ 141,049	$ 492,515	$ 434,205
Refunding premiums earned	36,834	93,696	95,350	189,248
Premiums earned (net of ceded premiums of $21,540, $31,607, $70,159 and $93,840)	181,248	234,745	587,865	623,453
Net investment income	156,775	354,419	524,965	1,286,829
Fees and reimbursements	14,291	12,120	55,317	31,968
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(30,282)	34,263	33,536	102,325
Unrealized gains (losses) on insured derivatives	(810,189)	104,818	1,222,761	(147,972)
Net change in fair value of insured derivatives	(840,471)	139,081	1,256,297	(45,647)
Net gains (losses) on financial instruments at fair value and foreign exchange	(87,296)	(234,200)	74,462	(70,853)
Net realized gains (losses)	(78,121)	(292,241)	(13,710)	(618,932)
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	(199,094)	(134,058)	(786,501)	(793,837)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	105,814	-	349,566	-
Net investment losses related to other-than-temporary impairments	(93,280)	(134,058)	(436,935)	(793,837)
Net gains on extinguishment of debt	126,696	239,898	253,097	319,115
Total revenues	(620,158)	319,764	2,301,358	732,096
Expenses:				
Losses and loss adjustment	238,760	982,514	203,174	1,292,466
Amortization of deferred acquisition costs	19,896	24,618	66,663	63,147
Operating	77,113	95,011	249,603	224,790
Interest	110,136	264,211	359,889	962,767
Total expenses	445,905	1,366,354	879,329	2,543,170
Income (loss) before income taxes	(1,066,063)	(1,046,590)	1,422,029	(1,811,074)
Provision (benefit) for income taxes	(341,530)	(240,111)	547,900	(298,222)
Net income (loss)	(724,533)	(806,479)	874,129	(1,512,852)
Preferred stock dividends of subsidiary	3,271	-	10,484	-
Net income (loss) available to common shareholders	$ (727,804)	$ (806,479)	$ 863,645	$ (1,512,852)
Net income (loss) per common share:				
Basic	$ (3.50)	$ (3.42)	$ 4.15	$ (6.87)
Diluted	$ (3.50)	$ (3.42)	$ 4.15	$ (6.87)
Weighted-average number of common shares outstanding:				
Basic	208,219,324	235,706,851	208,278,589	220,137,758
Diluted	208,219,324	235,706,851	208,278,589	220,137,758

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, 2009
(In thousands except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary Shares	Preferred Stock of Subsidiary Amount
Balance, January 1, 2009	273,200	$273,200	$3,050,506	$1,629,187	$ (1,775,954)	(65,279)	$(2,182,519)	$ 994,420	2,759	$ 27,598
ASC 944-20 transition adjustment net of deferred income taxes of $27,170	-	-	-	55,346	-	-	-	55,346	-	-
ASC 320-10 transition adjustment net of deferred income taxes of $29,930	-	-	-	85,512	(55,582)	-	-	29,930	-	-
Comprehensive income:										
Net income	-	-	-	874,129	-	-	-	874,129	-	-
Other comprehensive loss:										
Change in unrealized gains and losses on investments, net of deferred income taxes of $492,583	-	-	-	-	1,014,311	-	-	1,014,311	-	-
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of deferred income taxes of $54,286	-	-	-	-	(271,189)	-	-	(271,189)	-	-
Change in fair value of derivative instruments, net of deferred income taxes of $33,411	-	-	-	-	62,048	-	-	62,048	-	-
Change in foreign currency translation, net of deferred income taxes of $4,381	-	-	-	-	(18,202)	-	-	(18,202)	-	-
Other comprehensive loss								786,968		
Total comprehensive income								1,661,097		
Treasury shares acquired under share repurchase program	-	-	-	-	-	(1,690)	(4,196)	(4,196)	-	-
Share-based compensation net of deferred income taxes of $2,858	1,637	1,637	5,994	-	-	77	3,047	10,678	-	-
Preferred stock of subsidiary acquired	-	-	-	-	-	-	-	-	(1,082)	(10,820)
Preferred stock dividends of subsidiary	-	-	-	(10,484)	-	-	-	(10,484)	-	-
Balance, September 30, 2009	274,837	$274,837	$3,056,500	$2,633,690	$ (1,044,568)	(66,892)	$(2,183,668)	$ 2,736,791	1,677	$ 16,778

	2009
Disclosure of reclassification amount:	
Change in unrealized gains and losses and other-than-temporary impairment losses on investments arising during the period, net of taxes	$ 275,579
Reclassification adjustment, net of taxes	467,543
Change in net unrealized gains and losses and other-than-temporary impairment losses, net of taxes	$ 743,122

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 thousands)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 874,129	$ (1,512,852)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Amortization of bond discounts (premiums), net	(55,036)	(25,534)
Decrease in accrued investment income	89,797	247,120
Decrease (increase) in premiums receivable	317,423	(148,433)
Decrease (increase) in deferred acquisition costs	91,574	(82,507)
(Decrease) increase in unearned premium revenue	(736,393)	406,877
Decrease in prepaid reinsurance premiums	170,793	44,262
Decrease in reinsurance premiums payable	(197,851)	(22,873)
(Decrease) increase in loss and loss adjustment expense reserves	(60,791)	566,807
Decrease (increase) in reinsurance recoverable on paid and unpaid losses	124,671	(25,221)
Increase in insurance loss recoverable	(1,750,297)	(157,647)
Increase in payable to reinsurers on recoveries	100,592	2,417
Depreciation	7,059	7,217
Decrease in accrued interest payable	(55,577)	(185,705)
Decrease in accounts receivable	29,111	4,655
Decrease in accrued expenses	(148,572)	(11,654)
Increase in deferred fee revenue	43,011	391
Amortization of medium-term notes (premiums) discounts, net	(11,583)	(11,683)
Net realized losses	13,710	618,931
Investment losses on other-than-temporarily impaired investments	436,935	793,838
Unrealized (gains) losses on insured derivatives	(1,222,761)	147,972
Net (gains) losses on financial instruments at fair value and foreign exchange	(74,462)	70,853
Increase (decrease) in current income taxes	162,978	(209,061)
Deferred income tax provision	601,662	141,643
Gains on extinguishment of debt	(253,097)	(319,115)
Share-based compensation	4,822	(28,715)
Other, operating	29,911	87,867
Total adjustments to net income (loss)	(2,342,371)	1,912,702
Net cash provided (used) by operating activities	(1,468,242)	399,850
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(7,782,580)	(11,812,003)
Increase in payable for investments purchased	303,706	67,256
Sale and redemption of fixed-maturity securities	9,874,826	24,686,648
Increase in receivable for investments sold	(125,841)	(1,200,027)
Purchase of held-to-maturity investments	(236,817)	(1,108,649)
Redemptions of held-to-maturity investments	665,215	3,558,827
Sale (purchase) of short-term investments, net	1,888,549	(5,074,218)
Sale (purchase) of other investments, net	72,655	315,494
Capital expenditures	(5,025)	(4,509)
Disposals of capital assets	8	-
Net cash provided by investing activities	4,654,696	9,428,819
Cash flows from financing activities:		
Proceeds from issuance of investment agreements	308,983	1,882,609
Payments for drawdowns of investment agreements	(2,066,377)	(7,294,253)
Decrease in commercial paper	-	(863,039)
Issuance of medium-term notes	185,904	2,106,756
Principal paydown of medium-term notes	(2,209,391)	(6,062,672)
Principal paydown of variable interest entity notes	(121,717)	(109,818)
Securities sold under agreements to repurchase	(285,642)	(77,939)
Dividends paid	(9,477)	(42,640)
Gross proceeds from issuance of common stock	-	1,628,405
Capital issuance costs	-	(78,510)
Net proceeds from issuance of warrants	-	21,467

Net proceeds from issuance of long-term debt	333,078	983,278
Repayment for retirement of long-term debt	-	(82,822)
Repayment for retirement of short-term debt	-	(6,225)
Proceeds from bank loans	-	338,820
Proceeds from derivative settlements	41,457	372,167
Purchase of treasury stock	(4,196)	(90,041)
Purchase of subsidiary preferred stock	(10,820)	-
Restricted stock awards settlements	1,561	2,207
Excess tax benefit on share-based payment	-	(15,441)
Collateral from reverse repurchase agreement counterparties	25,000	-
Collateral posted under investment agreements	-	(40,018)
Collateral to swap counterparty	(9,147)	(110,200)
Other, financing	-	1,356
Net cash used by financing activities	(3,820,784)	(7,536,553)
Net increase (decrease) in cash and cash equivalents	(634,330)	2,292,116
Cash and cash equivalents - beginning of period	2,279,783	263,732
Cash and cash equivalents - end of period	$ 1,645,453	$ 2,555,848
Supplemental cash flow disclosures:		
Income taxes refunded	$ (209,975)	$ (221,037)
Interest paid:		
Investment agreements	$ 104,633	$ 506,185
Commercial paper	-	15,445
Medium-term notes	95,899	321,689
Variable interest entity notes	54,939	40,678
Securities sold under agreements to repurchase	58,621	29,406
Liquidity loans	3,904	1,670
Other borrowings and deposits	-	2,319
Long-term debt	182,900	121,683
Non cash items:		
Share-based compensation	$ 4,822	$ (28,715)
Dividends declared but not paid	1,005	-

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1: Business and Organization

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA" or the "Company") operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States ("U.S.") public finance insurance, structured finance and international insurance and investment advisory services. The Company also manages asset/liability products and conduit programs, which are in wind-down. Corporate operations include revenues and expenses that arise from general corporate activities.

MBIA's financial guarantee business is currently operated through two subsidiaries, National Public Finance Guarantee Corporation ("National") and MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). In February 2009, after receiving the required regulatory approvals, MBIA established and capitalized National as a U.S. public finance-only financial guarantor. In connection with the establishment of National, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National, the latter of which was with respect to financial guarantee insurance policies that had been reinsured from Financial Guaranty Insurance Company ("FGIC"). As a result, the Company established its U.S. public finance insurance business as a separate operating segment.

Refer to MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for further information about these changes to the Company's operating and legal entity structure.

MBIA's insurance and certain investment management services programs have historically relied upon triple-A credit ratings. The loss of those ratings in the second quarter of 2008 resulted in a dramatic reduction in the Company's business activities. As of September 30, 2009, National was rated A with a developing outlook by Standard & Poor's Corporation ("S&P") and Baa1 with a developing outlook by Moody's Investors Service, Inc. ("Moody's"). As of September 30, 2009, MBIA Insurance Corporation was rated BB+ with a negative outlook by S&P and B3 with a negative outlook by Moody's.

U.S. Public Finance Insurance Operations

As described above, since February 2009, MBIA's U.S. public finance insurance business has been conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National's acceleration. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

National's insurance portfolio principally comprises exposure assumed by National under the previously disclosed quota share reinsurance agreement it entered into with MBIA Insurance Corporation effective January 1, 2009 pursuant to which MBIA Insurance Corporation ceded all of its U.S. public finance exposure to National and under the assignment by MBIA Insurance Corporation of its rights and obligations with respect to the U.S. public finance business that MBIA Insurance Corporation assumed from FGIC.

Structured Finance and International Insurance Operations

MBIA's structured finance and international insurance operations have been conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due, or in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain investment agreement contracts written by MBIA Inc. are insured by MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay amounts due, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. also insured debt obligations of other affiliates, including MBIA Global Funding LLC ("GFL") and Meridian Funding Company LLC ("Meridian"), and provides reinsurance to its insurance subsidiaries. Additionally, insurance policies include payments due under credit and other derivatives, including termination payments that may become due upon certain events including the insolvency or payment default of MBIA Corp.

MBIA Corp.'s guarantees insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign and sub-sovereign issuers. Structured finance and asset-backed securities ("ABSs") typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property.

The Company is no longer insuring new credit derivative contracts except in transactions related to the reduction of existing derivative exposure. The structured finance market continues to recover from the global credit crisis with new issuance volume, though increasing, still well below historical averages. It is unclear how or when the Company may be able to re-engage this market.

Investment Management Services Operations

MBIA's investment management services operations consist of an asset management advisory business, which provides cash management, discretionary asset management and structured products to the public, not-for-profit, corporate and financial sectors. The advisory services segment primarily consists of the operations of MBIA Municipal Investor Service Corporation ("MBIA-MISC"), MBIA Capital Management Corp. ("CMC") and MBIA Asset Management UK ("AM-UK"). MBIA-MISC provides investment management programs, including pooled investments products and customized asset management services. In addition, MBIA-MISC provides portfolio accounting and reporting for state and local governments, including school districts. MBIA-MISC is a Securities and Exchange Commission ("SEC")-registered investment adviser. CMC provides fee-based asset management services to the Company, its affiliates and third-party institutional clients. CMC is an SEC-registered investment advisor and Financial Industry Regulatory Authority member firm. AM-UK provides fee-based asset management services to the Company's foreign insurance affiliates and Euro Asset Acquisition Limited ("EAAL"), and to third-party institutional clients and investment structures. AM-UK is registered with the Financial Services Authority in the United Kingdom ("U.K.").

The Company also has an asset/liability products business, in which it has issued debt and investment agreements, which are insured by MBIA Corp., to capital markets and municipal investors and then initially purchased assets that largely matched the duration of those liabilities, and a conduit business in which the Company has funded MBIA-insured transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, have caused the Company to begin winding down its asset/liability products and conduit businesses.

Liquidity

As a financial services company, MBIA is materially affected by conditions in global financial markets. Current conditions and events in these markets have created substantial liquidity risk for the Company.

The Company has instituted a liquidity risk management framework to evaluate its enterprise-wide liquidity position. The primary objective of this risk management system is to monitor potential liquidity constraints and guide the proactive management of liquidity resources to ensure adequate protection against liquidity risk. MBIA's liquidity risk management framework monitors the Company's cash and liquid asset resources using stress-scenario testing. Members of MBIA's senior management meet frequently to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis.

As part of MBIA's liquidity risk management framework, the Company also evaluates and manages liquidity on both a legal entity basis and a segment basis. Segment liquidity is an important consideration for the Company as it conducts the operations of its corporate segment and certain activities within the asset/liability products segment of the Company's investment management services operations from MBIA Inc. Dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of MBIA Corp.'s triple-A insurance financial strength ratings in 2008 have significantly increased the liquidity needs and decreased the financial flexibility in the Company's segments. However, MBIA continued to satisfy all of its payment obligations and the Company believes that it has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, if the current market dislocation and economic conditions persist or worsen, the Company's liquidity resources will experience further stress.

U.S. Public Finance Insurance Liquidity

Liquidity risk arises in the Company's U.S. public finance insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

The Company's U.S. public finance insurance business's financial guarantee contracts cannot be accelerated, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions such as the Company is currently experiencing, can create payment requirements as the Company has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company's U.S. public finance insurance segment requires cash for the payment of operating expenses. Finally, National also provides liquid assets to the Company's asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position, as described below.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Structured Finance and International Insurance Liquidity

Liquidity risk arises in the Company's structured finance and international insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

In general, the Company's structured finance and international business's financial guarantee contracts and credit default swap ("CDS") contracts cannot be accelerated, thereby mitigating liquidity risk. Under the terms of the Company's insured CDS contracts, the insured counterparty may have a right to terminate the CDS contracts upon an insolvency or payment default of MBIA Corp. However, defaults, credit impairments and adverse capital markets conditions such as the Company is currently experiencing, can create payment requirements as the Company has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company's structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes and preferred stock issuance. MBIA Corp. also provides guarantees to the holders of our asset/liability products debt obligations. If the Company's asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. MBIA Corp. has lent $2.0 billion to the asset/liability products segment on a secured basis for the purpose of minimizing the risk that such claim would be made. The loan matures in the fourth quarter of 2011. During October and November of 2009, a total of $100 million of the loan was repaid. The timing of the ultimate repayment may be affected by the performance of assets in the asset/liability product's investment portfolio.

Since the fourth quarter of 2007, MBIA Corp. made $4.4 billion of cash payments, before reinsurance, associated with insured second-lien residential mortgage-backed securities ("RMBS"), as well as settlement payments relating to CDS contracts referencing collateralized debt obligation ("CDO")-squared and multi-sector CDOs. Among MBIA Corp.'s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to the Company's structured finance and international insurance segment. As a result of the current economic stress, MBIA could incur additional payment obligations beyond these mortgage-related exposures, which may be substantial, increasing the stress on MBIA Corp.'s liquidity.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with our residential mortgage related exposures, MBIA employs a stress scenario-based liquidity model using the same "Roll Rate Default Methodology" as it uses in its loss reserving. Using this methodology, the Company estimates the level of payments that would be required to be made under low probability stress-level default assumptions of the underlying collateral taking into account MBIA's obligation to cover such defaults under our insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted over the next 24-month period on a monthly basis and then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are frequently updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

In addition to MBIA's residential mortgage stress scenario, it also monitors liquidity risk using a Monte Carlo estimation of potential stress-level claims for all insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to the Company's invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above providing the Company with a robust set of liquidity metrics with which to monitor its risk position.

The Company manages the investment portfolios of its insurance segments to maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. To the extent the Company's liquidity resources fall short of its target liquidity cushions under the stress-loss scenario testing, the Company will seek to increase its cash holdings position, primarily through the sale of high-quality bonds held in its investment portfolio.

Investment Management Services Liquidity

Within MBIA's investment management services operations, the asset/liability products segment has material liquidity risk. In addition to the payment of operating expenses, cash needs in the asset/liability products segment are primarily for the payment of principal and interest on investment agreements and medium-term notes, and for posting collateral under repurchase agreements, derivatives and investment agreements. The primary sources of cash within the asset/liability products segment used to meet its liquidity needs include scheduled principal and interest on assets held in the segment's investment portfolio and dedicated capital held within the investment management services operations. If needed, assets held within the segment can be sold or used in secured repurchase agreement borrowings to raise cash. However, the Company's ability to sell assets or borrow against non-U.S. government securities in the fixed-income markets decreased dramatically and the cost of such transactions increased dramatically over the last year due to the impact of the credit crisis on the willingness of investors to purchase or lend against even very high-quality assets. In addition, negative net interest spread between asset and liability positions resulted from the need to hold cash as collateral against terminable investment agreement contracts and reduced the cash flow historically provided by net investment income.

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The asset/liability products segment, through MBIA Inc., maintained simultaneous repurchase and reverse repurchase agreements with National for the purpose of borrowing government securities to pledge under collateralized investment agreements and repurchase agreements. As a result of increased liquidity needs within the asset/liability products segment, the asset/liability products segment, through MBIA Inc., maintained a repurchase agreement with MBIA Insurance Corporation under which MBIA Inc. may transfer securities in its portfolio in exchange for up to $2.0 billion in cash. Additionally, $600 million was transferred to the asset/liability products segment from the Company's corporate segment in the fourth quarter of 2008.

In order to monitor liquidity risk and maintain appropriate liquidity resources for near-term cash and collateral requirements within MBIA's asset/liability products segment, the Company calculates monthly forecasts of asset and liability maturities, as well as collateral posting requirements. Cash availability at the low point of the Company's 12-month forecasted cash flows is measured against liquidity needs using stress-scenario testing of each of the potential liquidity needs described above. To the extent there is a shortfall in MBIA's liquidity coverage, the Company proactively manages its cash position and liquidity resources to maintain an adequate cushion to the stress scenario. These resources include the sale of unpledged assets, the use of free cash at the holding company including the assets in the corporate segment, and potentially increased securities borrowings from National.

Corporate Liquidity

Liquidity needs in MBIA's corporate segment are highly predictable and comprise principal and interest payments on corporate debt, operating expenses and dividends to MBIA Inc. shareholders. Liquidity risk is associated primarily with the dividend capacity of National and MBIA Corp., the distributable earnings of the investment management services operations conducted by MBIA Inc., dividends from asset management subsidiaries, investment income and the Company's ability to issue equity and debt. Additionally, the corporate segment maintains excess cash and investments to ensure it is able to meet its ongoing cash requirements over a multi-year period in the event that cash becomes unavailable from one or more sources.

In addition to MBIA Inc.'s corporate liquidity needs described above, it issued investment agreements reported within the Company's asset/liability products segment, all of which are currently collateralized by high-quality liquid investments. The Company's corporate debt and investment agreements can be accelerated by the holders of such instruments upon the occurrence of certain events, including a breach of covenant or representation, a bankruptcy of MBIA Inc. and the filing of an insolvency proceeding in respect of MBIA Corp. In the event of any such acceleration, the Company may not have sufficient liquid resources to pay amounts due with respect to its corporate debt obligations.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The following significant accounting policies provide an update to those included under the same captions 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 fiscal year ended December 31, 2008. 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 (United States), 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 financial position and results of operations.

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

The results of operations for the three and nine months ended September 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009. The December 31, 2008 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. The consolidated financial statements include the accounts of MBIA Inc., its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest. All material intercompany revenues and expenses have been eliminated. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation.

In addition, the Company evaluated all events subsequent to September 30, 2009 through November 9, 2009 for inclusion in the Company's consolidated financial statements and/or accompanying notes.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes and measures financial guarantee insurance premiums in accordance with the accounting guidance for financial guarantee insurance and reinsurance contracts. The accounting guidance requires the Company to recognize a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums is recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in "Note 4: Insurance Premiums." The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense and discloses the amount recognized in "Note 4: Insurance Premiums." As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

The Company recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is determined as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through legal defeasance in satisfaction of the obligation according to its indenture, which results in the Company's obligation being extinguished under the financial guarantee contract. The Company recognizes any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Loss and Loss Adjustment Expenses

The accounting guidance for financial guarantee insurance and reinsurance contracts requires a claim liability (loss reserve) to be recognized on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A claim liability is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the claim liability are recognized as claim expense in the period of change. Measurement and recognition of claim liability is reported gross of any reinsurance. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability is included in claim expense. The Company's claim liability and accruals for loss adjustment expenses ("LAE") incurred are disclosed in "Note 10: Loss and Loss Adjustment Expense Reserves."

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Other-Than-Temporary Impairments on Investment Securities

The Company's consolidated statement of operations reflects the full impairment (the difference between a security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected using the Company's discounted cash flow projections.

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. In addition, the Company may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees are earned when the related services are completed and the fee is received. Structuring fees are earned on a straight-line basis over the life of the related insurance policy. Expense reimbursements are recognized when received.

Fees related to investment management services are recognized in earnings over the period that the related services are provided. Asset management fees are typically based on the net asset values of assets under management.

Cash and Other Collateral

Under certain non-insurance derivative contracts entered into by the Company, collateral postings are required by either MBIA or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. Cash or securities may be posted as collateral at the option of the party posting the collateral. Refer to "Note 8: Derivative Instruments" for further information on these collateral arrangements.

The Company has entered into reverse repurchase agreements that require MBIA to post collateral at a predetermined multiple of the contract amount. Cash or securities may be posted by MBIA under these agreements. As of September 30, 2009, the Company had cash collateral of $6 million posted to counterparties under these term reverse repurchase agreements.

The Company reports cash received or posted in its Consolidated Statements of Cash Flows as either operating, investing or financing consistent with the classification of the asset or liability that created the posting requirement.

Offsetting of Fair Value Amounts Related to Derivative Instruments

In the second quarter of 2009, the Company re-evaluated its election regarding offsetting the fair value amounts recognized for derivative contracts executed with the same counterparty under a master netting agreement. As a result, the Company began presenting the fair value amounts recognized for eligible derivative contracts executed with the same counterparty on a net basis. The implementation of the counterparty netting resulted in a decrease in the Company's derivative assets and derivative liabilities of $225 million and $509 million as of June 30, 2009 and December 31, 2008, respectively. Additionally, counterparty netting resulted in a decrease in accrued investment income and other liabilities of $33 million and $52 million as of June 30, 2009 and December 31, 2008, respectively.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the Accounting Standards Codification ("Codification") and the hierarchy of generally accepted accounting principles (Accounting Standards Codification ("ASC") 105-10). The Codification is now the single source of authoritative GAAP applied by nongovernmental entities and supersedes all existing non-SEC accounting and reporting standards. The Codification is effective for the Company for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted this guidance as of the third quarter of 2009. The Codification is not intended to change GAAP but rather reorganize divergent accounting literature into an accessible and user-friendly system which materially impacts cited references of GAAP in the Company's Notes to Consolidated Financial Statements.

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In May 2009, the FASB issued accounting guidance for subsequent events (ASC 855-10) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. The accounting guidance is effective for the Company in the interim and annual periods ending after June 15, 2009 and should be applied prospectively. The Company adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on the Company's consolidated balance sheets, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance that amends fair value measurements and disclosures (ASC 820-10) for determining the fair value when the volume and level of activity for the asset or liability have significantly decreased and for identifying transactions that are not orderly. This standard provides additional guidance to highlight and expand on the factors that should be considered when there has been a significant decrease in market activity for a financial asset or financial liability being measured. The accounting guidance also provides additional factors that entities should consider to determine whether events or circumstances indicate that a transaction is or is not orderly (i.e., distressed). The Company adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on the Company's consolidated balance sheets, results of operations or cash flows.

In April 2009 the FASB issued accounting guidance for debt and equity investment securities (ASC 320-10) which amends the recognition criteria for other-than-temporary impairment guidance to improve the presentation of other-than-temporary impairments in the financial statements. This accounting guidance replaced the requirement that the entity's management assert it has both the ability and intent to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security and (b) it is more likely than not it would not have to sell the security before recovery of its cost basis. When these two criteria are met, the entity will recognize only the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Company adopted this standard as of the second quarter of 2009. Upon adoption and implementation of the standard, the Company recorded a cumulative-effect adjustment to reclassify the non-credit component of previously recognized other-than-temporary impairments from retained earnings to accumulated other comprehensive income. The cumulative-effect adjustment resulted in an increase in retained earnings of $86 million and an increase in accumulated other comprehensive loss of $56 million, net of deferred taxes of $30 million. Refer to "Note 7: Investment Income and Gains and Losses" for further information on the Company's investment securities and other-than-temporary impairments.

In April 2009, the FASB issued accounting guidance for interim disclosures about financial instruments (ASC 825-10) to require disclosures about the fair value of financial instruments in interim and annual financial statements, and the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The accounting guidance also requires those disclosures in all interim financial statements (ASC 270-10). The Company adopted this standard in the second quarter of 2009. As the standard requires only additional disclosures, the adoption did not have an impact on the Company's consolidated balance sheets, results of operations or cash flows. Refer to "Note 5: Fair Value of Financial Instruments" for further information.

In May 2008, the FASB issued accounting guidance for financial guarantee insurance and reinsurance contracts (ASC 944-20) effective prospectively as of January 1, 2009. This accounting guidance amends accounting and reporting by insurance enterprises to clarify how existing guidance applies to financial guarantee insurance and reinsurance contracts. The accounting guidance amends the recognition and measurement of premium revenue and claim liabilities, and expands disclosure requirements. Recognition and measurement of unearned premium revenue and receivable for future premiums are also amended. The accounting guidance does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of derivatives and hedging (ASC 815-10). Refer to "Note 4: Insurance Premiums" for disclosures related to premiums and "Note 10: Loss and Loss Adjustment Expense Reserves" for disclosures related to loss reserves.

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Upon the adoption and implementation of the accounting guidance for financial guarantee insurance and reinsurance contracts, the Company recognized a cumulative transition adjustment of $55 million net of tax, $83 million pre-tax, as an increase to its beginning retained earnings balance as of January 1, 2009. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption. The following table summarizes the adjustments made to the Company's consolidated assets and liabilities as of January 1, 2009 on a pre-tax basis:

In thousands	Increase/ (Decrease)
Assets:	
Deferred acquisition costs	$ 8,731
Prepaid reinsurance premiums	313,660
Reinsurance recoverable on paid and unpaid losses	4,563
Premiums receivable	2,287,451
Deferred income taxes, net	(27,170)
Liabilities:	
Unearned premium revenue	$2,381,487
Loss and LAE reserves	(174,220)
Reinsurance premiums payable	324,262

In December 2008, the FASB issued accounting guidance for transfers of financial assets (ASC 860-10) and interests in variable interest entities ("VIEs") (ASC 810-10) which requires enhanced disclosures about transfers of financial assets and involvement with VIEs. The Company adopted this guidance for financial statements prepared as of December 31, 2008 and is effective for interim reporting periods ending after January 1, 2009. Since the guidance only requires additional disclosures concerning transfers of financial assets and interests in VIEs, the adoption did not affect the Company's consolidated balance sheets, results of operations or cash flows. Refer to "Note 9: Variable Interest Entities" for mandated disclosures.

In June 2008, the FASB issued accounting guidance for determining whether instruments granted in share-based payment transactions are participating securities (ASC 260-10) effective January 1, 2009 with retrospective application. The guidance requires companies to consider unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents as participating securities, which shall be included in the calculation of basic and diluted earnings per share. The Company's restricted and deferred share awards meet the definition of participating securities. The Company adopted the guidance on January 1, 2009, which resulted in a $0.10 reduction in its previously reported loss per common share for the nine months ended September 30, 2008. The previously reported amounts for diluted earnings per share for the three and nine months ended September 30, 2008 were income of $3.48 and a loss of $6.97, respectively.

In March 2008, the FASB issued accounting guidance that expands the disclosure requirements about an entity's derivative instruments and hedging activities (ASC 815-10). The disclosure provisions apply to all entities with derivative instruments subject to the accounting guidance and its related interpretations. The provisions also apply to related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. The Company adopted the disclosure provisions on January 1, 2009. Since the guidance requires only additional disclosures concerning derivatives and hedging activities, adoption of the accounting guidance did not affect the Company's consolidated balance sheets, results of operations or cash flows. Refer to "Note 8: Derivative Instruments" for mandated disclosures.

In February 2008, the FASB issued accounting guidance for fair value measurements and disclosures (ASC 820-10) that delayed the effective date to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption on January 1, 2009 did not have a material impact on the Company's consolidated balance sheets, results of operations or cash flows.

In December 2007, the FASB issued accounting guidance for consolidation (ASC 810-10) which requires reporting entities to present noncontrolling (minority) interest as equity (as opposed to liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The presentation and disclosure requirements are to be applied retrospectively. The Company adopted the prescribed guidance on January 1, 2009 which resulted in preferred stock issued by a subsidiary to be reclassified from minority interest to a separate component of equity. The adoption did not have a material impact on the Company's consolidated results of operations or cash flows.

Recent Accounting Developments

In September 2009, the FASB issued Accounting Standards Update No. ("ASU") 2009-12 for investments in certain entities that calculate net asset value per share which will require the Company to measure the fair value of an investment on the basis of the net asset value per share of the investment (or its equivalent) if its calculated in a manner that is consistent with the accounting principles for investment companies (ASC 946-10). The ASU will also require disclosures by major category of the investment about the attributes of investments and will be required to be determined on the basis of the nature and risks of the investment. The new guidance is effective for the Company as of December 31, 2009. The Company is currently evaluating the potential impact of adopting this guidance.

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In August 2009, the FASB issued accounting guidance for measuring liabilities at fair value (ASU 2009-05) to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, the Company should not make an adjustment to fair value for restrictions that prevent the transfer of a liability. The new guidance is effective for the Company as of December 31, 2009. The Company is currently evaluating the potential impact of adopting this guidance.

In June 2009, the FASB issued FASB Statement No. 167, which has not yet been incorporated into the Codification, to include qualifying special purpose entities ("QSPEs") in its scope and to require the holder of a variable interest(s) in a VIE to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that provides a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. The accounting guidance eliminates the quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance will require an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE and is effective for the Company as of January 1, 2010. Early application is prohibited. The Company is currently evaluating the potential impact of adopting this guidance.

In June 2009, the FASB issued Statement No. 166, which has not yet been incorporated into the Codification, to remove the concept of a QSPE. The accounting guidance also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. The accounting guidance requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The guidance is effective for the Company as of January 1, 2010 and earlier application is prohibited. The Company is currently evaluating the potential impact of adopting this guidance.

Note 4: Insurance Premiums

The Company recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with the accounting principles for financial guarantee insurance contracts. Refer to "Note 2: Significant Accounting Policies" and "Note 3: Recent Accounting Pronouncements" for a description of the Company's accounting policy for insurance premiums and the impact of its adoption on the Company's financial statements.

As of September 30, 2009, the Company reported premiums receivable of $2.1 billion primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. The weighted average risk-free rate used to discount future installment premiums was 3.02% and the weighted average expected collection term of the premiums receivable was 9.12 years. For the three and nine months ended September 30, 2009, the accretion of the premiums receivable was $14 million and $42 million, respectively, and is reported in "Scheduled premiums earned" on the Company's Consolidated Statements of Operations.

As of September 30, 2009, the Company reported reinsurance premiums payable of $208 million, which represents the portion of the Company's premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following table presents a roll forward of the Company's premiums receivable for the nine months ended September 30, 2009:

In millions	Nine Months Ended September 30, 2009								
				Adjustments					
Premiums Receivable as of December 31, 2008	Accounting Transition Adjustment [1]	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other	Premiums Receivable as of September 30, 2009	Reinsurance Premiums Payable as of September 30, 2009
$ 8	$ 2,288	$ (235)	$ -	$ (22)	$ 42	$ (22)	$ 2,059	$ 208

[1] - Reflects the adoption of the accounting principles for financial guarantee insurance contracts as described in "Note 3: Recent Accounting Pronouncements."

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The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

In millions	Expected Collection of Premiums
Three months ended :	
December 31, 2009	$ 88
Twelve months ended :	
December 31, 2010	278
December 31, 2011	247
December 31, 2012	219
December 31, 2013	178
Five years ended :	
December 31, 2018	640
December 31, 2023	402
December 31, 2028 and thereafter	610
Total	$ 2,662

For the three and nine months ended September 30, 2009, the Company reported premiums earned of $181 million and $588 million, respectively, which includes $144 million and $493 million of scheduled premiums earned and $37 million and $95 million of refunding premiums earned, respectively. Refunding premiums earned represent premiums earned on policies for which the underlying insured obligations have been refunded, called, or terminated and for which MBIA's obligation has been extinguished.

The following table presents the unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

In millions	Unearned Premium Revenue	Expected Future Premium Earnings			Total Expected Future Premium Earnings
		Upfront	Installments	Accretion	
Three months ended:					
September 30, 2009	$5,122				
December 31, 2009	4,977	76	69	15	160
Twelve months ended:					
December 31, 2010	4,433	288	256	55	599
December 31, 2011	3,944	265	224	51	540
December 31, 2012	3,511	244	189	46	479
December 31, 2013	3,136	226	149	42	417
Five years ended:					
December 31, 2018	1,731	879	526	164	1,569
December 31, 2023	879	536	316	104	956
December 31, 2028 and thereafter	-	505	374	126	1,005
Total		$ 3,019	$ 2,103	$ 603	$ 5,725

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Note 5: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on the Company's consolidated balance sheets as of September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
In millions	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Fixed-maturity securities held as available-for-sale and held as trading	$ 13,592	$ 13,592	$ 16,763	$ 16,763
Investments held-to-maturity	3,894	3,012	3,656	3,595
Other investments	376	376	220	220
Cash and cash equivalents	1,645	1,645	2,280	2,280
Receivable for investments sold	203	203	77	77
Derivative assets	781	781	911	911
Note receivable	473	473	423	423
Liabilities:				
Investment agreements	2,882	2,972	4,667	5,182
Medium-term notes	3,933	2,189	6,340	4,773
Variable interest entity notes	2,669	2,127	1,792	1,792
Securities sold under agreements to repurchase	502	472	803	758
Long-term debt	2,718	1,581	2,396	1,367
Payable for investments purchased	304	304	0	0
Derivative liabilities	4,989	4,989	6,471	6,471
Warrants	74	74	22	22
Financial Guarantees:				
Gross	6,445	5,900	4,982	6,078
Ceded	420	282	390	407

Valuation Techniques

The valuation techniques for fair valuing financial instruments included in the preceding table are described below. The Company's assets and liabilities recorded at fair value have been categorized according to the fair value hierarchy prescribed by fair value measurements and disclosures.

Fixed-Maturity Securities Held As Available-for-Sale and Held for Trading

U.S. Treasury and government agency —U.S. Treasury securities are liquid and generally have quoted market prices. Fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced ("TBA") securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities generally use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Foreign governments —The fair value of foreign government obligations is generally based on observable inputs in active markets. When quoted prices are not available, fair value is determined based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bonds are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3 while bonds that have quoted prices in an active market are classified as Level 1.

Corporate obligations —The fair value of corporate bonds is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name CDS spreads and diversity scores as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy. Corporate obligations may be classified as Level 1 if quoted prices in an active market are available.

Mortgage-backed securities and asset-backed securities —Mortgage-backed securities ("MBSs") and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, MBSs and ABSs are valued as a function of cash flow models with observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). MBSs and ABSs are categorized in Level 3 if significant inputs are unobservable, otherwise they are categorized in Level 2 of the fair value hierarchy.

The Company records under the fair value measurement provisions, certain structured investments, which are included in available-for-sale securities. Fair value is derived using quoted market prices or cash flow models. As these securities are not actively traded, certain significant inputs are unobservable. These investments are categorized as Level 3 of the fair value hierarchy.

State and municipal bonds —The fair value of state and municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or CDS spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3.

Investments Held-To-Maturity

The fair value of investments held-to-maturity is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models with yield curves and bond spreads of comparable entities as key inputs.

Other Investments

Other investments include the Company's interest in equity securities (including exchange-traded closed-end funds), money market mutual funds and perpetual securities. Fair value of other investments is determined by using quoted prices, live trades, or valuation models that use market-based and observable inputs. Other investments are categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy.

Other investments also include premium tax credit investments that are carried at amortized cost. The carrying value of these investments approximates fair value.

Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for investments purchased approximate their fair values as they are short-term in nature.

Note Receivable

The note receivable represents a non-recourse loan secured by collateral pledged by the counterparty to the note receivable. The fair value of the note receivable is calculated as the most recent appraised value of the underlying collateral pledged against the note receivable.

Investment Agreements

The fair values of investment agreements are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar agreements with maturities consistent with those remaining for the investment agreements being valued. These agreements contain collateralization and termination agreements that sufficiently mitigate the nonperformance risk of the Company.

Medium-Term Notes

The fair values of medium-term notes recorded at amortized cost are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar notes with maturities consistent with those remaining for the medium-term notes being valued. Nonperformance risk of the Company is incorporated into the valuation by using the Company's own credit spreads.

The Company has elected to record at fair value four medium-term notes. Fair value of such notes is derived using quoted market prices or an internal cash flow model. Significant inputs into the valuation include yield curves and spreads to the swap curve. As these notes are not actively traded, certain significant inputs (e.g. spreads to the swap curve) are unobservable. These notes are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair value of variable interest entity notes is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models of the underlying collateral with yield curves and bond spreads of comparable entities as key inputs.

Securities Sold Under Agreements to Repurchase

The fair value is estimated using discounted cash flow calculations based upon interest rates currently being offered for similar agreements. Securities sold under agreements to repurchase include term reverse repurchase agreements that contain credit enhancement provisions via over-collateralization agreements to sufficiently mitigate the nonperformance risk of the Company.

Long-term Debt

Long-term debt consists of long-term notes, debentures, surplus notes, Federal Reserve term asset-backed securities loan facility ("TALF") and floating rate liquidity loans. The fair value of long-term notes, debentures, TALF and surplus notes are estimated based on quoted market prices for the same or similar securities. The fair value for floating rate liquidity loans in Triple-A One Funding Corporation ("Triple-A One") are estimated using discounted cash flow calculations based upon the underlying collateral pledged to the specific loans, as these loans are non-recourse and fully backed by a pool of underlying assets.

Derivatives—Investment Management Services

The investment management services operations have entered into derivative transactions primarily consisting of interest rate, cross currency, credit default and total return swaps and principal protection guarantees. These over-the-counter derivatives are valued using industry standard models developed by vendors. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized as Level 2 within the fair value hierarchy except with respect to certain complex derivatives where observable pricing inputs were not able to be obtained, which have been categorized as Level 3.

In compliance with the requirements of fair value measurements and disclosures, the Company considers its own credit risk and that of counterparties when valuing derivative assets and liabilities. The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company's exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the Investment Management Services and Corporate operations. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company's nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair value of the derivatives.

Derivatives—Insurance

The derivative contracts that the Company insures cannot be legally traded and generally do not have observable market prices. In the cases with no active price quote, the Company uses a combination of internal and third-party models to estimate the fair value of these contracts. Most insured CDSs are valued using an enhanced Binomial Expansion Technique ("BET") model (originally developed by Moody's). Significant inputs include collateral spreads, diversity scores and recovery rates. For a limited number of other insured derivatives, the Company uses industry standard models as well as proprietary models such as Black-Scholes option models and dual-default models, depending on the type and structure of the contract. The valuation of these derivatives includes the impact of its own credit standing and the credit standing of its reinsurers. All of these derivatives are categorized as Level 3 of the fair value hierarchy as a significant percentage of their value is derived from unobservable inputs. For insured swaps (other than CDSs), the Company uses internally and vendor developed models with market-based inputs (e.g. interest rate, foreign exchange rate, spreads), and are classified as Level 2 within the fair value hierarchy.

Insured Derivatives

The majority of the Company's derivative exposure is in the form of credit derivative instruments insured by MBIA Corp. Prior to 2008, MBIA Corp. insured CDSs entered into by LaCrosse Financial Products LLC ("LaCrosse"), an entity that is consolidated into MBIA's financial statements under the criteria for variable interest entities. In February 2008, the Company ceased insuring such derivative instruments except in transactions reducing its existing insured derivative exposure.

In most cases, the Company's insured credit derivatives are measured at fair value as they do not qualify for the financial guarantee scope exception. Because the Company's insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their value in a hypothetical market based on internal and third-party models simulating what a bond insurer would charge to guarantee the transaction at the measurement date. This pricing would be based on expected loss of the exposure calculated using the value of the underlying collateral within the transaction structure. The fair values of insured derivatives recorded on our balance sheet are principally related to our insured credit derivatives exposure

Description of MBIA's Insured Derivatives

As of September 30, 2009, we had $124.8 billion of net par outstanding on insured derivatives. The majority of MBIA's insured credit derivatives reference structured pools of cash securities and CDSs. The Company generally insured the most senior liabilities of such transactions, and at transaction closing the Company's exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as "Super Triple-A" exposure). The collateral backing the Company's insured derivatives was cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, commercial real estate ("CRE") loans, and CDO securities. As of September 30, 2009, the net par outstanding of such transactions totaled $110.3 billion. The remaining $14.5 billion of net par outstanding on insured credit derivatives as of September 30, 2009 primarily related to insured interest rate and inflation-linked swaps for which we have insured counterparty credit risk.

Most of MBIA's insured CDS contracts require that MBIA make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. MBIA's net par outstanding and maximum payment obligation under these contracts as of September 30, 2009 was $81.5 billion. The underlying referenced collateral for contracts executed in this manner largely consist of investment grade corporate debt, structured commercial mortgage-backed securities ("CMBS") pools and, to a lesser extent, corporate and multi-sector CDOs (in CDO-squared transactions). As of September 30, 2009, MBIA also had $28.8 billion of net par outstanding on insured CDS contracts that require MBIA to make timely interest and ultimate principal payments.

The Company also has guarantees under principal protection fund programs, which are also accounted for as derivatives. Under these programs the Company guaranteed the return of principal to investors and is protected by a daily portfolio rebalancing obligation that is designed to minimize the risk of loss to MBIA. As of September 30, 2009, the maximum amount of future payments that the Company would be required to make under these guarantees was $25 million, but the Company has not made any payments to date relating to these guarantees. The unrealized gains (losses) on these derivatives for the years ended 2007 and 2008 and the nine months ended September 30, 2009 were zero, reflecting the extremely remote likelihood that MBIA will incur a loss.

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

Considerations Regarding an Observable Market for MBIA's Insured Derivatives

In determining fair value, the Company's valuation approach uses observable market prices if available and reliable. Market prices are generally available for traded securities and market standard CDSs but are less available or accurate for highly customized CDSs. Most of the derivative contracts the Company insures are the latter as they are non-traded structured credit derivative transactions. In contrast, typical market CDSs are standardized, liquid instruments that reference tradable securities such as corporate bonds that themselves have observable prices. These market standard CDSs also involve collateral posting, and upon a default of the underlying reference obligation, can be settled in cash.

MBIA's insured CDS contracts do not contain typical CDS market standard features as they have been designed to replicate the Company's financial guarantee insurance policies. At inception of the transactions, the Company's insured CDS instruments provided protection on pools of securities or CDSs with either a stated deductible or subordination beneath the MBIA-insured tranche. The Company is not required to post collateral in any circumstances. Payment by MBIA under an insured CDS is due after the aggregate amount of losses on the underlying reference obligations, based on actual losses as determined pursuant to the settlement procedure in each transaction, exceed the deductible or subordination in the transaction. Once such losses exceed the deductible or the subordination, MBIA is obligated to pay the losses, net of recoveries, if any, on any subsequent reference obligations that default. Some contracts also provide for further deferrals of payment at the Company's option. In the event of MBIA Corp.'s failure to pay a claim under the insured CDS or the insolvency of MBIA, the insured CDS contract provides that the counterparty can terminate the CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between the Company's CDS and typical market standard contracts is that the Company's contract, like its financial guarantee contracts, cannot be accelerated by the counterparty in the ordinary course of business. Similar to the Company's financial guarantee insurance, all insured CDS policies are unconditional and irrevocable and the Company's obligations thereunder cannot be transferred unless the transferees are also licensed to write financial guarantee insurance policies. Since insured CDS contracts are accounted for as derivatives under accounting guidance for derivative instruments and hedging activities, the Company did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

The Company's payment obligations are structured to prevent large one-time claims upon an event of default of underlying reference obligations and to allow for payments over time (i.e. "pay-as-you-go" basis) or at final maturity. However, the size of payments will ultimately depend on the timing and magnitude of losses. There are three types of payment provisions:

(i) timely interest and ultimate principal;

(ii) ultimate principal only at final maturity; and

(iii) payments upon settlement of individual referenced collateral losses in excess of policy-specific deductibles and subordination. The deductible or loss threshold is the amount of losses experienced with respect to the underlying or referenced collateral that would be required to occur before a claim against an MBIA insurance policy can be made.

All of the contracts with settlement based on ultimate principal only at final maturity have been terminated under the terms of the agreements. MBIA had transferred some of the risk of loss on insured CDS transactions using reinsurance to other financial guarantee insurance and reinsurance companies. The fair value of the transfer under the reinsurance contract with the reinsurers is accounted for as a derivative asset. These derivative assets are valued consistently with the Company's valuation policies.

Valuation Modeling of MBIA-Insured Derivatives

As a result of the significant differences between market standard CDS contracts and the CDS contracts insured by MBIA, the Company believes there are no relevant third-party exit value market observations for its insured structured credit derivative contracts and, therefore, no principal market as described in the guidance on fair value measurements and disclosures. In the absence of a principal market, the Company values these insured credit derivatives in a hypothetical market where market participants are assumed to be other comparably-rated primary financial guarantors. Since there are no observable transactions in the financial guarantee market that could be used to value the Company's transactions, the Company generally uses internal and third-party models, depending on the type and structure of the contract, to estimate the fair value of its insured derivatives.

The Company's primary model for insured CDSs simulates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from the Company at a price equal to what they could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into the Company's model, the model estimates such premium and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

A. Valuation Models Used

Approximately 63% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 is valued using the BET model, which is a probabilistic approach to calculating expected loss on the Company's exposure based on market variables for underlying referenced collateral. During the third quarter of 2009 the Company changed the model it used to estimate the fair value of most of its insured multi-sector CDOs. Previous to the third quarter of 2009, these transactions were valued using the BET model. Beginning with the third quarter of 2009, we valued these transactions using an internally-developed valuation model, referred to as the Direct Price Model. Approximately 37% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 was valued using the Direct Price Model. As a result of the change in model, the fair value of the Company's liability for insured derivatives as of September 30, 2009 was $390 million lower compared to what it would have been using the BET model.

There were four factors that led to the development of the Direct Price Model. (1) Market spreads for RMBS and ABS CDO collateral were no longer available. RMBS and ABS CDO collateral comprised the majority of the collateral for the multi-sector CDOs that were transitioned to a new marking model. Although market prices were available for the collateral, the BET model requires a spread input and the conversion from price to spread can be subjective for securities that trade substantially below par, which was the case for most of the collateral in these transactions. (2) The BET model contemplates a multi-tranche structure and allocates potential losses to each tranche. Many of the multi-sector CDOs insured by MBIA have experienced collateral erosion to the extent that there is no market value to the subordinated tranches. As a result this key feature of the BET model is no longer relevant. (3) The BET model requires a recovery rate assumption. This is not readily observable on all the collateral. As the market-implied probability of default of collateral has increased the recovery rate assumption has become increasingly important, which has gradually increased the relative importance in the model of internal assumptions as opposed to observable market inputs. (4) For all insured transactions that have been transitioned to a new model MBIA has an option to defer losses on principal to the legal final maturity, which is typically decades in the future. As a result of increased actual and market-implied future potential losses, as well as the significant widening of CDS spreads for MBIA, the value of this deferral option has increased. It currently has a very significant effect on the estimated fair value of MBIA's guaranty so it was appropriate to use a model that explicitly valued that deferral option.

B. Description of the BET Model

1. Valuation Model Overview

There are three steps within BET modeling to arrive at fair value for a structured transaction: pool loss estimation, loss allocation to separate tranches of the capital structure and calculation of the change in value.

- The pool loss estimation is calculated by reference to the following (described in further detail under "Model Inputs" below):
    - credit spreads of the underlying collateral. This is based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked;
    - diversity score of the collateral pool as an indication of correlation of collateral defaults; and
    - recovery rate for all defaulted collateral.

- Losses are allocated to specific tranches of the transaction according to their subordination level within the capital structure.
    - For example, if the expected total collateral pool loss is 4% and the transaction has an equity tranche and three progressively more senior C, B, and A tranches with corresponding underlying subordination levels of 0%, 3%, 5% and 10%, then the 4% loss will have the greatest impact on the equity tranche. It will have a lower, but significant impact on the C tranche and a lesser impact on the B tranche. MBIA usually insures the most senior triple-A tranche with lowest exposure to collateral losses due to the underlying subordination provided by all junior tranches.
- At any point in time, the unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the model worth noting are listed below:

- Default probability is determined by three factors: credit spread, recovery rate after default and the time period under risk.
- Defaults are modeled spaced out evenly over time.
- Collateral is generally considered on an average basis rather than being modeled separately.
- Correlation is modeled using a diversity score, which is calculated based on rules regarding industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

2. Model Strengths and Weaknesses

The primary strengths of this CDS valuation model are:

1) The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, weighted average life, level of deductible or subordination and composition of collateral.

2) The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented both by Moody's and by MBIA's internal controls, creating a strong controls process in execution of the model. The Company has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

3) The model uses market inputs with the most relevant being credit spreads for underlying referenced collateral, assumed recovery rates specific to the type and rating of referenced collateral, and the diversity score of the entire collateral pool. These are key parameters affecting the fair value of the transaction and all inputs are market-based whenever available and reliable.

The primary weaknesses of this CDS valuation model are:

1) There is no market in which to test and verify the fair values generated by the Company's model, and at September 30, 2009, the model inputs were also either unobservable or highly illiquid, adversely impacting their reliability.

2) There are diverse approaches to estimating fair value of such transactions among other financial guarantee insurance companies.

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

4) Results may be affected by averaging of spreads and use of a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlation assumptions. While more specific data could improve the reliability of the results, it is not currently available and neither is a model that could produce more reliable results in the absence of that data.

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3. BET Model Inputs

Specific detail regarding these model inputs are listed below:

a. Credit spreads

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

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

- If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.
- If collateral-specific credit spreads are not available, the Company uses generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor ("WARF") for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody's where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. The Company obtains WARF from the most recent trustee's report or the Company calculates it based on the collateral credit ratings. For a WARF calculation, the Company identifies the credit ratings of all collateral (using, in order of preference as available, Moody's, S&P or Fitch ratings), then converts those credit ratings into a rating factor on the WARF scale, averages those factors (weighted by par) to create a portfolio WARF, and then maps the portfolio WARF back into an average credit rating for the pool. The Company then applies this pool rating to a market spread table or index appropriate for the collateral type to determine the generic spread for the pool, which becomes the market-implied default input into the BET model.
- If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating buckets and each bucket is used in calculating the overall average.
- When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA uses its hierarchy of spread sources (discussed below) to identify the most appropriate spread for that asset class to be used in the model.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences, such as CDS spreads can be driven by speculative activity since the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

Spread Hierarchy:

1) Actual collateral-specific credit spreads. If up-to-date and reliable market-based spreads are available, they are used.
2) Sector-specific spreads (JP Morgan and Banc of America Securities-Merrill Lynch ("BAS-ML") spread tables by asset class and rating).
3) Corporate spreads (Bloomberg and Risk Metrics spread tables based on rating).
4) Benchmark from most relevant spread source (for example, if no specific spreads are available and corporate spreads are not directly relevant, an assumed relationship is used between corporate spreads or sector-specific spreads and collateral spreads). Benchmarking can also be based on a combination of market spread data and fundamental credit assumptions.

For example, if current market-based spreads are not available then the Company applies either sector-specific spreads from spread tables provided by dealers or corporate cash spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, the Company uses the fourth alternative in its hierarchy. An example is tranched corporate collateral, where the Company applies corporate spreads as an input with an adjustment for its tranched exposure.

As of September 30, 2009, actual collateral credit spreads were used in one transaction. Sector-specific spreads were used in 12% of the transactions. Corporate spreads were used in 29% of the transactions and spreads benchmarked from the most relevant spread source (number 4 above) were used for 58% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy. For example, for some transactions MBIA used actual collateral-specific credit spreads (number 1 above) in combination with a calculated spread based on an assumed relationship (number 4 above). In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source (number 4 above) even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral WARF. No Level 1 spreads are based on WARF, all Level 2 and 3 spreads are based on WARF and some Level 4 spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spread was used for 72% of the transactions.

Over time the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company's objective to move to higher levels on the hierarchy, but the Company sometimes moves to lower priority inputs because of discontinued data sources or because the Company considers higher priority inputs no longer representative of market spreads. This occurs when transaction volume changes such that a previously used spread index is no longer viewed to reflect current market levels, as was the case for CMBS collateral in insured CDSs beginning in 2008. Refer to section "Input Adjustments for Insured CMBS Derivatives in the Current Market" below.

b. Diversity Scores

The diversity score is a measure to estimate 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. For example, if a portfolio of 100 assets had a diversity score of 50, this means that the 100 correlated assets are assumed to have the same loss distribution as 50 uncorrelated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for the Company's senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA's internal modeling of the diversity score is based on Moody's methodology but uses MBIA's internal assumptions on default correlation, including variables such as collateral rating and amount, asset type and remaining life.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data. In the first nine months of 2009, the Company lowered recovery rates for CMBS collateral, certain RMBS collateral, and certain Collateralized loan obligation ("CLO") collateral. The recovery rates for CLO collateral were lowered in the third quarter of 2009, which increased the Company's liability by $51 million.

d. Input Adjustments for Insured CMBS Derivatives in the Current Market

History of Input Adjustments

Approximately $44.5 billion gross par of MBIA's insured derivative transactions as of September 30, 2009 include substantial amounts of CMBS and commercial mortgage collateral. Prior to 2008, the Company had used spreads drawn from CMBX indices and CMBS spread tables as pricing input on the underlying referenced collateral in these transactions. In 2008, as the financial markets became illiquid, the Company saw a significant disconnect between cumulative loss expectations of market analysts on underlying commercial mortgages, which were based on the continuation of low default and loss rates, and loss expectations implied by the CMBX indices and CMBS spread tables. CMBS collateral in MBIA's insured credit derivatives has performed in line with the market.

In addition, due to financial market uncertainty since last year, transaction volume in CMBS and trading activity in the CMBX were both dramatically lower than in prior periods. The Company also considered that the implied loss rates within the CMBX index were much higher than that forecast by fundamental researchers and MBIA's internal analysis. As a result of these issues, the Company concluded that the CMBX indices and the CMBS spread tables were unreliable model inputs for the purpose of estimating fair value in the Company's hypothetical market among monoline insurers.

As a result, in the first quarter of 2008, the Company modified the spread used for these transactions to reflect a combination of market spread pricing and third-party fundamental analysis of CMBS credit. The Company's revised spread input was a CMBX index analog that combines expectations for CMBS credit performance (as forecasted by the average of three investment banks' research departments) together with the illiquidity premium implied by the CMBX indices. The illiquidity premium the Company used was the senior triple-A tranche spread of the CMBX index that matches the origination vintage of collateral in each transaction. For example, collateral originated in the second half of 2006 used the triple-A tranche spread of the CMBX series 1 as the illiquidity premium. The sum of the illiquidity premium plus the derived credit spread based on the average cumulative net loss estimates of three investment bank's research department was used as a CMBX analog index.

In the third quarter of 2009, MBIA reassessed the reasonableness of CMBX inputs. CMBX levels are now quoted in price terms instead of spread. It was observed that trading activity in CMBX indices is more liquid than in recent quarters. Also there has been some convergence between the loss rates implied by the CMBX indices and that of fundamental analysts. During fundamental assessments, the loss rates for CMBS increased and MBIA concluded that it was again appropriate and reasonable to use CMBX as an input for the BET model.

Current CMBX Input Adjustment

Since CMBX is now quoted in price terms and the BET model requires a spread input, it is necessary to convert CMBX prices to spreads. To do this, the Company assumed that a portion of the CMBX price reflected market illiquidity. The company assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. At the end of the third quarter of 2009 the highest priced triple-A CMBX index was series 1 and its price was $91.66 corresponding to an illiquidity premium of 8.34%. The Company assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. So the market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate for duration. The illiquidity premium was also converted to spreads using the same approach and the CBMX spread was calculated as the sum of those two numbers.

As a result of this change in input spreads for CMBS, the fair value of the Company's liability for insured derivatives as of September 30, 2009 increased by $591 million compared to what it would have been had the Company used the same CMBS input approach that was used in the second quarter of 2009.

During the third quarter of 2009, the Company modified its inputs for RMBS collateral in insured CDO squared transactions because an appropriate source was no longer available for RMBS collateral spreads. Previously, spread levels were provided by securities firms, however, these firms no longer provide this information. As a result, the Company assumed that all RMBS collateral defaulted and there was a recovery based on the current recovery rate assumption. This modification increased the derivative liability for insured derivatives by $103 million.

e. Nonperformance Risk

In compliance with the requirements of fair value measurement, the Company's valuation methodology for insured credit derivative liabilities incorporates the Company's own nonperformance risk and the nonperformance risk of its reinsurers. 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 and the reinsurers' CDS spreads (or an estimate if there is not a traded CDS contract referencing a reinsurer) at September 30, 2009. Prior to the second quarter of 2009, MBIA used the 5-year CDS spread on MBIA Corp. to calculate nonperformance risk. This assumption was compatible with the average life of the CDS portfolio, which was approximately 5 years. In the second quarter, the Company has refined this approach to include a full term structure for CDS spreads. Under the refined approach, the CDS spreads assigned to each deal is based on the weighted average life of the deal.

Beginning in the first quarter of 2009, the Company limited the effective spread on CDS on MBIA so that the derivative liability, after giving effect to nonperformance risk, could not be lower than MBIA's recovery derivative price multiplied by the unadjusted derivative liability.

Prior to the third quarter of 2008, the Company did not apply nonperformance risk to the excess (if any) of insured par over the par value of remaining collateral (such excess referred to as "burn-through") within CDS transactions. Most obligations insured by MBIA do not have burn-through, however, an increasing number of multi-sector CDOs insured by MBIA had developed burn-through. As a result, in the third quarter of 2008 the Company began applying its nonperformance calculation to burn-through, which resulted in a reduction of the fair value of its derivative liability by $683 million. Most of the insured transactions with burn-through are now valued using the Direct Price Model.

C. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model was developed internally to address weaknesses in our BET model specific to valuing insured multi-sector CDOs, as previously discussed. There are three steps in the model. First, market prices are obtained or estimated for all collateral within a transaction. Second, the present value of the market-implied potential losses is calculated for the transaction, assuming that MBIA defers all principal losses to the legal final maturity. This is determined by the contractual terms of each agreement and interest rates. Third, the impact of nonperformance risk is calculated.

2. Model Strengths and Weaknesses

The primary strengths of the Direct Price Model are:

1) The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, legal final maturity, level of deductible or subordination (if any) and composition of collateral.

2) The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented by MBIA's internal controls, creating a strong controls process in execution of the model.

3) The model uses market inputs for each transaction with the most relevant being market prices for collateral, MBIA's CDS and derivative recovery rate level and interest rates. Most of the market inputs are observable.

The primary weaknesses of the Direct Price Model are:

1) There is no market in which to test and verify the fair values generated by our model.

2) There are diverse approaches to estimating fair value of similar transactions among other financial guarantee insurance companies.

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

3. Model Inputs

a. Collateral prices
MBIA was able to obtain broker quotes for the majority of the collateral. For any collateral not directly priced, a matrix pricing grid was used based on security type and rating. For each security that was not directly priced, an average was used based on securities with the same rating and security type categories.

b. Interest rates
The present value of the market-implied potential losses was calculated, assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final. These cash flows were discounted using the libor flat swap curve.

c. Nonperformance risk
The methodology for calculating MBIA's nonperformance risk is the same as used for the BET model. Due to the current level of MBIA CDS rates and the long tenor of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

D. Overall Model Results

In the current environment the most significant driver of fair value is nonperformance risk. In aggregate, the nonperformance calculation results in a pre-tax derivative liability which is $15.9 billion lower than the liability that would have been estimated if we did not include nonperformance risk in our valuation. Nonperformance risk is a fair value concept and does not contradict the Company's internal view, based on fundamental credit analysis of our economic condition, that the Company will be able to pay all claims when due.

The Company reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiated settlements of existing transactions.

However, this data has been scarce or non-existent in recent periods. As a result, our recent reviews have focused more on internal consistency and relativity, as well as the reasonableness of modeled results given current market conditions.

The Company believes that it is important to apply its valuation techniques consistently. However, we may consider making changes in the valuation technique if the change results in a measurement that is equally or more representative of fair value under current circumstances.

Warrants

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividends data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees —The Company estimates the fair value of its gross financial guarantee liability using a discounted cash flow model with significant inputs that include (i) an assumption of expected loss on financial guarantee policies for which case basis reserves have not been established, (ii) the amount of loss expected on financial guarantee policies for which case basis reserves have been established, (iii) the cost of capital reserves required to support the financial guarantee liability, and (iv) the discount rate. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the Assured Guaranty Corp. CDS spread and recovery rate are used as the discount rate for National. The discount rates incorporate the nonperformance risk of the Company. As the Company's gross financial guarantee liability represents its obligation to pay claims under its insurance policies, the Company's calculation of fair value does not consider future installment premium receipts or returns on invested upfront premiums as inputs.

The carrying value of the Company's gross financial guarantee liability consists of deferred premium revenue and loss and LAE reserves as reported on the Company's consolidated balance sheets.

Ceded Financial Guarantees —The Company estimates the fair value of its ceded financial guarantee liability by calculating the portion of the gross financial guarantee liability that has been ceded to reinsurers. The carrying value of ceded financial guarantee liability consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Fair Value Measurements

The following fair value hierarchy tables present information about the Company's assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008:

	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 [1]	Balance as of September 30, 2009
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 720	$ 91	$ 6	$ -	$ 817
Foreign governments	345	195	72	-	612
Corporate obligations	-	2,312	331	-	2,643
Mortgage-backed securities					
Residential mortgage-backed agency	-	1,739	81	-	1,820
Residential mortgage-backed non-agency	-	620	252	-	872
Commercial mortgage-backed	-	12	32	-	44
Asset-backed securities					
Collateralized debt obligations	-	185	240	-	425
Other asset-backed	-	631	627	-	1,258
Total	1,065	5,785	1,641	-	8,491
State and municipal bonds					
Tax-exempt bonds	-	2,334	64	-	2,398
Taxable bonds	-	750	-	-	750
Total state and municipal bonds	-	3,084	64	-	3,148
Total fixed-maturity investments	1,065	8,869	1,705	-	11,639
Other investments					
Perpetual preferred securities	-	343	62	-	405
Other investments	16	147	25	-	188
Money market securities	1,733	-	-	-	1,733
Total other investments	1,749	490	87	-	2,326
Derivative assets	-	288	779	(286)	781
Total assets	$ 2,814	$ 9,647	$ 2,571	$ (286)	$ 14,746
Liabilities:					
Medium-term notes	$ -	$ -	$ 142	$ -	$ 142
Derivative liabilities	-	413	4,962	(386)	4,989
Other Liabilities:					
Warrants	-	74	-	-	74
Total liabilities	$ -	$ 487	$ 5,104	$ (386)	$ 5,205

(1) - The net effect of cash and counterparty collateral netting is included in the column entitled "Counterparty and Cash Collateral Netting."

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting [1]	Balance as of December 31, 2008
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,042	$ 194	$ 32	$ -	$ 1,268
Foreign governments	369	336	130	-	835
Corporate obligations	-	2,776	587	-	3,363
Mortgage-backed securities					
Residential mortgage-backed agency	-	1,218	156	-	1,374
Residential mortgage-backed non-agency	-	627	397	-	1,024
Commercial mortgage-backed	-	16	37	-	53
Asset-backed securities					
Collateralized debt obligations	-	365	553	-	918
Other asset-backed	-	79	905	-	984
Total	1,411	5,611	2,797	-	9,819
State and municipal bonds					
Tax-exempt bonds	-	3,011	49	-	3,060
Taxable bonds	-	379	46	-	425
Total state and municipal bonds	-	3,390	95	-	3,485
Total fixed-maturity investments	1,411	9,001	2,892	-	13,304
Other investments					
Perpetual preferred securities	-	275	45	-	320
Other investments	23	40	58	-	121
Money market securities	3,235	-	-	-	3,235
Total other investments	3,258	315	103	-	3,676
Derivative assets	-	613	807	(509)	911
Total assets	$ 4,669	$ 9,929	$ 3,802	$ (509)	$ 17,891
Liabilities:					
Medium-term notes	$ -	$ -	$ 176	$ -	$ 176
Derivative liabilities	-	741	6,305	(575)	6,471
Other Liabilities:					
Warrants	-	22	-	-	22
Total liabilities	$ -	$ 763	$ 6,481	$ (575)	$ 6,669

(1) - The net effect of cash and counterparty collateral netting is included in the column entitled “Counterparty and Cash Collateral Netting.” As of December 30, 2008, $66 million of cash collateral, which was previously recorded in “Other Assets,” was included in the derivative liability balance.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Level 3 Analysis

Level 3 assets were $2.6 billion and $3.8 billion as of September 30, 2009 and December 31, 2008, respectively, and represented approximately 17% and 21% of total assets measured at fair value, respectively. Level 3 liabilities were $5.1 billion and $6.5 billion as of September 30, 2009 and December 31, 2008, respectively, and represented approximately 98% and 97% of total liabilities measured at fair value, respectively. The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2009 and 2008:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2009

In millions	Balance, Beginning of Interim 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 and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2009
Assets:									
U.S. Treasury and government agency	$ 6	$ -	$ -	$ -	$ -	$ -	$ -	$ 6	$ -
Foreign governments	70	-	-	-	2	-	-	72	-
Corporate obligations	371	(1)	-	55	1	(66)	(29)	331	-
Residential mortgage-backed agency	98	-	-	1	-	(8)	(10)	81	-
Residential mortgage-backed non-agency	252	(1)	-	31	-	(19)	(11)	252	-
Commercial mortgage-backed	37	-	-	5	1	(2)	(9)	32	-
Collateralized debt obligations	414	(23)	-	75	-	(41)	(185)	240	-
Other asset-backed	560	-	-	98	-	15	(46)	627	-
State and municipal tax-exempt bonds	74	-	-	-	-	(10)	-	64	-
State and municipal taxable bonds	44	(4)	-	6	-	(46)	-	-	-
Perpetual preferred securities	44	-	-	18	-	-	-	62	-
Other investments	25	-	-	-	-	-	-	25	-
Total assets	$1,995	$ (29)	$ -	$ 289	$ 4	$ (177)	$ (290)	$1,792	$ -

In millions	Balance, Beginning of Interim 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 and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2009
Liabilities:									
Medium-term notes	$ 122	$ -	$ -	$ 15	$ 5	$ -	$ -	$ 142	$ -
Derivative contracts, net	3,391	(1)	861	-	(7)	(61)	-	4,183	862
Total liabilities	$3,513	$ (1)	$ 861	$ 15	$ (2)	$ (61)	$ -	$4,325	$ 862

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

MBIA Inc. and Subsidiaries
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Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2008

In millions	Balance, Beginning of Interim 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 and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2008
Assets:									
U.S. Treasury and government agency	$ 157	$ -	$ -	$ (1)	$ -	$ (53)	$ -	$ 103	$ -
Foreign governments	100	-	-	(6)	(5)	17	-	106	-
Corporate obligations	956	(23)	-	(29)	(9)	(250)	(14)	631	-
Residential mortgage-backed agency	191	-	-	-	-	(15)	-	176	-
Residential mortgage-backed non-agency	301	(4)	-	(30)	-	(39)	44	272	-
Commercial mortgage-backed	92	(1)	-	-	(3)	(37)	-	51	-
Collateralized debt obligations	1,423	(490)	-	317	8	(635)	127	750	-
Other asset-backed	1,065	(7)	-	3	(4)	(304)	40	793	-
State and municipal tax exempt bonds	-	-	-	-	-	23	-	23	-
State and municipal taxable bonds	47	-	-	(1)	-	-	-	46	-
Perpetual preferred securities	83	-	-	(5)	-	-	-	78	-
Other investments	-	-	-	-	-	-	-	-	-
Total assets	$ 4,415	$(525)	$ -	$ 248	$ (13)	$ (1,293)	$ 197	$3,029	$ -

In millions	Balance, Beginning of Interim 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 and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2008
Liabilities:									
Medium-term notes	$ 314	$ -	$ 3	$ -	$ (33)	$ -	$ -	$ 284	$ 3
Derivative contracts, net	3,655	417	(270)	0	(11)	34	-	3,825	(108)
Total liabilities	$ 3,969	$ 417	$ (267)	$ 0	$ (44)	$ 34	$ -	$4,109	$ (105)

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

Transfers into and out of Level 3 were $2 million and $292 million, respectively, for the three months ended September 30, 2009. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, other asset-backed securities, and corporate obligations comprised the majority of the transferred instruments. For the three months ended September 30, 2009, the net unrealized gains related to the transfers into Level 3 was $0 million and the net unrealized gains related to the transfers out of Level 3 as of September 30, 2009 was $37 million.

Transfers into and out of Level 3 were $285 million and $88 million, respectively, for the three months ended September 30, 2008. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, RMBSs and other asset-backed securities comprised the majority of the transferred instruments. For the three months ended September 30, 2008, the net unrealized losses related to the transfers into Level 3 was $35 million and the net unrealized gains related to the transfers out of Level 3 was $4 million.

MBIA Inc. and Subsidiaries
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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 nine months ended September 30, 2009 and 2008:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months ended September 30, 2009

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2009
Assets:									
U.S. Treasury and government agency	$ 32	$ 1	$ -	$ (1)	$ -	$ (26)	$ -	$ 6	$ -
Foreign governments	130	-	-	(3)	(1)	(17)	(37)	72	-
Corporate obligations	587	(1)	-	13	(2)	(114)	(152)	331	-
Residential mortgage-backed agency	156	-	-	12	-	(27)	(60)	81	-
Residential mortgage-backed non-agency	397	(28)	-	5	-	(41)	(81)	252	-
Commercial mortgage-backed	37	(1)	-	10	1	(6)	(9)	32	-
Collateralized debt obligations	553	(148)	-	127	-	(107)	(185)	240	-
Other asset-backed	908	(9)	-	(144)	-	(73)	(55)	627	-
State and municipal tax exempt bonds	49	-	-	(1)	-	16	-	64	-
State and municipal taxable bonds	46	(4)	-	4	-	(46)	-	-	-
Perpetual preferred securities	45	-	-	18	-	(1)	-	62	-
Other investments	58	-	-	-	-	(33)	-	25	-
Total assets	$2,996	$(190)	$ -	$ 40	$ (2)	$ (473)	$ (579)	$1,792	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2009
Liabilities:									
Medium-term notes	$ 176	$ -	$ -	$ (37)	$ 3	$ -	$ -	$ 142	$ -
Derivative contracts, net	5,498	(91)	(1,157)	2	(14)	(35)	(20)	4,183	(924)
Total liabilities	$5,674	$ (91)	$(1,157)	$ (35)	$ (11)	$ (35)	$ (20)	$4,325	$ (924)

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

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Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months ended September 30, 2008

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2008
Assets:									
U.S. Treasury and government agency	$ 124	$ 3	$ -	$ (3)	$ -	$ (45)	$ 24	$ 103	$ -
Foreign governments	64	-	-	(7)	(4)	35	18	106	-
Corporate obligations	1,400	(48)	-	(56)	7	(850)	178	631	-
Residential mortgage-backed agency	239	-	-	(5)	-	(58)	-	176	-
Residential mortgage-backed non-agency	726	(11)	-	(171)	1	(212)	(61)	272	-
Commercial mortgage-backed	273	(7)	-	(5)	5	(76)	(139)	51	-
Collateralized debt obligations	2,458	(957)	-	375	(37)	(1,078)	(11)	750	-
Other asset-backed	1,430	(23)	-	(105)	13	(622)	100	793	-
State and municipal tax exempt bonds	-	-	-	-	-	23	-	23	-
State and municipal taxable bonds	49	-	-	(3)	-	-	-	46	-
Perpetual preferred securities	104	-	-	(26)	-	-	-	78	-
Other investments	-	-	-	-	-	-	-	-	-
Total assets	$ 6,867	$(1,043)	$ -	$ (6)	$ (15)	$ (2,883)	$ 109	$3,029	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2008
Liabilities:									
Medium-term notes	$ 399	$ (6)	$ (9)	$ (20)	$ (12)	$ (68)	$ -	$ 284	$ (3)
Derivative contracts, net	3,406	231	109	-	(21)	100	-	3,825	109
Total liabilities	$ 3,805	$ 225	$ 100	$ (20)	$ (33)	$ 32	$ -	$4,109	$ 106

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

Transfers into and out of Level 3 were $59 million and $658 million, respectively, for the nine months ended September 30, 2009. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the period. These inputs included spreads, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, corporate obligations, RMBS and other asset backed securities comprised the majority of the transferred instruments. For the nine months ended September 30, 2009, the net unrealized gains related to the transfers into Level 3 was $15 million and the net unrealized gains related to the transfers out of Level 3 was $68 million.

Transfers into and out of Level 3 were $1.1 billion and $944 million, respectively, for the nine months ended September 30, 2008. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, commercial mortgage-backed securities and CDOs comprised the majority of the transferred instruments. For the nine months ended September 30, 2008, the net unrealized losses related to the transfers into Level 3 was $70 million and the net unrealized losses related to the transfers out of Level 3 was $39 million.

