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 quarterly period ended September 30, 2021

or

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

For the transition period from ________ to ________

Commission File Number: 1-9583

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

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

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MBI	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 26, 2021, 54,406,254 shares of Common Stock, par value $1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA”, the “Company”, “we”, “us” or “our”) includes statements that are not historical or current facts and are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “believe”, “anticipate”, “project”, “plan”, “expect”, “estimate”, “intend”, “will likely result”, “looking forward”, or “will continue” and similar expressions 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. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

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

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (“National”) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;
- the possibility that loss reserve estimates are not adequate to cover potential claims;
- a disruption in the cash flow from National or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;
- our ability to fully implement our strategic plan;
- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain insured transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (“NYSDFS”) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- the impact on our insured portfolios or business operations caused by the global spread of the novel coronavirus COVID-19;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under “Risk Factors” in Part II, Other Information, Item 1A included in this Quarterly Report on Form 10-Q. In addition, refer to “Note 1: Business Developments and Risk and Uncertainties” in Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2021	December 31, 2020
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $1,963 and $2,078)	$ 2,088	$ 2,257
Investments carried at fair value	246	196
Investments pledged as collateral, at fair value (amortized cost $4 and $6)	4	1
Short-term investments, at fair value (amortized cost $372 and $281)	372	282
Total investments	2,710	2,736
Cash and cash equivalents	108	158
Premiums receivable (net of allowance for credit losses $5 and $5)	185	216
Deferred acquisition costs	44	50
Insurance loss recoverable	1,537	1,677
Other assets	64	84
Assets of consolidated variable interest entities:		
Cash	4	9
Investments carried at fair value	63	77
Loans receivable at fair value	77	120
Loan repurchase commitments	-	604
Other assets	24	20
Total assets	**$ 4,816**	**$ 5,751**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 333	$ 405
Loss and loss adjustment expense reserves	850	990
Long-term debt	2,308	2,229
Medium-term notes (includes financial instruments carried at fair value of $102 and $110)	592	710
Investment agreements	271	269
Derivative liabilities	133	215
Other liabilities	194	161
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $292 and $350)	292	623
Total liabilities	**4,973**	**5,602**
Commitments and contingencies (Refer to Note 13: Commitments and Contingencies)		
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 - 283,186,115 and 283,186,115	283	283
Additional paid-in capital	2,936	2,962
Retained earnings (deficit)	(303)	(13)
Accumulated other comprehensive income (loss), net of tax of $8 and $8	90	115
Treasury stock, at cost - 228,780,039 and 229,508,967 shares	(3,176)	(3,211)
Total shareholders' equity of MBIA Inc.	(170)	136
Preferred stock of subsidiary	13	13
Total equity	**(157)**	**149**
Total liabilities and equity	**$ 4,816**	**$ 5,751**

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

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions except share and per share amounts)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenues				
Premiums earned:				
Scheduled premiums earned	$ 26	$ 14	$ 53	$ 45
Refunding premiums earned	3	2	10	10
Premiums earned (net of ceded premiums of $14, $1, $16 and $3)	29	16	63	55
Net investment income	16	16	45	59
Fees and reimbursements	5	2	6	2
Net gains (losses) on financial instruments at fair value and foreign exchange	11	13	42	(26)
Net gains (losses) on extinguishment of debt	16	-	30	-
Revenues of consolidated variable interest entities:				
Net investment income	-	5	-	18
Net gains (losses) on financial instruments at fair value and foreign exchange	4	(4)	(10)	34
Other net realized gains (losses)	(9)	23	(14)	37
Total revenues	72	71	162	179
Expenses				
Losses and loss adjustment	125	48	232	427
Amortization of deferred acquisition costs	-	2	5	7
Operating	23	21	70	61
Interest	40	43	122	135
Expenses of consolidated variable interest entities:				
Operating	2	1	5	4
Interest	5	14	18	42
Total expenses	195	129	452	676
Income (loss) before income taxes	(123)	(58)	(290)	(497)
Provision (benefit) for income taxes	-	-	-	-
Net income (loss)	**$ (123)**	**$ (58)**	**$ (290)**	**$ (497)**
Net income (loss) per common share				
Basic	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Diluted	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Weighted average number of common shares outstanding				
Basic	49,552,796	52,588,533	49,434,177	62,391,826
Diluted	49,552,796	52,588,533	49,434,177	62,391,826

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

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Other comprehensive income (loss):				
Available-for-sale securities with no credit losses:				
Unrealized gains (losses) arising during the period	(10)	5	(42)	93
Reclassification adjustments for (gains) losses included in net income (loss)	(3)	(9)	(11)	(17)
Foreign currency translation:				
Foreign currency translation gains (losses)	-	(2)	3	(3)
Instrument-specific credit risk of liabilities measured at fair value:				
Unrealized gains (losses) arising during the period	(12)	5	(11)	54
Reclassification adjustments for (gains) losses included in net income (loss)	12	2	36	5
Total other comprehensive income (loss)	(13)	1	(25)	132
Comprehensive income (loss)	**$ (136)**	**$ (57)**	**$ (315)**	**$ (365)**

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

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(In millions except share amounts)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Common shares				
Balance at beginning and end of period	283,186,115	283,433,401	283,186,115	283,433,401
Common stock amount				
Balance at beginning and end of period	$ 283	$ 283	$ 283	$ 283
Additional paid-in capital				
Balance at beginning of period	$ 2,934	$ 2,959	$ 2,962	$ 2,999
Period change	2	1	(26)	(39)
Balance at end of period	$ 2,936	$ 2,960	$ 2,936	$ 2,960
Retained earnings				
Balance at beginning of period	$ (180)	$ 126	$ (13)	$ 607
ASU 2016-13 transition adjustment	-	-	-	(42)
Net income (loss)	(123)	(58)	(290)	(497)
Balance at end of period	$ (303)	$ 68	$ (303)	$ 68
Accumulated other comprehensive income (loss)				
Balance at beginning of period	$ 103	$ 129	$ 115	$ (2)
Other comprehensive income (loss)	(13)	1	(25)	132
Balance at end of period	$ 90	$ 130	$ 90	$ 130
Treasury shares				
Balance at beginning of period	(228,780,540)	(220,924,081)	(229,508,967)	(204,000,108)
Treasury shares acquired under share repurchase program	-	(8,582,686)	-	(26,430,768)
Other	501	804	728,928	924,913
Balance at end of period	(228,780,039)	(229,505,963)	(228,780,039)	(229,505,963)
Treasury stock amount				
Balance at beginning of period	$ (3,176)	$ (3,149)	$ (3,211)	$ (3,061)
Treasury shares acquired under share repurchase program	-	(62)	-	(198)
Other	-	-	35	48
Balance at end of period	$ (3,176)	$ (3,211)	$ (3,176)	$ (3,211)
Total shareholders' equity of MBIA Inc.				
Balance at beginning of period	$ (36)	$ 348	$ 136	$ 826
Period change	(134)	(118)	(306)	(596)
Balance at end of period	**$ (170)**	**$ 230**	**$ (170)**	**$ 230**
Preferred stock of subsidiary shares				
Balance at beginning and end of period	1,315	1,315	1,315	1,315
Preferred stock of subsidiary amount				
Balance at beginning and end of period	$ 13	$ 13	$ 13	$ 13
Total equity	**$ (157)**	**$ 243**	**$ (157)**	**$ 243**

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 36	$ 20
Investment income received	60	96
Financial guarantee losses and loss adjustment expenses paid	(315)	(461)
Proceeds from recoveries and reinsurance	91	69
Proceeds from loan repurchase commitments	600	-
Operating and employee related expenses paid	(65)	(58)
Interest paid, net of interest converted to principal	(48)	(67)
Income taxes (paid) received	-	13
Net cash provided (used) by operating activities	359	(388)
Cash flows from investing activities:		
Purchases of available-for-sale investments	(811)	(900)
Sales of available-for-sale investments	469	862
Paydowns and maturities of available-for-sale investments	482	613
Purchases of investments at fair value	(159)	(137)
Sales, paydowns, maturities and other proceeds of investments at fair value	136	139
Sales, paydowns and maturities (purchases) of short-term investments, net	(94)	77
Sales, paydowns and maturities of held-to-maturity investments	-	315
Paydowns and maturities of loans receivable	75	11
(Payments) proceeds for derivative settlements	(61)	(12)
Net cash provided (used) by investing activities	37	968
Cash flows from financing activities:		
Proceeds from investment agreements	2	10
Principal paydowns of investment agreements	(1)	(21)
Principal paydowns of medium-term notes	(77)	-
Principal paydowns of variable interest entity notes	(370)	(333)
Principal paydowns of long-term debt	(4)	-
Purchases of treasury stock	(1)	(200)
Other financing	-	(8)
Net cash provided (used) by financing activities	(451)	(552)
Net increase (decrease) in cash and cash equivalents	(55)	28
Cash and cash equivalents - beginning of period	167	83
Cash and cash equivalents - end of period	$ 112	$ 111
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	$ (290)	$ (497)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	24	13
Unearned premium revenue	(72)	(53)
Loss and loss adjustment expense reserves	(140)	101
Insurance loss recoverable	140	(105)
Loan repurchase commitments	604	-
Accrued interest payable	81	102
Accrued expenses	5	25
Net (gains) losses on financial instruments at fair value and foreign exchange	(35)	(8)
Other net realized (gains) losses	14	(37)
Other operating	28	71
Total adjustments to net income (loss)	649	109
Net cash provided (used) by operating activities	$ 359	$ (388)

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

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Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA” or the “Company”) operates within the financial guarantee insurance industry. MBIA manages three operating segments: 1) United States (“U.S.”) public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company’s U.S. public finance insurance business is managed through National Public Finance Guarantee Corporation (“National”), the corporate segment is operated through MBIA Inc. and several of its subsidiaries, including its service company, MBIA Services Corporation (“MBIA Services”) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiary (“MBIA Corp.”).

Refer to “Note 10: Business Segments” for further information about the Company’s operating segments.

Business Developments

Puerto Rico

On January 1, 2021 and July 1, 2021, the Commonwealth of Puerto Rico and certain of its instrumentalities (“Puerto Rico”) defaulted on scheduled debt service for National insured bonds and National paid gross claim payments in the aggregate of $277 million. As of September 30, 2021, National had $2.6 billion of debt service outstanding related to Puerto Rico. Refer to the “Risks and Uncertainties” section below for additional information on the Company’s Puerto Rico exposures.

PREPA

In September of 2019, National agreed to join the restructuring support agreement, as amended (“RSA”), with the Puerto Rico Electric Power Authority (“PREPA”), other monoline insurers, a group of uninsured PREPA bondholders, Puerto Rico, and the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”). The Rule 9019 hearing to approve the RSA has been delayed several times, and most recently was adjourned due to the outbreak of the novel coronavirus COVID-19 (“COVID-19”) until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk.

In October of 2021, National sold certain bankruptcy claims in a private transaction through the transfer of ownership of $199 million face amount of bonds, representing approximately 16% of the principal amount of the current bond claims in the PREPA Title III case. The bonds included in this transaction had been fully satisfied by National’s insurance claim payments. This transaction monetizes a portion of National’s salvage asset at a discount to National’s previous carrying value, and reduces potential volatility and ongoing risk of remediation around the PREPA credit. Subsequent to the sale of these PREPA bankruptcy claims, National has approximately $230 million of additional par claims to PREPA that have matured and can be sold.

GO and HTA

On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the “GO PSA”), among the Oversight Board, certain holders of Puerto Rico Commonwealth GO (“GO”) Bonds and Puerto Rico Public Buildings Authority (“PBA”) Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The GO PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument (“CVI”) and certain fees. The GO PSA contemplates a Commonwealth plan becoming effective on or before December 15, 2021; however there can be no assurance that such plans will become effective, or on the contemplated timeline. Pursuant to the GO PSA, the Oversight Board and National jointly obtained the entry of an order in the Title III court staying National’s participation in actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective. On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to bondholders in the Puerto Rico Highway and Transportation Authority (“HTA”) Title III case subject to completing negotiations on a plan support agreement in respect of an HTA plan of adjustment (the “HTA PSA”). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. The Oversight Board has committed to filing a plan of adjustment for HTA by January 31, 2022.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

On July 12, 2021, the Oversight Board filed the Fifth Amended Title III Plan of Adjustment and Disclosure Statement, incorporating certain changes and agreements in connection with certain disclosure statement objections. The Disclosure Statement hearing for the Fifth Amended Plan began on July 13, 2021, and on July 14, 2021, the Bankruptcy Court (i) continued the hearing until July 27, 2021 for the sole purpose of considering a possible settlement of objections by Ambac Assurance Corporation and Financial Guaranty Insurance Company, and (ii) overruled all other objections to the Disclosure Statement but required the Oversight Board to include certain additional disclosure on financial and legislative risks. The Court also approved confirmation procedures, subject to the approval of the Disclosure Statement at the continued hearing, including commencing the confirmation hearing on November 8, 2021 and concluding on November 23, 2021. On July 27, 2021, the Oversight Board filed the Sixth Amended Plan and Disclosure Statement, and on July 29, 2021 the Court approved the amended Disclosure Statement for distribution to claimholders of record. On July 30, 2021, the Oversight Board filed the Seventh Amended Plan of Adjustment.

On October 25, 2021, Judge Swain held an emergency hearing in light of the failure of the Puerto Rico legislature to agree by Friday, October 22 to enabling legislation authorizing the distributions under the Plan. Judge Swain ruled at this hearing that mediation with the interested parties commence in order to resolve the legislation needed by the Plan. On October 26, 2021, the Governor of Puerto Rico signed the enabling legislation after it was adopted by both houses of the Puerto Rico legislature. On October 28, 2021, the mediation team filed its statement with the court that the interested parties had engaged in good faith best efforts and it reasonably believed that the Confirmation Hearing can be expected to move forward as currently scheduled, commencing November 8, 2021.

Based on the Seventh Amended Plan of Adjustment, bondholders were required to choose between commuting their insurance policy with National or having their insurance policy accelerated and receiving a one-time payment of par and accrued interest from National. Approximately 27% of bondholders voted by the deadline of October 18, 2021 to commute their insurance policies with National. The expected commutation and acceleration should occur shortly after Plan approval and will reduce National's insured GO exposure to zero. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for a further discussion of the Company's GO recoveries.

Credit Suisse

In January of 2021, the Court overseeing MBIA Corp.'s litigation against Credit Suisse Securities (USA) LLC and DLJ Mortgage Capital, Inc. (collectively, "Credit Suisse"), involving the ineligibility of a majority of the loans in the HEMT 2007-2 RMBS transaction sponsored by Credit Suisse, issued an order declaring that Credit Suisse was liable to MBIA for approximately $604 million in damages. In February of 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. $600 million, and the Court entered an order dismissing the case. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for a discussion of the Company's Credit Suisse put-back claims.

Debt Securities

As of September 30, 2021, MBIA Corp. repaid in full the outstanding amount of the MZ Funding LLC ("MZ Funding") financing facility's 12% senior notes maturing on January 20, 2022 ("Refinanced Facility").

During the nine months ended September 30, 2021, the Company repurchased $106 million par value outstanding of GFL medium-term notes ("MTNs") with maturity dates between 2024 and 2036 issued by the corporate segment at a weighted average cost of approximately 72% of par value.

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

Risks and Uncertainties

The Company's financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ materially from the Company's estimates. The discussion below highlights the significant risks and uncertainties that could have a material effect on the Company's financial statements and business objectives in future periods.

COVID-19

The number of COVID-19 cases, hospitalizations and deaths continues to decrease. Nevertheless, the current and longer-term impacts of the virus, including those caused by any new strains, continues to remain uncertain. In addition, the attendant governmental policy and social responses, and economic and financial consequences, continue to be the subject of considerable attention.

Insured portfolios

Any adverse developments on macroeconomic factors resulting from COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the ability to raise taxes or limit spending, could materially and adversely affect the performance of the Company's insured portfolios. Any impact of the pandemic on the Company's financial guarantee credits would vary based on the nature of the taxes, fees and revenues pledged to debt repayment and their sensitivity to the related slowdown in economic activity. The duration of the pandemic, the efficacy of vaccines, spending of federal aid to state and local governments, and the breadth and speed of economic recovery will determine the economic stress, if any, incurred by the credits in the Company's insured portfolios. Further, any economic impact that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to the Company's insured portfolios.

Federal legislation passed to combat the economic impact of the pandemic has been significant, including the $2.7 trillion Coronavirus Aid, Relief, and Economic Security ("CARES") Act in 2020, which included significant aid to offset COVID-19 related expenditures of public sector issuers including states, territories, healthcare, higher education and transportation issuers. Also, the Federal Reserve has shown willingness to promote the stability of the financial system that is directly supportive of the municipal market, such as the Municipal Lending Facility created in 2020. In March of 2021, Congress passed the American Rescue Plan Act of 2021, a $1.9 trillion economic stimulus package designed to further stabilize the financial system. This law allocated nearly $350 billion of aid to state and local governments to replace lost revenues resulting from the pandemic with relatively few restrictions on use of said funds. While the unprecedented amount of federal aid directed to state and local municipalities has blunted the impact of the pandemic, not all of the issuers of the obligations in National's insured portfolio are eligible to receive it. Further, if issuers are unable to raise taxes, reduce spending, or receive federal assistance, the Company may experience new or additional losses or impairments on those obligations, which could materially and adversely affect its business, financial condition and financial results.

Certain of MBIA Corp.'s structured finance policies, including those in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities ("MBS"), could be negatively impacted by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. MBIA Corp. has recorded significant loss reserves on its residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDO") exposures, and there can be no assurance that these reserves will be sufficient if the pandemic causes further deterioration to the economy. These transactions are also subject to servicer risks, which relate to problems with the transaction's servicer that could adversely impact performance of the underlying assets. Additionally, several of the Company's credits, particularly within its international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Corp. will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. MBIA Corp. has recorded expected recoveries on certain RMBS transactions, and the forbearance options that mortgage borrowers who were facing financial difficulties took advantage of under the CARES Act may delay or impair collections on these recoveries.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Liquidity

The Company continues to monitor its cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of the Company's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. It remains challenging to predict the full long-term impact the pandemic may have on the Company's future liquidity position and needs. Declines in the market value or rating eligibility of assets pledged against the Company's obligations as a result of credit market deterioration caused by COVID-19 or other factors may require additional eligible assets to be pledged in order to meet minimum required collateral amounts against these obligations. This could require the Company to sell assets, potentially with substantial losses or use free cash or other assets to meet the collateral requirements, thus negatively impacting the Company's liquidity position. Additionally, declines in the yields in its insurance companies' fixed-income portfolios could materially impact investment income.

U.S. Public Finance Market Conditions

National continues to monitor and remediate its existing insured portfolio and may also pursue strategic alternatives that could enhance shareholder value. Certain state and local governments and territory obligors that National insures are under financial and budgetary stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of National's insured transactions. National monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

MBIA Corp. Insured Portfolio

MBIA Corp.'s primary objectives are to satisfy all claims by its policyholders and to maximize future recoveries, if any, for its senior lending and surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, taking steps to maximize the collection of recoveries and by reducing and mitigating potential losses on its insurance exposures. MBIA Corp.'s insured portfolio performance could deteriorate and result in additional significant loss reserves and claim payments. MBIA Corp.'s ability to meet its obligations is limited by available liquidity and its ability to secure additional liquidity through financing and other transactions. There can be no assurance that MBIA Corp. will be successful in generating sufficient resources to meet its obligations.

Zohar and RMBS Recoveries

Payment of claims on MBIA Corp.'s policies insuring the Class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited ("Zohar I") and Zohar II 2005-1, Limited ("Zohar II"), entitles MBIA Corp. to reimbursement of such amounts plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such amounts. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the assets of Zohar I and Zohar II (the "Zohar Assets"), but there can be no assurance that the monetization of the Zohar Assets will yield amounts sufficient to permit MBIA Corp. to recover a substantial portion of the payments it made on Zohar I and Zohar II. In particular, as the monetization process unfolds and new information concerning the financial condition of the portfolio companies which comprise a significant portion of the Zohar Assets is disclosed, the Company may revise its expectations for recoveries. For example, at a June 3, 2020 hearing, counsel for one of the portfolio companies announced that the monetization process for that company would be delayed as a consequence of having to investigate issues relating to the integrity of the company's financial statements.

MBIA Corp. also projects to collect excess spread from insured RMBS; however, the amount and timing of these collections are uncertain.

Failure to collect its expected recoveries could impede MBIA Corp.'s ability to make payments when due on other policies. MBIA Corp. believes that if the New York State Department of Financial Services ("NYSDFS") concludes at any time that MBIA Insurance Corporation will not be able to pay its policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law ("NYIL") and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS.