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the three months ended September 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (870)	$ (28)	$ 16
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2009	$ (877)	$ -	$ 15

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 104	$ (432)	$ 193
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2008	$ 101	$ -	$ 4

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the nine months ended September 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 1,183	$ (99)	$ 9
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2009	$ 915	$ -	$ 9

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (146)	$ (1,268)	$ 88
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2008	$ (143)	$ -	$ 37

Fair Value Option

The Company elected, under the provision of fair value measurements and disclosures to record at fair value certain financial assets and liabilities that contain embedded derivatives. Changes in fair value of these hybrid financial instruments are reflected in “Net gains (losses) on financial instruments at fair value and foreign exchange” on the Company’s consolidated statement of operations.

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For the three and nine months ended September 30, 2009, the fair value of hybrid financial assets increased $1 million and $5 million on a pre-tax basis and $1 million and $3 million on an after-tax basis. For the three months ended September 30, 2009, the fair value of hybrid financial liabilities, which related to four medium-term notes, increased $20 million on a pre-tax basis and $13 million on an after-tax basis. For the nine months ended September 30, 2009, the fair value of hybrid financial liabilities, decreased $34 million on a pre-tax basis and $22 million on an after-tax basis.

For the three and nine months ended September 30, 2008, the fair value of hybrid financial assets decreased $1 million and $5 million on a pre-tax basis and $1 million and $3 million on an after-tax basis and the fair value of hybrid financial liabilities, which related to five medium-term notes, decreased $30 million and $41 million on a pre-tax basis and $19 million and $26 million on an after-tax basis, respectively. Contractual interest coupon payments related to these medium-term notes are recorded within “Interest expense” on the Company’s consolidated statements of operations.

Note 6: Investments

The Company’s fixed-maturity portfolio consists of high-quality (average rating double-A) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method in accordance with the equity method for investments in common stock and highly rated perpetual securities that bear interest and are callable by the issuer. The following tables present the amortized cost, fair value and other-than-temporary impairments of available-for-sale fixed-maturity and other investments included in the consolidated investment portfolio of the Company as of September 30, 2009 and December 31, 2008:

	September 30, 2009				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments [1]
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 800	$ 17	$ -	$ 817	$ -
Foreign governments	589	28	(5)	612	-
Corporate obligations	2,870	47	(274)	2,643	-
Mortgage-backed securities					
Residential mortgage-backed agency	1,768	56	(4)	1,820	-
Residential mortgage-backed non-agency	1,372	27	(527)	872	(187)
Commercial mortgage-backed	56	-	(12)	44	(1)
Asset-backed securities					
Collateralized debt obligations	894	-	(469)	425	(138)
Other asset-backed	1,559	16	(317)	1,258	(85)
Total	9,908	191	(1,608)	8,491	(411)
State and municipal bonds					
Tax-exempt bonds	2,364	53	(19)	2,398	-
Taxable bonds	770	20	(40)	750	-
Total state and municipal bonds	3,134	73	(59)	3,148	-
Total fixed-maturity investments	13,042	264	(1,667)	11,639	(411)
Other investments:					
Perpetual preferred securities	484	16	(95)	405	-
Other investments	65	-	-	65	-
Money market securities	1,733	-	-	1,733	-
Total other investments	2,282	16	(95)	2,203	-
Total available-for-sale investments	$15,324	$ 280	$ (1,762)	$13,842	$ (411)

(1) - Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss).

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In millions	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 1,194	$ 74	$ -	$ 1,268
Foreign governments	818	39	(22)	835
Corporate obligations	3,861	43	(541)	3,363
Mortgage-backed securities				
Residential mortgage-backed agency	1,359	27	(12)	1,374
Residential mortgage-backed non-agency	1,664	9	(649)	1,024
Commercial mortgage-backed	72	-	(19)	53
Asset-backed securities				
Collateralized debt obligations	1,467	3	(552)	918
Other asset-backed	1,298	4	(318)	984
Total	11,733	199	(2,113)	9,819
State and municipal bonds				
Tax-exempt bonds	3,273	20	(233)	3,060
Taxable bonds	473	13	(61)	425
Total state and municipal bonds	3,746	33	(294)	3,485
Total fixed-maturity investments	15,479	232	(2,407)	13,304
Other investments:				
Perpetual preferred securities	635	-	(315)	320
Other investments	126	-	(5)	121
Money market securities	3,235	-	-	3,235
Total other investments	3,996	-	(320)	3,676
Total available-for-sale investments	$19,475	$ 232	$ (2,727)	$16,980

Fixed-maturity investments carried at fair value of $13 million and $14 million as of September 30, 2009 and December 31, 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

MBIA Corp., through a consolidated VIE, held fixed-maturity securities for trading with a fair value of $123 million as of September 30, 2009. As of December 31, 2008, MBIA Corp. held no fixed-maturity securities for trading.

A portion of the obligations under investment agreements require the Company to pledge securities as collateral. As of September 30, 2009 and December 31, 2008, the fair value of securities pledged as collateral with respect to these obligations approximated $2.7 billion. Additionally, the Company has pledged cash in the amount of $485 million.

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of September 30, 2009. Contractual maturity may differ from expected maturity because borrowers may have the right to call or prepay obligations.

In millions	Amortized Cost	Fair Value
Due in one year or less	$ 981	$ 988
Due after one year through five years	1,767	1,766
Due after five years through ten years	1,004	951
Due after ten years through fifteen years	497	496
Due after fifteen years	3,144	3,019
Mortgage-backed	3,196	2,736
Asset-backed	2,453	1,683
Total fixed-maturity investments	$ 13,042	$11,639

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Investments that are held-to-maturity are reported on the Company's balance sheet at amortized cost. These investments, which relate to the Company's conduit segment and consolidated VIEs, primarily consist of ABS and loans issued by major national and international corporations and other structured finance clients. As of September 30, 2009, the amortized cost and fair value of held-to-maturity investments totaled $3.9 billion and $3.0 billion, respectively. Unrecognized gross gains were $9 million and unrecognized gross losses were $891 million. As of December 31, 2008, the amortized cost and fair value of held-to-maturity investments totaled $3.7 billion and $3.6 billion, respectively. Unrecognized gross gains were $1 million and unrecognized gross losses were $62 million. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost and fair value as of September 30, 2009:

In millions	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1	1
Due after five years through ten years	1	1
Due after ten years through fifteen years	-	-
Due after fifteen years	1,100	1,009
Mortgage-backed	92	92
Asset-backed	2,702	1,911
Total held-to-maturity investments (1)	$ 3,896	$ 3,014

(1) - Includes $2 million related to tax credit investments reported in " Other investments" on the balance sheet.

Included in the preceding tables are investments that have been insured by MBIA Corp. and National ("MBIA-Insured Investments"). As of September 30, 2009, MBIA-Insured Investments at fair value represented $2.7 billion or 15% of the consolidated investment portfolio. Conduit segment investments represented $1.4 billion or 8% of the consolidated investment portfolio and were all insured by MBIA Corp. Without giving effect to the MBIA guarantee of the MBIA-Insured Investments, the underlying ratings (those given to an investment without the benefit of MBIA's guarantee) of the MBIA-Insured Investments as of September 30, 2009 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of MBIA Corp.'s and National's guarantee. The ratings in the following table are based on ratings from Moody's. Alternate rating sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's. When an external underlying rating is not available, the underlying rating is based on the Company's best estimate of the rating of such investment.

In millions

Underlying Ratings Scale	U.S. Public Finance Insurance Available-for-Sale	Structured Finance and International Insurance Available-for-Sale	Investment Management Services Available-for-Sale	Investments Held-to-Maturity	Total
Aaa	$ -	$ 16	$ 2	$ 115	$ 133
Aa	75	7	61	35	178
A	173	-	197	99	469
Baa	114	11	241	1,121	1,487
Below investment grade	1	218	94	73	386
Total	$ 363	$ 252	$ 595	$ 1,443	$2,653

It is MBIA's policy to obtain an underlying rating from both Moody's and S&P for each new transaction funded through the Company's conduit segment prior to the execution of such transactions. All transactions currently funded in the conduit segment had an underlying rating of investment grade by Moody's and S&P prior to funding. The weighted average underlying rating for transactions currently funded in the Company's conduits was A- by S&P and A2 by Moody's at the time such transactions were funded. MBIA estimates that the weighted average underlying rating of all outstanding conduit segment transactions was BBB by S&P and Baa1 by Moody's as of September 30, 2009.

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The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of September 30, 2009 and December 31, 2008 related to available-for-sale fixed-maturity and other investments. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	September 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 48	$ -	$ -	$ -	$ 48	$ -
Foreign governments	1	-	69	(5)	70	(5)
Corporate obligations	301	(39)	1,132	(235)	1,433	(274)
Mortgage-backed securities						
Residential mortgage-backed agency	51	-	83	(4)	134	(4)
Residential mortgage-backed non-agency	260	(91)	506	(436)	766	(527)
Commercial mortgage-backed	3	(1)	38	(11)	41	(12)
Asset-backed securities						
Collateralized debt obligations	161	(105)	263	(364)	424	(469)
Other asset-backed	242	(93)	578	(224)	820	(317)
Total	1,067	(329)	2,669	(1,279)	3,736	(1,608)
State and municipal bonds						
Tax exempt bonds	101	(2)	330	(17)	431	(19)
Taxable bonds	52	(9)	173	(31)	225	(40)
Total state and municipal bonds	153	(11)	503	(48)	656	(59)
Total fixed-maturity investments	1,220	(340)	3,172	(1,327)	4,392	(1,667)
Other investments						
Perpetual preferred securities	40	(6)	296	(89)	336	(95)
Other investments	-	-	5	-	5	-
Total other investments	40	(6)	301	(89)	341	(95)
Total	$ 1,260	$ (346)	$ 3,473	$(1,416)	$ 4,733	$(1,762)

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	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 5	$ -	$ 24	$ -	$ 29	$ -
Foreign governments	107	(10)	24	(12)	131	(22)
Corporate obligations	1,144	(123)	1,243	(418)	2,387	(541)
Mortgage-backed securities						
Residential mortgage-backed agency	98	(5)	206	(7)	304	(12)
Residential mortgage-backed non-agency	82	(45)	645	(604)	727	(649)
Commercial mortgage-backed	9	(1)	40	(18)	49	(19)
Asset-backed securities						
Collateralized debt obligations	165	(190)	285	(351)	450	(541)
Other asset-backed	419	(96)	430	(222)	849	(318)
Total	2,029	(470)	2,897	(1,632)	4,926	(2,102)
State and municipal bonds						
Tax-exempt bonds	2,034	(225)	171	(8)	2,205	(233)
Taxable bonds	188	(35)	107	(26)	295	(61)
Total state and municipal bonds	2,222	(260)	278	(34)	2,500	(294)
Total fixed-maturity investments	4,251	(730)	3,175	(1,666)	7,426	(2,396)
Other investments						
Perpetual preferred securities	99	(78)	219	(237)	318	(315)
Other investments	94	(5)	-	-	94	(5)
Total other investments	193	(83)	219	(237)	412	(320)
Total	$ 4,444	$ (813)	$ 3,394	$(1,903)	$ 7,838	$(2,716)

The following tables present the gross unrealized losses of held-to-maturity investments as of September 30, 2009 and December 31, 2008. Held-to-maturity investments are reported at amortized cost on the Company's balance sheet. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	September 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate	$ 1,009	$ (91)	$ -	$ -	$ 1,009	$ (91)
Mortgage and other asset-backed securities	1,620	(776)	73	(24)	1,693	(800)
Total	$ 2,629	$ (867)	$ 73	$ (24)	$ 2,702	$ (891)

	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage and other asset-backed securities	$ 334	$ (28)	$ 75	$ (34)	$ 409	$ (62)

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As of September 30, 2009 and December 31, 2008, the Company's available-for-sale fixed-maturity, equity and held-to-maturity investment portfolios' gross unrealized losses totaled $2.7 billion and $2.8 billion, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2009 and December 31, 2008 was 17 years and 16 years, respectively. As of September 30, 2009, there were 626 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $1.4 billion. Within the 626 securities, the book value of 516 securities exceeded market value by more than 5% as presented in the following table:

Percentage Book Value Exceeded Market Value	Number of Securities	Fair Value (in millions)
5% to 15%	$ 189	$ 1,246
16% to 25%	103	618
26% to 50%	122	750
Greater than 50%	102	288
Total	$ 516	$ 2,902

As of December 31, 2008, there were 570 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $1.9 billion. Within the 570 securities, the book value of 486 securities exceeded market value by more than 5%.

MBIA has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, and whether MBIA has the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recovery. Based on its evaluation, the Company realized other-than-temporary impairments of $93 million primarily related to residential mortgage-backed and CDO securities for the three months ended September 30, 2009. For the nine months ended September 30, 2009, the Company realized other-than-temporary impairments of $333 million primarily related to residential mortgage-backed and other asset-backed securities and $104 million related to perpetual securities. MBIA determined that the unrealized losses on the remaining securities were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it does not have the intent to sell these securities and it is more likely than not that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources availability to its business other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2009 that would require the sale of impaired securities. On a quarterly basis, MBIA will reevaluate the unrealized losses in its investment portfolios and determine whether an impairment loss should be realized in current earnings. Refer to "Note 7: Investment Income and Gains and Losses" for information on realized losses due to other-than-temporary impairments. Additionally, refer to "Note 2: Significant Accounting Policies" for a description of the process used by the Company to determine other-than-temporary impairments.

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Note 7: Investment Income and Gains and Losses

The following table includes total investment income from all operations:

In millions	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Fixed-maturity	$ 129	$ 270	$ 416	$ 1,019
Held-to-maturity	19	27	70	118
Short-term investments	3	50	21	126
Other investments	8	15	25	44
Gross investment income	159	362	532	1,307
Investment expenses	2	8	7	20
Net investment income	157	354	525	1,287
Fixed-maturity				
Gains	46	116	137	293
Losses	(161)	(489)	(490)	(1,599)
Net	(115)	(373)	(353)	(1,306)
Other investments				
Gains	0	1	3	2
Losses	-	(23)	(6)	(24)
Net	0	(22)	(3)	(22)
Other				
Gains	5	9	79	8
Losses	(61)	(40)	(174)	(93)
Net	(56)	(31)	(95)	(85)
Total net realized gains (losses) (1)	(171)	(426)	(451)	(1,413)
Total investment income (loss)	$ (14)	$ (72)	$ 74	$ (126)

(1) - Includes losses from other-than-temporary impairments.

For the three months ended September 30, 2009, net realized losses from fixed-maturity investments of $115 million included other-than-temporary impairments of $93 million primarily related to residential mortgage-backed and CDO securities and realized losses on security sales. For the first nine months of 2009, net realized losses from fixed-maturity investments of $353 million included other-than-temporary impairments of $333 million primarily related to residential mortgage-backed and other asset-backed securities and losses on security sales. For the three and nine months ended September 30, 2009 gains from fixed-maturity investments included an increase in the fair value of trading securities of $8 million.

For the three months ended September 30, 2008, net realized losses from fixed-maturity investments of $373 million included other-than-temporary impairments of $135 million primarily related to ABS and corporate securities and realized losses on security sales. For the first nine months of 2008, net realized losses from fixed-maturity investments of $1.3 billion included other-than-temporary impairments of $794 million primarily related to ABS and corporate securities and realized losses on security sales.

For the three months ended September 30, 2009, other net realized losses of $56 million included impairments of $41 million related to a loan receivable within a consolidated VIE and $19 million related to real estate owned by MBIA Corp. For the first nine months of 2009, other net realized losses of $95 million included other-than-temporary impairments of $104 million related to perpetual equity securities, impairments of $41 million related to a loan receivable within a consolidated VIE, and $19 million related to real estate owned by MBIA Corp., partially offset by gains of $73 million related to swap terminations.

As discussed in “Note 2: Significant Accounting Policies,” a portion of certain other-than-temporary impairment (“OTTI”) losses on fixed-maturity securities are recognized in accumulated other comprehensive income (loss). The following table presents the amount of credit loss impairments on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the other-than-temporary impairment losses were recognized in accumulated other comprehensive income (loss), and the corresponding changes in such amounts.

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Credit Losses Recognized in Earnings Related to OTTI	(in millions)
Balance, December 31, 2008	$ -
Credit losses recognized in retained earnings related to the adoption of recently effective accounting principles (1)	226
Additions for credit loss impairments recognized in the current period on securities not previously impaired	177
Reductions for credit loss impairments previously recognized on securities sold during the period	(102)
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period (2)	-
Additions for credit loss impairments recognized in the current period on securities previously impaired	25
Reductions for increases in cash flows expected to be collected over the remaining life of the security	-
Balance, September 30, 2009	$ 326

(1) - Reflects the adoption of recently effective principles for recognition and presentation of other-than-temporary impairments, as described in "Note 3: Recent Accounting Pronouncements."
(2) - Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

For ABS (e.g., RMBSs and CDOs), the Company estimated expected future cash flows of each security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which considers current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for each significant class of asset-backed securities for the three months ended September 30, 2009.

	Asset-backed Securities
Expected size of losses (1):	
Range (2)	3.45% to 99.29%
Weighted average (3)	38.24%
Current subordination levels (4):	
Range (2)	0.00% to 49.02%
Weighted average (3)	13.37%
Prepayment speed (annual constant prepayment rate ("CPR")) (5):	
Range (2)	1.54 to 34.09
Weighted average (3)	10.02

(1) - Represents future expected credit losses on impaired assets expressed as a percentage of total current outstanding balance.
(2) - Represents the range of inputs/assumptions based upon the individual securities within each category.
(3) - Calculated by weighting the relevant input/assumption for each individual security by current outstanding amortized cost basis of the security.
(4) - Represents current level of credit protection (subordination) for the securities, expressed as a percentage of total current underlying loan balance.
(5) - Values represent high and low points of lifetime vectors of CPR.

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Net unrealized gains (losses), including related deferred income taxes, reported in accumulated other comprehensive income (loss) within shareholders' equity consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity:		
Gains	$ 264	$ 231
Losses	(1,667)	(2,406)
Foreign exchange	(19)	(102)
Net	(1,422)	(2,277)
Other investments:		
Gains	16	0
Losses	(95)	(320)
Net	(79)	(320)
Total	(1,501)	(2,597)
Deferred income taxes provision (benefit)	(458)	(867)
Unrealized gains (losses), net	$ (1,043)	$ (1,730)

The change in net unrealized gains (losses), including the portion of OTTI included in accumulated other comprehensive loss, consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity	$ 855	$ (1,684)
Other investments	241	(302)
Total	1,096	(1,986)
Deferred income tax charged (credited)	409	(655)
Change in unrealized gains (losses), net	$ 687	$ (1,331)

Note 8: Derivative Instruments

Overview

MBIA has entered into derivative transactions as an additional form of financial guarantee and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. CDSs are also entered into in the investment management services operations to replicate investments in cash assets consistent with the Company's risk objectives and credit guidelines for its investment management business. The Company accounts for derivative transactions in accordance with the accounting principles for derivative and hedging activities, which requires that all such transactions be recorded on the Company's balance sheet at fair value. Fair value of derivative instruments is defined as the price that would be received to sell a derivative asset or paid to transfer a derivative liability (an exit price) in an orderly transaction between market participants at the measurement date.

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

U.S. Public Finance Insurance

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the Company's balance sheet with the changes in fair value recorded in unrealized gains (losses) on insured derivatives.

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Structured Finance and International Insurance

The Company entered into derivative transactions that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the Company's balance sheet. The Company's structured finance and international insurance operations, which insured the majority of the Company's notional derivative exposure, have insured derivatives primarily consisting of structured pools of CDSs that the Company intends to hold for the entire term of the contract absent a negotiated settlement with the counterparty. The Company's structured finance and international insurance operations have also provided guarantees on the value of certain structured closed-end funds, which meet the definition of a derivative. The Company reduces risks embedded in its insured portfolio through the use of reinsurance and by entering into derivative transactions. This includes cessions of insured derivatives under reinsurance agreements and capital markets transactions in which the Company economically hedges a portion of the credit and market risk associated with its insured credit derivative portfolio. Such arrangements are also accounted for as derivatives and recorded in the Company's financial statements at fair value.

Investment Management Services

The investment management services operations have entered into derivative transactions primarily consisting of interest rate, cross currency, principal protection guarantees and CDSs. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to hedge the variability in cash flows resulting from fluctuations in foreign currency rates. The Company has also provided loss protection on certain MBIA-MISC managed municipal pools that invest in highly rated short-term fixed-income securities. Such protection is accounted for as a derivative and is included as part of the Company's principal protection guarantees. CDSs are entered into to hedge credit risk or to replicate investments in cash assets consistent with the Company's risk objectives and credit guidelines for its investment management business.

Certain interest rate and cross currency swaps qualify as cash flow hedges and fair value hedges. The cash flow hedges mitigate or offset fluctuations in cash flows arising from variable rate assets or liabilities. The unrealized gains and losses relating to the cash flow hedges are reported in accumulated other comprehensive income (loss) and will be reclassified into earnings as interest revenue and expense are recognized on the hedged assets and liabilities. The fair value hedges are used to protect against changes in the market value of the hedged assets or liabilities. The gains and losses relating to the fair value hedges are recorded directly in earnings. Cash flow and fair value hedges are hedging existing assets, liabilities or forecasted transactions.

Corporate

The corporate operations have entered into a cross currency swap to hedge foreign exchange risks related to the issuance of certain MBIA long-term debt in accordance with the Company's risk management policies. The cross currency swap has been designated as a cash flow hedge and hedges the variability arising from currency exchange rate movements on the foreign denominated fixed rate debt. Changes in the fair value of the cross currency swap are recorded in accumulated other comprehensive income (loss). As the debt is revalued at the spot exchange rate in accordance with accounting principles for foreign currency matters, an amount that will offset the related transaction gain or loss arising from the revaluation will migrate each period from accumulated other comprehensive income (loss) into earnings. This cash flow hedge was 100% effective during the first nine months of 2009.

Credit Derivatives Sold

The following table presents information about credit derivatives sold (insured) by the Company's insurance operations that were outstanding as of September 30, 2009. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P or MBIA.

In millions

		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Credit default swaps	9.3 Years	$40,679	$27,889	$36,145	$ 7,333	$19,611	$131,657	$(4,938)
Insured swaps	16.9 Years	-	718	6,449	5,749	1,423	14,339	(14)
Credit linked notes	28.4 Years	1	-	-	-	-	1	-
All others	10.1 Years	-	-	192	36	159	387	(29)
Total notional		$40,680	$28,607	$42,786	$13,118	$21,193	$146,384	
Total fair value		$ (346)	$ (549)	$ (1,302)	$ (580)	$ (2,204)		$(4,981)

The following table presents information about credit derivatives sold (insured) by the Company's insurance operations that were outstanding as of December 31, 2008. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P or MBIA.

In millions

		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Credit default swaps	5.8 Years	$122,213	$5,176	$ 120	$1,447	$16,077	$145,033	$(6,175)
Insured swaps	16.1 Years	-	1,605	5,720	8,419	1,435	17,179	(5)
Total return swaps	1.7 Years	-	-	200	-	104	304	-
Credit linked notes	30.3 Years	-	-	1	-	-	1	-
All others	9.4 Years	195	-	288	-	-	483	(14)
Total notional		$122,408	$6,781	$6,329	$9,866	$17,616	$163,000	
Total fair value		$ (3,450)	$ (481)	$ -	$ (37)	$ (2,226)		$(6,194)

Referenced credit ratings assigned by MBIA to insured credit derivatives are derived by the Company's surveillance group in conjunction with representatives from its new business and risk divisions. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDSs are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDSs. Refer to "Note 13: Net Insurance in Force" for further information about the Company's sold credit derivatives, including the maximum potential undiscounted payments, recourse provisions and collateral arrangements. The maximum potential amount of future payments (undiscounted) on insured swaps, total return swaps and credit linked notes sold are estimated as the notional value of such contracts.

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The following table presents information about credit derivatives sold by the Company's investment management services operations that were outstanding as of September 30, 2009. Credit ratings represent the lower of ratings currently assigned by Moody's, S&P or external counterparties.

In millions

Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	Notional Value						Fair Value
		AAA	AA	A	BBB	Below BBB	Total Notional	Asset (Liability)
Credit default swaps	3.3 Years	$ -	$95	$80	$ 25	$ 5	$ 205	$ (6)
Principal protection guarantees	0.1 Years	7,356	-	-	-	-	7,356	-
Credit linked notes	1.8 Years	15	-	-	20	106	141	(44)
Total notional		$7,371	$95	$80	$ 45	$ 111	$7,702	
Total fair value		$ (2)	$ (4)	$ -	$(21)	$ (23)		$ (50)

The following table presents information about credit derivatives sold by the Company's investment management services operations that were outstanding as of December 31, 2008. Credit ratings represent the lower of ratings currently assigned by Moody's, S&P or external counterparties.

In millions

Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	Notional Value						Fair Value
		AAA	AA	A	BBB	Below BBB	Total Notional	Asset (Liability)
Credit default swaps	3.2 Years	$ 180	$155	$397	$ -	$ -	$ 732	$ (55)
Principal protection guarantees	0.1 Years	4,469	-	-	-	-	4,469	-
Total return swaps	6.8 Years	-	-	37	-	-	37	(3)
Credit linked notes	2.5 Years	15	100	-	25	6	146	(60)
Total notional		$4,664	$255	$434	$ 25	$ 6	$5,384	
Total fair value		$ (28)	$ (44)	$ (22)	$(19)	$ (5)		$ (118)

The maximum potential amount of future payments (undiscounted) on derivatives presented in the preceding table are estimated as the notional value of such contracts.

Financial Statement Impact

In the second quarter of 2009, the Company re-evaluated its election regarding offsetting the fair value amounts recognized for derivative contracts executed with the same counterparty under a master netting agreement under the accounting principles of right to offset. As a result, the Company has decided to begin netting the fair value amounts recognized for derivative contracts executed with the same counterparty.

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As of September 30, 2009 and December 31, 2008, the Company reported derivative assets of $781 million and $911 million, respectively, and derivative liabilities of $5.0 billion and $6.5 billion, respectively, after counterparty netting, which are shown separately on the Company's consolidated balance sheets. The following table presents the amount of the derivative assets and liabilities by instrument:

In millions

Derivatives Designated as Hedging Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	$ 922	Derivative assets	$ 83	Derivative liabilities	$ (53)
Currency swaps	91	Derivative assets	28	Derivative liabilities	(4)
Total hedges	$ 1,013		$ 111		$ (57)

In millions

Derivatives Not Designated as Hedging Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Credit default swaps - insured derivatives	$153,281	Derivative assets	$ 724	Derivative liabilities	$(4,938)
Insured swaps	14,442	Derivative assets	1	Derivative liabilities	(14)
Credit default swaps - investment management	283	Derivative assets	12	Derivative liabilities	(8)
Interest rate swaps	5,314	Derivative assets	141	Derivative liabilities	(311)
Interest rate swaps - embedded	530	Medium term notes	18	Medium term notes	(18)
Interest rate swaps - embedded	660	Other liabilities	-	Other assets	(12)
Credit linked notes	1	Derivative assets	-	Derivative liabilities	-
Credit linked notes	155	Fixed-maturity securities held at fair value	-	Fixed-maturity securities held at fair value	(41)
Currency swaps	657	Derivative assets	78	Derivative liabilities	(17)
All other	7,265	Derivative assets	-	Derivative liabilities	(31)
Total non-hedges	$182,588		$ 974		$(5,390)
Total derivatives	$183,601		$ 1,085		$(5,447)

The following tables show the effect of derivative instruments on the consolidated statement of operations for the three months ended September 30, 2009:

In millions

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ 8	$ (8)	$ -
Interest rate swaps	Net realized gains (losses)	-	-	1
Total		$ 8	$ (8)	$ 1

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In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$ (798)
Insured swaps	Realized gains (losses) and other settlements on insured derivatives	(30)
Credit default swaps - investment management	Net gains (losses) on financial instruments at fair value and foreign exchange	17
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(36)
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	3
All other	Unrealized gains (losses) on insured derivatives	(11)
Total		$ (856)

The following tables show the effect of derivative instruments on the consolidated statement of operations for the nine months ended September 30, 2009:

In millions

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ (106)	$ 98	$ (8)
Interest rate swaps	Net realized gains (losses)	-	-	60
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	4	(4)	-
Currency swaps	Net realized gains (losses)	-	-	13
Total		$ (102)	$ 94	$ 65

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In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$ 1,237
Insured swaps	Unrealized gains (losses) on insured derivatives	1
Insured swaps	Realized gains (losses) and other settlements on insured derivatives	34
Credit default swaps - investment management	Net gains (losses) on financial instruments at fair value and foreign exchange	19
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	22
Total return swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	6
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange	19
Currency Swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	3
All other	Unrealized gains (losses) on insured derivatives	(18)
Total		$ 1,323

The amount of losses recognized in other comprehensive income (loss) on derivatives designated as cash flow hedges was a $162 thousand on interest rate swaps and a $1.4 million on cross currency swaps. The amount of gains reclassified from other comprehensive income (loss) into net gains (losses) on financial instruments at fair value and foreign exchange was $92 thousand for the interest rate swaps and $407 thousand for the cross currency swaps.

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the investment management services and corporate operations. 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 MBIA or the counterparty is downgraded below a specified credit rating.

In certain non-insurance derivative contracts, 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 certain derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties' exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of September 30, 2009, the Company did not hold cash collateral from derivative counterparties but posted cash collateral to derivative counterparties of $101 million. This amount is in derivative liability. As of September 30, 2009, the Company had securities with a fair value of $107 million posted to derivative counterparties.

If the Company had not elected to net the fair value amounts recognized for derivative contracts executed with the same counterparty under the provisions of right to offset and were to settle all transactions covered under master netting agreements as of September 30, 2009, the amount required to be paid to counterparties would have increased by $286 million as a result of its inability to offset amounts due from such counterparties.

As of September 30, 2009, the fair value was positive on two Credit Support Annexes ("CSAs") which govern collateral posting requirements between MBIA and its derivative counterparties. The aggregate positive fair value for these two CSAs was $10 million for which the Company did not receive collateral because the Company's credit rating was below the CSA minimum credit ratings level for holding counterparty collateral. The lowest rated of the two counterparties was A+ by S&P and A1 by Moody's.

Note 9: Variable Interest Entities

Insurance

Through MBIA's structured finance and international insurance operations, the Company provides credit enhancement services to issuers of obligations that may involve issuer-sponsored special purpose entities ("SPEs"). An SPE may be considered a VIE to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or if its equity investors lack any one of the characteristics of a controlling financial interest including (i) the ability to make significant decisions through voting rights, (ii) the right to receive the expected residual returns of the entity, or (iii) the obligation to absorb the expected losses of the entity. The holder of a variable interest that will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both, is required to consolidate the VIE. The variable interest holder required to consolidate a VIE is considered to be the primary beneficiary. A variable interest holder determines whether it is the primary beneficiary of the VIE at initial recognition of its variable interest in the VIE and reconsiders its determination if certain events occur in a subsequent reporting period.

The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, at inception and when reconsideration events occur, MBIA evaluates whether its guarantee to provide credit protection on obligations issued by VIEs will absorb the majority of the expected losses of the VIE.

The Company generally makes this determination based on a qualitative assessment of the design and purpose of the VIE, the capital structure and other variable interests that will absorb expected losses. If the Company cannot make the determination based on a qualitative analysis, a quantitative analysis is used. The Company generally provided credit protection on the most senior obligations issued by VIEs, and at inception of the contract, its exposure generally had more subordination than necessary to achieve triple-A credit ratings from credit rating agencies. MBIA generally does not absorb the majority of the expected losses and is not the primary beneficiary as the result of its guarantees of insured obligations issued by VIEs. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a nonconsolidated VIE, to be a significant variable interest.

Consolidated VIEs

As of September 30, 2009, consolidated VIE assets and liabilities were $3.1 billion and $7.6 billion, respectively, based on the consolidation of eight VIEs. As of December 31, 2008, consolidated VIE assets and liabilities were $2.3 billion and $8.0 billion, respectively, based on the consolidation of six VIEs. Included in consolidated VIEs as of September 30, 2009 and December 31, 2008 is an entity sponsored and formed by the Company, LaCrosse, designed to provide credit protection to counterparties in the form of credit derivative instruments. The Company provides credit support and issues financial guarantee insurance policies that insure all LaCrosse credit protection obligations. LaCrosse lacks sufficient equity to finance its activities and is deemed a VIE. As primary beneficiary, the Company consolidates LaCrosse. In the second quarter of 2009, the Company formed MBIA Capital Management Institutional Investor Trust to invest in fixed income securities and financial instruments for income and capital appreciation, and has invested in the equity of this entity. The entity's equity at risk does not meet all the conditions of a controlling financial interest and is deemed a VIE. The Company holds the majority of the equity of the VIE and is considered the primary beneficiary. In the second quarter of 2009, the Company initially consolidated a VIE as primary beneficiary resulting from a financial guarantee insurance policy that provides credit protection on insured obligations issued by the entity. The maturity dates of the investments held and insured obligations issued by this VIE are in May 2010. In the nine months ended September 30, 2009, the Company acquired additional variable interests in one consolidated VIE which has outstanding obligations insured by MBIA.

The Company determined that it is the primary beneficiary of the consolidated VIEs based on its assessment of potential exposure to expected losses from insured obligations issued by the VIEs and from holding any additional variable interests issued by the VIEs. Creditors of issuer-sponsored VIEs 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 the additional variable interests acquired.

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Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a significant variable interest as of September 30, 2009 and December 31, 2008. The tables also present the Company's maximum exposure to loss in comparison to the carrying value of liabilities resulting from financial guarantees and insured CDSs and loss and LAE reserves as of September 30, 2009 and December 31, 2008. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. Refer to "Note 8: Derivative Instruments" for information about the Company's valuation of insured derivatives. Additionally, as the majority of the Company's loss and LAE reserves relate to guarantees of VIEs, refer to "Note 10: Loss and Loss Adjustment Expense Reserves" for information about the Company's loss and LAE activity.

	September 30, 2009				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 59,446	$ 51,957	$ 111	$ 1,931	$ 55
Mortgage-backed residential	78,065	27,814	139	3	973
Mortgage-backed commercial	1,830	1,512	7	-	-
Consumer asset-backed	17,219	10,509	45	-	21
Corporate asset-backed	57,596	32,474	514	4	-
Total global structured finance	$214,156	$124,266	$ 816	$1,938	$ 1,049
Global public finance	31,270	11,145	153	-	-
Total insurance	$245,426	$135,411	$ 969	$1,938	$ 1,049

	December 31, 2008				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 70,778	$ 51,198	$ 11	$2,567	$ 25
Mortgage-backed residential	94,574	29,677	4	1	1,068
Mortgage-backed commercial	2,196	1,660	-	-	-
Consumer asset-backed	21,449	12,832	1	-	22
Corporate asset-backed	68,101	38,498	43	4	-
Total global structured finance	$257,098	$133,865	$ 59	$2,572	$ 1,115
Global public finance	25,561	9,621	85	-	-
Total insurance	$282,659	$143,486	$ 144	$2,572	$ 1,115

The maximum exposure to losses as a result of the Company's variable interest in the VIE is represented by net insurance in force. Net insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs, assuming a full credit event occurs. The maximum exposure to losses presented in the preceding table is included in and not incremental to the net insurance in force presented in "Note 13: Net Insurance in Force." The Company adopted the accounting principles for financial guarantee insurance contracts effective and applied prospectively beginning January 1, 2009, which requires unearned premium revenue to be recognized and measured based on the present value, using the risk-free discount rate, of premiums due or expected to be collected in installments. Therefore, "Unearned Premium Revenue" presented under "Carrying Value of Liabilities" in the preceding nonconsolidated VIEs tables as of September 30, 2009 and December 31, 2008, are based on different accounting estimates due to the change in accounting principle.

Investment Management Services

In its investment management services operations, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale and investments held-to-maturity. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both, as of the date of initial purchase and as of any subsequent date of additional acquisitions of interests in the VIE. MBIA is not the primary beneficiary of any VIEs and does not hold any significant variable interests in issuers considered VIEs based on its assessment of the investment portfolio.

In the advisory segment of its investment management services operations, the Company provides collateral management services to ten VIEs. Additional variable interests are held in certain of these VIEs in the form of either credit protection provided on VIE obligations or investment in a VIE obligation. The Company evaluates each VIE to determine whether it's combined variable interests in each respective VIE will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both. The Company is not the primary beneficiary of the aforementioned VIEs. Significant variable interests resulting from credit protection provided on obligations issued by seven of the VIEs are presented in the table above. The Company does not hold a significant variable interest in any of the remaining three VIEs.

As of September 30, 2009 and December 31, 2008, a Company sponsored nonconsolidated funding conduit held no material assets and had no obligations outstanding. The Company has no liquidity obligation to fund nonconsolidated funding conduits.

Consolidated VIEs

In the conduit segment of its investment management services operations, the Company manages and administers two multi-seller conduit SPEs, Triple-A One and Meridian (collectively, the "Conduits"). The Conduits invest in various types of financial instruments, such as debt securities, loans, lease receivables, trade receivables, and obligations issued by SPEs, and fund the investments through the issuance of medium-term notes and long-term debt. The assets and liabilities of the Conduits are supported by credit enhancement provided through MBIA Corp. The Conduits are designed to provide issuers an efficient source of funding for issued obligations, and to provide an opportunity for MBIA Corp. to issue financial guarantee insurance policies.
The Conduits are VIEs and are consolidated by the Company as the primary beneficiary. MBIA has included on its balance sheet the assets and liabilities of each Conduit, which consist primarily of various types of investments funded by medium-term notes and liquidity loans, and has included in its statement of operations the operating revenues and expenses of the Conduits. Certain of MBIA's consolidated subsidiaries have invested in Conduit debt obligations or have received compensation for services provided to the Conduits. As such, MBIA has eliminated intercompany transactions with the Conduits from its balance sheet and statement of operations. After the elimination of such intercompany assets and liabilities, total assets and liabilities of the Conduits were $2.1 billion and $2.0 billion, respectively, as of September 30, 2009 and $2.5 billion and $2.5 billion, respectively, as of December 31, 2008. Creditors of the Conduits do not have recourse to the general assets of MBIA outside of financial guarantee policies provided on obligations issued by the Conduits.

In the third quarter of 2009, the Company sponsored and formed an entity designed to issue beneficial interests that are held primarily by the Company and by third parties and to purchase mortgage-backed securities transferred by MBIA. The entity is a VIE. MBIA is exposed to the majority of the expected losses and expected residual returns and is, therefore, the primary beneficiary and is required to consolidate the entity. As of September 30, 2009, total assets and liabilities were $186 million and $19 million, respectively.

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Balance Sheet Impact of Consolidated VIEs

The following table presents the carrying amounts and classification of assets and liabilities of consolidated VIEs as of September 30, 2009 and December 31, 2008:

In millions	September 30, 2009	December 31, 2008
Assets:		
Investments:		
Fixed-maturity securities held as available-for-sale	$ 536	$ 632
Fixed-maturity securities held as trading, at fair value	123	-
Investments held-to-maturity, at amortized cost	2,861	3,157
Short-term investments held-to-maturity, at amortized cost	1,032	499
Cash and cash equivalents (1)	249	91
Accrued investment income	5	12
Deferred income taxes, net	77	18
Other assets	473	423
Total assets	$ 5,356	$ 4,832
Liabilities:		
Medium-term notes	$ 1,537	$ 2,133
Variable interest entity notes	2,669	1,792
Long-term debt	423	345
Derivative liabilities	4,955	6,202
Other liabilities	21	2
Total liabilities	$ 9,605	$ 10,474

(1) - Cash and cash equivalents held by certain consolidated VIEs and pledged as security for the benefit of each respective VIEs' noteholders.

Note 10: Loss and Loss Adjustment Expense Reserves

During the first nine months of 2009, the Company incurred $203 million of losses and LAE primarily driven by additional losses of $2.0 billion largely related to the Company's second-lien RMBS exposure. These additional losses were mostly offset by the impact of recording $1.8 billion of estimated recoveries, of which $1.7 billion was related to our RMBS exposure. Approximately $1.2 billion of the RMBS insurance loss recoveries relate to estimates of potential recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage securitizations that are subject to a contractual obligation by sellers/servicers to repurchase or replace such mortgages and approximately $550 million relates to recoveries of amounts expected to be paid from excess cash flows within the securitizations. Additionally, the Company incurred $92 million of losses in the first nine months of 2009 primarily related to a U.S. public finance affordable housing transaction and a student loan transaction.

Total paid activity, net of reinsurance, for the nine months ended September 30, 2009 of $2.0 billion primarily related to $1.9 billion in payments for insured obligations in the Company's RMBS sector. For the nine months ended September 30, 2009, estimated recoveries on paid losses totaled $1.7 billion and were primarily related to the Company's RMBS sector. The Company had an insurance loss recoverable of $2.2 billion on as of September 30, 2009 and $459 million as of December 31, 2008. Amounts due to reinsurers related to insurance loss recoverables totaled $42 million as of September 30, 2009 and $13 million as of December 31, 2008, and are included in "Other liabilities" on the Company's consolidated balance sheet.

In the third quarter of 2009, the Company continued its review of mortgage loans in the Company's insured transactions. As a result, the expected net cash flows were revised based on additional loan reviews and reflected in the estimated potential recoveries related to ineligible mortgage loans in certain insured first and second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans. The Company's recovery outlook continues to be principally based on the following factors:

1. The strength of MBIA's existing contract claims related to ineligible loan substitution/repurchase obligations;

2. the favorable outcome for MBIA on Defendants' motion to dismiss in the action captioned, MBIA v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) where the court allowed MBIA's fraud claims against the Countrywide defendants to proceed;
3. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which will facilitate their ability to comply with their loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. As a result, the Company did not make any significant adjustments to its estimated recoveries with respect to the credit risk of these sponsors (or their successors); and
4. evidence of loan repurchase/substitution compliance by issuers for put-back requests made by other harmed parties consistent with MBIA's assertions.

Beginning in the first quarter of 2008, MBIA engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying MBIA's home equity lines of credit ("HELOCs") and closed-end second mortgages ("CES") insured transactions. Certain HELOC and CES transactions that exhibited exceptionally poor performance were chosen for a re-underwriting review. Factors MBIA believes to be indicative of this poor performance include (i) a material increase in early and late stage delinquencies; (ii) material increases in charged-off loans; (iii) significant decreases in credit enhancement; and/or (iv) policy payments. MBIA's forensic loan review determined that there were significant breaches of mortgage loan representations and material deviations from underwriting guidelines. Accordingly, the Company has determined that thousands of loans were contractually ineligible for inclusion in the securitized trusts insured by MBIA. In turn, MBIA has submitted thousands of ineligible loans for repurchase/substitution to the sponsors or sellers/servicers. The unsatisfactory resolution of these contractual matters, in addition to fraudulent underwriting practices that we believe were prevalent within certain issuers, has led to MBIA pursuing litigation with these issuers seeking the sellers/servicers to repurchase or replace ineligible mortgage loans and specifically perform under its contractual obligation and damages for both breaches of contractual obligations and fraud. MBIA's forensic examination of loan repurchase/substitution requirements for various issuers remains ongoing.

In the second and third quarters of 2009, MBIA recognized estimated recoveries of $1.2 billion related to reviewed transactions. The estimated recoveries are transaction-specific and based upon contractual breaches for loans which we believe were ineligible and either put back to the originators or sellers/servicers or where analysis has been completed and put-back notices are pending. These estimated recoveries rely upon identified breaches of representations and warranties in specific transactions that MBIA has already identified as a result of actual loan file examinations for loans across a broad spectrum of categories ranging from current to severely delinquent and charged-off mortgage loans. During 2009, in coordination with forensic review consultants, 26,805 mortgage loans were reviewed within 27 first and second-lien mortgage loan securitizations. The aggregate loan population includes current, delinquent and charged-off loans. Estimated recoveries for these 27 transactions of $1.2 billion is based on only those loans that were examined which had substantiated breaches, and does not include any extrapolation of results from the actual loan file examinations to the remaining mortgages in the loan pool. Expected cash inflows from recoveries for all transactions are discounted using the current risk-free rate associated with the underlying credit, which ranged from 2.02% to 3.38% depending upon the transaction's expected life. The Company considered all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as facts and circumstances change and relevant information is available, including additional information on the mortgage loan pools. The Company has utilized the results of the above described loan file examinations to make demands for loan repurchases from originators and services or their successors and, in certain instances, as a part of the basis for litigation filings.

The Company will continue to assess the level of expected recoveries as it completes additional forensic reviews on additional loans and progresses through the litigation proceedings. As a result of additional loan reviews and the progression of litigation proceedings, the Company's estimate of recoveries could change materially in the future.

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

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

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

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

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

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

"Classified List" —Includes all insured obligations where MBIA has paid a claim or where a claim payment is expected to exceed its unearned premium revenue. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

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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, 2009:

	Surveillance Categories				
	Caution List	Caution List	Caution List		
$ in millions	Low	Medium	High	Classified List	Total
Number of policies	220	60	12	115	407
Number of issues (1)	39	25	11	84	159
Remaining weighted average contract period (in years)	9.1	11.2	8.6	5.6	7.4
Gross insured contractual payments outstanding:					
Principal	$ 9,177	$ 2,188	$ 622	$14,832	$26,819
Interest	5,039	1,626	368	4,404	11,437
Total	$ 14,216	$ 3,814	$ 990	$19,236	$38,256
Gross claim liability	$ -	$ -	$ -	$ 2,304	$ 2,304
Less:					
Gross potential recoveries	-	-	-	3,227	3,227
Discount, net	-	-	-	(1)	(1)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (922)	$ (922)
Unearned premium revenue	$ 233	$ 36	$ 6	$ 93	$ 368

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

The following table provides information about the components of our insurance loss reserves and recoverables included in each of MBIA's surveillance categories as of September 30, 2009:

	Surveillance Categories				
	Caution List	Caution List	Caution List	Classified	
In millions	Low	Medium	High	List	Total
Loss reserves (claim liability)	$ -	$ -	$ -	$1,270	$1,270
LAE reserves	-	-	-	53	53
Loss and LAE reserves	$ -	$ -	$ -	$1,323	$1,323
Insurance claim loss recoverable	$ -	$ -	$ -	$2,170	$2,170
LAE insurance loss recoverable	-	-	-	38	38
Insurance loss recoverable	$ -	$ -	$ -	$2,208	$2,208
Reinsurance recoverable on unpaid losses	$ -	$ -	$ -	$ 33	$ 33
Reinsurance recoverable on LAE reserves	-	-	-	1	1
Reinsurance recoverable on paid losses	-	-	-	19	19
Reinsurance recoverable on paid and unpaid losses	$ -	$ -	$ -	$ 53	$ 53

The gross claim liability reported in the preceding table primarily relates to probability weighted expected future claim payments on insured RMBS transactions. The gross potential recoveries reported in the preceding table primarily relate to probability weighted estimated recoveries resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans in addition to expected future recoveries on RMBS transactions resulting from expected excess spread generated by performing loans in such transactions.

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The following table presents changes in the Company's loss and LAE reserve for the nine months ended September 30, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserve, changes in discount rates, and changes in the timing and amounts of estimated payments and recoveries are recorded in "Losses and loss adjustment expenses" in the Company's statement of operations. LAE reserves are expected to be settled within a one year period and are not discounted. As of September 30, 2009, the weighted average risk-free rate used to discount the claim liability was 2.313%.

In millions	Nine Months Ended September 30, 2009									
Gross Loss and LAE Reserve as of December 31, 2008	Accounting Transition Adjustment [1]	Loss and LAE Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Change in LAE Reserves	Gross Loss and LAE Reserve as of September 30, 2009
$ 1,558	$ (183)	$(1,769)	$ 8	$ (51)	$ 18	$ 295	$ 1,426	$ (24)	$ 45	$ 1,323

(1) - Reflects the adoption of the accounting principles for financial guarantee insurance contracts as described in "Note 3: Recent Accounting Pronouncements."

The following table presents the Company's insurance loss recoverable for the nine months ended September 30, 2009. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, and changes in the timing and amounts of estimated collections are recorded in "Loss and loss adjustment expenses" in the Company's statement of operations.

In millions	Nine Months Ended September 30, 2009							
Insurance Loss Recoverable as of December 31, 2008	Collections for Cases with Recoverables	Accretion of Insurance Loss Recoverable	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Change in LAE Recoverable	Insurance Loss Recoverable as of September 30, 2009
$ 459	$ (36)	$ 5	$ (39)	$ 1	$ -	$ 1,781	$ 37	$ 2,208

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

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Costs associated with remediating insured obligations assigned to the Company's "Caution List – Low," "Caution-List – Medium," "Caution List – High" and "Classified List" are recorded as LAE. LAE is recorded as part of the Company's provision for its loss reserves and included in "Losses and loss adjustment" on the Company's consolidated statement of operations. The following table presents the expenses (gross and net of reinsurance) related to remedial actions for insured obligations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Loss adjustment expense incurred, gross	$ 41,220	$ 610	$ 128,290	$ 6,719
Loss adjustment expense incurred, net	$ 40,158	$ 578	$ 123,776	$ 6,339

Note 11: Income Taxes

The Company's income taxes and the related effective tax rates for the nine months ended September 30, 2009 and 2008 are as follows:

	Nine Months Ended September 30,			
In millions	2009		2008	
Pre-tax income (loss)	$1,422		$(1,811)	
Provision (benefit) for income taxes	$ 548	38.5%	$ (298)	16.5%

Embedded in the effective tax rate for the nine months ended September 30, 2009 are the tax effects of the Company's expected operating activities such as scheduled premium earnings, fees, net investment income, and operating expenses. The Company's effective tax rate related to the pre-tax income for the nine months ended September 30, 2009 was primarily a result of a net unrealized gain on its derivative portfolio, the tax-exempt interest from investments, and an increase in the valuation allowance. The Company's effective tax rate related to the pre-tax loss for the nine months ended September 30, 2008 was primarily driven by the establishment of a valuation allowance.

The Company has calculated its effective tax rate for the full year of 2009 by treating the net unrealized gain on its derivative portfolio as a discrete item. As such, this amount is not included when projecting the Company's full year effective tax rate but rather is accounted for at 35% after applying the projected full year effective tax rate to actual nine-month results. Given the Company's inability to estimate this item for the full year of 2009, the Company believes that it is appropriate to treat net unrealized gains and losses on its derivative portfolio as a discrete item for purposes of calculating the effective tax rate for the year.

Deferred Tax Asset, Net of Valuation Allowance

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

As of September 30, 2009, the Company reported a net deferred tax asset of $1.3 billion primarily related to the cumulative unrealized losses on its derivative and investment portfolios. Included in the net deferred tax asset of $1.3 billion is the valuation allowance of $457 million. For the nine months ended September 30, 2009, the Company increased its valuation allowance by $106 million. The change in the valuation allowance for the nine months ended September 30, 2009 was primarily due to an increase in realized losses, resulting from asset impairments and sales, and a reduction in the valuation allowance of $30 million as part of the adoption of recently issued accounting guidance for the recognition and presentation of other-than-temporary impairments. Refer to "Note 3: Recent Accounting Pronouncements" for a further discussion about adopting this guidance. As of December 31, 2008, the Company had a valuation allowance of $351 million.

Unrealized Losses on Credit Derivative Contracts

Approximately $1.2 billion of the net deferred tax asset was a result of the cumulative net unrealized losses of $3.5 billion, which excludes credit impairments, primarily related to insured credit derivatives. The Company believes that such deferred tax asset will more likely than not be realized as the Company expects the unrealized losses and its related deferred tax asset to substantially reverse over time. As such, no valuation allowance with respect to this item was established. In its conclusion, the Company considered the following evidence (both positive and negative):

- Due to the long-tail nature of the financial guarantee business, it is important to note that MBIA Inc.'s insurance subsidiaries, even without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. MBIA Corp.'s announcement in February 2008 of a temporary suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio. Although MBIA Corp. expects the majority of the unrealized losses to reverse at maturity, MBIA Corp. performed a taxable income projection over a 15-year period to determine whether it will have sufficient income to offset its deferred tax assets that will generate future ordinary deductions. In this analysis, MBIA Corp. concluded that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, will be sufficient to recover the net deferred tax asset of $1.3 billion.

- The Company's taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and LAE equal to the present value discount of loss reserves already recognized on the Company's balance sheet and an estimate of loss adjustment expense which is generally insignificant. The Company does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because the Company establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.
- While the ratings downgrades by the rating agencies have limited the Company's ability to write new business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which the Company believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.
- With respect to installment policies, the Company generally does not have an automatic cancellation provision solely in connection with ratings downgrades. For purposes of projecting future taxable income, the Company has applied a haircut to adjust for the possible cancellation of future installment premiums based on recent data. With regards to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated and earned (i.e. refundings).
- The Company treats the CDS contracts as insurance contracts for U.S. tax purposes. The Company provides an insurance policy guaranteeing CDS contracts written by LaCrosse. While LaCrosse's financial information is consolidated into MBIA's GAAP financial statements based on the criteria for consolidation of a VIE, MBIA does not hold any equity interest with respect to LaCrosse. MBIA's income derived from CDS contracts is treated as premium income for statutory income purposes. In the event that there is a default in which MBIA is required to pay claims on such CDS contracts, the Company believes that the losses should be characterized as an ordinary loss for tax purposes and, as such, the event or impairment will be recorded as case reserves for statutory accounting purposes in recognition of the potential claim payment. For tax purposes, MBIA follows the statutory accounting principle as the basis for computing its taxable income. Because the federal income tax treatment of CDS contracts is an unsettled area of tax law, in the event that the Internal Revenue Service ("IRS") has a different view in which the losses are considered capital losses, the Company would be required to establish a valuation allowance against substantially all of the deferred tax asset related to these losses, until such time as it had sufficient capital gains to offset the losses. The establishment of this valuation allowance would have a material adverse effect on MBIA's financial condition at the time of its establishment.

Realized Gains and Losses

As of September 30, 2009, the Company had a full valuation allowance against the deferred tax asset related to realized losses from asset impairments and sales of investments.

Unrealized Losses on Debt and Equity Securities

As of September 30, 2009, the Company had approximately $485 million in deferred tax assets related to unrealized losses on investments. The Company intends to hold these investments until maturity or until such time as the value recovers. As such, the Company expects that its deferred tax assets will reverse over the life of the securities.

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of September 30, 2009. The Company continues to assess the adequacy of its valuation allowances as additional evidence becomes available.

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Ownership Change under Section 382 of the Internal Revenue Code

Section 382 of the Internal Revenue Code of 1986, as amended, imposes annual limitations on the utilization of net operating loss ("NOL") carryforwards, other tax carryforwards, and certain built-in losses, as defined under that Section, upon an ownership change. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in the Company's stock by more than 50 percentage points over a testing period, generally three years ("Section 382 Ownership Change").

The Company has experienced a shift in ownership as a result of our February 2008 equity offering as well as Warburg Pincus investments and other transactions involving our shares. As of September 30, 2009, the Company, however, has not triggered a Section 382 Ownership Change. If the Company were to experience a Section 382 Ownership Change, an annual limitation would be imposed on certain of the Company's tax attributes, including NOL and capital loss carryforwards and certain other losses, credits, deductions or tax basis. The Company cannot give any assurance that it will not undergo an ownership change at a time when these limitations would have a significant effect.

Accounting for Uncertainty in Income Taxes

The change in the unrecognized tax benefit ("UTB") as of September 30, 2009 is as follows:

In thousands	
Unrecognized tax benefit as of December 31, 2008	$ 19,313
The gross amount of the increase/(decrease) in UTB as a result of tax positions taken:	
During prior year	1,918
During current year	152
The amounts of decreases in the UTB related to settlements with taxing authorities	(11,826)
The reduction to UTB as a result of the applicable statute of limitation	-
Unrecognized tax benefit as of September 30, 2009	$ 9,557

For the nine months ended September 30, 2009, the change in the Company's UTB was primarily a result of an increase of $2 million due to a position taken in a prior year tax return and a decrease of $12 million due to the French tax settlement discussed below. In addition, the related interest and penalties accrued were reduced $2 million primarily as a result of an abatement of $3 million as part of the same French tax settlement.

MBIA's major tax jurisdictions include the U.S., the U.K. and France. MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. The IRS is currently examining tax years 2005 through 2008. During the first nine months of 2009, the IRS completed a partnership audit which impacted MBIA Inc.'s U.S. consolidated tax group's return from 2004 through 2006. The adjustment did not have a material impact on the Company's tax position.

The U.K. tax authorities are currently auditing tax years 2005 and 2006, which should be completed by the end of 2009. French tax matters have been concluded through 2006 including the settlement, in February 2009, of a UTB of $12 million that was established in prior years relating to the timing for recognizing earned premium.

It is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months due to the possibility of the conclusion of all or a portion of the tax examinations in process. The range of this possible change in the amount of uncertain tax benefits cannot be estimated at this time.

Note 12: Business Segments

In February 2009, after receiving the required regulatory approvals, the Company established and capitalized National. In connection with this establishment, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National. As a result, the Company established its U.S. public finance insurance business as a separate operating segment. Refer to MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for further information about these changes to the Company's operating and legal entity structure. Consequently, MBIA now manages its activities primarily through three principal business operations: U.S. public finance insurance, structured finance and international insurance (collectively "insurance operations" for prior periods), and investment management services.

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As defined by segment reporting, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available. As a result of the aforementioned separation of the Company's U.S. public finance insurance business from its structured finance and international insurance business, as well as other factors such as the availability of discrete financial information, the use of identifiable resources, and the use of separate performance assessments with respect to the Company's U.S. public finance insurance business, the Company determined that its U.S. public finance insurance business represented a discrete operating segment.

Following is a description of each of the Company's reportable operating segments:

The Company's U.S. public finance insurance business has been conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA issues financial guarantees for municipal bonds and bonds backed by publicly or privately funded public-purpose projects.

The Company's structured finance and international insurance operations have been principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, global structured finance and non-U.S. public finance insured obligations when due, or in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA issues financial guarantees for municipal bonds, ABSs and MBSs, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, and bonds backed by other revenue sources such as corporate franchise revenues. Insured asset-backed securities include collateral consisting of a variety of consumer loans, corporate loans and bonds, trade and export receivables, aircraft, equipment and real property leases and insured MBS include collateral consisting of residential and commercial mortgages. In previous years, MBIA had insured CDSs on structured pools of corporate obligations, RMBS, and commercial real estate backed securities and loans.

The Company is no longer insuring new credit derivative contracts except for transactions related to the reduction of existing derivative exposure. The structured finance market continues to recover from the global credit crisis with new issuance volume, though increasing, still well below historical averages. It is unclear how or when the Company may be able to re-engage this market.

The Company's investment management services operations consist of an asset management advisory business, which provides cash management, discretionary asset management and structured products to the public, not-for-profit, corporate and financial sectors. The Company also has an asset/liability management business, in which it has issued debt and investment agreements, which are insured by MBIA Corp., to capital markets and municipal investors, and then initially purchased assets that largely matched the duration of those liabilities, and a conduit business in which the Company has funded MBIA-insured transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in a substantial reduction of funding activities and the termination and collateralization of certain investment agreements, as well as winding down of existing asset/liability products and conduit obligations. The investment management services operations' reportable segments consist of: asset/liability products, which include investment agreements and medium-term notes not related to the conduit segment; advisory services, which consist of third-party and related-party fee-based asset management; and conduits.

The asset/liability products segment principally consists of the activities of MBIA Investment Management Corp. ("IMC"), GFL and EAAL. IMC, along with MBIA Inc., provides customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provides customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raises funds through the issuance of medium-term notes with varying maturities, which are, in turn, guaranteed by MBIA Corp. GFL lends the proceeds of these medium-term note issuances to MBIA Inc. ("GFL Loans"). MBIA Inc. invests the proceeds of investment agreements and GFL Loans in eligible investments, which consist of investment grade securities at the time of purchase with a minimum average double-A credit quality rating. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements and medium-term notes. Additionally, MBIA Inc. loans a portion of the proceeds from investment agreements and medium-term notes to EAAL. EAAL primarily purchases foreign assets as permitted under the Company's investment guidelines.

The advisory services segment primarily consists of the operations of MBIA-MISC, MBIA Capital Management Corp. ("CMC") and MBIA Asset Management UK ("AM-UK"). MBIA-MISC provides investment management programs, including pooled investments products and customized asset management services. In addition, MBIA-MISC provides portfolio accounting and reporting for state and local governments, including school districts. MBIA-MISC is a SEC-registered investment adviser. CMC provides fee-based asset management services to the Company, its affiliates and third-party institutional clients. CMC is an SEC-registered investment advisor and Financial Industry Regulatory Authority member firm. AM-UK provides fee-based asset management services to the Company's foreign insurance affiliates and EAAL, and to third-party institutional clients and investment structures. AM-UK is registered with the Financial Services Authority in the U.K.

The Company's conduit segment administers two multi-seller conduit financing vehicles through MBIA Asset Finance, LLC. Assets financed by these conduits are currently funded by medium-term notes and liquidity loans.

The Company's corporate operations are a reportable segment and include revenues and expenses that arise from general corporate activities, such as net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses.

The following tables summarize the Company's operations for the three and nine months ended September 30, 2009 and 2008. As discussed above, the Company separated its insurance operations into U.S. public finance insurance and structured finance and international insurance, thereby creating two discrete segments. The Company has determined that it is impracticable to restate prior period results to conform to the current period presentation since, based on the way management has historically assessed the performance and resource requirements of its segments, prior period discrete financial information is not available. However, in order to provide comparable information to the prior period, the Company has combined its U.S. public finance insurance segment results and its structured finance and international insurance segment results for the current period under the heading "Combined Insurance Operations."

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Notes to Consolidated Financial Statements

	Three Months Ended September 30, 2009							
In millions	U.S. Public Finance Insurance (National)	Structured Finance and International Insurance	Eliminations	Combined Insurance Operations	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues [1]	$ 166	$ 130	$ -	$ 296	$ 55	$ 2	$ -	$ 353
Realized gains and other settlements on insured derivatives	0	(31)	-	(31)	-	-	-	(31)
Unrealized gains (losses) on insured derivatives	0	(810)	-	(810)	-	-	-	(810)
Net gains (losses) on financial instruments at fair value and foreign exchange	-	27	-	27	(70)	(45)	-	(88)
Net realized gains (losses)	0	(45)	-	(45)	(35)	2	-	(78)
Net investment losses related to other-than-temporary impairments	-	(50)	-	(50)	(43)	-	-	(93)
Net gains on extinguishment of debt	-	14	-	14	113	0	-	127
Inter-segment revenues [2]	39	50	(70)	19	5	3	(27)	-
Total revenues	205	(715)	(70)	(580)	25	(38)	(27)	(620)
Interest expense	-	55	-	55	39	16	-	110
Loss and LAE incurred	29	210	-	239	-	-	-	239
Operating expenses	7	63	-	70	21	6	-	97
Inter-segment expense [2]	37	33	(70)	-	27	-	(27)	-
Total expenses	73	361	(70)	364	87	22	(27)	446
Income (loss) before taxes	$ 132	$ (1,076)	$ -	$ (944)	$ (62)	$ (60)	$ -	$ (1,066)
Identifiable assets	$ 8,293	$ 17,939	$ (3,913) [3]	$22,319	$ 8,768	$1,296	$ (4,530) [4]	$ 27,853

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) - Consists of intercompany reinsurance balances.

(4) - Consists of intercompany repurchase agreements and loans.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

	Three Months Ended September 30, 2008				
In millions	Insurance	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues [1]	$ 389	$ 206	$ 6	$ -	$ 601
Realized gains and other settlements on insured derivatives	34	-	-	-	34
Unrealized gains (losses) on insured derivatives	105	-	-	-	105
Net gains (losses) on financial instruments at fair value and foreign exchange	(7)	(107)	(119)	-	(233)
Net realized losses	26	(315)	(4)	-	(293)
Net investment losses related to other-than-temporary impairments	-	(134)	-	-	(134)
Net gains on extinguishment of debt	10	206	24	-	240
Inter-segment revenues [2]	4	4	1	(9)	-
Total revenues	561	(140)	(92)	(9)	320
Interest expense	49	201	15	-	265
Loss and LAE incurred	982	-	-	-	982
Operating expenses	88	18	14	-	120
Inter-segment expense [2]	-	9	-	(9)	-
Total expenses	1,119	228	29	(9)	1,367
Income (loss) before taxes	$ (558)	$ (368)	$ (121)	$ -	$ (1,047)
Identifiable assets	$18,000	$ 19,179	$ 473	$ -	$ 37,652

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

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	Nine Months Ended September 30, 2009							
In millions	U.S. Public Finance Insurance (National)	Structured Finance and International Insurance	Eliminations	Combined Insurance Operations	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues [1]	$ 460	$ 514	$ -	$ 974	$ 192	$ 3	$ -	$ 1,169
Realized gains and other settlements on insured derivatives	0	33	-	33	-	-	-	33
Unrealized gains (losses) on insured derivatives	(0)	1,223	-	1,223	-	-	-	1,223
Net gains (losses) on financial instruments at fair value and foreign exchange	-	39	-	39	91	(56)	-	74
Net realized gains (losses)	7	(36)	-	(29)	10	5	-	(14)
Net investment losses related to other-than-temporary impairments	-	(91)	-	(91)	(346)	-	-	(437)
Net gains on extinguishment of debt	-	14	-	14	232	2	5	253
Inter-segment revenues [2]	119	150	(207)	62	14	13	(89)	-
Total revenues	586	1,846	(207)	2,225	193	(33)	(84)	2,301
Interest expense	-	163	-	163	145	52	-	360
Loss and LAE incurred	92	111	-	203	-	-	-	203
Operating expenses	25	215	-	240	55	21	-	316
Inter-segment expense [2]	104	103	(207)	-	89	-	(89)	-
Total expenses	221	592	(207)	606	289	73	(89)	879
Income (loss) before taxes	$ 365	$ 1,254	$ -	$ 1,619	$ (96)	$ (106)	$ 5	$ 1,422
Identifiable assets	$ 8,293	$ 17,939	$ (3,913) [3]	$22,319	$ 8,768	$1,296	$ (4,530) [4]	$ 27,853

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) - Consists of intercompany reinsurance balances.

(4) - Consists of intercompany repurchase agreements and loans.

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	Nine Months Ended September 30, 2008				
In millions	Insurance	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues [1]	$ 1,095	$ 825	$ 22	$ -	$ 1,942
Realized gains and other settlements on insured derivatives	102	-	-	-	102
Unrealized gains (losses) on insured derivatives	(148)	-	-	-	(148)
Net gains (losses) on financial instruments at fair value and foreign exchange	155	(117)	(108)	-	(70)
Net realized losses	68	(684)	(3)	-	(619)
Net investment losses related to other-than-temporary impairments	-	(794)	-	-	(794)
Net gains on extinguishment of debt	10	285	24	-	319
Inter-segment revenues [2]	6	13	-	(19)	-
Total revenues	1,288	(472)	(65)	(19)	732
Interest expense	141	768	54	-	963
Loss and LAE incurred	1,292	-	-	-	1,292
Operating expenses	214	46	28	-	288
Inter-segment expense [2]	-	20	(1)	(19)	-
Total expenses	1,647	834	81	(19)	2,543
Income (loss) before taxes	$ (359)	$ (1,306)	$ (146)	$ -	$ (1,811)
Identifiable assets	$18,000	$ 19,179	$ 473	$ -	$ 37,652

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

While it is impractical for the Company to restate all revenues and expenses comprising its insurance results for prior periods, the Company is able to restate certain revenues and expenses included within the preceding tables for the three and nine months ended September 30, 2008. The following table presents those revenues and expenses that the Company is able to restate, along with comparable amounts for the three months ended September 30, 2009:

	U.S. Public Finance Insurance		Structured Finance and International Insurance	
In millions	2009	2008	2009	2008
Net premiums earned [1]	$ 143	$ 145	$ 74	$ 97
Realized gains and other settlements on insured derivatives	$ 0	$ -	$ (30)	$ 34
Unrealized gains (losses) on insured derivatives	$ (0)	$ -	$ (810)	$ 105
Net gains on extinguishment of debt	$ -	$ -	$ 14	$ 10
Interest expense	$ -	$ -	$ 55	$ 49

(1) - Included in insurance revenues in the preceding tables.

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The following table presents those revenues and expenses that the Company is able to restate, along with comparable amounts for the nine months ended September 30, 2009:

	U.S. Public Finance Insurance		Structured Finance and International Insurance	
In millions	2009	2008	2009	2008
Net premiums earned (1)	$ 426	$ 357	$ 276	$ 291
Realized gains and other settlements on insured derivatives	$ 0	$ -	$ 33	$ 102
Unrealized gains (losses) on insured derivatives	$ (0)	$ -	$ 1,223	$ (148)
Net gains on extinguishment of debt	$ -	$ -	$ 14	$ 10
Interest expense	$ -	$ -	$ 163	$ 141

(1) - Included in insurance revenues in the preceding tables.

The following tables summarize the segments within the investment management services operations for the three months ended September 30, 2009 and 2008:

	Three Months Ended September 30, 2009				
In millions	Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues (1)	$ 43	$ 9	$ 3	$ -	$ 55
Net gains (losses) on financial instruments at fair value and foreign exchange	(66)	(0)	(4)	-	(70)
Net realized losses	(35)	0	-	-	(35)
Net investment losses related to other-than-temporary impairments	(43)	-	-	-	(43)
Net gains on extinguishment of debt	105	-	8	-	113
Inter-segment revenues (2)	1	5	1	(2)	5
Total revenues	5	14	8	(2)	25
Interest expense	37	-	2	-	39
Operating expenses	8	13	-	-	21
Inter-segment expense (2)	27	-	2	(2)	27
Total expenses	72	13	4	(2)	87
Income (loss) before taxes	$ (67)	$ 1	$ 4	$ -	$ (62)
Identifiable assets	$6,457	$ 122	$2,089	$ 100	$ 8,768

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

	Three Months Ended September 30, 2008				
In millions	Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues [1]	$ 179	$ 8	$ 19	$ -	$ 206
Net gains (losses) on financial instruments at fair value and foreign exchange	(102)	1	(6)	-	(107)
Net realized losses	(315)	0	-	-	(315)
Net investment losses related to other-than-temporary impairments	(134)	-	-	-	(134)
Net gains on extinguishment of debt	206	-	-	-	206
Inter-segment revenues [2]	1	7	1	(5)	4
Total revenues	(165)	16	14	(5)	(140)
Interest expense	183	-	18	-	201
Operating expenses	4	11	3	-	18
Inter-segment expense [2]	11	1	2	(5)	9
Total expenses	198	12	23	(5)	228
Income (loss) before taxes	$ (363)	$ 4	$ (9)	$ -	$ (368)
Identifiable assets	$16,222	$ 119	$2,810	$ 28	$ 19,179

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

The following tables summarize the segments within the investment management services operations for the nine months ended September 30, 2009 and 2008:

	Nine Months Ended September 30, 2009				
In millions	Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues [1]	$ 152	$ 26	$ 14	$ -	$ 192
Net gains (losses) on financial instruments at fair value and foreign exchange	105	(1)	(13)	-	91
Net realized losses	10	0	-	-	10
Net investment losses related to other-than-temporary impairments	(346)	-	-	-	(346)
Net gains on extinguishment of debt	203	-	29	-	232
Inter-segment revenues [2]	2	15	3	(6)	14
Total revenues	126	40	33	(6)	193
Interest expense	134	-	11	-	145
Operating expenses	21	33	1	-	55
Inter-segment expense [2]	89	2	4	(6)	89
Total expenses	244	35	16	(6)	289
Income (loss) before taxes	$ (118)	$ 5	$ 17	$ -	$ (96)
Identifiable assets	$6,457	$ 122	$2,089	$ 100	$ 8,768

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

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In millions	Nine Months Ended September 30, 2008 Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues [1]	$ 714	$ 24	$ 87	$ -	$ 825
Net gains (losses) on financial instruments at fair value and foreign exchange	(111)	1	(7)	-	(117)
Net realized losses	(684)	0	-	-	(684)
Net investment losses related to other-than-temporary impairments	(794)	-	-	-	(794)
Net gains on extinguishment of debt	285	-	-	-	285
Inter-segment revenues [2]	1	26	5	(19)	13
Total revenues	(589)	51	85	(19)	(472)
Interest expense	689	-	79	-	768
Operating expenses	14	27	5	-	46
Inter-segment expense [2]	28	5	6	(19)	20
Total expenses	731	32	90	(19)	834
Income (loss) before taxes	$ (1,320)	$ 19	$ (5)	$ -	$ (1,306)
Identifiable assets	$16,222	$ 119	$2,810	$ 28	$ 19,179

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three and nine months ended September 30, 2009 and 2008:

In millions	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Total premiums earned:				
United States	$ 169	$ 213	$ 504	$ 562
United Kingdom	7	11	25	33
Europe (excluding United Kingdom)	6	8	22	26
Internationally diversified	10	18	74	53
Central and South America	9	13	29	39
Asia	5	8	13	23
Other	4	5	13	13
Total	$ 210	$ 276	$ 680	$ 749

Note 13: Net Insurance in Force

MBIA guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities. Additionally, MBIA Corp. has insured CDSs primarily on pools of collateral, which it previously considered part of its core financial guarantee business. The pools of collateral are made up of corporate obligations, but also include commercial and residential mortgage-backed securities-related assets. MBIA's net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. MBIA's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

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The financial guarantees issued by MBIA provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable upon ratings downgrades, and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp. would make such payments. These amounts have been excluded in the tables that follow.

The creditworthiness of each insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with National or MBIA Corp.'s underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National or MBIA Corp.'s upon the payment of a claim by either National or MBIA Corp.

National and MBIA Corp. maintain underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. For global public finance transactions these include economic and social trends, debt and financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility. For global structured finance transactions, MBIA Corp.'s underwriting guidelines, analysis and due diligence focus on counterparty credit and operational quality. MBIA Corp. also analyzes the quality of asset pools, as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for the Company's underwriting standards as well as maintaining the standards in its insurance operations.