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities and the lack of reliance by MBIA Inc. on MBIA Corp. for dividends, the Company does not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. Such a proceeding could have material adverse consequences for MBIA Corp., including the termination of derivative contracts for which counterparties may assert market-based claims, the acceleration of debt obligations issued by affiliates and insured by MBIA Corp., the loss of control of MBIA Insurance Corporation to a rehabilitator or liquidator, and unplanned costs.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for additional information about MBIA Corp.'s recoveries.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Corporate Liquidity

Based on the Company's projections of National's dividends and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk that could be caused by interruption of or reduction in dividends from National, deterioration in the performance of invested assets, impaired access to the capital markets, as well as other factors, which are not anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2020. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

The results of operations for the three and nine months ended September 30, 2021 may not be indicative of the results that may be expected for the year ending December 31, 2021. The December 31, 2020 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

Recent Accounting Developments

Reference Rate Reform (Topic 848): Scope (ASU 2021-01) and Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04)

In January of 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-01, "Reference Rate Reform – Scope," which clarified the scope and application of the original guidance, ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," issued in March of 2020. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships that reference London Interbank Offered Rate ("LIBOR") or other rates that are expected to be discontinued, subject to meeting certain criteria. Both ASU 2020-04 and ASU 2021-01 were effective upon issuance, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is evaluating the impact of adopting ASU 2021-01 and 2020-04.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities

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

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

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

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $168 million and $292 million, respectively, as of September 30, 2021 and $830 million and $623 million, respectively, as of December 31, 2020. The carrying amounts of assets and liabilities are presented separately in "Assets of consolidated variable interest entities" and "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. In the third and second quarters of 2021, the Company deconsolidated one and two structured finance VIEs, respectively, due to the prepayment of the outstanding notes of the VIEs and recorded losses of $10 million and $5 million, respectively, primarily due to credit losses in accumulated other comprehensive income ("AOCI") that were released to earnings. In the first quarter of 2021, there was no consolidation or deconsolidation of VIEs by the Company. In the first quarter of 2020, the Company deconsolidated one structured finance VIE due to the prepayment of the outstanding notes of the VIE. Also in the first quarter of 2020, the Puerto Rico Sales Tax Financing Corporation ("COFINA") Trusts established in 2019 (the "Trusts") were legally dissolved and the seven related VIEs were deconsolidated. There was no impact on the Company's consolidated statement of operations for the first quarter of 2020 due to the deconsolidation of these VIEs. Consolidation and deconsolidation gains and losses, if any, are recorded within "Other net realized gains (losses)" under "Revenues of consolidated variable interest entities" on the Company's consolidated statements of operations.

Holders of insured obligations of issuer-sponsored VIEs do not have recourse to the general assets of the Company. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company's exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by the Company.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs in its insurance operations as of September 30, 2021 and December 31, 2020. The maximum exposure to loss as a result of MBIA's variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees and any investments in obligations issued by nonconsolidated VIEs.

	September 30, 2021					
		Carrying Value of Assets			Carrying Value of Liabilities	
In millions	Maximum Exposure to Loss	Investments	Premiums Receivable	Insurance Loss Recoverable	Unearned Premium Revenue	Loss and Loss Adjustment Expense Reserves
Insurance:						
Global structured finance:						
Mortgage-backed residential	$ 1,328	$ 85	$ 14	$ 42	$ 12	$ 430
Consumer asset-backed	244	-	1	1	1	10
Corporate asset-backed	521	-	4	208	4	3
Total global structured finance	2,093	85	19	251	17	443
Global public finance	1,000	-	5	-	6	-
Total insurance	$ 3,093	$ 85	$ 24	$ 251	$ 23	$ 443

	December 31, 2020					
		Carrying Value of Assets			Carrying Value of Liabilities	
In millions	Maximum Exposure to Loss	Investments	Premiums Receivable	Insurance Loss Recoverable	Unearned Premium Revenue	Loss and Loss Adjustment Expense Reserves
Insurance:						
Global structured finance:						
Mortgage-backed residential	$ 1,835	$ 21	$ 16	$ 90	$ 14	$ 482
Consumer asset-backed	293	-	1	1	1	15
Corporate asset-backed	735	-	5	364	5	-
Total global structured finance	2,863	21	22	455	20	497
Global public finance	1,434	-	7	-	7	2
Total insurance	$ 4,297	$ 21	$ 29	$ 455	$ 27	$ 499

Note 5: Loss and Loss Adjustment Expense Reserves

U.S. Public Finance Insurance

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. The Company estimates future losses by using probability-weighted cash flow scenarios that are customized to each insured transaction. Future loss estimates consider debt service due for each insured transaction, which includes par outstanding and interest due, as well as recoveries for such payments, if any. Gross par outstanding for capital appreciation bonds represents the par amount at the time of issuance of the insurance policy.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Certain state and local governments and territory obligors that National insures are under financial and budgetary stress. In addition, the COVID-19 pandemic may present additional but unknown credit risks to National’s insured portfolio. Puerto Rico had been experiencing significant fiscal stress and constrained liquidity, and in response, the U.S. Congress passed PROMESA. In formulating loss reserves, the Company considers the following: environmental and political impacts; litigation; ongoing discussions with creditors; timing and amount of debt service payments and future recoveries; existing proposed restructuring plans or agreements; and deviations from these proposals in its probability-weighted scenarios. On April 12, 2021, National, other monoline insurers and the Oversight Board reached an agreement in principle settling certain HTA clawback claims in the Commonwealth Title III case and providing for a distribution to HTA holders of cash, bonds and a contingent value instrument and on February 22, 2021, National agreed to join the GO PSA. In September of 2019, National agreed to join the RSA with PREPA, other monoline insurers, a group of uninsured PREPA bondholders, Puerto Rico, and the Oversight Board. Refer to “Note 1: Business Developments and Risks and Uncertainties” for further information on COVID-19 and the Company’s Puerto Rico exposures.

Recoveries on Puerto Rico Losses

For recoveries on paid Puerto Rico losses, the estimates include assumptions related to the following: economic conditions and trends; political developments; the Company’s ability to enforce contractual rights through litigation and otherwise; discussions with other creditors and the obligors, any existing proposals; and the remediation strategy for an insured obligation that has defaulted or is expected to default.

As part of the GO PSA, National will receive certain consideration to include cash, bonds and a CVI. The ultimate recovery value to National will depend on the value of these assets once issued and over time. Prior to the third quarter of 2021, National’s estimate of GO recoveries was based on expected long-term cash flows and sale prices at future dates of the consideration it expects to receive from the GO PSA discounted at risk free rates used for GAAP loss reserving. In the third quarter of 2021, National updated its loss reserve scenarios, which include a probability weighting of potential outcomes, to include certain assumptions about recovery valuation on the date it expects to receive the cash, bonds and the CVI. Also in the third quarter of 2021, National modified its PREPA scenario assumptions to reflect the market insight gained from the anticipated sale of a portion of the recoverable on PREPA bankruptcy claims that had been fully satisfied by National’s insurance claim payments. The net effect of these changes in assumptions resulted in additional incurred losses for the third quarter of 2021.

International and Structured Finance Insurance

The international and structured finance insurance segment’s case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include financial guarantee VIEs that are eliminated in consolidation. In addition, COVID-19 may present additional but unknown credit risks to MBIA Corp.’s insured portfolio. Refer to “Note 1: Business Developments and Risks and Uncertainties” for further information on COVID-19.

RMBS Case Basis Reserves (Financial Guarantees)

The Company’s RMBS reserves and recoveries relate to financial guarantee insurance policies, excluding those on consolidated VIEs. The Company’s first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company’s second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of September 30, 2021 for both first and second-lien RMBS transactions using a process called the Roll Rate Methodology (“Roll Rate Methodology”). The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and subsequently default and loans in the delinquent pipeline are charged-off or liquidated. The loss reserve estimates are based on a probability-weighted average of potential scenarios of loan losses. Additional data used for both second and first-liens include historic averages of deal specific voluntary prepayment rates, forward projections of the LIBOR interest rates, and historic averages of deal-specific loss severities. In addition, for second-lien RMBS backed by home equity lines of credit, the Company assumes a constant basis spread between Prime and LIBOR interest rates. Where applicable, the Company factors in termination scenarios when clean up calls are imminent.

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) and, for first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated in the future through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan’s delinquency bucket.

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

For all RMBS transactions, cash flow models consider allocations and other structural aspects and claims against MBIA Corp.'s insurance policy consistent with such policy's terms and conditions. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA's general obligation to pay claims over time and not on an accelerated basis.

The Company monitors RMBS portfolio performance on a monthly basis against projected performance, reviewing delinquencies, roll rates, and prepayment rates (including voluntary and involuntary). However, loan performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly and re-evaluate its assumptions.

RMBS Recoveries

The Company's RMBS recoveries primarily relate to excess spread that is generated from the trust structures in the insured transactions. Previously, recoveries also included second-lien "put-back" claims related to those mortgage loans whose inclusion in an insured securitization failed to comply with representations and warranties ("ineligible loans"); however the Company has settled all of its put-back claims relating to the inclusion of ineligible loans in securitizations it insured. See "Second-lien Put-Back Claims Related to Ineligible Loans" below.

Excess Spread

Excess spread within insured RMBS securitizations is the difference between interest inflows on mortgage loan collateral and interest outflows on the insured RMBS notes. The aggregate amount of excess spread depends on the future loss trends, which include future delinquency trends, average time to charge-off/liquidate delinquent loans, the future spread between Prime and the LIBOR interest rates, and borrower refinancing behavior (which may be affected by changes in the interest rate environment) that results in voluntary prepayments. Excess spread also includes subsequent recoveries on previously charged-off loans associated with insured second-lien RMBS securitizations.

Second-lien Put-Back Claims Related to Ineligible Loans

During the first quarter of 2021, the Company entered into a settlement agreement with Credit Suisse related to its put-back claims. In the litigation brought to pursue these claims, Credit Suisse had challenged the Company's assessment of the ineligibility of individual mortgage loans. In November of 2020, following a trial and post-trial briefing, the Court overseeing the litigation issued a decision declaring that MBIA Corp. had succeeded in establishing that a majority of the loans in the transaction were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA for approximately $604 million in damages. In February of 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. $600 million, and the Court entered an order dismissing the case. Refer to "Note 13: Commitments and Contingencies" for further information about the Company's litigation with Credit Suisse. As of December 31, 2020, the Company consolidated the RMBS securitization originated by Credit Suisse as a VIE and, therefore, eliminates its estimate of recoveries from its insurance accounting and reflects such recoveries in its accounting for the loan repurchase commitments asset of the VIE using a fair value measurement.

CDO Reserves and Recoveries

The Company also has loss and LAE reserves on certain transactions within its CDO portfolio, primarily its multi-sector CDO asset class that was insured in the form of financial guarantee policies. MBIA's insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes, but are not limited to, RMBS, commercial mortgage-backed securities ("CMBS"), ABS and CDO collateral). The Company's process for estimating reserves and credit impairments on these policies is determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios. The Company considers several factors when developing the range of potential outcomes and their impact on MBIA. A range of loss scenarios is considered under different default and severity rates for each transaction's collateral. Additionally, each transaction is evaluated for its commutation potential.

Zohar Recoveries

MBIA Corp. is seeking to recover the payments it made (plus interest and expenses) with respect to Zohar I and Zohar II. In March of 2018, the then-director of Zohar I and Zohar II placed those funds into voluntary bankruptcy proceedings in federal bankruptcy court in the District of Delaware (the "Zohar Funds Bankruptcy Cases").

Salvage and subrogation recoveries related to Zohar I and Zohar II are reported within "Insurance loss recoverable" on the Company's consolidated balance sheet. The Company's estimate of the insurance loss recoverable for Zohar I and Zohar II includes probability-weighted scenarios of the ultimate monetized recovery from the Zohar Assets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Notwithstanding the monetization procedures agreed to in the Zohar Funds Bankruptcy Cases and confirmed by the court, there can be no assurance that the monetization of the Zohar Assets will yield amounts sufficient to permit MBIA Corp. to recover a substantial portion of the payments it made on Zohar I and Zohar II. In particular, as the monetization process unfolds and new information concerning the financial condition of the portfolio companies is disclosed, the Company may revise its expectations for recoveries. For example, at a June 3, 2020 hearing, counsel for one of the portfolio companies announced that the monetization process for that company would be delayed as a consequence of having to investigate issues relating to the integrity of the company's financial statements. Failure to recover a substantial portion of the payments made on Zohar I and Zohar II could impede MBIA Corp.'s ability to make payments when due on other policies. MBIA Corp. believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to pay its policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the NYIL and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS.

Summary of Loss and LAE Reserves and Recoveries

The Company's loss and LAE reserves and recoveries before consolidated VIE eliminations, along with amounts that were eliminated as a result of consolidating VIEs for the international and structured finance insurance segment, which are included in the Company's consolidated balance sheets as of September 30, 2021 and December 31, 2020 are presented in the following table:

In millions	As of September 30, 2021		As of December 31, 2020	
	Balance Sheet Line Item		Balance Sheet Line Item	
	Insurance loss recoverable	Loss and LAE reserves [2]	Insurance loss recoverable	Loss and LAE reserves [2]
U.S. Public Finance Insurance	$ 1,286	$ 386	$ 1,220	$ 469
International and Structured Finance Insurance:				
Before VIE eliminations[1]	254	682	1,082	780
VIE eliminations[1]	(3)	(218)	(625)	(259)
Total international and structured finance insurance	251	464	457	521
Total	$ 1,537	$ 850	$ 1,677	$ 990

(1) - Includes loan repurchase commitments of $604 million as of December 31, 2020.
(2) - Amounts are net of expected recoveries.

Changes in Loss and LAE Reserves

The following table presents changes in the Company's loss and LAE reserves for the nine months ended September 30, 2021. Changes in loss and LAE reserves, with the exception of loss and LAE payments and the impact of the revaluation of loss reserves denominated in amounts other than U.S. dollars, are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of September 30, 2021, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.52%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of September 30, 2021 and December 31, 2020, the Company's gross loss and LAE reserves included $33 million and $30 million, respectively, related to LAE.

In millions	Changes in Loss and LAE Reserves for the Nine Months Ended September 30, 2021						
Gross Loss and LAE Reserves as of December 31, 2020[1]	Loss Payments	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Other	Gross Loss and LAE Reserves as of September 30, 2021 [1]
$990	$(298)	$11	$(25)	$173	$3	$(4)	$850

(1) - Includes changes in amount and timing of estimated payments and recoveries.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

For the nine months ended September 30, 2021, the Company's loss and LAE reserves declined primarily due to payments made on certain Puerto Rico exposures and a decrease in expected payments related to certain insured first-lien RMBS transactions as a result of an increase in risk-free rates used to present value loss reserves during the period. This decline was partially offset by unfavorable changes in future recoveries of unpaid losses due to a change in assumptions as well as the increase in risk-free discount rates on certain Puerto Rico exposures.

Changes in Insurance Loss Recoverable

Insurance loss recoverable represents the Company's estimate of recoveries on paid claims and LAE. The Company recognizes potential recoveries on paid claims based on the probability-weighted net cash inflows present valued at applicable risk-free rates as of the measurement date. The following table presents changes in the Company's insurance loss recoverable for the nine months ended September 30, 2021. Changes in insurance loss recoverable with the exception of collections, are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations.

		Changes in Insurance Loss Recoverable for the Nine Months Ended September 30, 2021					
In millions	Gross Reserve as of December 31, 2020	Collections for Cases	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions(1)	Other(2)	Gross Reserve as of September 30, 2021
Insurance loss recoverable	$ 1,677	$ (74)	$ 12	$ 5	$ (80)	$ (3)	$ 1,537

(1) - Includes amounts related to paid claims.
(2) - Primarily changes in amount and timing of collections and LAE.

The decrease in the Company's insurance loss recoverable reflected in the preceding table was primarily due to a decrease in expected recovery assumptions on CDOs, the collection of salvage related to certain CDO transactions and the collection of excess spread related to the termination of certain second-lien RMBS trusts. This decrease was partially offset by the amount of claim payments made during 2021 that the Company expects to recover on certain Puerto Rico credits.

Loss and LAE Activity

For the three months ended September 30, 2021, loss and LAE incurred primarily related to changes in loss scenario assumptions on the Puerto Rico GO and PREPA credits, as well as a decline in expected salvage collections related to CDOs. In the third quarter of 2021, National modified its GO scenario assumptions to incorporate the final terms of the Plan of Adjustment. This includes a commutation of 27% of National's outstanding insured bonds and an acceleration of National's remaining insured bonds. In addition, National updated its GO loss reserve scenarios to include certain assumptions about recovery valuation on the date it expects to receive cash, bonds and a CVI. These assumption changes decreased expected GO recoveries. Also in the third quarter of 2021, National modified its PREPA scenario assumptions to reflect the market insight gained from the anticipated sale of a portion of the recoverable on PREPA bankruptcy claims that had been fully satisfied by National's insurance claim payments, which decreased its expected PREPA recoveries, partially offset by additional expected recoveries under the PREPA RSA.

For the nine months ended September 30, 2021, loss and LAE incurred primarily related to the changes in loss reserve scenario assumptions on the PREPA credit discussed above, and reflects changes in loss reserve scenario assumptions on HTA exposure to reflect the most recent Plan of Adjustment. In addition, an increase in the risk-free rates used to discount the value of long-dated future recoveries on Puerto Rico exposures contributed to loss and LAE incurred. Loss and LAE incurred also reflects a decrease in expected salvage collections related to CDOs. This was partially offset primarily by a decrease in the present value of loss reserves related to first-lien RMBS transactions as a result of the increase in risk-free discount rates.

For the three months ended September 30, 2020, loss and LAE incurred primarily related to a decrease in expected salvage collections related to CDOs, an increase in incurred losses on RMBS transactions and an increase in actual and expected payments on certain Puerto Rico credits. For the nine months ended September 30, 2020, loss and LAE incurred primarily related to a decrease in expected salvage collections related to CDOs, an increase in actual and expected payments on certain Puerto Rico credits and an increase in incurred losses on first-lien RMBS transactions. Overall, risk-free rates used to discount loss reserve and recovery cash flows declined during the nine months ended September 30, 2020. The decline in risk-free rates used to present value recoveries on certain Puerto Rico credits resulted in a loss and LAE benefit for the period. This was partially offset by loss and LAE incurred from a decline in risk-free rates used to present value future claim payments across the Company's insured portfolio.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and are included in "Losses and loss adjustment" expenses on the Company's consolidated statements of operations. For the three months ended September 30, 2021 and 2020, gross LAE related to remediating insured obligations were $4 million and $8 million, respectively. For the nine months ended September 30, 2021 and 2020, gross LAE related to remediating insured obligations were $17 million and $25 million, respectively.

Surveillance Categories

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, 2021:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	58	3	-	203	264
Number of issues [(1)]	17	2	-	89	108
Remaining weighted average contract period (in years)	5.9	2.2	-	8.4	7.5
Gross insured contractual payments outstanding: [(2)]					
Principal	$1,480	$ 7	$ -	$ 2,741	$4,228
Interest	1,952	1	-	1,240	3,193
Total	$3,432	$ 8	$ -	$ 3,981	$7,421
Gross Claim Liability [(3)]	$ -	$ -	$ -	$ 897	$ 897
Less:					
Gross Potential Recoveries [(4)]	-	-	-	1,831	1,831
Discount, net [(5)]	-	-	-	(242)	(242)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (692)	$ (692)
Unearned premium revenue	$ 8	$ -	$ -	$ 30	$ 38
Reinsurance recoverable on paid and unpaid losses [(6)]					$ 8

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

(3) - The gross claim liability with respect to Puerto Rico exposures are net of expected recoveries for policies in a net payable position.

(4) - Gross potential recoveries with respect to certain Puerto Rico exposures are net of the claim liability for policies in a net recoverable position.

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

(6) - Included in "Other assets" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2020:

$ in millions	Surveillance Categories: Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	46	16	-	219	281
Number of issues [(1)]	16	3	-	100	119
Remaining weighted average contract period (in years)	6.4	6.4	-	7.9	7.4
Gross insured contractual payments outstanding: [(2)]					
Principal	$1,422	$ 123	$ -	$ 3,302	$4,847
Interest	1,974	54	-	1,441	3,469
Total	$3,396	$ 177	$ -	$ 4,743	$8,316
Gross Claim Liability [(3)]	$ -	$ -	$ -	$ 1,088	$1,088
Less:					
Gross Potential Recoveries [(4)]	-	-	-	1,947	1,947
Discount, net [(5)]	-	-	-	(173)	(173)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (686)	$ (686)
Unearned premium revenue	$ 10	$ -	$ -	$ 35	$ 45
Reinsurance recoverable on paid and unpaid losses [(6)]					$ 11

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

(3) - The gross claim liability with respect to Puerto Rico exposures are net of expected recoveries for policies in a net payable position.

(4) - Gross potential recoveries with respect to certain Puerto Rico exposures are net of the claim liability for policies in a net recoverable position.

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

(6) - Included in "Other assets" on the Company's consolidated balance sheets.

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Financial Assets and Liabilities

Financial assets held by the Company primarily consist of investments in debt securities, loans receivables at fair value and loan repurchase commitments held by consolidated VIEs. The Company's remaining loan repurchase commitments were settled in the first quarter of 2021. Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of debt issued for general corporate purposes within its corporate segment, MTNs, investment agreements and debt issued by consolidated VIEs. The Company's derivative liabilities are primarily interest rate swaps and insured credit derivatives.

Valuation Techniques

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

Fixed-Maturity Securities Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral and Short-term Investments

These investments include investments in U.S. Treasury and government agencies, state and municipal bonds, foreign governments, corporate obligations, MBS, ABS, money market securities, and perpetual debt and equity securities.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

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

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature and credit worthiness of these instruments and are categorized in Level 1 of the fair value hierarchy.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans and other instruments held by consolidated VIEs, consisting of residential mortgage loans and are categorized in Level 3 of the fair value hierarchy. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. The fair values of the financial guarantees consider expected claim payments, net of recoveries, under MBIA Corp.'s policies.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to MBIA as reimbursement of paid claims. Loan repurchase commitments were assets of the consolidated VIEs. These assets represented the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represented the amounts owed by the sellers/servicers to MBIA as reimbursement of paid claims and contractual interest. Loan repurchase commitments were not securities and no quoted prices or comparable market transaction information were observable or available. Fair values of loan repurchase commitments were determined using discounted cash flow techniques and were categorized in Level 3 of the fair value hierarchy. The Company's loan repurchase commitments were settled in the first quarter of 2021.

Other Assets

A VIE consolidated by the Company has entered into a derivative instrument consisting of a cross currency swap. The cross currency swap is entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. The fair value of the VIE derivative is determined based on inputs from unobservable cash flows projection of the derivative, discounted using observable discount rates. As the significant inputs are unobservable, the derivative contract is categorized in Level 3 of the fair value hierarchy.

Other assets also include receivables representing the right to receive reimbursement payments on claim payments expected to be made on certain insured VIE liabilities due to risk mitigating transactions with third parties executed to effectively defease, or, in-substance commute the Company's exposure on its financial guarantee policies. The right to receive reimbursement payments is based on the value of the Company's financial guarantee determined using the cash flow model. The fair value of the financial guarantee primarily contains unobservable inputs and is categorized in Level 3 of the fair value hierarchy.

Medium-term Notes at Fair Value

The Company has elected to measure certain MTNs at fair value on a recurring basis. The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid to determine fair value based on the quoted market prices received for similar instruments and considering the MTNs' stated maturity and interest rate. Nonperformance risk is included in the quoted market prices and the matrix pricing grid. MTNs are categorized in Level 3 of the fair value hierarchy and do not include accrued interest.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Variable Interest Entity Notes

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. Observable inputs include interest rate yield curves and bond spreads of similar securities. Unobservable inputs include the value of any credit enhancement. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Derivatives

The corporate segment has entered into derivative transactions primarily consisting of interest rate swaps. Fair values of over-the-counter derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Derivatives—Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of certain insured credit derivatives using valuation models based on observable inputs and considering nonperformance risk of the Company. These insured credit derivatives are categorized in Level 2 of the fair value hierarchy.

Derivatives—Other

The Company also had other derivative liabilities as a result of a commutation that occurred in 2014. The fair value of these derivative liabilities were determined using a discounted cash flow model. Key inputs included unobservable cash flows projected over the expected term of the derivative. As the significant inputs were unobservable, the derivative contract was categorized in Level 3 of the fair value hierarchy. These derivative liabilities were settled in the first quarter of 2021.

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

In millions	Fair Value as of September 30, 2021	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 77	Market prices of similar liabilities adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	23%- 72% (55%)(1)
Liabilities of consolidated VIEs:				
Variable interest entity notes	292	Market prices of VIE assets adjusted for financial guarantees provided or market prices of similar liabilities	Impact of financial guarantee	32%- 74% (60%)(1)

(1) - Weighted average represents the total MBIA guarantees as a percentage of total instrument fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value as of December 31, 2020	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 120	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee(2)	-28%- 109% (22%)(1)
Loan repurchase commitments	604	Discounted cash flow	Recovery value(3)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	303	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	30%- 73% (57%)(1)
Other derivative liabilities	49	Discounted cash flow	Cash flows	$49- $49 ($49)

(1) - Weighted average represents the total MBIA guarantees as a percentage of total instrument fair value.

(2) - Negative percentage represents financial guarantee policies in a receivable position.

(3) - Recovery value reflects an estimate of the amount to be awarded to the Company as part of litigation seeking to enforce its contractual rights.

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company's residential loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of residential loans receivable is calculated by subtracting the value of the financial guarantee from the quoted price of VIE liabilities or the market value of similar instruments to that of the VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments, net of recoveries, under the policy. If there had been a lower expected cash flow on the underlying loans receivable of the VIE, the value of the financial guarantee provided by the Company under the insurance policy would have been higher. This would have resulted in a lower fair value of the residential loans receivable in relation to the obligations of the VIE.

As of December 31, 2020, the significant unobservable input used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs was a recovery value, which reflected an estimate of the amount to be awarded to the Company as part of litigation seeking to enforce its contractual rights. The Company's remaining loan repurchase commitments were settled in the first quarter of 2021 for $600 million.

The significant unobservable input used in the fair value measurement of the Company's VIE notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. When the VIE note is backed by RMBS, the fair value of the VIE liability is calculated by applying the market value of similar instruments to that of the VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. If the value of the guarantee provided by the Company to the obligations issued by the VIE had increased, the credit support would have added value to the liabilities of the VIE. This would have resulted in an increased fair value of the liabilities of the VIE.

As of December 31, 2020, the significant unobservable input used in the fair value measurement of MBIA Corp.'s other derivatives, which were valued using a discounted cash flow model, was the estimates of future cash flows discounted using market rates and CDS spreads. This derivative contract was settled in the first quarter of 2021 for an amount consistent with the reported amount as of December 31, 2020.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

	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, 2021
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 687	$ 95	$ -	$ 782
State and municipal bonds	-	179	-	179
Foreign governments	-	14	-	14
Corporate obligations	-	1,032	-	1,032
Mortgage-backed securities:				
Residential mortgage-backed agency	-	203	-	203
Residential mortgage-backed non-agency	-	98	-	98
Commercial mortgage-backed	-	13	-	13
Asset-backed securities:				
Collateralized debt obligations	-	154	-	154
Other asset-backed	-	108	-	108
Total fixed-maturity investments	687	1,896	-	2,583
Money market securities	60	-	-	60
Perpetual debt and equity securities	44	23	-	67
Cash and cash equivalents	108	-	-	108
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	-	1	-	1

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2021
Assets of consolidated VIEs:				
Corporate obligations	-	5	-	5
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	27	-	27
Commercial mortgage-backed	-	11	4	15
Asset-backed securities:				
Collateralized debt obligations	-	8	-	8
Other asset-backed	-	8	-	8
Cash	4	-	-	4
Loans receivable at fair value:				
Residential loans receivable	-	-	77	77
Other assets:				
Currency derivatives	-	-	9	9
Other	-	-	15	15
Total assets	$ 903	$ 1,979	$ 105	$ 2,987
Liabilities:				
Medium-term notes	$ -	$ -	$ 102	$ 102
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	-	1	-	1
Non-insured derivatives:				
Interest rate derivatives	-	132	-	132
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	-	292	292
Total liabilities	$ -	$ 133	$ 394	$ 527

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2020
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 750	$ 105	$ -	$ 855
State and municipal bonds	-	195	-	195
Foreign governments	-	15	-	15
Corporate obligations	-	975	-	975
Mortgage-backed securities:				
Residential mortgage-backed agency	-	319	-	319
Residential mortgage-backed non-agency	-	32	-	32
Commercial mortgage-backed	-	20	-	20
Asset-backed securities:				
Collateralized debt obligations	-	121	-	121
Other asset-backed	-	141	-	141
Total fixed-maturity investments	750	1,923	-	2,673
Money market securities	1	-	-	1
Perpetual debt and equity securities	37	25	-	62
Cash and cash equivalents	158	-	-	158
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	-	1	-	1

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2020
Assets of consolidated VIEs:				
Corporate obligations	-	6	-	6
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	40	-	40
Commercial mortgage-backed	-	16	-	16
Asset-backed securities:				
Collateralized debt obligations	-	8	-	8
Other asset-backed	-	7	-	7
Cash	9	-	-	9
Loans receivable at fair value:				
Residential loans receivable	-	-	120	120
Loan repurchase commitments	-	-	604	604
Other assets:				
Currency derivatives	-	-	6	6
Other	-	-	14	14
Total assets	$ 955	$ 2,026	$ 744	$ 3,725
Liabilities:				
Medium-term notes	$ -	$ -	$ 110	$ 110
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	-	2	-	2
Non-insured derivatives:				
Interest rate derivatives	-	164	-	164
Other	-	-	49	49
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	47	303	350
Total liabilities	$ -	$ 213	$ 462	$ 675

Level 3 assets at fair value as of September 30, 2021 and December 31, 2020 represented approximately 4% and 20%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of September 30, 2021 and December 31, 2020 represented approximately 75% and 68%, respectively, of total liabilities measured at fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of September 30, 2021 and December 31, 2020. The majority of the financial assets and liabilities that the Company requires fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company's or a third-party's estimate of discounted cash flow model estimates, or quoted market values for similar products.

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of September 30, 2021	Carry Value Balance as of September 30, 2021
Liabilities:					
Long-term debt	$ -	$ 425	$ -	$ 425	$ 2,308
Medium-term notes	-	-	302	302	489
Investment agreements	-	-	355	355	271
Total liabilities	$ -	$ 425	$ 657	$ 1,082	$ 3,068
Financial Guarantees:					
Gross liability (recoverable)	$ -	$ -	$ 508	$ 508	$ (354)
Ceded recoverable (liability)	-	-	32	32	(39)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2020	Carry Value Balance as of December 31, 2020
Liabilities:					
Long-term debt	$ -	$ 631	$ -	$ 631	$ 2,229
Medium-term notes	-	-	396	396	598
Investment agreements	-	-	376	376	269
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	276	-	276	273
Total liabilities	$ -	$ 907	$ 772	$ 1,679	$ 3,369
Financial Guarantees:					
Gross liability (recoverable)	$ -	$ -	$ 811	$ 811	$ (282)
Ceded recoverable (liability)	-	-	45	45	(17)

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, 2021 and 2020:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2021

In millions	Balance, Beginning of Period	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI(1)	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2021	Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of September 30, 2021(1)
Assets:												
Assets of consolidated VIEs:												
Commercial mortgage-backed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4	$ -	$ 4	$ -	$ -
Loans receivable- residential	129	(3)	-	-	-	(2)	(47)	-	-	77	(4)	-
Currency derivatives	8	1	-	-	-	-	-	-	-	9	1	-
Other	13	2	-	-	-	-	-	-	-	15	2	-
Total assets	$ 150	$ -	$ -	$ -	$ -	$ (2)	$ (47)	$ 4	$ -	$ 105	$ (1)	$ -

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Period	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in in OCI[2]	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2021	Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of September 30, 2021[2]
Liabilities:												
Medium-term notes	$ 105	$ (4)	$ 1	$ -	$ -	$ -	$ -	$ -	$ -	$ 102	$ (4)	$ 1
Liabilities of consolidated VIEs:												
VIE notes	290	(3)	9	-	-	(4)	-	-	-	292	(5)	9
Total liabilities	$ 395	$ (7)	$ 10	$ -	$ -	$ (4)	$ -	$ -	$ -	$ 394	$ (9)	$ 10

(1) – Reported within the “Unrealized gains (losses) on available-for-sale securities” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

(2) – Reported within the “Instrument-specific credit risk of liabilities measured at fair value” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2020

In millions	Balance, Beginning of Period	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI[1]	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2020	Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of September 30, 2020[1]
Assets:												
Other asset-backed	$ 1	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -
Assets of consolidated VIEs:												
Loans receivable-residential	116	2	-	-	-	(4)	-	-	-	114	1	-
Loan repurchase commitments	524	6	-	-	-	-	-	-	-	530	6	-
Currency derivatives	14	(2)	-	-	-	-	-	-	-	12	(2)	-
Other	14	(1)	-	-	-	-	-	-	-	13	(1)	-
Total assets	$ 669	$ 5	$ -	$ -	$ -	$ (5)	$ -	$ -	$ -	$ 669	$ 4	$ -

In millions	Balance, Beginning of Period	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI[2]	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2020	Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of September 30, 2020[2]
Liabilities:												
Medium-term notes	$ 96	$ 8	$ (3)	$ -	$ -	$ -	$ -	$ -	$ -	$ 101	$ 8	$ (3)
Credit derivatives	8	-	-	-	-	-	-	-	-	8	-	-
Other derivatives	37	1	-	-	-	-	-	-	-	38	1	-
Liabilities of consolidated VIEs:												
VIE notes	291	10	(3)	-	-	(4)	-	-	-	294	8	(2)
Total liabilities	$ 432	$ 19	$ (6)	$ -	$ -	$ (4)	$ -	$ -	$ -	$ 441	$ 17	$ (5)

(1) – Reported within the “Unrealized gains (losses) on available-for-sale securities” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

(2) – Reported within the “Instrument-specific credit risk of liabilities measured at fair value” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the three months ended September 30, 2021, sales included the impact of the deconsolidation of VIEs. Refer to “Note 4: Variable Interest Entities” for additional information about the deconsolidation of VIEs.

For the three months ended September 30, 2021, transfers into Level 3 and out of Level 2 were principally related to CMBS, where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers out of Level 3.

For the three months ended September 30, 2020, there were no transfers into or out of Level 3.

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, 2021 and 2020:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2021

In millions	Balance, Beginning of Year	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI(1)	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2021	Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of September 30, 2021(1)
Assets:												
Assets of consolidated VIEs:												
Commercial mortgage-backed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4	$ -	$ 4	$ -	$ -
Loans receivable- residential	120	31	-	-	-	(13)	(61)	-	-	77	21	-
Loan repurchase commitments	604	(4)	-	-	-	(600)	-	-	-	-	-	-
Currency derivatives	6	3	-	-	-	-	-	-	-	9	3	-
Other	14	1	-	-	-	-	-	-	-	15	1	-
Total assets	$ 744	$ 31	$ -	$ -	$ -	$ (613)	$ (61)	$ 4	$ -	$ 105	$ 25	$ -

In millions	Balance, Beginning of Year	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in Credit Risk in OCI(2)	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2021	Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of September 30, 2021(2)
Liabilities:												
Medium-term notes	$ 110	$ (13)	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ 102	$ (13)	$ 5
Other derivatives	49	-	-	-	-	(49)	-	-	-	-	-	-
Liabilities of consolidated VIEs:												
VIE notes	303	44	(15)	-	-	(35)	(5)	-	-	292	23	4
Total liabilities	$ 462	$ 31	$ (10)	$ -	$ -	$ (84)	$ (5)	$ -	$ -	$ 394	$ 10	$ 9

(1) - Reported within the “Unrealized gains (losses) on available-for-sale securities” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

(2) - Reported within the “Instrument-specific credit risk of liabilities measured at fair value” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

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Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2020

In millions	Balance, Beginning of Year	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI(1)	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2020	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2020(1)
Assets:												
Other asset-backed	$ 1	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -
Assets of consolidated VIEs:												
Loans receivable- residential	136	(11)	-	-	-	(11)	-	-	-	114	(13)	-
Loan repurchase commitments	486	44	-	-	-	-	-	-	-	530	44	-
Currency derivatives	8	4	-	-	-	-	-	-	-	12	4	-
Other	18	(5)	-	-	-	-	-	-	-	13	(5)	-
Total assets	$ 649	$ 32	$ -	$ -	$ -	$ (12)	$ -	$ -	$ -	$ 669	$ 30	$ -

In millions	Balance, Beginning of Year	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI(2)	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2020	Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of September 30, 2020(2)
Liabilities:												
Medium-term notes	$ 108	$ 8	$ (15)	$ -	$ -	$ -	$ -	$ -	$ -	$ 101	$ 8	$ (15)
Credit derivatives	7	1	-	-	-	-	-	-	-	8	1	-
Other derivatives	34	4	-	-	-	-	-	-	-	38	4	-
Other payable	4	-	-	-	-	(4)	-	-	-	-	-	-
Liabilities of consolidated VIEs:												
VIE notes	347	2	(41)	-	-	(14)	-	-	-	294	(4)	(39)
Total liabilities	$ 500	$ 15	$ (56)	$ -	$ -	$ (18)	$ -	$ -	$ -	$ 441	$ 9	$ (54)

(1) - Reported within the “Unrealized gains (losses) on available-for-sale securities” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

(2) - Reported within the “Instrument-specific credit risk of liabilities measured at fair value” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

For the nine months ended September 30, 2021, sales include the impact of the deconsolidation of VIEs. Refer to “Note 4: Variable Interest Entities” for additional information about the deconsolidation of VIEs.

For the nine months ended September 30, 2021, transfers into Level 3 and out of Level 2 were principally related to CMBS, where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers out of Level 3.

For the nine months ended September 30, 2020, there were no transfers into or out of Level 3.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended September 30, 2021 and 2020 are reported on the Company's consolidated statements of operations as follows:

In millions	Three Months Ended September 30, 2021: Total Gains (Losses) Included in Earnings	Three Months Ended September 30, 2021: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2021	Three Months Ended September 30, 2020: Total Gains (Losses) Included in Earnings	Three Months Ended September 30, 2020: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2020
Revenues:				
Net gains (losses) on financial instruments at fair value and foreign exchange	$ 4	$ 4	$ (9)	$ (9)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	3	4	(5)	(4)
Total	$ 7	$ 8	$ (14)	$ (13)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the nine months ended September 30, 2021 and 2020 are reported on the Company's consolidated statements of operations as follows:

In millions	Nine Months Ended September 30, 2021: Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2021: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2021	Nine Months Ended September 30, 2020: Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2020: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2020
Revenues:				
Unrealized gains (losses) on insured derivatives	$ -	$ -	$ (1)	$ (1)
Net gains (losses) on financial instruments at fair value and foreign exchange	13	13	(12)	(12)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	2	30	34
Total	$ -	$ 15	$ 17	$ 21

Fair Value Option

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following table presents the gains and (losses) included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2021 and 2020 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Investments carried at fair value(1)	$ (1)	$ 4	$ 5	$ (3)
Fixed-maturity securities held at fair value-VIE(2)	1	4	3	2
Loans receivable at fair value:				
Residential mortgage loans(2)	(3)	2	31	(11)
Loan repurchase commitments(2)	-	6	(4)	44
Other assets-VIE(2)	2	(1)	1	(5)
Medium-term notes(1)	4	(8)	13	(8)
Variable interest entity notes (2)	3	(11)	(47)	(1)

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

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of September 30, 2021 and December 31, 2020 for loans and notes for which the fair value option was elected:

In millions	As of September 30, 2021 Contractual Outstanding Principal	As of September 30, 2021 Fair Value	As of September 30, 2021 Difference	As of December 31, 2020 Contractual Outstanding Principal	As of December 31, 2020 Fair Value	As of December 31, 2020 Difference
Loans receivable at fair value:						
Residential mortgage loans - current	$ 40	$ 40	$ -	$ 89	$ 89	$ -
Residential mortgage loans (90 days or more past due)	138	37	101	147	31	116
Total loans receivable and other instruments at fair value	$ 178	$ 77	$ 101	$ 236	$ 120	$ 116
Variable interest entity notes	$ 918	$ 292	$ 626	$ 1,117	$ 350	$ 767
Medium-term notes	$ 116	$ 102	$ 14	$ 122	$ 110	$ 12

The differences between the contractual outstanding principal and the fair values on loans receivable, VIE notes and MTNs, in the preceding table, are primarily attributable to credit risk. This is due to the high rate of defaults on loans (90 days or more past due), the collateral supporting the VIE notes and the nonperformance risk of the Company on its MTNs, which resulted in depressed pricing of the financial instruments.

Instrument-Specific Credit Risk of Liabilities Elected Under the Fair Value Option

As of September 30, 2021 and December 31, 2020, the cumulative changes in instrument-specific credit risk of liabilities elected under the fair value option were losses of $26 million and $51 million, respectively, reported in "Accumulated other comprehensive income" on the Company's consolidated balance sheets. Changes in value attributable to instrument-specific credit risk were derived principally from changes in the Company's credit spread. For liabilities of VIEs, additional adjustments to instrument-specific credit risk are required, which is determined by an analysis of deal specific performance of collateral that support these liabilities. During the three months ended September 30, 2021 and 2020, the portions of instrument-specific credit risk included AOCI that were recognized in earnings due to settlement of liabilities were losses of $12 million and $2 million, respectively. During the nine months ended September 30, 2021 and 2020, the portions of instrument-specific credit risk included in AOCI that were recognized in earnings due to settlement of liabilities were losses of $36 million and $5 million, respectively.

Note 7: Investments

Investments, excluding equity instruments and those elected under the fair value option, include debt instruments classified as available-for-sale ("AFS").

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following tables presents the amortized cost, allowance for credit losses, corresponding gross unrealized gains and losses and fair value for AFS investments in the Company's consolidated investment portfolio as of September 30, 2021 and December 31, 2020:

	September 30, 2021				
In millions	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 720	$ -	$ 54	$ (2)	$ 772
State and municipal bonds	151	-	27	-	178
Foreign governments	10	-	-	-	10
Corporate obligations	901	-	38	(5)	934
Mortgage-backed securities:					
Residential mortgage-backed agency	195	-	4	(1)	198
Residential mortgage-backed non-agency	82	-	10	-	92
Commercial mortgage-backed	10	-	1	-	11
Asset-backed securities:					
Collateralized debt obligations	119	-	-	(1)	118
Other asset-backed	91	-	-	-	91
Total AFS investments	$ 2,279	$ -	$ 134	$ (9)	$2,404

	December 31, 2020				
In millions	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 775	$ -	$ 75	$ (1)	$ 849
State and municipal bonds	162	-	32	-	194
Foreign governments	11	-	1	-	12
Corporate obligations	827	-	64	(1)	890
Mortgage-backed securities:					
Residential mortgage-backed agency	305	-	8	(1)	312
Residential mortgage-backed non-agency	22	-	3	-	25
Commercial mortgage-backed	17	-	1	-	18
Asset-backed securities:		-			
Collateralized debt obligations	120	-	-	(2)	118
Other asset-backed	121	-	-	-	121
Total AFS investments	$ 2,360	$ -	$ 184	$ (5)	$2,539

The following table presents the distribution by contractual maturity of AFS fixed-maturity securities at amortized cost, net of allowance for credit losses, and fair value as of September 30, 2021. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities	
In millions	Net Amortized Cost	Fair Value
Due in one year or less	$ 462	$ 462
Due after one year through five years	308	323
Due after five years through ten years	321	336
Due after ten years	691	773
Mortgage-backed and asset-backed	497	510
Total fixed-maturity investments	$ 2,279	$2,404

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Note 7: Investments (continued)

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of September 30, 2021 and December 31, 2020 was $11 million. These deposits are required to comply with state insurance laws.

Pursuant to the Company's tax sharing agreement, securities held by MBIA Inc. in the Tax Escrow Account are included as "Investments pledged as collateral, at fair value" on the Company's consolidated balance sheets.

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of September 30, 2021 and December 31, 2020, the fair value of securities pledged as collateral for these investment agreements approximated $282 million. The Company's collateral as of September 30, 2021 consisted principally of U.S. Treasury and government agency and corporate obligations, and was primarily held with major U.S. banks.

Refer to "Note 8: Derivative Instruments" for information about securities posted to derivative counterparties.