As of September 30, 2009, net insurance in force, which represents principal and interest or other amounts owing on insured obligations, net of cessions to reinsurers, had an expected maturity range of 1-48 years. The distribution of net insurance in force by geographic location, excluding $5.0 billion and $8.5 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of September 30, 2009 and December 31, 2008, respectively, is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Geographic Location	Net Insurance in Force	% of Net Insurance in Force	Net Insurance in Force	% of Net Insurance in Force
California	$ 153.2	13.6%	$ 163.6	13.7%
New York	79.6	7.1%	86.3	7.2%
Florida	64.4	5.7%	68.0	5.7%
Texas	52.2	4.6%	56.4	4.7%
Illinois	49.6	4.4%	51.8	4.3%
New Jersey	38.2	3.4%	40.5	3.4%
Pennsylvania	30.2	2.7%	32.9	2.7%
Washington	29.2	2.6%	30.5	2.5%
Michigan	25.7	2.3%	27.0	2.3%
Massachusetts	21.9	1.9%	24.0	2.0%
Subtotal	544.2	48.3%	581.0	48.5%
Nationally diversified	172.1	15.3%	178.5	14.9%
Other states	293.9	26.1%	319.8	26.7%
Total United States	1,010.2	89.7%	1,079.3	90.1%
Internationally diversified	38.5	3.4%	43.9	3.6%
Country specific	76.9	6.9%	75.1	6.3%
Total non-United States	115.4	10.3%	119.0	9.9%
Total	$ 1,125.6	100.0%	$ 1,198.3	100.0%

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The net insurance in force by type of bond, excluding transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies, is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Bond Type	Net Insurance in Force	% of Net Insurance in Force	Net Insurance in Force	% of Net Insurance in Force
Global public finance - United States:				
General obligation	$ 303.8	27.0%	$ 322.2	26.8%
General obligation - lease	64.3	5.7%	69.1	5.8%
Municipal utilities	151.5	13.5%	162.8	13.6%
Tax-backed	105.9	9.4%	111.9	9.3%
Transportation	85.8	7.6%	93.0	7.8%
Higher education	47.3	4.2%	50.5	4.2%
Health care	28.4	2.5%	34.6	2.9%
Military housing	21.5	1.9%	21.7	1.8%
Investor-owned utilities (1)	14.7	1.3%	15.8	1.3%
Municipal housing	12.3	1.1%	15.0	1.3%
Student loans	5.1	0.5%	7.0	0.6%
Other (2)	3.8	0.3%	4.4	0.4%
Total United States	844.4	75.0%	908.0	75.8%
Global public finance - non-United States:				
International utilities	22.0	2.0%	18.6	1.6%
Sovereign and sub-sovereign (3)	19.5	1.7%	17.3	1.4%
Transportation	15.1	1.3%	14.1	1.2%
Local governments (4)	0.8	0.1%	0.9	0.1%
Municipal housing	0.2	0.0%	0.2	0.0%
Health care	0.2	0.0%	0.1	0.0%
Higher education	0.0	0.0%	0.1	0.0%
Total non-United States	57.8	5.1%	51.3	4.3%
Total global public finance	902.2	80.1%	959.3	80.1%
Global structured finance - United States:				
Collateralized debt obligations (5)	101.0	9.0%	98.3	8.2%
Mortgage-backed residential	26.9	2.4%	28.6	2.4%
Mortgage-backed commercial	0.6	0.1%	0.7	0.1%
Consumer asset-backed:				
Auto loans	4.9	0.4%	6.8	0.6%
Student loans	2.6	0.2%	2.8	0.2%
Manufactured housing	2.5	0.2%	2.7	0.2%
Other consumer asset-backed	0.6	0.1%	0.9	0.1%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	3.0	0.3%	3.2	0.3%
Rental car fleets	2.6	0.2%	3.1	0.3%
Secured airline equipment securitization (EETC)	3.2	0.3%	3.1	0.3%
Other operating assets	1.1	0.1%	1.6	0.1%
Structured insurance securitizations	8.6	0.8%	10.0	0.8%
Franchise assets	1.2	0.1%	1.5	0.1%
Intellectual property	3.9	0.3%	4.1	0.3%
Other corporate asset-backed	3.1	0.3%	3.9	0.3%
Total United States	165.8	14.8%	171.3	14.3%

Global structured finance - non-United States:				
Collateralized debt obligations [5]	37.3	3.3%	40.2	3.3%
Mortgage-backed residential	2.9	0.3%	8.5	0.7%
Mortgage-backed commercial	5.4	0.5%	6.2	0.5%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	2.0	0.2%	2.1	0.2%
Secured airline equipment securitization (EETC)	0.4	0.0%	0.4	0.0%
Structured insurance securitizations	0.1	0.0%	0.1	0.0%
Franchise assets	1.4	0.1%	1.2	0.1%
Intellectual property	-	0.0%	0.8	0.1%
Future flow	2.0	0.2%	2.9	0.2%
Other corporate asset-backed	6.1	0.5%	5.3	0.5%
Total non-United States	57.6	5.1%	67.7	5.6%
Total global structured finance	223.4	19.9%	239.0	19.9%
Total	$1,125.6	100.0%	$1,198.3	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign sate, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical collateralized debt obligation ("CDO") structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

The insurance operations have entered into certain guarantees of derivative contracts, included in the preceding tables, which do not qualify for the financial guarantee scope exception under the provisions of fair value measurements and disclosures. MBIA generally guarantees the timely payment of principal and interest related to these derivatives upon the occurrence of a credit event with respect to a referenced obligation. The maximum amount of future payments that MBIA may be required to make under these guarantees is $130.8 billion. This amount is net of $24.1 billion of insured derivatives ceded under reinsurance agreements and capital market transactions in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives. MBIA's guarantees of derivative contracts have a legal maximum maturity range of 1-87 years. A small number of insured credit derivative contracts have long-dated maturities, which comprise the longest maturity dates of the underlying collateral. However, the expected maturities of such contracts are much shorter due to amortizations and prepayments in the underlying collateral pools. The fair values of these guarantees as of September 30, 2009 are recorded on the balance sheet as assets and liabilities, representing gross gains and losses, of $725 million and $5.0 billion, respectively. These derivative contracts are discussed further in "Note 8: Derivative Instruments."

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

MBIA Corp. has also issued guarantees of certain obligations issued by its investment management affiliates that are not included in the previous tables. These guarantees take the form of insurance policies issued by MBIA Corp. on behalf of the investment management services affiliates. Should one of these affiliates default on its insured obligations, MBIA Corp. will be required to pay all scheduled principal and interest amounts outstanding. As of September 30, 2009, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is $5.0 billion. These guarantees, which have a maximum maturity range of 1-38 years, were entered into on an arm's length basis and are fully collateralized by marketable securities. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 14: Reinsurance

Ceded Exposure

Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. MBIA reinsures exposure to other insurance companies under various treaty and facultative reinsurance contracts, both on a proportional and non-proportional basis. In the event that any or all of the reinsurers are unable to meet their obligations, MBIA would be liable for such defaulted amounts. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced.

The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. In 2009, MBIA reassumed par outstanding of $5.8 billion from eight reinsurers. MBIA will continue to evaluate its use of reinsurance during 2009, which may result in future portfolio commutations from reinsurers.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of September 30, 2009, the total amount available under these letters of credit and trust arrangements was $796 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

The aggregate amount of insurance in force ceded by MBIA to reinsurers under reinsurance agreements was $62.7 billion and $76.2 billion as of September 30, 2009 and December 31, 2008, respectively. The distribution of ceded insurance in force by geographic location is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Geographic Location	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
California	$ 4.8	7.7%	$ 5.9	7.7%
New York	2.6	4.1%	3.1	4.1%
Massachusetts	1.8	2.9%	2.1	2.8%
Puerto Rico	1.5	2.4%	1.7	2.2%
New Jersey	1.4	2.2%	1.6	2.1%
Texas	1.3	2.1%	1.7	2.2%
Illinois	1.3	2.1%	1.5	2.0%
Florida	1.3	2.1%	1.4	1.8%
Colorado	1.0	1.6%	1.8	2.4%
Washington	0.7	1.1%	0.8	1.0%
Subtotal	17.7	28.3%	21.6	28.3%
Nationally diversified	19.2	30.6%	20.4	26.8%
Other states	7.4	11.8%	9.3	12.2%
Total United States	44.3	70.7%	51.3	67.3%
Internationally diversified	7.6	12.1%	12.1	15.9%
Country specific	10.8	17.2%	12.8	16.8%
Total non-United States	18.4	29.3%	24.9	32.7%
Total	$ 62.7	100.0%	$ 76.2	100.0%

MBIA Inc. and Subsidiaries
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The distribution of ceded insurance in force by type of bond is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Bond Type	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
Global public finance - United States:				
General obligation	$ 5.6	8.9%	$ 6.7	8.8%
General obligation lease	1.8	2.9%	2.1	2.8%
Municipal utilities	4.2	6.7%	5.3	7.0%
Tax-backed	2.8	4.4%	3.5	4.6%
Transportation	4.9	7.8%	6.6	8.7%
Health care	2.7	4.3%	3.3	4.3%
Higher education	0.9	1.4%	1.1	1.4%
Municipal housing	0.3	0.5%	0.5	0.7%
Military housing	0.5	0.8%	0.5	0.7%
Investor-owned utilities (1)	0.8	1.3%	0.8	1.0%
Student loans	0.2	0.3%	0.3	0.4%
Other (2)	0.1	0.2%	0.2	0.2%
Total United States	24.8	39.5%	30.9	40.6%
Global public finance - non-United States:				
Sovereign and sub-sovereign (3)	1.9	3.0%	3.2	4.2%
Transportation	1.9	3.0%	3.2	4.2%
International utilities	1.6	2.6%	2.9	3.8%
Local governments (4)	0.0	0.0%	0.6	0.8%
Municipal housing	0.0	0.0%	0.0	0.0%
Health care	0.0	0.0%	0.1	0.1%
Higher education	0.0	0.0%	0.0	0.0%
Total non-United States	5.4	8.6%	10.0	13.1%
Total global public finance	30.2	48.1%	40.9	53.7%
Global structured finance - United States:				
Collateralized debt obligations (5)	15.2	24.2%	14.4	18.9%
Mortgage-backed residential	0.8	1.3%	1.2	1.6%
Mortgage-backed commercial	0.0	0.0%	0.0	0.0%
Consumer asset-backed:				
Auto loans	0.2	0.3%	0.4	0.5%
Student loans	0.2	0.3%	0.2	0.3%
Manufactured housing	0.1	0.2%	0.1	0.1%
Other consumer asset-backed	0.1	0.2%	0.1	0.1%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.4	0.6%	0.5	0.7%
Rental car fleets	0.4	0.6%	0.7	0.9%
Secured airline equipment securitization (EETC)	0.5	0.8%	0.9	1.2%
Other operating assets	0.0	0.0%	0.1	0.1%
Structured insurance securitizations	1.3	2.1%	1.5	2.0%
Franchise assets	0.1	0.2%	0.1	0.1%
Intellectual property	0.1	0.2%	0.1	0.1%
Other corporate asset-backed	0.1	0.2%	0.2	0.3%
Total United States	19.5	31.2%	20.5	26.9%

Global structured finance - non-United States:				
Collateralized debt obligations [5]	9.6	15.3%	10.2	13.4%
Mortgage-backed residential	0.1	0.2%	0.4	0.5%
Mortgage-backed commercial	0.8	1.3%	0.9	1.2%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.2	0.3%	0.4	0.6%
Secured airline equipment securitization (EETC)	0.0	0.0%	0.0	0.0%
Franchise assets	0.0	0.0%	0.1	0.1%
Intellectual property	0.0	0.0%	0.1	0.1%
Future flow	0.7	1.1%	1.0	1.3%
Other corporate asset-backed	1.6	2.5%	1.7	2.2%
Total non-United States	13.0	20.7%	14.8	19.4%
Total global structured finance	32.5	51.9%	35.3	46.3%
Total	$62.7	100.0%	$76.2	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign sate, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical collateralized debt obligation ("CDO") structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

As of September 30, 2009, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $23.9 billion. The following table presents information about companies who have entered into reinsurance contracts with MBIA and amounts recoverable by MBIA under those contracts as of September 30, 2009 for the Company's combined insurance operations. Estimated credit impairments represent the reinsurers' portion of amounts the Company expects to pay on insured derivative contracts.

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In millions

Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Percentage of Total Par Ceded	Reinsurance Recoverable	Derivative Asset	Estimated Credit Impairments on Insured Derivatives
Channel Reinsurance Ltd.	N/R (1)	RWR (2)	59.68%	$ 27	$ 669	$ 354
Assured Guaranty Corp.	AAA (Negative Outlook)	Aa2 (Rating Under Review)	22.75%	8	-	-
Mitsui Sumitomo Insurance Company Ltd.	AA (Negative Outlook)	Aa3 (Stable)	12.50%	16	51	4
Assured Guaranty Re Ltd.	AA (Stable)	Aa3 (Rating Under Review)	2.31%	2	-	-
Overseas Private Investment Corporation	AAA (Stable)	Aaa (Stable)	1.21%	-	-	-
Export Development Corporation	AAA (Stable)	Aaa (Stable)	0.83%	-	-	-
Old Republic Insurance Company	A+ (Negative Outlook)	Aa3 (Stable)	0.43%	-	-	-
Partner Reinsurance Ltd.	AA- (Negative Outlook)	Aa3 (Stable)	0.19%	-	-	-
Assurances Generales de France	AA (Stable)	Aa3 (Stable)	0.01%	-	-	-
Not currently rated			0.09%	-	-	-
Total			100.00%	$ 53	$ 720	$ 358

(1) - Not rated.

(2) - Rating withdrawn.

MBIA owns a 17.4% equity interest in Channel Re. In March 2009, Moody's downgraded Channel Re to B3 with a negative outlook and the rating was subsequently withdrawn. In March 2009, S&P downgraded Channel Re to BB+ and the rating was subsequently withdrawn. As of September 30, 2009, the Company expects Channel Re to continue to report negative shareholders' equity on a GAAP basis primarily due to unrealized losses on its insured credit derivatives based on fair value accounting. As of September 30, 2009, the fair value of the derivative assets related to credit derivatives ceded to Channel Re was $669 million and the reinsurance recoverable from Channel Re was $27 million. After considering the credit risk of Channel Re in fair valuing its derivative assets, the Company believes Channel Re has sufficient liquidity supporting its business to fund amounts due to MBIA. In performing its assessment, MBIA determined that cash and investments, inclusive of approximately $609 million that Channel Re had on deposit in trust accounts for the benefit of MBIA as of September 30, 2009, were in excess of MBIA's exposure to Channel Re. Although the trust accounts limit the potential for Channel Re to default on its obligations to MBIA, there can be no assurance that Channel Re will not default on its obligations to MBIA that exceed the amounts already held in the trust accounts.

Since December 2007, several of the Company's other financial guarantee reinsurers, including Assured Guaranty Corp., Assured Guaranty Re Ltd., and Old Republic Insurance Co. have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. Although there was no material impact on the Company for any of these rating agency actions relating to these reinsurers, a further deterioration in the financial condition of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

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Notes to Consolidated Financial Statements

Premium Summary

The components of financial guarantee net premiums earned, including premiums assumed from and ceded to other companies, are presented in the following table:

	Three Months Ended September 30,	
	2009	2008
In millions	Earned	Earned
Direct	$ 180	$ 271
Assumed	145	4
Gross	325	275
Ceded	(107)	(33)
Net before elimination	218	242
Elimination [1]	(37)	(7)
Net	$ 181	$ 235

(1) - Represents eliminations of intercompany premiums.

	Nine Months Ended September 30,	
	2009	2008
In millions	Earned	Earned
Direct	$ 584	$ 735
Assumed	435	10
Gross	1,019	745
Ceded	(318)	(98)
Net before elimination	701	648
Elimination [1]	(113)	(24)
Net	$ 588	$ 623

(1) - Represents eliminations of intercompany premiums.

For the three months ended September 30, 2009 and 2008, recoveries received under reinsurance contracts totaled $15 million and $33 million, respectively. For the nine months ended September 30, 2009 and 2008, recoveries received under reinsurance contracts totaled $69 million and $79 million, respectively. Ceding commissions from reinsurance, before deferrals and net of returned ceding commissions, were an expense of $2 million and revenue of $6 million for the three months ended September 30, 2009 and 2008, respectively. Ceding commissions, before deferrals and net of return ceding commissions, were revenues of $2 million and $19 million for the nine months ended September 30, 2009 and 2008, respectively.

Note 15: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three months ended September 30, 2009 and 2008, there were 7,650,932 and 6,462,247, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive. For the nine months ended September 30, 2009 and 2008, there were 7,395,789 and 6,595,547, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive.

MBIA Inc. and Subsidiaries
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The following table presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions except per share amounts	2009	2008	2009	2008
Net income (loss)	$ (725)	$ (806)	$ 874	$ (1,513)
Net income (loss) available to common shareholders	$ (728)	$ (806)	$ 864	$ (1,513)
Basic weighted-average shares [1]	208,219,324	235,706,851	208,278,589	220,137,758
Effect of common stock equivalents:				
Stock options	-	-	-	-
Restricted stock and units	-	-	-	-
Diluted weighted-average shares	208,219,324	235,706,851	208,278,589	220,137,758
Basic EPS:				
Net income (loss)	$ (3.50)	$ (3.42)	$ 4.15	$ (6.87)
Diluted EPS:				
Net income (loss)	$ (3.50)	$ (3.42)	$ 4.15	$ (6.87)

(1) - Includes 5,462,831 and 3,947,893 of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents for the three months ended September 30, 2009 and 2008, respectively. Includes 5,196,368 and 3,048,654 of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents for the nine months ended September 30, 2009 and 2008, respectively.

Note 16: Commitments and Contingencies

The Company was named as a defendant, along with certain of its current and former officers, in private securities actions that were consolidated in the United States District Court for the Southern District of New York as In re MBIA Inc. Securities Litigation; (Case No. 05 CV 03514(LLS); S.D.N.Y.) (filed October 3, 2005). The plaintiffs asserted claims under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The lead plaintiffs purport to be acting as representatives for a class consisting of purchasers of the Company's stock during the period from August 5, 2003 to March 30, 2005 (the "Class Period"). The lawsuit asserts, among other things, violations of the federal securities laws arising out of the Company's allegedly false and misleading statements about its financial condition and the nature of the arrangements entered into by MBIA Corp. in connection with the AHERF loss. The plaintiffs allege that, as a result of these misleading statements or omissions, the Company's stock traded at artificially inflated prices throughout the Class Period.

The defendants, including the Company, filed motions to dismiss this lawsuit on various grounds. On February 13, 2007, the Court granted those motions, and dismissed the lawsuit in its entirety, on the grounds that plaintiffs' claims are barred by the applicable statute of limitations. The Court did not reach the other grounds for dismissal argued by the Company and the other defendants. On November 12, 2008, the United States Court of Appeals for the Second Circuit affirmed the Court's dismissal on statute of limitations grounds, but remanded the case to allow the plaintiffs to file an amended complaint. The Second Consolidated Amended Class Action Complaint was filed on February 18, 2009. The defendants filed their renewed motion to dismiss on April 17, 2009, and on September 24, 2009, the Court granted that motion and dismissed plaintiffs' complaint with prejudice. On November 2, 2009, the plaintiffs filed a Notice of Appeal signaling their intent to file an appeal of the dismissal order with the United States Court of Appeals for the Second Circuit.

On October 17, 2008, a consolidated amended class action complaint in a separate shareholder class action lawsuit against the Company and certain of its officers, In re MBIA Inc. Securities Litigation, No. 08-CV-264, (KMK) (the "Consolidated Class Action") was filed in the United States District Court for the Southern District of New York, alleging violations of the federal securities laws. Lead plaintiff, the Teachers' Retirement System of Oklahoma, seeks to represent a class of shareholders who purchased MBIA stock between July 2, 2007 and January 9, 2008. The amended complaint alleges that defendants MBIA Inc., Gary C. Dunton and C. Edward Chaplin violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Among other things, the complaint alleges that defendants issued false and misleading statements with respect to the Company's exposure to CDOs containing RMBS, specifically its exposure to so-called "CDO-squared" securities, which allegedly caused the Company's stock to trade at inflated prices. Defendants' motion to dismiss is fully briefed. No oral argument has been scheduled to date.

On February 13, 2008, a shareholder derivative lawsuit against certain of the Company's present and former officers and directors, and against the Company, as nominal defendant, entitled Trustees of the Police and Fire Retirement System of the City of Detroit v. Clapp et al., No. 08-CV-1515, (the "Detroit Complaint"), was filed in the United States District Court for the Southern District of New York. The gravamen of the Detroit Complaint is similar to the aforementioned Consolidated Class Action, except that the legal claims are against the directors for breach of fiduciary duty and related claims. The Detroit Complaint purports to relate to a so-called "Relevant Time Period" from February 9, 2006, through the time of filing of the complaint. A Special Litigation Committee of two independent directors of MBIA Inc. (the "SLC") has determined after a good faith and thorough investigation that pursuit of the allegations set out in the Detroit Complaint is not in the best interests of MBIA and its shareholders. On January 23, 2009, the SLC served a motion to dismiss the Detroit Complaint.

On August 11, 2008, a shareholder derivative lawsuit entitled Crescente v. Brown et al., No. 08-17595 (the "Crescente Complaint") was filed in the Supreme Court of the State of New York, County of Westchester against certain of the Company's present and former officers and directors, and against the Company, as nominal defendant. The gravamen of this complaint is similar to the Detroit Complaint except that the time period assertedly covered is from January, 2007, through the time of filing of this complaint. The derivative plaintiff has agreed to stay the action pending the outcome of the SLC's motion to dismiss the Detroit Complaint.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against the Company and others. The first complaint, against the Company, AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. MBIA's demurrers and other responsive pleadings are due November 13, 2009. These cases are now coordinated as Ambac Bond Insurance Cases in San Francisco Superior Court. On April 8, 2009, The Olympic Club filed a complaint against the Company in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged the Company's financial condition, and of a failure to adequately disclose the impact of those transactions on the Company's financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including the Company, AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation In re Municipal Derivatives Antitrust Litigation, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws.

The Company has received subpoenas or informal inquiries from a variety of regulators, including the SEC, the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states' regulatory authorities, regarding a variety of subjects, including disclosures made by the Company to underwriters and issuers of certain bonds, disclosures regarding the Company's structured finance exposure, trading and valuation of managed collateral, the Company's communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. The Company is cooperating fully with each of these regulators and is in the process of satisfying all such requests. The Company may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On September 30, 2008, MBIA Corp. commenced an action in the New York State Supreme Court against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, "Countrywide"). The complaint alleged that Countrywide fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit and closed end second liens by misrepresenting the true risk profile of the underlying collateral and Countrywide's adherence to its strict underwriting standards and guidelines. The complaint also alleged that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide's motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. All parties have filed Notices of Appeal and defendants filed their answer to the complaint on August 3, 2009. On August 24, 2009, MBIA Corp. filed an amended complaint, adding Bank of America as a defendant, identifying an additional five securitizations and supplementing the facts in support of our re-asserted negligent misrepresentation claim to address the points made by Justice Bransten in her decision granting the motion to dismiss that claim. On October 9, 2009, defendants filed a renewed motion to dismiss. Our response was filed on November 3, 2009, and defendants' reply is due November 10, 2009. Oral argument is scheduled for December 9, 2009.

On July 10, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc, Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., UBS Securities, LLC, and various Countrywide-affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities. On November 3, 2009, MBIA Corp. filed an amended complaint.

On October 15, 2008, MBIA Corp. commenced an action in the United States District Court for the Southern District of New York against Residential Funding Company, LLC ("RFC"). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and HELOC securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other things. RFC's motion to dismiss has been fully briefed and argued.

In its determination of expected ultimate insurance losses on financial guarantee contracts, the Company has considered the probability of potential recoveries arising out of the contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans in certain second-lien mortgage securitizations, which include potential recoveries that may be affected by the legal actions against Countrywide and RFC. However, there can be no assurance that the Company will prevail in either the Countrywide or RFC actions.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the FDIC with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and post-receivership amounts owed to MBIA as a result of IndyMac's contractual breaches and fraud in connection with financial guaranty insurance issued by MBIA on securitizations of home equity lines of credit. The proofs of claim were subsequently denied by the FDIC. MBIA has appealed the FDIC's denial of its proofs of claim via a complaint, filed on May 29, 2009, against IndyMac Bank, F.S.B. and the FDIC, as receiver, in the United States District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit by breaching contractual representations and warranties as well as negligently and fraudulently misrepresenting the nature of the loans in the securitization pools and IndyMac's adherence to its strict underwriting standards and guidelines. The FDIC moved to dismiss MBIA's non-contract based claims on September 2, 2009. On October 9, 2009, MBIA filed its response brief. The FDIC's response is due November 9, 2009.

On September 22, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against IndyMac ABS, Inc., Home Equity Mortgage Loan Asset-Backed Trust, Series 2006-H4, Home Equity Mortgage Loans Asset-Backed Trust, Series INDS 2007-I, Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-2, Credit Suisse Securities (USA), L.L.C., UBS Securities, LLC, JPMorgan Chase & Co., Michael Perry, Scott Keys, Jill Jacobson, and Kevin Callan. The Complaint alleges that IndyMac Bank made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities. On October 19, 2009, MBIA dismissed IndyMac ABS, Inc. from the action without prejudice. On October 23, 2009, defendants removed the case to the United States District Court for the Central District of California.

On April 30, 2009, MBIA Corp. and LaCrosse Financial Products commenced an action in the Supreme Court of the State of New York against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International. The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven CDS contracts pursuant to which MBIA wrote protection in favor of Merrill and other parties on a total of $5.7 billion in collateralized debt obligations arranged and marketed by Merrill. The complaint also seeks rescission of the CDS contracts. Merrill's motion to dismiss the amended complaint has been fully briefed, and oral argument is scheduled for November 17, 2009.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against the Company and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance polices issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. Defendants' motion to dismiss the complaint is fully briefed. Oral argument is scheduled for November 17, 2009.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants' motion to dismiss the complaint was fully briefed and oral argument was heard on October 5, 2009. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against the Company and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. At a conference on October 2, 2009, the judge hearing the matter indicated his intention to deny defendants' motion to dismiss, however, no written decision has yet been issued. At a separate conference on November 6, 2009, the judge indicated he may refrain from issuing a decision until he has had an opportunity to review the submission of the New York State Department of Insurance in the Article 78 proceeding (see next paragraph) which is currently due November 24, 2009. If and to the extent that the judge issues a ruling consistent with his statements at the October 2, 2009 conference, MBIA intends to promptly appeal it to the Appellate Division of the New York State Supreme Court.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, the Company argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA's and the New York State Insurance Department's answering papers to the Article 78 Petition are due November 24, 2009.

The Company intends to vigorously defend against the aforementioned actions in which it is a defendant and against other potential actions, and the Company does not expect the outcome of these matters to have a materially adverse effect on its business, results of operations or financial condition. The Company cannot provide assurance, however, that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on its business, results of operations or financial condition.

There are no other material lawsuits pending or, to the knowledge of the Company, threatened, to which the Company or any of its subsidiaries is a party.

Note 17: Subsequent Events

Refer to "Note 16, Commitments and Contingencies" for information about legal proceedings that commenced after September 30, 2009.

In the fourth quarter of 2009, the Company entered into a settlement agreement with one of its counterparties related to two insured credit derivative transactions that resulted in the elimination of $1.2 billion in net par outstanding in exchange for a one-time payment of $94 million, net of reinsurance. In addition, the Company settled a financial guarantee insurance contract related to a consolidated VIE in exchange for a payment by MBIA Corp. of $65 million, net of reinsurance. This settlement payment eliminated potentially significant future performance volatility and relieved the Company from any further obligation under the insurance contract. The impact of these payments and reductions in exposure will be reflected in the Company's results for the fourth quarter of 2009.

On November 6, 2009, as part of The Worker, Homeownership, and Business Assistance Act of 2009, the NOL carryback provision within the U.S. income tax law was amended to allow all businesses with NOLs in either 2008 or 2009 to claim refunds of taxes paid within the prior five years. There would be no limit on the NOL carrybacks for the first four years of the carryback period, but for year five, the NOL carryback would be limited to fifty percent of a company's taxable income in that year. In applying the new five-year NOL carryback rule, the available tax recovery for MBIA is approximately $500 million. For tax year 2008, the Company was not in a NOL position. Therefore, the amount of the potential refund will ultimately depend on the NOLs generated for tax year 2009. The impact of the refund will be reflected in the Company's results for the fourth quarter of 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc. ("MBIA", the "Company" or "we") 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," "intend," "will likely result," "looking forward" or "will continue," and similar expressions identify 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. The Company undertakes no obligation to publicly correct or update any forward-looking statement if it 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:

- the possibility that the Company will experience severe losses or liquidity needs due to increased deterioration in its insurance portfolios and in particular, due to the performance of residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDOs");
- significant fluctuations in liquidity and asset values within the global credit markets;
- our ability to fully implement our Strategic Plan, including our ability to achieve our ratings targets for our ratings-sensitive businesses;
- the resolution of regulatory proceedings or litigation claims against the Company or legal actions initiated by the Company in connection with potential insurance loss recoveries;
- further changes in the Company's credit ratings;
- further deterioration in the economic environment and financial markets in the United States or abroad, particularly with regard to credit spreads, interest rates and foreign currency levels;
- competitive conditions for bond insurance, including potential entry into the public finance market of national insurers of municipal bonds;
- legislative, regulatory or political developments;
- technological developments;
- changes in tax laws;
- the effects of mergers, acquisitions and divestitures; and
- uncertainties that have not been identified at this time.

The above factors and other factors that could affect our financial performance and business are 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, 2008.

EXECUTIVE OVERVIEW

Business Description

MBIA operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States ("U.S.") public finance insurance, structured finance and international insurance, and investment advisory services. We also manage an asset/liability products program and a conduit program, which are in wind-down. Corporate operations include revenues and expenses that arise from general corporate activities.

MBIA's financial guarantee business is currently operated through two subsidiaries, National Public Finance Guarantee Corporation ("National") and MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). In February 2009, after receiving the required regulatory approvals, MBIA established and capitalized National as a U.S. public finance-only financial guarantor. In connection with the establishment of National, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National, the latter of which was with respect to financial guarantee insurance policies that had been reinsured from Financial Guaranty Insurance Company ("FGIC").

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The establishment of National as a separate U.S. public finance-only financial guarantee insurance company was a key step in achieving our strategic plan announced in February 2008. National provides MBIA with greater resilience and financial flexibility because we expect it will enable MBIA to resume writing financial guarantee insurance in the domestic public finance sector. National's separate capitalization and operations respond to the substantial issuer and investor demand that MBIA has observed for bond insurance to be provided by a monoline bond insurer devoted exclusively to public finance transactions in the U.S. At the same time, by participating in the public finance bond insurance market, MBIA expects to provide lower-cost funds to public issuers and to assist in "unfreezing" the public finance and infrastructure markets. The establishment of National is expected to generate the writing of new business in the active U.S. public finance market once high stable ratings are achieved for the operating subsidiary, leading to increased profitability and additional sources of liquidity for MBIA Inc. to support its own operations or those of its other subsidiaries, subject to the resolution of pending litigation challenging the establishment of National.

MBIA's new operating structure also facilitates transparency for investors through the establishment of distinct business operations and discrete financial reporting through a newly created reporting segment for the U.S. public finance business. This transparency between our distinct business lines permits issuers, investors, and rating agencies to separately assess each of our businesses. By establishing a new holding company for the U.S. public finance operation, we anticipate better access to investors with interest in the specific business risks and opportunities available in the U.S. public finance sector.

The transfer of capital to National did not have a material impact on our consolidated claims-paying resources, and was evaluated by us and the New York State Insurance Department ("NYSID") prior to the NYSID's approval of the transfer on February 17, 2009. The capitalization of National in February 2009 had the effect of reducing the claims-paying resources of MBIA Corp. from $15.0 billion to $8.8 billion, based on December 31, 2008 balances, and increasing the claims-paying resources of National. In connection with the capitalization of National, National reinsured from MBIA Corp. all of MBIA Corp.'s U.S. public finance exposure thereby reducing MBIA Corp.'s net insured debt service outstanding from $1,198.3 billion to $290.3 billion, based on December 31, 2008 balances, and the amount of claims-paying resources required to be maintained by MBIA Corp.

The Company believes that after the capitalization of National, MBIA Corp. continues to be able to meet its expected obligations. Additionally in its approval letter dated February 17, 2009, the NYSID found that MBIA Corp. retained sufficient surplus to support its obligations and writings following the payment of the dividend by MBIA Corp. and that the return of capital by MBIA Corp. was reasonable and equitable to MBIA Corp. The NYSID also found that the reinsurance transaction with National was fair and equitable. Claims-paying resources are calculated using statutory capital and reserves. As of March 31, 2009, the quarter end following the capitalization of National, MBIA Corp. had total claims-paying resources of $8.0 billion while statutory loss and loss adjustment expense ("LAE") reserves for future claim payments were $1.7 billion. Similarly, as of March 31, 2009, National had total claims-paying resources of $5.5 billion while statutory LAE expense reserves for future claim payments were $0.2 billion.

Several lawsuits have been filed against the Company relating to the above transactions, which are discussed in "Note 16: Commitments and Contingencies" in the Notes to Consolidated Financial Statements. These lawsuits have impeded our ability to achieve higher insurance financial strength ratings for our insurance companies and, therefore, our ability to write new insurance business.

Refer to MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for further information about changes to our operating and legal entity structure.

U.S. Public Finance Insurance Operations

As described above, since February 2009, our U.S. public finance insurance business has been conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National's acceleration. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

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National's insurance portfolio principally comprises exposure assumed by National under the quota share reinsurance agreement it entered into with MBIA Insurance Corporation effective January 1, 2009 pursuant to which MBIA Insurance Corporation ceded all of its U.S. public finance exposure to National and under the assignment by MBIA Insurance Corporation of its rights and obligations with respect to the U.S. public finance business that MBIA Insurance Corporation assumed from FGIC.

Structured Finance and International Insurance Operations

MBIA's structured finance and international insurance operations have been principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain investment agreement contracts written by MBIA Inc. are insured by MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay amounts due, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. also insured debt obligations of other affiliates, including MBIA Global Funding LLC ("GFL") and Meridian Funding Company LLC ("Meridian"), and provides reinsurance to its insurance subsidiaries. Additionally, insurance policies include payments due under credit and other derivatives, including termination payments that may become due upon certain events including the insolvency or payment default of MBIA Corp.

MBIA Corp.'s guarantees insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign and sub-sovereign issuers. Structured finance and asset-backed securities ("ABSs") typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property.

In certain cases, the Company may be required to consolidate entities established as part of securitizations when it insures the assets or liabilities of those entities and in connection with remediations or renegotiations of policies. These entities typically meet the definition of a variable interest entity ("VIE") under accounting principles for the consolidation of VIE's. We do not believe there is any difference in the risks and profitability of financial guarantees provided to VIEs compared with other financial guarantees written by the Company. Additional information relating to VIEs is contained in the "Variable Interest Entities" section included herein.

Investment Management Services Operations

MBIA's investment management services operations consist of an asset management advisory business, which provides cash management, discretionary asset management and structured products to the public, not-for-profit, corporate and financial sectors. We also operate an asset/liability products business in which we have issued debt and investment agreements, which are insured by MBIA Corp., to capital markets and municipal investors and then initially purchased assets that largely matched the duration of those liabilities, and a conduit business in which we have funded MBIA-insured transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, have caused the Company to begin winding down its asset/liability products and conduit businesses. Since the downgrades of MBIA Corp., we have not issued debt in connection with either business and we believe the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate, or are repurchased by the Company.

Credit Ratings

The current financial strength ratings of National, MBIA Insurance Corporation and MBIA Inc. are summarized below:

Agency	Rating/Outlook		
	National	MBIA Insurance Corporation	MBIA Inc.
S&P	A / Developing outlook	BB+ / Negative outlook	BB-/ Negative outlook
Moody's	Baa1 / Developing outlook	B3 / Negative outlook	Ba3 / Negative outlook
Fitch	Withdrawn	Withdrawn	Withdrawn

On September 28, 2009, S&P affirmed National's insurance financial strength rating at A with a developing outlook. On the same date, S&P downgraded MBIA Insurance Corporation's insurance financial strength rating to BB+ with a negative outlook from BBB with a negative outlook. S&P also downgraded MBIA Inc.'s senior debt obligations to BB- with a negative outlook from BB with a negative outlook.

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On June 25, 2009, Moody's affirmed National's insurance financial strength rating at Baa1 but changed its outlook to developing from review for upgrade and Moody's affirmed MBIA Insurance Corporation's insurance financial strength rating at B3 but changed its outlook to negative from developing. Also on June 25, 2009, Moody's downgraded MBIA Inc.'s financial strength rating to Ba3 with a negative outlook from Ba1 with a developing outlook.

Financial Highlights

For the three months ended September 30, 2009, we recorded a consolidated net loss of $728 million or $3.50 per share, after adjusting for preferred stock dividends of MBIA Insurance Corporation, compared with net loss of $806 million or $3.42 per share for the same period of 2008.

For the nine months ended September 30, 2009, we recorded consolidated net income of $864 million or $4.15 per share, after adjusting for preferred stock dividends of MBIA Insurance Corporation, compared with a net loss of $1.5 billion or $6.87 per share for the same period of 2008.

Our consolidated book value (total shareholders' equity) was $2.7 billion as of September 30, 2009, increasing from $1.0 billion as of December 31, 2008. Our consolidated book value per share as of September 30, 2009 was $13.16 reflecting an increase from $4.78 as of December 31, 2008.

A further discussion of our financial results is presented within the "Results of Operations" section included herein.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the use of estimates and assumptions. The following accounting estimates are viewed by management to be critical because they require significant judgment on the part of management. Management has discussed and reviewed the development, selection and disclosure of the critical accounting estimates with the Company's Audit Committee. Financial results could be materially different if alternate methodologies were used or if management modified its assumptions.

Loss and Loss Adjustment Expenses

Loss and LAE reserves are established by National's and MBIA Corp.'s respective Loss Reserve Committees and reviewed by our executive Loss Reserve Committee, which consists of members of senior management. This estimate requires the use of judgment and estimates with respect to the occurrence, timing and amount of a loss on an insured obligation. Loss and LAE reserves relate only to MBIA's non-derivative financial guarantees.

Effective January 1, 2009, the Company no longer recognizes an unallocated loss reserve for losses that occurred or are probable to occur as a result of credit deterioration in the Company's insured portfolio but which have not yet been specifically identified and applied to specific insured obligations. Therefore, the Company's loss and LAE reserves as of September 30, 2009 only represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company's estimate of expected losses to be paid under an insurance contract, net of potential recoveries and discounted using a current risk-free interest rate, on insured obligations that have defaulted or are expected to default when this amount exceeds unearned premium revenue. Refer to "Note 2: Significant Accounting Policies" and "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a description of the Company's accounting for insurance losses and the impact of adopting new accounting guidance on the Company's financial statements.

In the initial application of the newly effective accounting principles for financial guarantee insurance contracts, a cumulative-effect adjustment was recognized to beginning retained earnings as of January 1, 2009, which included reducing our unallocated loss reserve of $232 million as of December 31, 2008 to zero or $151 million on an after-tax basis. As of September 30, 2009, the Company reported total loss and LAE reserves, net of reinsurance, of $1.3 billion, representing 0.13% of its outstanding non-derivative net debt service insured of $1.0 trillion. We believe that these reserves are adequate to cover ultimate net losses. Given that the reserves are based on estimates and assumptions, there can be no assurance that ultimate losses will not exceed such estimates resulting in the Company recognizing additional loss and LAE in earnings.

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Case Basis Reserves

A number of variables are taken into account in establishing specific case basis reserves for individual policies that depend primarily on the nature of the underlying insured obligation. These variables include the nature and creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation, and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate realized losses for any policy include economic conditions and trends, changes in interest rates, rates of inflation, changes in borrower behavior, the default rate and salvage values of specific collateral, and litigation that seeks to enforce contractual obligations of our counterparties.

In establishing case basis loss reserves, we calculate the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and expected term of such net payments. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of our loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of September 30, 2009. For example, a higher discount rate would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. However, we believe that the discount rates used represent the most appropriate risk-free rates for present valuing our case basis loss reserves, as these rates are commonly used throughout financial markets.

In the first nine months of 2009, the Company incurred loss and LAE of $203 million. Included in the $203 million of loss and LAE were additions to case basis reserves for expected future payments, net of reinsurance, totaling $2.0 billion, of which $1.8 billion related to our RMBS exposure. Offsetting the additions to case basis reserves were $1.8 billion of expected insurance loss recoveries, of which $1.7 billion was recognized on our RMBS exposure. Approximately $1.2 billion of the RMBS insurance loss recoveries relate to estimates of potential recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage securitization exposures that are subject to a contractual obligation by sellers/servicers to repurchase or replace such mortgages and approximately $550 million relates to recoveries of amounts expected to be paid from excess cash flows within the securitizations. Refer to "Loss and Loss Adjustment Expenses" included in the Results of Operations section herein for further information regarding case basis reserve activity.

RMBS Reserves

In determining the RMBS case basis reserves recorded as of September 30, 2009, which relate to RMBS backed by home equity lines of credit ("HELOCs") and closed-end second mortgages ("CES"), the Company employed a multi-step process using a database of loan level information which allowed the Company to determine borrower payment status, including delinquencies and charge-offs. The Company relied upon this database to determine the likelihood of a delinquent loan being charged off. The information was then used in conjunction with a proprietary internal cash flow model and a commercially available model to estimate expected ultimate cumulative losses to our insured bonds. The "Current Roll to Loss" approach, described below, was used for estimating expected future defaults for loans that are current (not delinquent).

The following are the principal assumptions used with respect to the underlying loans to determine the expected losses on our insured RMBS transactions:

- We assumed that loans reported as delinquent as of August 31, 2009 would default during the following six months at an assumed default rate based on the number of days that the loan was delinquent at such time (the "Roll Rate Default Methodology").
- The Roll Rate Default Methodology involves reviewing on a transaction-specific basis the percentage of 30-59 and 60-89 day delinquent loans that became 90 days delinquent ("Roll to Loss"). Generally, the rates of Roll to Loss are calculated for the previous three months and averaged. The Company made the assumption that 100% of the 90 or more days delinquent loans would result in a loss. The Roll to Loss was then applied to the amounts in the respective delinquency buckets based upon delinquencies as of August 31, 2009 to estimate all delinquencies as of the current reporting period.

- For loans that are current (not delinquent), we derived the "Current Roll to Loss" rates by multiplying the percentage of loans in the 30-59 bucket and the Roll to Loss rates for the 30-59 delinquency bucket. We applied this percentage each month going forward to the remaining current pool balance to project future losses. For example, if 10% of the loans in the pool are in the 30-59 delinquency bucket and the transaction's performance suggests that 30% of those loans will be charged off, the Current Roll to Loss rate for the transaction is 3%. Our model would assume that 3% of the performing loans are charged off every month for the period of elevated losses beyond the next six months.

  After the elevated loss period, we assume that the Current Roll to Loss rate will reduce linearly to 25% of its original value over six months (i.e. 3% will linearly reduce to 0.75% over six months). Based upon performance trends and our view of market conditions over the next several years, we further reduced the Current Roll to Loss rate to 0% by early 2014 with the expectation that the performing seasoned loans and an economic recovery will eventually result in loan performance reverting to historically low levels of default. For loans that remain current (not delinquent) throughout the projection period, we assume that voluntary prepayments occur at the average rate experienced in the most recent three-month period.
- We have run various elevated default period duration scenarios when determining loss reserves. Our increased loss expectations in 2009 resulted from the combination of higher delinquent loans in the pipeline and the anticipation that the elevated loss period will extend to at least early 2010.
- We assumed servicer advances for delinquent loans to be zero.
- We assumed that all defaulted loans will result in a total loss of principal after a six-month liquidation period.

In addition, for transactions secured by HELOCs, the model considered borrower draws and repayment rates. For HELOCs, the current three-month average draw rate was used to project future draws on the line. For HELOCs and transactions secured by fixed rate CES, the three-month average conditional repayment rate ("CRR") was used to project voluntary principal repayments. Cash flows also assumed a constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and LIBOR interest rates, minus any applicable fees). For all transactions, cash flows considered allocations and other structural aspects of a transaction, including managed amortization periods, rapid amortization periods and claims against MBIA's insurance policy consistent with such policy's terms and conditions.

The assumptions and cash flow structure referenced above resulted in a forecasted cumulative collateral loss that was added to existing actual cumulative collateral losses. The resulting estimated net claims on MBIA's insurance policies were discounted to a net present value reflecting MBIA's obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA's best estimates of how transactions will perform over time.

We monitor portfolio performance on a monthly basis against projected performance, reviewing delinquencies, roll rates, prepayment rates (including voluntary and involuntary) and default rate trends. In the event of a material deviation in actual performance from projected performance, we would increase or decrease our case basis reserves quarterly accordingly. If defaults and losses remained at the peak levels we are modeling for six months longer than in our base case, the addition to our case basis loss and LAE reserve would be approximately $600 million. This scenario is highly sensitive to the proportion of losses that are projected from Current Roll to Loss rates versus those projected from delinquencies (Roll to Loss). As our estimate of additions to case basis loss reserves in the third quarter of 2009 was primarily driven by increased Current Roll to Loss rates on certain transactions, we consequently increased our estimate of additions to case basis loss and LAE reserves under this scenario from our estimate in the second quarter of 2009.

In the third quarter of 2009, we continued our review of mortgage loans in our insured transactions. As a result, we revised the expected net cash inflows based on an increasing likelihood of potential recoveries related to ineligible mortgage loans in certain insured first and second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans. Our recovery outlook continues to be principally based on the following factors:

1. The strength of our existing contract claims related to ineligible loan substitution/repurchase obligations;
2. the favorable outcome for MBIA on Defendants' motion to dismiss in the action captioned, MBIA v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) where the court allowed MBIA's fraud claims against the Countrywide defendants to proceed;
3. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which will facilitate their ability to comply with required loan repurchase/substitution obligations. We are not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. As a result, we did not make any significant adjustments to our estimated recoveries with respect to the credit risk of these sponsors (or their successors); and

4. evidence of loan repurchase/substitution compliance by issuers for put-back requests made by other harmed parties consistent with MBIA's assertions.

Beginning in the first quarter of 2008, MBIA engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying MBIA's HELOC and CES insured transactions. Certain HELOC and CES transactions that exhibited exceptionally poor performance were chosen for a re-underwriting review. Factors MBIA believes to be indicative of this poor performance include (i) a material increase in early and late stage delinquencies; (ii) material increases in charged-off loans; (iii) significant decreases in credit enhancement; and/or (iv) policy payments. Our forensic loan review determined that there were significant breaches of mortgage loan representations and material deviations from underwriting guidelines. Accordingly, we have determined that thousands of loans were in fact contractually ineligible for inclusion in the securitized trusts insured by MBIA. In turn, MBIA has submitted thousands of ineligible loans for repurchase/substitution to the sponsors or sellers/servicers. The unsatisfactory resolution of these contractual matters, in addition to fraudulent underwriting practices that we believe were prevalent within certain issuers, has led to MBIA pursuing litigation with these issuers seeking the sellers/servicers to repurchase or replace ineligible mortgage loans and specifically perform under its contractual obligation and damages for both breaches of contractual obligations and fraud. MBIA's forensic examination of loan repurchase/substitution requirements for various issuers remains ongoing.

In the second and third quarters of 2009, MBIA recognized estimated recoveries of $1.2 billion related to reviewed transactions. The estimated recoveries are transaction specific and based upon contractual breaches for loans which we believe were ineligible and either put-back to the originators or sellers/servicers or where analysis has been completed and put-back notices are pending. These estimated recoveries rely upon identified breaches of representations and warranties in specific transactions that MBIA has already identified as a result of actual loan file examinations for loans across a broad spectrum of categories ranging from current to severely delinquent and charged-off mortgage loans. During 2009, in coordination with our forensic review consultants, we reviewed 26,805 mortgage loans within 27 first and second-lien mortgage loan securitizations. The aggregate loan population includes current, delinquent and charged-off loans. Estimated recoveries for these 27 transactions of $1.2 billion is based on only those loans that were examined which had substantiated breaches, and does not include any extrapolation of results from the actual loan file examinations to the remaining mortgages in the loan pool. Expected cash inflows from recoveries are discounted using the current risk-free rate associated with the underlying credit, which ranged from 2.02% to 3.38% depending upon the transaction's expected average life. We considered all relevant facts and circumstances, including the factors described above, in developing our assumptions on expected cash inflows, probability of potential recoveries and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as facts and circumstances change and relevant information is available, including additional information on the mortgage loan pools. We have utilized the results of the above described loan file examinations to make demands for loan repurchases from originators and services or their successors and, in certain instances, as a part of the basis for litigation filings.

We will continue to assess the level of expected recoveries as we complete additional forensic reviews on additional loans and progress through the litigation proceedings that are ongoing at this time. While the Company believes that these ineligible mortgage loans are subject to a repurchase or replacement obligation by the seller/servicers, successful challenges of such determinations by the seller/servicers could result in the Company recovering less than the amount of its estimated recoveries. As a result of additional loan reviews and the progression of litigation proceedings, our estimate of recoveries could change materially in the future. However, the outcome of such events on our recoveries cannot be estimated at this time.

Valuation of Financial Instruments

Fair value is defined as an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on a measurement date. The degree of judgment used to determine the fair values of financial instruments generally correlates to the degree of pricing observability. Financial instruments in liquid markets with readily available and actively quoted prices, or with such prices for comparable instruments usually have the most pricing observability. Financial instruments rarely traded or not quoted have less observability and are usually measured by valuation models that require judgment. Pricing observability is affected by type of financial instrument, whether the instrument is well established in the market, by characteristics unique to individual transactions and by overall market conditions.

We have categorized our financial instruments measured at fair value into the three-level classification as prescribed by fair value measurements and disclosures, which considers this issue of pricing observability. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, and fair value measurements of financial instruments where significant inputs are not observable are generally categorized as Level 3. We categorize our financial instruments conservatively using the lowest level category at which we can generate reliable fair values. The determination of reliability requires management to exercise judgment.

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The fair market values 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, we use alternate valuation methods, including either dealer quotes for similar contracts or modeling using market data inputs. Using alternate valuation methods generally requires considerable judgment in the estimates and assumptions used and changes to these variables may produce materially different values.

The fair value pricing of assets and liabilities is a function of many components which includes interest rate risk, market risk, liquidity risk and credit risk. For financial instruments that are internally valued by the Company, as well as those for which the Company uses broker quotes or pricing services, credit risk is typically incorporated by using appropriate credit spreads or discount rates as inputs. Refer to "Note 2: Significant Accounting Policies" and "Note 5: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the Company's financial assets and liabilities that are accounted for at fair value.

1. Financial Assets

The Company's financial assets are primarily debt and equity investments. The majority of these are accounted for in accordance with the accounting principles for certain investments in debt and equity securities. The guidance requires all debt instruments and certain equity instruments to be classified in the Company's consolidated balance sheet according to their purpose and, depending on that classification, to be carried at either amortized cost or fair value. Most valuations of the Company's financial assets use observable market-based inputs, including dealer quotes when available. However, since mid 2007, illiquidity in the credit markets has significantly reduced the availability of observable market data. Other financial assets that require fair value reporting or disclosures within the Company's Notes to Consolidated Financial Statements are valued based on the estimated value of the underlying collateral or the Company's estimate of discounted cash flows.

Assets with fair values derived from broker quotes or pricing services can be classified within Level 1, 2 or 3 of the fair value hierarchy, depending on the observability of inputs. Typically we receive one broker quote or pricing service value for each instrument, which represents a non-binding indication of value. We review the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in our valuations reflect fair value and as a basis for classification within the three levels of the fair value hierarchy. For example, broker quoted prices are classified as Level 3 if we consider the inputs used not to be market-based and observable. Pricing service data is received monthly and quarterly, and we use a variety of methods to analyze the reasonableness of these third-party valuations, including comparisons to similar quality and maturity assets, internal modeling of implied credit spreads by sector and quality, comparison to published spread estimates, and assessment relative to comparable dealer offerings or any actual transactions from a recent time period. When we believe a third-party quotation differs significantly from our internal value, whether higher or lower, we review our data or assumptions with the provider. The price provider may subsequently provide an updated price. We do not make any internal adjustments to prices provided by a broker or pricing service.

While we review third-party prices for reasonableness, we are not the source for any of the inputs or assumptions used in developing those prices. Additionally, we do not have access to the specific models used by the third-party price providers. As a result, we cannot provide the potential impact of reasonably likely changes in inputs and assumptions used in these models. Consequently, we are unable to determine if such reasonably likely changes in inputs and assumptions would have a material impact on our financial condition or results of operations.

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Financial assets recorded on the Company's consolidated balance sheet at fair value as of September 30, 2009 and December 31, 2008 totaled $14.7 billion and $17.9 billion, respectively, of which $12.6 billion and $16.3 billion, respectively, were valued using pricing services or broker quotes. The following tables present the type, amount and fair value hierarchy classification for financial assets for which pricing services or broker quotes were used by the Company in determining fair value as of September 30, 2009 and December 31, 2008:

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1) [1]	Significant Other Observable Inputs (Level 2) [1]	Significant Unobservable Inputs (Level 3) [2]	Balance as of September 30, 2009
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 720	$ 91	$ 6	$ 817
Foreign governments	345	195	72	612
Corporate obligations	-	2,311	253	2,564
Mortgage-backed securities				
Residential mortgage-backed agency	-	1,739	81	1,820
Residential mortgage-backed non-agency	-	619	98	717
Commercial mortgage-backed	-	12	22	34
Asset-backed securities				
Collateralized debt obligations	-	185	201	386
Other asset-backed	-	631	347	978
Total	1,065	5,783	1,080	7,928
State and municipal bonds				
Tax-exempt bonds	-	2,334	-	2,334
Taxable bonds	-	750	-	750
Total state and municipal bonds	-	3,084	-	3,084
Total fixed-maturity investments	1,065	8,867	1,080	11,012
Other investments:				
Perpetual preferred securities	-	343	62	405
Other investments	16	147	25	188
Money market securities	939	-	-	939
Total other investments	955	490	87	1,532
Derivative assets	-	-	59	59
Total assets	$ 2,020	$ 9,357	$ 1,226	$ 12,603

(1) - Assets measured using pricing services.

(2) - Assets measured using broker quotes.

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In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) (1)	Significant Other Observable Inputs (Level 2) (1)	Significant Unobservable Inputs (Level 3) (2)	Balance as of December 31, 2008
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 1,042	$ 194	$ -	$ 1,236
Foreign governments	369	335	104	808
Corporate obligations	-	2,775	598	3,373
Mortgage-backed securities				
Residential mortgage-backed agency	-	1,217	156	1,373
Residential mortgage-backed non-agency	-	630	397	1,027
Commercial mortgage-backed	-	14	37	51
Asset-backed securities				
Collateralized debt obligations	-	-	553	553
Other asset-backed	-	444	273	717
Total	1,411	5,609	2,118	9,138
State and municipal bonds				
Tax-exempt bonds	-	3,011	-	3,011
Taxable bonds	-	380	46	426
Total state and municipal bonds	-	3,391	46	3,437
Total fixed-maturity investments	1,411	9,000	2,164	12,575
Other investments				
Perpetual preferred securities	-	273	45	318
Other investments	23	42	49	114
Money market securities	3,234	-	-	3,234
Total other investments	3,257	315	94	3,666
Derivative assets	-	-	60	60
Total assets	$ 4,668	$ 9,315	$ 2,318	$ 16,301

(1) - Assets measured using pricing services.

(2) - Assets measured using broker quotes.

2. Financial Liabilities

The Company's financial instruments categorized as liabilities primarily consist of derivatives within our insurance and investment management services operations, investment agreements and medium-term notes ("MTNs") issued by the asset/liability products and conduit segments within our investment management services operations, and debt issued for general corporate purposes. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. The fair values of these financial instruments are generally not reported within the Company's financial statements but disclosed in the accompanying notes. However, financial liabilities which qualify as part of fair value hedging arrangements under the provisions of derivative and hedging are reported in the Company's consolidated balance sheet at a value that reflects changes in the risks being hedged, which offsets changes in the value of the hedging instrument. MBIA uses cash flow modeling techniques to estimate the value of its liabilities that qualify as hedged obligations, incorporating current market data. Financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures within the Company's notes to its financial statements are valued based on either estimated value of the underlying collateral, the Company's or a third-party's estimate of discounted cash flows or quoted market values for similar transactions. Refer to the following " *3. Derivatives* " and " *4. Insured Derivatives* " sections for information about these financial liabilities.

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The following table presents the type, amount and fair value hierarchy classification for financial liabilities for which pricing services or broker quotes were used by the Company in determining fair value as of September 30, 2009 and December 31, 2008:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]	Counterparty and Cash Collateral Netting	Balance as of September 30, 2009
Liabilities:					
Derivative liabilities	$ -	$ -	$ 40	$ -	$ 40
Total liabilities	$ -	$ -	$ 40	$ -	$ 40

(1) - Liabilities measured using pricing services.

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]	Counterparty and Cash Collateral Netting	Balance as of December 31, 2008
Liabilities:					
Derivative liabilities	$ -	$ -	$ 90	$ -	$ 90
Total liabilities	$ -	$ -	$ 90	$ -	$ 90

(1) - Liabilities measured using pricing services.

3. Derivatives

MBIA has entered into derivative transactions both within its financial guarantee insurance business and in hedging risks associated with its assets and liabilities. Credit default swap ("CDS") contracts are also used in the investment management services operations to replicate investments in cash assets consistent with the risk tolerance and criteria for this business. We account for derivative transactions in accordance with the accounting principles for derivatives and hedging which requires that all such transactions be recorded on the Company's consolidated balance sheet at fair value. The fair value of derivative instruments is determined as the amount that would be received to sell the derivative when in an asset position (when the Company would be owed money under the derivative in a termination) or transfer the derivative when in a liability position (when the Company would owe money under the derivative in a termination). Changes in the fair value of derivatives, exclusive of insured derivatives, are recorded each period in current earnings within "Net gains (losses) on financial instruments at fair value and foreign exchange" or in shareholders' equity within "Accumulated other comprehensive income (loss)" depending on whether the derivative is designated as a hedge, and if so designated, the type of hedge.

4. Insured Derivatives

As of September 30, 2009, we had $124.8 billion of net par outstanding on insured derivatives. The majority of our derivative exposure is in the form of credit derivative instruments insured by MBIA Corp. Prior to 2008, MBIA Corp. insured CDSs entered into by LaCrosse Financial Products LLC ("LaCrosse"), an entity that is consolidated into MBIA's financial statements under the criteria for consolidation of variable interest entities. In February 2008, we ceased insuring such derivative instruments except in transactions reducing our existing insured derivative exposure. As of September 30, 2009, the net par outstanding on our insured credit derivatives totaled $110.3 billion. The remaining $14.5 billion of net par outstanding on insured derivatives as of September 30, 2009 primarily related to insured interest rate and inflation-linked swaps for which we have insured counterparty credit risk.

In most cases, our insured derivatives are accounted for at fair value as they do not qualify for the financial guarantee scope exception under relevant accounting guidance. Because our insured derivatives are highly customized and there is generally no observable market for these derivatives, we estimate their fair values in a hypothetical market based on internal and third-party models simulating what a bond insurer would charge to guarantee the transaction at the measurement date. This pricing would be based on expected loss of the exposure calculated using the market-implied default risk of the underlying collateral within the transaction structure. The fair values of insured derivatives recorded on our balance sheet are principally related to our insured credit derivatives exposure.

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Description of MBIA's Insured Credit Derivatives

The majority of MBIA's insured credit derivatives reference structured pools of cash securities and CDSs. We generally insured the most senior liabilities of such transactions, and at transaction closing our exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as "Super Triple-A" exposure). The collateral backing our insured derivatives was cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, commercial real estate ("CRE") loans, and CDO securities.

Most of MBIA's insured CDS contracts require that MBIA make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. MBIA's net par outstanding and maximum payment obligation under these contracts as of September 30, 2009 was $81.5 billion. The underlying referenced collateral for contracts executed in this manner largely consists of investment grade corporate debt, structured commercial mortgage-backed securities ("CMBS") pools and, to a lesser extent, corporate and multi-sector CDOs and so-called "CDO-squared" transactions. As of September 30, 2009, MBIA also had $28.8 billion of net par outstanding on insured CDS contracts that require MBIA to make timely interest and ultimate principal payments.

We also have guarantees under principal protection fund programs, which are also accounted for as derivatives. Under these programs we guaranteed the return of principal to investors and are protected by a daily portfolio rebalancing mechanism that is designed to minimize the risk of loss to MBIA. As of September 30, 2009, the maximum amount of future payments that the Company would be required to make under these guarantees was $25 million, but we have not made any payments to date relating to these guarantees. The unrealized gains (losses) on these derivatives for the years ended 2007 and 2008 and the nine months ended September 30, 2009 were zero, reflecting the extremely remote likelihood that MBIA will incur a loss.

Changes in fair value of the insured derivatives are recorded in "Net change in fair value of insured derivatives." The net change in the fair value of our insured derivatives has two primary components; (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. "Realized gains (losses) and other settlements on insured derivatives" include (i) net premiums received and receivable on written CDS contracts, (ii) net premiums paid and payable to reinsurers in respect of CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or commutation agreement and (vi) fees relating to CDS contracts. The "Unrealized gains (losses) on insured derivatives" include all other changes in fair value of the derivative contracts.

Refer to the "Net Change in Fair Value of Insured Derivatives" discussion in the following Results of Operations section for information about the impact of changes in the fair value of insured derivatives on our financial statements and the attribution of such changes by insured sector.

Considerations Regarding an Observable Market for MBIA's Insured Derivatives

In determining fair value, our valuation approach uses observable market prices if available and reliable. Market prices are generally available for traded securities and market standard CDSs but are less available or accurate for highly customized CDSs. Most of the derivative contracts we insure are the latter as they are non-traded structured credit derivative transactions. In contrast, typical market CDSs are standardized, liquid instruments that reference tradable securities such as corporate bonds that themselves have observable prices. These market standard CDSs also involve collateral posting, and upon a default of the underlying reference obligation, can be settled in cash.

MBIA's insured CDS contracts do not contain typical CDS market standard features as they have been designed to replicate our financial guarantee insurance policies. At inception of the transactions, our insured CDS instruments provided protection on pools of securities or CDSs with either a stated deductible or subordination beneath the MBIA-insured tranche. We are not required to post collateral in any circumstance. Payment by MBIA under an insured CDS is due after the aggregate amount of losses on the underlying reference obligations, based on actual losses as determined pursuant to the settlement procedure in each transaction, exceed the deductible or subordination in the transaction. Once such losses exceed the deductible or the subordination, MBIA is obligated to pay the losses, net of recoveries, if any, on any subsequent reference obligations that default. Some contracts also provide for further deferrals of payment at our option. In the event of MBIA Corp.'s failure to pay a claim under the insured CDS or the insolvency of MBIA Corp., the insured CDS contract provides that the counterparty can terminate the CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between our CDS and typical market standard contracts is that our contracts, like our financial guarantee contracts, cannot be accelerated by the counterparty in the ordinary course of business. Similar to our financial guarantee insurance, all insured CDS policies are unconditional and irrevocable and our obligations thereunder cannot be transferred unless the transferees are also licensed to write financial guarantee insurance policies. Since insured CDS contracts are accounted for as derivatives under relevant accounting guidance, the Company did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

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The structure of our payment obligations in these contracts is intended to prevent large one-time claims upon an event of default of underlying reference obligations and to allow for payments over time (i.e. "pay-as-you-go" basis) or at final maturity. However, the size of payments will ultimately depend on the timing and magnitude of losses. There are three types of payment provisions:

(i) timely interest and ultimate principal;

(ii) ultimate principal only at final maturity; and

(iii) payments upon settlement of individual referenced collateral losses in excess of policy-specific deductibles and subordination. The deductible or loss threshold is the amount of losses experienced with respect to the underlying or referenced collateral that would be required to occur before a claim against an MBIA insurance policy can be made.

All of the contracts with settlement based on ultimate principal only at final maturity have been terminated under the terms of the agreements. MBIA had transferred some of the risk of loss on insured CDS transactions using reinsurance to other financial guarantee insurance and reinsurance companies. The fair value of the transfer under the reinsurance contract with the reinsurers is accounted for as a derivative asset. These derivative assets are valued consistently with our valuation policies.

Valuation Modeling of MBIA-Insured Derivatives

As a result of the significant differences between market standard CDS contracts and the CDS contracts insured by MBIA, we believe there are no relevant third-party exit value market observations for our insured structured credit derivative contracts and, therefore, no principal market as described in fair value measurement and disclosures. In the absence of a principal market, we value these insured credit derivatives in a hypothetical market where market participants are assumed to be other comparably-rated primary financial guarantors. Since there are no observable transactions in the financial guarantee market that could be used to value our transactions, we generally use internal and third-party models, depending on the type and structure of the contract, to estimate the fair value of our insured derivatives.

Our primary model for insured CDSs simulates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from us at a price equal to what they could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into our model, the model estimates such premium and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

A. Valuation Models Used

Approximately 63% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 is valued using the BET model, which is a probabilistic approach to calculating expected loss on our exposure based on market variables for underlying referenced collateral. During the third quarter of 2009, the Company changed the model it used to estimate the fair value of most of its insured multi-sector CDOs. Previous to the third quarter of 2009, these transactions were valued using the BET model. Beginning with the third quarter of 2009, we valued these transactions using an internally-developed valuation model, referred to as the Direct Price Model. Approximately 37% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 was valued using the Direct Price Model. As a result of the change in model, the fair value of our liability for insured derivatives as of September 30, 2009 was $390 million lower compared to what it would have been using the BET model.

There were four factors that led to the development of the Direct Price Model. (1) Market spreads for RMBS and ABS CDO collateral were no longer available. RMBS and ABS CDO collateral comprised the majority of the collateral for the multi-sector CDOs that were transitioned to a new marking model. Although market prices were available for the collateral, the BET model requires a spread input and the conversion from price to spread can be subjective for securities that trade substantially below par, which was the case for most of the collateral in these transactions. (2) The BET model contemplates a multi-tranche structure and allocates potential losses to each tranche. Many of the multi-sector CDOs insured by MBIA have experienced collateral erosion to the extent that there is no market value to the subordinated tranches. As a result this key feature of the BET model is no longer relevant. (3) The BET model requires a recovery rate assumption. This is not readily observable on all the collateral. As the market-implied probability of default of collateral has increased the recovery rate assumption has become increasingly important, which has gradually increased the relative importance in the model of internal assumptions as opposed to observable market inputs. (4) For all insured transactions that have been transitioned to a new model MBIA has an option to defer losses on principal to the legal final maturity, which is typically decades in the future. As a result of increased actual and market-implied future potential losses, as well as the significant widening of CDS spreads for MBIA, the value of this deferral option has increased. It currently has a very significant effect on the estimated fair value of MBIA's guaranty so it was appropriate to use a model that explicitly valued that deferral option.

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B. Description of the BET Model

1. Valuation Model Overview

The BET was originally developed by Moody's to estimate a probability distribution of losses on a diverse pool of assets. We have made modifications to this technique in an effort to incorporate more market information and provide more flexibility in handling pools of dissimilar assets: a) we use market credit spreads to determine default probability instead of using historical loss experience, and b) for collateral pools where the spread distribution is characterized by extremes, we model each segment of the pool individually instead of using an overall pool average.

There are three steps within BET modeling to arrive at fair value for a structured transaction: pool loss estimation, loss allocation to separate tranches of the capital structure and calculation of the change in value.

- The pool loss estimation is calculated by reference to the following (described in further detail under "Model Inputs" below):
  - credit spreads of the underlying collateral. This is based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked,
  - diversity score of the collateral pool as an indication of correlation of collateral defaults, and
  - recovery rate for all defaulted collateral.
- Losses are allocated to specific tranches of the transaction according to their subordination level within the capital structure.
  - For example, if the expected total collateral pool loss is 4% and the transaction has an equity tranche and three progressively more senior C, B, and A tranches with corresponding underlying subordination levels of 0%, 3%, 5% and 10%, then the 4% loss will have the greatest impact on the equity tranche. It will have a lower, but significant impact on the C tranche and a lesser impact on the B tranche. MBIA usually insures the most senior tranche with lowest exposure to collateral losses due to the underlying subordination provided by all junior tranches.
- At any point in time, the unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the model worth noting are listed below:

- Default probability is determined by three factors: credit spread, recovery rate after default and the time period under risk.
- Defaults are modeled spaced out evenly over time.
- Collateral is generally considered on an average basis rather than being modeled separately.
- Correlation is modeled using a diversity score, which is calculated based on rules regarding industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

2. Model Strengths and Weaknesses

The primary strengths of the BET model are:

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

2) The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented both by Moody's and by MBIA's internal controls, creating a strong controls process in execution of the model. We have also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

3) The model uses market inputs with the most relevant being credit spreads for underlying referenced collateral, assumed recovery rates specific to the type and rating of referenced collateral, the diversity score of the entire collateral pool, and MBIA's CDS and derivative recovery rate level. These are key parameters affecting the fair value of the transaction and all inputs are market-based whenever available and reliable.

The primary weaknesses of the BET model are:

1) There is no market in which to test and verify the fair values generated by our model, and at September 30, 2009, the model inputs were also either unobservable or highly illiquid, adversely impacting their reliability.

2) There are diverse approaches to estimating fair value of such transactions among other financial guarantee insurance companies.

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

4) Results may be affected by averaging of spreads and use of a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlation assumptions. While more specific data could improve the reliability of the results, it is not currently available and neither is a model that could produce more reliable results in the absence of that data.

3. BET Model Inputs

Specific detail regarding these model inputs are listed below:

a. Credit spreads

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

The actual calculation of pool average spread varies depending on whether we are able to use collateral-specific credit spreads or generic spreads as an input.

- If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.
- If collateral-specific credit spreads are not available, we use generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor ("WARF") for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody's where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. We obtain WARF from the most recent trustee's report or we calculate it based on the collateral credit ratings. For a WARF calculation, we identify the credit ratings of all collateral (using, in order of preference as available, Moody's, S&P or Fitch ratings), then convert those credit ratings into a rating factor on the WARF scale, average those factors (weighted by par) to create a portfolio WARF, and then map the portfolio WARF back into an average credit rating for the pool. We then apply this pool rating to a market spread table or index appropriate for the collateral type to determine the generic spread for the pool, which becomes the market-implied default input into the BET model.
- If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating buckets and each bucket is used in calculating the overall average.
- When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA uses its hierarchy of spread sources (discussed below) to identify the most appropriate spread for that asset class to be used in the model.

We use the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences, such as CDS spreads can be driven by speculative activity since the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

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Spread Hierarchy:

1) Actual collateral-specific credit spreads. If up-to-date and reliable market-based spreads are available, they are used.
2) Sector-specific spreads (JP Morgan and Banc of America Securities-Merrill Lynch ("BAS-ML") spread tables by asset class and rating).
3) Corporate spreads (Bloomberg and Risk Metrics spread tables based on rating).
4) Benchmark from most relevant spread source (for example, if no specific spreads are available and corporate spreads are not directly relevant, an assumed relationship is used between corporate spreads or sector-specific spreads and collateral spreads). Benchmarking can also be based on a combination of market spread data and fundamental credit assumptions.

For example, if current market-based spreads are not available then we apply either sector-specific spreads from spread tables provided by dealers or corporate cash spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, we use the fourth alternative in our hierarchy. An example is tranched corporate collateral, where we apply corporate spreads as an input with an adjustment for our tranched exposure.

As of September 30, 2009, actual collateral credit spreads were used in one transaction. Sector-specific spreads were used in 12% of the transactions marked by the BET model. Corporate spreads were used in 29% of the transactions and spreads benchmarked from the most relevant spread source (number 4 above) were used for 58% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy. For example, for some transactions MBIA used actual collateral-specific credit spreads (number 1 above) in combination with a calculated spread based on an assumed relationship (number 4 above). In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source (number 4 above) even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral WARF. No Level 1 spreads are based on WARF, all Level 2 and 3 spreads are based on WARF and some Level 4 spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spread was used for 72% of the transactions.

Over time the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always our objective to move to higher levels on the hierarchy, but we sometimes move to lower priority inputs because of discontinued data sources or because we consider higher priority inputs no longer representative of market spreads. This occurs when transaction volume changes such that a previously used spread index is no longer viewed to reflect current market levels, as was the case for CMBS collateral in insured CDSs beginning in 2008. Refer to section "Input Adjustments for Insured CMBS Derivatives in the Current Market" below.

b. Diversity Scores

The diversity score is a measure to estimate 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. For example, if a portfolio of 100 assets had a diversity score of 50, this means that the 100 correlated assets are assumed to have the same loss distribution as 50 uncorrelated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for our senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA's internal modeling of the diversity score is based on Moody's methodology but uses MBIA's internal assumptions on default correlation, including variables such as collateral rating and amount, asset type and remaining life.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. We may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data. In the first nine months of 2009, we lowered recovery rates for CMBS collateral, certain RMBS collateral, and certain CLO collateral. The recovery rates for CLO collateral were lowered in the third quarter of 2009, which increased our derivative liability by $51 million.

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d. Input Adjustments for Insured CMBS Derivatives in the Current Market

History of Input Adjustments

Approximately $44.5 billion gross par of MBIA's insured derivative transactions as of September 30, 2009 include substantial amounts of CMBS and commercial mortgage collateral. Prior to 2008, we had used spreads drawn from CMBX indices and CMBS spread tables as pricing input on the underlying referenced collateral in these transactions. In 2008, as the financial markets became illiquid, we observed a significant disconnect between cumulative loss expectations of market analysts on underlying commercial mortgages and loss expectations implied by the CMBX indices and CMBS spread tables.

In addition, due to financial market uncertainty since last year, transaction volume in CMBS and trading activity in the CMBX were both dramatically lower than in prior periods. We also considered that the implied loss rates within the CMBX index were much higher than that forecast by fundamental researchers and MBIA's internal analysis. As a result of these issues, we concluded that the CMBX indices and the CMBS spread tables were unreliable model inputs for the purpose of estimating fair value in our hypothetical market among monoline insurers.

As a result, in the first quarter of 2008, we modified the spread used for these transactions to reflect a combination of market spread pricing and third-party fundamental analysis of CMBS credit. Our revised spread input was a CMBX index analog that combines expectations for CMBS credit performance (as forecasted by the average of three investment banks' research departments) together with the illiquidity premium implied by the CMBX indices. The illiquidity premium we used was the senior triple-A tranche spread of the CMBX index that matched the origination vintage of collateral in each transaction. For example, collateral originated in the second half of 2006 used the triple-A tranche spread of the CMBX series 1 as the illiquidity premium. The sum of the illiquidity premium plus the derived credit spread based on the average cumulative net loss estimates of three investment banks' research departments was used as a CMBX analog index.

In the third quarter of 2009, MBIA reassessed the reasonableness of CMBX inputs. CMBX levels are now quoted in price terms instead of spread. It was observed that trading activity in CMBX indices is more liquid than in recent quarters. There has also been some convergence between the loss rates implied by the CMBX index and that of fundamental analysts. During the third quarter of 2009 CMBX prices improved (implying a lower loss rate) while fundamental assessments of loss rates for CMBS increased. MBIA concluded that it was again appropriate and reasonable to use CMBX as an input for the BET model.

Current CMBX Input Adjustment

Since CMBX is now quoted in price terms and the BET model requires a spread input, it is necessary to convert CMBX prices to spreads. To do this we assumed that a portion of the CMBX price reflected market illiquidity. We assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. At the end of the third quarter of 2009 the highest priced triple-A CMBX index was series 1 and its price was $91.66, corresponding to an illiquidity premium of 8.34%. We assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. So the market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate of duration. The illiquidity premium was also converted to spread using the same approach and the CMBX spread was calculated as the sum of those two numbers.

As a result of this change in input spreads for CMBS, the fair value of our liability for insured derivatives as of September 30, 2009 increased by $591 million compared to what it would have been had we used the same CMBS input approach that was used in the second quarter of 2009.

During the third quarter of 2009, the Company modified its inputs for RMBS collateral in insured CDO-squared transactions because an appropriate source was no longer available for RMBS collateral spreads. Previously, spread levels were provided by securities firms, however these firms no longer provide this information. As a result, the Company assumed that all RMBS collateral defaulted and there was a recovery based on the current recovery rate assumption. This modification increased the derivative liability for insured derivatives by $103 million.

e. Nonperformance Risk

In compliance with the requirements of fair value measurement, our valuation methodology for insured credit derivative liabilities incorporates the Company's own nonperformance risk and the nonperformance risk of its reinsurers. We calculate the fair value by discounting the market value loss estimated through the BET model at discount rates which include MBIA Corp.'s and the reinsurers' CDS spreads (or an estimate if there is not a traded CDS contract referencing a reinsurer) at September 30, 2009. Prior to the second quarter of 2009, MBIA used the 5-year CDS spread on MBIA Corp. to calculate nonperformance risk. This assumption was compatible with the average life of the CDS portfolio, which was approximately 5 years. In the second quarter of 2009, we refined this approach to include a full term structure for CDS spreads. Under the refined approach, the CDS spreads assigned to each deal are based on the weighted average life of the deal.

Beginning in the first quarter of 2009, we limited the effective spread on CDS on MBIA so that the derivative liability, after giving effect to nonperformance risk, could not be lower than MBIA's recovery derivative price multiplied by the unadjusted derivative liability.

Prior to the third quarter of 2008, the Company did not apply nonperformance risk to the excess (if any) of insured par over the par value of remaining collateral (such excess referred to as "burn-through") within CDS transactions. Most obligations insured by MBIA do not have burn-through, however, an increasing number of multi-sector CDOs insured by MBIA had developed burn-through. As a result, in the third quarter of 2008 the Company began applying its nonperformance calculation to burn-through, which resulted in a reduction of the fair value of its derivative liability by $683 million. Most of the insured transactions with burn-through are now valued using the Direct Price Model.

C. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model was developed internally to address weaknesses in our BET model specific to valuing insured multi-sector CDOs, as previously discussed. There are three steps in the model. First, market prices are obtained or estimated for all collateral within a transaction. Second, the present value of the market-implied potential losses is calculated for the transaction, assuming that MBIA defers all principal losses to the legal final maturity. This is determined by the contractual terms of each agreement and interest rates. Third, the impact of nonperformance risk is calculated.

2. Model Strengths and Weaknesses

The primary strengths of the Direct Price Model are:

1) The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, legal final maturity, level of deductible or subordination (if any) and composition of collateral.

2) The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented by MBIA's internal controls, creating a strong controls process in execution of the model.

3) The model uses market inputs for each transaction with the most relevant being market prices for collateral, MBIA's CDS and derivative recovery rate level and interest rates. Most of the market inputs are observable.

The primary weaknesses of the Direct Price Model are:

1) There is no market in which to test and verify the fair values generated by our model.

2) There are diverse approaches to estimating fair value of similar transactions among other financial guarantee insurance companies.

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

3. Model Inputs

a. Collateral prices

MBIA was able to obtain broker quotes for the majority of the collateral. For any collateral not directly priced, a matrix pricing grid was used based on security type and rating. For each security that was not directly priced, an average was used based on securities with the same rating and security type categories.

b. Interest rates

The present value of the market-implied potential losses was calculated, assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the libor flat swap curve.

c. Nonperformance risk

The methodology for calculating MBIA's nonperformance risk is the same as used for the BET model. Due to the current level of MBIA CDS rates and the long tenor of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

D. Overall Model Results

In the current environment the most significant driver of fair value is nonperformance risk. In aggregate, the nonperformance calculation results in a pre-tax derivative liability which is $15.9 billion lower than the liability that would have been estimated if we did not include nonperformance risk in our valuation. Nonperformance risk is a fair value concept and does not contradict the Company's internal view, based on fundamental credit analysis of our economic condition, that the Company will be able to pay all claims when due.

The Company reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiated settlements of existing transactions. However, this data has been scarce or non-existent in recent periods. As a result, our recent reviews have focused more on internal consistency and relativity, as well as the reasonableness of modeled results given current market conditions.

The Company believes that it is important to apply its valuation techniques consistently. However, we may consider making changes in the valuation technique if the change results in a measurement that is equally or more representative of fair value under current circumstances.

Fair Value Hierarchy – Level 3

Accounting for fair value measurement and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Instruments that trade infrequently and therefore have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument's overall fair value. The following table presents the fair values of assets and liabilities recorded on our consolidated balance sheet that are classified as Level 3 within the fair value hierarchy as of September 30, 2009 and December 31, 2008, along with a brief description of the valuation technique for each type of asset and liability:

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In millions	September 30, 2009	Valuation Technique
Investments:		
U.S. Treasury and government agency	$ 6	Quoted prices for which the inputs are unobservable
Foreign governments	72	Quoted prices for which the inputs are unobservable
Corporate obligations	331	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Mortgage-backed securities		
Residential mortgage-backed agency	81	Quoted prices for which the inputs are unobservable
Residential mortgage-backed non-agency	252	Quoted prices for which the inputs are unobservable
Commercial mortgage-backed	32	Quoted prices for which the inputs are unobservable
Asset-backed securities		
Collateralized debt obligations	240	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Other asset-backed	627	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
State and municipal bonds		
Tax-exempt bonds	64	Quoted prices for which the inputs are unobservable
Taxable bonds	-	Quoted prices for which the inputs are unobservable
Perpetual preferred securities	62	Quoted prices for which the inputs are unobservable
Other investments	25	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Derivative assets	779	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Total Level 3 assets at fair value	$ 2,571	
Medium-term notes	142	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Derivative liabilities	4,962	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Total Level 3 liabilities at fair value	$ 5,104	

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In millions	December 31, 2008	Valuation Technique
Investments:		
U.S. Treasury and government agency	$ 32	Quoted prices for which the inputs are unobservable
Foreign governments	130	Quoted prices for which the inputs are unobservable
Corporate obligations	587	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Mortgage-backed securities		
Residential mortgage-backed agency	156	Quoted prices for which the inputs are unobservable
Residential mortgage-backed non-agency	397	Quoted prices for which the inputs are unobservable
Commercial mortgage-backed	37	Quoted prices for which the inputs are unobservable
Asset-backed securities		
Collateralized debt obligations	553	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Other asset-backed	905	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
State and municipal bonds		
Tax-exempt bonds	49	Quoted prices for which the inputs are unobservable
Taxable bonds	46	Quoted prices for which the inputs are unobservable
Perpetual preferred securities	45	Quoted prices for which the inputs are unobservable
Other investments	58	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Derivative assets	807	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Total Level 3 assets at fair value	$ 3,802	
Medium-term notes	176	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Derivative liabilities	6,305	Quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs
Total Level 3 liabilities at fair value	$ 6,481	

Level 3 assets were $2.6 billion and $3.8 billion as of September 30, 2009 and December 31, 2008, respectively, and represented approximately 17% and 21% of total assets measured at fair value, respectively. Level 3 liabilities were $5.1 billion and $6.5 billion as of September 30, 2009 and December 31, 2008, respectively, and represented approximately 98% and 97% of total liabilities measured at fair value, respectively.

Transfers into and out of Level 3 were $59 million and $658 million, respectively, for the nine months ended September 30, 2009. Transfers into and out of Level 3 were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the period. These inputs included spreads, yield curves observable at commonly quoted intervals, and market corroborated inputs. Foreign governments and corporate obligations comprised the majority of the transferred instruments. For the nine months ended September 30, 2009, the net unrealized gains related to the transfers into Level 3 was $15 million and the net unrealized gains related to the transfers out of Level 3 was $68 million.

Transfers into and out of Level 3 were $1.1 billion and $944 million, respectively, for the nine months ended September 30, 2008. Transfers into and out of Level 3 were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, CMBS and CDOs comprised the majority of the transferred instruments. For the nine months ended September 30, 2008, the net unrealized losses related to the transfers into Level 3 was $70 million and the net unrealized losses related to the transfers out of Level 3 was $39 million.

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Fair Value Control Processes

The majority of pricing for investments is provided by third-party providers who use their own data sources and models to arrive at fair value pricing for each security. Refer to "Financial Assets" above for a discussion on the use of pricing services and brokers, as well as the validation procedures performed.

With respect to insured credit derivatives, we use a fair value validation process. We review the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiated settlements of existing transactions. However, there have been no new insured transactions in recent periods. There were several insured CDS transactions that MBIA commuted or were terminated during the third quarter of 2009. In those cases, MBIA did not make any payment to the counterparties. As a result, the termination amounts were lower than our derivative liability. However, we did not use these transactions to adjust the valuation of other insured derivatives because we determined that there were unique characteristics to the terminated transactions that did not apply to the remaining portfolio. For example, these transactions were privately negotiated and did not reflect independent fair values. As a result of very limited observable activity, our recent reviews have focused more on internal consistency and relativity, as well as the reasonableness of modeled results given current market conditions.

Refer to the "Market Risk" section included herein for a further discussion of how the Company manages the risks inherent in its financial instruments.

Premium Revenue Recognition

The Company recognizes premium revenue in accordance with the guidance provided for financial guarantee insurance contracts. The guidance requires financial guarantee insurance and reinsurance contracts issued by insurance enterprises to recognize and measure premium revenue based on the amount of insurance protection provided to the period in which the insurance protection is provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is determined as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract. As premium revenue is recognized, unearned premium revenue liability is reduced.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through legal defeasance in satisfaction of the obligation according to its indenture, which results in the Company's obligation being extinguished under the financial guarantee contract. The Company recognizes any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Deferred Income Taxes

As of September 30, 2009, we reported a net deferred tax asset of $1.3 billion primarily related to the cumulative unrealized losses recorded on our derivative and investment portfolios. Included in the net deferred tax asset of $1.3 billion is a valuation allowance of $457 million related to realized capital losses on the disposal and impairment of investments. The Company has not established a valuation allowance on the deferred benefit related to CDS contracts since it is more likely than not that such a benefit will be utilized in future periods as an offset to ordinary income. However, the federal income tax treatment for CDS contracts is an unsettled area of tax law. Thus, in the event that the Internal Revenue Service concludes that insured CDS losses should be treated as capital losses, the Company would be required to establish a valuation allowance against substantially the entire deferred tax asset related to these losses. Refer to "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for additional information about the Company's deferred income taxes.

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RECENT ACCOUNTING PRONOUNCEMENTS

Refer to "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a discussion about accounting guidance recently adopted by the Company, as well as recent accounting developments relating to guidance not yet adopted by the Company.

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following tables present a summary of our consolidated financial results for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,	
In millions except for per share amounts	**2009**	**2008**
Total revenues (loss)	$ (620)	$ 320
Total expenses	446	1,366
Pre-tax income (loss)	(1,066)	(1,046)
Provision (benefit) for income taxes	(341)	(240)
Net income (loss)	$ (725)	$ (806)
Net income (loss) available to common shareholders	$ (728)	$ (806)
Net income (loss) per common share	$ (3.50)	$ (3.42)

	Nine Months Ended September 30,	
In millions except for per share amounts	**2009**	**2008**
Total revenues	$ 2,301	$ 732
Total expenses	879	2,543
Pre-tax income (loss)	1,422	(1,811)
Provision (benefit) for income taxes	548	(298)
Net income (loss)	$ 874	$ (1,513)
Net income (loss) available to common shareholders	$ 864	$ (1,513)
Net income (loss) per diluted common share	$ 4.15	$ (6.87)

For the three months ended September 30, 2009, we recorded a consolidated net loss of $728 million or $3.50 per common share, after adjusting for preferred stock dividends of MBIA Insurance Corporation, compared with a net loss of $806 million or $3.42 per common share for the same period of 2008. Weighted average shares outstanding totaled 208 million in the third quarter of 2009, down 12% from the same period of 2008 as a result of repurchases of stock.

Consolidated revenues for the three months ended September 30, 2009 were a loss of $620 million compared with revenues of $320 million for the same period of 2008. The decrease in our consolidated revenues principally reflects unrealized losses on insured credit derivatives and a reduction in net investment income in the third quarter of 2009. The impact of these decreases was partially offset by lower net losses from financial instruments carried at fair value and net losses from the sale of securities. Consolidated expenses for the three months ended September 30, 2009 were $446 million compared with expenses of $1.4 billion for the same period of 2008. The decrease in expenses was primarily a result of a decline in losses and LAE incurred on financial guarantee insurance policies.

For the nine months ended September 30, 2009, we recorded consolidated net income of $864 million or $4.15 per diluted common share, after adjusting for preferred stock dividends of MBIA Insurance Corporation, compared with a net loss of $1.5 billion or $6.87 per common share for the same period of 2008. Weighted average diluted shares outstanding totaled 208 million for the nine months ended September 30, 2009, down 5% from the same period of 2008 as a result of repurchases of stock.

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Consolidated revenues for the nine months ended September 30, 2009 were $2.3 billion compared with $732 million for the same period of 2008. The increase in our consolidated revenues reflects an unrealized gain on insured credit derivatives within our insurance operations in 2009 compared with an unrealized loss in 2008. We also had lower realized losses from the sale of securities and the write-down of impaired securities, which contributed to higher revenues, partially offset by a lower net investment income. Consolidated expenses for the nine months ended September 30, 2009 were $879 million compared with $2.5 billion for the same period of 2008. The decrease in our consolidated expenses resulted from a decrease in losses and LAE incurred on financial guarantee insurance contracts principally due to recoveries on our residential mortgage-backed insured exposures recorded in the second quarter of 2009. Additionally, consolidated expenses for the nine months ended September 30, 2009 reflects a decrease in interest expense due to the decline in outstanding debt within our investment management services operations over the last several quarters.

Our consolidated book value (total shareholders' equity) was $2.7 billion as of September 30, 2009, increasing from $1.0 billion as of December 31, 2008. The increase in our consolidated book value was principally driven by net income available to common shareholders and a decrease in net unrealized losses on investment securities recorded in accumulated other comprehensive loss. Our consolidated book value per share as of September 30, 2009 was $13.16 reflecting an increase from $4.78 as of December 31, 2008.

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U.S. Public Finance Insurance and Structured Finance and International Insurance Operations

As described in the previous "Business Description" section, in the first quarter of 2009 we separated our insurance operations into two segments; U.S. public finance insurance and structured finance and international insurance. However, in order to provide a basis of comparison for the three and nine months ended September 30, 2008, we have combined the results of our U.S. public finance insurance and structured finance and international insurance segments in the discussions that follow. Where practical, we have provided information about the three and nine months ended September 30, 2008 separately for our U.S. public finance insurance segment and our structured finance and international insurance segment. Additionally, the results presented in this section include revenues and expenses from transactions with our investment management services and corporate operations:

	Three Months Ended September 30,					
	2009				2008	
In millions	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Net premiums written	$ (16)	$ 81	$ -	$ 65	$ 894	-92%
Net premiums earned	$ 143	$ 74	$ (33)	$ 184	$ 242	-24%
Net investment income	61	63	-	124	147	-15%
Fees and reimbursements	1	43	(37)	7	4	73%
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	0	(31)	-	(31)	34	n/m
Unrealized gains (losses) on insured derivatives	(0)	(810)	-	(810)	105	n/m
Net change in fair value of insured derivatives	0	(841)	-	(841)	139	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	-	27	-	27	(7)	n/m
Net realized gains (losses)	(0)	(45)	-	(45)	26	n/m
Investment losses related to other-than-temporary impairments:						
Investment losses related to other-than-temporary impairments	-	(135)	-	(135)	-	-100%
Other-than-temporary impairments recognized in accumulated other comprehensive loss	-	85	-	85	-	100%
Net investment losses related to other-than-temporary impairments	-	(50)	-	(50)	-	-100%
Net gains on extinguishment of debt	-	14	-	14	10	31%
Total revenues	205	(715)	(70)	(580)	561	n/m
Losses and loss adjustment	29	210	-	239	982	-76%
Amortization of deferred acquisition costs	33	53	(66)	20	25	-19%
Operating	11	43	(4)	50	63	-19%
Interest	-	55	-	55	49	15%
Total expenses	73	361	(70)	364	1,119	-67%
Pre-tax income (loss)	$ 132	$ (1,076)	$ -	$ (944)	$ (558)	-69%

n/m - Percentage change not meaningful.

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In millions	Nine Months Ended September 30, 2009 U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	2008 Insurance Operations	Percent Change 2009 vs. 2008
Net premiums written	$ (19)	$ 59	$ -	$ 40	$ 1,117	-96%
Net premiums earned	$ 426	$ 276	$ (102)	$ 600	$ 648	-8%
Net investment income	152	255	-	407	447	-9%
Fees and reimbursements	2	133	(105)	30	6	n/m
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	0	33	-	33	102	-67%
Unrealized gains (losses) on insured derivatives	(0)	1,223	-	1,223	(148)	n/m
Net change in fair value of insured derivatives	0	1,256	-	1,256	(46)	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	-	39	-	39	155	-75%
Net realized gains (losses)	7	(36)	-	(29)	68	-143%
Investment losses related to other-than-temporary impairments:						
Investment losses related to other-than-temporary impairments	-	(261)	-	(261)	-	-100%
Other-than-temporary impairments recognized in accumulated other comprehensive loss	-	170	-	170	-	100%
Net investment losses related to other-than-temporary impairments	-	(91)	-	(91)	-	-100%
Net gains on extinguishment of debt	-	14		14	10	36%
Total revenues	586	1,846	(207)	2,225	1,288	73%
Losses and loss adjustment	92	111	-	203	1,292	-84%
Amortization of deferred acquisition costs	90	169	(192)	67	63	6%
Operating	39	149	(15)	173	151	15%
Interest	-	163	-	163	141	15%
Total expenses	221	592	(207)	606	1,647	-63%
Pre-tax income (loss)	$ 365	$ 1,254	$ -	$ 1,619	$ (359)	n/m

n/m - Percentage change not meaningful.

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Gross premiums written ("GPW") and net premiums written ("NPW") on non-derivative financial guarantees for the three and nine months ended September 30, 2009 and 2008 are presented in the following tables. GPW represents premiums received or due in the current period on upfront policies and the present value of installment premiums expected to be collected in future periods on policies closed in the current period. GPW also reflects changes in actual or expected installment premium collections for policies written in prior periods. NPW represents gross premiums written net of premiums ceded to reinsurers.

In millions	Three Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008
Gross premiums written:			
U.S. public finance	$ (17)	$ 817	-102%
Structured finance and international			
U.S.	(3)	54	-106%
Non-U.S.	24	39	-37%
Total structured finance and international	$ 21	$ 93	-77%
Net premiums written:			
U.S. public finance	$ (16)	$ 817	-102%
Structured finance and international			
U.S.	2	47	-96%
Non-U.S.	79	30	n/m
Total structured finance and international	$ 81	$ 77	5%

n/m - Percentage change not meaningful.

In millions	Nine Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008
Gross premiums written:			
U.S. public finance	$ (19)	$ 876	-102%
Structured finance and international			
U.S.	(1)	165	-101%
Non-U.S.	(30)	132	-123%
Total structured finance and international	$ (31)	$ 297	-110%
Net premiums written:			
U.S. public finance	$ (19)	$ 873	-102%
Structured finance and international			
U.S.	13	144	-91%
Non-U.S.	46	100	-54%
Total structured finance and international	$ 59	$ 244	-76%

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For the three and nine months ended September 30, 2009, the Company did not write any material U.S. public finance insurance or any structured finance and international insurance. The lack of insurance writings in 2009 in each segment reflects the significant decline in demand for insurance by issuers and investors as a result of the insurance financial strength credit ratings downgrades of MBIA Insurance Corporation by the major rating agencies that occurred in 2008 and 2009, and the ratings assigned to National in 2009. The Company does not expect National to write new business prior to an upgrade of its insurance financial strength ratings and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation of National, including the resolution of pending litigation. Similarly, the Company does not expect MBIA Corp. to write new business prior to an upgrade of its insurance financial strength credit ratings. The likelihood of an upgrade of MBIA Corp.'s insurance financial strength ratings to required levels in the near future is low given its significant exposure to mortgage-related risks, as well as a degradation in other qualitative factors such as its financial flexibility and business franchise value, which are considered by the rating agencies in their ratings evaluation process. The GPW amounts for 2009 presented in the preceding tables represent adjustments to premiums on installment policies closed in prior periods due to changes in the expected term of such policies. The NPW amounts for 2009 presented in the preceding tables represent GPW net of reinsurance activity, which includes the effects of terminating reinsurance agreements with our reinsurers.

Net premiums earned on non-derivative financial guarantees for the three and nine months ended September 30, 2009 and 2008 are presented in the following tables. Net premiums earned include scheduled premium earnings and premium earnings from refunded issues.

	Three Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008
Net premiums earned:			
U.S. public finance	$ 143	$ 145	-2%
Structured finance and international			
U.S.	42	48	-12%
Non-U.S.	32	49	-34%
Total structured finance and international	$ 74	$ 97	-23%

	Nine Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008
Net premiums earned:			
U.S. public finance	$ 426	$ 357	19%
Structured finance and international			
U.S.	129	145	-10%
Non-U.S.	147	146	1%
Total structured finance and international	$ 276	$ 291	-5%

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U.S. public finance net premiums earned of $143 million for the three months ended September 30, 2009 decreased 2% compared with the same period in 2008. The decrease was primarily due to a $41 million or 47% decline in refunded premiums earned in the third quarter of 2009 compared with the same period of 2008. The decrease is consistent with the overall decline in refundings experienced in the municipal market during 2009. However, the decrease was largely offset by an increase in scheduled premiums earned of $39 million or 69% primarily due to premium earnings on policies assumed from FGIC in the third quarter of 2008. U.S. public finance net premiums earned of $426 million for the nine months ended September 30, 2009, increased 19% compared with the same period of 2008. The increase was primarily due to premium earnings on policies assumed from FGIC partially offset by a decrease in refunding activity of $66 million compared with the same period in 2008. Structured finance and international net premiums earned of $74 million for the three months ended September 30, 2009 decreased 23% compared with the same period in 2008. The decrease was primarily due to a reduction in structured finance premium earnings related to applying the new earnings methodology prescribed for financial guarantee insurance contracts effective January 1, 2009. Additionally, the maturity of policies in prior periods has adversely affected premiums earned. For the nine months ended September 30, 2009 structured finance and international net premiums earned of $276 million decreased 5% compared with the same period in 2008 as a result of a reduction in structured finance premium earnings from applying the new earnings methodology prescribed for financial guarantee insurance contracts and the maturity of policies, partially offset by the recognition of $45 million of premiums related to the termination of MBIA's remaining Eurotunnel exposure.

CREDIT QUALITY Financial guarantee insurance companies use a variety of approaches to assess the underlying credit risk profile of their insured portfolios. MBIA uses both an internally developed credit rating system as well as third-party rating sources in the analysis of credit quality measures of its insured portfolio. In evaluating credit risk, we obtain, when available, the underlying rating of the insured obligation before the benefit of its insurance policy from nationally recognized rating agencies, such as Moody's and S&P. Other companies within the financial guarantee industry may report credit quality information based upon internal ratings that would not be comparable to our presentation.

The following table presents the credit quality distribution of MBIA's outstanding net par insured as of September 30, 2009 and 2008. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an MBIA equivalent rating is used.

In millions	September 30, 2009 Net Par Outstanding		September 30, 2008 Net Par Outstanding	
Rating	Amount	%	Amount	%
U.S. public finance:				
AAA	$ 19,664	3.8%	$ 17,551	3.3%
AA	240,444	46.1%	242,311	45.1%
A	210,160	40.4%	220,727	41.1%
BBB	47,952	9.2%	53,470	9.9%
Below investment grade	2,531	0.5%	3,372	0.6%
Total	$520,751	100.0%	$537,431	100.0%
Structured finance and international:				
AAA	$ 92,689	43.0%	$124,982	52.0%
AA	15,702	7.3%	23,956	10.0%
A	41,033	19.0%	24,448	10.2%
BBB	39,993	18.6%	37,831	15.7%
Below investment grade	25,986	12.1%	29,001	12.1%
Total	$215,403	100.0%	$240,218	100.0%

As of September 30, 2009, total U.S. public finance net par outstanding rated A or above, before giving effect to MBIA's guarantee, remained at 90% compared with September 30, 2008. As of September 30, 2009 and 2008, net par outstanding rated below investment grade was less than 1%.

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As of September 30, 2009, total structured finance and international net par outstanding rated A or above, before giving effect to MBIA's guarantee, was 69% compared with 72% as of September 30, 2008. Adverse changes in the ratings of our structured finance and international net par outstanding was principally a result of ratings downgrades on our mortgage-related exposure. As of September 30, 2009 and 2008, 12% of net par outstanding was rated below investment grade.

INVESTMENT INCOME Net investment income in our insurance operations for the three and nine months ended September 30, 2009 and 2008 and ending investment asset balances at amortized cost as of September 30, 2009 and December 31, 2008 are presented in the following tables:

In millions	Three Months Ended September 30,					
	2009				2008	
Net Investment Income	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Core net investment income	$ 61	$ 47	$ -	$ 108	$ 134	-19%
VIE investment income	-	16	-	16	13	26%
Pre-tax investment income	$ 61	$ 63	$ -	$ 124	$ 147	-15%
After-tax investment income	$ 47	$ 42	$ -	$ 89	$ 114	-22%

In millions	Nine Months Ended September 30,					
	2009				2008	
Net Investment Income	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Core net investment income	$ 152	$ 192	$ -	$ 344	$ 406	-15%
VIE investment income	-	63	-	63	41	54%
Pre-tax investment income	$ 152	$ 255	$ -	$ 407	$ 447	-9%
After-tax investment income	$ 120	$ 173	$ -	$ 293	$ 353	-17%

In millions	September 30, 2009					December 31, 2008	
Investments at Amortized Cost	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Pre-tax yield (1)	Insurance Operations	Pre-tax yield (1)
Core fixed-income securities:							
Tax-exempt	$ 2,124	$ 465	$ -	$ 2,589	4.25%	$ 3,157	4.49%
Taxable	2,577	732	-	3,309	7.86%	3,454	5.69%
Short-term	537	1,251	-	1,788	1.37%	1,542	2.16%
Total fixed-income	5,238	2,448	-	7,686	5.13%	8,153	4.56%
Other	-	127	-	127		49	
Core asset balances at amortized cost	$ 5,238	$ 2,575	$ -	$ 7,813		$ 8,202	
VIE assets at amortized cost	-	2,621	-	2,621		1,846	
Ending asset balances at amortized cost	$ 5,238	$ 5,196	$ -	$10,434		$ 10,048	

(1) - Estimated yield-to-maturity.

For the three and nine months ended September 30, 2009, our U.S. public finance insurance investment portfolio generated $61 million and $152 million, respectively, of pre-tax net investment income, excluding net realized gains and losses. Invested assets in this segment were principally funded by capital contributions to National and the assumption of U.S. public finance premiums from MBIA Corp., including those premiums assigned under the reinsurance agreement with FGIC on February 17, 2009. Additionally, National entered into simultaneous repurchase and reverse repurchase agreements with our asset/liability products segment, which provides yield enhancement to our U.S. public finance insurance investment portfolio as a result of increased net interest earnings from these collective agreements. As of September 30, 2009, the notional amount utilized under these agreements was $1.7 billion.

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For the three and nine months ended September 30, 2009, our structured finance and international insurance investment portfolio generated $63 million and $255 million, respectively, of pre-tax net investment income, excluding net realized gains and losses. Invested assets in this segment were adversely impacted by dividends from MBIA Corp. to MBIA Inc. and the cession of MBIA Corp.'s U.S. public finance business to National on February 17, 2009. Additionally, MBIA Corp. entered into a repurchase agreement with our asset/liability products segment for which interest income on this secured lending arrangement is included in our structured finance and international insurance net investment income. As of September 30, 2009, the amount loaned to our asset/liability products segment under this agreement totaled $2.0 billion. During October and November of 2009, a total of $100 million of the repurchase agreement was repaid.

Our combined insurance pre-tax net investment income, excluding net realized gains and losses, decreased 15% to $124 million from $147 million for the three months ended September 30, 2009. For the first nine months of 2009, combined insurance pre-tax net investment income, excluding net realized gains and losses, decreased 9% to $407 million from $447 million for the same period of 2008. The decrease in pre-tax net investment income reflects a decline in average invested assets as a result of loss payments made over the past 12 months and a decline in investment yields as a result of investing in shorter term assets with lower yields. After-tax net investment income decreased 22% and 17% for the three and nine months ended September 30, 2009, respectively, compared with the same periods of 2008. The larger decrease in after-tax net investment income compared with 2008 resulted from a higher proportion of taxable investments held during 2009.

VIE investment income is generated from interest bearing assets held by such entities and supports the payment of interest expense on debt issued by these entities. The increase in VIE interest income primarily resulted from an increase in VIEs consolidated by MBIA Insurance Corporation during the fourth quarter of 2008 and second quarter of 2009. Excluding interest income related to VIEs, combined insurance net investment income decreased 19% and 15% on a pre-tax basis and 26% and 23% on an after-tax basis for the three and nine months ended September 30, 2009, respectively, compared with the same periods in 2008.

Combined insurance ending assets at amortized cost as of September 30, 2009 increased compared with December 31, 2008 due to a VIE consolidated in the second quarter of 2009. Combined insurance ending asset balances at amortized cost excluding VIE assets were $7.8 billion and $8.2 billion as of September 30, 2009 and December 31, 2008, respectively. Tax-exempt investments represented 30% and 40% of ending asset balances, excluding VIE assets, as of September 30, 2009 and December 31, 2008, respectively.

FEES AND REIMBURSEMENTS For the three months ended September 30, 2009, combined insurance fees and reimbursements were $7 million compared with $4 million for the same period of 2008. The increase was primarily due to waiver and consent fees related to the ongoing management of our structured finance and international insurance business. For the nine months ended September 30, 2009, combined insurance fees and reimbursements were $30 million compared with $6 million for the same period of 2008. The increase in fees and reimbursements in the nine months ended September 30, 2009 includes an advisory fee on a Latin American infrastructure transaction and an increase in waiver and consent fees related to the ongoing management of our structured finance and international insurance business. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES MBIA has sold credit protection by insuring derivative contracts with various financial institutions. As of September 30, 2009, we had $124.8 billion of net par outstanding on insured derivatives compared with $143.7 billion as of September 30, 2008. During the three months ended September 30, 2009, 4 insured credit derivative transactions, representing $2.1 billion in net par outstanding, either matured or were contractually terminated prior to maturity without payments by MBIA. During the nine months ended September 30, 2009, 17 insured credit derivative transactions, representing $11.7 billion in net par outstanding, either matured or were contractually terminated prior to maturity without payments by MBIA. In the fourth quarter of 2009, MBIA entered into a settlement agreement with one of its counterparties related to two additional insured credit derivative transactions that resulted in the elimination of $1.2 billion in net par outstanding in exchange for a one-time payment of $94 million, net of reinsurance. The impact of the payment and reduction in exposure will be reflected in the Company's results for the fourth quarter of 2009.

In certain cases, the Company reinsured credit derivative transactions thereby purchasing credit protection on a portion of the risk written. Substantially all of the Company's insured derivative exposure was written by its structured finance and international insurance segment. Insured derivatives within the Company's U.S. public finance insurance segment primarily relate to interest rate swaps that were insured with municipal debt obligations.

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Changes in fair value of the insured derivatives are recorded in "Net change in fair value of insured derivatives" in the consolidated statements of operations. The "Realized gains (losses) and other settlements on insured derivatives" include (i) net premiums received and receivable on written derivative contracts, (ii) net premiums paid and payable to reinsurers in respect of derivative contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to derivative contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased derivative contracts due to the occurrence of a credit event or settlement agreement, and (vi) fees relating to derivative contracts. The "Unrealized gains (losses) on insured derivatives" include all other changes in fair value of the derivative contracts. The following tables present the net premiums earned related to derivatives and the components of the net change in fair value of insured derivatives for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,					
	2009				2008	
In millions	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Net premiums and fees earned on insured derivatives	$ 0	$ 30	$ -	$ 30	$ 34	n/m
Realized gains (losses) on insured derivatives	-	(61)	-	(61)	-	0%
Realized gains (losses) and other settlements on insured derivatives	0	(31)	-	(31)	34	n/m
Unrealized gains (losses) on insured derivatives	(0)	(810)	-	(810)	105	n/m
Net change in fair value of insured derivatives	$ 0	$ (841)	$ -	$ (841)	$ 139	0%

	Nine Months Ended September 30,					
	2009				2008	
In millions	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Net premiums and fees earned on insured derivatives	$ 0	$ 93	$ -	$ 93	$ 102	-9%
Realized gains (losses) on insured derivatives	-	(60)	-	(60)	-	0%
Realized gains (losses) and other settlements on insured derivatives	0	33	-	33	102	-9%
Unrealized gains (losses) on insured derivatives	(0)	1,223	-	1,223	(148)	n/m
Net change in fair value of insured derivatives	$ 0	$ 1,256	$ -	$ 1,256	$ (46)	n/m

n/m - Percentage change not meaningful.

The Company no longer insures new credit derivative contracts except in transactions related to the restructuring or reduction of existing derivative exposure. As a result, premiums earned related to insured credit derivatives will decrease over time as exposure to such transactions declines. Realized losses on insured derivatives for the three months and nine months ended September 30, 2009 resulted from payments on a multi-sector CDO transaction.

Unrealized losses on insured derivatives for the three months ended September 30, 2009 were $810 million compared with unrealized gains of $105 million in the same period of 2008. Unrealized mark-to-market losses on insured CDS contracts during the third quarter of 2009 comprised three primary factors. A significant positive effect (reducing mark-to-market losses) was the tightening of credit spreads on referenced obligations in these contracts. This trend reflects the market's view of an improving credit and liquidity profile. More than offsetting this favorable impact were unrealized mark-to-market losses related to MBIA's nonperformance risk and enhancements to internal inputs. Credit spreads and market recovery rate assumptions for MBIA Corp. followed the same improving trend as the spreads for reference obligations, but the impact on mark-to-market results is the opposite. As MBIA Corp.'s market credit perception improves, the market value of our obligations increases which also increases unrealized mark-to-market losses. Also, some enhancements were made to the model inputs used to estimate mark-to-market to better reflect the current environment and available market information. Those enhancements also increased unrealized mark-to-market losses. Enhancements to our valuation models and inputs are discussed in the "Critical Accounting Estimates" section included herein. Unrealized gains in the third quarter of 2008 were primarily due to the deterioration in MBIA's CDS spreads partially offset by losses due to collateral erosion and wider spreads.

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Unrealized gains for the nine months ended September 30, 2009 were $1.2 billion compared with unrealized losses in 2008 of $148 million. Unrealized gains for the nine months ended September 30, 2009 were primarily due to narrower corporate spreads and transaction terminations, partially offset by changes to our valuation model and inputs. Unrealized losses for the nine months ended September 30, 2008 were primarily due to spread widening, credit migration, lower recovery rates, and collateral erosion. This was significantly offset by the deterioration in MBIA's CDS spreads. As of September 30, 2009, MBIA Corp.'s one to ten year CDS spread ranged from an upfront spread of 25% plus 5% per annum to 60% upfront plus 5% per annum compared to a 5-year spread of 41.5% upfront plus 5% per annum as of September 30, 2008.

We estimate that additional credit impairments on insured derivatives for the three months ended September 30, 2009 were $250 million across 10 CDO transactions. Beginning with the fourth quarter of 2007 through September 30, 2009, total credit impairments on insured derivatives were estimated at $2.4 billion across 14 CDO transactions, inclusive of five CDO transactions for which we realized net losses of $594 million. Credit impairments on insured derivatives represent the present values of our estimates of expected future claim payments, which may differ from a transaction's fair value. Insured derivative contracts have similar terms and conditions to the Company's non-derivative insurance contracts and are evaluated for credit impairment under the same risk monitoring process. The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may not result in a claim payment. In the absence of further credit impairment or the termination of derivatives at a loss, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse at the maturity of these contracts. Additionally, the Company is not required to post collateral to counterparties of these contracts, thereby avoiding liquidity risks typical of standard credit derivative contracts. Refer to "Note 16: Commitment and Contingencies" in the Notes to Consolidated Financial Statements for information about legal actions commenced by MBIA with respect to certain CDS contracts. The outcome of such legal actions may affect the amount of realized losses ultimately incurred by the Company. Costs associated with mitigating credit impairments on insured derivatives are expensed as incurred and included within "Operating expenses" in our consolidated statements of operations. Such costs totaled $2 million and $5 million for the three months ended September 30, 2009 and 2008, and $18 million and $5 million for the nine months ended September 30, 2009 and 2008, respectively.

The following table estimates the attribution of the unrealized loss on insured credit derivatives for the three months ended September 30, 2009 by sector and does not represent actual losses paid due to each attribute:

In millions	Sector					
Attribute [1]	Multi-Sector excluding CDO-Squared / Deductible [2]	CDO-Squared and Deductible [3]	CMBS Pools and CRE CDOs [3]	Corporate CDOs [3]	Other [4]	Total
Change in spread/price	$ 8	$ 5	$ 215	$ 97	$ 51	$ 376
Change in collateral erosion	(52)	(46)	(6)	(18)	4	(118)
Change in collateral rating	(3)	0	0	(8)	0	(11)
Change in recovery rates	0	(51)	0	0	0	(51)
Change in MBIA's CDS spread	(313)	(91)	(119)	(119)	(17)	(659)
Model/Input enhancements	390	(84)	(595)	0	0	(289)
Other	(13)	27	(32)	(23)	(17)	(58)
Total	$ 17	$ (240)	$ (537)	$ (71)	$ 21	$(810)

(1) - After MBIA's and reinsurer's nonperformance risk.

(2) - Valued using direct pricing model, binomial exponential technique.

(3) - Valued using binomial expansion technique.

(4) - Valued using binomial expansion technique, dual default probability model and Black-Scholes model.

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The following table estimates the attribution of the unrealized loss on insured credit derivatives for the nine months ended September 30, 2009 by sector and does not represent actual losses paid due to each attribute:

In millions	Sector					
Attribute [1]	Multi-Sector excluding CDO-Squared / Deductible [2]	CDO-Squared and Deductible [3]	CMBS Pools and CRE CDOs [3]	Corporate CDOs [3]	Other [4]	Total
Change in spread/price	$ 9	$ 7	$ 404	$ 563	$ 18	$ 1,001
Change in collateral erosion	(354)	(46)	(6)	(113)	12	(507)
Change in collateral rating	(64)	(28)	(5)	(36)	0	(133)
Change in recovery rates	(20)	(51)	(9)	(28)	0	(108)
Change in MBIA's CDS spread	832	214	163	204	34	1,447
Model/Input enhancements	11	(247)	(930)	(253)	(33)	(1,452)
Terminations	134	0	0	(0)	114	248
Other	106	150	(57)	509	19	727
Total	$ 654	$ (1)	$ (440)	$ 846	$164	$ 1,223

(1) - After MBIA's and reinsurers' nonperformance risk.

(2) - Valued using binomial exponential technique, direct pricing model.

(3) - Valued using binomial expansion technique.

(4) - Valued using binomial expansion technique, dual default probability model and Black-Scholes model.

The presentation of the attribution included in the preceding tables has changed from prior quarters. One important difference is that we have isolated the impact of each attribute after nonperformance risk. So, for example, the "Change in Spread/Price" reflects the effect on our post non-performance risk mark from the change in spreads. In addition, we have identified the models used to mark each category and included a new attribute for model/input enhancements.

Refer to the preceding "Critical Accounting Estimates" section included herein for further information about the fair values of our insured derivative instruments.

NET REALIZED GAINS AND LOSSES Combined insurance net realized losses totaled $45 million for the three months ended September 30, 2009, compared to net realized gains of $26 million for the three months ended September 30, 2008. For the first nine months of 2009, combined insurance net realized losses were $29 million compared with net realized gains of $68 million for the same period in 2008. The net realized losses for the three and nine months ended September 30, 2009 were primarily related to impairment charges in our structured finance and international insurance segment, partially offset by net gains from the ongoing management of our U.S. public finance insurance and our structured finance and international insurance portfolios.

NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE Combined insurance net gains and losses on financial instruments at fair value and foreign exchange primarily represent foreign exchange gains and losses on the sale of investments and translation of non-functional currency activities. For the three months ended September 30, 2009, net gains on financial instruments at fair value and foreign exchange were $27 million compared with net losses of $7 million in the same period in 2008. For the nine months ended September 30, 2009, net gains on financial instruments at fair value and foreign exchange were $39 million compared with net gains of $155 million in the same period in 2008. Net gains for the three and nine months ended September 30, 2009 were generated by our structured finance and international insurance segment and were due to net gains from foreign exchange. Net losses for the three months ended September 30, 2008 were largely due to foreign exchange losses partially offset by gains resulting from changes in the fair value of a credit facility, which was terminated in the fourth quarter of 2008. Net gains for the nine months ended September 30, 2008 were primarily due to changes in the fair value of a credit facility. Gains on this facility for the three and nine months ended September 30, 2008 were due to an increase in the differential between the Company's CDS spreads and the yield applicable to the facility.

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INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Combined insurance investment losses related to other-than-temporary impairments totaled $50 million and $91 million for the three and nine months ended September 30, 2009, respectively. Refer to the "Liquidity" section included herein for additional information about impaired investments.

LOSSES AND LOSS ADJUSTMENT EXPENSES MBIA's Insured Portfolio Management ("IPM") Division is responsible for monitoring MBIA-insured issues. The level and frequency of MBIA's monitoring of any insured issue depends on the type, size, rating and performance of the insured issue. If IPM identifies concerns with respect to the performance of an insured issue it may designate such insured issue as "Caution List-Low," "Caution List-Medium," "Caution List-High," or "Classified."

The amounts included within this "Loss and Loss Adjustment Expenses" section exclude realized and unrealized gains and losses and estimated credit impairments on insured credit derivatives. Refer to the "Net Change in Fair Value of Insured Derivatives" section included herein for information about payments we have made or expect to make under insured credit derivative transactions.

Effective January 1, 2009, the Company no longer records an unallocated loss reserve for losses that occurred or are probable to occur as a result of credit deterioration in the Company's insured portfolio but which have not yet been specifically identified and applied to specific insured obligations. The Company's loss and LAE reserves as of September 30, 2009 represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company's estimate of expected losses on credits that have defaulted or are expected to default.

Refer to "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for information about the impact of newly effective guidance related to the accounting for financial guarantee insurance contracts. Additionally, a further description of the Company's loss reserving policy is included in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements.

The following tables present information about our insurance reserves and recoverables as of September 30, 2009 and December 31, 2008, as well as our loss and LAE provision for the nine months ended September 30, 2009 and 2008:

	September 30, 2009			December 31, 2008	
In millions	U.S. Public Finance	Structured Finance and International	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Gross losses and LAE reserves	$230	$ 1,093	$ 1,323	$ 1,326	0%
Reinsurance recoverable on unpaid losses	11	23	34	57	-39%
Unallocated	-	-	-	232	-100%
Net losses and LAE reserves	$219	$ 1,070	$ 1,289	$ 1,501	-14%
Insurance loss recoverable	$ 38	$ 2,170	$ 2,208	$ 459	n/m

n/m - Percentage change not meaningful.

	September 30, 2009			2008	
In millions	U.S. Public Finance	Structured Finance and International	Combined Insurance Operations	Insurance Operations	Percent Change 2009 vs. 2008
Net Losses and LAE incurred	$ 92	$ 111	$ 203	$ 1,292	-84%

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Losses and LAE incurred in our U.S. public finance insurance segment totaled $92 million for the nine months ended September 30, 2009 primarily related to an affordable housing transaction and a student loan transaction. Losses and LAE incurred in our structured finance and international insurance segment totaled $111 million in the first nine months of 2009 and were primarily related to the segment's second-lien RMBS exposure. Total losses of $111 million comprised of $1.8 billion of losses net of $1.7 billion of loss recoveries. Approximately $1.2 billion of loss recoveries related to ineligible mortgages in certain insured second-lien RMBS securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and approximately $550 million related to recoveries of amounts expected to be paid from excess cash flows within the securitizations. The Company's combined insurance losses and LAE incurred was $203 million for the nine months ended September 30, 2009 compared with $1.3 billion for the same period of 2008, which were also largely attributable to our second-lien RMBS exposure. Losses on our second-lien RMBS exposure during 2009 continue to be primarily driven by high levels of loans that did not meet eligibility criteria for inclusion in MBIA-insured transactions, improperly serviced loans, and the impact of weakening economic conditions.

Included in the Company's case basis reserves are both loss reserves for insured obligations for which a payment default has occurred and MBIA has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. As of September 30, 2009, case basis reserves consisted of the following:

$ in millions	Number of Case Basis Issues	Loss Reserve	Net Par Outstanding
U.S. Public Finance			
Gross of reinsurance:			
Issues with defaults	8	$ 202	$ 342
Issues without defaults	2	28	340
Total gross U.S. public finance	10	$ 230	$ 682
Net of reinsurance:			
Issues with defaults	8	$ 192	$ 326
Issues without defaults	2	27	332
Total net U.S. public finance	10	$ 219	$ 658
Structured finance and international			
Gross of reinsurance:			
Issues with defaults	70	$ 945	$ 13,286
Issues without defaults	7	148	1,147
Total gross structured finance and international	77	$ 1,093	$ 14,433
Net of reinsurance:			
Issues with defaults	70	$ 928	$ 12,857
Issues without defaults	7	142	1,105
Total net structured finance and international	77	$ 1,070	$ 13,962

MBIA recognizes expected potential recoveries of paid claims based on the present value of expected net cash inflows to be received discounted at the risk-free rate as of the measurement date. Such amounts are reported as "Insurance loss recoverable" and the corresponding estimated recovery amounts due to reinsurers are included within "Other liabilities" in the Company's consolidated balance sheets. As of September 30, 2009 and December 31, 2008, insurance loss recoverables were $2.2 billion and $459 million, respectively. The increase in our insurance loss recoverable principally resulted from $1.2 billion in expected recoveries resulting from the aforementioned obligations of the sellers/servicers of RMBS transactions to repurchase ineligible loans. We also recognized estimated recoveries of approximately $550 million based on expected excess interest in RMBS securitizations. As of September 30, 2009 and December 31, 2008, insurance loss recoverables due to reinsurers totaled $42 million and $13 million, respectively. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

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Structured Finance and International Insurance Losses

Residential Mortgage Exposure

MBIA insures MBS backed by subprime mortgages directly through RMBS securitizations. MBIA also has indirect exposure to subprime mortgages that are included in CDOs in which MBIA guaranteed the senior most tranche of such transactions. There has been considerable stress and continued deterioration in the subprime mortgage market throughout 2008 and the first nine months of 2009 reflected by increased delinquencies and losses, particularly related to subprime mortgage loans originated during 2005, 2006 and 2007. As of September 30, 2009, the Company had $3.9 billion of net par outstanding from direct exposure to subprime mortgages and $5.0 billion of indirect exposure to subprime mortgages in the form of performing collateral within CDOs compared with $4.0 billion and $11.5 billion, respectively, as of September 30, 2008. Of the $5.0 billion of indirect exposure, $4.3 billion was related to CDOs executed in derivative form. While subprime transactions directly guaranteed by MBIA include collateral consisting of mortgages originated during 2005, 2006, and 2007, given the amount of subordination below MBIA's insured portion of such transactions available to absorb any losses from collateral defaults, we currently do not expect material ultimate losses on these transactions. As of September 30, 2009, there were no insured direct subprime mortgage transactions with 2005, 2006, or 2007 subprime mortgage collateral appearing on the Company's Classified List or Caution Lists. However, as of September 30, 2009, we expected losses of $19 million (on a present value basis) on five secondary market multi-sector CDOs with net par outstanding of $167 million that include subprime mortgage exposure and that were reported on our Classified List. Additionally, there were six secondary market multi-sector CDOs with net par outstanding of $188 million that included subprime mortgage exposure and that were reported on our Caution List.

In the third quarter of 2009, we incurred loss and LAE of $83 million related to an insured first-lien Alt-A transaction. This transaction is unlike our other Alt-A exposures as the underlying mortgages in this transaction are primarily adjustable-rate mortgages, which generally perform worse than Alt-A exposures with underlying fixed-rate mortgages. Delinquencies in the underlying mortgages in this transaction began increasing in the second half of 2008 and peaked in January 2009. We believe that the delinquency pattern is closely tied to the economic environment, servicer performance-related issues, and relatively few successful loan modifications by the loan servicers.

MBIA also insures MBS backed by mortgages that when originally underwritten were deemed to be issued to prime and near prime borrowers, including second-lien residential mortgage securitizations (revolving HELOC loans and CES mortgages). Since the second half of 2007, the performance of our second-lien transactions has deteriorated significantly. As of September 30, 2009, we paid a total of $3.3 billion on these transactions and have a case basis reserve of $883 million. The case basis reserves represent the present value of the difference between cash payments we expect to make on the insured transactions and the cash receipts we expect from the performing mortgages in the securitizations. As payments are made, a portion of those expected future receipts is recorded within "Insurance Loss Recoverable" as discussed above. The payments that we make largely go to reduce the principal balances of the securitizations.

We paid approximately $636 million and $1.9 billion on RMBS transactions in the three and nine months ended September 30, 2009, respectively. As of September 30, 2009, the net par outstanding of all insured RMBS transactions was $12.8 billion, compared with $13.7 billion as of December 31, 2008.

Since the second half of 2008, we have observed an increase in delinquencies, which peaked in January 2009, and a greater than expected level of losses being realized within the individual transactions of our insured second-lien residential mortgage securitizations. Due to a combination of the overall weakening in the economic environment, servicer performance related issues and relatively few successful loan modifications by the loan servicers, we recorded loss and LAE related to our second-lien residential mortgage exposures of $1.8 billion in the first nine months of 2009. This provision primarily reflects additions to previously established reserves on certain deals rather than a material increase in the number of transactions requiring loss reserves. Loss and LAE on these transactions were offset by the establishment of an insurance loss recoverable of $1.7 billion related to loan losses principally associated with ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the mortgages loans and amounts expected to be paid from excess cash flows within the securitizations.

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The majority of expected recoveries from second-lien RMBS transactions recorded in the first nine months of 2009 arise from a forensic review of defaulted mortgage loans in 27 insured first and second-lien mortgage loan securitizations. The representations and warranties in each insured RMBS securitization contractually obligate the seller to repurchase these ineligible loans at a price equal to their outstanding principal balance plus accrued interest or to replace them with eligible mortgage loans. While the Company believes that these mortgage loans are subject to a repurchase or replacement obligation by the sellers/servicers, successful challenges of such determinations by the sellers/servicers could result in the Company recovering less than the amount of its estimated recoveries. The Company is continuing to review and evaluate additional mortgage loans in its insured RMBS pools and expects that there will be additional mortgages in these or in other transactions that are subject to a repurchase or replacement obligation by the seller/servicer. In addition, recoveries and damages from legal actions that MBIA has filed against certain of the seller-servicers could result in recoveries that are substantially higher than the amount currently recognized as recoveries. In addition, we also recorded recoveries during 2009 based on expected receipts of excess interest in securitizations. Refer to the "Critical Accounting Estimates" section included herein for additional information about assumptions used to estimate recoveries on our RMBS exposure.

In October 2008, MBIA Corp. filed lawsuits against two mortgage loan seller/servicers alleging, among other things, misrepresentations concerning the quality of loans made by these seller/servicers, which were included in a number of MBIA-insured second-lien residential mortgage securitizations. In particular, MBIA believes that a very high proportion of the defaulted loans in these securitizations are in breach of the originators' representations with respect to such loans and, therefore, should have been excluded from the securitizations. In addition, after extensive review, we believe that these parties have failed to honor their contractual obligations regarding loan repurchases and ongoing servicing practices. For more information on these and other lawsuits commenced by MBIA, refer to "Note 16: Commitments and Contingencies" in the Notes to Consolidated Financial Statements. The ineligibility of mortgages in the securitizations and the litigation in general will have no impact on the holders of the insured securities, as MBIA will continue to honor its payment obligations under its insurance policies.

The following table presents the net par outstanding of MBIA's RMBS insured exposure as of September 30, 2009 by S&P credit rating category:

	Net Par Outstanding				
In millions	Prime	Subprime	HELOC	CES	Total
AAA	$3,624	$2,709	$ -	$ 20	$ 6,353
AA	25	28	-	-	53
A	525	251	90	40	906
BBB	705	116	1,349	1,479	3,649
Below investment grade	840	773	4,788	5,365	11,766
Total Net Par	$5,719	$3,877	$6,227	$6,904	$22,727

The following table presents the net par outstanding by vintage year of MBIA's second-lien residential mortgage securitization insured exposure as of September 30, 2009:

	Net Par Outstanding			
		% of Total		
In millions	HELOC	HELOC	CES	% of Total CES
2007	$ 879	14%	$4,548	66%
2006	2,229	36%	2,187	32%
2005	1,777	29%	-	0%
2004	1,065	17%	109	1%
2003 and prior	277	4%	60	1%
Total net par	$6,227	100%	$6,904	100%

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The following table provides a listing of second-lien residential mortgage securitization and Alt-A transactions included in MBIA's insured portfolio that were performing below MBIA's expectations as of September 30, 2009:

Obligor Name	Net Par Outstanding (in millions)
HELOC:	
GMACM 2006-HE4	$ 801
Countrywide Home Equity Master Trust 2005-M	575
Countrywide Home Equity Master Trust 2005-I	531
Countrywide Home Equity 2006-E	524
Countrywide Home Equity Series 2007-E	488
Countrywide Home Equity Series 2005-E	443
Countrywide Home Equity 2006-G	355
IndyMac Home Equity Line Asset-Backed Series 2006-H4	326
GMAC Mortgage Corporation 2004-HE4	321
Countrywide Home Loans Inc 2005-A 1-A, 2-A	228
Residential Funding Home Equity Loan Trust 2006-HSA1	216
Countrywide Home Loans Inc 2004-1	214
Countrywide Home Loans Inc 2004P	143
Residential Funding Home Equity Loan Trust 2006-HSA4	121
Residential Funding Mortgage Securities 2007-HSA3	111
Residential Funding Home Equity Loan Trust 2006-HSA5	102
GSR 2007-HEL1	64
Total HELOC net par outstanding	5,563
CES:	
Countrywide Home Loans CWHEQ 2007-S1	966
GMACM Home Equity Loan Trust 2007-HE1	632
Countrywide Home Loans CWHEQ 2007-S2	619
Countrywide Home Loans CWHEQ 2006-S8	557
Countrywide Home Equity 2006-S9	552
Residential Funding Corporation 2007-HSA2	544
Countrywide Home Loans CWHEQ 2007-S3	440
Flagstar Home Equity Loan Asset Backed Trust 2007-1	401
Credit Suisse Home Equity Mortgage Trust	319
Residential Funding Mortgage Securities 2007-HSA3	268
Flagstar 2006-1	195
IndyMac Home Equity Mortgage Loan 2007-1 Class A & Class A-IO	147
Morgan Stanley Mortgage Loan Trust 2007-9SL	134
IndyMac Home Equity Loan ABS Trust 2007-2	77
Total CES net par outstanding	5,851
Alt-A:	
Deutsche Bank Alt-A Securities Trust 2007-AR3	532
Total Alt-A net par outstanding	532
Total net par outstanding	$ 11,946

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Manufactured Housing

MBIA continues to closely monitor the manufactured housing sector, which has experienced stress during the last several years. MBIA ceased writing business in this sector, other than through certain CDO transactions, in 2000. As of September 30, 2009, the Company had $21 million in case basis reserves, net of reinsurance, covering net insured par outstanding of $105 million on three credits within the manufactured housing sector. The Company had additional manufactured housing net insured par outstanding of $1.6 billion as of September 30, 2009, of which approximately 23% was reported as "Caution List-Medium" and "Caution List-High."

Other

In the fourth quarter of 2008, the Company took remediation action on an international infrastructure financing transaction for which the performance trends had increased the risk of future losses. The project's revenue was below original projections and the issuer's debt was trading at a significant discount. In the fourth quarter of 2008, we purchased approximately 62% of the outstanding debt of the issuer at a discount to par. As a consequence, the Company consolidated the issuer as a VIE. In the first nine months of 2009, the Company purchased an additional 12% of the outstanding debt of the issuer at a discount to par. The asset of the consolidated VIE is the loan to the project's operator. The Company has recognized a $41 million realized loss on this asset.

REINSURANCE Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. In 2009, MBIA reassumed par outstanding of $5.8 billion from eight reinsurers. MBIA will continue to evaluate its use of reinsurance, which may result in future portfolio commutations from reinsurers.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of September 30, 2009, the total amount available under these letters of credit and trust arrangements was $796 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

As of September 30, 2009, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $23.9 billion compared with $54.9 billion as of December 31, 2008. Of the $23.9 billion of ceded par outstanding as of September 30, 2009, $14.6 billion was ceded from our U.S. public finance insurance segment and $9.3 billion was ceded from our structured finance and international insurance segment.

The following table presents the credit ratings and ratings status, percentage of outstanding par ceded, the reinsurance recoverable, derivative asset, and estimated credit impairments by reinsurer as of September 30, 2009 for our combined insurance operations. Estimated credit impairments represent the reinsurers' portion of amounts we expect to pay on insured derivative contracts.

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In millions

Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Percentage of Total Par Ceded	Reinsurance Recoverable	Derivative Asset	Estimated Credit Impairments on Insured Derivatives
Channel Reinsurance Ltd.	N/R (1)	RWR (2)	59.68%	$ 27	$ 669	$ 354
Assured Guaranty Corp.	AAA (Negative Outlook)	Aa2 (Rating Under Review)	22.75%	8	-	-
Mitsui Sumitomo Insurance Company Ltd.	AA (Negative Outlook)	Aa3 (Stable)	12.50%	16	51	4
Assured Guaranty Re Ltd.	AA (Stable)	Aa3 (Rating Under Review)	2.31%	2	-	-
Overseas Private Investment Corporation	AAA (Stable)	Aaa (Stable)	1.21%	-	-	-
Export Development Corporation	AAA (Stable)	Aaa (Stable)	0.83%	-	-	-
Old Republic Insurance Company	A+ (Negative Outlook)	Aa3 (Stable)	0.43%	-	-	-
Partner Reinsurance Ltd.	AA- (Negative Outlook)	Aa3 (Stable)	0.19%	-	-	-
Assurances Generales de France	AA (Stable)	Aa3 (Stable)	0.01%	-	-	-
Not currently rated			0.09%	-	-	-
Total			100.00%	$ 53	$ 720	$ 358

(1) - Not rated.

(2) - Rating withdrawn.

MBIA owns a 17.4% equity interest in Channel Re. In March 2009, Moody's downgraded Channel Re to B3 with a negative outlook and the rating was subsequently withdrawn. In March 2009, S&P downgraded Channel Re to BB+ and the rating was subsequently withdrawn. As of September 30, 2009, the Company expects Channel Re to continue to report negative shareholders' equity on a GAAP basis primarily due to unrealized losses on its insured credit derivatives based on fair value accounting. As of September 30, 2009, the fair value of the derivative assets related to credit derivatives ceded to Channel Re was $669 million and the reinsurance recoverable from Channel Re was $27 million. After considering the credit risk of Channel Re in fair valuing our derivative assets, we believe Channel Re has sufficient liquidity supporting its business to fund expected amounts due to MBIA. In performing our assessment, we determined that cash and investments, inclusive of approximately $609 million that Channel Re had on deposit in trust accounts for the benefit of MBIA as of September 30, 2009, were in excess of MBIA's exposure to Channel Re. Although the trust accounts limit the potential for Channel Re to default on its obligations to MBIA, there can be no assurance that Channel Re will not default on its obligations to MBIA that exceed the amounts already held in the trust accounts.

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Since December 2007, several of the Company's other financial guarantee reinsurers, including Assured Guaranty Corp., Assured Guaranty Re Ltd. and Old Republic Insurance Co., have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. Although there was no material impact on the Company for any of these rating agency actions relating to these reinsurers, a further deterioration in the financial condition of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Expenses that vary with and are primarily related to the production of the Company's insurance business (policy acquisition costs) are deferred and recognized over the period in which the related premiums are earned. The Company does not defer costs associated with underwriting CDS policies and expenses such costs immediately. If an insured issue is refunded and the related premium is earned early, the associated acquisition costs previously deferred are also recognized immediately.

The Company's insurance expenses for the three and nine months ended September 30, 2009 and 2008 are presented in the following tables:

	Three Months Ended September 30,					
	2009				2008	Percent Change 2009
In millions	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	vs. 2008
Gross expenses	$ 11	$ 43	$ (4)	$ 50	$ 67	-24%
Amortization of deferred acquisition costs	$ 33	$ 53	$ (66)	$ 20	$ 25	-19%
Operating	11	43	(4)	50	63	-19%
Total insurance operating expenses	$ 44	$ 96	$ (70)	$ 70	$ 88	-19%

	Nine Months Ended September 30,					
	2009				2008	Percent Change 2009
In millions	U.S. Public Finance	Structured Finance and International	Eliminations	Combined Insurance Operations	Insurance Operations	vs. 2008
Gross expenses	$ 39	$ 149	$ (15)	$ 173	$ 142	22%
Amortization of deferred acquisition costs	$ 90	$ 169	$ (192)	$ 67	$ 63	6%
Operating	39	149	(15)	173	151	15%
Total insurance operating expenses	$129	$ 318	$ (207)	$ 240	$ 214	12%

For the three months ended September 30, 2009, gross expenses in our U.S. public finance insurance segment totaled $11 million and gross expenses in our structured finance and international insurance segment totaled $43 million. Combined gross expenses of $50 million decreased 24% for the three months ended September 30, 2009 from $67 million for the same period of 2008. The decrease was primarily due to lower compensation costs as a result of a reduction in headcount, a reduction in fees related to the termination of a credit facility, and a reduction in loss prevention expense related to insured credit derivatives, partially offset by higher legal costs associated with litigation. For the nine months ended September 30, 2009, gross expenses in our U.S. public finance insurance segment totaled $39 million and gross expenses in our structured finance and international insurance segment totaled $149 million. Combined gross expenses of $173 million increased 22% for the nine months ended September 30, 2009 from $142 million for the same period of 2008. The increase was primarily due to higher loss prevention expenses related to insured credit derivatives, higher legal costs associated with litigation, higher consulting costs related to changes in the legal entity structure of our subsidiaries, and the reversal of long-term incentive award accruals in 2008, partially offset by lower overall compensation as a result of a reduction in headcount, and a reduction in fees related to the termination of a credit facility.

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For the three months ended September 30, 2009, our combined insurance amortization of deferred acquisition costs decreased 19% to $20 million from $25 million for the same period of 2008. The decrease was due to the accelerated recognition of certain acquisition costs associated with insured issue refundings in 2008, partially offset by the effect of the changes in amortization methods resulting from the adoption of the recently effective accounting principles for financial guarantee insurance contracts in 2009. For the nine months ended September 30, 2009, our combined insurance amortization of deferred acquisition costs increased 6%, to $67 million from $63 million for the same period of 2008. The increase in the amortization of deferred acquisition costs was principally due to the effects of changes in amortization methods resulting from the adoption of the recently effective accounting principles for financial guarantee insurance contracts. During 2009, we did not defer any gross expenses as policy acquisition costs, which resulted from our inability to write new insurance business.

For the three months ended September 30, 2009, our U.S. public finance insurance segment operating expenses totaled $11 million and our structured finance and international insurance segment operating expenses totaled $43 million. Combined operating expenses of $50 million decreased 19% for the three months ended September 30, 2009 from $63 million for the same period of 2008 due to the decreases in gross expenses. For the nine months ended September 30, 2009, our U.S. public finance insurance segment operating expenses totaled $39 million and our structured finance and international insurance segment operating expenses totaled $149 million. Combined operating expenses of $173 million increased 15% for the nine months ended September 30, 2009 from $151 million for the same period of 2008 due to the increases in gross expenses.

INTEREST EXPENSE Interest expense in our insurance business is incurred by our structured finance and international insurance segment and primarily consists of interest related to MBIA Corp.'s surplus notes and debt issued by consolidated VIEs. For the three months ended September 30, 2009, interest expense increased to $55 million from $49 million for the same period of 2008. For the nine months ended September 30, 2009, interest expense increased to $163 million from $141 million for the same period of 2008. The increases are primarily due to interest expense associated with additional VIEs consolidated by MBIA Corp. in the fourth quarter of 2008 and the second quarter of 2009.

VARIABLE INTEREST ENTITIES MBIA consolidates certain third-party VIEs as a result of financial guarantees provided by our structured finance and international insurance segment and a VIE sponsored and formed by the Company to provide credit protection to counterparties in the form of credit derivative instruments. As of September 30, 2009, the assets of these VIEs primarily consisted of fixed rate and floating rate securities and loans, and the liabilities of these VIEs primarily consisted of fixed rate and floating rate notes and derivative liabilities. Any investments by MBIA in VIE notes issued by consolidated VIEs are eliminated upon consolidation into MBIA's financial statements. The following table presents the carrying value of assets and liabilities as of September 30, 2009 and December 31, 2008 by balance sheet classification related to consolidated VIEs, after the aforementioned eliminations:

In millions	September 30, 2009	December 31, 2008
Assets:		
Fixed-maturity securities held as available-for-sale	$ 390	$ 632
Investments held-to-maturity	1,175	1,215
Short-term investments held-to-maturity	917	31
Fixed maturity securities held as trading	123	-
Accrued investment income	2	2
Other assets (loans)	474	423
Liabilities:		
Variable interest entity notes	$ 2,669	$ 1,792
Derivative liabilities	4,945	6,189

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COLLATERALIZED DEBT OBLIGATIONS AND RELATED INSTRUMENTS As part of our structured finance and international insurance activities, we provide guarantees on the senior most tranches of CDOs, as well as protection on structured pools of CMBS and corporate securities, and CDS referencing such securities.

MBIA Corp.'s $117.2 billion CDO portfolio represented 55% of its total insured net par outstanding of $215.4 billion as of September 30, 2009. MBIA Corp.'s aggregate CDO portfolio is diversified by vintage and collateral type, and 89% of this exposure, or $104.0 billion, was insured through CDSs. The distribution of the Company's insured CDO and related instruments portfolio by collateral type is presented in the following table:

In billions Collateral Type	Net Par	Percent
Multi-sector CDOs (1)	$ 14.8	13%
Multi-sector CDO-Squared	7.8	7%
Investment grade CDOs and structured corporate credit pools	37.4	32%
High yield corporate CDOs	12.4	11%
Structured CMBS pools and CRE CDOs	44.8	37%
Total (2)	$117.2	100%

(1) - Does not include multi-sector CDO-Squared transactions totaling $7.834 billion net par.

Multi-Sector CDOs

Multi-sector CDOs are transactions that include a variety of structured finance asset classes in their collateral pools. As of September 30, 2009, $22.6 billion, or approximately 11%, of MBIA Corp.'s total insured net par outstanding of $215.4 billion comprised multi-sector CDOs. Additionally, as of September 30, 2009, 20% of MBIA Corp.'s $117.2 billion CDO and related instruments portfolio insured net par outstanding comprised multi-sector CDOs. The collateral in the multi-sector CDOs includes subprime RMBS and other RMBS, CDOs of ABS (multi-sector CDOs), Corporate CDOs, Collateralized Loan Obligations ("CLOs"), other ABS (e.g. securitizations of auto receivables, credit cards, etc.), CRE CDOs, CMBS, and Corporate credits.

The insured credit derivative contracts for three CDO transactions insured in 2007 were terminated during the second quarter of 2009 without any payment from MBIA. The three CDOs totaled $2.4 billion of net par outstanding as of March 31, 2009. During the third quarter of 2009, two additional CDO transactions insured in 2007 totaling $1.5 billion of net par outstanding as of June 30, 2009 were terminated.

Since mid-2007, the multi-sector CDO portfolio has experienced stress related to the U.S. subprime mortgage crisis. Impairment estimates were established for three CDOs during the fourth quarter of 2007. In addition, impairments were estimated for an additional six CDOs during the first quarter of 2008 due to the further degradation of underlying RMBS and CDO of ABS collateral. During the second quarter of 2008, impairments were further increased to reflect the effects of shortening the discount period by three months. During the third quarter of 2008, an impairment on one additional CDO was established. During the fourth quarter of 2008, MBIA increased the impairments further and added four transactions to the list of impaired deals. During the first quarter of 2009, impairments were established for two additional multi-sector deals, as well as increased impairments due to accretion. During the third quarter of 2009, impairments were increased to reflect further increases in the Average Serious Delinquency buckets (60+, REO, Bankruptcy, Foreclosure), increases in Average Accumulated Losses and further erosion of Current Support levels of the Subprime RMBS market and the RMBS supporting MBIA-insured deals. As of September 30, 2009, MBIA estimated credit impairment in connection with sixteen multi-sector CDO transactions, CDS and non-CDS contracts, aggregating to $1.8 billion for which MBIA expects to incur actual claims in the future. In the event of further deteriorating performance of the collateral referenced or held in the multi-sector CDO transactions, the amount of credit impairments could increase materially.

For the multi-sector CDOs, the next four tables provide breakdowns of the collateral composition and ratings of subprime RMBS collateral, non-subprime RMBS collateral, and CDOs of ABS collateral by vintage year and rating. CDOs of ABS may contain exposure to various types of collateral, including RMBS. The collateral level detail presented for each year insured was calculated using a weighted average of the total collateral as of September 30, 2009 for deals closed for the insured year. The total collateral amount of the portfolio exceeds the net par written as a result of credit enhancement (such as over-collateralization and subordination) and reinsurance.

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Multi-Sector CDO Portfolio: Collateral Composition, Subordination, and Net Derivative Asset/Liability

$ in millions		Collateral as a % of Performing Pool Balance as of September 30, 2009											
Year Insured [1]	Net Par Outstanding	Other RMBS	Sub-prime RMBS	ABS	CMBS	Corp.	CLO	CDO of ABS	Other CDO	Total	Current Subordination Range Below MBIA [2]	Original Subordination Range Below MBIA [2]	Net Derivative / Asset (Liability) [3]
CDOs of High-Grade U.S. ABS													
2004	1,375	32%	33%	9%	3%	0%	13%	6%	5%	100%	0.0-8.0%	12.5-13.0%	(193)
2005	635	48%	36%	2%	2%	0%	6%	0%	7%	100%	0.0%	20.0%	(76)
2006	3,265	54%	30%	1%	13%	0%	0%	0%	2%	100%	0.0%	12.0-14.0%	(471)
2007	5,164	28%	16%	0%	29%	0%	13%	1%	12%	100%	0.0-13.6%	13.0-14.0%	(825)
Subtotal	$ 10,438												$ (1,566)
CDOs of Mezzanine U.S. ABS													
2000	27	0%	0%	18%	74%	8%	0%	0%	0%	100%	39.9%	21.4%	-
2002	697	33%	6%	18%	23%	9%	6%	3%	2%	100%	0.0-56.0%	13.8-28.1%	(9)
2003	708	30%	15%	20%	24%	2%	5%	1%	4%	100%	0.0-75.8%	21.5-29.8%	-
2004	678	23%	34%	6%	30%	0%	2%	1%	4%	100%	0.0-17.7%	16.0-30.5%	(11)
2005	299	27%	33%	0%	33%	0%	0%	2%	5%	100%	0.0%	19.5%	(36)
Subtotal	$ 2,409												$ (55)
CDOs of Multi-Sector High Grade Collateral (CDO-Squared)													
2001	191	0%	0%	0%	0%	0%	70%	0%	30%	100%	26.6%	5.0%	-
2003	282	0%	0%	0%	0%	0%	58%	0%	42%	100%	0.0%	0.0%	(61)
2004	1,135	1%	0%	2%	0%	0%	76%	17%	4%	100%	11.7-17.0%	10.0%	(75)
2005	1,372	0%	19%	0%	0%	0%	66%	13%	2%	100%	8.6%	10.0%	(75)
2006	1,722	5%	25%	3%	0%	0%	63%	3%	1%	100%	6.1-6.3%	10.0-13.0%	(102)
2007	3,132	4%	6%	0%	0%	0%	79%	7%	4%	100%	0.0-9.7%	13.0-15.0%	(150)
Subtotal	$ 7,834												$ (463)
Total	**20,681**												**(2,084)**
	703	Multi-Sector CDO's European Mezzanine and Other Collateral (3 CDOs) [4]											(53)
	1,183	Multi-Sector CDO's insured in the Secondary Market prior to 2005 (37 CDOs) [4]											-
Grand Total	**$ 22,568**												**$ (2,137)**

(1) Years in which no exposure was insured were omitted.

(2) The range represents the minimum and maximum subordination for deals written in that year.

(3) This column represents the net derivative asset/ (liability) primarily for CDS deals written in that year. Note that not all insurance contracts are considered derivatives. Please refer to "Note 5: Fair Value of Financial Instruments" and "Note 8: Derivative Instruments" in the Notes to Consolidated Financial Statements for the Company's accounting treatment of derivatives (including CDS on CDOs).

(4) The table does not provide collateral level detail on 40 CDOs totaling $1.9 billion of net par. Three deals, with $0.7 billion of net par, contain European Mezzanine ABS assets including 56% RMBS, 22% CDO, 18% CMBS and 5% other, and were closed in 2004, 2005 and 2006. In addition, 37 deals represent insurance sold to investors for CDO tranches in their portfolios (secondary market insurance executions). The deals total $1.2 billion of par and all were insured prior to 2005. In addition, all 37 deals were rated triple-A at the time MBIA wrote insurance on them.

The multi-sector CDO portfolio is comprised of transactions that rely on underlying collateral originally rated single-A or above (CDOs of High Grade U.S. ABS) and transactions that rely on collateral primarily originally rated triple-B (CDOs of Mezzanine U.S. ABS). The multi-sector CDO portfolio is also comprised of CDOs of multi-sector high-grade collateral (also referred to as CDO-squared transactions), which are diversified CDOs primarily comprised of collateral originally rated single-A and above. The collateral in MBIA's insured CDO-squared transactions comprises primarily tranches of CLOs, CDOs of ABS, and RMBS.

MBIA's multi-sector CDOs benefit from two sources of credit enhancement. First, the subordination in the underlying securities collateralizing the MBIA wrapped tranche must be fully eroded and second, the subordination below MBIA's insurance coverage in the CDO transaction must be fully eroded before MBIA's insured interest is subject to a claim. The original subordination levels and those as of September 30, 2009 are detailed in the above table. MBIA's payment obligations after a default vary by deal and by insurance type. There are three policy payment types: (i) where MBIA insures current interest and ultimate principal; (ii) where MBIA insures ultimate principal only; and (iii) where MBIA insures payments upon settlement of individual collateral losses as they occur after the complete erosion of deal deductibles, such payment profiles are referred to as Asset Coverage with a Deductible.