Impaired Investments

The following tables present the non-credit related gross unrealized losses related to AFS investments as of September 30, 2021 and December 31, 2020:

	September 30, 2021					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 60	$ (1)	$ 10	$ (1)	$ 70	$ (2)
State and municipal bonds	1	-	-	-	1	-
Foreign governments	6	-	-	-	6	-
Corporate obligations	287	(5)	7	-	294	(5)
Mortgage-backed securities:						
Residential mortgage-backed agency	83	(1)	1	-	84	(1)
Residential mortgage-backed non-agency	-	-	1	-	1	-
Commercial mortgage-backed	2	-	-	-	2	-
Asset-backed securities:						
Collateralized debt obligations	44	-	43	(1)	87	(1)
Other asset-backed	56	-	-	-	56	-
Total AFS investments	$ 539	$ (7)	$ 62	$ (2)	$ 601	$ (9)

	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 99	$ (1)	$ -	$ -	$ 99	$ (1)
Foreign governments	2	-	-	-	2	-
Corporate obligations	103	(1)	7	-	110	(1)
Mortgage-backed securities:						
Residential mortgage-backed agency	53	(1)	-	-	53	(1)
Residential mortgage-backed non-agency	2	-	1	-	3	-
Commercial mortgage-backed	-	-	5	-	5	-
Asset-backed securities:						
Collateralized debt obligations	37	-	78	(2)	115	(2)
Other asset-backed	29	-	-	-	29	-
Total AFS investments	$ 325	$ (3)	$ 91	$ (2)	$ 416	$ (5)

Gross unrealized losses on AFS investments increased as of September 30, 2021 compared with December 31, 2020 primarily due to higher interest rates, partially offset by tightening credit spreads.

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Note 7: Investments (continued)

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2021 and December 31, 2020 was 11 and 9 years, respectively. As of September 30, 2021 and December 31, 2020, there were 37 and 42 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 6 and 9 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of September 30, 2021:

	AFS Securities		
Percentage of Fair Value Below Book Value	**Number of Securities**	**Book Value (in millions)**	**Fair Value (in millions)**
> 5% to 15%	2	$ -	$ -
> 15% to 25%	2	5	4
> 50%	2	-	-
Total	6	$ 5	$ 4

Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value. As of September 30, 2021, the Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2021 that would require the sale of impaired securities.

Credit Losses on Investments

The Company's fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. If the Company determines that the declines in the fair value are related to credit loss, the Company will establish an allowance for credit losses and recognize the credit component through earnings. Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for a discussion of the Company's policy for its determination of credit losses.

The Company does not recognize credit losses on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairments in accordance with its loss reserving policy. The following table provides information about securities held by the Company as of September 30, 2021 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company. The Company did not hold any securities in an unrealized loss position that were insured by a third-party financial guarantor as of September 30, 2021.

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve (1)
Mortgage-backed	$ 1	$ -	$ -
Corporate obligations	37	(2)	-
Total	$ 38	$ (2)	$ -

(1) - Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured and are discounted using a discount rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract and may differ from the fair value.

Allowance for Credit Losses Rollforward

The Company did not establish an allowance for credit losses for AFS securities as of September 30, 2021 or purchase any credit-deteriorated assets for the three or nine months ended September 30, 2021.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following tables present the rollforward of the allowance for credit losses on HTM investments for the three and nine months ended September 30, 2020. As of September 30, 2020, the allowance for credit losses was reduced to zero as a result of the repayment of the assets, at par, subsequent to the third quarter of 2020.

		Three Months Ended September 30, 2020				
In millions	Balance, Beginning of Period	Current period provision for expected credit losses	Initial allowance recognized for PCD assets	Write-Offs	Recoveries	Balance as of September 30, 2020
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 23	$ (23)	$ -	$ -	$ -	$ -
Total Allowance on HTM investments	$ 23	$ (23)	$ -	$ -	$ -	$ -

		Nine Months Ended September 30, 2020				
In millions	Balance as of January 1, 2020 (1)	Current period provision for expected credit losses	Initial allowance recognized for PCD assets	Write-Offs	Recoveries	Balance as of September 30, 2020
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 37	$ (37)	$ -	$ -	$ -	$ -
Total Allowance on HTM investments	$ 37	$ (37)	$ -	$ -	$ -	$ -

(1) - Represents transition adjustment upon adoption of ASU 2016-13.

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within “Net gains (losses) on financial instruments at fair value and foreign exchange” on the Company’s consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2021	2020	2021	2020
Proceeds from sales	$ 73	$ 293	$ 469	$ 862
Gross realized gains	$ 1	$ 22	$ 7	$ 53
Gross realized losses	$ -	$ (2)	$ (8)	$ (14)

Equity Investments

Unrealized gains and losses recognized on equity investments held as of the end of each period for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2021	2020	2021	2020
Net gains (losses) recognized during the period on equity securities	$ -	$ 4	$ 5	$ (1)
Less:				
Net gains (losses) recognized during the period on equity securities sold during the period	1	-	1	-
Unrealized gains (losses) recognized during the period on equity securities still held at the reporting date	$ (1)	$ 4	$ 4	$ (1)

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Note 8: Derivative Instruments

U.S. Public Finance Insurance

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception and are accounted for as derivative instruments. Changes in the fair values of the Company's insured derivatives within its U.S. Public Finance segment are included in "Net change in fair value of insured derivatives" on the Company's consolidated statements of operations.

Corporate

The Company has entered into derivative instruments primarily consisting of interest rate swaps to manage the risks associated with fluctuations in interest rates affecting the value of certain assets. Changes in the fair values of the Company's derivatives within its corporate segment are included in "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

International and Structured Finance Insurance

The Company's derivative exposure within its international and structured finance insurance segment includes insured interest rate and inflation-linked swaps related to insured debt issues. Changes in the fair values of the Company's insured derivatives within its International and Structured Finance segment are included in "Net change in fair value of insured derivatives" on the Company's consolidated statements of operations.

The Company had also entered into a derivative contract in connection with the commutation of certain insurance exposure, which occurred in 2014. Changes in the fair value of this non-insured derivative are included in "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations. This derivative contract was settled in the first quarter of 2021 for an amount consistent with the amount reported at fair value as of December 31, 2020.

Variable Interest Entities

A VIE consolidated by the Company is party to a cross currency swap, which was entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. Changes in the fair value of the VIE derivative are included in "Net gains (losses) on financial instruments at fair value and foreign exchange-VIE" on the Company's consolidated statements of operations.

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of September 30, 2021 and December 31, 2020. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's Investor Services ("Moody's"), Standard & Poor's Financial Services, LLC ("S&P") or MBIA.

$ in millions	As of September 30, 2021							
	Notional Value							
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured swaps	13.4 Years	$ -	$ 52	$1,285	$ 359	$ -	$1,696	$ (1)
Total notional		$ -	$ 52	$1,285	$ 359	$ -	$1,696	
Total fair value		$ -	$ -	$ (1)	$ -	$ -		$ (1)

$ in millions	As of December 31, 2020							
	Notional Value							
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured swaps	13.9 Years	$ -	$ 58	$1,327	$ 358	$ -	$1,743	$ (2)
Total notional		$ -	$ 58	$1,327	$ 358	$ -	$1,743	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ -		$ (2)

Note 8: Derivative Instruments (continued)

Internal credit ratings assigned by MBIA on the underlying credit exposures are assigned by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. The maximum potential amount of future payments (undiscounted) on insured swaps that are primarily insured interest rate swaps is estimated as the net interest settlements plus principal payments where applicable, on amortizing swaps.

MBIA may hold recourse provisions through subrogation rights of the swap counterparty, whereby if MBIA makes a claim payment, it may be entitled to receive net swap settlements from the issuer under the swap agreement.

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative instruments in the corporate segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities 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, 2021 and December 31, 2020, the Company did not hold or post cash collateral to derivative counterparties.

As of September 30, 2021 and December 31, 2020, the Company had securities with a fair value of $163 million and $214 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

As of September 30, 2021 and December 31, 2020, the fair value on one Credit Support Annex ("CSA") was $1 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of September 30, 2021 and December 31, 2020, the counterparty was rated Aa3 by Moody's and A+ by S&P.

Financial Statement Presentation

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

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of September 30, 2021:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured swaps	$ 1,696	Other assets	$ -	Derivative liabilities	$ (1)
Interest rate swaps	425	Other assets	1	Derivative liabilities	(132)
Interest rate swaps-embedded	211	Medium-term notes	-	Medium-term notes	(8)
Currency swaps-VIE	50	Other assets-VIE	9	Derivative liabilities-VIE	-
Total non-designated derivatives	$ 2,382		$ 10		$ (141)

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2020:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured swaps	$ 1,743	Other assets	$ -	Derivative liabilities	$ (2)
Interest rate swaps	437	Other assets	1	Derivative liabilities	(164)
Interest rate swaps-embedded	252	Medium-term notes	-	Medium-term notes	(10)
Currency swaps-VIE	53	Other assets-VIE	6	Derivative liabilities-VIE	-
All other	49	Other assets	-	Derivative liabilities	(49)
Total non-designated derivatives	$ 2,534		$ 7		$ (225)

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended September 30, 2021 and 2020:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ 5	$ 6
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	1	(1)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	-	(1)
Total		$ 6	$ 4

The following table presents the effect of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2021 and 2020:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ -	$ (1)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	22	(53)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	3	4
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	-	(4)
Total		$ 25	$ (54)

Note 9: Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2021 and 2020 are as follows:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Income (loss) before income taxes	$ (123)	$ (58)	$ (290)	$ (497)
Provision (benefit) for income taxes	$ -	$ -	$ -	$ -
Effective tax rate	0.0%	0.0%	0.0%	0.0%

For the nine months ended September 30, 2021 and 2020, the Company's effective tax rate applied to its loss before income taxes was lower than the U.S. statutory tax rate due to the full valuation allowance on the changes in its net deferred tax asset.

Deferred Tax Asset, Net of Valuation Allowance

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of its existing deferred tax assets. A significant piece of objective negative evidence evaluated was the

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 9: Income Taxes (continued)

Company having a three-year cumulative loss. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections of pre-tax income. On the basis of this evaluation, the Company has recorded a full valuation allowance against its net deferred tax asset of $1.0 billion and $966 million as of September 30, 2021 and December 31, 2020, respectively. The Company will continue to analyze the valuation allowance on a quarterly basis.

NOLs of property and casualty insurance companies are permitted to be carried back two years and carried forward 20 years, except where modified by the CARES Act as outlined below. NOLs of property and casualty insurance companies are not subject to the 80 percent taxable income limitation and indefinite lived carryforward period required by the Tax Cuts and Jobs Act applicable to general corporate NOLs.

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in unrecognized tax benefit ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of September 30, 2021 and December 31, 2020, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed. As of September 30, 2021, the Company's NOL is approximately $3.5 billion. NOLs generated prior to tax reform and property and casualty NOLs generated after tax reform will expire between tax years 2031 through 2041. As of September 30, 2021, the Company has a foreign tax credit carryforward of $61 million, which will expire between tax years 2021 through 2030.

Section 382 of the Internal Revenue Code

On May 2, 2018, MBIA Inc.'s shareholders ratified an amendment to the Company's By-Laws, which had been adopted earlier by MBIA Inc.'s Board of Directors. The amendment places restrictions on certain acquisitions of Company stock that otherwise may have increased the likelihood of an ownership change within the meaning of Section 382 of the Internal Revenue Code. With certain exceptions, the amendment generally prohibits a person from becoming a "Section 382 five-percent shareholder" by acquiring, directly or by attribution, 5% or more of the outstanding shares of the Company's common stock.

COVID-19 Tax Impact

On March 27, 2020, as part of the business stimulus package in response to COVID-19, the U.S. government enacted the CARES Act. The CARES Act established new tax provisions including, but not limited to: (1) five-year carryback of NOLs generated in 2018, 2019 and 2020; (2) accelerated refund of alternative minimum tax ("AMT") credit carryforwards; and (3) retroactive changes to allow accelerated depreciation for certain depreciable property. The legislation did not have a material impact on the Company's tax positions due to the lack of taxable income in the carryback periods. On December 21, 2020, The Consolidated Appropriations Act ("Act") passed by Congress to respond to the health and economic impacts of COVID-19. The Act includes a number of tax law changes, including the expansion of Employee Retention Credit, important changes to Paycheck Protection Program, and extension of a variety of expiring tax provisions. On March 6, 2021, The American Rescue Plan Act was passed by Congress to further respond to the health and economic impacts of COVID-19. Among other changes, the legislation provides for an extension of the Employee Retention Credit through 2021. These two legislations do not have a material impact on the Company's tax positions.

Note 10: Business Segments

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

The Company manages its businesses across three operating segments: 1) U.S. public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company's U.S. public finance insurance business is operated through National and its international and structured finance insurance business is operated through MBIA Corp.

The following sections provide a description of each of the Company's reportable operating segments.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

U.S. Public Finance Insurance

The Company's U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, 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.

Corporate

The Company's corporate segment consists of general corporate activities, including providing support services to MBIA Inc.'s subsidiaries as well as asset and capital management. Support services are provided by the Company's service company, MBIA Services, and include, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Capital management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, MBIA Global Funding, LLC ("GFL") and MBIA Investment Management Corp. ("IMC"). MBIA Inc. issued debt to finance the operations of the MBIA group. GFL raised funds through the issuance of MTNs with varying maturities, which were in turn guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. IMC, along with MBIA Inc., provided 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. The Company has ceased issuing new MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities matured, terminated or were called or repurchased. During 2020, the remaining investment agreements issued by IMC matured, and as of December 31, 2020, there were no outstanding investment agreements issued by IMC. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

International and Structured Finance Insurance

The Company's international and structured finance insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, non-U.S. public finance and global structured 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. MBIA Corp. insures the investment contracts written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. insures debt obligations of the following affiliates:

- MBIA Inc.;
- GFL;
- IMC;
- MZ Funding LLC; and
- LaCrosse Financial Products, LLC, a wholly-owned affiliate, to which MBIA Insurance Corporation had written insurance policies guaranteeing the obligations under CDS. Certain policies covered payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivative contracts by the insured counterparty or by the guarantor. The Company no longer insures new CDS contracts except for potential transactions related to the restructuring of existing exposures.

MBIA Corp. insures non-U.S. public finance and global structured finance obligations, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, utilities, privately issued bonds used for the financing of projects that include toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations 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, and aircraft leases. MBIA Corp. has also written policies guaranteeing obligations under certain other derivative contracts, including termination payments that may become due upon certain insolvency or payment defaults of the financial guarantor or the issuer. MBIA Corp. has not written any meaningful amount of business since 2008.

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Note 10: Business Segments (continued)

Segments Results

The following tables provide the Company's segment results for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30, 2021				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues(1)	$ 20	$ 6	$ 24	$ -	$ 50
Net gains (losses) on financial instruments at fair value and foreign exchange	1	13	(3)	-	11
Net gains (losses) on extinguishment of debt	-	16	-	-	16
Revenues of consolidated VIEs	-	-	(5)	-	(5)
Inter-segment revenues(2)	8	14	2	(24)	-
Total revenues	29	49	18	(24)	72
Losses and loss adjustment	68	-	57	-	125
Operating	6	16	1	-	23
Interest	-	14	26	-	40
Expenses of consolidated VIEs	-	-	7	-	7
Inter-segment expenses(2)	11	4	9	(24)	-
Total expenses	85	34	100	(24)	195
Income (loss) before income taxes	$ (56)	$ 15	$ (82)	$ -	$ (123)
Identifiable assets	$3,448	$ 826	$ 3,034	$(2,492)(3)	$ 4,816

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Primarily represents intercompany service charges and intercompany net investment income and expense.
(3) - Consists principally of intercompany reinsurance balances.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

	Three Months Ended September 30, 2020				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 21	$ 4	$ 9	$ -	$ 34
Net gains (losses) on financial instruments at fair value and foreign exchange	23	(6)	(4)	-	13
Revenues of consolidated VIEs	-	-	24	-	24
Inter-segment revenues[2]	7	16	(1)	(22)	-
Total revenues	51	14	28	(22)	71
Losses and loss adjustment	14	-	34	-	48
Operating	3	16	4	-	23
Interest	-	16	27	-	43
Expenses of consolidated VIEs	-	-	15	-	15
Inter-segment expenses[2]	9	6	7	(22)	-
Total expenses	26	38	87	(22)	129
Income (loss) before income taxes	$ 25	$ (24)	$ (59)	$ -	$ (58)

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Primarily represents intercompany service charges and intercompany net investment income and expense.

The following tables provide the Company's segment results for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30, 2021				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 64	$ 13	$ 37	$ -	$ 114
Net gains (losses) on financial instruments at fair value and foreign exchange	1	50	(9)	-	42
Net gains (losses) on extinguishment of debt	-	30	-	-	30
Revenues of consolidated VIEs	-	-	(24)	-	(24)
Inter-segment revenues[2]	22	50	10	(82)	-
Total revenues	87	143	14	(82)	162
Losses and loss adjustment	135	-	97	-	232
Operating	14	54	7	-	75
Interest	-	42	80	-	122
Expenses of consolidated VIEs	-	-	23	-	23
Inter-segment expenses[2]	36	14	30	(80)	-
Total expenses	185	110	237	(80)	452
Income (loss) before income taxes	$ (98)	$ 33	$ (223)	$ (2)	$ (290)
Identifiable assets	$3,448	$ 826	$ 3,034	$(2,492)[3]	$ 4,816

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Primarily represents intercompany service charges and intercompany net investment income and expense.
(3) - Consists principally of intercompany reinsurance balances.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

	Nine Months Ended September 30, 2020				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 78	$ 15	$ 23	$ -	$ 116
Net gains (losses) on financial instruments at fair value and foreign exchange	30	(62)	6	-	(26)
Revenues of consolidated VIEs	-	-	89	-	89
Inter-segment revenues[2]	21	51	7	(79)	-
Total revenues	129	4	125	(79)	179
Losses and loss adjustment	134	-	293	-	427
Operating	8	50	10	-	68
Interest	-	48	87	-	135
Expenses of consolidated VIEs	-	-	46	-	46
Inter-segment expenses[2]	34	17	28	(79)	-
Total expenses	176	115	464	(79)	676
Income (loss) before income taxes	$ (47)	$ (111)	$ (339)	$ -	$ (497)

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Primarily represents intercompany service charges and intercompany net investment income and expense.

Note 11: Earnings Per Share

Earnings per share is calculated using the two-class method in which earnings are allocated to common stock and participating securities based on their rights to receive nonforfeitable dividends or dividend equivalents. The Company grants restricted stock to certain employees and non-employee directors in accordance with the Company's long-term incentive programs, which entitle the participants to receive nonforfeitable dividends or dividend equivalents during the vesting period on the same basis as those dividends are paid to common shareholders. These unvested stock awards represent participating securities. During periods of net income, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. During periods of net loss, no effect is given to participating securities in the numerator and the denominator excludes the dilutive impact of these securities since they do not share in the losses of the Company.

Basic earnings per share excludes dilution and is computed by dividing net 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 unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from unvested restricted stock is calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from the unrecognized compensation expense from unvested restricted stock will be used to purchase shares of the Company's common stock at the average market price during the period. If the potentially dilutive securities disclosed in the table below become vested, the transaction would be net share settled resulting in a significantly lower impact to the outstanding share balance in comparison to the total amount of the potentially dilutive securities. During periods of net loss, unvested restricted stock is excluded from the calculation because it would have an antidilutive effect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Earnings Per Share (continued)

The following table presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020:

In millions except per share amounts	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Basic earnings per share:				
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Less: undistributed earnings allocated to participating securities	-	-	-	-
Net income (loss) available to common shareholders	$ (123)	$ (58)	$ (290)	$ (497)
Basic weighted average shares [(1)]	49.6	52.6	49.4	62.4
Net income (loss) per basic common share	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Diluted earnings per share:				
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Less: undistributed earnings allocated to participating securities	-	-	-	-
Net income (loss) available to common shareholders	$ (123)	$ (58)	$ (290)	$ (497)
Diluted weighted average shares	49.6	52.6	49.4	62.4
Net income (loss) per diluted common share	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Potentially dilutive securities excluded from the calculation of diluted EPS because of antidilutive affect	4.9	4.8	4.9	4.8

(1) - Includes 0.9 million and 1.0 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the three months ended September 30, 2021 and 2020, respectively. Includes 0.9 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for each of the nine months ended September 30, 2021 and 2020.

Note 12: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the nine months ended September 30, 2021:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Instrument-Specific Credit Risk of Liabilities Measured at Fair Value, Net	Total
Balance, December 31, 2020	$ 176	$ (10)	$ (51)	$ 115
Other comprehensive income (loss) before reclassifications	(42)	3	(11)	(50)
Amounts reclassified from AOCI	(11)	-	36	25
Net period other comprehensive income (loss)	(53)	3	25	(25)
Balance, September 30, 2021	$ 123	$ (7)	$ (26)	$ 90

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Note 12: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the three and nine months ended September 30, 2021 and 2020:

In millions	Amounts Reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Details about AOCI Components	2021	2020	2021	2020	Affected Line Item on the Consolidated Statements of Operations
Unrealized gains (losses) on AFS securities:					
Realized gains (losses) on sale of securities	$ 3	$ 9	$ 11	$ 17	Net gains (losses) on financial instruments at fair value and foreign exchange
Total unrealized gains (losses) on AFS securities	3	9	11	17	
Instrument-specific credit risk of liabilities:					
Settlement of liabilities	(12)	(2)	(36)	(5)	Net gains (losses) on financial instruments at fair value and foreign exchange
Total reclassifications for the period	$ (9)	$ 7	$ (25)	$ 12	Net income (loss)

Note 13: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in “Note 19: Commitments and Contingencies” in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

Litigation

MBIA Insurance Corp. v. Credit Suisse Securities (USA) LLC, et al.; Index No. 603751/2009 (N.Y. Sup. Ct., N.Y. County)

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse. The complaint sought damages for claims in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. On January 30, 2013, MBIA Corp. filed an amended complaint. In November of 2020, following a trial and post-trial briefing, the court overseeing the litigation issued a decision declaring that MBIA Corp. had succeeded in establishing that a majority of the loans in the transaction were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA for approximately $604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. $600 million, and on February 11, 2021, the court entered an order dismissing the case.