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Multi-Sector CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing Subprime RMBS

$ in millions			Vintage of Subprime RMBS				Subprime RMBS - Ratings As of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is Subprime RMBS	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
CDOs of High-Grade U.S. ABS												
2004	1,375	33%	24%	1%	7%	33%	1%	11%	7%	3%	11%	33%
2005	635	36%	33%	3%	0%	36%	2%	5%	3%	3%	24%	36%
2006	3,265	30%	18%	11%	0%	30%	1%	7%	3%	2%	16%	30%
2007	5,164	16%	2%	7%	6%	16%	0%	0%	1%	2%	13%	16%
Subtotal	$ 10,438											
CDOs of Mezzanine U.S. ABS												
2000	27	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2002	697	6%	6%	0%	0%	6%	0%	1%	1%	1%	3%	6%
2003	708	15%	14%	1%	0%	15%	1%	1%	4%	5%	4%	15%
2004	678	34%	24%	0%	9%	34%	0%	1%	7%	9%	17%	34%
2005	299	33%	27%	0%	6%	33%	0%	3%	9%	6%	16%	33%
2007	-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	$ 2,409											
CDOs of Multi-Sector High Grade Collateral (CDO-Squared)												
2001	191	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2003	282	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004	1,135	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2005	1,372	19%	16%	2%	1%	19%	1%	6%	3%	2%	7%	19%
2006	1,722	25%	6%	7%	11%	25%	1%	2%	2%	1%	19%	25%
2007	3,132	6%	1%	1%	3%	6%	0%	0%	1%	0%	5%	6%
Subtotal	$ 7,834											
Total	**20,681**											
	703	Multi-Sector CDO's European Mezzanine and Other Collateral (3 CDOs) [3]										
	1,183	Multi-Sector CDO's insured in the Secondary Market prior to 2005 (37 CDOs) [3]										
Grand Total	**$ 22,568**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The table does not provide collateral level detail on 40 CDOs totaling $1.9 billion of net par. Three deals, with $0.7 billion of net par, contain European Mezzanine ABS assets including 56% RMBS, 22% CDO, 18% CMBS and 5% other, and were closed in 2004, 2005 and 2006. In addition, 37 deals represent insurance sold to investors for CDO tranches in their portfolios (secondary market insurance executions). The deals total $1.2 billion of par and all were insured prior to 2005. In addition, all 37 deals were rated triple-A at the time MBIA wrote insurance on them.

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Multi-Sector CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing Non Subprime RMBS

$ in millions			Vintage of Non Subprime RMBS					Non Subprime RMBS - Ratings As of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is Non Subprime RMBS	2005 and Prior	2006	2007	2008	Total	AAA	AA	A	BBB	Below IG [2]	Total
CDOs of High-Grade U.S. ABS													
2004	1,375	32%	27%	1%	4%	0%	32%	3%	10%	2%	5%	10%	32%
2005	635	48%	47%	0%	1%	0%	48%	0%	6%	3%	14%	26%	48%
2006	3,265	54%	29%	23%	0%	1%	54%	3%	6%	6%	5%	34%	54%
2007	5,164	28%	3%	24%	1%	0%	28%	0%	0%	1%	2%	25%	28%
Subtotal	$ 10,438												
CDOs of Mezzanine U.S. ABS													
2000	27	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2002	697	33%	32%	1%	0%	0%	33%	3%	3%	6%	9%	13%	33%
2003	708	30%	29%	1%	0%	0%	30%	4%	4%	6%	7%	10%	30%
2004	678	23%	20%	1%	3%	0%	23%	0%	1%	3%	7%	12%	23%
2005	299	27%	21%	5%	1%	0%	27%	0%	8%	3%	1%	14%	27%
2007	-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	$ 2,409												
CDOs of Multi-Sector High Grade Collateral (CDO-Squared)													
2001	191	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2003	282	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004	1,135	1%	1%	0%	0%	0%	1%	1%	0%	0%	0%	0%	1%
2005	1,372	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2006	1,722	5%	2%	1%	1%	0%	5%	0%	1%	0%	1%	3%	5%
2007	3,132	4%	1%	2%	1%	0%	4%	0%	0%	0%	0%	4%	4%
Subtotal	$ 7,834												
Total	**20,681**												
	703	Multi-Sector CDO's European Mezzanine and Other Collateral (3 CDOs) [3]											
	1,183	Multi-Sector CDO's insured in the Secondary Market prior to 2005 (37 CDOs) [3]											
Grand Total	**$ 22,568**												

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The table does not provide collateral level detail on 40 CDOs totaling $1.9 billion of net par. Three deals, with $0.7 billion of net par, contain European Mezzanine ABS assets including 56% RMBS, 22% CDO, 18% CMBS and 5% other, and were closed in 2004, 2005 and 2006. In addition, 37 deals represent insurance sold to investors for CDO tranches in their portfolios (secondary market insurance executions). The deals total $1.2 billion of par and all were insured prior to 2005. In addition, all 37 deals were rated triple-A at the time MBIA wrote insurance on them.

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Multi-Sector CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing CDOs of ABS

$ in millions			Vintage of CDO of ABS				CDO of ABS - Ratings as of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is CDO of ABS	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
CDOs of High-Grade U.S. ABS												
2004	1,375	6%	5%	0%	0%	6%	0%	1%	1%	0%	4%	6%
2005	635	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2006	3,265	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2007	5,164	1%	1%	0%	0%	1%	0%	0%	0%	0%	1%	1%
Subtotal	$ 10,438											
CDOs of Mezzanine U.S. ABS												
2000	27	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2002	697	3%	3%	1%	0%	3%	0%	0%	0%	0%	3%	3%
2003	708	1%	1%	0%	0%	1%	0%	0%	0%	0%	1%	1%
2004	678	1%	1%	0%	0%	1%	0%	0%	0%	0%	1%	1%
2005	299	2%	2%	0%	0%	2%	0%	0%	0%	0%	2%	2%
2007	-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	$ 2,409											
CDOs of Multi-Sector High Grade Collateral (CDO-Squared)												
2001	191	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2003	282	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004	1,135	17%	17%	0%	0%	17%	2%	3%	2%	0%	11%	17%
2005	1,372	13%	6%	8%	0%	13%	0%	2%	0%	0%	11%	13%
2006	1,722	3%	2%	1%	0%	3%	0%	0%	0%	0%	3%	3%
2007	3,132	7%	0%	1%	6%	7%	0%	0%	0%	0%	7%	7%
Subtotal	$ 7,834											
Total	**20,681**											
	703	Multi-Sector CDO's European Mezzanine and Other Collateral (3 CDOs) [3]										
	1,183	Multi-Sector CDO's insured in the Secondary Market prior to 2005 (37 CDOs) [3]										
Grand Total	**$ 22,568**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The table does not provide collateral level detail on 40 CDOs totaling $1.9 billion of net par. Three deals, with $0.7 billion of net par, contain European Mezzanine ABS assets including 56% RMBS, 22% CDO, 18% CMBS and 5% other, and were closed in 2004, 2005 and 2006. In addition, 37 deals represent insurance sold to investors for CDO tranches in their portfolios (secondary market insurance executions). The deals total $1.2 billion of par and all were insured prior to 2005. In addition, all 37 deals were rated triple-A at the time MBIA wrote insurance on them.

Investment Grade Corporate CDOs and Structured Corporate Credit Pools

As of September 30, 2009, the majority of insurance protection provided by MBIA for its Investment Grade Corporate CDO exposure attached at a super senior level. Although several of the Company's insured Investment Grade Corporate CDOs underlying referenced obligors have recently defaulted, none experienced any material credit deterioration. The Company's net par exposure to Investment Grade Corporate CDOs represents 32% of MBIA Corp.'s CDO exposure and approximately 17% of MBIA Corp.'s total net par insured. MBIA Corp.'s Investment Grade Corporate CDO exposure references pools of predominantly investment grade corporate credits; some of these pools may also include limited exposure to other asset classes, including structured finance securities (including RMBS and CDO collateral). Most of MBIA Corp.'s Investment Grade Corporate CDO policies guarantee coverage of losses on collateral assets once subordination in the form of a deductible has been eroded, and are generally highly customized structures.

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In addition, $14.4 billion net par of MBIA's insured Investment Grade Corporate CDOs are typically structured to include buckets (30%-35% allocations) of references to specific tranches of other Investment Grade Corporate CDOs (monotranches). In such transactions, MBIA's insured Investment Grade Corporate CDOs includes, among direct corporate or structured credit reference risks, a monotranche or single layer of credit risk referencing a diverse pool of corporate assets or obligors with a specific attachment and a specific detachment point. The reference monotranches in such CDOs are typically rated double-A and each reference monotranche will typically be sized to approximately 3% of the overall reference risk pool. Deals with buckets for monotranche exposure are managed transactions. The inner referenced monotranches are themselves managed exposures (managed by the same manager as the MBIA-insured Investment Grade Corporate CDO). The inner referenced monotranches are not subject to acceleration and do not give control rights to a senior investor.

Of MBIA Corp.'s $37.4 billion net par Investment Grade CDO portfolio at September 30, 2009, the collateral composition, underlying credit ratings of the collateral that support the Subprime RMBS, Non-subprime RMBS, and CDOs of ABS exposures along with their vintage are presented in the following tables. The collateral level detail for each year insured was calculated using a weighted average of the total collateral for deals closed for the insured year. The total collateral amount of the portfolio exceeds the net par written as a result of credit enhancement (such as over-collateralization and subordination) and reinsurance.

Investment Grade Corporate CDO Portfolio: Collateral Composition, Subordination, and Net Derivative Asset/Liability

$ in millions		Collateral as a % of Performing Pool Balance as of September 30, 2009									
Year Insured [1]	Net Par Outstanding	Corp. [5]	ABS	Sub-Prime RMBS	Other RMBS	CDO [2]	Other	Total	Current Subordination Range Below MBIA [3]	Original Subordination Range Below MBIA [3]	Net Derivative / Asset (Liability) [4]
2003 and Prior	3,226	100%	0%	0%	0%	0%	0%	100%	11.4-27.6%	11.0-22.0%	(2)
2004 [5]	5,718	90%	0%	4%	2%	2%	1%	99%	8.1-19.8%	10.0-15.0%	(237)
2005 [5]	7,876	95%	0%	1%	3%	0%	0%	99%	12.3-24.4%	12.5-25.0%	(122)
2006 [5]	6,525	92%	0%	4%	3%	0%	0%	100%	13.8-24.8%	16.0-25.0%	(168)
2007 [5]	13,817	96%	0%	1%	2%	0%	0%	100%	14.1-34.9%	15.0-35.0%	(152)
Subtotal	$ 37,162										$ (680)
	264	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (12 CDOs) [6]									(2)
Grand Total	**$ 37,426**										**$ (682)**

Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) The CDO collateral composition contains CDOs of ABS, CLOs, and Collateralized Bond Obligations ("CBOs").

(3) The range represents the minimum and maximum subordination for deals written in that year. The impact of all credit events delivered and settled as of September 30, 2009 have been reflected in the current subordination levels.

(4) This column represents the net derivative asset/(liability) primarily for CDS deals written in that year. Note that not all insurance contracts are considered derivatives. Please refer to "Note 5: Fair Value of Financial Instruments" and "Note 8: Derivative Instruments" in the Notes to Consolidated Financial Statements for the Company's accounting treatment of derivatives (including CDS on CDOs).

(5) Years contain deals with allowances for synthetic tranches of leveraged investment grade corporate debt. In such transactions, MBIA's insured Investment Grade Corporate CDOs include, among direct corporate or structured credit reference risks, a monotranche or single layer of credit risk referencing a diverse pool of assets or obligors with a specific attachment and a specific detachment point. The reference monotranches in such CDOs are typically rated double-A and each reference monotranche will typically be sized to approximately 3% of the overall reference risk pool. Deals with buckets for monotranche exposure are managed transactions. The inner referenced monotranches are themselves managed exposures (managed by the same manager as the MBIA-insured Investment Grade Corporate CDO). The inner referenced monotranches are not subject to acceleration and do not give control rights to a senior investor. These transactions also may contain RMBS securities within limits ranging from 0% to 20% with one exception at 34%.

(6) The table does not provide collateral level detail on 12 Investment Grade CDOs totaling $0.3 billion of net par. These deals were insured prior to 2003. In addition, all 12 deals were rated triple-A at the time MBIA wrote insurance on them.

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Investment Grade Corporate CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing Subprime RMBS

$ in millions			Vintage of Subprime RMBS				Subprime RMBS - Ratings as of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is Subprime	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
2003 and Prior	3,226	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004 [3]	5,718	4%	3%	1%	0%	4%	0%	0%	1%	0%	3%	4%
2005 [3]	7,876	1%	0%	0%	0%	1%	0%	0%	0%	0%	1%	1%
2006 [3]	6,525	4%	1%	3%	0%	4%	0%	0%	0%	0%	4%	4%
2007 [3]	13,817	1%	0%	1%	0%	1%	0%	0%	0%	0%	1%	1%
Subtotal	$ 37,162											
	264	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (12 CDOs) [4]										
Grand Total	**$ 37,426**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) These years contain deals with allowances for synthetic tranches of leveraged investment grade corporate debt. Collateral contained in referenced Monotranche obligations are classified as Corporate Exposure as they are 100% corporate references.

(4) The table does not provide collateral level detail on 12 Investment Grade CDOs totaling $0.3 billion of net par. These deals were insured prior to 2003. In addition, all 12 deals were rated triple-A at the time MBIA wrote insurance on them.

Investment Grade Corporate CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing Non Subprime RMBS

$ in millions			Vintage of Non Subprime RMBS				Non Subprime RMBS - Ratings as of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is Non Subprime	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
2003 and Prior	3,226	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004 [3]	5,718	2%	1%	1%	0%	2%	0%	0%	0%	0%	2%	2%
2005 [3]	7,876	3%	1%	2%	0%	3%	0%	0%	0%	0%	3%	3%
2006 [3]	6,525	3%	0%	2%	0%	3%	0%	0%	0%	0%	3%	3%
2007 [3]	13,817	2%	0%	1%	1%	2%	0%	0%	0%	0%	2%	2%
Subtotal	$ 37,162											
	264	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (12 CDOs) [4]										
Grand Total	**$ 37,426**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The years contain deals with allowances for synthetic tranches of leveraged investment grade corporate debt. Collateral contained in referenced Monotranche obligations are classified as Corporate Exposure as they are 100% corporate references.

(4) The table does not provide collateral level detail on 12 Investment Grade CDOs totaling $0.3 billion of net par. These deals were insured prior to 2003. In addition, all 12 deals were rated triple-A at the time MBIA wrote insurance on them.

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Investment Grade Corporate CDO Portfolio: Vintage and Collateral Ratings of CDOs Containing CDOs of ABS

$ in millions			Vintage of CDO of ABS				CDO of ABS - Ratings as of October 5, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is CDO of ABS	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
2003 and Prior	3,226	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2004 [3]	5,718	2%	1%	0%	0%	2%	0%	0%	0%	0%	2%	2%
2005 [3]	7,876	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2006 [3]	6,525	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2007 [3]	13,817	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	$ 37,162											
	264	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (12 CDOs) [4]										
Grand Total	**$ 37,426**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) These years contain deals with allowances for synthetic tranches of leveraged investment grade corporate debt. Collateral contained in referenced Monotranche obligations are classified as Corporate Exposure as they are 100% corporate references.

(4) The table does not provide collateral level detail on 12 Investment Grade CDOs totaling $0.3 billion of net par. These deals were insured prior to 2003. In addition, all 12 deals were rated triple-A at the time MBIA wrote insurance on them.

High Yield Corporate CDOs

The High Yield Corporate CDO portfolio totaling $12.4 billion is largely comprised of middle-market/special-opportunity corporate loan transactions, broadly syndicated bank CLOs and older vintage corporate high yield bond CDOs. The CDOs in this category are diversified by both vintage and geography (with European and U.S. collateral). MBIA Corp.'s net par exposure to High Yield Corporate CDOs represents 11% of the MBIA Corp.'s CDO exposure and approximately 6% of MBIA Corp.'s total net par insured as of September 30, 2009. MBIA Corp. did not experience any material credit deterioration to this portfolio during the nine months ended September 30, 2009. The High Yield Corporate CDO portfolio did not contain any Subprime RMBS, Non-subprime RMBS, and CDOs of ABS exposures.

The following table shows the collateral composition, original and current subordination for the High Yield Corporate CDOs, as well as the net derivative asset/(liability) for each year insured. The collateral level detail for each year insured was calculated using a weighted average of the net par written for deals closed for the insured year. The total collateral amount of the portfolio exceeds the net par written as a result of credit enhancement (such as over-collateralization and subordination) and reinsurance.

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High Yield Corporate CDOs: Collateral Composition, Subordination, and Net Derivative Asset/Liability

$ in millions		Collateral as a % of Performing Pool Balance as of September 30, 2009			
Year Insured [1]	Net Par Outstanding	Corp.	Current Subordination Range Below MBIA [2]	Original Subordination Range Below MBIA [2]	Net Derivative Asset / (Liability) [3]
1997	54	100%	0.0%[4]	12.1%	-
1998	-	100%	0.0%	0.0%	-
1999	32	100%	15.7%	29.4%	-
2002	220	100%	12.9%	19.4%	-
2003	823	100%	16.5-58.8%	24.2-30.0%	-
2004	3,067	100%	27.2-32.5%	22.0-33.3%	-
2005	1,118	100%	17.5-30.8%	21.8-34.0%	(0)
2006	4,358	100%	10.0-46.7%	10.0-49.0%	(0)
2007	2,244	100%	27.6-41.5%	31.0-42.0%	(1)
Subtotal	$ 11,917				$ (1)
	509	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2004 (25 CDOs) [5]			(0)
Grand Total	**$ 12,426**				**$ (2)**

Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) The range represents the minimum and maximum subordination for deals written in that year.

(3) This column represents the net derivative asset / (liability) primarily for CDS deals written in that year. Note that not all insurance contracts are considered derivatives. Please refer to "Note 5: Fair Value of Financial Instruments" and "Note 8: Derivative Instruments" in the Notes to Consolidated Financial Statements for the Company's accounting treatment of derivatives (including CDS on CDOs).

(4) CDOs with zero subordination are currently being remediated and have reserves established against them.

(5) The table does not provide collateral level detail on 25 High Yield CDOs totaling $0.5 billion of net par. These deals were insured prior to 2004. In addition, all 25 deals were rated triple-A at the time MBIA wrote insurance on them.

Structured CMBS Pools and CRE CDOs

The Structured CMBS Pools and CRE CDO portfolio is a diversified global portfolio of highly-rated structured transactions primarily supported by collateral from the CRE sector. This portfolio can be sub-divided into two distinct pools: Structured CMBS pools and CRE CDOs.

MBIA Corp.'s exposure to Structured CMBS Pools totaling $35.1 billion represents 30% of MBIA Corp.'s CDO exposure and approximately 16% of MBIA Corp.'s total net par insured as of September 30, 2009. These transactions are pools of CMBS, Real Estate Investment Trust ("REIT") debt and CRE CDOs that were structured with a first loss deductible sized to a triple-A (or a multiple of triple-A) level of credit protection before consideration was given to the wrap provided by the Company. The credit protection sizing was a function of the underlying collateral ratings and the structural attributes. MBIA's guarantee for most structured CMBS pool transactions covers losses on collateral assets once a deductible has been eroded. The securities in the pool are either cash assets or (more typically) securities referenced synthetically. Each pool consists primarily of CMBS securities drawn from a range of different CMBS securitizations, which in turn are backed by a diverse pool of loans secured by CRE properties. The Company's Structured CMBS Pools are static, meaning that the collateral pool of securitizations cannot be changed.

MBIA Corp.'s CRE CDO exposure comprised approximately 8% or $9.7 billion of MBIA Corp.'s CDO exposure and 5% of the Company's total insured net par as of September 30, 2009. CRE CDOs are managed pools of CMBS, CRE whole loans, B-Notes, mezzanine loans, REIT debt and other securities (including, in some instances, buckets for RMBS and CRE CDOs) that allow for reinvestment during a defined time period. The structures benefit from typical CDO structural protections such as cash diversion triggers, collateral quality tests and manager replacement provisions. MBIA guarantees timely interest and ultimate principal on these CDOs. As with the Company's other CDOs, these transactions are generally structured with triple-A, or a multiple of triple-A credit support protection below the Company's guarantee.

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The following table shows the collateral composition, original and current subordination for Structured CMBS Pools and CRE CDOs, as well as the net derivative asset/(liability) for each year insured. The collateral level detail for each year insured was calculated using a weighted average of the net par written for deals closed for the insured year. The total collateral amount of the portfolio exceeds the net par written as a result of credit enhancement (such as over-collateralization and subordination) and reinsurance.

Structured CMBS Pools and CRE CDOs: Collateral Composition, Subordination, and Net Derivative Asset/Liability

$ in millions		Collateral as a % of Performing Pool Balance as of September 30, 2009										
Year Insured [1]	Net Par Outstanding	Cusip CMBS	Whole Loans	REIT Debt	Sub-prime RMBS	Other RMBS	ABS	Other	Total	Current Subordination Range Below MBIA [2]	Original Subordination Range Below MBIA [2]	Net Derivative /Asset (Liability) [3]
CRE CDOs												
2004	405	64%	1%	19%	14%	3%	0%	0%	100%	17.3-23.9%	22.0-22.4%	-
2005	1,424	59%	1%	9%	17%	4%	5%	6%	100%	18.0-34.9%	18.0-36.0%	(58)
2006	3,460	39%	50%	4%	1%	0%	0%	7%	100%	16.6-59.5%	24.0-60.0%	(37)
2007	4,448	61%	26%	4%	1%	1%	0%	6%	100%	18.6-53.4%	20.0-60.0%	(62)
Subtotal	$ 9,737											$ (157)
Structured CMBS Pools												
2003	157	62%	0%	37%	0%	0%	0%	1%	100%	32.7%	26.0%	-
2005	2,200	100%	0%	0%	0%	0%	0%	0%	100%	8.0%	8.0%	(1)
2006	7,185	89%	0%	0%	0%	0%	0%	11%	100%	10.0-70.0%	10.0-70.0%	(278)
2007	25,266	97%	0%	0%	0%	0%	0%	3%	100%	5.0-84.3%	5.0-82.3%	(793)
Subtotal	$ 34,808											$ (1,073)
Total	**$ 44,545**											**$ (1,229)**
	286	Structured CMBS Pools insured in the Secondary Market prior to 2003 (8 pools) [4]										-
Grand Total	**$ 44,831**											**$ (1,229)**

Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) The range represents the minimum and maximum subordination for deals written in that year.

(3) This column represents the net derivative asset/(liability) primarily for CDS deals written in that year. Note that not all insurance contracts are considered derivatives. Please refer to "Note 5: Fair Value of Financial Instruments" and "Note 8: Derivative Instruments" in the Notes to Consolidated Financial Statements for the Company's accounting treatment of derivatives (including CDS on CDOs).

(4) The table does not provide collateral level detail on eight Structured CMBS pools totaling $0.3 billion of net par executed in the secondary market. These deals were insured prior to 2005. In addition, all eight deals were rated triple-A at the time MBIA wrote insurance.

The Company's $44.8 billion net par Structured CMBS Pools and CRE CDO portfolio at September 30, 2009 did not contain any CDOs of ABS exposures, and the Structured CMBS Pools did not contain any Subprime and Non-subprime RMBS exposures. The underlying credit ratings of the collateral that support the Subprime RMBS, Non-subprime RMBS exposures along with their vintage are presented for the CRE CDO portfolio in the following tables.

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CRE CDOs: Vintage and Collateral Ratings of CDOs Containing Subprime RMBS

$ in millions			Vintage of Subprime RMBS				Subprime RMBS - Ratings as of September 30, 2009					
Year Insured [1]	Net Par Outstanding	% Collateral that is Subprime	2005 and Prior	2006	2007	Total	AAA	AA	A	BBB	Below IG [2]	Total
CRE CDOs												
2004	405	14%	11%	0%	3%	14%	0%	1%	5%	2%	6%	14%
2005	1,424	17%	10%	3%	3%	17%	0%	1%	2%	6%	8%	17%
2006	3,460	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%	1%
2007	4,448	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%	1%
Subtotal	$ 9,737											
	34,808	Structured CMBS Pools										
Total	$ 44,545											
	286	Structured CMBS Pools insured in the Secondary Market prior to 2005 (8 pools) [3]										
Grand Total	**$ 44,831**											

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The table does not provide collateral level detail on eight Structured CMBS pools totaling $0.3 billion of net par executed in the secondary market. These deals were insured prior to 2005. In addition, all eight deals were rated triple-A at the time MBIA wrote insurance.

CRE CDOs: Vintage and Collateral Ratings of CDOs Containing Non Subprime RMBS

$ in millions			Vintage of Non Subprime RMBS				Non Subprime RMBS - Ratings as of October 5, 2009						
Year Insured [1]	Net Par Outstanding	% Collateral that is Non Subprime	2005 and Prior	2006	2007	2009	Total	AAA	AA	A	BBB	Below IG [2]	Total
CRE CDOs													
2004	405	3%	1%	1%	1%	0%	3%	0%	1%	0%	2%	0%	3%
2005	1,424	4%	1%	2%	0%	1%	4%	1%	0%	0%	3%	1%	4%
2006	3,460	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2007	4,448	1%	1%	0%	0%	0%	1%	0%	1%	0%	1%	0%	1%
Subtotal	$ 9,737												
	34,808	Structured CMBS Pools											
Total	$ 44,545												
	286	Structured CMBS Pools insured in the Secondary Market prior to 2005 (8 pools) [3]											
Grand Total	**$ 44,831**												

All figures represent MBIA's insured net par outstanding as of September 30, 2009. Data was gathered from several third-party sources such as trustee reports, Intex, Bloomberg and rating agency websites; therefore, amounts and distributions may differ depending on data source and interpretation. Collateral ratings are current as of October 5, 2009. The totals may not sum due to rounding.

(1) Years in which no exposure was insured were omitted.

(2) Below IG (Investment Grade) denotes collateral credit ratings of below BBB-.

(3) The table does not provide collateral level detail on eight Structured CMBS pools totaling $0.3 billion of net par executed in the secondary market. These deals were insured prior to 2005. In addition, all eight deals were rated triple-A at the time MBIA wrote insurance.

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While we have observed continued stress in the CMBS market, including a substantial rise in loan delinquencies by borrowers, we have not recognized impairments on these transactions. Our structured CMBS pool portfolio comprises over 54,000 loans and is well diversified geographically and by property type in keeping with the industry as a whole. The current weighted average debt service coverage ratio ("DSCR") of underlying mortgages in the CMBS pools is 1.53 based on net operating income derived from the most recent property level financial statements. The weighted average loan-to-value ratio is 72%. Virtually all of the loans are long-term and fixed-rate in nature. Approximately 30% of the loans will mature within the next five years; however, the weighted average DSCR of these loans is significantly higher at 1.63. These factors, combined with MBIA deal attachment points ranging from 5% to 80% depending upon collateral composition provide substantial protection against losses. Additionally, underlying bond collateral loss coverage in our pools generally ranges from 2% to 30% providing further protection against losses.

Delinquencies of underlying commercial mortgages continue to rise, albeit from historically low levels. As of September 30, 2009, 30-day and over delinquencies continued to increase in the CMBS market to 4.1% and in MBIA's insured portfolio 4.2%, primarily due to MBIA's concentration in the 2006 vintage. MBIA believes delinquencies will continue to increase over the next 9 to 15 months.

Over the past year, all three major rating agencies announced and/or executed plans to review and downgrade recent vintage CMBS collateral. Moreover, they continue to change their fundamental rating methodologies for this sector. Many of our positions have been downgraded by one or more of the agencies. Given the recent increase in delinquencies we have also downgraded many of our positions internally. Given these additional stresses, some of the Company's insured positions may be further downgraded. In addition, we believe there continues to be a risk of a severe and prolonged recession, which could result in increased losses on CMBS collateral. In such an event, the performance of the underlying commercial mortgages in the portfolio may be materially adversely affected. In the event that loan level losses exceed the credit enhancement in our pools, the Company could incur substantial losses.

Investment Management Services Operations

Summary

Our investment management services operations provide asset management advisory services, including cash management, discretionary asset management and structured products, to the public, not-for-profit, corporate and financial services sectors. We also have investment agreement and MTN programs related to funding assets for third-party clients and for investment purposes. Such products and services are provided primarily by MBIA Inc. and certain of its wholly owned subsidiaries. The investment management services operations consist of three operating segments: investment advisory services, which consist of third-party and related-party fee-based asset management; asset/liability products, which include investment agreements and MTNs not related to the conduit segment; and conduits. The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, have caused the Company to begin winding down its asset/liability products and conduit businesses.

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The following tables summarize the results and assets under management of our investment management services operations for the three and nine months ended September 30, 2009 and 2008. These results include revenues and expenses from transactions with the Company's insurance and corporate operations.

	Three Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008
Net investment income	$ 47	$ 199	-76%
Fees and reimbursements	13	11	6%
Net gains (losses) on financial instruments at fair value and foreign exchange	(70)	(107)	36%
Net realized gains (losses)	(35)	(315)	89%
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(64)	(134)	52%
Other-than-temporary impairments recognized in accumulated other comprehensive loss	21	-	100%
Net investment losses related to other-than-temporary impairments	(43)	(134)	68%
Net gains on extinguishment of debt	113	206	-45%
Total revenues	25	(140)	118%
Operating	23	26	-13%
Interest	64	202	-68%
Total expenses	87	228	-62%
Pre-tax income (loss)	$ (62)	$ (368)	83%
Ending assets under management	$ 43,309	$ 52,140	-17%

	Nine Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008
Net investment income	$ 170	$ 802	-79%
Fees and reimbursements	36	36	-1%
Net gains (losses) on financial instruments at fair value and foreign exchange	91	(117)	n/m
Net realized gains (losses)	10	(684)	101%
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(525)	(794)	34%
Other-than-temporary impairments recognized in accumulated other comprehensive loss	179	-	100%
Net investment losses related to other-than-temporary impairments	(346)	(794)	56%
Net gains on extinguishment of debt	232	285	-19%
Total revenues	193	(472)	141%
Operating	61	66	-8%
Interest	228	768	-70%
Total expenses	289	834	-65%
Pre-tax income (loss)	$ (96)	$ (1,306)	93%
Ending assets under management	$ 43,309	$ 52,140	-17%

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For the three months ended September 30, 2009, investment management services' revenues were $25 million compared with a loss of $140 million for the same period of 2008. For the nine months ended September 30, 2009, investment management services' revenues were $193 million compared with a loss of $472 million in 2008. During 2009 and 2008, investment management services revenues have been materially affected by impairments of investments and losses from the sale of investments. Additionally, net investment income in 2009 was materially adversely affected by the wind-down of the asset/liability products segment. For the three months ended September 30, 2009, investment management services' expenses of $87 million decreased 62% compared with the same period of 2008. For the nine months ended September 30, 2009, investment management service's expenses of $289 million decreased by 65% from the same period of 2008. These significant declines in expenses were primarily due to lower interest expenses and program costs in the asset/liability products segment due to reduced program size.

As of September 30, 2009, ending assets under management were $43.3 billion, $0.3 billion lower compared with assets under management of $43.6 billion as of December 31, 2008. Decreases in assets under management were predominantly due to asset sales to retire outstanding investment agreements and MTNs within the asset/liability products segment from scheduled amortization, termination of investment agreements due to ratings downgrades, and repurchases of MTNs by the Company. Conduit ending assets included in assets under management as of September 30, 2009 totaled $2.0 billion compared with $2.4 billion as of December 31, 2008. Conduit assets declined due to the maturity and scheduled amortizations of transactions. Advisory services segment balances, which include assets managed for external clients and our insurance and corporate investment portfolios, increased $0.5 billion for the three months ended September 30, 2009 due to an increase in third-party assets managed. Total average assets under management decreased 21% to $43.1 billion for the three months ended September 30, 2009 from $54.7 billion for the three months ended September 30, 2008, due to decline in the asset/liability products and conduit segments partially offset by an increase in assets managed for third-party clients.

The following provides a summary of each of the investment management services operations' segments. Refer to "Note 12: Business Segments" in the Notes to Consolidated Financial Statements for additional information about the Company's investment management services' segments.

Advisory Services

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008	2009	2008	2009 vs. 2008
Total revenues	$ 14	$ 16	–19%	$ 40	$ 51	–23%
Total expenses	13	12	–1%	35	32	5%
Pre-tax income (loss)	$ 1	$ 4	–95%	$ 5	$ 19	–73%

For the three months ended September 30, 2009, our advisory services segment reported pre-tax income of $1 million compared with $4 million for the same period of 2008. For the nine months ended September 30, 2009, pre-tax income was $5 million compared with $19 million for the same period of 2008. The decrease in pre-tax income for the three and nine months ended September 30, 2009 primarily resulted from a decrease in asset management fees earned on assets managed for our other segments, which declined substantially.

Average third-party assets under management for the three months ended September 30, 2009 were $24.8 billion, compared with $21.9 billion in the third quarter of 2008. As of September 30, 2009, third-party ending assets under management at market value were $25.0 billion, increasing 23% from $20.3 billion as of December 31, 2008. The increase in third-party ending assets under management resulted from increases in municipal pool balances and discretionary account balances related to existing and new accounts. As of September 30, 2009, ending assets under management at market value related to the Company's other segments (affiliates) were $18.2 billion, decreasing 22% from $23.3 billion as of December 31, 2008. The decrease in assets managed for affiliates was principally the result of amortization and sales of investments to repurchase MTNs and repay maturing and terminated investment agreements in our asset/liability products segment.

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The Company has issued commitments to three pooled investment programs managed or administered by MBIA Municipal Investor Service Corporation ("MBIA-MISC") and its subsidiary. These commitments cover losses in such programs should the net asset values per share decline below specified per share values. As of September 30, 2009, the maximum amount of future payments that the Company would be required to make under these commitments was $6.8 billion. These commitments will be in effect so long as MBIA-MISC and its subsidiary remain as manager or administrator and each program remains in compliance with its respective investment objectives and policies. Although the pools generally hold high-quality short-term investments, given the current credit and liquidity environment, there is an increased risk that the Company will be required to make payments or incur a loss under these guarantees in the event of material redemptions by shareholders of the pools and the need to liquidate investments held in the pools. These guarantees are accounted for as derivatives, and the net unrealized gains (losses) on these derivatives for the three and nine months ended September 30, 2009 were gains of $1 thousand and losses of $1 thousand, respectively. There were no gains (losses) for the three month period ending September 30, 2008 and there were gains of $11 thousand for the nine month period. The Company has, and may in the future, purchase investments at its discretion from the pooled investment programs it manages, whether or not such programs have been guaranteed by the Company.

Asset/Liability Products

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
In millions	2009	2008	2009 vs. 2008	2009	2008	2009 vs. 2008
Total revenues	$ 5	$ (165)	103%	$ 126	$ (589)	121%
Total expenses	72	198	–64%	244	731	–67%
Pre-tax income (loss)	$ (67)	$ (363)	82%	$ (118)	$ (1,320)	91%

For the three months ended September 30, 2009, our asset/liability products segment reported a pre-tax loss of $67 million compared with a pre-tax loss of $363 million for the same period of 2008. For the nine months ended September 30, 2009, the pre-tax loss was $118 million compared with $1.3 billion for the same period of 2008. The pre-tax loss for the three months ended September 30, 2009 primarily resulted from net losses on financial instruments recorded at fair value and foreign exchange, net realized losses from sales of securities, and realized losses related to other-than-temporary impairments of investments, partially offset by gains on MTN liability repurchases at discounts. The pre-tax loss for the nine months ended September 30, 2009 primarily resulted from realized losses of $346 million related to other-than-temporary impairments of investments, partially offset by net gains of $202 million principally from MTN liability repurchases at discounts and net gains of $105 million on financial instruments recorded at fair value and foreign exchange. The pre-tax loss for the nine months ended September 30, 2008 primarily resulted from realized losses of $794 million related to other-than-temporary impairments of investments, net realized losses of $684 related to sales of investments and net losses of $112 million on financial instruments recorded at fair value and foreign exchange, partially offset by net gains of $285 million principally from MTN liability repurchases at discounts.

As of September 30, 2009, principal and accrued interest outstanding on investment agreement and MTN obligations and securities sold under agreements to repurchase totaled $5.8 billion compared with $9.7 billion at December 31, 2008. The decrease in these liabilities principally resulted from scheduled amortizations, terminations of investment agreements due to ratings downgrades, and repurchases of MTNs by the Company. During the nine months ended September 30, 2009, we repurchased $627 million par value outstanding of MTNs at an average price of $49.76. In addition, as of September 30, 2009, the segment had a secured loan outstanding with MBIA Corp. for $2.0 billion and cash advanced from the Company's corporate segment of $600 million, which was unchanged from December 31, 2008. However, during October and November of 2009, a total of $100 million of the secured loan was repaid. Cash and investments supporting the segment's liabilities, including intercompany liabilities, had market values plus accrued interest of $5.8 billion and $9.1 billion as of September 30, 2009 and December 31, 2008, respectively. These assets comprise securities with an average credit quality rating of single-A. Additionally, receivables for securities sold net of payables for securities purchased were $14 million and $64 million as of September 30, 2009 and December 31, 2008, respectively. Refer to the "Liquidity" section included herein for a discussion about the liquidity position of the asset/liability products program.

Through MBIA Inc., the asset/liability products segment has also entered into matched repurchase and reverse repurchase agreements with National. These agreements, collectively, provide high-quality collateral to the asset/liability products segment, which is then pledged to investment agreement counterparties, and low-risk investment portfolio yield enhancement to the U.S. public finance insurance segment.

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Conduits

In millions	Three Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008	Nine Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008
Total revenues	$ 8	$ 14	–39%	$ 33	$ 85	–60%
Total expenses	4	23	–84%	16	90	–82%
Pre-tax income (loss)	$ 4	$ (9)	n/m	$ 17	$ (5)	n/m

For the three months ended September 30, 2009, our conduits segment reported a pre-tax gain of $4 million compared with a pre-tax loss of $9 million for the same period of 2008. For the nine months ended September 30, 2009, pre-tax income was $17 million compared with a pre-tax loss of $5 million for the same period of 2008. The increase in pre-tax income for the three and nine months ended September 30, 2009 principally resulted from the net gains on debt extinguishment partially offset by net losses on financial instruments at fair value and foreign exchange, which primarily consisted of gains related to fair valuing an embedded derivative. Certain of MBIA's consolidated subsidiaries have invested in our conduit debt obligations or have received compensation for services provided to our conduits. As such, we have eliminated intercompany transactions with our conduits from our consolidated balance sheet and statement of operations. After the elimination of such intercompany assets and liabilities, conduit investments (including cash) and conduit debt obligations totaled $2.0 billion at September 30, 2009. The effect of the elimination on the Company's consolidated balance sheet is a reduction of fixed-maturity investments, representing investments in conduit MTNs by other MBIA subsidiaries, with a corresponding reduction of conduit MTNs.

Meridian is one of two MBIA-owned and administered conduit financing vehicles. Meridian has invested the proceeds of a 2008 prepayment in eligible assets including certain eligible assets purchased from MBIA Inc. The eligible assets are expected to provide adequate proceeds to meet Meridian's obligations as they come due. Triple-A One, another MBIA-owned and administered conduit, historically issued commercial paper and maintained A-1/P-1 backstop liquidity facilities covering 100% of the face amount of commercial paper outstanding. During 2008, conditions in the asset-backed commercial paper market deteriorated making it increasingly difficult for Triple-A One to issue new commercial paper to repay maturing obligations. Accordingly, Triple-A One began borrowing under its liquidity facilities to repay maturing commercial paper. The financial guarantee policies issued by MBIA Corp. to insure the assets of Triple-A One cannot be accelerated to repay maturing commercial paper or borrowings under liquidity facilities and only guarantee ultimate payments over time relating to the assets. By September 2008, these facilities were drawn in full and Triple-A One ceased issuing commercial paper. In November 2008, Moody's and S&P withdrew the ratings of Triple-A One at its request.

Corporate Operations

Our corporate operations primarily consist of holding company activities. The following tables summarize the consolidated results of our corporate operations for the three and the nine months ended September 30, 2009 and 2008. These results include revenues and expenses from transactions with the Company's insurance and investment management services operations.

In millions	Three Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008
Net investment income	$ 5	$ 7	-42%
Net gains (losses) on financial instruments at fair value and foreign exchange	(45)	(119)	62%
Net realized gains (losses)	2	(4)	n/m
Net gains on extinguishment of debt	0	24	-98%
Total revenues	(38)	(92)	59%
Operating	6	10	50%
Interest	16	19	10%
Total expenses	22	29	25%
Pre-tax income (loss)	$ (60)	$ (121)	50%

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In millions	Nine Months Ended September 30, 2009	2008	Percent Change 2009 vs. 2008
Net investment income	$ 16	$ 22	-30%
Net gains (losses) on financial instruments at fair value and foreign exchange	(56)	(108)	48%
Net realized gains (losses)	5	(3)	n/m
Net gains on extinguishment of debt	2	24	-90%
Total revenues	(33)	(65)	49%
Operating	21	22	8%
Interest	52	59	11%
Total expenses	73	81	10%
Pre-tax income (loss)	$ (106)	$ (146)	27%

For the three months ended September 30, 2009, revenues in our corporate operations were a loss of $38 million compared with a loss of $92 million for the same period in 2008. In 2009, we recorded a loss of $45 million related to fair valuing outstanding warrants which is included in net gains (losses) on financial instruments at fair value and foreign exchange, compared with a loss of $119 million in 2008. Additionally, net investment income decreased to $5 million in 2009 from $7 million in 2008 due to a decrease in yields on invested assets and a decrease in the average balance of invested assets. The average balance of invested assets declined due to payments of interest on corporate debt and operating expenses in the absence of dividends from subsidiaries. For the three months ended September 30, 2009, expenses in our corporate operations decreased to $22 million from $29 million for the same period in 2008. A decrease in operating expenses of $4 million was primarily due to a decrease in legal costs partially offset by an increase in the amount of directors' and officers' liability insurance expense allocated to this segment. Interest expense decreased $3 million as a result of repurchasing corporate debt during 2008 and 2009.

For the nine months ended September 30, 2009, revenues in our corporate operations were a loss of $33 million compared with a loss of $65 million for the same period in 2008. In 2009, we recorded a loss of $53 million related to fair valuing outstanding warrants compared with a loss of $106 million in 2008. Additionally, net investment income decreased to $16 million in 2009 from $22 million in 2008 due to a decrease in yields on invested assets and a decrease in the average balance of invested assets. Similar to the third quarter comparison, the average balance of invested assets declined due to payments of interest on corporate debt and operating expenses in the absence of dividends from subsidiaries. For the nine months ended September 30, 2009, expenses in our corporate operations decreased to $73 million compared with expenses of $81 million for the same period in 2008. Operating expenses decreased $1 million primarily due to a decline in legal costs partially offset by an increase in the amount of directors' and officers' liability insurance expense allocated to this segment. Interest expense decreased $7 million as a result of repurchasing corporate debt during 2008 and 2009.

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the nine months ended September 30, 2009 and 2008 are as follows:

In millions	Nine Months Ended September 30, 2009		2008	
Pre-tax income (loss)	$1,422		$(1,811)	
Provision (benefit) for income taxes	$ 548	38.5%	$ (298)	16.5%

Embedded in the effective tax rate for the nine months ended September 30, 2009 are the tax effects of the Company's expected operating activities such as scheduled premium earnings, fees, and net investment income and operating expenses. The Company's effective tax rate related to pre-tax income for the nine months ended September 30, 2009 was primarily a result of a net unrealized gain on its derivative portfolio, the tax-exempt interest from investments, and an increase in the valuation allowance. The Company's effective tax rate related to pre-tax loss for the nine months ended September 30, 2008 was primarily driven by the establishment of a valuation allowance.

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The Company has calculated its effective tax rate for the year by treating the net unrealized gain on its derivative portfolio as a discrete item. As such, this amount is not included when projecting the Company's full year effective tax rate but rather is accounted for at 35% after applying the projected full year effective tax rate to actual nine-month results. Given the inability to estimate this item for the full year of 2009, the Company believes that it is appropriate to treat net unrealized gains and losses on its derivative portfolio as a discrete item for purposes of calculating its effective tax rate for the year.

Deferred Tax Asset, Net of Valuation Allowance

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

As of September 30, 2009, the Company reported a net deferred tax asset of $1.3 billion primarily related to net unrealized losses on its derivative and investment portfolios. Included in the net deferred tax asset of $1.3 billion is the valuation allowance of $457 million. For the nine months ended September 30, 2009, the Company increased its valuation allowance by $106 million. The change in the valuation allowance for the nine months ended September 30, 2009 was primarily due to an increase in realized losses, resulting from asset impairments and sales, and a reduction in the valuation allowance of $30 million as part of the adoption of recently issued accounting guidance for the recognition and presentation of other-than-temporary impairments. Refer to "Note 3: Recent Accounting Pronouncements" for a further discussion about adopting this guidance. As of December 31, 2008, the Company had a valuation allowance of $351 million.

Ownership Change under Section 382 of the Internal Revenue Code

Section 382 of the Internal Revenue Code of 1986, as amended, imposes annual limitations on the utilization of net operating loss ("NOL") carryforwards, other tax carryforwards, and certain built-in losses upon an ownership change as defined under that section. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in the Company's stock by more than 50 percentage points over a defined testing period, generally three years ("Section 382 Ownership Change").

The Company has experienced a shift in ownership as a result of our February 2008 equity offering, as well as Warburg Pincus investments and other transactions involving our shares. As of September 30, 2009, the Company, however, has not triggered a Section 382 Ownership Change. If the Company were to experience a Section 382 Ownership Change, an annual limitation would be imposed on certain of the Company's tax attributes, including NOL and capital loss carryforwards and certain other losses, credits, deductions, or tax basis. The Company cannot give any assurance that it will not undergo an ownership change at a time when these limitations would have a significant effect.

CAPITAL RESOURCES

The Company manages its capital resources to maintain appropriate claims-paying resources for National and MBIA Corp. Capital resources are defined by the Company as total shareholders' equity and long-term debt issued by MBIA Inc. for general business purposes and surplus notes issued by MBIA Corp. As of September 30, 2009, total shareholders' equity was $2.8 billion and total long-term debt was $2.7 billion. MBIA maintains debt at levels it considers to be prudent based on its cash flow and total capital (shareholders' equity plus long-term debt).

Securities Repurchases

Equity securities

Repurchases of stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We believe that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support our liquidity and other business needs.

During the nine months ended September 30, 2009, we repurchased 1.7 million common shares of MBIA Inc. under our share repurchase program at a cost of $4.2 million and an average price of $2.48 per share. As of September 30, 2009, we had repurchased a total of 42.1 million shares under our share repurchase program at an average price of $21.01 per share and $115 million remained available under the program.

MBIA Inc. also repurchased 1,082 shares of the outstanding preferred stock of MBIA Insurance Corporation at a purchase price of $10,000 per share or 10% of the face value, of which 1,012 shares were repurchased in connection with a tender offer for the shares. As of September 30, 2009, 1,677 preferred shares of MBIA Insurance Corporation remained outstanding with a carrying value of $16.8 million.

Debt securities

In addition to stock repurchases, MBIA Inc. or its subsidiaries may repurchase their outstanding debt securities at prices that we deem to be economically advantageous. During the nine months ended September 30, 2009, MBIA Inc. repurchased $20.7 million par value outstanding of its general corporate debt at an average price of $89.86 and our investment management services operations repurchased $626.6 million par value outstanding of MTNs issued by its asset/liability products segment at an average price of $49.76. Additionally, during the nine months ended September 30, 2009, MBIA Inc. repurchased $7.5 million par value of surplus notes issued by MBIA Insurance Corporation at an average price of $30.67. The gain on the repurchase of surplus notes by MBIA Inc. is only reflected in the consolidated accounts of the Company.

Soft Capital

MBIA Corp. maintained a $450 million limited recourse standby line of credit facility with a group of major banks to provide funds for the payment of claims in excess of the greater of $500 million of cumulative claims, net of recoveries, or 5% of average annual debt service with respect to U.S. public finance transactions. As a result of the reinsurance of all of MBIA Corp.'s U.S. public finance insurance exposure by National, MBIA Corp. voluntarily terminated the facility effective March 31, 2009. MBIA Corp. had no outstanding borrowings under the facility, and there were no early termination fees or premiums paid as a result of terminating the facility.

Shelf Registration

From time to time, MBIA accesses the capital markets to support the growth of its businesses. As such, we filed a registration statement on Form S-3ASR with the SEC in June 2007 for an indeterminate amount which replaced and canceled remaining balances on all prior shelf registration statements filed with the SEC. This shelf registration permits us to issue various debt and equity securities described in the prospectus filed as part of the registration statement. In February 2008, we filed amendments to our Form S-3ASR to allow the issuance of $1.2 billion of common stock as part of our capital strengthening.

LIQUIDITY

As a financial services company, we carefully manage liquidity risk, which is the risk that an enterprise will not have sufficient resources to meet contractual payment obligations when due. Management of liquidity risk is of critical importance to financial services companies, and most failures of financial institutions have occurred in large part due to their inability to maintain sufficient liquidity resources under adverse circumstances. Generally, lack of sufficient resources results from an enterprise's inability to access the capital markets or to sell assets at values necessary to satisfy payment obligations and/or an unexpected acceleration of payments to settle liabilities. We encounter significant liquidity risk in our insurance businesses, asset/liability products business and corporate operations.

The Company has instituted a liquidity risk management framework to evaluate its enterprise-wide liquidity position. The primary objective of this risk management system is to monitor potential liquidity constraints and guide the proactive management of liquidity resources to ensure adequate protection against liquidity risk. Our liquidity risk management framework monitors the Company's cash and liquid asset resources using stress-scenario testing. Members of MBIA's senior management meet frequently to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis.

As part of our liquidity risk management framework, we also evaluate and manage liquidity on both a legal entity basis and a segment basis. Segment liquidity is an important consideration for the Company as we conduct the operations of our corporate segment and certain activities within the asset/liability products segment of our investment management services operations from MBIA Inc. Dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of our triple-A insurance financial strength ratings in 2008 significantly increased the liquidity needs and decreased the financial flexibility in our segments. However, we continued to satisfy all of our payment obligations and we believe that we have adequate resources to meet our ongoing liquidity needs in both the short-term and the long-term. However, if the current market dislocation and economic conditions persist or worsen, the Company's liquidity resources will experience further stress.

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Insurance Liquidity

U.S. Public Finance Insurance

Liquidity risk arises in our U.S. public finance insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

Our U.S. public finance insurance segment's financial guarantee contracts cannot be accelerated, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions such as we are currently experiencing, can create payment requirements as a result of our irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, our U.S. public finance insurance segment requires cash for the payment of operating expenses. Finally, National also provides liquid assets to our asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position, as described below.

Since inception, National, the entity from which we conduct our U.S. public finance insurance business, has exhibited robust cash flows from operations, and relatively stable and predictable cash outflows. National had a substantial cash and short-term investment position of $630 million as of September 30, 2009, and a highly liquid investment portfolio.

As of September 30, 2009, the Company determined that the liquidity position of its U.S. public finance insurance segment was sufficient to meet cash requirements in the ordinary course of business.

Structured Finance and International Insurance

Liquidity risk arises in our structured finance and international insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

In general, our structured finance and international segment's financial guarantee contracts and CDS contracts cannot be accelerated, thereby mitigating liquidity risk. Under the terms of our insured CDS contracts, the insured counterparty may have a right to terminate the CDS contracts upon an insolvency or payment default by MBIA Corp. However, defaults, credit impairments and adverse capital markets conditions such as we are currently experiencing, can create payment requirements as a result of our irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, our structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes and preferred stock issuance. MBIA Corp. also provides guarantees to the holders of our asset/liability products debt obligations. If our asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. MBIA Corp. has lent $2.0 billion to the asset/liability products segment on a secured basis for the purpose of minimizing the risk that such claim would be made. The loan matures in the fourth quarter of 2011. During October and November of 2009, a total of $100 million of the loan was repaid. The timing of the ultimate repayment may be affected by the performance of assets in the asset/liability product's investment portfolio.

Since the fourth quarter of 2007, MBIA Corp. made $4.4 billion of cash payments, before reinsurance, associated with insured second-lien RMBS securitizations, as well as settlement payments relating to CDS contracts referencing CDO-squareds and multi-sector CDOs. Among MBIA Corp.'s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to the Company's structured finance and international insurance segment. As a result of the current economic stress, MBIA could incur additional payment obligations beyond these mortgage-related exposures, which may be substantial, increasing the stress on MBIA Corp.'s liquidity.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with our residential mortgage related exposures, MBIA employs a stress scenario-based liquidity model using the same "Roll Rate Default Methodology" as described under the "Loss and Loss Adjustment Expense" heading within the "Critical Accounting Estimates" section included herein. Using this methodology, the Company estimates the level of payments that would be required to be made under low probability stress-level default assumptions of the underlying collateral taking into account MBIA's obligation to cover such defaults under our insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted over the next 24-month period on a monthly basis and then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are frequently updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

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In addition to our residential mortgage stress scenario, we also monitor liquidity risk using a Monte Carlo estimation of potential stress-level claims for all insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to the Company's invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above providing the Company with a robust set of liquidity metrics with which to monitor its risk position.

The Company manages the investment portfolios of its insurance segments to maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. To the extent our liquidity resources fall short of our target liquidity cushions under the stress-loss scenario testing, the Company will seek to increase its cash holdings position, primarily through the sale of high-quality bonds held in its investment portfolio. As of September 30, 2009, MBIA Corp. had unencumbered cash and available-for-sale investments of $3.6 billion, of which $1.6 billion comprised cash and highly liquid assets of MBIA Insurance Corporation. We believe that MBIA Corp. has sufficient cash on hand, liquid assets and future cash receipts to satisfy expected claims payments.

Investment Management Services Liquidity

Within our investment management services operations, the asset/liability products segment has material liquidity risk. In addition to the payment of operating expenses, cash needs in the asset/liability products segment are primarily for the payment of principal and interest on investment agreements and MTNs, and for posting collateral under repurchase agreements, derivatives and investment agreements. The primary sources of cash within the asset/liability products segment used to meet its liquidity needs include scheduled principal and interest on assets held in the segment's investment portfolio and dedicated capital held within the investment management services operations. If needed, assets held within the segment can be sold or used in secured repurchase agreement borrowings to raise cash. However, our ability to sell assets or borrow against non-U.S. government securities in the fixed-income markets decreased dramatically and the cost of such transactions increased dramatically over the last year due to the impact of the credit crisis on the willingness of investors to purchase or lend against even very high-quality assets. In addition, negative net interest spread between asset and liability positions resulted from the need to hold cash as collateral against terminable investment agreement contracts and reduced the cash flow historically provided by net investment income.

In order to monitor liquidity risk and maintain appropriate liquidity resources for near-term cash and collateral requirements within our asset/liability products segment, the Company calculates monthly forecasts of asset and liability maturities, as well as collateral posting requirements. Cash availability at the low point of our 12-month forecasted cash flows is measured against liquidity needs using stress-scenario testing of each of the potential liquidity needs described above. To the extent there is a shortfall in our liquidity coverage, the Company proactively manages its cash position and liquidity resources to maintain an adequate cushion to the stress scenario. These resources include the sale of unpledged assets, the use of free cash at the holding company including the assets in the corporate segment, and potentially increased securities borrowings from National.

The asset/liability products segment, through MBIA Inc., maintained simultaneous repurchase and reverse repurchase agreements with MBIA Insurance Corporation under which MBIA Inc. borrowed government securities in exchange for lending other investment grade fixed-income securities to MBIA Insurance Corporation. The government securities borrowed by the asset/liability products segment are pledged to counterparties under collateralized investment agreements and repurchase agreements. In connection with the Company's separation of its insurance business into distinct legal entities in February 2009, the assets borrowed by MBIA Inc. were transferred from MBIA Insurance Corporation to National. As a result, the Company terminated the repurchase and reverse repurchase agreements between MBIA Inc. and MBIA Insurance Corporation and established new agreements between MBIA Inc. and National for up to $2.0 billion under substantially the same terms. As of September 30, 2009, the fair value of security borrowings under these agreements totaled $1.9 billion.

Other liquidity support outstanding as of September 30, 2009 included a $600 million advance from our corporate segment to our asset/liability products segment and an intercompany repurchase agreement between MBIA Inc. and MBIA Insurance Corporation for up to $2.0 billion, under which the full $2.0 billion was borrowed. As of September 30, 2009, including the $2.6 billion of intercompany resources, the asset/liability products segment had cash and investments of $5.8 billion and receivables for securities sold net of payables for securities purchased of $14 million.

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Following the Moody's downgrade of MBIA Corp. to Baa1 in November 2008, most outstanding investment agreements were terminated in accordance with their terms. As of September 30, 2009, we had $5.8 billion in remaining liabilities related to our asset/liability products business, of which $2.9 billion were investment agreements. All of the investment agreements were collateralized by cash or high-grade securities. This included $1.2 billion of investment agreements which were terminable at the holders' option upon the downgrade of MBIA Corp. to Baa1 by Moody's or to BBB+ by S&P, but for which the holders did not choose to terminate the investment agreements. The remaining $2.9 billion in liabilities consist of MTNs issued by MBIA Global Funding, LLC and term repurchase agreements. No additional collateral or termination provisions would be triggered in the event of a further downgrade of MBIA Corp.'s credit rating. Payments and additional collateral requirements on the liabilities in the asset/liability products segment are expected to be met without the need for additional asset sales in the current stressed credit environment but rather from cash flows from investments and the intercompany facilities described above.

We currently believe that the liquidity position of the asset/liability products segment, including the utilization of intercompany resources, is adequate to meet projected payments. Certain events, however, could place further stress on our ability to meet asset/liability segment obligations without additional asset sales or borrowing facilities, including any further asset impairments, asset or liability cash flow variability, or increased collateral margin requirements due to a reduction in the market value or rating eligibility of assets pledged as collateral. In such events, we may be forced to sell additional assets at potentially substantial losses to meet such obligations. Additionally, the asset/liability products segment may receive further liquidity support from our corporate segment, however, there can be no assurance that such support would be adequate to meet all payment obligations.

Corporate Liquidity

Liquidity needs in our corporate segment are highly predictable and comprise principal and interest payments on corporate debt, operating expenses and dividends to MBIA Inc. shareholders. Liquidity risk is associated primarily with the dividend capacity of our insurance subsidiaries, National and MBIA Insurance Corporation, the distributable earnings of the investment management services operations conducted by MBIA Inc., dividends from asset management subsidiaries, investment income and our ability to issue equity and debt. Additionally, the corporate segment maintains excess cash and investments to ensure it is able to meet its ongoing cash requirements over a multi-year period in the event that cash becomes unavailable from one or more sources.

As of September 30, 2009, the corporate activities of MBIA Inc. had $422 million of cash and highly liquid assets available for general corporate liquidity purposes, of which $408 million comprised cash and short-term investments, compared with estimated debt service, including maturities, and operating expenses of $201 million through year-end 2010.

In addition to MBIA Inc.'s corporate liquidity needs described above, it issued investment agreements reported within the Company's asset/liability products segment, all of which are currently collateralized by high-quality liquid investments. The Company's corporate debt and investment agreements can be accelerated by the holders of such instruments upon the occurrence of certain events, including a breach of covenant or representation, a bankruptcy of MBIA Inc. and the filing of an insolvency proceeding in respect to MBIA Corp. In the event of any such acceleration, the Company may not have sufficient liquid resources to pay amounts due with respect to its corporate debt obligations.

Consolidated Cash Flows

Operating Cash Flows

For the nine months ended September 30, 2009, net cash used by operating activities totaled $1.5 billion compared with net cash provided by operating activities of $400 million for the nine months ended September 30, 2008. Net cash used by operating activities in the first nine months of 2009 was largely related to loss payments on financial guarantee insurance policies insuring RMBS exposure. Cash from operating activities during 2009 was adversely impacted by a decrease in net investment income and premium collections. Net cash provided by operating activities for the nine months ended September 30, 2008 was driven by premium collections, investment income and $253 million in refunds of income taxes paid in prior years, partially offset by claim payments made on financial guarantee insurance policies.

During the remainder of 2009, we currently expect that we will be required to make loss and CDS settlement payments, before reinsurance, of between $700 million and $800 million primarily relating to insured RMBS and multi-sector CDO credits. In addition, our surplus notes will require interest payments totaling approximately $67 million in January 2010. We believe that we have sufficient cash on hand, liquid assets and future cash receipts to satisfy expected claims payments and other expenses.

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Investing Cash Flows

For the nine months ended September 30, 2009, net cash provided by investing activities was $4.7 billion compared with $9.4 billion for the nine months ended September 30, 2008. Net cash provided by investing activities in the first nine months of 2009 resulted from sales of securities for purposes of funding investment agreement withdrawals and terminations, MTN maturities and repurchases, insurance-related loss payments, and improving liquidity in our business segments. Similarly, net cash provided by investing activities in the first nine months of 2008 resulted from sales of securities for purposes of funding investment agreement withdrawals and terminations, MTN maturities and repurchases, and improving liquidity primarily within our asset/liability products segment.

Financing Cash Flows

For the nine months ended September 30, 2009, net cash used by financing activities was $3.8 billion compared with $7.5 billion for the nine months ended September 30, 2008. Net cash used by financing activities in the first nine months of 2009 principally related to withdrawals and terminations of investment agreements and maturities and repurchases of MTNs within our asset/liability products segment. Net cash used by financing activities in the first nine months of 2008 also related to withdrawals and terminations of investment agreements and maturities and repurchases of MTNs within our asset/liability products segment, partially offset by proceeds received from our capital issuance and surplus notes transactions.

Subsidiary Dividends

Under New York State insurance law, without prior approval of the Superintendent of the NYSID, financial guarantee insurance companies can pay dividends from earned surplus subject to retaining a minimum capital requirement. The payment of regular dividends in any 12-month period are limited to the lesser of (i) 10% of policyholders' surplus as shown on MBIA Corp.'s latest filed statutory financial statements and (ii) 100% of adjusted net investment income.

On February 17, 2009, MBIA Corp. declared and paid a dividend of $1.1 billion to MBIA Inc. after receiving prior approval from the Superintendent of the NYSID. As a result, MBIA Corp. will not be able to pay dividends without prior approval from the Superintendent of the NYSID until February 17, 2010. The $1.1 billion dividend, together with a $938 million return of capital, was used to further capitalize National.

In connection with the separation of our insurance operations, National entered into the previously disclosed reinsurance agreement with MBIA Insurance Corporation, whereby National assumed all of MBIA Insurance Corporation's outstanding U.S. public finance business. As a consequence of the reinsurance transaction, National recorded a $1.3 billion contingency reserve, which brought its earned surplus to a deficit of $2.0 billion. Under Illinois insurance law, dividends can only be paid from earned surplus. Therefore, National would be unable to pay dividends for an extended period. The Company has submitted applications to its regulators to redomesticate National to New York and has simultaneously requested approval from the NYSID to reset National's unassigned surplus.

Credit Facilities

MBIA maintained a revolving credit facility totaling $500 million with a group of highly rated global banks. MBIA elected to terminate the facility effective February 27, 2009 in accordance with its rights under the credit facility. As of the termination date, neither MBIA Inc. nor MBIA Corp. had outstanding borrowings under the facility, and there were no early termination fees or premiums paid as a result of terminating the facility.

Triple-A One, an MBIA-administered multi-seller conduit consolidated in the Company's conduit segment, historically issued commercial paper to fund assets, which were insured by MBIA Corp. Triple-A One also maintained backstop liquidity facilities covering 100% of the face amount of commercial paper outstanding. During 2008, conditions in the asset-backed commercial paper market deteriorated making it increasingly difficult for Triple-A One to issue new commercial paper at commercially acceptable rates to repay maturing obligations. Accordingly, Triple-A One borrowed under its liquidity facilities to repay maturing commercial paper. By September 2008, these facilities were drawn in full and Triple-A One ceased issuing commercial paper. As of September 30, 2009 borrowings under liquidity facilities totaled $423 million and will be repaid as the assets purchased by Triple-A One mature. The financial guarantee policies issued by MBIA Corp. to insure the assets of Triple-A One cannot be accelerated to repay borrowings under the liquidity facilities and only guarantee ultimate payments over time relating to the assets.

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Investments

Our available-for-sale investment portfolios comprise high-quality fixed-income securities and short-term investments. As of September 30, 2009 and December 31, 2008, the fair value of our consolidated available-for-sale investment portfolio was $13.8 billion and $17.0 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of September 30, 2009 and December 31, 2008 were $1.6 billion and $2.3 billion, respectively.

In millions	September 30, 2009	December 31, 2008	Percent Change 2009 vs. 2008
Available-for-sale investments:			
U.S. public finance insurance operations:			
Amortized cost	$ 5,238	$ -	-
Unrealized net gain (loss)	117	-	-
Fair value	$ 5,355	$ -	-
Structured finance and international insurance operations			
Amortized cost	$ 2,986	$ -	-
Unrealized net gain (loss)	(104)	-	-
Fair value	$ 2,882	$ -	-
Combined insurance operations:			
Amortized cost	$ 8,224	$ 8,834	-7%
Unrealized net gain (loss)	13	(160)	-108%
Fair value	$ 8,237	$ 8,674	-5%
Investment management services operations			
Amortized cost	$ 6,751	$ 10,279	-34%
Unrealized net gain (loss)	(1,493)	(2,328)	36%
Fair value	$ 5,258	$ 7,951	-34%
Corporate segment			
Amortized cost	$ 349	$ 365	-4%
Unrealized net gain (loss)	(2)	(7)	-75%
Fair value	$ 347	$ 358	-3%
Total available-for-sale investments:			
Amortized cost	$ 15,324	$ 19,478	-21%
Unrealized net gain (loss)	$ (1,482)	$ (2,495)	41%
Total available-for-sale investments at fair value	$ 13,842	$ 16,983	-18%
Held-to-maturity investments:			
Structured finance and international insurance operations			
Amortized cost	$ 2,094	$ 1,215	72%
Investment management services operations			
Amortized cost	1,802	2,441	-26%
Total held-to-maturity investments at amortized cost [1]	$ 3,896	$ 3,656	7%
Investments held as trading:			
Structured finance and international insurance operations			
Amortized cost	$ 116	$ -	-
Unrealized net gain (loss)	8	-	-
Fair value	$ 124	$ -	-
Consolidated investments at carrying value	$ 17,862	$ 20,639	-13%

(1) - Includes $2 million related to tax credit investments reported in "Other investments" on the Company's consolidated balance sheet.

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The carrying value of our consolidated investment portfolio decreased 13% to $17.9 billion as of September 30, 2009 from $20.6 billion as of December 31, 2008. The decrease in the amortized cost of available-for-sale investments in the Company's investment management services operations principally resulted from the maturity and sale of investments to repay investment agreement and MTN obligations within our asset/liability products segment, as well as the other-than-temporary impairment of securities. Structured finance and international insurance held-to-maturity investments increased as a result of the consolidation of additional VIE's during 2009 and investment management services held-to-maturity investments decreased as a result of maturities of transactions within our conduit segment. Investments held as trading represent the assets of a VIE consolidated by our structured finance and international insurance segment.

The fair value of the Company's investments is based on prices which include quoted prices in active markets and prices based on market-based inputs that are either directly or indirectly observable, as well as prices from dealers in relevant markets. Differences between fair value and amortized cost arise primarily as a result of changes in interest rates and general market credit spreads occurring after a fixed-income security is purchased, although other factors may also influence fair value, including specific credit-related changes, supply and demand forces and other market factors. When the Company holds an available-for-sale investment to maturity, any unrealized gain or loss currently recorded in accumulated other comprehensive income (loss) in the shareholders' equity section of the balance sheet is reversed. As a result, the Company would realize a value substantially equal to amortized cost. However, when investments are sold prior to maturity, the Company will realize any difference between amortized cost and the sale price of an investment as a realized gain or loss within its statement of operations. The investment portfolios of the Conduits, as well as certain consolidated variable interest entities, are classified as held-to-maturity, as the Company has the ability and intent to hold these investments to their contractual maturity. Portfolios classified as held-to-maturity are reported on the Company's consolidated balance sheet at amortized cost and are not adjusted to reflect unrealized changes in fair value. The Company established three new mutual funds. The assets of these funds are classified as trading in accordance with accounting guidelines for investment companies. Changes in fair value of investments designated as trading are recorded in net realized gains (losses) on our statement of operations.

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Credit Quality

The credit quality distribution of the Company's fixed-income investment portfolios, excluding short-term investments, based on ratings from Moody's as of September 30, 2009 is presented in the following table. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

	U.S. Public Finance Available-for-Sale		Structured Finance and International Available-for-Sale		Investment Management Services Available-for-Sale		Corporate Available-for-Sale		Investments Held-to-Maturity		Total	
In millions	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
Aaa	$2,240	46%	$1,028	64%	$1,007	24%	$ -	0%	$ 109	5%	$ 4,384	34%
Aa	1,764	37%	77	5%	771	19%	-	0%	96	4%	2,708	21%
A	658	14%	48	3%	1,225	30%	-	0%	37	1%	1,968	15%
Baa	149	3%	52	3%	695	17%	-	0%	2,112	88%	3,008	23%
Below investment grade	2	0%	413	25%	426	10%	6	100%	52	2%	899	7%
Not rated	-	0%	-	0%	13	0%	-	0%	-	0%	13	0%
Total	$4,813	100%	$1,618	100%	$4,137	100%	$ 6	100%	$2,406	100%	$12,980	100%
Short-term investments	542		1,256		763		333		606		3,500	
Unrealized loss not reflected in carrying value of held-to-maturity investments	-		-		-		-		882		882	
Investments held as trading	-		124		-		-		-		124	
Other investments	-		8		358		8		2		376	
Consolidated investments at carrying value	$5,355		$3,006		$5,258		$347		$3,896		$17,862	

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As of September 30, 2009, the weighted average credit quality of the Company's U.S. public finance insurance, structured finance and international insurance, and investment management services fixed-income available-for-sale investment portfolios, excluding short-term and other investments and investments categorized as held-to-maturity, was Aa, Aa, and A, respectively, as presented in the preceding table. Investments categorized as held-to-maturity had a weighted average credit quality of Baa.

Insured Investments

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ("Insured Investments"), including investments insured by MBIA Corp. and National ("MBIA-Insured Investments"). As of September 30, 2009, Insured Investments at fair value represented $4.1 billion or 23% of consolidated investments, of which $2.7 billion or 15% of consolidated investments were insured by MBIA Corp. and National. This includes conduit investments of $1.4 billion at fair value, or 8% of consolidated investments, which were all insured by MBIA Corp.

As of September 30, 2009, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of the consolidated investment portfolio would be in the Aa range, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range, and 4% of the total investment portfolio would be rated below investment grade.

The distribution of the Company's Insured Investments by financial guarantee insurer as of September 30, 2009 is presented in the following table:

	U.S. Public Finance Available-for-Sale		Structured Finance and International Available-for-Sale		Investment Management Services Available-for-Sale		Corporate Available-for-Sale		Investments Held-to-Maturity		Total	
In millions	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
MBIA Corp.	$ 74	1%	$252	1%	$ 498	3%	$ -	0%	$1,443	8%	$2,267	13%
FSA	278	1%	3	0%	361	2%	-	0%	-	0%	642	3%
Ambac	94	1%	1	0%	375	2%	5	0%	-	0%	475	3%
National	289	2%	-	0%	97	0%	-	0%	-	0%	386	2%
FGIC	24	0%	-	0%	154	1%	-	0%	-	0%	178	1%
Other	144	1%	2	0%	45	0%	-	0%	-	0%	191	1%
Total	$903	6%	$258	1%	$1,530	8%	$ 5	0%	$1,443	8%	$4,139	23%

In purchasing Insured Investments, the Company independently assesses the underlying credit quality, structure and liquidity of each investment, in addition to the creditworthiness of the insurer. Insured Investments are diverse by sector, issuer and size of holding. The Company assigns underlying ratings to its Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody's, or another external agency, when a rating is not published by Moody's. When an external underlying rating is not available, the underlying rating is based on the Company's best estimate of the rating of such investment. A downgrade of a financial guarantee insurer will likely have an adverse affect on the fair value of investments insured by the downgraded financial guarantee insurer. If MBIA determines that declines in the fair values of Insured Investments are other than temporary, the Company will record a realized loss through earnings.

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The underlying ratings of the MBIA-Insured Investments as of September 30, 2009 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody's. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

In millions Underlying Ratings Scale	U.S. Public Finance Insurance Available-for-Sale	Structured Finance and International Insurance Available-for-Sale	Investment Management Services Available-for-Sale	Conduit Held-to-Maturity	Total
MBIA Corp.:					
Aaa	$ -	$ 16	$ 2	$ 115	$ 133
Aa	-	7	33	35	75
A	16	-	152	99	267
Baa	57	11	217	1,121	1,406
Below investment grade	1	218	94	73	386
Total MBIA Corp.	$ 74	$ 252	$ 498	$1,443	$2,267
National:					
Aaa	$ -	$ -	$ -	$ -	$ -
Aa	75	-	28	-	103
A	157	-	45	-	202
Baa	57	-	24	-	81
Below investment grade	-	-	-	-	-
Total National	$ 289	$ -	$ 97	$ -	$ 386
Total MBIA Insured Investments	$ 363	$ 252	$ 595	$1,443	$2,653

Without giving effect to the MBIA guarantee of MBIA-Insured Investments in the consolidated investment portfolio, as of September 30, 2009, based on the actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio would be in the Aa range, the weighted average rating of only the MBIA-Insured Investments would be in the Baa range, and 7% of the consolidated investment portfolio would be rated below investment grade.

Conduit programs involve the use of rating agencies in assessing the quality of asset purchases and in assigning ratings to the various programs funded through the conduits. All transactions currently funded in the conduits had an underlying rating of at least investment grade by Moody's and S&P prior to funding. The weighted average underlying rating for transactions currently funded in the conduits was A- by S&P and A2 by Moody's at the time such transactions were funded. MBIA estimates that the current weighted average underlying rating of all outstanding conduit transactions was BBB by S&P and Baa1 by Moody's as of September 30, 2009.

Impaired Investments

Investments for which the Company has recorded unrealized losses are tested quarterly for other-than-temporary impairment. For each security that meets the threshold of either 20% impaired at the time of review or 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period, a further analysis of the security is performed to assess if the impairment is other than temporary. As of September 30, 2009, the Company had a pre-tax unrealized net loss of $1.5 billion related to its investment management services operations' available-for-sale investment portfolio. Included in the investment management services operations' pre-tax unrealized net loss of $1.5 billion were unrealized gross losses totaling $688 million within the asset-backed sector, primarily consisting of CDO and credit card investments, which primarily resulted from changes in the fair value of these securities due to a significant widening of market credit spreads.

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The following table presents the fair values and gross unrealized losses by credit rating category of ABS included in our consolidated investment portfolio as of September 30, 2009 for which fair value was less than amortized cost. Of the total $1.2 billion of fair value and $786 million of unrealized losses, $968 million of fair value and $688 million of unrealized losses relates to ABS included in our asset/liability products investment portfolio. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody's as of September 30, 2009 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For insured bonds, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Total	
Asset-Backed Sector	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS CDO	$ 6	$ (53)	$ 12	$ (12)	$ 8	$ (18)	$ 5	$ (15)	$266	$ (312)	$ 297	$ (410)
Corporate CDO	180	(95)	47	(9)	189	(45)	5	(16)	1	(11)	422	(176)
Auto loans	-	-	52	(3)	-	-	-	-	21	(2)	73	(5)
Credit cards	86	(9)	18	(10)	4	-	-	-	26	(1)	134	(20)
Equipment Leases	-	-	-	-	-	-	40	(12)	-	-	40	(12)
Small business/student loans	18	(6)	-	-	-	-	23	(8)	-	-	41	(14)
Other ABS	33	(1)	41	(16)	73	(27)	80	(102)	10	(3)	237	(149)
Total	$323	$ (164)	$170	$ (50)	$274	$ (90)	$153	$ (153)	$324	$ (329)	$1,244	$ (786)

Seventy-four percent of our investments in ABS reported in the preceding table were rated investment grade with 26% rated Aaa. Of the $1.2 billion of ABS investments reported in the preceding table, $373 million include the benefit of guarantees provided by third-party financial guarantors and $274 million include the benefit of guarantees provided by MBIA Corp. The average credit rating of all guaranteed ABS investments using the higher of the guarantors' ratings or the underlying bond ratings was A and the average underlying credit rating of guaranteed ABS investments, without giving effect to the guarantees, was BBB. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., $378 million or 30% of the securities included in the preceding table were rated below investment grade.

The following table presents the fair values and gross unrealized losses by credit rating category of direct corporate obligations included in our consolidated investment portfolio as of September 30, 2009 for which fair value was less than amortized cost:

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Total	
Corporate Obligations	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate Obligations	$92	$ (19)	$223	$ (20)	$646	$ (111)	$373	$ (91)	$99	$ (33)	$1,433	$ (274)
Total	$92	$ (19)	$223	$ (20)	$646	$ (111)	$373	$ (91)	$99	$ (33)	$1,433	$ (274)

Ninety-three percent of our investments in corporate obligations reported in the preceding table were rated investment grade with 6% rated Aaa. Of the $1.4 billion of corporate obligations reported in the preceding table, $77 million include the benefit of guarantees provided by third-party financial guarantors, $95 million include the benefit of guarantees provided by MBIA Corp., and $20 million include the benefit of guarantees provided by National. The average credit rating of all guaranteed corporate obligations included in the preceding table using the higher of the guarantors' ratings or the underlying bond ratings was BBB+ and the average underlying credit rating of these guaranteed corporate obligations without giving effect to the guarantees was BBB-. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp. and National, $100 million or 7% of the securities included in the preceding table were rated below investment grade.

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The following table presents the fair values and gross unrealized losses by credit rating category of mortgage-backed securities included in our consolidated investment portfolio as of September 30, 2009 for which fair value was less than amortized cost:

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Total	
Mortgage Backed Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
RMBS:												
Collateralized	$116	$ (11)	$ 49	$ (40)	$13	$ (14)	$ 7	$ (11)	$140	$ (163)	$325	$ (239)
Home Equity	5	-	107	(71)	13	(3)	27	(7)	329	(181)	481	(262)
Pass-through securities	52	-	-	-	-	-	-	-	-	-	52	-
Other	10	(2)	19	(16)	-	-	-	-	22	(11)	51	(29)
CMBS	7	(2)	18	(6)	2	(1)	1	-	4	(4)	32	(13)
Total	$190	$ (15)	$193	$ (133)	$28	$ (18)	$35	$ (18)	$495	$ (359)	$941	$ (543)

Forty-seven percent of our investments in MBS reported in the preceding table were rated investment grade with 20% rated Aaa. Of the $941 million of MBS investments reported in the preceding table, $451 million include the benefit of guarantees provided by third-party financial guarantors and $86 million include the benefit of guarantees provided by MBIA Corp. The average credit rating of all guaranteed MBS investments using the higher of the guarantors' ratings or the underlying bond ratings was BBB and the average underlying credit rating of guaranteed MBS investments, without giving effect to the guarantees, was B. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., $613 million or 65% of the securities included in the preceding table were rated below investment grade.

We have reviewed the above securities as part of our assessment of other-than-temporary impairments of our entire investment portfolio. During our review, we assessed (i) the magnitude and duration of declines in fair value and (ii) the reasons for the declines, such as general credit spread movements in each asset-backed sector, transaction-specific changes in credit spreads, credit rating downgrades, modeled defaults, and principal and interest payment priorities within each investment structure. Based on our assessment of other-than-temporary impairments within our investment portfolios, we concluded that 38 ABS investments included in the preceding table were other-than-temporarily impaired and we recorded realized losses of $155 million in the first nine months of 2009 on those securities through current earnings. Other-than-temporary impairments of ABS investments resulted from our reassessment of the likelihood we will not receive an amount equal to our amortized cost over the remaining maturities of the securities.

For the three months ended March 31, 2009 and all preceding periods, whenever we believed that we would not recover an amount equal to the amortized cost of a security over its remaining expected holding period, including maturity, we recorded the difference between the amortized cost and the fair value in earnings as an other-than-temporary impairment loss. Under recently issued accounting principles for the recognition and presentation of other-than temporary impairments, which we adopted beginning with the three months ended June 30, 2009, we record the difference between the fair value and the amount we expect to ultimately recover based on our best estimate of cash flows discounted at the prescribed rate in earnings as a reduction to other-than-temporary impairment losses. The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected using the Company's cash flow projections and base assumptions. Had this accounting guidance been in effect for prior periods, the total net investment losses related to other-than-temporary impairments would have been less by the amount of the non-credit related losses expected on those investments during the respective periods. We believe that, over time, the unrealized losses currently recorded on our impaired investments will recover to fair values at least equal to their current amortized costs through improvements in market conditions and the repayment of principal. As we do not intend to sell these securities and it is more likely than not that we would not be required to sell these securities prior to repayment or until such a recovery in value, we have not realized additional losses on the remainder of our investment portfolio through current earnings. However, if the creditworthiness of these investments or our intent to hold them were to change, we may take additional impairments on these securities through earnings in the future.

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We consider all sources of cash flows in evaluating if a security is other-than-temporarily impaired, including credit enhancements that support the payment of amounts owed by the issuer of a security. This includes the consideration of cash expected to be provided by financial guarantors, including MBIA Corp. and National, resulting from an actual or potential insurance policy claim. Therefore, we do not record other-than-temporary impairments related to credit concerns about issuers of securities insured by MBIA since investors in these securities, including MBIA, are guaranteed payment of principal and interest.

MBIA-insured securities, whether or not owned by the Company, are evaluated for impairment as part of our insurance surveillance process and, therefore, losses on MBIA-insured securities are recorded in accordance with our loss reserving policy. Refer to "Note 2: Significant Accounting Policies" and "Note 10: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements" for information about our loss reserving policy and loss reserves. The determination of an impairment under our loss reserving process and under our investment impairment process differ in several ways. The two primary differences are (i) the consideration of unearned premium revenue in establishing loss reserves and (ii) the use of a risk free discount rate in establishing loss reserves compared with the use of a discount rate reflecting the original purchase price yield on a security, which would typically be used in our analysis of other-than-temporary impairments of investments.

The following table presents the values of MBIA-Insured Investments for which fair value is less than amortized cost, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company, as of September 30, 2009. The amortized cost represents the par value owned adjusted for any purchase price premium or discount. The insurance loss reserves represent the present value of the total amount of debt service payments (principal and interest) the Company expects to make over the term of the securities. If the Company were to hold the MBIA-Insured Investments presented in the following table to maturity, the unrealized loss recorded in accumulated other comprehensive income would reverse to zero and any losses resulting from the issuers inability to pay principal or interest would be recorded as an insurance loss in the Company's consolidated statement of operations. Additionally, the difference between amortized cost and the par value of a security will be recorded in earnings through the accretion of the discount or amortization of the premium over the term of the security.

In millions	As of September 30, 2009			
Security Type	Amortized Cost	Fair Value	Unrealized Loss Recorded in Other Comprehensive Income	Insurance Loss Reserve [1]
Mortgage-backed securities	$ 117	$ 82	$ (35)	$ 65
Asset-backed securities	578	290	(288)	3
Corporate obligations	121	115	(6)	-
State and municipal bonds	432	399	(33)	-
Other investments	103	62	(41)	-
Conduits (consolidated)	1,594	1,226	(368)	-
Total	$ 2,945	$ 2,174	$ (771)	$ 68

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

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Debt Obligations

Principal payments due under our debt obligations (liabilities) in the three months ending December 31, 2009 and each of the subsequent four years ending December 31 and thereafter are presented in the following table. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates. Foreign currency denominated liabilities are presented in U.S. dollars and liabilities issued at a discount reflect principal amounts due at maturity.

	September 30, 2009						
In millions	Three Months ending December 31, 2009	2010	2011	2012	2013	Thereafter	Total
Structured finance and international insurance:							
Surplus notes	$ -	$ -	$ -	$ -	$ -	$ 946	$ 946
TALF loans	-	-	-	247	-	31	278
VIE notes	32	1,009	170	89	202	1,316	2,818
Investment Management Services:							
Asset/liability products segment:							
Investment agreements	173	600	101	476	185	1,538	3,073
Medium-term notes	-	403	56	127	57	2,481	3,124
Securities sold under agreements to repurchase	-	15	-	487	-	-	502
Conduits:							
Medium-term notes	61	131	-	-	-	1,356	1,548
Long-term liquidity loans	4	15	17	18	19	350	423
Corporate:							
Long-term debt	-	69	91	-	-	913	1,073
Total	$ 270	$ 2,242	$ 435	$ 1,444	$ 463	$ 8,931	$ 13,785

In the second quarter of 2009, we consolidated an additional VIE, which resulted in an increase to our consolidated investments and VIE notes of $900 million, respectively. The notes of this VIE are currently scheduled to be repaid in May 2010 and have been included in the preceding table. In the fourth quarter of 2009, we settled the financial guarantee contract related to this VIE in exchange for a payment by MBIA Corp. of $65 million, net of reinsurance. The settlement payment eliminated potentially significant future performance volatility and relieved us from any further obligation under our insurance contract to the VIE notes referenced above. The impact of the payment and reduction in insurance exposure will be reflected in the Company's results for the fourth quarter of 2009.

Term Asset-Backed Securities Loan Facility

During the second and third quarters of 2009, the Company purchased ABS under the Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"). TALF provides secured financing for ABS backed by certain types of consumer and small business loans. The TALF financing agreements represent term loans with varying maturities ranging from 3 to 5 years. These loans are non-recourse to MBIA, less a haircut, and are collateralized by the ABS purchased with the loan proceeds. Collateral haircuts are established by the Federal Reserve for each class of eligible collateral and determined based on price volatility. Under the program, MBIA can deliver the collateralized ABS to a special purpose vehicle created by the Federal Reserve in full defeasance of the loans.

As of September 30, 2009, the Company held ABS with a fair value of $310 million purchased under TALF that are recorded as available-for-sale investments and had $278 million of secured financings from the Federal Reserve related to the purchase of these securities that are recorded in "Long-term debt" on the Company's consolidated balance sheet.

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MARKET RISK

In general, MBIA's market risk relates to changes in the value of financial instruments that arise from adverse movements in factors such as interest rates, credit spreads and foreign exchange rates. MBIA is exposed to changes in interest rates and credit spreads that affect the fair value of its financial instruments, namely investment securities, investment agreement liabilities, MTNs, debentures and certain derivative transactions. The Company's investment portfolio holdings are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. Government bonds, mortgage-backed securities, collateralized mortgage obligations, corporate bonds and ABS. In periods of rising and/or volatile interest rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities.

MBIA minimizes its exposure to interest rate risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. In addition, the Company enters into various swap agreements that hedge the risk of loss due to interest rate and foreign currency volatility.

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of September 30, 2009 from instantaneous shifts in interest rates.

	Change in Interest Rates					
	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
In millions						
Estimated change in fair value	$ 523	$ 396	$ 220	$ (240)	$ (479)	$ (706)

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments (including investment securities and investment agreement and MTN obligations) as of September 30, 2009 from instantaneous shifts in credit spread curves. For this table it was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. MBIA Corp.'s investment portfolio would generally be expected to experience lower credit spread volatility than the investment portfolio of the asset/liability products segment because of higher credit quality and portfolio composition in sectors that have been less volatile historically. The table shows hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally change in opposite direction from the liability portfolio.

	Change in Credit Spreads			
	200 Basis Point Decrease	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
In millions				
Estimated change in fair value	$ 201	$ 79	$ (76)	$ (285)

MBIA issued insurance policies insuring payments due on structured credit derivative contracts and directly entered into credit derivative contracts, which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. All these transactions were insured by the Company's structured finance and international insurance operations. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, asset-backed, residential mortgage-backed and commercial mortgage-backed securities. These transactions were usually underwritten at or above a triple-A credit rating level. As of September 30, 2009, approximately 31% of the tranches insured by the Company were rated triple-A. Additionally, MBIA's investment management services operations enter into single-name CDSs as part of its asset management activities. In the first nine months of 2009, the value of the Company's credit derivative contracts were affected predominantly by changes in credit spreads and prices of the underlying reference obligations' collateral, changes in recovery rate assumptions, erosion of subordination, ratings downgrades of securities backing CDOs and the effect of the Company's own credit risk on the portfolio. As those risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

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Since December 31, 2006, the Company's portfolio of insured structured CDSs has become increasingly concentrated in transactions where the underlying reference obligations comprise CMBS and asset-backed collateral including RMBS, in addition to corporate securities. As a result, the portfolio is more sensitive to changes in credit spreads in those sectors. Beginning in the second half of 2007, credit spreads in those sectors increased significantly, resulting in a substantial decrease in the fair value of the Company's portfolio of structured CDSs. Refer to the discussion of the attribution of the first nine months of 2009 unrealized loss included in the "Results of Operations" section.

In the first nine months of 2009, we have observed a tightening of corporate credit spreads and credit quality deterioration of certain tranches within our insured CDOs. In addition, the Company has observed an extensive widening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA's business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting may cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, collateral prices, recovery rates, rating migrations and to changes in our own credit spreads and recovery rates. Each table stands on its own and should be read independently of each other.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's credit derivatives portfolio of instantaneous shifts in credit spreads as of September 30, 2009. Estimated changes in fair value are calculated using the valuation methods described in the "Critical Accounting Estimates" section included herein. In scenarios where credit spreads decreased, a floor of zero was used.

	Change in Credit Spreads						
In millions	600 Basis Point Decrease	200 Basis Point Decrease	50 Basis Point Decrease	0 Basis Point Change	50 Basis Point Increase	200 Basis Point Increase	600 Basis Point Increase
Estimated pre-tax net gains (loss)	$ 1,598	$ 643	$ 182	$ -	$ (186)	$ (746)	$ (2,124)
Estimated net fair value	$ (2,672)	$ (3,627)	$ (4,088)	$ (4,270)	$ (4,456)	$ (5,016)	$ (6,394)

Actual shifts in credit spread curves will vary based on the credit quality of the underling reference obligations. In general, within any asset class, higher credit rated reference obligations will exhibit less credit spread movement than lower credit rated reference obligations. Additionally, the degree of credit spread movement can vary significantly for different asset classes. The basis point change presented in the preceding table, however, represents a fixed basis point change in reference obligation credit spreads across all credit quality rating categories and asset classes and, therefore, the actual impact of spread changes would vary from this presentation depending on the credit rating and distribution across asset classes, both of which will adjust over time depending on new business written and runoff of the existing portfolio.

Since the Company is now using collateral prices as an input into the new Direct Price Model for certain multi-sector insured CDO's, a sensitivity analysis below shows the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insurance credit derivatives portfolio of a 10% and 20% change in collateral prices as of September 30, 2009.

	Change in Collateral Prices (Structured Finance and International Insurance Operations)				
In millions	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (loss)	$ 152	$ 76	$ -	$ (76)	$ (154)
Estimated net fair value	$ (4,077)	$ (4,153)	$ (4,229)	$ (4,305)	$ (4,383)

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Sensitivity to changes in the collateral portfolio credit quality can be estimated by projecting a hypothetical change in rating migrations. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insurance credit derivatives portfolio of a one and three notch rating change in the credit quality as of September 30, 2009. A notch represents a one step movement up or down in the credit rating. Estimated changes in fair value are calculated using the valuation methods described in the "Critical Accounting Estimates" section included herein.

	Change in Credit Ratings (Structured Finance and International Insurance Operations)				
In millions	Three Notch Increase	One Notch Increase	No Change	One Notch Decrease	Three Notch Decrease
Estimated pre-tax net gains (loss)	$ 1,223	$ 422	$ -	$ (485)	$ (1,283)
Estimated net fair value	$ (3,006)	$(3,807)	$(4,229)	$(4,714)	$ (5,512)

Recovery rates on defaulted collateral are an input into the Company's valuation model. Sensitivity to changes in the recovery rate assumptions used by the Company can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insurance credit derivatives portfolio of a 10% and 20% change in the recovery rate assumptions as of September 30, 2009. Estimated changes in fair value are calculated using the valuation methods described in the "Critical Accounting Estimates" section included herein

	Change in Recovery Rates (Structured Finance and International Insurance Operations)				
In millions	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (loss)	$ 528	$ 312	$ -	$ (311)	$ (649)
Estimated net fair value	$ (3,701)	$ (3,917)	$(4,229)	$ (4,540)	$ (4,878)

Accounting principles for fair value measurements and disclosures require the Company to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in the Company's credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insurance credit derivative portfolio using upfront credit spreads of 0%, an increase of 15%, and a decrease of 30%. The actual upfront spread used in the valuation at September 30, 2009 ranged from 25% to 60% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

	MBIA Upfront Credit Spread (Structured Finance and International Insurance Operations)			
	Increase by 15		Decrease by 30	
In millions	Percent	No Change	Percent	Decrease to 0 Percentage Points
Estimated pre-tax net gains (loss)	$ 117	$ -	$ (1,343)	$ (9,256)
Estimated net fair value	$ (4,112)	$(4,229)	$ (5,572)	$ (13,485)

Following the inclusion of the MBIA recovery rate in the calculation of nonperformance risk for insured CDS liabilities, this year we have added a sensitivity analysis that shows the change in fair value of insured CDS liabilities due to changes in that recovery rate. The values we are showing below reflect the approximate trading range of the MBIA recovery rate in the last few months.

	MBIA's Recovery Rate (Structured Finance and International Insurance Operations)		
In millions	Decrease to 15 Percentage Points	No Change	Increase to 25 Percentage Points
Estimated pre-tax net gains (loss)	$ 849	$ -	$ (1,182)
Estimated net fair value	$ (3,380)	$ (4,229)	$ (5,411)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MBIA's insurance of structured credit derivatives typically remain in place until the maturity of the derivative. The Company does, however, periodically establish positions which offset its insurance positions in the reinsurance market, in which contracts also typically remain in place until the maturity of the insurance contract. Any difference between the price of the initial transaction and the offsetting transaction will result in gains or losses. With respect to MBIA's insured structured credit derivatives, in the absence of credit impairment, the cumulative gains and losses should reverse at maturity. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in the Company's financial statements. In February 2008, we decided not to insure credit derivatives in the future, except in transactions that are intended to reduce our overall exposure to insured derivatives. This may result in termination of certain existing contracts prior to maturity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

An update of the Company's market risk as of September 30, 2009 is included under "Market Risk" within Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of operating its businesses, the Company may be involved in various legal proceedings.

The Company was named as a defendant, along with certain of its current and former officers, in private securities actions that were consolidated in the United States District Court for the Southern District of New York as In re MBIA Inc. Securities Litigation; (Case No. 05 CV 03514(LLS); S.D.N.Y.) (filed October 3, 2005). The plaintiffs asserted claims under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The lead plaintiffs purport to be acting as representatives for a class consisting of purchasers of the Company's stock during the period from August 5, 2003 to March 30, 2005 (the "Class Period"). The lawsuit asserts, among other things, violations of the federal securities laws arising out of the Company's allegedly false and misleading statements about its financial condition and the nature of the arrangements entered into by MBIA Corp. in connection with the AHERF loss. The plaintiffs allege that, as a result of these misleading statements or omissions, the Company's stock traded at artificially inflated prices throughout the Class Period.

The defendants, including the Company, filed motions to dismiss this lawsuit on various grounds. On February 13, 2007, the Court granted those motions, and dismissed the lawsuit in its entirety, on the grounds that plaintiffs' claims are barred by the applicable statute of limitations. The Court did not reach the other grounds for dismissal argued by the Company and the other defendants. On November 12, 2008, the United States Court of Appeals for the Second Circuit affirmed the Court's dismissal on statute of limitations grounds, but remanded the case to allow the plaintiffs to file an amended complaint. The Second Consolidated Amended Class Action Complaint was filed on February 18, 2009. The defendants filed their renewed motion to dismiss on April 17, 2009, and on September 24, 2009, the Court granted that motion and dismissed plaintiffs' complaint with prejudice. On November 2, 2009, the plaintiffs filed a Notice of Appeal signaling their intent to file an appeal of the dismissal order with the United States Court of Appeals for the Second Circuit.

On October 17, 2008, a consolidated amended class action complaint in a separate shareholder class action lawsuit against the Company and certain of its officers, In re MBIA Inc. Securities Litigation, No. 08-CV-264, (KMK) (the "Consolidated Class Action") was filed in the United States District Court for the Southern District of New York, alleging violations of the federal securities laws. Lead plaintiff, the Teachers' Retirement System of Oklahoma, seeks to represent a class of shareholders who purchased MBIA stock between July 2, 2007 and January 9, 2008. The amended complaint alleges that defendants MBIA Inc., Gary C. Dunton and C. Edward Chaplin violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Among other things, the complaint alleges that defendants issued false and misleading statements with respect to the Company's exposure to CDOs containing RMBS, specifically its exposure to so-called "CDO-squared" securities, which allegedly caused the Company's stock to trade at inflated prices. Defendants' motion to dismiss is fully briefed. No oral argument has been scheduled to date.

On February 13, 2008, a shareholder derivative lawsuit against certain of the Company's present and former officers and directors, and against the Company, as nominal defendant, entitled Trustees of the Police and Fire Retirement System of the City of Detroit v. Clapp et al., No. 08-CV-1515, (the "Detroit Complaint"), was filed in the United States District Court for the Southern District of New York. The gravamen of the Detroit Complaint is similar to the aforementioned Consolidated Class Action, except that the legal claims are against the directors for breach of fiduciary duty and related claims. The Detroit Complaint purports to relate to a so-called "Relevant Time Period" from February 9, 2006, through the time of filing of the complaint. A Special Litigation Committee of two independent directors of MBIA Inc. (the "SLC") has determined after a good faith and thorough investigation that pursuit of the allegations set out in the Detroit Complaint is not in the best interests of MBIA and its shareholders. On January 23, 2009, the SLC served a motion to dismiss the Detroit Complaint.

On August 11, 2008, a shareholder derivative lawsuit entitled Crescente v. Brown et al., No. 08-17595 (the "Crescente Complaint") was filed in the Supreme Court of the State of New York, County of Westchester against certain of the Company's present and former officers and directors, and against the Company, as nominal defendant. The gravamen of this complaint is similar to the Detroit Complaint except that the time period assertedly covered is from January, 2007, through the time of filing of this complaint. The derivative plaintiff has agreed to stay the action pending the outcome of the SLC's motion to dismiss the Detroit Complaint.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against the Company and others. The first complaint, against the Company, AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition.

These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. MBIA's demurrers and other responsive pleadings are due November 13, 2009. These cases are now coordinated as Ambac Bond Insurance Cases in San Francisco Superior Court. On April 8, 2009, The Olympic Club filed a complaint against the Company in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged the Company's financial condition, and of a failure to adequately disclose the impact of those transactions on the Company's financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including the Company, AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation In re Municipal Derivatives Antitrust Litigation, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws.

The Company has received subpoenas or informal inquiries from a variety of regulators, including the SEC, the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states' regulatory authorities, regarding a variety of subjects, including disclosures made by the Company to underwriters and issuers of certain bonds, disclosures regarding the Company's structured finance exposure, trading and valuation of managed collateral, the Company's communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. The Company is cooperating fully with each of these regulators and is in the process of satisfying all such requests. The Company may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On September 30, 2008, MBIA Corp. commenced an action in the New York State Supreme Court against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, "Countrywide"). The complaint alleged that Countrywide fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit and closed end second liens by misrepresenting the true risk profile of the underlying collateral and Countrywide's adherence to its strict underwriting standards and guidelines. The complaint also alleged that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide's motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. All parties have filed Notices of Appeal and defendants filed their answer to the complaint on August 3, 2009. On August 24, 2009, MBIA Corp. filed an amended complaint, adding Bank of America as a defendant, identifying an additional five securitizations and supplementing the facts in support of our re-asserted negligent misrepresentation claim to address the points made by Justice Bransten in her decision granting the motion to dismiss that claim. On October 9, 2009, defendants filed a renewed motion to dismiss. Our response was filed on November 3, 2009, and defendants' reply is due November 10, 2009. Oral argument is scheduled for December 9, 2009.

On July 10, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc, Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities

(USA) Inc., UBS Securities, LLC, and various Countrywide-affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities. On November 3, 2009, MBIA Corp. filed an amended complaint.

On October 15, 2008, MBIA Corp. commenced an action in the United States District Court for the Southern District of New York against Residential Funding Company, LLC ("RFC"). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and HELOC securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other things. RFC's motion to dismiss has been fully briefed and argued.

In its determination of expected ultimate insurance losses on financial guarantee contracts, the Company has considered the probability of potential recoveries arising out of the contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans in certain second-lien mortgage securitizations, which include potential recoveries that may be affected by the legal actions against Countrywide and RFC. However, there can be no assurance that the Company will prevail in either the Countrywide or RFC actions.

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the FDIC with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and post-receivership amounts owed to MBIA as a result of IndyMac's contractual breaches and fraud in connection with financial guaranty insurance issued by MBIA on securitizations of home equity lines of credit. The proofs of claim were subsequently denied by the FDIC. MBIA has appealed the FDIC's denial of its proofs of claim via a complaint, filed on May 29, 2009, against IndyMac Bank, F.S.B. and the FDIC, as receiver, in the United States District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit by breaching contractual representations and warranties as well as negligently and fraudulently misrepresenting the nature of the loans in the securitization pools and IndyMac's adherence to its strict underwriting standards and guidelines. The FDIC moved to dismiss MBIA's non-contract based claims on September 2, 2009. On October 9, 2009, MBIA filed its response brief. The FDIC's response is due November 9, 2009.

On September 22, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against IndyMac ABS, Inc., Home Equity Mortgage Loan Asset-Backed Trust, Series 2006-H4, Home Equity Mortgage Loans Asset-Backed Trust, Series INDS 2007-I, Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-2, Credit Suisse Securities (USA), L.L.C., UBS Securities, LLC, JPMorgan Chase & Co., Michael Perry, Scott Keys, Jill Jacobson, and Kevin Callan. The Complaint alleges that IndyMac Bank made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities. On October 19, 2009, MBIA dismissed IndyMac ABS, Inc. from the action without prejudice. On October 23, 2009, defendants removed the case to the United States District Court for the Central District of California.

On April 30, 2009, MBIA Corp. and LaCrosse Financial Products commenced an action in the Supreme Court of the State of New York against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International. The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven CDS contracts pursuant to which MBIA wrote protection in favor of Merrill and other parties on a total of $5.7 billion in collateralized debt obligations arranged and marketed by Merrill. The complaint also seeks rescission of the CDS contracts. Merrill's motion to dismiss the amended complaint has been fully briefed, and oral argument is scheduled for November 17, 2009.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against the Company and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance polices issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. Defendants' motion to dismiss the complaint is fully briefed. Oral argument is scheduled for November 17, 2009.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants' motion to dismiss the complaint was fully briefed and oral argument was heard on October 5, 2009. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against the Company and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. At a conference on October 2, 2009, the judge hearing the matter indicated his intention to deny defendants' motion to dismiss, however, no written decision has yet been issued. At a separate conference on November 6, 2009, the judge indicated he may refrain from issuing a decision until he has had an opportunity to review the submission of the New York State Department of Insurance in the Article 78 proceeding (see next paragraph) which is currently due November 24, 2009. If and to the extent that the judge issues a ruling consistent with his statements at the October 2, 2009 conference, MBIA intends to promptly appeal it to the Appellate Division of the New York State Supreme Court.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, the Company argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA's and the New York State Insurance Department's answering papers to the Article 78 Petition are due November 24, 2009.

The Company intends to vigorously defend against the aforementioned actions in which it is a defendant and against other potential actions, and the Company does not expect the outcome of these matters to have a materially adverse effect on its business, results of operations or financial condition. The Company cannot provide assurance, however, that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on its business, results of operations or financial condition.

There are no other material lawsuits pending or, to the knowledge of the Company, threatened, to which the Company or any of its subsidiaries is a party.

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Item 1A. Risk Factors

There has been no material change in the Company's risk factors during the nine months ended September 30, 2009. For additional information on risk factors, refer to Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 1B. Unresolved Staff Comments

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents repurchases made by the Company in each month during the third quarter of 2009:

Month	Total Number of Shares Purchased [1][2]	Average Price Paid Per Share	Total Amount Purchased as Part of Publicly Announced Plan [1]	Maximum Amount That May Be Purchased Under the Plan (in thousands) [1]
July	—	$ —	—	$ 115,077
August	4,340	5.11	—	115,077
September	—	—	—	115,077

(1) - In February 2007, the Company's Board of Directors authorized the repurchase of common stock up to $1 billion under a new share repurchase program, which superseded the previously authorized program. During the latter part of 2007, the Company decided to suspend the repurchase program in light of concerns and uncertainties regarding the housing market. In August 2008, the Company's Board of Directors approved the resumption of the $1 billion share repurchase program.

(2) - 4,340 shares were repurchased by the Company for settling awards under the Company's long-term incentive plans.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Additional Exhibits - National Public Finance Guarantee Corporation Financial Statements

99.2 Additional Exhibits - MBIA Insurance Corporation and Subsidiaries Consolidated Financial Statements

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MBIA INC.
Registrant

Date: November 9, 2009

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer

Date: November 9, 2009

/s/ Douglas C. Hamilton
Douglas C. Hamilton
Controller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph W. Brown, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Joseph W. Brown
Joseph W. Brown
Chief Executive Officer
November 9, 2009

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Edward Chaplin, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer
November 9, 2009

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Brown, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph W. Brown
Joseph W. Brown
Chief Executive Officer
November 9, 2009

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Edward Chaplin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer
November 9, 2009

Exhibit 99.1

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

FINANCIAL STATEMENTS

As of September 30, 2009 and December 31, 2008
and for the periods ended September 30, 2009 and 2008

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

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NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
BALANCE SHEETS (Unaudited)
(In thousands except per share amounts)

	September 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale,at fair value (amortized cost $3,126,084 and $98,827)	$ 3,210,665	$ 105,467
Investments pledged as collateral, at fair value (amortized cost $1,678,886 and $0)	1,706,936	-
Short-term investments, at fair value (amortized cost $433,088 and $80,984)	437,793	81,675
Total investments	5,355,394	187,142
Cash and cash equivalents	87,204	6,386
Securities purchased under agreements to resell	1,675,000	-
Accrued investment income	60,645	1,156
Deferred acquisition costs	686,313	-
Premiums receivable	363,747	-
Prepaid reinsurance premiums	9	453
Insurance loss recoverable	36,768	-
Goodwill	31,371	-
Receivable for investments sold	137,752	3
Current income taxes	1,723	-
Deferred income taxes, net	-	3,197
Other assets	395	56
Total assets	$ 8,436,321	$ 198,393
Liabilities and shareholder's equity		
Liabilities:		
Unearned premium revenue	$ 3,410,222	$ 453
Loss and loss adjustment expense reserves	219,036	-
Securities sold under agreements to repurchase	1,676,284	-
Current income taxes	-	1,162
Deferred income taxes, net	143,960	-
Deferred fee revenue	13,860	-
Payable for investments purchased	224,259	-
Derivative liabilities	9,246	-
Other liabilities	33,678	25
Total liabilities	5,730,545	1,640
Commitments and contingencies (See Note 16)		
Shareholder's equity:		
Common stock, par value $30 per share; authorized, issued and outstanding shares — 500,000	15,000	5,000
Additional paid-in capital	2,368,761	200,897
Retained earnings (deficit)	245,747	(13,909)
Accumulated other comprehensive income (loss), net of deferred income tax of $41,068 and $2,566	76,268	4,765
Total shareholder's equity	2,705,776	196,753
Total liabilities and shareholder's equity	$ 8,436,321	$ 198,393

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATEMENTS OF OPERATIONS (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 96,363	$ -	$ 314,035	$ -
Refunding premiums earned	46,494	-	111,669	-
Premiums earned (net of ceded premiums of $20, $34, $46 and $95)	142,857	-	425,704	-
Net investment income	60,912	1,898	152,040	5,866
Fees and reimbursements	1,001	-	1,578	-
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	200	-	386	-
Unrealized gains (losses) on insured derivatives	(11)	-	(178)	-
Net change in fair value of insured derivatives	189	-	208	-
Net realized gains (losses)	(330)	1,460	6,689	2,452
Total revenues	204,629	3,358	586,219	8,318
Expenses:				
Losses and loss adjustment	28,708	-	91,706	-
Amortization of deferred acquisition costs	33,122	-	89,855	-
Operating	11,014	244	39,379	427
Total expenses	72,844	244	220,940	427
Income before income taxes	131,785	3,114	365,279	7,891
Provision for income taxes	38,322	568	105,623	1,439
Net income	$ 93,463	$ 2,546	$ 259,656	$ 6,452

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (Unaudited)
For the Nine Months Ended September 30, 2009
(In thousands except per share amounts)

	Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Income (Loss)	Total Shareholder's Equity
Balance, January 1, 2009	500,000	$ 5,000	$ 200,897	$ (13,909)	$ 4,765	$ 196,753
Increase in par value of common shares	-	10,000	-	-	-	10,000
Comprehensive income:						
Net income	-	-	-	259,656	-	259,656
Other comprehensive loss:						
Change in unrealized gains and losses on investments, net of deferred income taxes of $38,502	-	-	-	-	71,503	71,503
Total comprehensive income						331,159
Capital contribution from parent	-	-	2,167,798	-	-	2,167,798
Share-based compensation, net of deferred income taxes of $147	-	-	66	-	-	66
Balance, September 30, 2009	500,000	$15,000	$2,368,761	$ 245,747	$ 76,268	$2,705,776

	2009
Disclosure of reclassification amount:	
Change in unrealized gains and losses on investments arising during the period, net of taxes	$ 71,731
Reclassification adjustment, net of taxes	(228)
Change in net unrealized gains and losses, net of taxes	$ 71,503

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 259,656	$ 6,452
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization of bond discounts (premiums), net	10,915	146
(Increase) decrease in accrued investment income	(59,489)	(361)
Increase in deferred acquisition costs	(686,313)	-
Increase (decrease) in unearned premium revenue	3,409,769	(90)
Decrease in prepaid reinsurance premiums	444	90
Increase in premiums receivable	(363,747)	-
Increase in loss and loss adjustment expense reserves	219,036	-
Increase in payable to affiliates	26,200	2,821
Increase in insurance loss recoverable	(36,768)	-
Increase in deferred fee revenue	13,860	-
Increase (decrease) in accrued expenses	7,457	(2,452)
Net realized gains	(6,689)	-
Unrealized losses on insured derivatives	178	-
Decrease in current income taxes	(3,032)	(190)
Deferred income tax provision	108,655	
Share-based compensation	213	-
Other, operating	9,517	(495)
Total adjustments to net income	2,650,206	(531)
Net cash provided by operating activities	2,909,862	5,921
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(6,148,720)	(52,623)
Increase in payable for investments purchased	224,259	-
Sale of fixed-maturity securities	1,282,314	59,858
(Increase) decrease in receivable for investments sold	(137,749)	4
Redemption of fixed-maturity securities	164	32
Purchase of short-term investments, net	(195,739)	(13,194)
Net cash used by investing activities	(4,975,471)	(5,923)
Cash flows from financing activities:		
Capital contribution from parent	2,146,427	-
Net cash provided by financing activities	2,146,427	-
Net increase (decrease) in cash and cash equivalents	80,818	(2)
Cash and cash equivalents - beginning of period	6,386	8
Cash and cash equivalents - end of period	$ 87,204	$ 6
Supplemental cash flow disclosures:		
Interest paid:		
Securities sold under agreements to repurchase	$ 1,779	$ -
Other	$ 866	$ -
Non cash items:		
Share-based compensation	$ 213	$ -

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

National Public Finance Guarantee Corporation
Notes to Financial Statements (Unaudited)

Note 1: Business and Organization

National Public Finance Guarantee Corporation ("National") is a wholly owned subsidiary of MBIA Inc. through an intermediary holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"). Prior to February 17, 2009, National, previously named MBIA Insurance Corporation of Illinois ("MBIA Illinois"), was a wholly owned subsidiary of MBIA Insurance Corporation. In February 2009, after receiving the required regulatory approvals, MBIA Insurance Corporation transferred the stock of MBIA Illinois to National Holdings. Additionally, National was further capitalized with approximately $2.1 billion from funds distributed by MBIA Insurance Corporation to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through National Holdings. As of September 30, 2009, National was rated A with a developing outlook by Standard & Poor's Corporation ("S&P") and Baa1 with a developing outlook by Moody's Investors Service, Inc. ("Moody's").

In February 2009, National and MBIA Insurance Corporation entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Insurance Corporation ceded all of its United States ("U.S.") public finance exposure to National and into an assignment agreement under which MBIA Insurance Corporation assigned its rights and obligations with respect to the U.S. public finance business that MBIA Insurance Corporation assumed from Financial Guaranty Insurance Corporation ("FGIC"). The exposure transferred to National under the reinsurance and assignment agreements totaled $554 billion of net par outstanding. The reinsurance and assignment enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of these agreements.

To provide additional protection to its policyholders, National also issued second-to-pay policies for the benefit of the policyholders covered by the above reinsurance and assignment agreements. These second-to-pay policies, which are direct obligations of National, are held by a trustee and provide that if MBIA Insurance Corporation or FGIC, as applicable, do not pay valid claims of their policyholders, the policyholders will then be able to make claims directly against National.

The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National's acceleration. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

Liquidity

Liquidity risk arises in National's operations when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

National's financial guarantee contracts cannot be accelerated by the counterparty in the ordinary course of business, unless National elects to do so, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions which National is currently experiencing, can create payment requirements as National has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, National requires cash for the payment of operating expenses. Finally, National also provides liquid assets to MBIA Inc. asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position.

Note 2: Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of National 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. The accompanying 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 (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of National's financial position and results of operations.

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

The results of operations for the three and nine months ended September 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009. The December 31, 2008 balance sheet was derived from the financial statements of MBIA Illinois.

In addition, National evaluated all events subsequent to September 30, 2009 through November 9, 2009 for inclusion in National's financial statements and/or accompanying notes.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

National recognizes and measures financial guarantee insurance premiums in accordance with the accounting guidance for financial guarantee insurance and reinsurance contracts. The accounting guidance requires National to recognize a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, National receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, National receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums is recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. National has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. National reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in "Note 4: Insurance Premiums." National assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense and discloses the amount recognized in "Note 4: Insurance Premiums." As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

National recognizes and measures premium revenue over the period of the insurance contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is determined as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through legal defeasance in satisfaction of the obligation according to its indenture, which results in National's obligation being extinguished under the financial guarantee contract. National recognizes any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in National's balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Loss and Loss Adjustment Expenses

The accounting guidance for financial guarantee insurance and reinsurance contracts requires a claim liability (loss reserve) to be recognized on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A claim liability is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the claim liability are recognized as claim expense in the period of change. Measurement and recognition of the claim liability is reported gross of any reinsurance. National estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability is included in claim expense. National's claim liability and accruals for loss adjustment expenses ("LAE") incurred are disclosed in "Note 8: Loss and Loss Adjustment Expense Reserves."

Investments

National classifies its fixed-maturity investments as available-for-sale in accordance with accounting principles for certain investments in debt and equity securities. Available-for-sale investments are reported in the balance sheets at fair value with unrealized gains and losses, net of deferred taxes, reflected in accumulated other comprehensive income (loss) in shareholder's equity. Bond discounts and premiums are amortized using the effective yield method over the remaining term of the securities. For bonds purchased at a price above par value that also have call features, premiums are amortized to the call date that produces the lowest yield. For mortgage-backed and asset-backed securities ("ABSs"), discounts and premiums are adjusted quarterly for the effects of actual and expected prepayments on a retrospective basis. For pre-refunded bonds, the remaining term is determined based on the contractual refunding date. Investment income is recorded as earned. Realized gains or losses on the sale of investments are determined by utilizing the first-in, first-out method to identify the investments sold and are included as a separate component of revenues.

Short-term investments are carried at fair value, and include all fixed-maturity securities with a remaining effective term to maturity of less than one year, commercial paper and money market securities.

Other-Than-Temporary Impairments on Investment Securities

At each balance sheet date, National evaluates its investments for which fair value is less than amortized cost to determine whether the decline in value is other–than-temporary.

An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

- The security's current fair value is less than current book value by a magnitude of 5% or greater, and the fair value has been less than book value by at least 5% for a period of greater than 12 months; or
- the security's fair value is less than current book value by a magnitude of 20% or greater.

If any of the above criteria are met, further analysis is performed to determine whether the impairment is other-than-temporary. For available-for-sale securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected using National's cash flow projections.

National's statement of operations reflects the full impairment (the difference between a security's amortized cost basis and fair value) on debt securities that National intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks with original maturities of less than 90 days.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized transactions and are recorded at contract value plus accrued interest, subject to the provisions of the accounting principles for the transfers and servicing of financial assets and extinguishments of liabilities.

These transactions are entered into with MBIA Inc. in connection with MBIA Inc.'s asset/liability products activity. It is National's policy to take possession of securities used to collateralize such transactions with MBIA Inc. National minimizes the credit risk that MBIA Inc. might be unable to fulfill its contractual obligations by monitoring MBIA Inc.'s credit exposure and collateral value and requiring additional collateral to be deposited with National when deemed necessary.

Policy Acquisition Costs

Policy acquisition costs include those expenses that relate primarily to, and vary with, the acquisition of new insurance business. National periodically conducts a study to determine which operating costs have been incurred to acquire new insurance business and qualify for deferral. For business produced directly by National, such costs include compensation of employees involved in underwriting and policy issuance functions, certain rating agency fees, state premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Policy acquisition costs also include ceding commissions paid by National in connection with assuming business from other financial guarantors. Policy acquisition costs, net of ceding commissions received, related to non-derivative insured financial guarantee transactions are deferred and amortized over the period in which the related premiums are earned.

Goodwill

Goodwill represents the excess of the cost of acquiring a business enterprise over the fair value of the net assets acquired. Under the accounting guidance for goodwill and other intangible assets, goodwill is tested for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating segment is less than its carrying value.

As a result of the aforementioned capitalization of National and the reinsurance and assignment agreements entered into with MBIA Insurance Corporation in February 2009, $31 million of goodwill was allocated to National based on the relative fair values of National and MBIA Insurance Corporation. National's annual impairment testing of goodwill will be performed on January 1, 2010.

Fair Value Measurements – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, National uses various valuation approaches, including both market and income approaches. 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 National believes that market participants would use in pricing the asset or liability developed based on market data. Unobservable inputs are those that reflect National's beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that National has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment. Assets utilizing Level 1 inputs generally include U.S. Treasuries and money market securities.
- 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. Assets and liabilities utilizing Level 2 inputs include: U.S. government and agency mortgage-backed securities ("MBSs"); foreign government bonds; derivatives; corporate and municipal bonds; and certain MBSs.
- 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, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of activity in a market contributes to the determination of whether an input is observable. An active market is one in which transactions for an asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. In determining whether a market is active or inactive, National considers the following traits to be indicative of an active market:

- transactions are frequent and observable;
- prices in the market are current;
- price quotes among dealers do not vary significantly over time; and
- sufficient information relevant to valuation is publicly available.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, National's own assumptions are set to reflect those that it believes market participants would use in pricing the asset or liability at the measurement date. National uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. National has also taken into account its own nonperformance risk and that of its counterparties when measuring fair value.

Refer to "Note 5: Fair Value of Financial Instruments" for additional fair value disclosures.

Income Taxes

National is included in the consolidated tax return of MBIA Inc. The tax provision for National for financial reporting purposes is determined on a stand-alone basis.

Deferred income taxes are recorded with respect to the temporary differences between the tax bases of assets and liabilities and the reported amounts in National's financial statements that will result in deductible or taxable amounts in future years when the reported amounts of assets and liabilities are recovered or settled. Such temporary differences relate principally to premium revenue recognition, deferred acquisition costs, unrealized appreciation or depreciation of investments and derivatives, and National's statutory contingency reserve. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates in the period in which changes are approved by the relevant authority.

The Internal Revenue Code permits companies writing financial guarantee insurance to deduct from taxable income amounts added to the statutory contingency reserve, subject to certain limitations. The tax benefits obtained from such deductions must be invested in non-interest-bearing U.S. government tax and loss bonds. National records purchases of tax and loss bonds as payments of federal income taxes. The amounts deducted must be restored to taxable income when the contingency reserve is released, at which time National may present the tax and loss bonds for redemption to satisfy the additional tax liability.

Refer to "Note 9: Income Taxes" for additional information about National's income taxes.

Fee and Reimbursement Revenue Recognition

National collects insurance related fees for services performed in connection with certain transactions. In addition, National may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees are earned when the related services are completed and the fee is received. Structuring fees are earned on a straight-line basis over the life of the related insurance policy. Expense reimbursements are recognized when received.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the Accounting Standards Codification ("Codification") and the hierarchy of generally accepted accounting principles (Accounting Standards Codification ("ASC") 105-10). The Codification is now the single source of authoritative GAAP applied by nongovernmental entities and supersedes all existing non-Securities Exchange Commission accounting and reporting standards. The Codification is effective for National for financial statements issued for interim and annual periods ending after September 15, 2009. National adopted this guidance as of the third quarter of 2009. The Codification is not intended to change GAAP but rather reorganize divergent accounting literature into an accessible and user-friendly system which materially impacts cited references of GAAP in National's Notes to Financial Statements.

In May 2009, the FASB issued accounting guidance for subsequent events (ASC 855-10), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. The new guidance was effective for National in the interim and annual periods ending after June 15, 2009 and should be applied prospectively. National adopted this standard as of the second quarter of 2009. The adoption of this guidance did not have an effect on National's balance sheets, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance that amends fair value measurements and disclosures (ASC 820-10) for determining the fair value when the volume and level of activity for the asset or liability have significantly decreased and for identifying transactions that are not orderly. This standard provides additional guidance to highlight and expand on the factors that should be considered when there has been a significant decrease in market activity for a financial asset or financial liability being measured. The accounting guidance also provides additional factors that entities should consider to determine whether events or circumstances indicate that a transaction is or is not orderly (i.e., distressed). National adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on National's balance sheets, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance for debt and equity investment securities (ASC 320-10) which amends the recognition criteria for other-than-temporary impairment guidance to improve the presentation of other-than-temporary impairments in the financial statements. This guidance replaced the requirement that the entity's management assert it has both the ability and intent to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security and (b) it is more likely than not it would not have to sell the security before recovery of its cost basis. When these two criteria are met, the entity will recognize only the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. National adopted this standard as of the second quarter of 2009. The adoption of this guidance did not result in a cumulative-effect adjustment nor did it have a material effect on National's balance sheets, results of operations or cash flows. Refer to "Note 7: Investment Income and Gains and Losses" for further information on National's investment securities and other-than-temporary impairments.

In April 2009, the FASB issued accounting guidance for interim disclosures about financial instruments (ASC 825-10) to require disclosures about the fair value of financial instruments in interim and annual financial statements, and the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The accounting guidance also requires those disclosures in all interim financial statements (ASC 270-10). National adopted this standard in the second quarter of 2009. As the guidance requires only additional disclosures, the adoption did not have an impact on National's balance sheets, results of operations or cash flows. Refer to "Note 5: Fair Value of Financial Instruments" for further information.

In May 2008, the FASB issued accounting guidance for financial guarantee insurance and reinsurance contracts issued by insurance enterprises (ASC 944-20) effective prospectively as of January 1, 2009. This accounting guidance amends accounting and reporting by insurance enterprises to clarify how existing guidance applies to financial guarantee insurance and reinsurance contracts. The accounting guidance amends the recognition and measurement of premium revenue and claim liabilities, and expands disclosure requirements. Recognition and measurement of unearned premium revenue and receivable for future premiums are also amended. The accounting guidance does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of derivatives and hedging (ASC 815-10). Refer to "Note 4: Insurance Premiums" for disclosures related to premiums and "Note 8: Loss and Loss Adjustment Expense Reserves" for disclosures related to loss reserves.

In December 2008, the FASB issued accounting guidance for transfers of financial assets (ASC 860-10) and interests in variable interest entities ("VIEs") (ASC 810-10) which requires enhanced disclosures about transfers of financial assets and involvement with VIEs. National adopted this guidance for financial statements prepared as of December 31, 2008 and is effective for interim reporting periods ending after January 1, 2010. Since the guidance only requires additional disclosures concerning transfers of financial assets and interests in VIEs, the adoption did not affect National's balance sheets, results of operations or cash flows.

In February 2008, the FASB issued accounting guidance for fair value measurements and disclosures (ASC 820-10) that delayed the effective date to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption on January 1, 2009 did not have a material impact on National's balance sheets, results of operations or cash flows.

Recent Accounting Developments

In August 2009, the FASB issued Accounting Standards Update No. ("ASU") 2009-05 for measuring liabilities at fair value to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, National should not make an adjustment to fair value for restrictions that prevent the transfer of a liability. The new guidance is effective for National as of December 31, 2009. National is currently evaluating the potential impact of adopting this guidance.

In June 2009, the FASB issued FASB Statement No. 167, which has not yet been incorporated into the Codification, to include qualifying special purpose entities ("QSPEs") in its scope and to require the holder of a variable interest(s) in a VIE to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that provides a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. The accounting guidance eliminates the quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance will require an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE and is effective for National as of January 1, 2010. Earlier application is prohibited. National is currently evaluating the potential impact of adopting this guidance.

In June 2009 the FASB issued FASB Statement No. 166, which has not yet been incorporated into the Codification, to remove the concept of a QSPE. The accounting guidance also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. The accounting guidance requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The accounting guidance is effective for National as of January 1, 2010 and earlier application is prohibited. National is currently evaluating the potential impact of adopting this guidance.

Note 4: Insurance Premiums

National recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with the accounting principles for financial guarantee insurance contracts. Refer to "Note 2: Significant Accounting Policies" and "Note 3: Recent Accounting Pronouncements" for a description of National's accounting policy for insurance premiums.

As of September 30, 2009, National reported premiums receivable of approximately $364 million primarily related to installment policies for which premiums will be collected over the expected term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of remeasurement date. The weighted average risk-free rate used to discount future installment premiums was 2.72% and the weighted average expected collection term of the premiums receivable was 14.11 years. For the three and nine months ended September 30, 2009, the accretion of the premiums receivable was $2 million and $7 million, respectively, and is reported in "Scheduled premiums earned" on National's statements of operations.

The following table presents a roll forward of National's premiums receivable for the nine months ended September 30, 2009:

In millions	Nine Months Ended September 30, 2009						
			Adjustments				
Premiums Receivable as of December 31, 2008	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other	Premiums Receivable as of September 30, 2009	Reinsurance Premiums Payable as of September 30, 2009
$ -	$ (14)	$ 403	$ (18)	$ 7	$(14)	$ 364	$ -

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

In millions	Expected Collection of Premiums
Three months ended:	
December 31, 2009	8
Twelve months ended:	
December 31, 2010	22
December 31, 2011	22
December 31, 2012	24
December 31, 2013	21
Five years ended:	
December 31, 2018	102
December 31, 2023	89
December 31, 2028 and thereafter	229
Total	$ 517

For the three and nine months ended September 30, 2009, National reported premiums earned of $143 million and $426 million, respectively, which includes $96 million and $314 million of scheduled premiums earned and $47 million and $112 million of refunding premiums earned, respectively. Refunding premiums earned represent premiums earned on policies for which the underlying insured obligations have been refunded, called, or terminated and for which National's obligation has been extinguished.

The following table presents the unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

In millions	Unearned Premium Revenue	Expected Future Premium Earnings			Total Expected Future Premium Earnings
		Upfront	Installments	Accretion	
Three months ended:					
September 30, 2009	$3,410				
December 31, 2009	3,318	$ 87	$ 5	$ 2	$ 94
Twelve months ended:					
December 31, 2010	2,980	319	19	9	347
December 31, 2011	2,677	284	19	9	312
December 31, 2012	2,404	255	18	9	282
December 31, 2013	2,155	231	18	8	257
Five years ended:					
December 31, 2018	1,204	870	81	38	989
December 31, 2023	620	517	67	29	613
December 31, 2028 and thereafter	-	467	153	50	670
Total		$ 3,030	$ 380	$ 154	$ 3,564

Note 5: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on National's balance sheets as of September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
In millions	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Fixed-maturity securities and short-term investments, held as available-for-sale, and investments pledged as collateral	$ 5,355	$ 5,355	$ 187	$ 187
Cash and cash equivalents	87	87	6	6
Securities purchased under agreements to resell	1,675	1,882	-	-
Receivable for investments sold	138	138	-	-
Liabilities:				
Securities sold under agreements to repurchase	1,675	1,882	-	-
Payable for investments purchased	224	224	-	-
Derivative liabilities	9	9	-	-
Financial Guarantees:				
Gross	3,629	3,633	-	-
Ceded	0	97	-	-

Valuation Techniques

The valuation techniques for fair valuing financial instruments included in the preceding table are described below. National's assets and liabilities recorded at fair value have been categorized according to the fair value hierarchy prescribed by fair value measurements and disclosures. Refer to "Note 2: Significant Accounting Policies" for a description of the fair value hierarchy.

Fixed-Maturity Securities Held As Available-for-Sale

U.S. Treasury and government agency - U.S. Treasury securities are liquid and have quoted market prices. Fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced ("TBA") securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Corporate obligations - The fair value of corporate bonds is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swaps ("CDS") spreads and diversity scores as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Mortgage-backed securities and asset-backed securities - MBSs and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, MBSs and ABSs are valued as a function of cash flow models with observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). MBSs and ABSs are categorized in Level 2 as all significant inputs are observable.

State and municipal bonds - The fair value of state and municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or CDS spreads and volatility. These bonds are categorized in Level 2 of the fair value hierarchy.

Money market securities - The fair value of money market securities is based on quoted prices in an active market. These money market securities are categorized in Level 1 of the fair value hierarchy.

Cash and Cash Equivalents, Receivable for Investments Sold, Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold, and payable for investments purchased approximate their fair value as they are short-term in nature.

Securities Purchased Under Agreements to Resell

The fair value of securities purchased under agreements to resell are determined based on the underlying securities received that back the repurchase agreements.

Securities Sold Under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase are determined based on the underlying securities that back the repurchase agreements.

Derivatives

For insured swaps, the fair value is calculated using internally and vendor developed models with market-based inputs (e.g. interest rate, foreign exchange rate, spreads), and are classified as Level 2 within the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees - National estimates the fair value of its gross financial guarantee liability using a discounted cash flow model with significant inputs that include (i) an assumption of expected loss on financial guarantee policies for which case basis reserves have not been established, (ii) the amount of loss expected on financial guarantee policies for which case basis reserves have been established, (iii) the cost of capital reserves required to support the financial guarantee liability, and (iv) the discount rate. The Assured Guaranty Corp. CDS spread and recovery rates are used as the discount rate for National and incorporates the nonperformance risk of National. As National's gross financial guarantee liability represents its obligation to pay claims under its insurance policies, National's calculation of fair value does not consider future installment premium receipts or returns on invested upfront premiums as inputs.

The carrying value of National's gross financial guarantee liability consists of deferred premium revenue and loss and LAE reserves as reported on the National's balance sheets.

Ceded Financial Guarantees - National estimates the fair value of its ceded financial guarantee liability by calculating the portion of the gross financial guarantee liability that has been ceded to reinsurers. The carrying value of ceded financial guarantee liability consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on National's balance sheets.

Fair Value Measurements

The following fair value hierarchy tables present information about National's assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008:

	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)	Balance as of September 30, 2009
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 221	$ 13	$ -	$ 234
Corporate obligations	-	511	-	511
Mortgage-backed securities				
Residential mortgage-backed agency	-	1,655	-	1,655
Asset-backed securities				
Other asset-backed	-	12	-	12
Total	221	2,191	-	2,412
State and municipal bonds:				
Tax-exempt bonds	-	2,270	-	2,270
Taxable bonds	-	437	-	437
Total state and municipal bonds	-	2,707	-	2,707
Total fixed-maturity investments	221	4,898	-	5,119
Other investments:				
Money market securities	236	-	-	236
Total other investments	236	-	-	236
Total assets	$ 457	$ 4,898	$ -	$ 5,355
Liabilities:				
Derivative liabilities	$ -	$ 9	$ -	$ 9
Total liabilities	$ -	$ 9	$ -	$ 9

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)	Balance as of December 31, 2008
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 115	$ -	$ -	$ 115
Corporate obligations	-	1	-	1
Mortgage-backed securities				
Residential mortgage-backed agency	-	9	-	9
Total	115	10	-	125
State and municipal bonds:				
Tax-exempt bonds	-	62	-	62
Other investments:				
Money market securities	-	-	-	-
Total assets	$ 115	$ 72	$ -	$ 187
Liabilities:				
Total liabilities	$ -	$ -	$ -	$ -

Note 6: Investments

National's fixed-maturity portfolio consists of high-quality (average rating double-A) taxable and tax-exempt investments of diversified maturities. Other investments comprise money market securities. The following tables present the amortized cost and fair value of available-for-sale fixed-maturity and other investments included in the investment portfolio of National as of September 30, 2009 and December 31, 2008:

In millions	September 30, 2009: Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 228	$ 6	$ -	$ 234
Corporate obligations	493	19	(1)	511
Mortgage-backed securities				
Residential mortgage-backed agency	1,607	48	-	1,655
Asset-backed securities				
Other asset-backed	12	-	-	12
Total	2,340	73	(1)	2,412
State and municipal bonds:				
Tax-exempt bonds	2,238	49	(17)	2,270
Taxable bonds	424	14	(1)	437
Total state and municipal bonds	2,662	63	(18)	2,707
Total fixed-maturity investments	5,002	136	(19)	5,119
Other investments:				
Money market securities	236	-	-	236
Total other investments	236	-	-	236
Total available-for-sale investments	$ 5,238	$ 136	$ (19)	$ 5,355

	December 31, 2008			
In millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 106	$ 9	$ -	$ 115
Corporate obligations	1	-	-	1
Mortgage-backed securities				
Residential mortgage-backed agency	9	-	-	9
Total	116	9	-	125
State and municipal bonds:				
Tax-exempt bonds	64	1	(3)	62
Total state and municipal bonds	64	1	(3)	62
Total available-for-sale investments	$ 180	$ 10	$ (3)	$ 187

Fixed-maturity investments carried at fair value of $4 million as of September 30, 2009 and December 31, 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of September 30, 2009. Contractual maturity may differ from expected maturity because borrowers may have the right to call or prepay obligations.

In millions	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 232	$ 236
Due after one year through five years	580	603
Due after five years through ten years	301	310
Due after ten years through fifteen years	174	176
Due after fifteen years	2,096	2,127
Mortgage-backed	1,607	1,655
Asset-backed	12	12
Total fixed-maturity investments	$ 5,002	$ 5,119

Included in the preceding tables are investments that have been insured by National and MBIA Insurance Corp. ("MBIA-Insured Investments"). As of September 30, 2009, MBIA-Insured Investments at fair value represented $363 million or 7% of National's total portfolio. Without giving effect to the guarantee of the MBIA-Insured Investments, the underlying ratings (those given to an investment without the benefit of the guarantee) of the MBIA-Insured Investments as of September 30, 2009 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the guarantee. The ratings in the following table are based on ratings from Moody's. Alternate rating sources, such as S&P, are used for a small percentage of securities that are not rated by Moody's. When an external underlying rating is not available, the underlying rating is based on National's best estimate of the rating of such investment.

In millions	**Fair Value**
Aaa	$ -
Aa	75
A	173
Baa	114
Below Investment Grade	1
Total	$ 363

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of September 30, 2009 and December 31, 2008 related to available-for-sale fixed-maturity investments. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	September 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
In millions	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Taxable bonds:						
Corporate obligations	$ 24	$ (1)	$ 35	$ -	$ 59	$ (1)
Mortgage-backed securities						
Residential mortgage-backed agency	50	-	2	-	52	-
Asset-backed securities						
Other asset-backed	4	-	-	-	4	-
Total	78	(1)	37	-	115	(1)
State and municipal bonds						
Tax-exempt bonds	37	-	330	(17)	367	(17)
Taxable bonds	-	-	21	(1)	21	(1)
Total state and municipal bonds	37	-	351	(18)	388	(18)
Total available-for-sale fixed-maturity investments	$ 115	$ (1)	$ 388	$ (18)	$ 503	$ (19)

	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
In millions	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
State and municipal bonds						
Tax-exempt bonds	$ 24	$ (1)	$ 19	$ (2)	$ 43	$ (3)
Total available-for-sale fixed-maturity investments	$ 24	$ (1)	$ 19	$ (2)	$ 43	$ (3)

As of September 30, 2009 and December 31, 2008, National's available-for-sale fixed-maturity and other investment portfolios' gross unrealized losses totaled $19 million and $3 million, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2009 and December 31, 2008 was 21 years and 18 years, respectively. As of September 30, 2009, there were 59 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $18 million. Among the 59 securities, the book value of 19 securities exceeded market value by more than 5%. As of December 31, 2008, there were 5 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $2 million. Among the 5 securities, the book value of 4 securities exceeded market value by more than 5%.

National has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, and whether National has the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recovery. Based on its evaluation, National determined that the unrealized losses on these securities were temporary in nature because its impairment analysis, including projected future cash flows, indicated that National would be able to recover the amortized cost of impaired assets. National also concluded that it does not have the intent to sell these securities and it is more likely than not that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, National examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources availability to its business other than sales of securities. It also considered the existence of any risk management, or other plans as of September 30, 2009 that would require the sale of impaired securities. On a quarterly basis, National will reevaluate the unrealized losses in its investment portfolios and determine whether an impairment loss should be realized in current earnings. Refer to "Note 2: Significant Accounting Policies" for a description of the process used by National to determine other-than-temporary impairments.

Note 7: Investment Income and Gains and Losses

The following table includes National's total investment income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2009	2008	2009	2008
Fixed-maturity	$ 54	$ 2	$ 138	$ 6
Short-term investments	1	0	1	0
Other investments	7	-	17	-
Gross investment income	62	2	156	6
Investment expenses	1	0	4	0
Net investment income	61	2	152	6
Fixed-maturity				
Gains	9	1	17	2
Losses	(9)	-	(10)	-
Net realized gains	0	1	7	2
Total investment income	$ 61	$ 3	$ 159	$ 8

Net realized gains (losses) from fixed-maturity investments are generated as a result of the ongoing management of all of National's investment portfolios for the three and nine months ended September 30, 2009 and 2008.

Net unrealized gains (losses), including related deferred income taxes, reported in accumulated other comprehensive income (loss) within shareholder's equity consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity		
Gains	$ 136	$ 10
Losses	(19)	(3)
Net	117	7
Deferred income tax provision (benefit)	41	2
Unrealized gains (losses), net	$ 76	$ 5

The change in net unrealized gains (losses) consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity	$ 110	$ 4
Deferred income tax charged (credited)	39	1
Change in unrealized gains (losses), net	$ 71	$ 3

Note 8: Loss and Loss Adjustment Expense Reserves

During the first nine months of 2009, National incurred $92 million of loss and LAE principally related to an affordable housing transaction and a student loan transaction. Total net paid activity for the nine months ended September 30, 2009 of $95 million primarily related to the remediation of an affordable housing transaction. Total expected insurance loss recoveries on paid losses for the nine months ended September 30, 2009 were $37 million and related to an affordable housing transaction.

National's Portfolio Surveillance Division ("PSD") monitors National's outstanding insured obligations with the objective of minimizing losses. PSD meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by National. In such cases, PSD works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. PSD works closely with National's Risk Management function and the applicable business unit to analyze insured obligation performance and credit risk parameters, both before and after an obligation is insured.

Once an obligation is insured, National typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to PSD for review. PSD also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. PSD also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

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

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

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

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

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

"Classified List" —Includes all insured obligations where National has paid a claim or where a claim payment is expected to exceed its unearned premium revenue. Generally, PSD is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

The following table provides information about the financial guarantees and related claim liability included in each of National's surveillance categories as of September 30, 2009:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	185	41	5	13	244
Number of issues [1]	14	10	4	9	37
Remaining weighted average contract period (in years)	12.2	12.9	9.6	4.1	11.0
Gross insured contractual payments outstanding:					
Principal	$ 1,738	$ 1,328	$ 150	$ 647	$3,863
Interest	1,880	1,217	80	156	3,333
Total	$ 3,618	$ 2,545	$ 230	$ 803	$7,196
Gross claim liability	$ -	$ -	$ -	$ 227	$ 227
Less:					
Gross potential recoveries	-	-	-	33	33
Discount, net	-	-	-	3	3
Net claim liability (recoverable)	$ -	$ -	$ -	$ 191	$ 191
Unearned premium revenue	$ 20	$ 25	$ 4	$ 2	$ 51

(1)- An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

The following table provides information about the components of National's insurance loss reserves and recoverable included in each of National's surveillance categories as of September 30, 2009:

	Surveillance Categories				
In millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Loss reserves (claim liability)	$ -	$ -	$ -	$ 191	$191
LAE reserves	-	-	-	28	28
Loss and LAE reserves	$ -	$ -	$ -	$ 219	$219
Insurance claim loss recoverable	$ -	$ -	$ -	$ 1	$ 1
LAE insurance loss recoverable	-	-	-	36	36
Insurance loss recoverable	$ -	$ -	$ -	$ 37	$ 37

The following table presents changes in National's loss and LAE reserve for the nine months ended September 30, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, and changes in the timing and amounts of estimated payments and recoveries are recorded in "Losses and loss adjustment expenses" in National's statement of operations. LAE reserves are expected to be settled within a one year period and are not discounted. As of September 30, 2009, the weighted average risk-free rate used to discount the claim liability was 1.264%.

In millions	Nine Months Ended September 30, 2009								
Gross Loss and LAE Reserves as of December 31, 2008	Gross Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Change in LAE Reserves	Gross Loss and LAE Reserves as of September 30, 2009
$ -	$ (7)	$ 2	$ 1	$ -	$ (2)	$ 198	$ (1)	$ 28	$ 219

The following table presents changes in National's insurance loss recoverable for the nine months ended September 30, 2009. Changes in the insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, and changes in the timing and amounts of estimated collections are recorded in "Loss and loss adjustment expenses" in National's statement of operations.

In millions	Nine Months Ended September 30, 2009							
Insurance Loss Recoverable as of December 31, 2008	Collections for Cases with an Insurance Loss Recoverable	Accretion of Insurance Loss Recoverable	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Collections	Changes in Assumptions	Change in LAE Recoverable	Insurance Loss Recoverable as of September 30, 2009
$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ 36	$ 37

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, National seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of a National-insured obligation may, with the consent of National, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with National insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to National's "Caution List—Low," "Caution List—Medium," "Caution List—High" and "Classified List" are recorded as LAE. LAE is recorded as part of National's provision for its loss reserves and included in "Losses and loss adjustment expense" on National's statement of operations. The following table provides information about the expenses (gross and net of reinsurance) related to remedial actions for insured obligations included in National's surveillance categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Loss adjustment expense incurred, gross	$ 28,245	$ -	$ 84,124	$ -
Loss adjustment expense incurred, net	$ 28,245	$ -	$ 84,124	$ -

Note 9: Income Taxes

National's income taxes and the related effective tax rates for the nine months ended September 30, 2009 and 2008 are as follows:

	Nine Months Ended September 30,			
In millions	2009		2008	
Pre-tax income (loss)	$ 365		$ 8	
Provision (benefit) for income taxes	$ 106	28.9%	$ 1	18.2%

Embedded in the effective tax rate for the nine months ended September 30, 2009 are the tax effects of National's expected operating activities such as scheduled premium earnings, fees, and net investment income and operating expenses. The increase in the effective tax rate related to pre-tax income from the nine months ended September 30, 2008 to 2009 was primarily a result of a decrease in amount of tax-exempt interest relative to underwriting and other income that is taxed at the statutory rate of 35%.

As of September 30, 2009, National reported a deferred tax liability of $144 million.

As of September 30, 2009, National does not have any uncertain tax positions with respect to the accounting guidance for uncertainty in income taxes. National is a member of MBIA Inc.'s consolidated U.S. tax group and its only tax jurisdiction is the U.S. The IRS is currently examining tax years 2005 through 2008.

Note 10: Net Insurance in Force

National's net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. National's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. The creditworthiness of each issuer of an insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with National's underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National's upon the payment of a claim by National.

National maintains underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. These include economic and social trends, debt and financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility. National also analyzes the quality of asset pools, as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for National's underwriting standards, as well as maintaining these standards in its insurance operations.

As of September 30, 2009, net insurance in force had an expected maturity range of 1- 47 years. The distribution of net insurance in force by geographic location respectively, is presented in the following table:

In billions	September 30, 2009	
Geographic Location	Net Insurance in Force	% of Net Insurance in Force
California	$ 152.7	18.1%
New York	78.6	9.3%
Florida	64.3	7.6%
Texas	52.1	6.2%
Illinois	49.6	5.9%
New Jersey	38.2	4.5%
Pennsylvania	30.1	3.6%
Washington	29.2	3.5%
Michigan	25.7	3.0%
Massachusetts	21.9	2.6%
Subtotal	542.4	64.3%
Nationally diversified	9.7	1.1%
Other states	292.3	34.6%
Total	$ 844.4	100.0%

The net insurance in force by type of bond is presented in the following table:

In billions	September 30, 2009	
Bond Type	Net Insurance in Force	% of Net Insurance in Force
General obligations	$ 303.8	36.0%
General obligations - lease	64.3	7.6%
Municipal utilities	151.5	17.9%
Tax-backed	105.9	12.5%
Transportation	85.8	10.2%
Higher education	47.3	5.6%
Health care	28.4	3.4%
Military housing	21.5	2.5%
Investor-owned utilities (1)	14.7	1.7%
Municipal housing	12.3	1.5%
Student loans	5.1	0.6%
Other (2)	3.8	0.5%
Total	$ 844.4	100.0%

(1)- Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2)- Includes certain non-profit enterprises and stadium related financing.

Under National's reinsurance agreement with MBIA Insurance Corporation, if a reinsurer of MBIA Insurance Corporation is unable to pay claims ceded by MBIA Insurance Corporation, National will assume liability for such ceded claim payments. As of September 30, 2009, the total amount for which National would be liable in the event that the reinsurers of MBIA Insurance Corporation are unable to meet their obligations is $25 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling $20 billion.

National has entered into certain guarantees of derivative contracts, included in the preceding tables, which do not qualify for the financial guarantee scope exception under the provisions of fair value measurements and disclosures. National's guarantees of derivative contracts have a legal maximum maturity range of 1-28 years. In accordance with the guidance, the fair values of these guarantees as of September 30, 2009 are recorded on National's balance sheet as derivative liabilities, representing gross losses of $9 million.

Note 11: Reinsurance

Ceded Exposure

Reinsurance enables National to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to National under rating agency models and the overall value of the reinsurance to National is reduced. National generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds.

The aggregate amount of insurance in force ceded by National directly to reinsurers under reinsurance agreements was $9 million and $244 million as of September 30, 2009 and December 31, 2008, respectively.

The following table presents information about companies who have entered into reinsurance contracts with National and amounts recoverable by National under those contracts:

In millions Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Percentage of Total Par Ceded	Reinsurance Recoverable	Derivative Asset	Estimated Credit Impairments on Insured Derivatives
Assured Guaranty Corp.	AAA (Negative)	Aa2 (Rating under review)	100%	-	-	-
Total			100%	$ -	$ -	$ -

Premium Summary

The components of financial guarantee net premiums earned, including premiums assumed from and ceded to other companies, are presented in the following table:

In millions	Three Months Ended September 30, 2009 Earned	Nine Months Ended September 30, 2009 Earned
Direct	$ -	$ -
Assumed	143	426
Gross	143	426
Ceded	-	-
Net	$ 143	$ 426

Note 12: Insurance Regulations and Dividends

National is subject to insurance regulations and supervision of the State of Illinois (its state of incorporation) and is licensed to conduct insurance business in the District of Columbia, Puerto Rico, and all states in the U.S. except New Hampshire and Virginia. The extent of insurance regulation and supervision varies by jurisdiction, but Illinois and most other jurisdictions have laws and regulations prescribing minimum standards of solvency and business conduct, which must be maintained by insurance companies. Among other things, these laws prescribe permitted classes and concentrations of investments and limit both the aggregate and individual securities risks that National may insure on a net basis based on the type of obligations insured. National is required to file detailed annual financial statements with the Illinois' Department of Insurance and similar supervisory agencies in other jurisdictions in which it is licensed. The operations and accounts of National are subject to examination by regulatory agencies at regular intervals.

Under Illinois insurance law, National may pay a dividend from unassigned surplus. Dividends in any 12-month period may not exceed the greater of 10% of policyholders' surplus at the end of the preceding calendar year or the net income of the preceding calendar year without the approval of the Illinois State Insurance Department. In accordance with such restrictions on the amount of dividends that can be paid in any 12-month period, National had no regular dividend capacity for the nine months ending September 30, 2009.

Note 13: Statutory Accounting Practices

These financial statements have been prepared on a GAAP basis, which differs in certain respects from the statutory accounting practices prescribed or permitted by the insurance regulatory authorities of National. Statutory accounting practices differ from GAAP in the following respects:

- upfront premiums are earned on a statutory accounting principles ("SAP") basis proportionate to the scheduled periodic maturity of principal and payment of interest ("debt service") to the original total principal and interest insured. Additionally under SAP installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP premium revenue is recognized and measured based on the amount of insurance protection provided in the period in which the insurance protection is provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP installment premiums are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;

- acquisition costs are charged to operations as incurred rather than deferred and amortized as the related premiums are earned;
- fixed-maturity investments are generally reported at amortized cost rather than fair value;
- a contingency reserve is computed on the basis of statutory requirements, and is not permitted under GAAP;
- reserves for losses and LAE are established at present value for specific insured issues that are identified as currently or likely to be in default. Under GAAP, reserves are established for specific insured issues when the present value of expected net cash outflows to be paid under the contract using a risk-free rate as of the measurement date exceeds the unearned premium revenue. Additionally, under GAAP, estimates for credit impairment on its insured credit derivatives portfolio are recorded as a derivative liability;
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in National's net deferred income tax balances are recognized in net income;
- the IRS permits financial guarantee insurance companies a deduction for increases to the statutory contingency reserve resulting in the purchase of tax and loss bonds equal to the tax benefit derived. Tax and loss bonds purchased are recorded as admitted assets and credited to surplus;
- the transformation of National was recorded at statutory book value. Therefore, no goodwill was recorded. Under GAAP, goodwill represents the excess of the cost of acquisitions over the fair value of the net assets acquired;
- guarantees of derivatives are not recorded at fair value, while under GAAP, guarantees that do not qualify for the financial guarantee scope exception under accounting principles for derivative instruments and hedging activities are recorded at fair value;
- certain assets designated as "non-admitted assets" are charged directly against surplus but are reflected as assets under GAAP; and
- insurance loss recoverable is netted against loss and LAE reserves. Under GAAP, this recoverable is reported as an asset.