Tilton v. MBIA Inc., Index No. 68880/2015 (N.Y. Sup. Ct., Westchester County)

On November 2, 2015, Lynn Tilton and Patriarch Partners XV, LLC filed a complaint in New York State Supreme Court, Westchester County, against MBIA Inc. and MBIA Corp., seeking damages based on allegations of fraudulent inducement and related claims arising from purported promises made in connection with insurance policies issued by MBIA Corp. on certain collateralized loan obligations managed by Ms. Tilton and affiliated Patriarch entities. Plaintiffs filed an amended complaint on January 15, 2016. The parties completed discovery in 2017. In June of 2021, the court denied the parties’ respective cross-motions for summary judgment and set a trial date of December 6, 2021. MBIA has filed a notice of appeal with respect to the denial of its summary judgement.

Tilton et al. v. MBIA Inc., et al., Adversary Case No. 19-50390 (KBO) (Bankr. Del.)

On October 1, 2019, Lynn Tilton and certain affiliated entities commenced an adversary proceeding in the Zohar Funds Bankruptcy Cases against MBIA Inc., MBIA Corp. and other Zohar Funds creditors seeking the equitable subordination of those creditors’ claims with respect to the Zohar Funds. Plaintiffs claim they are entitled to relief due to inequitable and unfair conduct by defendants. The Company and the other defendants filed their respective motions to dismiss on October 30, 2020. Briefing on those motions is complete and the motions are under submission.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

Zohar CDO 2003-1, Ltd., et al. v. Patriarch Partners, LLC et al., Case No. 1:17-cv-0307-WHP (S.D.N.Y.)

On November 27, 2017, Lynn Tilton and certain affiliated entities including Patriarch Partners, LLC commenced a third-party complaint against MBIA Inc., MBIA Insurance Corp. and other Zohar Fund stakeholders seeking damages for alleged breaches of the contracts governing the Zohar Funds and additional alleged legal duties and obligations relating to the Funds. On December 22, 2020, the Company and the other third-party defendants moved to dismiss the third-party complaint. On July 6, 2021, following the completion of briefing on those motions to dismiss, the presiding judge, the Honorable William H. Pauley, and the case was reassigned to the Honorable P. Kevin Castel. On September 29, 2021, Judge Castel issued a decision on the motions to dismiss; granting them almost in full, with certain claims being stayed rather than dismissed, pending further developments in the Adversary Proceedings pending in the Zohar Funds Bankruptcy Cases in Delaware Bankruptcy Court.

MBIA Insurance Corp. v. Tilton et al., Adversary Case No. 20-50776 (KBO) (Bankr. Del.)

On July 30, 2020, MBIA Corp. commenced an adversary proceeding in the Zohar Funds Bankruptcy Cases against Lynn Tilton and certain affiliated entities seeking damages incurred by MBIA Corp. in connection with insurance policies it issued on senior notes issued by Zohar I and Zohar II. On July 23, 2021, the court denied in part and granted in part Tilton's and her affiliated defendants' motion to dismiss the complaint. The court denied defendants' motion with respect to MBIA's claims for breach of contract, tortious interference, unjust enrichment, and malicious prosecution of claims commenced by Tilton in Delaware. On September 24, 2021, MBIA filed an Amended Complaint consistent with the rulings on the motion to dismiss.

The Financial Oversight and Management Board for Puerto Rico, as representative of The Puerto Rico Electric Power Authority, et al., Case No. 17 BK 4780-LTS (D.P.R. July 19, 2017) (Swain, J.)

On July 18, 2017, National, together with other PREPA bondholders, asked the court overseeing PREPA's Title III bankruptcy proceeding to lift the automatic bankruptcy stay, and permit bondholders to seek appointment of a receiver to oversee PREPA. On September 14, 2017, the court held that PROMESA barred relief from the stay. The bondholders appealed the decision to the First Circuit. On August 8, 2018, the First Circuit issued an order reversing Judge Swain's decision on jurisdictional grounds and remanding the motion. On October 3, 2018, National, together with other monolines filed an updated motion for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA. The Oversight Board filed a motion to dismiss the receiver motion. These motions have been stayed until five business days following the ruling on the PREPA 9019 Settlement Motion. The PREPA 9019 Settlement Motion has been adjourned until further order of the Court.

On May 3, 2019, PREPA, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") (together, the "RSA Parties") entered into the RSA. On September 9, 2019 National, Syncora Guarantee Inc. ("Syncora"), and the RSA Parties agreed on an amendment to the RSA pursuant to which National and Syncora joined the RSA. The RSA includes the agreement for resolving PREPA's restructuring plan issues and arrangements.

Pursuant to the RSA, the Oversight Board filed a Rule 9019 motion with the Title III court in May of 2019 seeking approval of the RSA (the "Settlement Motion"). The RSA requires, upon entry of the order approving the Settlement Motion (the "9019 Order"), that Movants will withdraw the Receiver Motion, and the Ad Hoc Group will support such withdrawal. As contemplated by the RSA, on July 1, 2019, the Oversight Board and AAFAF also filed an adversary complaint against the Trustee for the PREPA Bonds, challenging the validity of the liens arising under the Trust Agreement that secure insured obligations of National. The adversary proceeding is stayed until the earlier of (a) 60 days after the Court denies the Settlement Motion, (b) consummation of a Plan, (c) 60 days after the filing by the Oversight Board and AAFAF of a Litigation Notice, or (d) further order of the Court. The hearing for the Settlement Motion has been adjourned until further order of the Court.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

Cortland Capital Market Services LLC, et al. v. The Financial Oversight and Management Board for Puerto Rico et al., Case No. 19-00396 (D.P.R. July 9, 2019) (Swain, J.)

On July 9, 2019, the "Fuel Line Lenders," parties who extended approximately $700 million to PREPA beginning in 2012 to fund fuel purchases, filed an adversary complaint against the Oversight Board, PREPA, AAFAF, and the Trustee for the PREPA Bonds, alleging that they are entitled to be paid in full before National and other bondholders have any lien on or recourse to PREPA's assets, including pursuant to the RSA. On September 30, 2019, the Fuel Line Lenders filed an amended complaint which added National, Assured, Syncora, and the Ad Hoc Group as defendants. Defendants moved to dismiss the Fuel Line Lenders' adversary complaint on November 11, 2019. The Fuel Line Lenders filed their opposition to the motion to dismiss on December 5, 2019. Defendants' reply in support of the motion to dismiss was filed February 3, 2020. The hearing on the motion to dismiss was adjourned until the Court determines when the 9019 Settlement Motion and related litigation will recommence.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al. v. the Puerto Rico Public Buildings Authority, Case No. 18-00149 (D.P.R. December 21, 2018) (Swain, J.)

On December 21, 2018, the Oversight Board and the Official Committee of Unsecured Creditors of all Debtors other than COFINA filed an adversary complaint against the PBA, seeking a declaration that leases purportedly entered into by PBA are in fact disguised financing transactions and that PBA therefore has no right under PROMESA or the Bankruptcy Code to receive post-petition payments from the Title III debtors or administrative claims against the debtors. On January 28, 2019, National filed a motion to intervene in the proceeding. On March 12, 2019, the Court granted National's intervention motion. On March 19, 2019, National filed an answer to the complaint. On September 27, 2019, the Oversight Board filed a voluntary petition for relief for PBA pursuant to PROMESA, commencing a case under Title III. The complaint has been stayed indefinitely by order of the Court. As part of the GO PSA, National has agreed to stay its participation in this litigation subject to the effective date of the Commonwealth plan of adjustment.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al. v. National Public Finance Guarantee Corporation, et al., Case No. 19-00291 (D.P.R. May 2, 2019) (Swain, J.)

On May 2, 2019, the Oversight Board and the Official Committee of Unsecured Creditors of all Title III Debtors (other than COFINA) (the "Committee") filed lien avoidance adversary complaints against several hundred defendants, including National, challenging the existence, extent, and enforceability of GO bondholders' liens. After an approximately five-month stay of litigation entered by the Court on July 24, 2019, these adversary proceedings resumed pursuant to an interim schedule entered by the Court in December 2019. On February 5, 2020, National and Assured Guaranty Municipal Corp. filed a motion to dismiss the adversary proceeding. The motion has been stayed indefinitely by order of the Court. As part of the GO PSA, National has agreed to stay its participation in this litigation subject to the effective date of the Commonwealth plan of adjustment.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al., Case No. 17-03567 LTS (D.P.R. July 17, 2020) (Swain, J.)

On July 17, 2020, National, Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and Financial Guaranty Insurance Company sought appointment as trustees under Section 926 of Title 11 of the United States Code to pursue certain claims on behalf of HTA against the Commonwealth of Puerto Rico. On August 11, 2020, Judge Swain denied the motion. The movants appealed to the First Circuit Court of Appeals, and briefing is underway. As part of the GO PSA and HTA PSA, National's participation in this litigation will be stayed subject to the effective date of the Commonwealth plan of adjustment.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

National Public Finance Guarantee Corporation et al. v. UBS Financial Services, Inc. et al., No. SJ2019CV07932 (Superior Court San Juan)

On August 8, 2019, National and MBIA Corp. filed suit in the Court of First Instance in San Juan, Puerto Rico against UBS Financial Services, Inc., UBS Securities LLC, Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, Merrill Lynch, Fenner & Smith Inc., RBC Capital Markets LLC, and Santander Securities LLC, bringing two claims under Puerto Rico law: doctrina de actos propios (the doctrine of one's own acts) and unilateral declaration of will. These claims concern the insurance by National of bonds issued by the Commonwealth of Puerto Rico and its instrumentalities that were underwritten by these defendants. National alleges that, when the defendants solicited bond insurance, they represented through their acts that they would investigate certain information they provided to National and that they had a reasonable basis to believe that information was true and complete. National further alleges that the defendants did not perform such investigations and that key information was untrue or incomplete. National seeks damages to be proven at trial. On September 9, 2019, Defendants removed National's claims to federal court in the District of Puerto Rico. National filed its motion to remand the case on October 9, 2019. The Court held a hearing on the remand motion on July 29, 2020, at the end of which it granted National's motion and remanded the case to the Commonwealth Court of First Instance. On July 31, 2020, National filed an informative motion with the Commonwealth of Puerto Rico Court of First Instance, Superior Court of San Juan, advising that the case has been remanded and requesting the reopening of the case in the Superior Court for further proceedings. On August 2, 2020, the Superior Court recognized the order of Judge Swain remanding the case and acknowledged that proceedings would continue in Commonwealth Court. On September 16, 2020, Defendants filed a motion to dismiss the complaint. National filed its objection to that motion on October 7, 2020, and briefing concluded on November 30, 2020. On June 2, 2021, the Superior Court denied Defendants' motion to dismiss; Defendants have filed a petition seeking to appeal this ruling. Defendants filed an answer to the complaint on July 15, 2021.

Complaint Objecting to Defendants' Claims and Seeking Related Relief, Case No. 17-03283-LTS (D.P.R. January 16, 2020) (Swain J.)

On January 16, 2020, the Oversight Board filed an adversary complaint against National, Ambac, Assured Guaranty, Assured Guaranty Municipal Corp., Financial Guaranty Insurance Company, Peaje Investments LLC and the Bank of New York Mellon as fiscal agent. The Oversight Board challenges the claims and validity of the liens asserted against the Commonwealth by holders of HTA bonds. The complaint contains 201 counts against the bondholder parties objecting to proofs of claim and security interests asserted regarding the Commonwealth's retention of certain revenues previously assigned to HTA. This matter is currently stayed but the Court permitted the Oversight Board to file certain limited cross motions on April 28, 2020. The cross motions for summary judgment were filed on July 16, 2020. On September 23, 2020, Judge Swain heard argument on the limited cross motions for summary judgment, which remain pending. On January 20, 2021, Judge Swain issued an order deferring the adjudication of the summary judgment motions so that defendant monolines can seek limited discovery from the Oversight Board on all documents related to the collection and flow of Excise Taxes and pledged revenue into and out of its accounts, among other things. On April 6, 2021, the Oversight Board filed a motion to lift the litigation stay for the limited purpose of filing further summary judgment motions that would dispose of substantially all of the remaining claims challenged in this complaint. The hearing on this motion was held April 28, 2021, and the motion was denied. As part of the GO PSA and HTA PSA, National has agreed to stay its participation in this litigation subject to the effective date of the HTA plan of adjustment.

Complaint Objecting to Defendants' Claims and Seeking Related Relief, Case No. 20-00007-LTS (January 16, 2020) (Swain J.)

On January 16, 2020, the Oversight Board and the Creditors Committee filed an adversary complaint against National and other defendants challenging the claims and validity of the liens asserted against HTA by holders and insurers of HTA bonds. The complaint contains 302 counts challenging the claims and liens asserted against HTA. This matter has been stayed indefinitely by order of the Court. As part of the GO PSA and HTA PSA, National has agreed to stay its participation in this litigation subject to the effective date of the Commonwealth plan of adjustment.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

Amerinational Community Services, LLC, as Servicer for the GDB Debt Recovery Authority and Cantor-Katz Collateral Monitor LLC v. Ambac Assurance Corporation, Assured Guaranty Corp, Assured Guaranty Municipal Corp., National Public Finance Guarantee Corporation, Financial Guaranty Insurance Company, Peaje Investments LLC and The Bank of New Yok Mellon, as Fiscal Agent, Case No. 17 BK 3567-LTS (June 26, 2021) (Swain J.)

On June 26, 2021, the GDB Debt Recovery Authority ("DRA") Parties commenced an adversary proceeding ("DRA Complaint") against National, Assured, Ambac, and FGIC seeking a declaration that the DRA's loans are not subordinate to HTA bonds, that the DRA is the only party with the right to collect from a valid, perfected security interest in the Act 30-31 Revenues and that HTA bondholders have limited recourse bonds, and that the bonds may only be satisfied from revenues that do not include the Act 30-31 revenues. On July 27, 2021, Judge Swain entered an order setting procedures and a schedule for early dispositive motions in the adversary proceeding. The Judge's order further indicated that any DRA-related disputes not resolved by the early dispositive motions should be resolved through the confirmation process. A motion to dismiss, as well as an answer and counterclaims (including equitable subordination), were filed on August 26, 2021. The government parties have intervened in the case and likewise moved to dismiss. DRA filed its response to the motions to dismiss on September 23, 2021. The defendants filed their replies in support of the motions to dismiss on October 8, 2021.

On September 16, 2021, the DRA parties moved (with Defendants' consent) to extend their time to respond to the counterclaims to September 22, 2021. The Defendants filed their response to the DRA's motion to stay counterclaims on October 7, 2021, and DRA filed its reply on October 12, 2021. On October 29, 2021, Judge Swain granted the defendants' motion to dismiss the DRA Complaint on all four counts asserted.

For those aforementioned actions in which it is a defendant, the Company is defending against those actions and expects ultimately to prevail on the merits. There is no assurance, however, that the Company will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on the Company's ability to implement its strategy and on its business, results of operations, cash flows and financial condition. At this stage of the litigation, there has not been a determination as to the amount, if any, of damages. Accordingly, the Company is not able to estimate any amount of loss or range of loss. The Company similarly can provide no assurance that it will be successful in those actions in which it is a plaintiff.

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.

Lease Commitments

The Company has a lease agreement for its headquarters in Purchase, New York as well an immaterial lease for an office in San Francisco, California, as well as office equipment. The Purchase, New York initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. This lease agreement has been classified as an operating lease, and operating rent expense is recognized on a straight-line basis. The following table provides information about the Company's leases as of September 30, 2021:

$ in millions	As of September 30, 2021	Balance Sheet Location
Right-of-use asset	$ 19	Other assets
Lease liability	$ 19	Other liabilities
Weighted average remaining lease term (years)	8.6	
Discount rate used for operating leases	7.5%	
Total future minimum lease payments	$ 26	

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

The following discussion and analysis of financial condition and results of operations of MBIA Inc. should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 and the consolidated financial statements and notes thereto included in this Form 10-Q. In addition, this discussion and analysis of financial condition and results of operations includes statements of the opinion of MBIA Inc.'s management which may be forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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. Refer to "Risk Factors" in Part II, Item 1A and "Forward-Looking Statements" and "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020 for a further discussion of risks and uncertainties.

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us", or "our") operates within the financial guarantee insurance industry. MBIA manages its business within three operating segments: 1) United States ("U.S.") public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance portfolio is managed through National Public Finance Guarantee Corporation ("National"), our corporate segment is managed through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation ("MBIA Services") and our international and structured finance insurance business is primarily managed through MBIA Insurance Corporation and its subsidiary ("MBIA Corp.").

National's primary objectives are to maximize the performance of its existing insured portfolio through effective surveillance and remediation activity and effectively manage its investment portfolio. Our corporate segment consists of general corporate activities, including providing support services to MBIA's operating subsidiaries and asset and capital management. MBIA Corp.'s primary objectives are to satisfy all claims by its policyholders and to maximize future recoveries, if any, for its senior lending and surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, taking steps to maximize the collection of recoveries and reducing and mitigating potential losses on its insurance exposures. We do not expect National or MBIA Corp. to write significant new business.

EXECUTIVE OVERVIEW

COVID-19

The number of novel coronavirus COVID-19 ("COVID-19") cases, hospitalizations and deaths continues to decrease. Nevertheless, the current and longer-term impacts of the virus, including those caused by any new strains, continues to remain uncertain. In addition, the attendant governmental policy and social responses, and economic and financial consequences, continue to be the subject of considerable attention.

<u>Insured portfolios</u>

Any adverse developments on macroeconomic factors resulting from COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the ability to raise taxes or limit spending, could materially and adversely affect the performance of the Company's insured portfolios. Any impact of the pandemic on the Company's financial guarantee credits would vary based on the nature of the taxes, fees and revenues pledged to debt repayment and their sensitivity to the related slowdown in economic activity. The duration of the pandemic, the efficacy of vaccines, spending of federal aid to state and local governments, and the breadth and speed of economic recovery will determine the degree of economic stress, if any, incurred by the credits in the Company's insured portfolios. Further, any economic impact that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to the Company's insured portfolios.

Federal legislation passed to combat the economic impact of the pandemic has been significant, including the $2.7 trillion Coronavirus Aid, Relief, and Economic Security ("CARES") Act in 2020, which included significant aid to offset COVID-19 related expenditures of public sector issuers including states, territories, healthcare, higher education and transportation issuers. Also, the Federal Reserve has shown a willingness to promote the stability of the financial system that is directly supportive of the municipal market, such as the Municipal Lending Facility created in 2020. In March of 2021, the American Rescue Plan Act of 2021 was enacted, a $1.9 trillion economic stimulus package designed to further stabilize the financial system. This law allocated nearly $350 billion of aid to state and local governments to replace lost revenues resulting from the pandemic with relatively few restrictions on use of said funds. While the unprecedented amount of federal aid directed to state and local municipalities has blunted the impact of the pandemic, not all of the issuers of the obligations in National's insured portfolio are eligible to receive it. Further, if issuers are unable to raise taxes, reduce spending, or receive federal assistance, the Company may experience new or additional losses or impairments on those obligations, which could materially and adversely affect its business, financial condition and financial results.

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

EXECUTIVE OVERVIEW (continued)

Certain of MBIA Corp.'s structured finance policies, including those in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities ("MBS"), could be negatively impacted by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. MBIA Corp. has recorded significant loss reserves on its residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDO") exposures, and there can be no assurance that these reserves will be sufficient if the pandemic causes further deterioration to the economy. These transactions are also subject to servicer risks, which relate to problems with the transaction's servicer that could adversely impact performance of the underlying assets. Additionally, several of our credits, particularly within our international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Corp. will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. MBIA Corp. has recorded expected recoveries on certain RMBS transactions, and the forbearance options that mortgage borrowers who were facing financial difficulties took advantage of under the CARES Act may delay or impair collections on these recoveries.

Liquidity

The Company continues to monitor its cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of the Company's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. The full long-term impact the pandemic may have on our future liquidity position and needs remains uncertain. Declines in the market value or rating eligibility of assets pledged against the Company's obligations as a result of credit market deterioration caused by COVID-19 or other factors may require additional eligible assets to be pledged in order to meet minimum required collateral amounts against these obligations. This could require the Company to sell assets, potentially with substantial losses or use free cash or other assets to meet the collateral requirements, thus negatively impacting the Company's liquidity position. Additionally, declines in the yields in our insurance companies' fixed-income portfolios could materially impact investment income.

2021 Business Developments

The following is a summary of 2021 business developments:

Puerto Rico (Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on our Puerto Rico exposures)

- On January 1, 2021 and July 1, 2021, the Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico") defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $277 million. As of September 30, 2021, National had $2.6 billion of debt service outstanding related to Puerto Rico.