The results of National determined in accordance with statutory accounting practices for the nine months ended September 30, 2009 and 2008 were a net loss of $446 million and net income of $6 million, respectively. Consolidated statutory surplus of National determined in accordance with statutory accounting practices as of September 30, 2009 and December 31, 2008 was $509 million and $185 million, respectively.

The following is a reconciliation of the GAAP shareholder's equity of National to the statutory capital and surplus of National:

In millions	September 30, 2009	December 31, 2008
National's GAAP shareholder's equity	$ 2,706	$ 197
Premium revenue recognition (financial guarantee)	(170)	-
Deferral of acquisition costs	(686)	-
Investments, including unrealized gains (losses)	(190)	(7)
Contingency reserve	(1,352)	-
Loss reserves	9	-
Deferred income tax liabilities, net	798	(4)
Goodwill	(31)	-
Derivative assets and liabilities	9	-
Non-admitted assets and other items	(584)	(1)
Statutory capital and surplus	$ 509	$ 185

The statutory financial statements of National are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual. The Illinois Department of Insurance ("IDI") has adopted codification in its entirety, therefore there are no differences between the NAIC statutory accounting principles ("NAIC SAP"), and procedures and accounting practices prescribed or permitted by the State of Illinois.

Note 14: Employee Benefits

National participates in MBIA Inc.'s pension plan, which covers substantially all employees. The pension plan is a qualified non-contributory defined contribution pension plan to which National contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Pension expense for the three and nine months ended September 30, 2009 was $249 thousand and $638 thousand, respectively.

MBIA Inc. also maintains a qualified profit-sharing/401(k) plan in which National participates. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. National matches employee contributions up to the first 5% of such compensation and are made in the form of cash, whereby participants may direct the match to an investment of their choice. The benefit of National's contributions vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plan upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer the assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. National contributions to the profit-sharing/401(k) plans aggregated $128 thousand and $302 thousand, respectively, for the three and nine months ended September 30, 2009.

In addition to the above plans, National also participates in MBIA Inc.'s non-qualified deferred compensation plan. Contributions to the above qualified plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified contributions included in the above profit-sharing/401(k) expense and contribution amounts totaled $40 thousand and $61 thousand, respectively, for the three and nine months ended September 30, 2009.

National participates in the MBIA Inc. 2005 Omnibus Incentive Plan (the "Omnibus Plan"), which became effective on May 5, 2005. The Omnibus Plan may grant any type of an award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Following the effective date of the Omnibus Plan, no new options or awards were granted under any of the prior plans authorized by the MBIA Inc. shareholders.

The stock option component of the Omnibus Plan enables key employees to acquire shares of MBIA Inc. common stock. The stock option grants, which may be awarded every year, provide the right to purchase shares of MBIA Inc. common stock at the fair value of the stock on the date of grant. Options granted will either be Incentive Stock Options ("ISOs"), where they qualify under Section 422(a) of the Internal Revenue Code, or Non-Qualified Stock Options ("NQSOs"). ISOs and NQSOs are granted at a price not less than 100% of the fair value, defined as the closing price on the grant date, of MBIA Inc. common stock. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally four or five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of MBIA Inc.'s common stock. These awards have a restriction period lasting three, four or five years depending on the type of award, after which time the awards fully vest. During the vesting period these shares may not be sold. Restricted stock grants are typically granted from the vice president level up to and including the chief executive officer.

In accordance with the accounting guidance for share-based payments, MBIA Inc. expenses the fair value of employee stock options and other forms of stock-based compensation. In addition, the guidance classifies share-based payment awards as either liability awards, which are remeasured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently remeasured. Generally, awards with cash-based settlement, repurchase features or that are settled at a fixed dollar amount are classified as liability awards, and changes in fair value will be reported in earnings. Awards with net-settlement features or that permit a cashless exercise with third-party brokers are classified as equity awards and changes in fair value are not reported in earnings. MBIA Inc.'s long-term incentive plans include features which result in both liability and equity awards. For liability awards, MBIA Inc. remeasures these awards at each balance sheet date. In addition, the guidance requires the use of a forfeiture estimate. MBIA Inc. uses historical employee termination information to estimate the forfeiture rate applied to current stock-based awards.

In accordance with the accounting guidance for share-based payments, MBIA Inc. valued all stock options granted using an option-pricing model. The value is recognized as an expense over the period in which the options vest. National's proportionate share of compensation cost for employee stock options for the three and nine months ended September 30, 2009 totaled $71 thousand and $213 thousand, respectively. National's proportionate share of compensation cost for restricted stock awards was $81 thousand and $237 thousand for the three and nine months ended September 30, 2009, respectively.

In November 2006, MBIA Inc.'s Board of Directors approved new voluntary retirement benefits which will provide certain benefits to eligible employees of National upon retirement. A description of these benefits is included in MBIA Inc.'s proxy statement. One of the components of the retirement program for those employees that are retirement eligible is to continue to vest all outstanding stock options and performance-based restricted share beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted share grants. The accounting guidance for share-based payments requires compensation costs for those employees to be recognized from the date of grant through the retirement eligible date. Accelerated expense, if any, relating to this retirement benefit for both stock option awards and restricted stock awards is included in the compensation expense amounts.

Note 15: Related Party Transactions

Related parties are defined as the following:

- Affiliates of National: An affiliate is a party that directly or indirectly controls, is controlled by or is under common control with National. Control is defined as having, either directly or indirectly, the power to direct the management and operating policies of a company through ownership, by contract or otherwise.
- Entities for which investments are accounted for using the equity method by National.
- Trusts for the benefit of employees, such as pension and profit-sharing trusts, that are managed by or under the trusteeship of management.
- Principal owners of National defined as owners of record or known beneficial owners of more than 10 percent of the voting interests of National.
- Management of National which includes persons who are responsible for achieving the objectives of National and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the Board of Directors, the Chief Executive Officer, Chief Operating Officer, Vice President in charge of principal business functions and other persons who perform similar policymaking functions.
- Members of the immediate families of principal owners of National and its management. This includes family members whom a principal owner or a member of management might control or influence or by whom they may be controlled or influenced because of the family relationship.
- Other parties with which National may deal if one party controls or can significantly influence the management or policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
- Other parties that can significantly influence the management or policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

From time to time National may enter into transactions with related parties that National deems immaterial or which occur in the normal course of business and are deemed to be transacted at "arm's length" by management.

As of September 30, 2009, included in other liabilities were $27 million of net payables to MBIA Inc. and other subsidiaries.

National's investment portfolio is managed by MBIA Capital Management Corp. ("CMC"), a wholly owned subsidiary of MBIA Inc., which provides fixed-income investment management services for MBIA Inc. and its affiliates, as well as third-party institutional clients. For the three and nine months ended September 30, 2009, CMC charged fees of $2 million and $4 million, respectively, to National based on the performance of its investment portfolio.

National entered into an agreement with MBIA Inc. whereby National held securities under agreements to resell of $1.7 billion as of September 30, 2009. National also transferred securities under agreements to repurchase of $1.7 billion as of September 30, 2009. These agreements have a term of less than one year. The interest income and expense related to these agreements were $8 million and $1 million, respectively, for the three months ended September 30, 2009. For the nine months ended September 30, 2009, the interest income and expense related to these agreements were $20 million and $3 million, respectively.

National had no loans outstanding to any executive officers or directors in the first nine months of 2009.

Note 16: Commitments and Contingencies

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. and its subsidiaries ("MBIA Inc.") may be involved in various legal proceedings that directly or indirectly impact National.

MBIA Inc. has received subpoenas or informal inquiries from a variety of regulators, including the Securities and Exchange Commission, the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states' regulatory authorities, regarding a variety of subjects, including disclosures made by MBIA Inc. to underwriters and issuers of certain bonds, disclosures regarding MBIA Inc.'s structured finance exposure, trading and valuation of managed collateral, MBIA Inc.'s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. MBIA Inc. is cooperating fully with each of these regulators and is in the process of satisfying all such requests. MBIA Inc. may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against MBIA Inc. and others. The first complaint, against MBIA Inc., AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. MBIA Inc.'s demurrers and other responsive pleadings are due November 13, 2009. These cases are now coordinated as Ambac Bond Insurance Cases in San Francisco Superior Court. On April 8, 2009, The Olympic Club filed a complaint against MBIA Inc. in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged MBIA Inc.'s financial condition, and of a failure to adequately disclose the impact of those transactions on MBIA Inc.'s financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including MBIA Inc., AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation In re Municipal Derivatives Antitrust Litigation, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before

February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance polices issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. Defendants' motion to dismiss the complaint is fully briefed. Oral argument is scheduled for November 17, 2009.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants' motion to dismiss the complaint was fully briefed and oral argument was heard on October 5, 2009. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. At a conference on October 2, 2009, the judge hearing the matter indicated his intention to deny defendants' motion to dismiss, however, no written decision has yet been issued. At a separate conference on November 6, 2009, the judge indicated he may refrain from issuing a decision until he has had an opportunity to review the submission of the New York State Department of Insurance in the Article 78 proceeding (see next paragraph) which is currently due November 24, 2009. If and to the extent that the judge issues a ruling consistent with his statements at the October 2, 2009 conference, MBIA intends to promptly appeal it to the Appellate Division of the New York State Supreme Court.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, MBIA Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA's and the New York State Insurance Department's answering papers to the Article 78 Petition are due November 24, 2009.

MBIA Inc. and National intend to vigorously defend against the aforementioned actions in which it is a defendant and against other potential actions, and MBIA Inc. and National do not expect the outcome of these matters to have a materially adverse effect on its business, results of operations or financial condition. Neither MBIA Inc. nor National can provide assurance, however, that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on its business, results of operations or financial condition.

There are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

Note 17: Subsequent Events

Refer to "Note 16, Commitments and Contingencies" for information about legal proceedings that commenced after September 30, 2009.

Exhibit 99.2

MBIA INSURANCE CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009 and December 31, 2008
and for the periods ended September 30, 2009 and 2008

MBIA INSURANCE CORPORATION
AND SUBSIDIARIES

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MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except per share amounts)

	September 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $1,726,512 and $5,805,960)	$ 1,617,125	$ 5,614,186
Investments pledged as collateral, at fair value (amortized cost $0 and $1,530,036)	-	1,567,371
Fixed-maturity securities held as trading, at fair value (amortized cost $115,946 and $0)	123,467	-
Investments held-to-maturity, at amortized cost (fair value $1,084,214 and $1,214,569)	1,175,241	1,214,569
Short-term investments, at fair value (amortized cost $1,250,770 and $1,448,545)	1,256,274	1,447,343
Short-term investments held-to-maturity at amortized cost (fair value $484,670 and $0)	916,679	-
Other investments (includes investment at fair value of $8,277 and $42,535)	10,468	45,280
Total investments	5,099,254	9,888,749
Cash and cash equivalents	648,013	1,066,793
Securities purchased under agreements to resell	2,000,000	3,343,947
Accrued investment income	23,921	117,918
Premiums receivable	2,059,131	7,744
Deferred acquisition costs	907,904	560,632
Prepaid reinsurance premiums	2,535,483	216,609
Insurance loss recoverable	2,207,625	458,512
Reinsurance recoverable on paid and unpaid losses	272,476	173,548
Goodwill	45,566	76,938
Property and equipment, at cost (less accumulated depreciation of $123,138 and $116,344)	80,211	101,116
Receivable for investments sold	42,833	10,594
Derivative assets	733,477	746,936
Current income taxes	34,057	325,691
Deferred income taxes, net	735,299	1,348,575
Other assets	554,169	620,010
Total assets	$ 17,979,419	$ 19,064,312
Liabilities and Shareholders' Equity		
Liabilities:		
Unearned premium revenue	$ 4,310,556	$ 3,424,402
Loss and loss adjustment expense reserves	1,322,873	1,557,884
Reinsurance premiums payable	571,912	8,672
Variable interest entity notes	2,668,798	1,791,597
Securities sold under agreements to repurchase	-	1,343,947
Long-term debt	1,230,847	952,655
Deferred fee revenue	760,087	42,585
Payable for investments purchased	77,967	34
Derivative liabilities	4,980,312	6,219,290
Other liabilities	210,895	375,772
Total liabilities	16,134,247	15,716,838
Commitments and contingencies (See Note 14)		
Shareholders' Equity:		
Series A non-cumulative perpetual preferred stock, par value $1,000 per share, liquidation value $100,000 per share, authorized - 4,000.08, issued and outstanding - 2,759.08	27,598	27,598
Common stock, par value $220.80 per share; authorized, issued and outstanding - 67,936 shares	15,000	15,000
Additional paid-in capital	983,390	2,183,672
Retained earnings	922,491	1,255,107
Accumulated other comprehensive loss, net of deferred income tax of $6,884 and $61,895	(103,307)	(133,903)
Total shareholders' equity	1,845,172	3,347,474
Total liabilities and shareholders' equity	$ 17,979,419	$ 19,064,312

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 74,750	$ 148,403	$ 273,328	$ 458,418
Refunding premiums earned	144	93,696	2,178	189,248
Premiums earned (net of ceded premiums of $106,770, $32,496, $317,698 and $97,242)	74,894	242,099	275,506	647,666
Net investment income	63,585	146,615	253,510	446,271
Fees and reimbursements	42,499	3,583	127,691	5,732
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(30,483)	34,264	33,150	102,325
Unrealized gains (losses) on insured derivatives	(810,178)	104,818	1,222,939	(147,972)
Net change in fair value of insured derivatives	(840,661)	139,082	1,256,089	(45,647)
Net gains (losses) on financial instruments at fair value and foreign exchange	26,495	(6,819)	38,991	155,239
Net realized gains (losses)	(44,661)	25,975	(36,274)	68,014
Investment losses related to other-than-temporary impairments:				
Investment losses - other-than-temporary impairments	(135,403)	-	(261,133)	-
Other-than-temporary impairments recognized in accumulated other comprehensive loss	85,000	-	170,369	-
Net investment losses related to other-than-temporary impairments	(50,403)	-	(90,764)	-
Net gains on extinguishment of debt	13,059	9,980	13,547	9,980
Other	-	7	-	7
Total revenues	(715,193)	560,522	1,838,296	1,287,262
Expenses:				
Losses and loss adjustment	210,052	982,514	111,468	1,292,466
Amortization of deferred acquisition costs	52,805	24,619	168,827	63,147
Operating	44,136	63,174	148,955	150,462
Interest	55,189	48,084	163,161	141,495
Total expenses	362,182	1,118,391	592,411	1,647,570
Income (loss) before income taxes	(1,077,375)	(557,869)	1,245,885	(360,308)
Provision (benefit) for income taxes	(350,204)	(215,750)	455,888	(147,016)
Equity in net income (loss) of subsidiaries	318	(102)	374	(102)
Net income (loss)	$ (726,853)	$ (342,221)	$ 790,371	$ (213,394)

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the Nine Months Ended September 30, 2009
(In thousands except per share amounts)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2009	2,759	$27,598	100,000	$15,000	$ 2,183,672	$ 1,255,107	$ (133,903)	$ 3,347,474
ASC 944-20 transition adjustment net of deferred income taxes of $27,170	-	-	-	-	-	55,346	-	55,346
Comprehensive income:								
Net income	-	-	-	-	-	790,371	-	790,371
Other comprehensive income:								
Change in unrealized gains and losses on investments, net of deferred income taxes of $67,529	-	-	-	-	-	-	224,924	224,924
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of deferred income taxes of $0	-	-	-	-	-	-	(170,369)	(170,369)
Change in foreign currency translation, net of deferred income taxes of $1,250	-	-	-	-	-	-	(23,959)	(23,959)
Other comprehensive income								30,596
Total comprehensive income								820,967
Redemption of common shares	-	-	(32,064)	(4,809)	(1,197,125)	-	-	(1,201,934)
Increase in par value of common shares	-	-	-	4,809	(4,809)	-	-	-
Special dividends paid on common shares	-	-	-	-	-	(1,167,850)	-	(1,167,850)
Dividends on preferred shares	-	-	-	-	-	(10,483)	-	(10,483)
Share-based compensation net of deferred income taxes of $2,364	-	-	-	-	1,652	-	-	1,652
Balance, September 30, 2009	2,759	$27,598	67,936	$15,000	$ 983,390	$ 922,491	$ (103,307)	$ 1,845,172

	2009
Disclosure of reclassification amount:	
Change in unrealized gains and losses and other-than-temporary impairment losses on investments arising during the period, net of taxes	$ 51,662
Reclassification adjustment, net of taxes	2,893
Change in net unrealized gains and losses and other-than-temporary impairment losses, net of taxes	$ 54,555

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 790,371	$ (213,394)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Amortization of bond discounts (premiums), net	(30,948)	22,003
Decrease in accrued investment income	93,997	15,057
Increase in deferred acquisition costs	(338,901)	(82,507)
(Decrease) increase in unearned premium revenue	(1,553,015)	406,877
(Increase) decrease in prepaid reinsurance premiums	(2,005,214)	44,262
Decrease (increase) in premiums receivable	288,713	(148,425)
(Decrease) increase in loss and loss adjustment expense reserves	(60,791)	566,807
Increase in reinsurance recoverable on paid and unpaid losses	(107,998)	(25,221)
Increase in insurance loss recoverable	(1,750,297)	(157,647)
Decrease in receivable from reinsurers on insured derivative contracts	89,471	-
(Decrease) increase in payable to reinsurers on recoverables	(55,829)	55
Increase (decrease) in reinsurance premiums payable	238,978	(22,804)
Depreciation	6,664	6,800
Increase (decrease) in deferred fee revenue	717,502	(546)
Decrease in accounts receivable	16,912	2,854
Decrease in accrued expenses	(46,958)	(14,504)
Net realized losses (gains)	36,274	(68,014)
Investment losses on other-than-temporarily-impaired investments	90,764	-
Unrealized (gains) losses on insured derivatives	(1,222,939)	147,972
Net (gains) losses on financial instruments at fair value and foreign exchange	(38,991)	(155,239)
Increase (decrease) in current income taxes	291,634	(168,788)
Deferred income tax provision	508,703	269,241
Gains on extinguishment of debt	(13,547)	(9,980)
Share-based compensation	4,016	5,548
Other, operating	28,618	(13,477)
Total adjustments to net income (loss)	(4,813,182)	620,324
Net cash (used) provided by operating activities	(4,022,811)	406,930
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(659,129)	(3,300,043)
Increase in payable for investments purchased	77,933	55,956
Sale of fixed-maturity securities	6,258,244	3,461,351
Increase in receivable for investments sold	(32,239)	(359,570)
Redemption of fixed-maturity securities	7,901	9,601
Redemptions of held-to-maturity investments	39,328	83,023
(Purchase) sale of short-term investments, net	70,025	(1,132,727)
(Purchase) sale of other investments, net	37,971	(462)
Capital expenditures	(4,743)	(4,287)
Disposals of capital assets	5	-
Other, investing	149	1,310
Net cash provided (used) by investing activities	5,795,445	(1,185,848)
Cash flows from financing activities:		
Principal paydown of variable interest entity notes	(121,717)	(109,818)
Other borrowings and deposits	-	(1,368)
Capital issuance costs	-	(9,563)
Proceeds from the issuance of long-term debt	278,192	981,153
Retirement of long-term debt	-	(47,345)
Retirement of short-term debt	-	(6,225)
Capital contribution from MBIA Inc.	-	486,500
Redemption of common shares	(1,170,562)	-
Special dividend paid on common shares	(1,167,850)	-
Dividends paid on preferred shares	(9,477)	-
Net cash (used) provided by financing activities	(2,191,414)	1,293,334
Net (decrease) increase in cash and cash equivalents	(418,780)	514,416
Cash and cash equivalents - beginning of period	1,066,793	121,266

Cash and cash equivalents - end of period	$ 648,013	$ 635,682
Supplemental cash flow disclosures:		
Income taxes refunded	$ (336,282)	$ (252,910)
Interest paid:		
Other borrowings and deposits	-	1,495
Long-term debt	134,559	69,611
Variable interest entity notes	54,939	40,678
Non cash items:		
Share-based compensation	$ 4,016	$ 5,548
Dividends declared but not paid	1,005	-

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

MBIA Insurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1: Business and Organization

MBIA Insurance Corporation is a wholly owned subsidiary of MBIA Inc. ("MBIA"). The guarantees of MBIA Insurance Corporation and its subsidiaries, ("MBIA Corp.") insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the United States ("U.S.") and that include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign and sub-sovereign issuers. Structured finance and asset-backed securities ("ABSs") typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property, and infrastructure projects.

The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain investment agreement contracts written by MBIA Inc. are insured by MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. has also insured debt obligations of its affiliates, MBIA Global Funding LLC, Meridian Funding Company LLC ("Meridian") and provides reinsurance to its insurance subsidiaries. Additionally, insurance policies include payments due under credit and other derivatives, including termination payments that may become due upon certain events including the insolvency or payment default of MBIA Corp.

MBIA Corp. writes business both in the U.S. and outside of the U.S. Business outside of the U.S. is generally written through MBIA UK Insurance Limited ("MBIA UK"), a financial guarantee insurance company licensed in the United Kingdom. MBIA Corp. also owns MBIA Assurance S.A. ("MBIA Assurance"), a French insurance company. On December 28, 2007, MBIA Assurance was restructured with MBIA UK (by way of dissolution or winding-up without liquidation) and governed by the terms of article 1844-5 of the French Civil Code. The restructuring involved (i) the transfer of all of MBIA Assurance's assets and liabilities to MBIA UK; (ii) the simultaneous transfer of the portfolio of MBIA Assurance's financial guarantees to MBIA UK; and (iii) the dissolution without liquidation of MBIA Assurance. Consequently, all previously insured MBIA Assurance policies are now insured by MBIA UK. MBIA UK writes financial guarantee insurance in the member countries of the European Union and other regions outside the United States. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it writes financial guarantee insurance in Mexico. These subsidiaries principally provide insurance for public infrastructure financings, structured finance transactions and certain obligations of financial institutions in the international markets. Pursuant to a reinsurance agreement with MBIA Insurance Corporation, a substantial amount of the risk insured by MBIA Mexico and MBIA UK is reinsured by MBIA Corp.

MBIA Corp. also manages a business through one other subsidiary, Capital Markets Assurance Corporation ("CMAC"), acquired in February 1998 when MBIA Inc. merged with CapMAC Holdings, Inc. ("CapMAC"). The net insured exposure of this subsidiary is 100% reinsured by MBIA Insurance Corporation.

MBIA Corp.'s business has historically relied upon the triple-A credit ratings of MBIA Insurance Corporation. The loss of those ratings in the second quarter of 2008 resulted in a dramatic reduction in MBIA Corp.'s insurance activities. As of September 30, 2009, MBIA Insurance Corporation was rated BB+ with a negative outlook by Standard & Poor's Corporation ("S&P") and B3 with a negative outlook by Moody's Investors Service, Inc. ("Moody's").

In February 2009, after receiving the required regulatory approvals, MBIA Inc. established and capitalized National Public Finance Guarantee Corporation ("National"), as a U.S. public finance-only financial guarantor, which was previously named MBIA Insurance Corp. of Illinois ("MBIA Illinois") and previously owned by MBIA Insurance Corporation. In connection with this establishment, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. Refer to the Notes to Consolidated Financial Statements of MBIA Insurance Corporation and Subsidiaries included in Exhibit 99.3 of MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for additional information about these transactions and changes to MBIA Corp.'s legal entity structure.

Liquidity

Liquidity risk arises in MBIA Corp. when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

In general, MBIA Corp.'s financial guarantee contracts and credit default swap ("CDS") contracts cannot be accelerated, thereby mitigating liquidity risk. Under the terms of MBIA Corp.'s insured CDS contracts, the insured counterparty may have a right to terminate the CDS contract upon an insolvency or payment default of MBIA Corp. However, defaults, credit impairments and adverse capital markets conditions such as MBIA Corp. is currently experiencing, can create payment requirements as MBIA Corp. has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, MBIA Corp. requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes and preferred stock issuance. MBIA Corp. also provides guarantees to the holders of MBIA's asset/liability products debt obligations. If MBIA's asset/liability products segment were unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. MBIA Corp. has lent $2.0 billion to MBIA's asset/liability products segment on a secured basis for the purpose of minimizing the risk that such claim would be made. The loan matures in the fourth quarter of 2011. During October and November of 2009, a total of $100 million of the loan was repaid. The timing of the ultimate repayment may be affected by the performance of assets in the asset/liability product's investment portfolio.

Since the fourth quarter of 2007, MBIA Corp. made $4.4 billion of cash payments, before reinsurance, associated with insured second-lien residential mortgage-backed securities ("RMBS") securitizations, as well as settlement payments relating to CDS contracts referencing collateralized debt obligation ("CDO")-squared and multi-sector CDOs. Among MBIA Corp.'s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to MBIA Corp. As a result of the current economic stress, MBIA Corp. could incur additional payment obligations beyond these mortgage-related exposures, which may be substantial, increasing the stress on MBIA Corp.'s liquidity.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with MBIA Corp.'s residential mortgage-related exposures, MBIA Corp. employs a stress scenario-based liquidity model using the same "Roll Rate Default Methodology" as it uses in its loss reserving. Using this methodology, MBIA Corp. estimates the level of payments that would be required to be made under low probability stress-level default assumptions of the underlying collateral taking into account MBIA Corp.'s obligation to cover such defaults under MBIA Corp.'s insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted over the next 24-month period on a monthly basis and then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are frequently updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

In addition to MBIA Corp.'s residential mortgage stress scenario, it also monitors liquidity risk using a Monte Carlo estimation of potential stress-level claims for all insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to MBIA Corp.'s invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above providing MBIA Corp. with a robust set of liquidity metrics with which to monitor its risk position.

MBIA Corp. manages its investment portfolios in a conservative manner to maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. To the extent MBIA Corp.'s liquidity resources fall short of its target liquidity cushions under the stress-loss scenario testing, MBIA Corp. will seek to increase its cash holdings position, primarily through the sale of high-quality bonds held in its investment portfolio.

Note 2: Significant Accounting Policies

MBIA Corp. has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in Exhibit 99.3 to MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The following significant accounting policies provide an update to those included under the same captions in Exhibit 99.3 to MBIA Inc.'s Annual Report on Form 10-K.

Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of MBIA Insurance Corporation and its wholly owned subsidiaries, as well as all other entities in which MBIA Corp. has a controlling financial interest. These statements 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 MBIA Corp.'s consolidated financial statements and notes thereto included in Exhibit 99.3 of MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. 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 (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of MBIA Corp.'s financial position and results of operations.

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

The results of operations for the three and nine months ended September 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009. The December 31, 2008 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation.

In addition, MBIA Corp. evaluated all events subsequent to September 30, 2009 through November 9, 2009 for inclusion in MBIA Corp.'s consolidated financial statements and/or accompanying notes.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

MBIA Corp. recognizes and measures financial guarantee insurance premiums in accordance with the accounting guidance for financial guarantee insurance and reinsurance contracts. The accounting guidance requires MBIA Corp. to recognize a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, MBIA Corp. receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, MBIA Corp. receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums is recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. MBIA Corp. has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. MBIA Corp. reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in "Note 4: Insurance Premiums." MBIA Corp. assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense and discloses the amount recognized in "Note 4: Insurance Premiums." As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

MBIA Corp. recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is determined as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through legal defeasance in satisfaction of the obligation according to its indenture, which results in MBIA Corp.'s obligation being extinguished under the financial guarantee contract. MBIA Corp. recognizes any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Loss and Loss Adjustment Expenses

The accounting guidance for financial guarantee insurance and reinsurance contracts requires a claim liability (loss reserve) to be recognized on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A claim liability is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the claim liability are recognized as claim expense in the period of change. Measurement and recognition of claim liability is reported gross of any reinsurance. MBIA Corp. estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability is included in claim expense. MBIA Corp.'s claim liability and accruals for loss adjustment expenses ("LAE") incurred are disclosed in "Note 10: Loss and Loss Adjustment Expense Reserves."

Other-Than-Temporary Impairments on Investment Securities

MBIA Corp.'s consolidated statement of operations reflects the full impairment (the difference between a security's amortized cost basis and fair value) on debt securities that MBIA Corp. intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected using MBIA Corp.'s discounted cash flow projections.

Goodwill

Goodwill represents the excess of the cost of acquiring a business enterprise over the fair value of the net assets acquired. Under the accounting guidance for goodwill and other intangible assets, goodwill is tested for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating segment is less than its carrying value.

As a result of the aforementioned establishment of National, the $77 million of goodwill reflected in MBIA Corp.'s consolidated balance sheets as of December 31, 2008 has been allocated between National and MBIA Insurance Corporation, based on the relative fair values of each entity as of January 1, 2009. Of the $77 million, $46 million was allocated to MBIA Insurance Corporation. MBIA Corp.'s next annual impairment test will be performed on January 1, 2010.

Fee and Reimbursement Revenue Recognition

MBIA Corp. collects insurance related fees for services performed in connection with certain transactions. In addition, MBIA Corp. may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees are earned when the related services are completed and the fee is received. Structuring fees are earned on a straight-line basis over the life of the related insurance policy. Expense reimbursements are recognized when received.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the Accounting Standards Codification ("Codification") and the hierarchy of generally accepted accounting principles (Accounting Standards Codification ("ASC") 105-10). The Codification is now the single source of authoritative GAAP applied by nongovernmental entities and supersedes all existing non-Securities Exchange Commission accounting and reporting standards. The Codification is effective for MBIA Corp. for financial statements issued for interim and annual periods ending after September 15, 2009. MBIA Corp. adopted this guidance as of the third quarter of 2009. The Codification is not intended to change GAAP but rather reorganize divergent accounting literature into an accessible and user-friendly system which materially impacts cited references of GAAP in MBIA Corp.'s Notes to Consolidated Financial Statements.

In May 2009, the FASB issued accounting guidance for subsequent events (ASC 855-10) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. The accounting guidance is effective for MBIA Corp. in the interim and annual periods ending after June 15, 2009 and should be applied prospectively. MBIA Corp. adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on MBIA Corp.'s consolidated balance sheets, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance that amends fair value measurements and disclosures (ASC 820-10) for determining the fair value when the volume and level of activity for the asset or liability have significantly decreased and for identifying transactions that are not orderly. This standard provides additional guidance to highlight and expand on the factors that should be considered when there has been a significant decrease in market activity for a financial asset or financial liability being measured. The accounting guidance also provides additional factors that entities should consider to determine whether events or circumstances indicate that a transaction is or is not orderly (i.e., distressed). MBIA Corp. adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on MBIA Corp.'s consolidated balance sheets, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance for debt and equity investment securities (ASC 320-10) which amends the recognition criteria for other-than-temporary impairment guidance to improve the presentation of other-than-temporary impairments in the financial statements. This guidance replaced the requirement that the entity's management assert it has both the ability and intent to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security and (b) it is more likely than not it would not have to sell the security before recovery of its cost basis. When these two criteria are met, the entity will recognize only the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. MBIA Corp. adopted this standard as of the second quarter of 2009. There was no cumulative-effect adjustment for the adoption of this standard as there were no previously impaired securities which were determined to have portions which would ultimately be recovered. Refer to "Note 7: Investment Income and Gains and Losses " for further information on MBIA Corp.'s investment securities and other-than-temporary impairments.

In April 2009, the FASB issued accounting guidance for interim disclosures about financial instruments (ASC 825-10) to require disclosures about the fair value of financial instruments in interim and annual financial statements, and the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The accounting guidance also requires those disclosures in all interim financial statements (ASC 270-10). MBIA Corp. adopted this standard in the second quarter of 2009. As the standard requires only additional disclosures, the adoption did not have an impact on MBIA Corp.'s consolidated balance sheets, results of operations or cash flows. Refer to "Note 5: Fair Value of Financial Instruments" for further information.

In May 2008, the FASB issued accounting guidance for financial guarantee insurance and reinsurance contracts (ASC 944-20) effective prospectively as of January 1, 2009. This accounting guidance amends accounting and reporting by insurance enterprises to clarify how existing guidance applies to financial guarantee insurance and reinsurance contracts. The accounting guidance amends the recognition and measurement of premium revenue and claim liabilities, and expands disclosure requirements. Recognition and measurement of unearned premium revenue and receivable for future premiums are also amended. The accounting guidance does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of derivatives and hedging (ASC 815-10). Refer to "Note 4: Insurance Premiums" for disclosures related to premiums and "Note 10: Loss and Loss Adjustment Expense Reserves" for disclosures related to loss reserves.

Upon the adoption and implementation of the accounting guidance for financial guarantee insurance and reinsurance contracts, MBIA Corp. recognized a cumulative transition adjustment of $55 million net of tax, $83 million pre-tax, as an increase to its beginning retained earnings balance as of January 1, 2009. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption. The following table summarizes the adjustments made to MBIA Corp.'s assets and liabilities as of January 1, 2009 on a pre-tax basis:

In thousands	Increase / (Decrease)
Assets:	
Deferred acquisition costs	$ 8,731
Prepaid reinsurance premiums	313,660
Reinsurance recoverable on paid and unpaid losses	4,563
Premiums receivable	2,287,451
Deferred income taxes, net	(27,170)
Liabilities:	
Unearned premium revenue	$ 2,381,487
Loss and LAE reserves	(174,220)
Reinsurance premiums payable	324,262

In December 2008, the FASB issued accounting guidance for transfers of financial assets (ASC 860-10) and interests in variable interest entities ("VIEs") (ASC 810-10) which requires enhanced disclosures about transfers of financial assets and involvement with VIEs. MBIA Corp. adopted this guidance for financial statements prepared as of December 31, 2008 and is effective for interim reporting periods ending after January 1, 2009. Since the guidance only requires additional disclosures concerning transfers of financial assets and interests in VIEs, the adoption did not affect MBIA Corp.'s consolidated balance sheets, results of operations or cash flows. Refer to "Note 9: Variable Interest Entities" for mandated disclosures.

In March 2008, the FASB issued accounting guidance that expands the disclosure requirements about an entity's derivative instruments and hedging activities (ASC 815-10). The disclosure provisions apply to all entities with derivative instruments subject to the accounting guidance and its related interpretations. The provisions also apply to related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. MBIA Corp. adopted the disclosure provisions on January 1, 2009. Since the guidance requires only additional disclosures concerning derivatives and hedging activities, adoption of the accounting guidance did not affect MBIA Corp.'s consolidated balance sheets, results of operations or cash flows. Refer to "Note 8: Derivative Instruments" for mandated disclosures.

In February 2008, the FASB issued accounting guidance for fair value measurements and disclosures (ASC 820-10) that delayed the effective date to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption on January 1, 2009 did not have a material impact on MBIA Corp.'s consolidated balance sheets, results of operations or cash flows.

In December 2007, the FASB issued accounting guidance for consolidation (ASC 810-10) which requires reporting entities to present noncontrolling (minority) interest as equity (as opposed to liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The presentation and disclosure requirements are to be applied retrospectively. MBIA Corp. adopted the prescribed guidance on January 1, 2009, which resulted in preferred stock issued by a subsidiary to be reclassified from minority interest to a separate component of equity. The adoption did not have a material impact on MBIA Corp.'s consolidated results of operations or cash flows.

Recent Accounting Developments

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05 for measuring liabilities at fair value to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, MBIA Corp. should not make an adjustment to fair value for restrictions that prevent the transfer of a liability. The new guidance is effective for MBIA Corp. as of December 31, 2009. MBIA Corp. is currently evaluating the potential impact of adopting this guidance.

In June 2009, the FASB issued FASB Statement No. 167, which has not yet been incorporated into the Codification, to include qualifying special purpose entities ("QSPEs") within its scope and to require the holder of a variable interest(s) in a VIE to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that provides a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. The accounting guidance eliminates the quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance will require an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE and is effective for MBIA Corp. as of January 1, 2010. Early application is prohibited. MBIA Corp. is currently evaluating the potential impact of adopting this guidance.

In June 2009, the FASB issued Statement No. 166, which has not yet been incorporated into the Codification, to remove the concept of a QSPE. The accounting guidance also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. The guidance requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The accounting guidance is effective for MBIA Corp. as of January 1, 2010 and earlier application is prohibited. MBIA Corp. is currently evaluating the potential impact of adopting this guidance.

Note 4: Insurance Premiums

MBIA Corp. recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with the accounting principles for financial guarantee insurance contracts. Refer to "Note 2: Significant Accounting Policies" and "Note 3: Recent Accounting Pronouncements" for a description of MBIA Corp.'s accounting policy for insurance premiums and the impact of its adoption on MBIA Corp.'s financial statements.

As of September 30, 2009, MBIA Corp. reported premiums receivable of $2.1 billion primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. As of September 30, 2009, the weighted average risk-free rate used to discount future installment premiums was 3.02% and the weighted average expected collection term of the premiums receivable was 9.12 years. For the three and nine months ended September 30, 2009, the accretion of the premiums receivable was $14 million and $42 million, respectively, and is reported in "Scheduled premiums earned" on MBIA Corp.'s Consolidated Statements of Operations.

As of September 30, 2009, MBIA Corp. reported reinsurance premiums payable of $572 million, which represents the portion of MBIA Corp.'s premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA Corp. are accreted and collected.

The following table presents a roll forward of MBIA Corp.'s premiums receivable for the nine months ended September 30, 2009:

In millions	Nine Months Ended September 30, 2009								
				Adjustments					
Premiums Receivable as of December 31, 2008	Accounting Transition Adjustment [1]	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other	Premiums Receivable as of September 30, 2009	Reinsurance Premiums Payable as of September 30, 2009
$ 8	$ 2,288	$ (235)	$ -	$ (22)	$ 42	$ (22)	$ 2,059	$ 572

[1] - Reflects the adoption of the accounting principles for financial guarantee insurance contracts as described in "Note 3: Recent Accounting Pronouncements."

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

In millions	Expected Collection of Premiums
Three months ended :	
December 31, 2009	$ 88
Twelve months ended :	
December 31, 2010	278
December 31, 2011	247
December 31, 2012	219
December 31, 2013	178
Five years ended :	
December 31, 2018	640
December 31, 2023	402
December 31, 2028 and thereafter	610
Total	$ 2,662

For the three and nine months ended September 30, 2009, MBIA Corp. reported premiums earned of $75 million and $275 million, respectively, which includes $75 million and $273 million of scheduled premiums earned and $144 thousand and $2 million of refunding premiums earned, respectively. Refunding premiums earned represent premiums earned on policies for which the underlying insured obligations have been refunded, called, or terminated and for which MBIA Corp.'s obligation has been extinguished.

The following table presents the expected unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

In millions	Unearned Premium Revenue	Expected Future Premium Earnings			Total Expected Future Premium Earnings
		Upfront	Installments	Accretion	
Three months ended :					
September 30, 2009	$4,311				
December 31, 2009	4,188	$ 53	$ 70	$ 14	$ 137
Twelve months ended :					
December 31, 2010	3,729	204	255	55	514
December 31, 2011	3,316	188	225	50	463
December 31, 2012	2,953	175	188	47	410
December 31, 2013	2,641	163	149	42	354
Five years ended :					
December 31, 2018	1,474	641	526	164	1,331
December 31, 2023	761	397	316	104	817
December 31, 2028 and thereafter	-	387	374	126	887
Total		$ 2,208	$ 2,103	$ 602	$ 4,913

Note 5: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on MBIA Corp.'s consolidated balance sheets as of September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
In millions	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Fixed-maturity securities (including short-term investments) held as available-for-sale and held as trading, and investments pledged as collateral	$ 2,997	$ 2,997	$ 8,629	$ 8,629
Investments held-to-maturity	2,092	1,569	1,215	1,215
Other investments	10	10	45	45
Cash and cash equivalents	648	648	1,067	1,067
Securities purchased under agreements to resell	2,000	2,000	3,344	3,344
Receivable for investments sold	43	43	11	11
Derivative assets	733	733	747	747
Note Receivable	473	473	423	423
Liabilities:				
Variable interest entity notes	2,669	2,127	1,792	1,792
Securities sold under agreements to repurchase	-	-	1,344	1,344
Long-term debt	1,231	673	953	524
Derivative liabilities	4,980	4,980	6,219	6,219
Payable for investments purchased	78	78	-	-
Financial Guarantees:				
Gross	5,634	5,900	4,983	6,078
Ceded	2,807	3,818	390	407

Valuation Techniques

The valuation techniques for fair valuing financial instruments included in the preceding table are described below. MBIA Corp.'s assets and liabilities recorded at fair value have been categorized according to the fair value hierarchy prescribed by fair value measurements and disclosures.

Fixed-Maturity Securities Held As Available-for-Sale and Held for Trading

U.S. Treasury and government agency —U.S. Treasury securities are liquid and have quoted market prices. Fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced ("TBA") securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Foreign governments —The fair value of foreign government obligations is generally based on observable inputs in active markets. When quoted prices are not available, fair value is determined based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bonds are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3 while bonds that have quoted prices in an active market are classified as Level 1.

Corporate obligations —The fair value of corporate bonds is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name CDS spreads and diversity scores as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy. Corporate obligations may be classified as Level 1 if quoted prices in an active market are available.

Mortgage-backed securities and asset-backed securities —Mortgage-backed securities ("MBSs") and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, MBSs and ABSs are valued as a function of cash flow models with observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). MBSs and ABSs are categorized in Level 3 if significant inputs are unobservable, otherwise they are categorized in Level 2 of the fair value hierarchy.

State and municipal bonds —The fair value of state and municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or CDS spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3.

Investments Held-To-Maturity

The fair value of investments held-to-maturity is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models with yield curves and bond spreads of comparable entities as key inputs.

Other Investments

Other investments include MBIA Corp.'s interest in equity securities (including exchange-traded closed-end funds), money market mutual funds and perpetual securities. Fair value of other investments is determined by using quoted prices, live trades, or valuation models that use market-based and observable inputs. Other investments are categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy.

Other investments also include premium tax credit investments that are carried at amortized cost. The carrying value of these investments approximates fair value.

Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for investments purchased approximate their fair values as they are short-term in nature.

Securities Purchased Under Agreements to Resell

The fair value of securities purchased under agreements to resell are determined based on the underlying securities received or cash loans that back the repurchase agreements depending on the observability of significant inputs, are categorized in Level 2 or 3 of the fair value hierarchy.

Note Receivable

The note receivable represents a non-recourse loan secured by collateral pledged by the counterparty to the note receivable. The fair value of the note receivable is calculated as the most recent appraised value of the underlying collateral pledged against the note receivable. The appraisal was performed by an independent third party during the current year.

Variable Interest Entity Notes

The fair value of variable interest entity notes is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models of the underlying collateral with yield curves and bond spreads of comparable entities as key inputs.

Securities Sold Under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase are determined based on the underlying securities that back the repurchase agreements and depending on the observability of significant inputs, are categorized in Level 2 or 3 of the fair value hierarchy.

Long-term Debt

Long-term debt consists of surplus notes and a Federal Reserve term asset-backed securities loan facility ("TALF"). The fair value of the surplus notes and TALF is estimated based on quoted market prices for the same or similar securities.

Derivatives

The derivative contracts that MBIA Corp. insures cannot be legally traded and generally do not have observable market prices. In the cases with no active price quote, MBIA Corp. uses a combination of internal and third-party models to estimate the fair value of these contracts. Most insured CDSs are valued using an enhanced Binomial Expansion Technique ("BET") model (originally developed by Moody's). Significant inputs include collateral spreads, diversity scores and recovery rates. For a limited number of other insured derivatives, MBIA Corp. uses industry standard models as well as proprietary models such as Black-Scholes option models and dual-default models, depending on the type and structure of the contract. The valuation of these derivatives includes the impact of MBIA Corp.'s credit standing and the credit standing of its reinsurers. All of these derivatives are categorized as Level 3 of the fair value hierarchy as a significant percentage of their value is derived from unobservable inputs. For insured swaps (other than CDSs), MBIA Corp. uses internally and vendor developed models with market-based inputs (e.g. interest rate, foreign exchange rate, spreads), and are classified as Level 2 within the fair value hierarchy.

Insured Derivatives

The majority of MBIA Corp.'s derivative exposure is in the form of credit derivative instruments insured by MBIA Corp. Prior to 2008, MBIA Corp. insured CDSs entered into by LaCrosse Financial Products LLC ("LaCrosse"), an entity that is consolidated into MBIA Corp.'s financial statements under the criteria for variable interest entities. In February 2008, MBIA Corp. ceased insuring such derivative instruments except in transactions reducing its existing insured derivative exposure.

In most cases, MBIA Corp.'s insured credit derivatives are measured at fair value as they do not qualify for the financial guarantee scope exception. Because MBIA Corp.'s insured derivatives are highly customized and there is generally no observable market for these derivatives, MBIA Corp. estimates their value in a hypothetical market based on internal and third-party models simulating what a bond insurer would charge to guarantee the transaction at the measurement date. This pricing would be based on expected loss of the exposure calculated using the value of the underlying collateral within the transaction structure. The fair values of insured derivatives recorded on MBIA Corp.'s balance sheet are principally related to MBIA Corp.'s insured credit derivatives exposure.

Description of MBIA Corp.'s Insured Credit Derivatives

As of September 30, 2009, MBIA Corp. had $124.8 of net par outstanding on insured derivatives. The majority of MBIA Corp.'s insured credit derivatives reference structured pools of cash securities and CDSs. MBIA Corp. generally insured the most senior liabilities of such transactions, and at transaction closing MBIA Corp.'s exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as "Super Triple-A" exposure). The collateral backing MBIA Corp.'s insured derivatives was cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, commercial real estate ("CRE") loans, and CDO securities. As of September 30, 2009, the net par outstanding of such transactions totaled $110.3 billion. The remaining $14.5 billion of net par outstanding on insured credit derivatives as of September 30, 2009 primarily related to insured interest rate and inflation-linked swaps for which MBIA Corp. has insured counterparty credit risk.

Most of MBIA Corp.'s insured CDS contracts require that MBIA Corp. make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. MBIA Corp.'s net par outstanding and maximum payment obligation under these contracts as of September 30, 2009 was $81.5 billion. The underlying referenced collateral for contracts executed in this manner largely consist of investment grade corporate debt, structured commercial mortgage-backed securities ("CMBS") pools and, to a lesser extent, corporate and multi-sector CDOs (in CDO-squared transactions). As of September 30, 2009, MBIA Corp. also had $28.8 billion net par outstanding on insured CDS contracts that require MBIA Corp. to make timely interest and ultimate principal payments.

MBIA Corp. also has guarantees under principal protection fund programs, which are also accounted for as derivatives. Under these programs MBIA Corp. guaranteed the return of principal to investors and is protected by a daily portfolio rebalancing obligation that is designed to minimize the risk of loss to MBIA Corp. As of September 30, 2009, the maximum amount of future payments that MBIA Corp. would be required to make under these guarantees was $25 million, but MBIA Corp. has not made any payments to date relating to these guarantees. The unrealized gains (losses) on these derivatives for the years ended 2007 and 2008 and the nine months ended September 30, 2009 were zero, reflecting the extremely remote likelihood that MBIA Corp. will incur a loss.

Changes in fair value of the insured derivatives are recorded in "Net change in fair value of insured derivatives." The net change in the fair value of MBIA Corp.'s insured derivatives has two primary components; (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. "Realized gains (losses) and other settlements on insured derivatives" include (i) net premiums received and receivable on written CDS contracts, (ii) net premiums paid and payable to reinsurers in respect of CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or commutation agreement and (vi) fees relating to CDS contracts. The "Unrealized gains (losses) on insured derivatives" include all other changes in fair value of the derivative contracts.

Considerations Regarding an Observable Market for MBIA Corp.'s Insured Derivatives

In determining fair value, MBIA Corp.'s valuation approach uses observable market prices if available and reliable. Market prices are generally available for traded securities and market standard CDSs but are less available or accurate for highly customized CDSs. Most of the derivative contracts MBIA Corp. insures are the latter as they are non-traded structured credit derivative transactions. In contrast, typical market CDSs are standardized, liquid instruments that reference tradable securities such as corporate bonds that themselves have observable prices. These market standard CDSs also involve collateral posting, and upon a default of the underlying reference obligation, can be settled in cash.

MBIA Corp.'s insured CDS contracts do not contain typical CDS market standard features as they have been designed to replicate MBIA Corp.'s financial guarantee insurance policies. At inception of the transactions, MBIA Corp.'s insured CDS instruments provided protection on pools of securities or CDSs with either a stated deductible or subordination beneath the MBIA Corp.-insured tranche. MBIA Corp. is not required to post collateral in any circumstances. Payment by MBIA Corp. under an insured CDS is due after the aggregate amount of losses on the underlying reference obligations, based on actual losses as determined pursuant to the settlement procedure in each transaction, exceed the deductible or subordination in the transaction. Once such losses exceed the deductible or the subordination, MBIA Corp. is obligated to pay the losses, net of recoveries, if any, on any subsequent reference obligations that default. Some contracts also provide for further deferrals of payment at MBIA Corp.'s option. In the event of MBIA Corp.'s failure to pay a claim under the insured CDS or the insolvency of MBIA Corp., the insured CDS contract provides that the counterparty can terminate the CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between MBIA Corp.'s CDS and typical market standard contracts is that MBIA Corp.'s contract, like its financial guarantee contracts, cannot be accelerated by the counterparty in the ordinary course of business. Similar to MBIA Corp.'s financial guarantee insurance, all insured CDS policies are unconditional and irrevocable and MBIA Corp.'s obligations thereunder cannot be transferred unless the transferees are also licensed to write financial guarantee insurance policies. Note that since insured CDS contracts are accounted for as derivatives under accounting guidance for derivative instruments and hedging activities, MBIA Corp. did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

MBIA Corp.'s payment obligations are structured to prevent large one-time claims upon an event of default of underlying reference obligations and to allow for payments over time (i.e. "pay-as-you-go" basis) or at final maturity. However, the size of payments will ultimately depend on the timing and magnitude of losses. There are three types of payment provisions:

(i) timely interest and ultimate principal;

(ii) ultimate principal only at final maturity; and

(iii) payments upon settlement of individual referenced collateral losses in excess of policy-specific deductibles and subordination. The deductible or loss threshold is the amount of losses experienced with respect to the underlying or referenced collateral that would be required to occur before a claim against an MBIA Corp. insurance policy can be made.

All of the contracts with settlement based on ultimate principal only at final maturity have been terminated under the terms of the agreements. MBIA Corp. had transferred some of the risk of loss on insured CDS transactions using reinsurance to other financial guarantee insurance and reinsurance companies. The fair value of the transfer under the reinsurance contract with the reinsurers is accounted for as a derivative asset. These derivative assets are valued consistently with MBIA Corp.'s valuation policies.

Valuation Modeling of MBIA-Insured Derivatives

As a result of the significant differences between market standard CDS contracts and the CDS contracts insured by MBIA Corp., MBIA Corp. believes there are no relevant third-party exit value market observations for its insured structured credit derivative contracts and, therefore, no principal market as described in the guidance on fair value measurements and disclosures. In the absence of a principal market, MBIA Corp. values these insured credit derivatives in a hypothetical market where market participants are assumed to be other comparably-rated primary financial guarantors. Since there are no observable transactions in the financial guarantee market that could be used to value MBIA Corp.'s transactions, MBIA Corp. generally uses internal and third-party models, depending on the type and structure of the contract, to estimate the fair value of its insured derivatives.

MBIA Corp.'s primary model for insured CDSs simulates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from MBIA Corp. at a price equal to what they could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into MBIA Corp.'s model, the model estimates such premium and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

A. Valuation Models Used

Approximately 63% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 is valued using the BET model, which is a probabilistic approach to calculating expected loss on MBIA Corp.'s exposure based on market variables for underlying referenced collateral. During the third quarter of 2009, MBIA Corp. changed the model it used to estimate the fair value of most of its insured multi-sector CDOs. Previous to the third quarter of 2009, these transactions were valued using the BET model. Beginning with the third quarter of 2009, MBIA Corp. valued these transactions using an internally-developed valuation model, referred to as the Direct Price Model. Approximately 37% of the balance sheet fair value of insured credit derivatives as of September 30, 2009 is valued using the Direct Price Model. As a result of the change in model, the fair value of MBIA Corp.'s liability for insured derivatives as of September 30, 2009 was $390 million lower compared to what it would have been using the BET model.

There were four factors that led to the development of the Direct Price Model. (1) Market spreads for RMBS and ABS CDO collateral were no longer available. RMBS and ABS CDO collateral comprised the majority of the collateral for the multi-sector CDOs that were transitioned to a new marking model. Although market prices were available for the collateral, the BET model requires a spread input and the conversion from price to spread can be subjective for securities that trade substantially below par, which was the case for most of the collateral in these transactions. (2) The BET model contemplates a multi-tranche structure and allocates potential losses to each tranche. Many of the multi-sector CDOs insured by MBIA Corp. have experienced collateral erosion to the extent that there is no market value to the subordinated tranches. As a result this key feature of the BET model is no longer relevant. (3) The BET model requires a recovery rate assumption. This is not readily observable on all the collateral. As the market-implied probability of default of collateral has increased the recovery rate assumption has become increasingly important, which has gradually increased the relative importance in the model of internal assumptions as opposed to observable market inputs. (4) For all insured transactions that have been transitioned to a new model MBIA Corp. has an option to defer losses on principal to the legal final maturity, which is typically decades in the future. As a result of increased actual and market-implied future potential losses, as well as the significant widening of CDS spreads for MBIA Corp., the value of this deferral option has increased. It currently has a very significant effect on the estimated fair value of MBIA Corp.'s guaranty so it was appropriate to use a model that explicitly valued that deferral option.

B. Description of the BET Model

1. Valuation Model Overview

There are three steps within BET modeling to arrive at fair value for a structured transaction: pool loss estimation, loss allocation to separate tranches of the capital structure and calculation of the change in value.

- The pool loss estimation is calculated by reference to the following (described in further detail under "Model Inputs" below):
    - credit spreads of the underlying collateral. This is based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked,
    - diversity score of the collateral pool as an indication of correlation of collateral defaults, and
    - recovery rate for all defaulted collateral.
- Losses are allocated to specific tranches of the transaction according to their subordination level within the capital structure.
    - For example, if the expected total collateral pool loss is 4% and the transaction has an equity tranche and three progressively more senior C, B, and A tranches with corresponding underlying subordination levels of 0%, 3%, 5% and 10%, then the 4% loss will have the greatest impact on the equity tranche. It will have a lower, but significant impact on the C tranche and a lesser impact on the B tranche. MBIA Corp. usually insures the most senior triple-A tranche with lowest exposure to collateral losses due to the underlying subordination provided by all junior tranches.
- At any point in time, the unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the model worth noting are listed below:

- Default probability is determined by three factors: credit spread, recovery rate after default and the time period under risk.
- Defaults are modeled spaced out evenly over time.
- Collateral is generally considered on an average basis rather than being modeled separately.
- Correlation is modeled using a diversity score, which is calculated based on rules regarding industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

2. Model Strengths and Weaknesses

The primary strengths of this CDS valuation model are:

1) The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, weighted average life, level of deductible or subordination and composition of collateral.

2) The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented both by Moody's and by MBIA Corp.'s internal controls, creating a strong controls process in execution of the model. MBIA Corp. has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

3) The model uses market inputs with the most relevant being credit spreads for underlying referenced collateral, assumed recovery rates specific to the type and rating of referenced collateral, and the diversity score of the entire collateral pool. These are key parameters affecting the fair value of the transaction and all inputs are market-based whenever available and reliable.

The primary weaknesses of this CDS valuation model are:

1) There is no market in which to test and verify the fair values generated by MBIA Corp.'s model, and at September 30, 2009, the model inputs were also either unobservable or highly illiquid, adversely impacting their reliability.

2) There are diverse approaches to estimating fair value of such transactions among other financial guarantee insurance companies.

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

4) Results may be affected by averaging of spreads and use of a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlation assumptions. While more specific data could improve the reliability of the results, it is not currently available and neither is a model that could produce more reliable results in the absence of that data.

3. BET Model Inputs

Specific detail regarding these model inputs are listed below:

a. Credit spreads

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

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

- If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.
- If collateral-specific credit spreads are not available, MBIA Corp. uses generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor ("WARF") for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody's where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. MBIA Corp. obtains WARF from the most recent trustee's report or MBIA Corp. calculates it based on the collateral credit ratings. For a WARF calculation, MBIA Corp. identifies the credit ratings of all collateral (using, in order of preference as available, Moody's, S&P or Fitch ratings), then converts those credit ratings into a rating factor on the WARF scale, averages those factors (weighted by par) to create a portfolio WARF, and then maps the portfolio WARF back into an average credit rating for the pool. MBIA Corp. then applies this pool rating to a market spread table or index appropriate for the collateral type to determine the generic spread for the pool, which becomes the market-implied default input into the BET model.
- If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating buckets and each bucket is used in calculating the overall average.
- When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA Corp. uses its hierarchy of spread sources (discussed below) to identify the most appropriate spread for that asset class to be used in the model.

MBIA Corp. uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences, such as CDS spreads can be driven by speculative activity since the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

Spread Hierarchy:

1) Actual collateral-specific credit spreads. If up-to-date and reliable market-based spreads are available, they are used.
2) Sector-specific spreads (JP Morgan and Banc of America Securities-Merrill Lynch ("BAS-ML") spread tables by asset class and rating).
3) Corporate spreads (Bloomberg and Risk Metrics spread tables based on rating).
4) Benchmark from most relevant spread source (for example, if no specific spreads are available and corporate spreads are not directly relevant, an assumed relationship is used between corporate spreads or sector-specific spreads and collateral spreads). Benchmarking can also be based on a combination of market spread data and fundamental credit assumptions.

For example, if current market-based spreads are not available, then MBIA Corp. applies either sector-specific spreads from spread tables provided by dealers or corporate cash spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, MBIA Corp. uses the fourth alternative in its hierarchy. An example is tranched corporate collateral, where MBIA Corp. applies corporate spreads as an input with an adjustment for its tranched exposure.

As of September 30, 2009, actual collateral credit spreads were used in one transaction. Sector-specific spreads were used in 12% of the transactions. Corporate spreads were used in 29% of the transactions and spreads benchmarked from the most relevant spread source (number 4 above) were used for 58% of the transactions. When determining the percentages above, there were some transactions where MBIA Corp. incorporated multiple levels within the hierarchy. For example, for some transactions MBIA Corp. used actual collateral-specific credit spreads (number 1 above) in combination with a calculated spread based on an assumed relationship (number 4 above). In those cases, MBIA Corp. classified the transaction as being benchmarked from the most relevant spread source (number 4 above) even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral WARF. No Level 1 spreads are based on WARF, all Level 2 and 3 spreads are based on WARF and some Level 4 spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spread was used for 72% of the transactions.

Over time the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable, or the most appropriate. It is always MBIA Corp.'s objective to move to higher levels on the hierarchy, but MBIA Corp. sometimes moves to lower priority inputs because of discontinued data sources or because MBIA Corp. considers higher priority inputs no longer representative of market spreads. This occurs when transaction volume changes such that a previously used spread index is no longer viewed to reflect current market levels, as was the case for CMBS collateral in insured CDSs beginning in 2008. Refer to section "Input Adjustments for Insured CMBS Derivatives in the Current Market" below.

b. Diversity Scores

The diversity score is a measure to estimate 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. For example, if a portfolio of 100 assets had a diversity score of 50, this means that the 100 correlated assets are assumed to have the same loss distribution as 50 uncorrelated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for MBIA Corp.'s senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA Corp.'s internal modeling of the diversity score is based on Moody's methodology but uses MBIA Corp.'s internal assumptions on default correlation, including variables such as collateral rating and amount, asset type and remaining life.

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 Corp. generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA Corp.-insured transactions. MBIA Corp. may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data. In the first nine months of 2009, MBIA Corp. lowered recovery rates for CMBS collateral, certain RMBS collateral, and certain collateralized loan obligation ("CLO") collateral. The recovery rates for CLO collateral were lowered in the third quarter of 2009, which increased MBIA Corp.'s liability by $51 million.

d. Input Adjustments for Insured CMBS Derivatives in the Current Market

History of Input Adjustments

Approximately $44.5 billion gross par of MBIA Corp.'s insured derivative transactions as of September 30, 2009 include substantial amounts of CMBS and commercial mortgage collateral. Prior to 2008, MBIA Corp. had used spreads drawn from CMBX indices and CMBS spread tables as pricing input on the underlying referenced collateral in these transactions. In 2008, as the financial markets became illiquid, MBIA Corp. saw a significant disconnect between cumulative loss expectations of market analysts on underlying commercial mortgages, which were based on the continuation of low default and loss rates, and loss expectations implied by the CMBX indices and CMBS spread tables. CMBS collateral in MBIA Corp.'s insured credit derivatives has performed in line with the market.

In addition, due to financial market uncertainty since last year, transaction volume in CMBS and trading activity in the CMBX were both dramatically lower than in prior periods. MBIA Corp. also considered that the implied loss rates within the CMBX index were much higher than that forecast by fundamental researchers and MBIA Corp.'s internal analysis. As a result of these issues, MBIA Corp. concluded that the CMBX indices and the CMBS spread tables were unreliable model inputs for the purpose of estimating fair value in MBIA Corp.'s hypothetical market among monoline insurers.

As a result, in the first quarter of 2008, MBIA Corp. modified the spread used for these transactions to reflect a combination of market spread pricing and third-party fundamental analysis of CMBS credit. MBIA Corp.'s revised spread input was a CMBX index analog that combines expectations for CMBS credit performance (as forecasted by the average of three investment banks' research departments) together with the illiquidity premium implied by the CMBX indices. The illiquidity premium MBIA Corp. used was the senior triple-A tranche spread of the CMBX index that matches the origination vintage of collateral in each transaction. For example, collateral originated in the second half of 2006 used the triple-A tranche spread of the CMBX series 1 as the illiquidity premium. The sum of the illiquidity premium plus the derived credit spread based on the average cumulative net loss estimates of three investment bank's research department was used as a CMBX analog index.

In the third quarter of 2009, MBIA Corp. reassessed the reasonableness of CMBX inputs. CMBX levels are now quoted in price terms instead of spread. It was observed that trading activity in CMBX indices is more liquid than in recent quarters. There has been some convergence between the loss rates implied by the CMBX indices and that of fundamental analysts. During fundamental assessments of the loss rates for CMBS increased and MBIA Corp. concluded that it was again appropriate and reasonable to use CMBX as an input for the BET model.

Current CMBX Input Adjustment

Since CMBX is now quoted in price terms and the BET model requires a spread input, it is necessary to convert CMBX prices to spreads. To do this, MBIA Corp. assumed that a portion of the CMBX price reflected market illiquidity. MBIA Corp. assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. At the end of the third quarter of 2009 the highest priced triple-A CMBX index was series 1 and its price was $91.66 corresponding to an illiquidity premium of 8.34%. MBIA Corp. assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. So the market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate for duration. The illiquidity premium was also converted to spreads using the same approach and the CBMX spread was calculated as the sum of those two numbers.

As a result of this change in input spreads for CMBS, the fair value of MBIA Corp.'s liability for insured derivatives as of September 30, 2009 increased by $591 million compared to what it would have been had MBIA Corp. used the same CMBS input approach that was used in the second quarter of 2009.

During the third quarter of 2009, MBIA Corp. modified its inputs for RMBS collateral in insured CDO squared transactions because an appropriate source was no longer available for RMBS collateral spreads. Previously, spread levels were provided by securities firms, however, these firms no longer provide this information. As a result, MBIA Corp. assumed that all RMBS collateral defaulted and there was a recovery based on the current recovery rate assumption. This modification increased the derivative liability for insured derivatives by $103 million.

e. Nonperformance Risk

In compliance with the requirements of fair value measurements, MBIA Corp.'s valuation methodology for insured credit derivative liabilities incorporates MBIA Corp.'s own nonperformance risk and the nonperformance risk of its reinsurers. MBIA Corp. calculates the fair value by discounting the market value loss estimated through the BET model at discount rates which include MBIA Corp.'s and the reinsurers' CDS spreads (or an estimate if there is not a traded CDS contract referencing a reinsurer) at September 30, 2009. Prior to the second quarter of 2009, MBIA Corp. used the 5-year CDS spread on MBIA Corp. to calculate nonperformance risk. This assumption was compatible with the average life of the CDS portfolio, which was approximately 5 years. In the second quarter, MBIA Corp. has refined this approach to include a full term structure for CDS spreads. Under the refined approach, the CDS spreads assigned to each deal is based on the weighted average life of the deal.

Beginning in the first quarter of 2009, MBIA Corp. limited the effective spread on CDS on MBIA Corp. so that the derivative liability, after giving effect to nonperformance risk, could not be lower than MBIA Corp.'s recovery derivative price multiplied by the unadjusted derivative liability.

Prior to the third quarter of 2008, MBIA Corp. did not apply nonperformance risk to the excess (if any) of insured par over the par value of remaining collateral (such excess referred to as "burn-through") within CDS transactions. Most obligations insured by MBIA Corp. do not have burn-through, however, an increasing number of multi-sector CDOs insured by MBIA Corp. had developed burn-through. As a result, in the third quarter of 2008 MBIA Corp. began applying its nonperformance calculation to burn-through, which resulted in a reduction of the fair value of its derivative liability by $683 million. Most of the insured transactions with burn-through are now valued using the Direct Price Model.

C. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model was developed internally to address weaknesses in MBIA Corp.'s BET model specific to valuing insured multi-sector CDOs, as previously discussed. There are three steps in the model. First, market prices are obtained or estimated for all collateral within a transaction. Second, the present value of the market-implied potential losses is calculated for the transaction, assuming that MBIA Corp. defers all principal losses to the legal final maturity. This is determined by the contractual terms of each agreement and interest rates. Third, the impact of nonperformance risk is calculated.

2. Model Strengths and Weaknesses

The primary strengths of the Direct Price Model are:

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

The primary weaknesses of the Direct Price Model are:

1) There is no market in which to test and verify the fair values generated by MBIA Corp.'s model.
2) There are diverse approaches to estimating fair value of similar transactions among other financial guarantee insurance companies.
3) The model does not take into account potential future volatility of collateral prices. When the market value of collateral is substantially lower than insured par and there is no or little subordination left in a transaction, which is the case for most of the transactions marked with this model, MBIA Corp. believes this assumption still allows a reasonable estimate of fair value.

3. Model Inputs

a. Collateral prices

MBIA Corp. was able to obtain broker quotes for the majority of the collateral. For any collateral not directly priced, a matrix pricing grid was used based on security type and rating. For each security that was not directly priced, an average was used based on securities with the same rating and security type categories.

b. Interest rates

The present value of the market-implied potential losses was calculated, assuming that MBIA Corp. deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final. These cash flows were discounted using the libor flat swap curve.

c. Nonperformance risk

The methodology for calculating MBIA Corp.'s nonperformance risk is the same as used for the BET model. Due to the current level of MBIA Corp. CDS rates and the long tenor of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

D. Overall Model Results

In the current environment the most significant driver of fair value is nonperformance risk. In aggregate, the nonperformance calculation results in a pre-tax derivative liability which is $15.9 billion lower than the liability that would have been estimated if MBIA Corp. did not include nonperformance risk in its valuation. 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.

MBIA Corp. reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiate settlements of existing transactions. However, this data has been scarce or non-existent in recent periods. As a result, MBIA Corp.'s recent reviews have focused more on internal consistency and relativity, as well as the reasonableness of modeled results given current market conditions.

MBIA Corp. believes that it is important to apply its valuation techniques consistently. However, MBIA Corp. may consider making changes in the valuation technique if the change results in a measurement that is equally or more representative of fair value under current circumstances.

Financial Guarantees

Gross Financial Guarantees —MBIA Corp. estimates the fair value of its gross financial guarantee liability using a discounted cash flow model with significant inputs that include (i) an assumption of expected loss on financial guarantee policies for which case basis reserves have not been established, (ii) the amount of loss expected on financial guarantee policies for which case basis reserves have been established, (iii) the cost of capital reserves required to support the financial guarantee liability, and (iv) the discount rate. The MBIA Corp. CDS spread and recovery rate are used as the discount rate and incorporates the nonperformance risk of MBIA Corp. The discount rates incorporate the nonperformance risk of MBIA Corp. As MBIA Corp.'s gross financial guarantee liability represents its obligation to pay claims under its insurance policies, MBIA Corp.'s calculation of fair value does not consider future installment premium receipts or returns on invested upfront premiums as inputs.

The carrying value of MBIA Corp.'s gross financial guarantee liability consists of deferred premium revenue and loss and LAE reserves as reported on MBIA Corp.'s consolidated balance sheets.

Ceded Financial Guarantees —MBIA Corp. estimates the fair value of its ceded financial guarantee liability by calculating the portion of the gross financial guarantee liability that has been ceded to reinsurers. The carrying value of ceded financial guarantee liability consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on MBIA Corp.'s consolidated balance sheets.

Fair Value Measurements

The following fair value hierarchy tables present information about MBIA Corp.'s assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008:

	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)	Balance as of September 30, 2009
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 135	$ 2	$ -	$ 137
Foreign governments	345	152	72	569
Corporate obligations	-	84	81	165
Mortgage-backed securities				
Residential mortgage-backed agency	-	17	-	17
Residential mortgage-backed non-agency	-	168	154	322
Commercial mortgage-backed	-	2	10	12
Asset-backed securities				
Collateralized debt obligations	-	-	39	39
Other asset-backed	-	264	280	544
Total	480	689	636	1,805
State and municipal bonds:				
Tax-exempt bonds	-	62	64	126
Total state and municipal bonds	-	62	64	126
Total fixed-maturity investments	480	751	700	1,931
Other investments:				
Perpetual preferred securities	-	-	-	-
Other investments	8	123	-	131
Money market securities	943	-	-	943
Total other investments	951	123	-	1,074
Derivative assets	-	13	720	733
Total assets	$ 1,431	$ 887	$ 1,420	$ 3,738
Liabilities:				
Derivative liabilities	$ -	$ 35	$ 4,945	$ 4,980
Total liabilities	$ -	$ 35	$ 4,945	$ 4,980

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)	Balance as of December 31, 2008
Assets:				
Investments:				
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 538	$ 25	$ -	$ 563
Foreign governments	369	292	104	765
Corporate obligations	-	1,081	119	1,200
Mortgage-backed securities				
Residential mortgage-backed agency	-	1,188	-	1,188
Residential mortgage-backed non-agency	-	73	229	302
Commercial mortgage-backed	-	16	5	21
Asset-backed securities				
Collateralized debt obligations	-	-	51	51
Other asset-backed	-	11	403	414
Total	907	2,686	911	4,504
State and municipal bonds:				
Tax-exempt bonds	-	3,011	49	3,060
Taxable bonds	-	81	-	81
Total state and municipal bonds	-	3,092	49	3,141
Total fixed-maturity investments	907	5,778	960	7,645
Other investments:				
Perpetual preferred securities	-	1	-	1
Other investments	17	24	-	41
Money market securities	985	-	-	985
Total other investments	1,002	25	-	1,027
Securities purchased under agreements to resell	-	2,795	549	3,344
Derivative assets	-	-	747	747
Total assets	$ 1,909	$ 8,598	$ 2,256	$ 12,763
Liabilities:				
Securities sold with agreements to repurchase	$ -	$ 795	$ 549	$ 1,344
Derivative liabilities	-	4	6,215	6,219
Total liabilities	$ -	$ 799	$ 6,764	$ 7,563

Level 3 Analysis

Level 3 assets were $1.4 billion and $2.3 billion as of September 30, 2009 and December 31, 2008, respectively, and represented 38% and 18%, respectively, of total assets measured at fair value, respectively. Level 3 liabilities were $5.0 billion and $6.8 billion as of September 30, 2009 and December 31, 2008, respectively, and represented 99% and 89%, respectively, of total liabilities measured at fair value, respectively.

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2009 and 2008:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2009

In millions	Balance, Beginning of Interim Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2009
Assets:									
Foreign governments	$ 70	$ -	$ -	$ -	$ 1	$ 1	$ -	$ 72	$ -
Corporate obligations	83	-	-	25	-	(27)	-	81	-
Residential mortgage-backed non-agency	135	-	-	20	-	-	(1)	154	-
Commercial mortgage-backed	8	-	-	2	-	-	-	10	-
Collateralized debt obligations	30	-	-	9	-	-	-	39	-
Other asset-backed	232	-	-	21	-	50	(23)	280	-
State and municipal tax-exempt bonds	74	-	-	-	-	(10)	-	64	-
Total assets	$ 632	$ -	$ -	$ 77	$ 1	$ 14	$ (24)	$ 700	$ -

In millions	Balance, Beginning of Interim Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2009
Liabilities:									
Derivative contracts, net	$3,416	$ -	$ 869	$ -	$ -	$ (60)	$ -	$4,225	$ 869
Total liabilities	$3,416	$ -	$ 869	$ -	$ -	$ (60)	$ -	$4,225	$ 869

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2008

In millions	Balance, Beginning of Interim Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2008
Assets:									
Foreign governments	$ 73	$ -	$ -	$ (4)	$ (4)	$ 17	$ -	$ 82	$ -
Corporate obligations	146	-	-	(3)	-	(10)	3	136	-
Commercial mortgage-backed	8	-	-	-	-	3	-	11	-
Other asset-backed	10	-	-	-	-	19	-	29	-
State and municipal tax-exempt bonds	-	-	-	-	-	22	-	22	-
Total assets	$ 237	$ -	$ -	$ (7)	$ (4)	$ 51	$ 3	$ 280	$ -

In millions	Balance, Beginning of Interim Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2008
Liabilities:									
Derivative contracts, net	$3,902	$ (34)	$ (104)	$ -	$ -	$ 33	$ -	$3,797	$ 104
Total liabilities	$3,902	$ (34)	$ (104)	$ -	$ -	$ 33	$ -	$3,797	$ 104

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

Transfers into and out of Level 3 were $0 and $24 million, respectively, for the three months ended September 30, 2009. Transfers out of Level 3 were principally for other asset-backed securities where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, yield curves observable at commonly quoted intervals, and market corroborated inputs. For the three months ended September 30, 2009, the net unrealized loss related to the transfers into Level 3 was $0 and the net unrealized loss related to the transfers out of Level 3 was $19 thousand.