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

EXECUTIVE OVERVIEW (continued)

- In January of 2021, the reconstitution of the Oversight Board with the reappointment of three existing members and appointment of four new members for three year terms, including the newly elected Governor sitting as an ex officio member, was confirmed.
- On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the "GO PSA"), among the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The GO PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to Puerto Rico Highway and Transportation Authority ("HTA") bondholders subject to completing negotiations on a plan support agreement in respect of an HTA plan of adjustment (the "HTA PSA"). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. The Oversight Board has committed to filing a plan of adjustment for HTA by January 31, 2022. The GO PSA contemplates a Commonwealth plan becoming effective on or before December 15, 2021; however there can be no assurance that such plans will become effective, or on the contemplated timeline.
- On July 12, 2021, the Oversight Board filed the Fifth Amended Title III Plan of Adjustment and Disclosure Statement, incorporating certain changes in connection with the disclosure statement objections. The Disclosure Statement hearing for the Fifth Amended Plan began on July 13, 2021, and on July 14, 2021, the Bankruptcy Court (i) continued the hearing until July 27, 2021 for the sole purpose of considering a possible settlement of objections by Ambac Assurance Corporation and Financial Guaranty Insurance Company, and (ii) overruled all other objections to the Disclosure Statement but required the Oversight Board to include certain additional disclosure on financial and legislative risks. The Court also approved confirmation procedures, subject to the approval of the Disclosure Statement at the continued hearing, including commencing the confirmation hearing on November 8, 2021 and concluding on November 23, 2021. On July 27, 2021, the Oversight Board filed the Sixth Amended Plan and Disclosure Statement, and on July 29, 2021 the Court approved the amended Disclosure Statement for distribution to claimholders of record. On July 30, 2021, the Oversight Board filed the Seventh Amended Plan of Adjustment.
- On July 30, 2021, the Oversight Board filed the Seventh Amended Plan of Adjustment. Bondholders were required to choose between commuting their insurance policy with National or having their insurance policy accelerated and receiving a one-time payment of par and accrued interest from National. Approximately 27% of bondholders voted by the deadline of October 18, 2021 to commute their insurance policies with National. The expected commutation and acceleration should occur shortly after Plan effectiveness and will reduce National's insured Puerto Rico Commonwealth GO ("GO") exposure to zero.
- In October of 2021, National sold certain bankruptcy claims in a private transaction through the transfer of ownership of $199 million face amount of bonds, representing approximately 16% of the principal amount of the current bond claims in the Puerto Rico Electric Power Authority ("PREPA") Title III case. The bonds included in this transaction had been fully satisfied by National's insurance claim payments. This transaction monetizes a portion of National's salvage asset at a discount to National's previous carrying value, and reduces potential volatility and ongoing risk of remediation around the PREPA credit. Subsequent to the sale of these PREPA bankruptcy claims, National has approximately $230 million of additional par claims to PREPA that have matured and can be sold.
- On October 25, 2021, Judge Swain held an emergency hearing in light of the failure of the Puerto Rico legislature to agree by Friday, October 22 to enabling legislation authorizing the distributions under the Plan. Judge Swain ruled at this hearing that mediation with the interested parties commence in order to resolve the legislation needed by the Plan. On October 26, 2021, the Governor of Puerto Rico signed the enabling legislation after it was adopted by both houses of the Puerto Rico legislature. On October 28, 2021, the mediation team filed its statement with the court that the interested parties had engaged in good faith best efforts and it reasonably believed that the Confirmation Hearing can be expected to move forward as currently scheduled, commencing November 8, 2021.

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

EXECUTIVE OVERVIEW (continued)

Credit Suisse

In January of 2021, the Court overseeing MBIA Corp.'s litigation against Credit Suisse Securities (USA) LLC and DLJ Mortgage Capital, Inc. (collectively, "Credit Suisse"), involving the ineligibility of a majority of the loans in the HEMT 2007-2 RMBS transaction sponsored by Credit Suisse, issued an order declaring that Credit Suisse was liable to MBIA for approximately $604 million in damages. In February of 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. $600 million, and the Court entered an order dismissing the case. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our Credit Suisse put-back claims.

Financial Highlights

The following table presents our financial highlights. A detailed discussion of our financial results is presented within the "Results of Operations" section included herein. Refer to the "Capital Resources—Insurance Statutory Capital" section for a discussion of National's and MBIA Insurance Corporation's capital position under statutory accounting principles ("U.S. STAT").

In millions except per share amounts	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Net income (loss) per diluted share	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Adjusted net income (loss) (1)	$ (76)	$ (18)	$ (155)	$ (137)
Adjusted net income (loss) per diluted share(1)	$ (1.54)	$ (0.34)	$ (3.14)	$ (2.20)
Cost of shares repurchased	$ —	$ 62	$ —	$ 198

(1) - Adjusted net income (loss) and adjusted net income (loss) per diluted share are non-GAAP measures. Refer to the following "Results of Operations" section for a discussion of adjusted net income (loss) and adjusted net income (loss) per diluted share and a reconciliation of GAAP net income (loss) to adjusted net income (loss) and GAAP net income (loss) per diluted share to adjusted net income (loss) per diluted share.

Economic and Financial Market Trends

The U.S. economy continued to improve during the third quarter of 2021 as progress on vaccinations dramatically reduced the spread of COVID-19, which along with strong policy support, has bolstered economic activity and employment. Certain sectors of the economy most negatively impacted by the COVID-19 pandemic are improving, but remain relatively weak largely due to the prevalence of the highly transmissible Delta variant.

Financial conditions have improved due to measures taken by Congress and the Federal Reserve to support the economy and enhance access to credit for U.S. households and businesses. However, economic activity, employment and inflation remain at risk as the path of economic recovery will still be significantly affected by the course of the virus, including new variants, and the continuing progress on vaccinations throughout the country. Inflation remained elevated during the third quarter of 2021, however, according to the Federal Reserve this increase is largely due to transitory factors and until the labor market has improved it will allow inflation to run above its 2 percent target. The enactment of the $1.9 trillion American Rescue Plan, along with potential additional government spending in the form of an infrastructure plan, will continue to support economic growth. The Federal Open Market Committee currently projects an increase in gross domestic product in the range of 6 percent for 2021.

The Federal Open Market Committee maintained its target range for the federal funds rate at 0 to ¼ percent at its most recent meeting. The Federal Reserve has committed to keeping interest rates at or near zero in order to lower borrowing costs until they are confident that the economy has stabilized and the health crisis has subsided. Furthermore, the Federal Reserve has remained committed to using all of its resources and tools to support the economy by assisting households, employers, and state and local governments during the coronavirus pandemic.

Economic and financial market trends could impact the Company's financial results. As a result of the pandemic, many states and municipalities will experience financial distress through delayed tax collections, inability to reduce spending and not receiving timely financial assistance. Economic deterioration at the state and local level weakens the credit quality of the issuers of our insured municipal bonds, reduces the performance of our insured U.S. public finance portfolio and could increase the amount of National's potential incurred losses. In addition, lower interest rates could result in decreased returns on our Company's investment portfolios. Refer to the "COVID-19" section above for further information about the pandemic.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Our most critical accounting estimates include loss and loss adjustment expense ("LAE") reserves and valuation of financial instruments, since these estimates require significant judgment. Any modifications in these estimates could materially impact our financial results.

For a discussion of the Company's critical accounting estimates, refer to "Critical Accounting Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. In addition, refer to "Note 5: Loss and Loss Adjustment Expense Reserves" and "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process and information about our financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company.

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RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the three and nine months ended September 30, 2021 and 2020:

In millions except for per share amounts	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Total revenues	$ 72	$ 71	$ 162	$ 179
Total expenses	195	129	452	676
Income (loss) before income taxes	(123)	(58)	(290)	(497)
Provision (benefit) for income taxes	-	-	-	-
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Net income (loss) per common share:				
Basic	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Diluted	$ (2.49)	$ (1.11)	$ (5.87)	$ (7.97)
Weighted average number of common shares outstanding:				
Basic	49.6	52.6	49.4	62.4
Diluted	49.6	52.6	49.4	62.4

Three Months Ended September 30, 2021 vs. Three Months Ended September 30, 2020

The slight increase in consolidated total revenues in the third quarter of 2021 was primarily due to favorable changes in gains on extinguishment of debt in 2021 as a result of gains from purchases, at discounts, of medium-term notes (“MTNs”) issued by the Company and an increase in net premiums earned as a result of the acceleration of premium earnings related to the termination of an international public finance insurance policy, partially offset by unfavorable changes in revenues of consolidated variable interest entities (“VIEs”). Net VIE losses during the third quarter of 2021 were due to the deconsolidation of a VIE. Net VIE gains in the third quarter of 2020 were primarily related to the reversal of an allowance for credit losses on the assets of a VIE.

Consolidated total expenses for the three months ended September 30, 2021 and 2020 included net insurance loss and LAE of $125 million and $48 million, respectively. Partially offsetting the increase in loss and LAE was a decrease in interest expense of VIEs, which resulted from the deconsolidation of VIEs and the repayment of VIE debt in 2021. The increase in loss and LAE was primarily due to changes in loss reserving assumptions on certain Puerto Rico credits. Refer to the following “Loss and Loss Adjustment Expenses” sections of National and MBIA Corp. for additional information on our insurance losses and LAE.

Nine Months Ended September 30, 2021 vs. Nine Months Ended September 30, 2020

The decrease in consolidated total revenues was primarily due to net losses of consolidated VIEs during 2021 compared with net gains during 2020, partially offset by fair value gains during 2021 on our interest rate swaps for which we receive floating rates compared with fair value losses during 2020 on our interest rate swaps and gains during 2021 from purchases, at discounts, of MTNs issued by the Company. The unfavorable changes in VIE revenues were primarily due to gains in 2020 from an increase in the Credit Suisse put-back recoveries. These put-back claims were settled and received in the first quarter of 2021. In addition, the nine months ended September 30, 2021 included losses from the deconsolidation of VIEs compared with gains primarily related to the reversal of an allowance for credit losses on the assets of a VIE in the same period of 2020. Also, the nine months ended September 30, 2020 included net investment income of VIEs with no comparable income for the same period of 2021 due to the deconsolidation of VIEs in 2020. The fair value gains on our interest rate swaps in 2021 were due to favorable changes in interest rates compared with the same period of 2020.

Consolidated total expenses for the nine months ended September 30, 2021 and 2020 included net insurance loss and LAE of $232 million and $427 million, respectively. The decrease in loss and LAE was primarily due to less of a decline in expected salvage collections from insured CDOs in 2021 when compared with 2020 and an incurred benefit from changes in risk-free rates on first-lien RMBS in 2021. Refer to the following “Loss and Loss Adjustment Expenses” sections of National and MBIA Corp. for additional information on our insurance losses and LAE.

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RESULTS OF OPERATIONS (continued)

Non-GAAP Adjusted Net Income (Loss)

In addition to our results prepared in accordance with GAAP, we also analyze the operating performance of the Company using adjusted net income (loss) and adjusted net income (loss) per diluted common share, both non-GAAP measures. Since adjusted net income (loss) is used by management to assess performance and make business decisions, we consider adjusted net income (loss) and adjusted net income (loss) per diluted common share fundamental measures of periodic financial performance which are useful in understanding our results. Adjusted net income (loss) and adjusted net income (loss) per diluted common share are not substitutes for net income (loss) and net income (loss) per diluted common share determined in accordance with GAAP, and our definitions of adjusted net income (loss) and adjusted net income (loss) per diluted common share may differ from those used by other companies.

Adjusted net income (loss) and adjusted net income (loss) per diluted common share include the after-tax results of the Company and remove the after-tax results of our international and structured finance insurance segment, comprising the results of MBIA Corp. which given its capital structure and business prospects, we do not expect its financial performance to have a material economic impact on MBIA Inc., as well as the following:

- *Mark-to-market gains (losses) on financial instruments* – We remove the impact of mark-to-market gains (losses) on financial instruments that primarily include interest rate swaps and hybrid financial instruments. These amounts fluctuate based on market interest rates, credit spreads and other market factors.
- *Foreign exchange gains (losses)* – We remove foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of adjusted net income (loss).
- *Net gains (losses) on sales of investments, impaired securities and extinguishment of debt* – We remove gains (losses) on the sale of investments, net investment losses related to impairment of securities and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management's assessment of market opportunities and conditions and capital liquidity positions.
- *Income taxes* –We apply a zero effective tax rate for federal income tax purposes to our pre-tax adjustments, if applicable.

The following table presents our adjusted net income (loss) and adjusted net income (loss) per diluted common share and provides a reconciliation of GAAP net income (loss) to adjusted net income (loss) for the three and nine months ended September 30, 2021 and 2020:

In millions except share and per share amounts	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net income (loss)	$ (123)	$ (58)	$ (290)	$ (497)
Less: adjusted net income (loss) adjustments:				
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(80)	(59)	(223)	(338)
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:				
Mark-to-market gains (losses) on financial instruments[1]	10	13	39	(47)
Foreign exchange gains (losses)[1]	5	(16)	18	(16)
Net gains (losses) on sales of investments[1]	2	22	1	41
Net gains (losses) on extinguishment of debt	16	-	30	-
Adjusted net income adjustment to the (provision) benefit for income tax[2]	-	-	-	-
Adjusted net income (loss)	$ (76)	$ (18)	$ (155)	$ (137)
Adjusted net income (loss) per diluted common share[3]	$ (1.54)	$ (0.34)	$ (3.14)	$ (2.20)

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

(2) - Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

(3) - Adjusted net income (loss) per diluted common share is calculated by taking adjusted net income (loss) divided by the GAAP weighted average number of diluted common shares outstanding.

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RESULTS OF OPERATIONS (continued)

Book Value Adjustments Per Share

In addition to GAAP book value per share, for internal purposes management also analyzes adjusted book value ("ABV") per share, changes to which we view as an important indicator of financial performance. ABV is also used by management in certain components of management's compensation. Since many of the Company's investors and analysts continue to use ABV to evaluate MBIA's share price and as the basis for their investment decisions, we present GAAP book value per share as well as the individual adjustments used by management to calculate its internal ABV metric.

Management adjusts GAAP book value to remove the book value of MBIA Corp. and for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and comprehensive income, as well as add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and for which the likelihood and amount can be reasonably estimated. The following provides a description of management's adjustments to GAAP book value:

- *Negative Book value of MBIA Corp.* – We remove the negative book value of MBIA Corp. based on our view that given MBIA Corp.'s current financial condition, the regulatory regime in which it operates, the priority given to its policyholders, surplus note holders and preferred stock holders with respect to the distribution of assets, and its legal structure, it is not and will not likely be in a position to upstream any economic benefit to MBIA Inc. Further, MBIA Inc. does not face any material financial liability arising from MBIA Corp.
- *Net unrealized (gains) losses on available-for-sale ("AFS") securities excluding MBIA Corp.* – We remove net unrealized gains and losses on AFS securities recorded in accumulated other comprehensive income since they will reverse from GAAP book value when such securities mature. Gains and losses from sales and impairments of AFS securities are recorded in book value through earnings.
- *Net unearned premium revenue in excess of expected losses of National* - We include net unearned premium revenue in excess of expected losses. Net unearned premium revenue in excess of expected losses consists of the financial guarantee unearned premium revenue of National in excess of expected insurance losses, net of reinsurance and deferred acquisition costs. In accordance with GAAP, a loss reserve on a financial guarantee policy is only recorded when expected losses exceed the amount of unearned premium revenue recorded for that policy. As a result, we only add to GAAP book value the amount of unearned premium revenue in excess of expected losses for each policy in order to reflect the full amount of our expected losses. The Company's net unearned premium revenue will be recognized in GAAP book value in future periods, however, actual amounts could differ from estimated amounts due to such factors as credit defaults and policy terminations, among others.

Since the Company has a full valuation allowance against its net deferred tax asset, the book value per share adjustments were adjusted by applying a zero effective tax rate.

The following table provides the Company's GAAP book value per share and management's adjustments to book value per share used in our internal analysis:

In millions except share and per share amounts	As of September 30, 2021	As of December 31, 2020
Total shareholders' equity of MBIA Inc.	$ (170)	$ 136
Common shares outstanding	54,406,076	53,677,148
GAAP book value per share	$ (3.12)	$ 2.55
Management's adjustments described above:		
Remove negative book value per share of MBIA Corp.	(35.00)	(31.97)
Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss)	1.81	2.86
Include net unearned premium revenue in excess of expected losses	3.71	4.29

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RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance

Our U.S. public finance insurance portfolio is managed 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 exercised, at its discretion, the right to accelerate the payment under its policies upon the acceleration of the underlying insured obligations due to default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare institutions, higher educational facilities, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. As of September 30, 2021, National had total insured gross par outstanding of $37.7 billion.

National continues to monitor and remediate its existing insured portfolio and may also pursue strategic alternatives that could enhance shareholder value. Some state and local governments and territory obligors that National insures are experiencing financial and budgetary stress which may be exacerbated by COVID-19. As a result of COVID-19, we have increased our monitoring of certain credits. Financial and budgetary stress could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. In particular, Puerto Rico had been experiencing significant fiscal stress and constrained liquidity, and in response, Congress passed PROMESA, which established the Oversight Board vested with the sole power to certify fiscal plans for Puerto Rico. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on PROMESA and our Puerto Rico exposures. We continue to monitor and analyze these situations and other stressed credits closely, and the overall extent and duration of stress affecting our insured credits remains uncertain.

The following table presents our U.S. public finance insurance segment results for the three and nine months ended September 30, 2021 and 2020:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Percent Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Percent Change
Net premiums earned	$ 13	$ 12	8%	$ 41	$ 42	-2%
Net investment income	15	15	-%	43	55	-22%
Fees and reimbursements	-	1	-100%	2	2	-%
Net gains (losses) on financial instruments at fair value and foreign exchange	1	23	-96%	1	30	-97%
Total revenues	29	51	-43%	87	129	-33%
Losses and loss adjustment	68	14	n/m	135	134	1%
Amortization of deferred acquisition costs	2	-	n/m	9	7	29%
Operating	15	12	25%	41	35	17%
Total expenses	85	26	n/m	185	176	5%
Income (loss) before income taxes	$ (56)	$ 25	n/m	$ (98)	$ (47)	109%

n/m - Percent change not meaningful.

NET PREMIUMS EARNED Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Refunding activity over the past several years has accelerated premium earnings in prior years and reduced the amount of scheduled premiums that would have been earned in the current year. Refunding activity can vary significantly from period to period based on issuer refinancing behavior.

NET INVESTMENT INCOME The decrease in net investment income for the nine months ended September 30, 2021 compared with the same period of 2020 was primarily due to a lower average invested asset base resulting from claim payments, payment of a dividend to MBIA Inc., and purchases of MBIA Inc. common shares.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE For the three and nine months ended September 30, 2020, net gains on financial instruments at fair value and foreign exchange included gains from the sales of securities from the ongoing management of our U.S. public finance investment portfolio.

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

RESULTS OF OPERATIONS (continued)

LOSS AND LOSS ADJUSTMENT EXPENSES Our U.S. public finance insured portfolio management group is responsible for monitoring our U.S. public finance segment's insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue. As a result of COVID-19, we have increased our monitoring of certain credits. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information related to the Company's loss reserves.

For the three months ended September 30, 2021, the loss and LAE incurred primarily related to the changes in loss scenario assumptions on the Puerto Rico GO and PREPA credits. In the third quarter of 2021, National modified its GO scenario assumptions to incorporate the final terms of the Plan of Adjustment. This includes a commutation of 27% of National's outstanding insured bonds and an acceleration of National's remaining insured bonds. In addition, National updated its GO loss reserve scenarios to include certain assumptions about recovery valuation on the date it expects to receive cash, bonds and a contingent value instrument. These assumption changes decreased expected GO recoveries. Also in the third quarter of 2021, National modified its PREPA scenario assumptions to reflect the market insight gained from the anticipated sale of a portion of the recoverable on PREPA bankruptcy claims that had been fully satisfied by National's insurance claim payments, which decreased its expected PREPA recoveries, partially offset by additional expected recoveries under the PREPA RSA.

For the nine months ended September 30, 2021, the loss and LAE incurred primarily related to the changes in loss reserve scenario assumptions on the PREPA credit discussed above, and reflects changes in loss reserve scenario assumptions on HTA exposure to reflect the most recent Plan of Adjustment. In addition, an increase in the risk-free rates used to discount the value of long-dated future recoveries on Puerto Rico exposures contributed to loss and LAE incurred.

For the three months ended September 30, 2020, losses and LAE primarily related to certain Puerto Rico exposures. For the nine months ended September 30, 2020, losses and LAE incurred reflect changes in assumptions on HTA exposure and losses incurred on an investor owned utility exposure. These losses were partially offset by a decrease in the risk-free rates used to discount the value of long-dated future recoveries on Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss recoverable asset and loss and LAE reserves liabilities as of September 30, 2021 and December 31, 2020:

In millions	September 30, 2021	December 31, 2020	Percent Change
Assets:			
Insurance loss recoverable	$ 1,286	$ 1,220	5%
Reinsurance recoverable on paid and unpaid losses (1)	3	6	-50%
Liabilities:			
Loss and LAE reserves	386	469	-18%
Insurance loss recoverable - ceded (2)	53	48	10%
Net reserve (salvage)	$ (850)	$ (709)	20%

(1) - Reported within "Other assets" on our consolidated balance sheets.

(2) - Reported within "Other liabilities" on our consolidated balance sheets.

The insurance loss recoverable as of September 30, 2021 increased compared with December 31, 2020 primarily as a result of expected recoveries related to claims paid on certain Puerto Rico exposures, which was partially offset by a change in recovery assumptions surrounding certain Puerto Rico exposures as well as increases in discount rates used to present value future expected recoveries on paid claims. The change in recovery assumptions is primarily the result of the changes in GO and PREPA loss reserve scenario assumptions discussed above. Loss and LAE reserves as of September 30, 2021 declined compared with December 31, 2020 primarily due to actual payments made related to certain Puerto Rico exposures, partially offset by an increase in expected payments and unfavorable changes in future recoveries of unpaid losses due to changes in assumptions and an increase in risk-free discount rates.

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RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the three and nine months ended September 30, 2021 and 2020 are presented in the following table:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Percent Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Percent Change
Gross expenses	$ 15	$ 12	25%	$ 41	$ 35	17%
Amortization of deferred acquisition costs	$ 2	$ -	n/m	$ 9	$ 7	29%
Operating	15	12	25%	41	35	17%
Total insurance operating expenses	$ 17	$ 12	42%	$ 50	$ 42	19%

n/m - Percent change not meaningful.

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Operating expenses increased for the three and nine months ended September 30, 2021 compared with the same periods of 2020 primarily due to increases in legal costs.

When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during the nine months ended September 30, 2021 or 2020.

INSURED PORTFOLIO EXPOSURE Financial guarantee insurance companies use a variety of approaches to assess the underlying credit risk profile of their insured portfolios. National 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(s) of the insured obligation before the benefit of National's insurance policy from nationally recognized rating agencies, Moody's Investor Services ("Moody's") and Standard & Poor's Financial Services LLC ("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. We maintain internal ratings on our entire portfolio, and our ratings may be higher or lower than the underlying ratings assigned by Moody's or S&P.

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of September 30, 2021 and December 31, 2020. Capital appreciation bonds ("CABs") are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P underlying ratings, where available. 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 internal equivalent rating is used.

In millions	Gross Par Outstanding			
	September 30, 2021		December 31, 2020	
Rating	Amount	%	Amount	%
AAA	$ 1,744	4.6%	$ 2,080	5.0%
AA	15,035	39.9%	16,299	39.0%
A	10,986	29.1%	12,888	30.8%
BBB	6,611	17.5%	7,019	16.7%
Below investment grade	3,339	8.9%	3,570	8.5%
Total	$37,715	100.0%	$41,856	100.0%

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

RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of September 30, 2021.

In millions	Gross Par Outstanding	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	$ 809	$ 1,084	d
Puerto Rico Commonwealth GO	224	295	d
Puerto Rico Public Buildings Authority (PBA)(1)	155	199	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	523	856	d
Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA)	27	34	d
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	39(2)	58	d
University of Puerto Rico System Revenue	70	91	d
Inter American University of Puerto Rico Inc.	19	23	a3
Total	$ 1,866	$ 2,640	

(1) - Additionally secured by the guarantee of the Commonwealth of Puerto Rico.

(2) - Includes CABs that reflect the gross par amount at the time of issuance of the insurance policy. As of September 30, 2021, gross par outstanding plus CABs accreted interest was $41 million.

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA provides for the creation of the Oversight Board with powers relating to the development and implementation of a fiscal plan for the Commonwealth and each of its instrumentalities as well as a court-supervised Title III process that allows Puerto Rico to restructure its debt if voluntary agreements cannot be reached with creditors through a collective action process. Following the resignation and replacement of several Oversight Board members, the Oversight Board has been reconstituted with four new members while three existing members have been reappointed by the President for another three year term. The newly elected Governor of Puerto Rico has appointed himself as a non-voting member of the reconstituted Oversight Board.

On May 3, 2017, the Oversight Board certified and filed a petition under Title III of PROMESA for Puerto Rico with the District Court of Puerto Rico thereby commencing a bankruptcy-like case for the Commonwealth GO. Under separate petitions, the Oversight Board subsequently commenced Title III proceedings for COFINA, PRHTA, PREPA and PBA on May 5, 2017, May 21, 2017, July 2, 2017 and September 27, 2019, respectively. One of the proceedings was resolved on February 4, 2019, when the District of Puerto Rico entered the order confirming the Third Amended Title III Plan of Adjustment for COFINA. The plan became effective on February 12, 2019, and as of December 31, 2019, we no longer have exposure to COFINA. There can be no assurance that the other Title III proceedings will be resolved with similar outcomes.

As a result of prior defaults, various stays and the Title III cases, Puerto Rico failed to make certain scheduled debt service payments for National insured bonds. As a consequence, National has paid gross claims in the aggregate amount of $1.8 billion relating to GO bonds, PBA bonds, PREPA bonds and PRHTA bonds through June 30, 2021, inclusive of the commutation payment and the additional payment in the amount of $66 million on December 17, 2019 related to COFINA.

On May 2, 2019, the Oversight Board and the Official Committee of Unsecured Creditors of all Title III Debtors (other than COFINA) (the "Committee") filed lien avoidance adversary complaints against several hundred defendants, including National, challenging the existence, extent, and enforceability of GO bondholders' liens. After an approximately five-month stay of litigation entered by the Court on July 24, 2019, these adversary proceedings resumed pursuant to an interim schedule entered by the Court in December 2019. On February 5, 2020, National and Assured Guaranty Municipal Corp. filed a motion to dismiss the adversary proceeding. The adversary proceeding hearing was stayed indefinitely by further order of the Court.

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RESULTS OF OPERATIONS (continued)

On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the “GO PSA”), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The GO PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. The GO PSA contemplates a Commonwealth plan becoming effective on or before December 15, 2021; however there can be no assurance that such plans will become effective, or on the contemplated timeline. Pursuant to the GO PSA, the Oversight Board and National jointly obtained the entry of an order in the Title III court staying National’s participation in actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective. On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to HTA bondholders subject to completing negotiations on a plan support agreement in respect of the HTA PSA. On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. The Oversight Board has committed to filing a plan of adjustment for HTA by January 31, 2022.

On July 12, 2021, the Oversight Board filed the Fifth Amended Title III Plan of Adjustment and Disclosure Statement, incorporating certain changes in connection with certain disclosure statement objections. On July 14, 2021, the Bankruptcy Court (i) continued the disclosure statement hearing until July 27, 2021 for the sole purpose of considering a possible settlement of objections by Ambac Assurance Corporation and Financial Guaranty Insurance Company, and (ii) overruled all other objections to the disclosure statement but required the Oversight Board to include certain additional disclosure on financial and legislative risks. The court also approved confirmation procedures, subject to the approval of the disclosure statement at the continued hearing, including commencing the confirmation hearing on November 8, 2021 and concluding on November 23, 2021. On July 27, 2021, the Oversight Board filed the Sixth Amended Plan and Disclosure Statement, and on July 29, 2021 the Court approved the amended Disclosure Statement for distribution to claimholders of record. On July 30, 2021, the Oversight Board filed the Seventh Amended Plan of Adjustment.

On October 25, 2021, Judge Swain held an emergency hearing in light of the failure of the Puerto Rico legislature to agree by Friday, October 22 to enabling legislation authorizing the distributions under the Plan. Judge Swain ruled at this hearing that mediation with the interested parties commence in order to resolve the legislation needed by the Plan. On October 26, 2021, the Governor of Puerto Rico signed the enabling legislation after it was adopted by both houses of the Puerto Rico legislature. On October 28, 2021, the mediation team filed its statement with the court that the interested parties had engaged in good faith best efforts and it reasonably believed that the Confirmation Hearing can be expected to move forward as currently scheduled, commencing November 8, 2021.

In October of 2021, bondholders voted to approve the GO PSA which included the option for National insured bondholders to choose between commuting their insurance policy with National or receiving a one-time cash payment equal to outstanding par and accrued interest via an acceleration of National’s insurance policy. Insured bondholders were required to choose one of these two options. Therefore, shortly after implementation of the PSA National’s insured GO exposure will be reduced to zero.

On July 24, 2019, Judge Swain entered an order staying certain adversary proceedings and contested matters until December 31, 2019, and imposing mandatory mediation under Judge Houser. Among the matters stayed in which National is either a party in interest or intervenor are the (i) PBA adversary proceeding seeking to recharacterize the PBA bonds as financings and (ii) GO adversary and HTA adversary proceedings, both challenging bondholder liens. Pursuant to interim schedules entered by the Court in December 2019, the PBA adversary proceeding and the HTA adversary proceeding were to remain stayed until March 11, 2020, but the Court subsequently stayed all such adversary proceedings indefinitely subject to the progress of the GO confirmation process. As part of the GO PSA, National’s participation in this litigation will be stayed subject to the effective date of the Commonwealth plan of adjustment.

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RESULTS OF OPERATIONS (continued)

PBA

On December 21, 2018, the Oversight Board filed an adversary complaint seeking to disallow the PBA's administrative rent claims against the Commonwealth. The PBA bonds are payable from the rent the Commonwealth pays under its lease agreements with the PBA. The Oversight Board alleges that the Commonwealth has no obligation to make rent payments under section 365(d)(3) of the Bankruptcy Code and that the PBA is not entitled to a priority administrative expense claim under the leases. On April 16, 2019, Judge Swain entered an order setting a discovery schedule. On September 27, 2019, the Oversight Board filed a Title III petition for the PBA.

The proceeding is currently stayed in the Title III court subject to the occurrence of the effective date of the Commonwealth plan of adjustment.

PREPA

National's largest exposure to Puerto Rico, by gross par outstanding, is to PREPA.

On October 3, 2018, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. (collectively, "Movants") filed a motion in the Title III case for PREPA for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA (the "Receiver Motion"). This motion is stayed pending a resolution of the 9019 Order, discussed below.

On May 3, 2019, PREPA, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") entered into the a restructuring support agreement ("RSA") which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. ("Syncora") as supporting parties. Approximately 90% of PREPA's bondholders have joined the RSA.

The RSA initially contemplated the filing of a plan of adjustment for PREPA by March 31, 2020; the timing of that action is now uncertain. The Oversight Board filed a status report with the Court on October 5, 2021 in which it stated its intention to file a PREPA plan of adjustment by the end of 2021 or early 2022.

Pursuant to the RSA, the Oversight Board filed a Rule 9019 motion with the Title III court in May 2019 seeking approval of the RSA (the "Settlement Motion") and a Motion to Dismiss the Receiver Motion. The RSA requires, upon entry of the order approving the Settlement Motion (the "9019 Order"), that Movants will withdraw the Receiver Motion, and the Ad Hoc Group will support such withdrawal. The Receiver Motion and the Motion to Dismiss the Receiver Motion have been delayed several times, and most recently were adjourned due to the outbreak of COVID-19 until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely affect the ability of the Oversight Board and RSA Parties to obtain the Rule 9019 Order and approve the RSA.

As contemplated by the RSA, on July 1, 2019 the Oversight Board and AAFAF also filed an adversary complaint against the Trustee for the PREPA Bonds, challenging the validity of the liens arising under the Trust Agreement that secure insured obligations of National. The adversary proceeding is stayed until the earlier of (a) 60 days after the Court denies the 9019 Motion, (b) consummation of a Plan, (c) 60 days after the filing by the Oversight Board and AAFAF of a Litigation Notice, or (d) further order of the Court.

Certain objectors to the RSA have filed adversary proceedings challenging the payment priority arising under the PREPA Trust Agreement, alleging that they are entitled to be paid in full before National and other bondholders have any lien on or recourse to PREPA's assets, including pursuant to the RSA. All litigation on this matter has been stayed until the Court places the 9019 Motion back on the calendar for hearing.

On June 22, 2020, the Oversight Board and the Puerto Rico P3 Authority announced an agreement and contract with LUMA Energy, LLC ("LUMA") which calls for LUMA to take full responsibility for the operation and maintenance of PREPA's transmission and distribution system; the contract runs for 15-years following a transition period expected to take 12 months. PREPA retains ownership of the system as well as responsibility for the power generation system. LUMA assumed responsibility for operations on June 1, 2021.

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

RESULTS OF OPERATIONS (continued)

On September 18, 2020, FEMA and the PR COR3 Authority announced the commitment by FEMA to provide approximately $11.6 billion (net of the required 10% cost share) to fund projects built by PREPA and the PR Department of Education; approximately $9.4 billion (net) of this amount is designated for PREPA. LUMA is now involved in the planning of the related projects as well as proceedings related thereto in front the PR Energy Bureau as well as PR-COR3.

In October of 2021, National sold certain bankruptcy claims in a private transaction through the transfer of ownership of $199 million face amount of bonds, representing approximately 16% of the principal amount of the current bond claims in the PREPA Title III case. The bonds included in this transaction had been fully satisfied by National's insurance claim payments. Subsequent to the sale of these PREPA bankruptcy claims, National has approximately $230 million of additional par claims to PREPA that have matured and can be sold.

PRHTA

On May 20, 2019, the Oversight Board and the Committee filed a lien avoidance adversary complaint against fiscal agents, holders, and insurers of certain PRHTA bonds, including National. The complaint challenges the extent and enforceability of certain security interests in PRHTA's revenues. Pursuant to an interim schedule entered by the Court in December 2019, the Court has stayed the proceedings, with the understanding that the issues raised in these proceedings would be addressed in new adversary proceedings filed by the Oversight Board on January 16, 2020. Subsequent to those filings, these proceedings were stayed by order of the Court.

On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain HTA clawback claims in the Commonwealth Title III case and providing for a distribution to HTA holders of cash, bonds and a contingent value instrument subject to completing negotiations on a plan support agreement in respect of the HTA PSA. On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. The Oversight Board has committed to filing a plan of adjustment for HTA by January 31, 2022.

Status of Puerto Rico's Fiscal Plans

In January of 2021, the Oversight Board requested that the Puerto Rico government submit a proposed updated Fiscal Plan for the Commonwealth. The Commonwealth submitted a revised fiscal plan on March 8, 2021. On March 15, 2021, the Oversight Board deemed the Puerto Rico government's fiscal plan to be non-compliant, and has required the government to submit a revised updated fiscal plan, including all financial and supporting models. The Oversight Board certified the government's fiscal plan on April 23, 2021. For the remaining component units, the Oversight Board certified fiscal plans for PREPA, the University of Puerto Rico (the "University") and PRHTA on May 27, 2021. The Oversight Board also certified the fiscal year 2022 budgets for Commonwealth, PREPA, the University and PRHTA on June 27, 2021.

University of Puerto Rico

The University is not a debtor in Title III and continues to be current on its debt service payment. However, the University is subject to a standstill agreement with its senior bondholders, which has been extended to November 30, 2021. National is not a party to the standstill agreement.

The following table presents our scheduled gross debt service due on our Puerto Rico insured exposures for the three months ending December 31, 2021, for each of the subsequent four years ending December 31 and thereafter:

In millions	Three Months Ending December 31, 2021	2022	2023	2024	2025	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	$ -	$ 140	$ 137	$ 137	$ 105	$ 565	$1,084
Puerto Rico Commonwealth GO	-	19	14	13	75	174	295
Puerto Rico Public Buildings Authority (PBA)	-	9	27	43	36	84	199
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	-	27	36	33	36	724	856
Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA)	-	9	1	1	1	22	34
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	-	2	4	2	2	48	58
University of Puerto Rico System Revenue	-	7	12	11	16	45	91
Inter American University of Puerto Rico Inc.	3	3	3	3	3	8	23
Total	$ 3	$ 216	$ 234	$ 243	$ 274	$ 1,670	$2,640

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

RESULTS OF OPERATIONS (continued)

Corporate

Our corporate segment consists of general corporate activities, including providing support services to MBIA Inc.'s subsidiaries and asset and capital management. Support services are provided by our service company, MBIA Services, and include, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Capital management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, MBIA Global Funding, LLC ("GFL") and MBIA Investment Management Corp. ("IMC"). During 2020, the remaining investment agreements issued by IMC matured, and as of December 31, 2020, there were no outstanding investment agreements issued by IMC. MBIA Inc. issued debt to finance the operations of the MBIA group. GFL raised funds through the issuance of medium-term notes ("MTNs") with varying maturities, which were in turn guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. IMC, along with MBIA Inc., provided 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. The Company has ceased issuing new MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities matured, terminated or were called or repurchased. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

The following table summarizes the consolidated results of our corporate segment for the three and nine months ended September 30, 2021 and 2020:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Percent Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Percent Change
Net investment income	$ 7	$ 7	-%	$ 21	$ 23	-9%
Fees	13	13	-%	42	43	-2%
Net gains (losses) on financial instruments at fair value and foreign exchange	13	(6)	n/m	50	(62)	n/m
Net gains (losses) on extinguishment of debt	16	-	n/m	30	-	n/m
Total revenues	49	14	n/m	143	4	n/m
Operating	15	17	-12%	54	52	4%
Interest	19	21	-10%	56	63	-11%
Total expenses	34	38	-11%	110	115	-4%
Income (loss) before income taxes	$ 15	$ (24)	n/m	$ 33	$ (111)	-130%

n/m—Percent change not meaningful.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the three months ended September 30, 2021 was primarily due to foreign currency gains on Euro denominated liabilities as a result of the strengthening of the U.S. dollar in 2021 compared with foreign exchange losses as a result of the weakening of the U.S. dollar in the same period of 2020. The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the nine months ended September 30, 2021 was primarily due to the impact of increases in interest rates during the first nine months of 2021 on the fair values of interest rate swaps compared with fair value losses on these swaps in the same period of 2020 due to decreases in interest rates and foreign currency gains on Euro denominated liabilities as a result of the strengthening of the U.S. dollar in 2021 compared with foreign exchange losses as a result of the weakening of the U.S. dollar in the same period of 2020.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT Net gains (losses) on extinguishment of debt for the three and nine months ended September 30, 2021 include gains from purchases, at discounts, of MTNs issued by the Company.

INTEREST EXPENSE Interest expense decreased for the three and nine months ended September 30, 2021 compared with the same periods of 2020 primarily due to the redemption of debt in December of 2020.

International and Structured Finance Insurance

Our international and structured finance insurance portfolio is managed through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, non-U.S. public finance and global structured 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.

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

RESULTS OF OPERATIONS (continued)

MBIA Corp. has insured sovereign-related and sub-sovereign bonds, privately issued bonds used for the financing of utilities, toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, and aircraft leases. MBIA Insurance Corporation insures the investment agreements written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Insurance Corporation would be required to make such payments under its insurance policies. MBIA Insurance Corporation also insured debt obligations of other affiliates, including GFL, IMC and MZ Funding LLC ("MZ Funding"). MBIA Corp. had also written insurance policies guaranteeing the obligations under credit default swap ("CDS") contracts of an affiliate, LaCrosse Financial Products, LLC and certain other derivative contracts. Certain policies covered payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivative contracts by the insured counterparty or by the guarantor. We no longer insure new CDS contracts except for potential transactions related to the restructuring of existing exposures. MBIA Insurance Corporation provides 100% reinsurance to its subsidiary, MBIA Mexico S.A. de C.V. ("MBIA Mexico").

MBIA Corp. has contributed to the Company's net operating loss ("NOL") carryforward, which is used in the calculation of our consolidated income taxes. If MBIA Corp. becomes profitable, it is not expected to make any tax payments under our tax sharing agreement. Based on MBIA Corp.'s current projected earnings and our expectation that it will not write significant new business, we believe it is unlikely that MBIA Corp. will generate significant income in the near future. As a result of MBIA Corp.'s capital structure and business prospects, we do not expect its financial performance to have a material economic impact on MBIA Inc.

The following table presents our international and structured finance insurance segment results for the three and nine months ended September 30, 2021 and 2020:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Percent Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Percent Change
Net premiums earned	$ 17	$ 5	n/m	$ 28	$ 18	56%
Net investment income	1	1	-%	4	3	33%
Fees and reimbursements	8	2	n/m	15	9	67%
Net gains (losses) on financial instruments at fair value and foreign exchange	(3)	(4)	-25%	(9)	6	n/m
Revenues of consolidated VIEs:						
Net investment income	-	5	-100%	-	18	-100%
Net gains (losses) on financial instruments at fair value and foreign exchange	4	(4)	n/m	(10)	34	-129%
Other net realized gains (losses)	(9)	23	-139%	(14)	37	-138%
Total revenues	18	28	-36%	14	125	-89%
Losses and loss adjustment	57	34	-%	97	293	-67%
Amortization of deferred acquisition costs	3	4	-25%	11	12	-8%
Operating	5	6	-17%	18	20	-10%
Interest	26	27	-4%	82	88	-7%
Expenses of consolidated VIEs:						
Operating	2	1	100%	5	4	25%
Interest	7	15	-53%	24	47	-49%
Total expenses	100	87	15%	237	464	-49%
Income (loss) before income taxes	$ (82)	$ (59)	-%	$ (223)	$ (339)	-34%

n/m—Percent change not meaningful.

As of September 30, 2021, MBIA Corp.'s total insured gross par outstanding was $5.7 billion.

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

RESULTS OF OPERATIONS (continued)

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The following table provides net premiums earned from our financial guarantee contracts for the three and nine months ended September 30, 2021 and 2020:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Percent Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Percent Change
Net premiums earned:						
U.S.	$ -	$ 1	-100%	$ 2	$ 2	0%
Non-U.S.	17	4	n/m	26	14	86%
Total net premiums earned	$ 17	$ 5	n/m	$ 28	$ 16	75%
VIEs (eliminated in consolidation)	$ 2	$ 1	100%	$ 3	$ (2)	n/m

n/m - Percentchange not meaningful.

Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The increase in net premiums earned for the three and nine months ended September 30, 2021 compared with the same periods of 2020 was due to the acceleration of premium earnings related to the termination of an international public finance insurance policy during the third quarter of 2021. The negative VIE net premiums earned (eliminated in consolidation) for 2020 was primarily due to the termination of a policy, resulting in the reversal of previously eliminated net premiums in excess of cash received.

FEES AND REIMBURSEMENTS The increases in fees and reimbursements for the three and nine months ended September 30, 2021 compared with the same periods of 2020 were primarily due to an increase in waiver and consent fees related to the termination of an international public finance insurance policy during the third quarter of 2021. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The losses for the nine months ended September 30, 2021 were primarily due to losses from foreign currency revaluations of premiums receivables denominated in Chilean unidad de fomento as a result of the strengthening of the U.S. dollar. The gains for the nine months ended September 30, 2020 were primarily due to gains from foreign currency revaluations of Mexican peso-denominated loss reserves as a result of the strengthening of the U.S. dollar, partially offset by foreign exchange losses from foreign currency revaluations of premiums receivables denominated in Chilean unidad de fomento as a result of the strengthening of the U.S. dollar.

REVENUES OF CONSOLIDATED VIEs The decreases in revenues of consolidated VIEs for the three and nine months ended September 30, 2021 compared with the same periods of 2020 were primarily due to gains related to reversals of allowances for credit losses, the increase in expected recoveries from the Credit Suisse put-back claims and higher net investment income in 2020 with no comparable income for the same periods of 2021. During 2020, we deconsolidated all remaining VIEs for which net investment income was recorded. The losses included in other net realized gains (losses) for the three and nine months ended September 30, 2021 related to losses from the deconsolidation of VIEs compared with a gains from the deconsolidation of a VIE in 2020.

LOSSES AND LOSS ADJUSTMENT EXPENSES Our international and structured finance insured portfolio management group is responsible for monitoring international and structured finance insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue. As a result of COVID-19, we have increased our monitoring of certain credits. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

Losses and LAE incurred increased for the three months ended September 30, 2021 when compared with the same period of 2020 primarily due to more of a decline in expected salvage collections from insured CDOs in 2021 when compared with 2020, partially offset by a decrease in losses and LAE incurred on insured RMBS transactions.