Transfers into and out of Level 3 were $8 million and $5 million, respectively, for the three months ended September 30, 2008. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the quarter. These inputs included spreads, prepayment speeds, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations comprised the majority of the transferred instruments. For the three months ended September 30, 2008, the net unrealized gain related to the transfers into Level 3 was $0 million and the net unrealized loss related to transfers out of Level 3 was $0 million.

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 nine months ended September 30, 2009 and 2008:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2009

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2009
Assets:									
Foreign governments	$ 104	$ -	$ -	$ (1)	$ (1)	$ (17)	$ (13)	$ 72	$ -
Corporate obligations	119	-	-	(8)	-	(17)	(13)	81	-
Residential mortgage-backed non-agency	229	-	-	(64)	-	9	(20)	154	-
Commercial mortgage-backed	5	-	-	5	-		-	10	-
Collateralized debt obligations	51	-	-	(12)	-	-	-	39	-
Other asset-backed	403	(9)	-	(158)	-	67	(23)	280	-
State and municipal tax-exempt bonds	49	-	-	(1)	-	16	-	64	-
Securities purchased under agreements to resell	549	-	-	-	-	(549)	-	-	
Total assets	$1,509	$ (9)	$ -	$ (239)	$ (1)	$ (491)	$ (69)	$ 700	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2009
Liabilities:									
Securities purchased under agreements to resell	$ 549	$ -	$ -	$ -	$ -	$ (549)	$ -	$ -	$ -
Derivative contracts, net	5,468	(31)	(1,162)	-	-	(30)	(20)	4,225	(922)
Total liabilities	$6,017	$ (31)	$(1,162)	$ -	$ -	$ (579)	$ (20)	$4,225	$ (922)

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2008

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at September 30, 2008
Assets:									
Foreign governments	$ 37	$ -	$ -	$ (5)	$ (4)	$ 36	$ 18	$ 82	$ -
Corporate obligations	164	-	-	(7)	-	(22)	1	136	-
Commercial mortgage-backed	59	1	-	(5)	-	53	(97)	11	-
Other asset-backed	12	-	-	(1)	-	18	-	29	-
State and municipal tax-exempt bonds	-	-	-	-	-	22	-	22	-
Total assets	$ 272	$ 1	$ -	$ (18)	$ (4)	$ 107	$ (78)	280	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net [1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at September 30, 2008
Liabilities:									
Derivative contracts, net	$3,653	$(102)	$ 146	$ -	$ -	$ 100	$ -	$3,797	$ 146
Total liabilities	$3,653	$(102)	$ 146	$ -	$ -	$ 100	$ -	$3,797	$ 146

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

Transfers into and out of Level 3 were $43 million and $132 million, respectively, for the nine months ended September 30, 2009. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Non-agency residential mortgage-backed, other asset-backed securities, foreign governments, corporate obligations and net derivative contracts comprised the majority of the transferred instruments. For the nine months ended September 30, 2009, the net unrealized loss related to the transfers into Level 3 was $0.1 million and the net unrealized gain related to the transfers out of Level 3 was $24 million.

Transfers into and out of Level 3 were $49 million and $127 million, respectively, for the nine months ended September 30, 2008. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the period. These inputs included spreads, prepayment speeds, yield curves observable at commonly quoted intervals, and market corroborated inputs. Foreign governments and commercial mortgage-backed securities comprised the majority of the transferred instruments. For the nine months ended September 30, 2008, the net unrealized gain related to transfers into Level 3 was $1 million and the net unrealized gain related to the transfers out of Level 3 was $6 million.

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the three months ended September 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (869)	$ -	$ -
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2009	$ (869)	$ -	$ -

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 104	$ 33	$ 1
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2008	$ 104	$ -	$ -

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the nine months ended September 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 1,162	$ 31	$ -
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2009	$ 922	$ -	$ -

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (146)	$ 103	$ -
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at September 30, 2008	$ (150)	$ -	$ -

Note 6: Investments

MBIA Corp.'s fixed-maturity portfolio consists of high-quality (average rating double-A) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method in accordance with the equity method for investments in common stock and highly rated perpetual securities that bear interest and are callable by the issuer. The following tables present the amortized cost, fair value and other-than-temporary impairments of available-for-sale fixed-maturity and other investments included in the consolidated investment portfolio of MBIA Corp. as of September 30, 2009 and December 31, 2008:

	September 30, 2009				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments [1]
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 135	$ 2	$ -	$ 137	$ -
Foreign governments	541	28	-	569	-
Corporate obligations	165	6	(6)	165	-
Mortgage-backed securities					
Residential mortgage-backed agency	16	1	-	17	-
Residential mortgage-backed non-agency	366	21	(65)	322	(69)
Commercial mortgage-backed	15	-	(3)	12	(1)
Asset-backed securities					
Collateralized debt obligations	50	-	(11)	39	(15)
Other asset-backed	623	8	(87)	544	(85)
Total	1,911	66	(172)	1,805	(170)
State and municipal bonds:					
Tax exempt bonds	124	4	(2)	126	-
Total state and municipal bonds	124	4	(2)	126	-
Total fixed-maturity investments	2,035	70	(174)	1,931	(170)
Other investments:					
Other investments	8	-	-	8	-
Money market securities	943	-	-	943	-
Total other investments	951	-	-	951	-
Total available-for-sale investments	$ 2,986	$ 70	$ (174)	$ 2,882	$ (170)

(1) Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss).

	December 31, 2008			
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 523	$ 40	$ -	$ 563
Foreign governments	737	38	(10)	765
Corporate obligations	1,223	29	(52)	1,200
Mortgage-backed securities				
Residential mortgage-backed agency	1,163	26	(1)	1,188
Residential mortgage-backed non-agency	303	8	(9)	302
Commercial mortgage-backed	25	-	(4)	21
Asset-backed securities				
Collateralized debt obligations	418	-	-	418
Other asset-backed	52	-	(6)	46
Total	4,444	141	(82)	4,503
State and municipal bonds:				
Tax exempt bonds	3,273	20	(233)	3,060
Taxable bonds	83	3	(5)	81
Total state and municipal bonds	3,356	23	(238)	3,141
Total fixed-maturity investments	7,800	164	(320)	7,644
Other investments:				
Perpetual preferred securities	1	-	-	1
Other investments	45	-	(4)	41
Money market securities	985	-	-	985
Total other investments	1,031	-	(4)	1,027
Total available-for-sale investments	$ 8,831	$ 164	$ (324)	$ 8,671

Fixed-maturity investments carried at fair value of $9 million and $14 million as of September 30, 2009 and December 31, 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

MBIA Corp., through a consolidated VIE, held fixed-maturity securities for trading with a fair value of $123 million as of September 30, 2009. As of December 31, 2008 MBIA Corp. held no fixed-maturity securities for trading.

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of September 30, 2009. Contractual maturity may differ from expected maturity because borrowers may have the right to call or prepay obligations.

In millions	Amortized Cost	Fair Value
Due in one year or less	$ 279	$ 284
Due after one year through five years	381	402
Due after five years through ten years	138	144
Due after ten years through fifteen years	98	100
Due after fifteen years	69	67
Mortgage-backed	397	351
Asset-backed	673	583
Total fixed-maturity investments	$ 2,035	$ 1,931

Investments that are held-to-maturity are reported on MBIA Corp.'s balance sheet at amortized cost. These investments, which relate to MBIA Corp.'s consolidated VIEs, consist of floating and fixed rate securities. As of September 30, 2009, the amortized cost and fair value of held-to-maturity investments totaled $2.1 billion and $1.6 billion, respectively. There were no unrecognized gross gains and unrecognized gross losses were $523 million. As of December 31, 2008, the amortized cost and fair value of held-to-maturity investments totaled $1.2 billion. There were no unrecognized gross gains or unrecognized gross losses on these investments as amortized cost was equal to fair value. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost as of September 30, 2009:

In millions	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1	1
Due after five years through ten years	1	1
Due after ten years through fifteen years	-	-
Due after fifteen years	1,100	1,009
Mortgage-backed	92	92
Asset-backed	900	468
Total held-to-maturity investments	$ 2,094	$ 1,571

Included in the preceding tables are investments that have been insured by MBIA Corp. and National ("MBIA-Insured Investments"). As of September 30, 2009, MBIA-Insured Investments at fair value represented $252 million or 5% of MBIA Corp.'s total portfolio. Without giving effect to the MBIA guarantee of the MBIA-Insured Investments, the underlying ratings (those given to an investment without the benefit of MBIA Corp.'s guarantee) of the MBIA-Insured Investments as of September 30, 2009 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of MBIA Corp.'s and National's guarantee. The ratings in the following table are based on ratings from Moody's. Alternate rating assigned by sources, such as S&P have been used for a small percentage of securities that are not rated by Moody's. When an external underlying rating is not available, the underlying rating is based on MBIA Corp.'s best estimate of the rating of such investment.

In millions Underlying Ratings Scale	Fair Value
Aaa	$ 16
Aa	7
A	-
Baa	11
Below investment grade	218
Total	$ 252

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of September 30, 2009 and December 31, 2008 related to available-for-sale fixed-maturity and other investments. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	September 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
Foreign governments	$ 1	$ -	$ 37	$ -	$ 38	$ -
Corporate obligations	68	(1)	35	(5)	103	(6)
Mortgage-backed securities						
Residential mortgage-backed non-agency	221	(62)	19	(3)	240	(65)
Commercial mortgage-backed	3	(1)	7	(2)	10	(3)
Asset-backed securities						
Collateralized debt obligations	39	(11)	-	-	39	(11)
Other asset-backed	212	(85)	20	(2)	232	(87)
Total	544	(160)	118	(12)	662	(172)
State and municipal bonds:						
Tax exempt bonds	64	(2)	-	-	64	(2)
Total state and municipal bonds	64	(2)	-	-	64	(2)
Total	$ 608	$ (162)	$ 118	$ (12)	$ 726	$ (174)

	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 5	$ -	$ -	$ -	$ 5	$ -
Foreign governments	85	(10)	1	-	86	(10)
Corporate obligations	500	(24)	160	(28)	660	(52)
Mortgage-backed securities						
Residential mortgage-backed agency	54	-	101	(1)	155	(1)
Residential mortgage-backed non-agency	23	(5)	19	(4)	42	(9)
Commercial mortgage-backed	9	-	7	(4)	16	(4)
Asset-backed securities						
Other asset-backed	18	(4)	8	(2)	26	(6)
Total	694	(43)	296	(39)	990	(82)
State and municipal bonds:						
Tax exempt bonds	2,034	(225)	171	(8)	2,205	(233)
Taxable bonds	46	(5)	-	-	46	(5)
Total state and municipal bonds	2,080	(230)	171	(8)	2,251	(238)
Total fixed-maturity investments	2,774	(273)	467	(47)	3,241	(320)
Other investments	90	(4)	-	-	90	(4)
Total	$ 2,864	$ (277)	$ 467	$ (47)	$ 3,331	$ (324)

The following table presents the gross unrealized losses of held-to-maturity investments as of September 30, 2009. There were no gross unrealized gains or losses for held-to-maturity investments as of December 31, 2008. Held-to-maturity investments are reported at amortized cost on MBIA Corp.'s balance sheet. The table segregates investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	September 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate obligations	$ 1,009	$ (91)	$ -	$ -	$ 1,009	$ (91)
Asset-backed	468	(432)	-	-	468	(432)
Total	$ 1,477	$ (523)	$ -	$ -	$ 1,477	$ (523)

As of September 30, 2009 and December 31, 2008, MBIA Corp.'s available-for-sale fixed-maturity, other investment and held-to-maturity portfolios' gross unrealized losses totaled $697 million and $324 million, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2009 and December 31, 2008 was 19 years and 31 years, respectively. As of September 30, 2009, there were 43 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $12 million. Within the 43 securities, the book value of 34 securities exceeded market value by more than 5%. As of December 31, 2008, there were 121 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $47 million. Within the 121 securities, the book value of 80 securities exceeded market value by more than 5%.

MBIA Corp. has evaluated whether the unrealized losses in its investment portfolios were other than temporary considering the circumstances that gave rise to the unrealized losses, and whether MBIA Corp. has the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recovery. Based on its evaluation, for the three months ended September 30, 2009, MBIA Corp. realized an other-than-temporary impairment of $50 million on a taxable fixed-maturity security. For the nine months ended September 30, 2009, MBIA Corp. realized other-than-temporary impairments of $91 million. MBIA Corp. determined that the unrealized losses on the remaining securities were temporary in nature because its impairment analysis, including projected future cash flows, indicated that MBIA Corp. would be able to recover the amortized cost of impaired assets. MBIA Corp. also concluded that it does not have the intent to sell these securities and it is more likely than not that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, MBIA Corp. examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources availability to its business other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2009 that would require the sale of impaired securities. On a quarterly basis, MBIA Corp. will reevaluate the unrealized losses in its investment portfolios and determine whether an impairment loss should be realized in current earnings. Refer to “Note 7: Investment Income and Gains and Losses” for information on realized losses due to other-than-temporary impairments. Additionally, refer to “Note 2: Significant Accounting Policies” for a description of the process used by MBIA Corp. to determine other-than-temporary impairments.

Note 7: Investment Income and Gains and Losses

The following table includes MBIA Corp.’s total investment income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2009	2008	2009	2008
Fixed-maturity	$ 37	$ 124	$ 144	$ 383
Held-to-maturity	15	13	57	42
Short-term investments	0	9	7	26
Other investments	14	4	51	6
Gross investment income	66	150	259	457
Investment expenses	2	3	5	11
Net investment income	64	147	254	446
Fixed-maturity				
Gains	25	37	49	86
Losses	(60)	(13)	(107)	(24)
Net	(35)	24	(58)	62
Other investments				
Gains	0	0	2	1
Losses	-	(0)	(2)	(0)
Net	0	0	-	1
Other				
Gains	1	2	1	5
Losses	(61)	-	(70)	-
Net	(60)	2	(69)	5
Total net realized gains (losses) (1)	(95)	26	(127)	68
Total investment income	$ (31)	$ 173	$ 127	$ 514

(1) - Includes losses from other-than-temporary impairments.

Net realized gains (losses) from fixed-maturity investments are generated as a result of the ongoing management of all of MBIA Corp.'s investment portfolios in 2009 and 2008. For the three months ended September 30, 2009, net realized losses from fixed-maturity investments of $35 million was primarily due to an other-than-temporary impairment of $50 million on a VIE, an increase in market value of trading securities of $8 million and a net gain on sales of $4 million. For the nine months ended September 30, 2009, net realized losses from fixed-maturity investments of $58 million was primarily due to other-than-temporary impairments of $91 million related to MBIA Corp.'s VIEs, an increase in the fair value of trading securities of $8 million and a net gain on sales of $22 million.

For the three and nine months ended September 30, 2009, other net realized losses on other included impairments of $41 million related to a loan receivable within a consolidated VIE loan receivable and $19 million related to MBIA Corp.'s real estate.

As discussed in "Note 2: Significant Accounting Policies," a portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities are recognized in accumulated other comprehensive income (loss). The following table presents the amount of credit loss impairments on fixed maturity securities held by MBIA Corp. as of the dates indicated, for which a portion of the other-than-temporary impairment losses were recognized in accumulated other comprehensive income (loss), and the corresponding changes in such amounts.

Credit Losses Recognized in Earnings Related to OTTI	**(in millions)**
Balance, December 31, 2008	$ -
Credit losses recognized in retained earnings related to the adoption of recently effective accounting principles (1)	-
Additions for credit loss impairments recognized in the current period on securities not previously impaired	57
Reductions for credit loss impairments previously recognized on securities sold during the period	-
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period (2)	-
Additions for credit loss impairments recognized in the current period on securities previously impaired	-
Reductions for increases in cash flows expected to be collected over the remaining life of the security	-
Balance, September 30, 2009	$ 57

(1) - Reflects the adoption of recently effective principles for recognition and presentation of other-than-temporary impairments, as described in "Note 3: Recent Accounting Pronouncements."
(2) - Represents circumstances where MBIA Corp. determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

For ABSs (e.g., RMBSs and CDOs), MBIA Corp. estimated expected future cash flows of each security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which considers current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for each significant class of asset-backed securities for the three months ended September 30, 2009.

	Asset-backed Securities
Expected size of losses [1]:	
Range [2]	10.57% to 40.17%
Weighted average [3]	28.91%
Current subordination levels [4]:	
Range [2]	0.00% to 76.82%
Weighted average [3]	14.33%
Prepayment speed (annual constant prepayment rates (“CPR”)) [5]:	
Range [2]	3.00 to 15.00
Weighted average [3]	13.65

(1) - Represents future expected credit losses on impaired assets expressed as a percentage of total current outstanding balance.

(2) - Represents the range of inputs/assumptions based upon the individual securities within each category.

(3) - Calculated by weighting the relevant input/assumption for each individual security by current outstanding amortized cost basis of the security.

(4) - Represents current level of credit protection (subordination) for the securities, expressed as a percentage of total current underlying loan balance.

(5) - Values represent high and low points of lifetime vectors of CPR.

Net unrealized gains (losses), including related deferred income taxes, reported in accumulated other comprehensive income (loss) within shareholders' equity consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity:		
Gains	$ 70	$ 164
Losses	(174)	(320)
Foreign exchange	(78)	(144)
Net	(182)	(300)
Other investments:		
Gains	-	-
Losses	-	(4)
Net	-	(4)
Total	(182)	(304)
Deferred income taxes provision (benefit)	3	(64)
Unrealized gains (losses), net	$ (185)	$ (240)

The change in net unrealized gains (losses), including the portion of OTTI included in accumulated other comprehensive loss, consisted of:

In millions	September 30, 2009	December 31, 2008
Fixed-maturity	$ 118	$ (535)
Other investments	4	(22)
Total	122	(557)
Deferred income tax charged (credited)	67	(155)
Change in unrealized gains (losses), net	$ 55	$ (402)

Note 8: Derivative Instruments

MBIA Corp. has entered into derivative transactions as an additional form of financial guarantee and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. MBIA Corp. accounts for derivative transactions in accordance with the accounting principles for derivative and hedging activities, as amended, which requires that all such transactions be recorded on MBIA Corp.'s balance sheet at fair value. Fair value of derivative instruments is defined as the price that would be received to sell a derivative asset or paid to transfer a derivative liability (an exit price) in an orderly transaction between market participants at the measurement date.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within "Net gains (losses) on financial instruments at fair value and foreign exchange" or in shareholders' equity within "Accumulated other comprehensive income (loss)," depending on whether the derivative is designated as a hedge, and if so designated, the type of hedge. Changes in the fair value of insured derivatives are recorded in "Net change in fair value of insured derivatives." The net change in the fair value of MBIA Corp.'s insured derivatives has two primary components; (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. "Realized gains (losses) and other settlements on insured derivatives" include (i) net premiums received and receivable on written CDS contracts, (ii) net premiums paid and payable to reinsurers in respect of CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. The "Unrealized gains (losses) on insured derivatives" include all other changes in fair value of the derivative contracts.

MBIA Corp. has entered into derivative transactions that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value in MBIA Corp.'s balance sheet. MBIA Corp. has insured derivatives primarily consisting of structured pools of CDSs that MBIA Corp. intends to hold for the entire term of the contract absent a negotiated settlement with the counterparty. MBIA Corp. has also provided guarantees on the value of certain structured closed-end funds, which meet the definition of a derivative. MBIA Corp. reduces risks embedded in its insured portfolio through the use of reinsurance and by entering into derivative transactions. This includes cessions of insured derivatives under reinsurance agreements and capital markets transactions in which MBIA Corp. economically hedges a portion of the credit and market risk associated with its insured credit derivative portfolio. Such arrangements are also accounted for as derivatives and recorded in MBIA Corp.'s financial statements at fair value.

Credit Derivatives Sold

The following table presents information about credit derivatives sold (insured) by MBIA Corp. that were outstanding as of September 30, 2009. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P, or MBIA Corp.

In millions		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Credit default swaps	9.3 Years	$40,679	$27,889	$36,145	$ 7,333	$19,611	$131,657	$(4,938)
Insured swaps	10.4 Years	-	375	670	3,529	1,349	5,923	(14)
Credit linked notes	28.4 Years	1	-	-	-	-	1	-
All others	6.3 Years	-	-	25	36	159	220	(28)
Total notional		$40,680	$28,264	$36,840	$10,898	$21,119	$137,801	
Total fair value		$ (346)	$ (549)	$ (1,302)	$ (580)	$ (2,203)		$(4,980)

The following table presents information about credit derivatives sold (insured) by MBIA Corp. that were outstanding as of December 31, 2008. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P or MBIA.

In millions		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Credit default swaps	5.8 Years	$122,213	$5,176	$ 120	$1,447	$16,077	$145,033	$(6,175)
Insured swaps	16.1 Years	-	1,605	5,720	8,419	1,435	17,179	(5)
Total return swaps	1.7 Years	-	-	200	-	104	304	-
Credit linked notes	30.3 Years	-	-	1	-	-	1	-
All others	9.4 Years	195	-	288	-	-	483	(14)
Total notional		$122,408	$6,781	$6,329	$9,866	$17,616	$163,000	
Total fair value		$ (3,450)	$ (481)	$ -	$ (37)	$ (2,226)		$(6,194)

Referenced credit ratings assigned by MBIA Corp. to insured credit derivatives are derived by MBIA Corp.'s surveillance group in conjunction with representatives from its new business and risk divisions. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDSs are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDSs. Refer to "Note 12: Net Insurance in Force" for further information about MBIA Corp.'s sold credit derivatives including the maximum potential undiscounted payments, recourse provisions and collateral arrangements. The maximum potential amount of future payments (undiscounted) on insured swaps and credit linked notes sold are estimated as the notional value of such contracts.

Financial Statement Impact

As of September 30, 2009 and December 31, 2008, MBIA Corp. reported derivative assets of $733 million and $747 million, respectively, and derivative liabilities of $5.0 billion and $6.2 billion, respectively, which are shown separately on the consolidated balance sheets. The following table presents the amount of derivative assets and liabilities by instrument as of September 30, 2009:

In millions

Derivatives Not Designated as Hedging Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Credit default swaps - insured derivatives	$153,281	Derivative assets	$ 724	Derivative liabilities	$(4,938)
Insured swaps	6,027	Derivative assets	9	Derivative liabilities	(14)
Credit linked notes	1	Derivative assets	-	Derivative liabilities	-
All other	220	Derivative assets	-	Derivative liabilities	(28)
Total derivatives	$159,529		$ 733		$(4,980)

The following tables show the effect of derivative instruments on the consolidated statement of operations for the three months ended September 30, 2009:

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$ (798)
Insured swaps	Realized gains (losses) and other settlements on insured derivatives	(31)
All other	Unrealized gains (losses) on insured derivatives	(12)
Total		$ (841)

The following tables show the effect of derivative instruments on the consolidated statement of operations for the nine months ended September 30, 2009:

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$ 1,237
Insured swaps	Unrealized gains (losses) on insured derivatives	1
Insured swaps	Realized gains (losses) and other settlements on insured derivatives	33
All other	Unrealized gains (losses) on insured derivatives	(15)
Total		$ 1,256

Note 9: Variable Interest Entities

MBIA Corp. provides credit enhancement services to issuers of obligations that may involve issuer-sponsored special purpose entities ("SPEs"). An SPE may be considered a VIE to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or if its equity investors lack any one of the characteristics of a controlling financial interest including (i) the ability to make significant decisions through voting rights, (ii) the right to receive the expected residual returns of the entity, or (iii) the obligation to absorb the expected losses of the entity. The holder of a variable interest that will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both, is required to consolidate the VIE. The variable interest holder required to consolidate a VIE is considered to be the primary beneficiary. A variable interest holder determines whether it is the primary beneficiary of the VIE at initial recognition of its variable interest in the VIE and reconsiders its determination if certain events occur in a subsequent reporting period.

MBIA Corp. evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, at inception and when reconsideration events occur, MBIA Corp. evaluates whether its guarantee to provide credit protection on obligations issued by VIEs will absorb the majority of the expected losses of the VIE.

MBIA Corp. generally makes this determination based on a qualitative assessment of the design and purpose of the VIE, the capital structure and other variable interests that will absorb expected losses. If MBIA Corp. cannot make the determination based on a qualitative analysis, a quantitative analysis is used. MBIA Corp. generally provided credit protection on the most senior obligations issued by VIEs, and at inception of the contract, its exposure generally had more subordination than necessary to achieve triple-A credit ratings from credit rating agencies. MBIA Corp. generally does not absorb the majority of the expected losses and is not the primary beneficiary as the result of its guarantees of insured obligations issued by VIEs. MBIA Corp. generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a nonconsolidated VIE, to be a significant variable interest.

Consolidated VIEs

As of September 30, 2009, consolidated VIE assets and liabilities were $3.1 billion and $7.6 billion, respectively, based on the consolidation of eight VIEs. As of December 31, 2008, consolidated VIE assets and liabilities were $2.3 billion and $8.0 billion, respectively, based on the consolidation of six VIEs. Included in consolidated VIEs as of September 30, 2009 and December 31, 2008 is an entity sponsored and formed by MBIA Corp., LaCrosse, designed to provide credit protection to counterparties in the form of credit derivative instruments. MBIA Corp. provides credit support and issues financial guarantee insurance policies that insure all LaCrosse credit protection obligations. LaCrosse lacks sufficient equity to finance its activities and is deemed a VIE. As primary beneficiary, MBIA Corp. consolidates LaCrosse. In the second quarter of 2009, MBIA Corp. formed an entity MBIA Capital Management Institutional Investor Trust to invest in fixed-income securities and financial instruments for income and capital appreciation, and has invested in the equity of this entity. The entity's equity at risk does not meet all the conditions of a controlling financial interest and is deemed a VIE. MBIA Corp. holds the majority of the equity of the VIE and is considered the primary beneficiary. In the second quarter of 2009, MBIA Corp. initially consolidated a VIE as the primary beneficiary resulting from a financial guarantee insurance policy that provides credit protection on insured obligations issued by the entity. The maturity dates of the investments held and insured obligations issued by this VIE are in May 2010. In the nine months ended September 30, 2009, MBIA Corp. acquired additional variable interests in one consolidated VIE which has outstanding obligations insured by MBIA Corp.

MBIA Corp. determined that it is the primary beneficiary of the consolidated VIEs based on its assessment of potential exposure to expected losses from insured obligations issued by the VIEs and from holding any additional variable interests issued by the VIEs. Creditors of issuer-sponsored VIEs do not have recourse to the general assets of MBIA Corp. In the event of nonpayment of an insured obligation issued by a consolidated VIE, MBIA Corp. is obligated to pay principal and interest, when due, on the respective insured obligation only. MBIA Corp.'s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and the additional variable interests acquired.

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which MBIA Corp. holds a significant variable interest as of September 30, 2009 and December 31, 2008. The tables also present MBIA Corp.'s maximum exposure to loss in comparison to the carrying value of liabilities resulting from financial guarantees and insured CDSs and loss and loss adjustment expense reserves as of September 30, 2009 and December 31, 2008. MBIA Corp. has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. Refer to "Note 8: Derivative Instruments" for information about MBIA Corp.'s valuation of insured derivatives. Additionally, as the majority of MBIA Corp.'s loss and LAE reserves relate to guarantees of VIEs, refer to "Note 10: Loss and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s loss and LAE activity.

	September 30, 2009				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 59,446	$ 51,957	$ 111	$ 1,931	$ 55
Mortgage-backed residential	78,065	27,814	139	3	973
Mortgage-backed commercial	1,830	1,512	7	-	-
Consumer asset-backed	17,219	10,509	45	-	21
Corporate asset-backed	57,596	32,474	514	4	-
Total global structured finance	$214,156	$124,266	$ 816	$ 1,938	$ 1,049
Global public finance	31,270	11,145	153	-	-
Total insurance	$245,426	$135,411	$ 969	$ 1,938	$ 1,049

	December 31, 2008				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 70,778	$ 51,198	$ 11	$2,567	$ 25
Mortgage-backed residential	94,574	29,677	4	1	1,068
Mortgage-backed commercial	2,196	1,660	-	-	-
Consumer asset-backed	21,449	12,832	1	-	22
Corporate asset-backed	68,101	38,498	43	4	-
Total global structured finance	$257,098	$133,865	$ 59	$2,572	$ 1,115
Global public finance	25,561	9,621	85	-	-
Total insurance	$282,659	$143,486	$ 144	$2,572	$ 1,115

The maximum exposure to losses as a result of MBIA Corp.'s variable interest in the VIE is represented by net insurance in force. Net insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs, assuming a full credit event occurs. The maximum exposure to losses presented in the preceding table is included in and not incremental to the net insurance in force presented in Note 12, "Net Insurance in Force." MBIA Corp. adopted the accounting principles for financial guarantee insurance contracts, effective and applied prospectively beginning January 1, 2009, which requires unearned premium revenue to be recognized and measured based on the present value, using the risk-free discount rate, of premiums due or expected to be collected in installments. Therefore, "Unearned Premium Revenue" presented under "Carrying Value of Liabilities" in the preceding nonconsolidated VIEs tables as of September 30, 2009 and December 31, 2008 are based on different accounting estimates due to the change in accounting principle.

Balance Sheet Impact of Consolidated VIEs

The following table presents the carrying amounts and classification of assets and liabilities of consolidated VIEs as of September 30, 2009 and December 31, 2008:

In millions	September 30, 2009	December 31, 2008
Assets:		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value	$ 390	$ 632
Fixed-maturity securities held as trading, at fair value	123	-
Investments held-to-maturity, at amortized cost	1,175	1,215
Short-term investments held-to-maturity, at amortized cost	917	31
Accrued investment income	2	2
Other assets	474	423
Total assets	$ 3,081	$ 2,303
Liabilities:		
Variable interest entity notes	2,669	1,792
Derivative liabilities	4,945	6,189
Total liabilities	$ 7,614	$ 7,981

Note 10: Loss and Loss Adjustment Expense Reserves

During the first nine months of 2009, MBIA Corp. incurred $111 million of loss and loss adjustment expenses primarily driven by additional losses of $1.8 billion largely related to MBIA Corp.'s second-lien RMBS exposure. These additional losses were mostly offset by the impact of recording $1.7 billion of estimated recoveries that was related to the RMBS exposure. Approximately $1.2 billion of the RMBS insurance loss recoveries relate to estimates of potential recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage securitizations that are subject to a contractual obligation by sellers/servicers to repurchase or replace such mortgages and approximately $550 million relates to recoveries of amounts expected to be paid from excess cash flows within the securitizations.

Total paid activity, net of reinsurance, for the nine months ended September 30, 2009 of $2.0 billion primarily related to $1.9 billion in payments for insured obligations in MBIA Corp.'s RMBS sector. For the nine months ended September 30, 2009, estimated recoveries on paid losses totaled $1.7 billion and were primarily related to MBIA Corp.'s RMBS sector. MBIA Corp. had an insurance loss recoverable of $2.2 billion as of September 30, 2009 and $459 million as of December 31, 2008, respectively. Amounts due to reinsurers related to insurance loss recoverable totaled $79 million as of September 30, 2009, and $13 million as of December 31, 2008, and are included in "Other liabilities" on MBIA Corp.'s consolidated balance sheets.

In the third quarter of 2009, MBIA Corp. continued its review of mortgage loans in its insured transactions. As a result, the expected net cash flows were revised based on additional loan reviews and reflected in the estimated, potential recoveries related to ineligible mortgage loans in certain insured first and second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans. MBIA Corp.'s rationale for the recognition of these recoveries remains the same as the prior quarters and is primarily based upon the following factors:

1. The strength of MBIA Corp.'s existing contract claims related to ineligible loan substitution/repurchase obligations;
2. the favorable outcome for MBIA Corp. on Defendants' motion to dismiss in the action captioned, MBIA v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) where the court allowed MBIA Corp.'s fraud claims against the Countrywide defendants to proceed;
3. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which will facilitate their ability to comply with required loan repurchase/substitution obligations. MBIA Corp. is not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. As a result, MBIA Corp. did not make any significant adjustments to its estimated recoveries with respect to the credit risk of these sponsors (or their successors); and
4. evidence of loan repurchase/substitution compliance by issuers for put-back requests made by other harmed parties consistent with MBIA Corp.'s assertions.

Beginning in the first quarter of 2008, MBIA Corp. engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying MBIA Corp.'s home equity lines of credit ("HELOCs") and closed-end second mortgages (" CES") insured transactions. Certain HELOC and CES transactions that exhibited exceptionally poor performance were chosen for a re-underwriting review. Factors MBIA Corp. believes to be indicative of this poor performance include (i) a material increase in early and late stage delinquencies; (ii) material increases in charged-off loans; (iii) significant decreases in credit enhancement; and/or (iv) policy payments. MBIA Corp.'s forensic loan review determined that there were significant breaches of mortgage loan representations and material deviations from underwriting guidelines. Accordingly, MBIA Corp. has determined that thousands of loans were contractually ineligible for inclusion in the securitized trusts insured by MBIA Corp. In turn, MBIA Corp. has submitted thousands of ineligible loans for repurchase/substitution to the sponsors or sellers/servicers. The unsatisfactory resolution of these contractual matters in addition to fraudulent underwriting practices that MBIA Corp. believes were prevalent within certain issuers has led to MBIA Corp. pursuing litigation with these issuers seeking the sellers/servicers to repurchase or replace ineligible mortgage loans and specifically perform under its contractual obligation and damages for both breaches of contractual obligations and fraud. MBIA Corp.'s forensic examination of loan repurchase/substitution requirements for various issuers remains ongoing.

In the second and third quarters of 2009, MBIA Corp. recognized estimated recoveries of $1.2 billion related to reviewed transactions. The estimated recoveries are transaction specific and based upon contractual breaches for loans which MBIA Corp. believes were ineligible and either put back to the originators or sellers/servicers or where analysis has been completed and put-back notices are pending. These estimated recoveries rely upon identified breaches of representations and warranties in specific transactions that MBIA Corp. has already identified as a result of actual loan file examinations for loans across a broad spectrum of categories ranging from current to severely delinquent and charged-off mortgage loans. During 2009, in coordination with forensic review consultants, 26,805 mortgage loans were reviewed within 27 first and second-lien mortgage loan securitizations. The aggregate loan population includes current, delinquent and charged-off loans. Estimated recoveries for these 27 transactions of $1.2 billion is based on only those loans that were examined which had substantiated breaches, and does not include any extrapolation of results from the actual loan file examinations to the remaining mortgages in the loan pool. Expected cash inflows from recoveries for all transactions are discounted using the current risk-free rate associated with the underlying credit, which ranged from 2.02% to 3.38% depending upon the transaction's expected life. MBIA Corp. considered all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as facts and circumstances change and relevant information is available, including additional information on the mortgage loan pools. MBIA Corp. has utilized the results of the above described loan file examinations to make demands for loan repurchases from originators and services or their successors and, in certain instances, as a part of the basis for litigation filings.

MBIA Corp. will continue to assess the level of expected recoveries as it completes additional forensic reviews on additional loans and progresses through the litigation proceedings that are ongoing at this time. As a result of additional loan reviews and the progression of litigation proceedings, MBIA Corp.'s estimate of recoveries could change materially in the future.

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

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

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

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

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

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

"Classified List" —Includes all insured obligations where MBIA Corp. has paid a claim or where a claim payment is expected to exceed its unearned premium revenue. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA Corp.'s surveillance categories as of September 30, 2009:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	220	60	12	115	407
Number of issues [1]	39	25	11	84	159
Remaining weighted average contract period (in years)	9.1	11.2	8.6	5.6	7.4
Gross insured contractual payments outstanding:					
Principal	$ 9,177	$ 2,188	$ 622	$14,832	$26,819
Interest	5,039	1,626	368	4,404	11,437
Total	$ 14,216	$ 3,814	$ 990	$19,236	$38,256
Gross claim liability	$ -	$ -	$ -	$ 2,304	$ 2,304
Less:					
Gross potential recoveries	-	-	-	3,227	3,227
Discount, net	-	-	-	(1)	(1)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (922)	$ (922)
Unearned premium revenue	$ 233	$ 36	$ 6	$ 93	$ 368

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

The following table provides information about MBIA Corp.'s components of the insurance loss reserves and recoverable included in each of MBIA Corp.'s surveillance categories as of September 30, 2009:

	Surveillance Categories				
In millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Loss reserves (claim liability)	$ -	$ -	$ -	$1,270	$1,270
LAE reserves	-	-	-	53	53
Loss and LAE reserves	$ -	$ -	$ -	$1,323	$1,323
Insurance loss recoverable	$ -	$ -	$ -	$2,170	$2,170
LAE insurance loss recoverable	-	-	-	38	38
Insurance loss recoverable	$ -	$ -	$ -	$2,208	$2,208
Reinsurance recoverable on unpaid losses	$ -	$ -	$ -	$ 224	$ 224
Reinsurance recoverable on LAE reserves	-	-	-	29	29
Reinsurance recoverable on paid losses	-	-	-	19	19
Reinsurance recoverable on paid and unpaid losses	$ -	$ -	$ -	$ 272	$ 272

The gross claim liability reported in the preceding table primarily relates to probability weighted expected future claim payments on insured RMBS transactions. The gross potential recoveries reported in the preceding table primarily relate to probability weighted estimated recoveries resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans in addition to expected future recoveries on RMBS transactions resulting from expected excess spread generated by performing loans in such transactions.

The following table presents changes in MBIA Corp.'s loss and LAE reserve for the nine months ended September 30, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserve, changes in discount rates, and changes in the timing and amounts of estimated payments and recoveries are recorded in "Loss and loss adjustment expenses" in MBIA Corp.'s statement of operations. LAE reserves that are expected to be settled within a one year period are not discounted. As of September 30, 2009, the weighted average risk-free rate used to discount the claim liability was 2.313%.

In millions	Nine Months Ended September 30, 2009									
Gross Loss and LAE Reserve as of December 31, 2008	Accounting Transition Adjustment [1]	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Change in LAE Reserves	Gross Loss and LAE Reserve as of September 30, 2009
$ 1,558	$ (183)	$(1,769)	$ 8	$ (51)	$ 18	$ 295	$ 1,426	$ (24)	$ 45	$ 1,323

(1) - Reflects the adoption of recently effective accounting principles for financial guarantee insurance contracts as described in "Note 3: Recent Accounting Pronouncements."

The following table presents changes in MBIA Corp.'s insurance loss recoverable for the nine months ended September 30, 2009. Changes in the insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, and changes in the timing and amounts of estimated collections are recorded in "Loss and loss adjustment expenses" in MBIA Corp.'s statement of operations.

In millions	Nine Months Ended September 30, 2009								
	Insurance Loss Recoverable as of December 31, 2008	Collections for Cases with Recoverables	Accretion of Insurance Loss Recoverable	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Change in LAE Recoverable	Insurance Loss Recoverable as of September 30, 2009
	$ 459	$ (36)	$ 5	$ (39)	$ 1	$ -	$ 1,781	$ 37	$ 2,208

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA Corp. seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA Corp.-insured obligation may, with the consent of MBIA Corp., restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA Corp. insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to MBIA Corp.'s "Caution List—Low," "Caution-List—Medium," "Caution List—High" and "Classified List" are recorded as LAE. LAE is recorded as part of MBIA Corp.'s provision for its loss reserves and included in "Losses and loss adjustment" on MBIA Corp.'s consolidated statements of operations. The following table presents information about the expenses (gross and net of reinsurance), related to remedial actions for insured obligations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Loss adjustment expense incurred, gross	$ 41,220	$ 610	$ 128,290	$ 6,719
Loss adjustment expense incurred, net	$ 11,912	$ 578	$ 39,652	$ 6,339

Note 11: Income Taxes

MBIA Corp.'s income taxes and the related effective tax rates for the nine months ended September 30, 2009 and 2008 are as follows:

	Nine Months Ended September 30,			
In millions	2009		2008	
Pre-tax income (loss)	$ 1,246		$ (360)	
Provision (benefit) for income taxes	$ 456	36.6%	$ (147)	40.8%

Embedded in the effective tax rate for the nine months ended September 30, 2009 are the tax effects of MBIA Corp.'s expected operating activities such as scheduled premium earnings, fees, and net investment income and operating expenses. MBIA Corp.'s effective tax rate related to its pre-tax income for the nine months ended September 30, 2009 was primarily a result of a net unrealized gain on its insured derivative portfolio, the tax-exempt interest from investments, and an increase in its valuation allowance. For the nine months ended September 30, 2008, MBIA Corp.'s effective tax rate related to its pre-tax loss was primarily driven by net unrealized loss on its insured derivative portfolio and tax-exempt interest from investments.

MBIA Corp. has calculated its effective tax rate for the full year of 2009 by treating the net unrealized gain on its insured derivative portfolio as a discrete item. As such, this amount is not included when projecting the MBIA Corp.'s full year effective tax rate but rather is accounted for at 35% after applying the projected full year effective tax rate to actual nine-month results. Given MBIA Corp.'s inability to estimate this item for the full year of 2009, MBIA Corp. believes that it is appropriate to treat net unrealized gains and losses on its insured derivative portfolio as a discrete item for purposes of calculating its effective tax rate for the year.

Deferred Tax Asset, Net of Valuation Allowance

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

As of September 30, 2009, MBIA Corp. reported a net deferred tax asset of $735 million primarily related to the cumulative unrealized losses recorded on its insured derivative and investment portfolios. Included in the net deferred tax asset of $735 million is a valuation allowance of $38 million, which was entirely established in the nine months ended September 30, 2009. The change in the valuation allowance for the nine months ended September 30, 2009 was primarily the result of an increase in realized losses resulting from asset impairments and sales of investments. MBIA Corp. did not have a valuation allowance established as of December 31, 2008.

Unrealized Losses on Credit Derivative Contracts

Approximately $1.1 billion of the net deferred tax asset was a result of the cumulative net unrealized losses of $3.3 billion, which excludes credit impairments, primarily related to insured credit derivatives. MBIA Corp. believes that such deferred tax asset will more likely than not be realized as MBIA Corp. expects the unrealized losses and its related deferred tax asset to substantially reverse over time. As such, no valuation allowance with respect to this item was established. In its conclusion, MBIA Corp. considered the following evidence (both positive and negative):

- Due to the long-tail nature of the financial guarantee business, it is important to note that MBIA Corp., even without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. MBIA Corp.'s announcement in February 2008 of a temporary suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio. Although MBIA Corp. expects the majority of the unrealized losses to reverse at maturity, MBIA Corp. performed a taxable income projection over a 15-year period to determine whether it will have sufficient income to offset its deferred tax assets that will generate future ordinary deductions. In this analysis, MBIA Corp. concluded that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, will be sufficient to recover the net deferred tax asset of $735 million.
- MBIA Corp.'s taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and loss adjustment expenses equal to the present value discount of loss reserves already recognized on MBIA Corp.'s balance sheet and an estimate of loss adjustment expense which is generally insignificant. MBIA Corp. does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because MBIA Corp. establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.
- While the ratings downgrades by the rating agencies have limited MBIA Corp.'s ability to write new business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which MBIA Corp. believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.
- With respect to installment policies, MBIA Corp. generally does not have an automatic cancellation provision solely in connection with ratings downgrades. For purposes of projecting future taxable income, MBIA Corp. has applied a haircut to adjust for the possible cancellation of future installment premiums based on recent data. With regards to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated and earned (i.e. refundings).

- MBIA Corp. treats the CDS contracts as insurance contracts for U.S. tax purposes. MBIA Corp. provides an insurance policy guaranteeing CDS contracts written by LaCrosse. While LaCrosse's financial information is consolidated into MBIA Corp.'s GAAP financial statements based on the criteria for consolidation of a variable interest entity, MBIA Corp. does not hold any equity interest with respect to LaCrosse. MBIA Corp.'s income derived from the CDS contracts is treated as premium income for statutory income purposes. In the event that there is a default in which MBIA Corp. is required to pay claims on such CDS contracts, MBIA Corp. believes that the losses should be characterized as an ordinary loss for tax purposes and, as such, the event or impairment will be recorded as case reserves for statutory accounting purposes in recognition of the potential claim payment. For tax purposes, MBIA Corp. follows the statutory accounting principle as the basis for computing its taxable income. Because the federal income tax treatment of CDS contracts is an unsettled area of tax law, in the event that the Internal Revenue Service ("IRS") has a different view in which the losses are considered capital losses, MBIA Corp. would be required to establish a valuation allowance against substantially all of the deferred tax asset related to these losses until such time as it had sufficient capital gains to offset the losses. The establishment of this valuation allowance would have a material adverse effect on MBIA Corp.'s financial condition at the time of its establishment.

Realized Gains and Losses

As of September 30, 2009, MBIA Corp. had a full valuation allowance against the deferred tax asset related to realized losses from asset impairments and sales of investments.

Unrealized Losses on Debt and Equity Securities

As of September 30, 2009, MBIA Corp. had approximately $3 million in deferred tax assets related to unrealized losses on investments. MBIA Corp. intends to hold these investments until maturity or until such time as the value recovers. As such, MBIA Corp. expects that its deferred tax assets will reverse over the life of the securities.

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of September 30, 2009. MBIA Corp. continues to assess the adequacy of its valuation allowances as additional evidence becomes available.

Ownership Change under Section 382 of the Internal Revenue Code

Section 382 of the Internal Revenue Code of 1986, as amended, imposes annual limitations on the utilization of net operating loss ("NOL") carryforwards, other tax carryforwards, and certain built-in losses upon an ownership change, as defined under that Section. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in MBIA Inc.'s stock by more than 50 percentage points over a defined testing period, generally three years ("Section 382 Ownership Change").

MBIA Inc. has experienced a shift in ownership as a result of its February 2008 equity offering as well as Warburg Pincus investments and other transactions involving its shares. As of September 30, 2009, MBIA Inc., however, has not triggered a Section 382 Ownership Change. If MBIA Inc. were to experience a Section 382 Ownership Change, an annual limitation would be imposed on certain of MBIA Inc.'s tax attributes, including NOL and capital loss carryforwards and certain other losses, credits, deductions or tax basis. MBIA Inc. cannot give any assurance that it will not undergo an ownership change at a time when these limitations would have a significant effect.

Accounting for Uncertainty in Income Taxes

The change in the unrecognized tax benefit ("UTB") at September 30, 2009 is as follows:

In thousands	
Unrecognized tax benefit as of December 31, 2008	$ 16,842
The gross amount of the increase/(decrease) in UTB as a result of tax positions taken:	
During prior year	1,305
During current year	152
The amounts of decreases in the UTB related to settlements with taxing authorities	(11,826)
The reduction to UTB as a result of the applicable statute of limitation	-
Unrecognized tax benefit as of September 30, 2009	$ 6,473

For the nine months ended September 30, 2009, the change in the MBIA Corp.'s UTB was primarily a result of an increase of $1 million due to a position taken in a prior year tax return and a decrease of $12 million due to the French tax settlement discussed below. In addition, the related interest and penalties accrued decreased primarily a result of an abatement of $3 million as part of the same French tax settlement.

MBIA Corp.'s major tax jurisdictions include the U.S., the United Kingdom ("U.K.") and France. MBIA Inc. and its U.S. subsidiaries file a U.S. consolidated federal income tax return. The IRS is currently examining tax years 2005 through 2008. During the first nine months of 2009, the IRS completed a partnership audit which impacted MBIA Inc.'s U.S. consolidated tax group's return from 2004 through 2006. The adjustment did not have a material impact to MBIA Inc.'s tax position.

The U.K. tax authorities are currently auditing tax years 2005 and 2006, which should be completed by the end of 2009. The French tax matters have been concluded through 2006, including the settlement, in February 2009, of a UTB of $12 million that was established in prior years relating to the timing for recognizing earned premium.

It is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months due to the possibility of the conclusion of all or a portion of the tax examinations in process. The range of this possible change in the amount of uncertain tax benefits cannot be estimated at this time.

Note 12: Net Insurance in Force

MBIA Corp. guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities. Additionally, MBIA Corp. has insured CDSs primarily on pools of collateral, which it previously considered part of its core financial guarantee business. The pools of collateral are made up of corporate obligations, but also include commercial and residential mortgage-backed securities-related assets. MBIA Corp.'s net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. MBIA Corp.'s ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of the principal, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA Corp. may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable upon ratings downgrades, and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp. would make such payments. These amounts have been excluded in the tables that follow.

The creditworthiness of each insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with MBIA Corp.'s underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become MBIA Corp.'s upon the payment of a claim by MBIA Corp.

MBIA Corp. maintains underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. For global public finance transactions these include economic and social trends, debt and financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility. For global structured finance transactions, MBIA Corp.'s underwriting guidelines, analysis and due diligence focus on counterparty credit and operational quality. MBIA Corp. also analyzes the quality of asset pools, as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for MBIA Corp.'s underwriting standards as well as maintaining the standards in its insurance operations.

As of September 30, 2009, net insurance in force, which represents principal and interest or other amounts owing on insured obligations, net of cessions to reinsurers, had an expected maturity range of 1-48 years. The distribution of net insurance in force by geographic location, excluding $5.0 billion and $8.5 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of September 30, 2009 and December 31, 2008, respectively, is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Geographic Location	Net Insurance in Force	% of Net Insurance in Force	Net Insurance in Force	% of Net Insurance in Force
Delaware	$ 1.2	0.4%	$ 3.8	0.3%
New York	1.1	0.4%	86.3	7.2%
California	0.5	0.2%	163.6	13.7%
Minnesota	0.3	0.1%	11.1	0.9%
Nebraska	0.3	0.1%	4.1	0.3%
Florida	0.2	0.1%	68.0	5.7%
Pennsylvania	-	0.0%	32.9	2.7%
Missouri	-	0.0%	10.9	0.9%
Alabama	-	0.0%	7.4	0.6%
Puerto Rico	-	0.0%	13.1	1.1%
Subtotal	3.6	1.3%	401.2	33.4%
Nationally diversified	162.2	57.7%	178.5	14.9%
Other states	-	0.0%	499.6	41.8%
Total United States	165.8	59.0%	1,079.3	90.1%
Internationally diversified	38.5	13.7%	43.9	3.6%
Country specific	76.9	27.3%	75.1	6.3%
Total non-United States	115.4	41.0%	119.0	9.9%
Total	$281.2	100.0%	$1,198.3	100.0%

The net insurance in force by type of bond is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Bond Type	Net Insurance in Force	% of Net Insurance in Force	Net Insurance in Force	% of Net Insurance in Force
Global public finance - United States:				
General obligation	$ -	0.0%	$ 322.2	26.8%
General obligation - lease	-	0.0%	69.1	5.8%
Municipal utilities	-	0.0%	162.8	13.6%
Tax-backed	-	0.0%	111.9	9.3%
Transportation	-	0.0%	93.0	7.8%
Higher education	-	0.0%	50.5	4.2%
Health care	-	0.0%	34.6	2.9%
Military housing	-	0.0%	21.7	1.8%
Investor-owned utilities (1)	-	0.0%	15.8	1.3%
Municipal housing	-	0.0%	15.0	1.3%
Student loans	-	0.0%	7.0	0.6%
Other (2)	-	0.0%	4.4	0.4%
Total United States	-	0.0%	908.0	75.8%
Global public finance - non-United States:				
International utilities	22.0	7.8%	18.6	1.6%
Sovereign and sub-sovereign (3)	19.5	6.9%	17.3	1.4%
Transportation	15.1	5.4%	14.1	1.2%
Local governments (4)	0.8	0.3%	0.9	0.1%
Municipal housing	0.2	0.1%	0.2	0.0%
Health care	0.2	0.1%	0.1	0.0%
Higher education	-	0.0%	0.1	0.0%
Total non-United States	57.8	20.6%	51.3	4.3%
Total global public finance	57.8	20.6%	959.3	80.1%
Global structured finance - United States:				
Collateralized debt obligations (5)	101.0	35.9%	98.3	8.2%
Mortgage-backed residential	26.9	9.6%	28.6	2.4%
Mortgage-backed commercial	0.6	0.2%	0.7	0.1%
Consumer asset-backed:				
Auto loans	4.9	1.7%	6.8	0.6%
Student loans	2.6	0.9%	2.8	0.2%
Manufactured housing	2.5	0.9%	2.7	0.2%
Other consumer asset-backed	0.6	0.2%	0.9	0.1%

Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	3.0	1.1%	3.2	0.3%
Rental car fleets	2.6	0.9%	3.1	0.3%
Secured airline equipment securitization (EETC)	3.2	1.1%	3.1	0.3%
Other operating assets	1.1	0.4%	1.6	0.1%
Structured insurance securitizations	8.6	3.1%	10.0	0.8%
Franchise assets	1.2	0.5%	1.5	0.1%
Intellectual property	3.9	1.4%	4.1	0.3%
Other corporate asset-backed	3.1	1.1%	3.9	0.3%
Total United States	165.8	59.0%	171.3	14.3%
Global structured finance - non-United States:				
Collateralized debt obligations [5]	37.3	13.3%	40.2	3.3%
Mortgage-backed residential	2.9	1.0%	8.5	0.7%
Mortgage-backed commercial	5.4	1.9%	6.2	0.5%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	2.0	0.7%	2.1	0.2%
Secured airline equipment securitization (EETC)	0.4	0.1%	0.4	0.0%
Structured insurance securitizations	0.1	0.0%	0.1	0.0%
Franchise assets	1.4	0.5%	1.2	0.1%
Intellectual property	-	0.0%	0.8	0.1%
Future flow	2.0	0.7%	2.9	0.2%
Other corporate asset-backed	6.1	2.2%	5.3	0.5%
Total non-United States	57.6	20.4%	67.7	5.6%
Total global structured finance	223.4	79.4%	239.0	19.9%
Total	$281.2	100.0%	$1,198.3	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign sate, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical CDO structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

MBIA Corp. has entered into certain guarantees of derivative contracts, included in the preceding tables, which do not qualify for the financial guarantee scope exception under the provisions of fair value measurements and disclosures. MBIA Corp. generally guarantees the timely payment of principal and interest related to these derivatives upon the occurrence of a credit event with respect to a referenced obligation. The maximum amount of future payments that MBIA Corp. may be required to make under these guarantees is $129.9 billion. This amount is net of $24.5 billion of insured derivatives ceded under reinsurance agreements and capital market transactions in which MBIA Corp. economically hedges a portion of the credit and market risk associated with its insured derivatives. MBIA Corp.'s guarantees of derivative contracts have a legal maximum maturity range of 1-87 years. A small number of insured credit derivative contracts have long-dated maturities, which comprise the longest maturity dates of the underlying collateral. However, the expected maturities of such contracts are much shorter due to amortizations and prepayments in the underlying collateral pools. In accordance with accounting principles for derivative instruments and hedging activities, the fair values of these guarantees as of September 30, 2009 are recorded on the balance sheet as assets and liabilities, representing gross gains and losses, of $733 million and $5 billion, respectively. These derivative contracts are discussed further in "Note 8: Derivative Instruments."

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

MBIA Corp. has also issued guarantees of certain obligations issued by its investment management affiliates that are not included in the previous tables. These guarantees take the form of insurance policies issued by MBIA Corp. on behalf of the investment management services affiliates. Should one of these affiliates default on its insured obligations, MBIA Corp. will be required to pay all scheduled principal and interest amounts outstanding. As of September 30, 2009, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is $5.0 billion. These guarantees, which have a maximum maturity range of 1-38 years, were entered into on an arm's length basis and are fully collateralized by marketable securities. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

Note 13: Reinsurance

Ceded Exposure

On February 17, 2009, MBIA Corp. ceded all of its U.S. public finance business to National by entering into a Quota Share Reinsurance Agreement with National, effective January 1, 2009 (the "MBIA Corp. Reinsurance Agreement"), and by assigning to National pursuant to a separate assignment agreement its rights, interests and obligations with respect to the U.S. public finance business of Financial Guarantee Insurance Corporation ("FGIC") that was reinsured by MBIA Corp. pursuant to a reinsurance agreement with FGIC.

The portfolio transferred to National by reinsurance or through the assignment of the FGIC Reinsurance Agreement consists entirely of U.S. public finance business with total net par outstanding of approximately $553.7 billion. The reinsurance and assignment transactions between MBIA Corp. and National, which became effective as of January 1, 2009, enable covered policyholders and certain ceding insurers to present claims for payment directly to National in accordance with the terms of the cut-through provisions of the MBIA Corp. Reinsurance Agreement and the FGIC Reinsurance Agreement. Under the terms of the cut-through provision in each of those agreements, the covered policyholders and ceding insurers are granted a third-party beneficiary right under the agreement with respect to the applicable cut-through provision only.

The reinsurance and assignment agreements between MBIA Corp. and National (including the right to present claims for payment directly to National described in the previous paragraph) can be terminated upon the mutual agreement of MBIA Corp. and National, which termination is subject to the receipt of insurance regulatory approvals. In addition, the MBIA Reinsurance Agreement may not be terminated if, after giving effect to the termination, the ratings assigned to the underlying securities or bonds would be downgraded or withdrawn. National may also assign the MBIA Reinsurance Agreement under certain circumstances to a reinsurer rated at least as highly as National, which assignment is subject to the receipt of insurance regulatory approvals. In connection with the National Transformation, MBIA Corp. commuted an existing reinsurance agreement with National pursuant to which MBIA Corp. reinsured 100% of all of the policies of MBIA Illinois. The commutation is effective as of January 1, 2009. No penalties were incurred in connection with the commutation.

Reinsurance enables MBIA Corp. to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. MBIA Corp. reinsures exposure to other insurance companies under various treaty and facultative reinsurance contracts, both on a proportional and non-proportional basis. In the event that any or all of the reinsurers are unable to meet their obligations, MBIA Corp. would be liable for such defaulted amounts. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA Corp. under rating agency models and the overall value of the reinsurance to MBIA Corp. is reduced.

MBIA Corp. generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. In 2009, MBIA Corp. reassumed par outstanding of $5.8 billion from eight reinsurers. MBIA Corp. will continue to evaluate its use of reinsurance during 2009, which may result in future portfolio commutations from reinsurers.

MBIA Corp. requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of September 30, 2009, the total amount available under these letters of credit and trust arrangements was $796 million. MBIA Corp. remains liable on a primary basis for all reinsured risk, and although MBIA Corp. believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future. The aggregate amount of insurance in force ceded by MBIA Corp. to reinsurers under reinsurance agreements was $629.5 billion and $76.2 billion as of September 30, 2009 and December 31, 2008, respectively. In addition, MBIA Corp. cedes to National the risk that reinsurance under the Third-Party Reinsurance Agreements is not collected for U.S. public finance exposures. The distribution of ceded insurance in force by geographic location is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Geographic Location	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
California	$ 107.7	17.1%	$ 5.9	7.7%
New York	54.1	8.6%	3.1	4.1%
Florida	44.4	7.1%	1.4	1.8%
Texas	35.5	5.6%	1.7	2.2%
Illinois	30.8	4.9%	1.5	2.0%
New Jersey	28.2	4.5%	1.6	2.1%
Washington	19.9	3.2%	0.8	1.0%
Massachusetts	18.0	2.9%	2.1	2.8%
Michigan	17.1	2.7%	0.6	0.8%
Pennsylvania	15.2	2.4%	0.7	0.9%
Subtotal	370.9	59.0%	19.4	25.4%
Nationally diversified	29.1	4.6%	20.4	26.8%
Other states	211.1	33.5%	11.5	15.1%
Total United States	611.1	97.1%	51.3	67.3%
Internationally diversified	10.8	1.7%	12.1	15.9%
Country specific	7.6	1.2%	12.8	16.8%
Total non-United States	18.4	2.9%	24.9	32.7%
Total	$ 629.5	100.0%	$ 76.2	100.0%

The distribution of ceded insurance in force by type of bond is presented in the following table:

In billions	September 30, 2009		December 31, 2008	
Bond Type	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
Global public finance - United States:				
General obligation	$ 190.5	30.3%	$ 6.7	8.8%
General obligation - lease	45.6	7.2%	2.1	2.8%
Municipal utilities	107.0	17.0%	5.3	7.0%
Tax-backed	73.5	11.7%	3.5	4.6%
Transportation	56.3	9.0%	6.6	8.7%
Higher education	34.8	5.5%	3.3	4.3%
Health care	28.6	4.5%	1.1	1.4%
Municipal housing	11.2	1.8%	0.5	0.7%
Military housing	21.9	3.5%	0.5	0.7%
Investor-owned utilities (1)	13.2	2.1%	0.8	1.0%
Student loans	5.3	0.8%	0.3	0.4%
Other (2)	3.7	0.6%	0.2	0.2%
Total United States	591.6	94.0%	30.9	40.6%
Global public finance - non-United States:				
Sovereign and sub-sovereign (3)	1.9	0.3%	3.2	4.2%
International utilities	1.6	0.3%	2.9	3.8%
Transportation	1.9	0.3%	3.2	4.2%
Local governments (4)	0.0	0.0%	0.6	0.8%
Municipal housing	0.0	0.0%	0.0	0.0%
Health care	0.0	0.0%	0.1	0.1%
Higher education	0.0	0.0%	0.0	0.0%
Total non-United States	5.4	0.9%	10.0	13.1%
Total global public finance	597.0	94.9%	40.9	53.7%
Global structured finance - United States:				
Collateralized debt obligations (5)	15.2	2.4%	14.4	18.9%
Mortgage-backed residential	0.8	0.2%	1.2	1.6%
Mortgage-backed commercial	0.0	0.0%	0.0	0.0%
Consumer asset-backed:				
Auto loans	0.2	0.0%	0.4	0.5%
Student loans	0.2	0.0%	0.2	0.3%
Manufactured housing	0.1	0.0%	0.1	0.1%
Other consumer asset-backed	0.1	0.0%	0.1	0.1%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.4	0.1%	0.5	0.7%
Rental car fleets	0.4	0.1%	0.7	0.9%
Secured airline equipment securitization (EETC)	0.5	0.1%	0.9	1.2%
Other operating assets	0.0	0.0%	0.1	0.1%
Structured insurance securitizations	1.3	0.2%	1.5	2.0%
Franchise assets	0.1	0.0%	0.1	0.1%
Intellectual property	0.1	0.0%	0.1	0.1%
Other corporate asset-backed	0.1	0.0%	0.2	0.3%
Total United States	19.5	3.1%	20.5	26.9%

Global structured finance - non-United States:				
Collateralized debt obligations [5]	9.6	1.5%	10.2	13.4%
Mortgage-backed residential	0.1	0.0%	0.4	0.5%
Mortgage-backed commercial	0.8	0.1%	0.9	1.2%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.2	0.0%	0.4	0.6%
Secured airline equipment securitization (EETC)	0.0	0.0%	0.0	0.0%
Structured insurance securitizations	0.0	0.0%	0.0	0.0%
Franchise assets	0.0	0.0%	0.1	0.1%
Intellectual property	0.0	0.0%	0.1	0.1%
Future flow	0.7	0.1%	1.0	1.3%
Other corporate asset-backed	1.6	0.3%	1.7	2.2%
Total non-United States	13.0	2.0%	14.8	19.4%
Total global structured finance	32.5	5.1%	35.3	46.3%
Total	$629.5	100.0%	$76.2	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign sate, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical CDO structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

As of September 30, 2009, the aggregate amount of insured par outstanding ceded by MBIA Corp. to reinsurers under reinsurance agreements was $371.9 billion. The following table presents information about companies who have entered into reinsurance contracts with MBIA Corp. and amounts recoverable under those contracts as of September 30, 2009. Estimated credit impairments represent the reinsurers' portion of amounts MBIA Corp. expects to pay on insured derivative contracts.

In millions

Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Percentage of Total Par Ceded	Reinsurance Recoverable	Derivative Asset	Estimated Credit Impairments on Insured Derivatives
National Public Finance Guarantee Corporation	A (Developing)	Baa1 (Developing)	93.58%	$ 219	$ -	$ -
Channel Reinsurance Ltd.	N/R (1)	RWR (2)	3.83%	27	669	354
Assured Guaranty Corp.	AAA (Negative Outlook)	Aa2 (Rating Under Review)	1.46%	8	-	-
Mitsui Sumitomo Insurance Company Ltd.	AA (Negative Outlook)	Aa3 (Stable)	0.80%	16	51	4
Assured Guaranty Re Ltd.	AA (Stable)	Aa3 (Rating Under Review)	0.15%	2	-	-
Overseas Private Investment Corporation	AAA (Stable)	Aaa (Stable)	0.08%	-	-	-
Old Republic Insurance Company	A+ (Negative Outlook)	Aa3 (Stable)	0.03%	-	-	-
Export Development Corporation	AAA (Stable)	Aaa (Stable)	0.05%	-	-	-
Partner Reinsurance Ltd.	AA- (Negative Outlook)	Aa3 (Stable)	0.01%	-	-	-
Assurances Generales de France	AA (Stable)	Aa3 (Stable)	0.00%	-	-	-
Not currently rated			0.01%	-	-	-
Total			100.00%	$ 272	$ 720	$ 358

(1) Not rated.

(2) Rating withdrawn.

MBIA Corp. owns a 17.4% equity interest in Channel Re. In March 2009, Moody's downgraded Channel Re to B3 with a negative outlook and the rating was subsequently withdrawn. In March 2009, S&P downgraded Channel Re to BB+ and the rating was subsequently withdrawn. As of September 30, 2009, MBIA Corp. expects Channel Re to continue to report negative shareholders' equity on a GAAP basis primarily due to unrealized losses on its insured credit derivatives based on fair value accounting. As of September 30, 2009, the fair value of the derivative assets related to credit derivatives ceded to Channel Re was $669 million and the reinsurance recoverable from Channel Re was $27 million. After considering the credit risk of Channel Re in fair valuing its derivative assets, MBIA Corp. believes Channel Re has sufficient liquidity supporting its business to fund amounts due to MBIA Corp. In performing its assessment, MBIA Corp. determined that cash and investments, inclusive of approximately $609 million that Channel Re had on deposit in trust accounts for the benefit of MBIA as of September 30, 2009, were in excess of MBIA's exposure to Channel Re. Although the trust accounts limit the potential for Channel Re to default on its obligations to MBIA, there can be no assurance that Channel Re will not default on its obligations to MBIA that exceed the amounts already held in the trust accounts.

Since December 2007, several of MBIA Corp.'s other financial guarantee reinsurers, including Assured Guaranty Corp., Assured Guaranty Re Ltd., and Old Republic Insurance Co. have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. Although there was no material impact on MBIA Corp. for any of these rating agency actions relating to these reinsurers, a further deterioration in the financial condition of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

Premium Summary

The components of financial guarantee net premiums earned, including premiums assumed from and ceded to other companies, are presented in the following tables:

	Three Months Ended September 30,	
	2009	2008
In millions	Earned	Earned
Direct	$ 180	$ 270
Assumed	2	4
Gross	182	274
Ceded	(107)	(32)
Net	$ 75	$ 242

	Nine Months Ended September 30,	
	2009	2008
In millions	Earned	Earned
Direct	$ 584	$ 735
Assumed	9	10
Gross	593	745
Ceded	(317)	(97)
Net	$ 276	$ 648

For the three months ended September 30, 2009 and 2008, recoveries received under reinsurance contracts totaled $26 million and $33 million, respectively. For the nine months ended September 30, 2009 and 2008, recoveries received under reinsurance contracts totaled $166 million and $79 million, respectively. Ceding commissions related to reinsurance, before deferrals and net of returned ceding commissions, were an expense of $2 million and $167 million for the three months ended September 30, 2009 and 2008, respectively. Ceding commissions, before deferrals and net of return ceding commissions, were revenue of $766 million and expense of $155 million for the nine months ended September 30, 2009 and 2008, respectively.

Note 14: Commitments and Contingencies

In the normal course of operating its business, MBIA Corp. may be involved in various legal proceedings. Additionally, MBIA Inc. and its subsidiaries ("MBIA Inc.") may be involved in various legal proceedings that directly or indirectly impact MBIA Corp.

MBIA Inc. has received subpoenas or informal inquiries from a variety of regulators, including the SEC, the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states' regulatory authorities, regarding a variety of subjects, including disclosures made by MBIA Inc. to underwriters and issuers of certain bonds, disclosures regarding MBIA Inc.'s structured finance exposure, trading and valuation of managed collateral, MBIA Inc.'s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. MBIA Inc. is cooperating fully with each of these regulators and is in the process of satisfying all such requests. MBIA Inc. may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against MBIA Inc. and others. The first complaint, against MBIA Inc., AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. MBIA's demurrers and other responsive pleadings are due November 13, 2009. These cases are now coordinated as Ambac Bond Insurance Cases in San Francisco Superior Court. On April 8, 2009, The Olympic Club filed a complaint against MBIA Inc. in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged MBIA Inc.'s financial condition, and of a failure to adequately disclose the impact of those transactions on MBIA Inc.'s financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including MBIA Inc., AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation In re Municipal Derivatives Antitrust Litigation, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws.

On September 30, 2008, MBIA Corp. commenced an action in the New York State Supreme Court against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, "Countrywide"). The complaint alleged that Countrywide fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit

and closed end second liens by misrepresenting the true risk profile of the underlying collateral and Countrywide's adherence to its strict underwriting standards and guidelines. The complaint also alleged that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide's motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. All parties have filed Notices of Appeal and defendants filed their answer to the complaint on August 3, 2009. On August 24, 2009, MBIA Corp. filed an amended complaint, adding Bank of America as a defendant, identifying an additional five securitizations and supplementing the facts in support of our re-asserted negligent misrepresentation claim to address the points made by Justice Bransten in her decision granting the motion to dismiss that claim. On October 9, 2009, defendants filed a renewed motion to dismiss. Our response was filed on November 3, 2009, and defendants' reply is due November 10, 2009. Oral argument is scheduled for December 9, 2009.

On July 10, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc, Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., UBS Securities, LLC, and various Countrywide-affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA Corp. commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA Corp. as the insurer of the income streams on these securities. On November 3, 2009, MBIA Corp. filed an amended complaint.

On October 15, 2008, MBIA Corp. commenced an action in the United States District Court for the Southern District of New York against Residential Funding Company, LLC ("RFC"). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and HELOC securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other things. RFC's motion to dismiss has been fully briefed and argued.

In its determination of expected ultimate insurance losses on financial guarantee contracts, MBIA Corp. has considered the probability of potential recoveries arising out of the contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans in certain second-lien mortgage securitizations, which include potential recoveries that may be affected by the legal actions against Countrywide and RFC. However, there can be no assurance that MBIA Corp. will prevail in either the Countrywide or RFC actions.

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the FDIC with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and post-receivership amounts owed to MBIA Corp. as a result of IndyMac's contractual breaches and fraud in connection with financial guaranty insurance issued by MBIA Corp. on securitizations of home equity lines of credit. The proofs of claim were subsequently denied by the FDIC. MBIA Corp. has appealed the FDIC's denial of its proofs of claim via a complaint, filed on May 29, 2009, against IndyMac Bank, F.S.B. and the FDIC, as receiver, in the United States District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA Corp. to provide financial guaranty insurance on securitizations of home equity lines of credit by breaching contractual representations and warranties as well as negligently and fraudulently misrepresenting the nature of the loans in the securitization pools and IndyMac's adherence to its strict underwriting standards and guidelines. The FDIC moved to dismiss MBIA's non-contract based claims on September 2, 2009. On October 9, 2009, MBIA Corp. filed its response brief. The FDIC's response is due November 9, 2009.

On September 22, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against IndyMac ABS, Inc., Home Equity Mortgage Loan Asset-Backed Trust, Series 2006-H4, Home Equity Mortgage Loans Asset-Backed Trust, Series INDS 2007-I, Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-2, Credit Suisse Securities (USA), L.L.C., UBS Securities, LLC, JPMorgan Chase & Co., Michael Perry, Scott Keys, Jill Jacobson, and Kevin Callan. The Complaint alleges that IndyMac Bank made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA Corp. commenced this action as subrogee of the purchasers of the residential mortgage-

backed securities, who incurred severe losses that have been passed on to MBIA Corp. as the insurer of the income streams on these securities. On October 19, 2009, MBIA Corp. dismissed IndyMac ABS, Inc. from the action without prejudice. On October 23, 2009, defendants removed the case to the United States District Court for the Central District of California.

On April 30, 2009, MBIA Corp. and LaCrosse Financial Products commenced an action in the Supreme Court of the State of New York against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International. The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven CDS contracts pursuant to which MBIA Corp. wrote protection in favor of Merrill and other parties on a total of $5.7 billion in collateralized debt obligations arranged and marketed by Merrill. The complaint also seeks rescission of the CDS contracts. Merrill's motion to dismiss the amended complaint has been fully briefed, and oral argument is scheduled for November 17, 2009.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance polices issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. Defendants' motion to dismiss the complaint is fully briefed. Oral argument is scheduled for November 17, 2009.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants' motion to dismiss the complaint was fully briefed and oral argument was heard on October 5, 2009. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. At a conference on October 2, 2009, the judge hearing the matter indicated his intention to deny defendants' motion to dismiss, however, no written decision has yet been issued. At a separate conference on November 6, 2009, the judge indicated he may refrain from issuing a decision until he has had an opportunity to review the submission of the New York State Department of Insurance in the Article 78 proceeding (see next paragraph) which is currently due November 24, 2009. If and to the extent that the judge issues a ruling consistent with his statements at the October 2, 2009 conference, MBIA Inc. intends to promptly appeal it to the Appellate Division of the New York State Supreme Court.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, MBIA Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA's and the New York State Insurance Department's answering papers to the Article 78 Petition are due November 24, 2009.

MBIA Inc. and MBIA Corp. intend to vigorously defend against the aforementioned actions in which it is a defendant and against other potential actions, and MBIA Inc. and MBIA Corp. do not expect the outcome of these matters to have a materially adverse effect on its business, results of operations or financial condition. MBIA Inc. and MBIA Corp. cannot provide assurance, however, that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on its business, results of operations or financial condition.

There are no other material lawsuits pending or, to the knowledge of MBIA Corp., threatened, to which MBIA Corp. or any of its subsidiaries is a party.

Note 15: Subsequent Events

Refer to "Note 14: Commitments and Contingencies" for information about legal proceedings that commenced after September 30, 2009.

In the fourth quarter of 2009, MBIA Corp. entered into a settlement agreement with one of its counterparties related to two insured credit derivative transactions that resulted in the elimination of $1.2 billion in net par exposure in exchange for a one-time payment of $94 million, net of reinsurance. In addition, MBIA Corp. settled a financial guarantee insurance contract related to a consolidated VIE in exchange for a payment by MBIA Corp. of $65 million, net of reinsurance. This settlement payment eliminated potentially significant future performance volatility and relieved MBIA Corp. from any further obligation under the insurance contract. The impact of these payments and reductions in exposure will be reflected in MBIA Corp.'s results for the fourth quarter of 2009.

On November 6, 2009, as part of The Worker, Homeownership, and Business Assistance Act of 2009, the NOL carryback provision within the U.S. income tax law was amended to allow all businesses with NOLs in either 2008 or 2009 to claim refunds of taxes paid within the prior five years. There would be no limit on the NOL carrybacks for the first four years of the carryback period, but for year five, the carryback would be limited to fifty percent of a company's taxable income in that year. The amount of the tax refund will depend on MBIA Corp.'s stand-alone NOL generated for the tax year 2009, subject to the provision of its tax sharing agreement. The impact of this refund will be reflected in MBIA Corp.'s results for the fourth quarter of 2009.