Losses and LAE incurred decreased for the nine months ended September 30, 2021 when compared with the same period of 2020 primarily due to favorable changes in risk-free rates used to discount the present value net loss reserves for first-lien RMBS transactions and less of a decline in expected salvage collections from insured CDOs in 2021 when compared with 2020. The first-lien RMBS risk-free rates increased in 2021 which decreased the present value of loss reserves compared with a decrease in risk-free rates in 2020 which increased the present value of loss reserves.

As a result of the consolidation of VIEs, loss and LAE excludes losses and LAE benefits of $9 million and $24 million for the three and nine months ended September 30, 2021, respectively, and excludes losses and LAE benefits of $10 million and $75 million for the three and nine months ended September 30, 2020, respectively, as VIE losses and LAE are eliminated in consolidation.

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RESULTS OF OPERATIONS (continued)

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and loss and LAE reserves as of September 30, 2021 and December 31, 2020.

In millions	September 30, 2021	December 31, 2020	Percent Change
Assets:			
Insurance loss recoverable	$ 251	$ 457	-45%
Reinsurance recoverable on paid and unpaid losses (1)	4	5	-20%
Liabilities:			
Loss and LAE reserves	464	521	-11%
Net reserve (salvage)	$ 209	$ 59	n/m

(1) – Reportedwith in "Other assets" on our consolidated balance sheets.

n/m - Percent change not meaningful.

The insurance loss recoverable primarily relates to reimbursement rights arising from the payment of claims on MBIA Corp.'s policies insuring certain CDOs and RMBS. Such payments also entitle MBIA Corp. to exercise certain rights and remedies to seek recovery of its reimbursement entitlements. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for additional information regarding our estimates of recoveries.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about our loss reserving policy, loss reserves and recoverables.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the three and nine months ended September 30, 2021 and 2020 are presented in the following table:

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
In millions	2021	2020	Change	2021	2020	Change
Gross expenses	$ 6	$ 7	-14%	$ 19	$ 21	-10%
Amortization of deferred acquisition costs	$ 3	$ 4	-25%	$ 11	$ 12	-8%
Operating	5	6	-17%	18	20	-10%
Total insurance operating expenses	$ 8	$ 10	-20%	$ 29	$ 32	-9%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. We did not defer a material amount of policy acquisition costs during the first nine months of 2021 or 2020. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

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RESULTS OF OPERATIONS (continued)

INTEREST EXPENSE OF CONSOLIDATED VIEs For the three and nine months ended September 30, 2021, total interest expense of consolidated VIEs decreased compared with the same periods of 2020 due to the deconsolidation of VIEs in 2020 and the repayment of MBIA Corp.'s financing facility between MZ Funding and certain purchasers, pursuant to which the purchasers or their affiliates agreed to refinance the outstanding insured senior notes of MZ Funding ("Refinanced Facility") during 2021.

International and Structured Finance Insurance Portfolio Exposures

Credit Quality

The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of September 30, 2021 and December 31, 2020, 24% of our international and structured finance insured portfolio was rated below investment grade, before giving effect to MBIA's guarantees, based on MBIA's internal ratings, which are generally more current than the underlying ratings provided by S&P and Moody's for this subset of our insured portfolio.

Selected Portfolio Exposures

The following is a summary of selected significant exposures within our residential mortgage insured portfolio of our international and structured finance insurance segment. In addition, as of September 30, 2021, MBIA Corp. insured $232 million of CDOs and related instruments. We may experience considerable incurred losses in certain of these sectors. There can be no assurance that the loss reserves recorded in our financial statements will be sufficient or that we will not experience losses on transactions on which we currently have no loss reserves, in particular if the economy deteriorates. We may seek to purchase, directly or indirectly, obligations guaranteed by MBIA Corp. or seek to commute policies. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies. Our ability to purchase guaranteed obligations and to commute policies will depend on management's assessment of available liquidity.

Residential Mortgage Exposure

MBIA Corp. insures RMBS backed by residential mortgage loans, including second-lien RMBS transactions (revolving home equity lines of credit ("HELOC") loans and closed-end second ("CES") mortgages). MBIA Corp. also insures MBS backed by first-lien alternative A-paper ("Alt-A") and subprime mortgage loans directly through RMBS securitizations. The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of September 30, 2021 and December 31, 2020. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions	Gross Par Outstanding as of		
Collateral Type	September 30, 2021	December 31, 2020	Percent Change
HELOC Second-lien	$ 10	$ 269	-96%
CES Second-lien	1	104	-99%
Alt-A First-lien(1)	768	825	-7%
Subprime First-lien	233	285	-18%
Prime First-lien	5	6	-17%
Total	$ 1,017	$ 1,489	-32%

(1) - Includesinternational exposure of $233 million and $237 million as of September 30, 2021 and December 31, 2020, respectively.

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RESULTS OF OPERATIONS (continued)

U.S. Public Finance and International and Structured Finance Reinsurance

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. 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. Currently, we do not intend to use reinsurance to decrease the insured exposure in our portfolio.

As of September 30, 2021, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $1.0 billion compared with $1.5 billion as of December 31, 2020. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. For a further discussion of the Company's reinsurance, refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2021 and 2020 are presented in the following table:

In millions	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Income (loss) before income taxes	$ (123)	$ (58)	$ (290)	$ (497)
Provision (benefit) for income taxes	$ -	$ -	$ -	$ -
Effective tax rate	0.0%	0.0%	0.0%	0.0%

For the nine months ended September 30, 2021 and 2020, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory tax rate of 21% due to the full valuation allowance on the changes in our net deferred tax asset.

As of September 30, 2021 and December 31, 2020, the Company's valuation allowance against its net deferred tax asset was $1.0 billion and $966 million, respectively. Notwithstanding the full valuation allowance on its net deferred tax asset, the Company believes that it may be able to use some of its net deferred tax asset before the expirations associated with that asset based upon expected earnings at National and potential future sources of taxable income to be identified by the Company. Accordingly, the Company will continue to re-evaluate its net deferred tax asset on a quarterly basis. There is no assurance that the Company will reverse any of its valuation allowance on its net deferred tax asset in the future. Refer to "Note 9: Income Taxes" in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the valuation allowance against the Company's net deferred tax asset and its accounting for tax uncertainties.

The CARES Act established new tax provisions including, but not limited to: (1) five-year carryback of NOLs generated in 2018, 2019 and 2020; (2) accelerated refund of alternative minimum tax ("AMT") credit carryforwards; and (3) retroactive changes to allow accelerated depreciation for certain depreciable property. The legislation did not have a material impact on the Company's tax positions due to the lack of taxable income in the carryback periods.

On December 21, 2020, The Consolidated Appropriations Act ("Act") was passed by Congress to respond to the health and economic impacts of COVID-19. The Act includes a number of tax law changes, including the expansion of the Employee Retention Credit, important changes to the Paycheck Protection Program, and extension of a variety of expiring tax provisions. On March 6, 2021, The American Rescue Plan Act was passed by Congress to further respond to the health and economic impacts of COVID-19. Among other changes, the legislation provides for an extension of the Employee Retention Credit through 2021. These two legislations do not have a material impact on the Company's tax positions.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, surplus notes issued by MBIA Corp., and the Refinanced Facility. Total capital resources were $1.1 billion and $1.6 billion as of September 30, 2021 and December 31, 2020, respectively.

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CAPITAL RESOURCES (continued)

In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. Also, MBIA Inc. may repurchase or National may purchase outstanding MBIA Inc. common shares when we deem it beneficial to our shareholders. Purchases or repurchases of debt and common 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 may also choose to redeem debt obligations where permitted by the relevant agreements. MBIA Inc. or National may acquire or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations at prices when we deem it beneficial to our shareholders. MBIA Inc. supports the MTN and investment agreement obligations issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company's general corporate needs and debt service. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient resources to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries; however, there can be no assurance that MBIA Inc. will have sufficient resources to do so. In addition, the Company may also consider raising third-party capital. Refer to "Capital, Liquidity and Market Related Risk Factors" in Part I, Item 1A of our Form 10-K for the year ended December 31, 2020 and the "Liquidity—Corporate Liquidity" section included herein for additional information about MBIA Inc.'s liquidity.

Equity securities

Currently, MBIA Inc. or National does not have an authorization approved by the Company's Board of Directors to repurchase or purchase outstanding MBIA Inc. common shares. MBIA Inc. or National did not repurchase or purchase any MBIA Inc. common shares during 2021. For the nine months ended September 30, 2020, National purchased 26 million common shares of MBIA Inc. with an average price paid of $7.50 per share.

Debt securities

During the nine months ended September 30, 2021, MBIA Corp. repaid the remaining outstanding balance of the Refinanced Facility and the Company repurchased $106 million par value outstanding of GFL MTNs with maturity dates between 2024 and 2036 issued by our corporate segment at a weighted average cost of approximately 72% of par value.

During the nine months ended September 30, 2021, MBIA Corp. purchased $3 million principal amount of MBIA Inc. 6.625% Debentures due 2028 and $1 million principal amount of MBIA Inc. 7.15% Debentures due 2027 at a weighted average cost of approximately 103% of par value.

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by New York State Department of Financial Services ("NYSDFS"). MBIA Mexico is regulated by the Comisión Nacional de Seguros y Fianzas in Mexico. MBIA Corp.'s Spanish Branch is subject to local regulation in Spain. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners' statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct.

National

<u>Capital and Surplus</u>

National had statutory capital of $2.0 billion as of September 30, 2021 and December 31, 2020. As of September 30, 2021, National's unassigned surplus was $1.0 billion. For the nine months ended September 30, 2021, National had statutory net income of $49 million. Refer to the "Claims-Paying Resources (Statutory Basis)" section below for additional information on National's statutory capital.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders' surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. As of September 30, 2021, National was in compliance with its aggregate risk limits under New York Insurance Law ("NYIL"), but was not in compliance with certain of its single risk limits. Since National does not comply with certain of its single risk limits, the NYSDFS could prevent National from transacting any new financial guarantee insurance business.

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CAPITAL RESOURCES (continued)

NYIL regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under NYIL, the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as reported in the latest statutory financial statements or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the Superintendent of the NYSDFS approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations.

National had positive earned surplus as of September 30, 2021 from which it may pay dividends, subject to the limitations described above. We expect the as-of-right declared and paid dividend amounts from National to be limited to prior year adjusted net investment income for the foreseeable future.

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to National to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources and continues to be used by MBIA's management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate National using the same measure that MBIA's management uses to evaluate National's resources to pay claims under its insurance policies. There is no directly comparable GAAP measure. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

National's CPR and components thereto, as of September 30, 2021 and December 31, 2020 are presented in the following table:

In millions	As of September 30, 2021	As of December 31, 2020
Policyholders' surplus	$ 1,615	$ 1,526
Contingency reserves	410	445
Statutory capital	2,025	1,971
Unearned premiums	319	355
Present value of installment premiums (1)	126	129
Premium resources (2)	445	484
Net loss and LAE reserves (1)	(577)	(301)
Salvage reserves on paid claims (1)	1,126	961
Gross loss and LAE reserves	549	660
Total claims-paying resources	$ 3,019	$ 3,115

(1) - Calculated using a discount rate of 3.49% as of September 30, 2021 and December 31, 2020.

(2) - Includes financial guarantee and insured derivative related premiums.

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation had statutory capital of $143 million as of September 30, 2021 compared with $273 million as of December 31, 2020. As of September 30, 2021, MBIA Insurance Corporation's negative unassigned surplus was $1.9 billion. For the nine months ended September 30, 2021, MBIA Insurance Corporation had a statutory net loss of $89 million. Refer to the "Claims-Paying Resources (Statutory Basis)" section below for additional information on MBIA Insurance Corporation's statutory capital.

In the first quarter of 2021, MBIA received a court decision against Credit Suisse holding it liable to MBIA Corp. for approximately $604 million in damages relating to put-back claims and the parties to the litigation subsequently entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. $600 million. As of September 30, 2021, MBIA Insurance Corporation's estimated salvage on a statutory basis primarily related to recoveries on CDOs and excess spread recoveries on RMBS.

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

CAPITAL RESOURCES (continued)

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders' surplus. MBIA Insurance Corporation is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Pursuant to a non-disapproval by the NYSDFS, and in accordance with NYIL, MBIA Insurance Corporation released to surplus $125 million of excessive contingency reserves during the nine months ended September 30, 2021. As of September 30, 2021, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. Since MBIA Insurance Corporation does not comply with its single risk limits, the NYSDFS could prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business.

Due to its significant earned surplus deficit, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009. Based on estimated future income, MBIA Insurance Corporation is not expected to have any statutory capacity to pay dividends.

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on MBIA Insurance Corporation's Surplus Notes due January 15, 2033 (the "Surplus Notes") since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation's liquidity and financial condition as well as the availability of "free and divisible surplus" as the basis for such non-approvals. As of October 15, 2021, the most recent scheduled interest payment date, there was $1.1 billion of unpaid interest on the par amount outstanding of $953 million of the Surplus Notes. Under Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes, Surplus Note payments may be made only with the prior approval by the NYSDFS and if MBIA Insurance Corporation has sufficient "Eligible Surplus", or as we believe, "free and divisible surplus" as an appropriate calculation of "Eligible Surplus." As of September 30, 2021, MBIA Insurance Corporation had "free and divisible surplus" of $88 million. There is no assurance the NYSDFS will approve Surplus Note payments, notwithstanding the sufficiency of MBIA Insurance Corporation's liquidity and financial condition. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to MBIA Corp. to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources, and continues to be used by MBIA's management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate MBIA Corp., using the same measure that MBIA's management uses to evaluate MBIA Corp.'s resources to pay claims under its insurance policies. There is no directly comparable GAAP measure. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

MBIA Corp.'s CPR and components thereto, as of September 30, 2021 and December 31, 2020 are presented in the following table:

In millions	As of September 30, 2021	As of December 31, 2020
Policyholders' surplus	$ 106	$ 106
Contingency reserves	37	167
Statutory capital	143	273
Unearned premiums	50	79
Present value of installment premiums (1)	51	73
Premium resources (2)	101	152
Net loss and LAE reserves (1)	240	(478)
Salvage reserves on paid claims (1)	244(3)	1,045(4)
Gross loss and LAE reserves	484	567
Total claims-paying resources	$ 728	$ 992

(1) - Calculated using a discount rate of 5.10% as of September 30, 2021 and December 31, 2020.

(2) - Includes financial guarantee and insured derivative related premiums.

(3) - This amount primarily consists of expected recoveries related to the Company's CDOs and excess spread.

(4) - This amount primarily consists of expected recoveries related to the Company's put-back, CDOs and excess spread.

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

LIQUIDITY

We use a liquidity risk management framework, the primary objective of which is to match liquidity resources to needs. We monitor our cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of MBIA's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. We evaluate and manage liquidity on a legal-entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise. Additionally, we continue to monitor the current COVID-19 pandemic with respect to our cash and liquid asset positions and resources. Refer to the "Executive Overview - COVID-19" section for additional information about liquidity and COVID-19. The following is a discussion of our liquidity resources and requirements for our holding company and our insurance subsidiaries.

National Liquidity

The primary sources of cash available to National are:

- principal and interest receipts on assets held in its investment portfolio, including proceeds from the sale of assets;
- recoveries associated with insurance loss payments; and
- installment premiums.

The primary uses of cash by National are:

- loss payments and LAE on insured transactions;
- payments of dividends; and
- payments of operating expenses, taxes and investment portfolio asset purchases.

As of September 30, 2021 and December 31, 2020, National held cash and investments of $1.9 billion and $2.1 billion, respectively, of which $182 million and $359 million, respectively, were cash and cash equivalents or short-term investments comprised of highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds.

The insurance policies issued or reinsured by National provide unconditional and irrevocable guarantees of payments of the principal of, and interest or other amounts owing on, insured obligations when due. In the event of a default in payment of principal, interest or other insured amounts by an issuer, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The U.S. public finance insurance segment's financial guarantee contracts generally cannot be accelerated by a party other than the insurer which helps to mitigate liquidity risk in this segment.

In October of 2021, National sold certain bankruptcy claims in a private transaction through the transfer of ownership of $199 million face amount of bonds, representing approximately 16% of the principal amount of the current bond claims in the PREPA Title III case. The bonds included in this transaction had been fully satisfied by National's insurance claim payments. This transaction monetizes a portion of National's salvage asset at a discount to National's previous carrying value and, as a result, strengthens National's balance sheet, increases National's projected investment income and furthers the Company's objective of reducing its exposure to Puerto Rico over the short to medium term. Subsequent to the sale of these PREPA bankruptcy claims, National has approximately $230 million of additional par claims to PREPA that have matured and can be sold.

Corporate Liquidity

The primary sources of cash available to MBIA Inc. are:

- dividends from National;
- available cash and liquid assets not subject to collateral posting requirements;
- principal and interest receipts on assets held in its investment portfolio, including proceeds from the sale of assets; and
- access to capital markets.

The primary uses of cash by MBIA Inc. are:

- servicing outstanding unsecured corporate debt obligations and MTNs;
- meeting collateral posting requirements under investment agreements and derivative arrangements;
- payments related to interest rate swaps;
- payments of operating expenses; and
- funding share repurchases and debt buybacks.

As of September 30, 2021 and December 31, 2020, the liquidity positions of MBIA Inc. were $210 million and $294 million, respectively, and included cash and cash equivalents and other investments comprised of highly rated commercial paper and U.S. government and asset-backed bonds.

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

LIQUIDITY (continued)

During the nine months ended September 30, 2021, MBIA Inc. returned $10 million of tax payments to National as a result of tax losses incurred by National. The return was pursuant to the terms of the tax sharing agreement. Under the CARES Act, National's 2020 taxable loss became subject to a five-year NOL carry-back, which allowed it to recover taxes paid in years in which the tax rate was 35%. There can be no assurance that any future payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc. due to deductible or creditable tax attributes of those subsidiaries and/or the market value performance of the assets supporting the Tax Escrow Account.

Based on our projections of National's and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source of payments to MBIA Inc. There can be no assurance as to the amount and timing of any such future dividends or payments from the tax escrow account under the tax sharing agreement. Also, absent a special dividend subject to the approval of the NYSDFS, we expect the declared and paid dividend amounts from National to be limited to the prior twelve months of adjusted net investment income as reported in its most recent statutory filings. Refer to the "Capital Resources – Insurance Statutory Capital" section for additional information on payments of dividends. We do not expect MBIA Inc. to receive dividends or utilize the Company's tax escrow account from MBIA Corp.

Currently, a significant portion of the cash and securities held by MBIA Inc. is pledged against investment agreement liabilities, the Asset Swap (simultaneous repurchase and reverse repurchase agreement) and derivatives, which limits its ability to raise liquidity through asset sales. As the market value or rating eligibility of the assets which are pledged against MBIA Inc.'s obligations declines, we are required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral. Contingent liquidity resources include: (1) sales of invested assets exposed to credit spread stress risk, which may occur at losses; (2) termination and settlement of interest rate swap agreements; and (3) accessing the capital markets. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk.

MBIA Corp. Liquidity

The primary sources of cash available to MBIA Corp. are:

- recoveries associated with insurance loss payments;
- installment premiums and fees; and
- principal and interest receipts on assets held in its investment portfolio, including the proceeds from the sale of assets.

The primary uses of cash by MBIA Corp. are:

- loss and LAE or commutation payments on insured transactions;
- repayment of MZ Funding's debt obligations; and
- payments of operating expenses.

As of September 30, 2021 and December 31, 2020, MBIA Corp. held cash and investments of $573 million and $243 million, respectively, of which $341 million and $130 million, respectively, were cash and cash equivalents or liquid investments comprised of money market funds and municipal, U.S. Treasury and corporate bonds that were immediately available to MBIA Insurance Corporation. The increase in cash and investments for the nine months ended September 30, 2021 was due to the collection of proceeds from the settlement of the Credit Suisse litigation.

Insured transactions that require payment of scheduled debt service payments insured when due or payment in full of the principal insured at maturity could present liquidity risk for MBIA Corp., as any salvage recoveries from such payments could be recovered over an extended period of time after the payment is made. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

As of September 30, 2021, MBIA Corp. repaid in full the outstanding amount of the Refinanced Facility. As of September 30, 2021, the amended subordinated notes between MZ Funding and MBIA Inc. remained outstanding. These amended subordinated notes and related interest are eliminated in our consolidated financial statements. For additional information on these notes, refer to "Note 10: Debt" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

LIQUIDITY (continued)

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,		
In millions	2021	2020	Percent Change
Statement of cash flow data:			
Net cash provided (used) by:			
Operating activities	$ 359	$ (388)	n/m
Investing activities	37	968	-96%
Financing activities	(451)	(552)	-18%
Cash and cash equivalents - beginning of period	167	83	101%
Cash and cash equivalents - end of period	$ 112	$ 111	1%

n/m—Percent change not meaningful.

Operating activities

Net cash provided by operating activities increased for the nine months ended September 30, 2021 compared with the same period of 2020 primarily due to proceeds received from loan repurchase commitments of $600 million as a result of the settlement of the Credit Suisse litigation in the first quarter of 2021 and a decrease in financial guarantee losses and loss adjustment expenses paid of $146 million.

Investing activities

Net cash provided by investing activities decreased for the nine months ended September 30, 2021 compared with the same period of 2020 primarily due to a net decrease in sales, paydowns and maturities and purchases of available-for-sale investments of $435 million, a decrease in repayments of held-to-maturity investments of $315 million due to the deconsolidation of a VIE in the first quarter of 2020 and a net decrease in sales, maturities and purchases of short-term investments of $171 million.

Financing activities

Net cash used by financing activities decreased for the nine months ended September 30, 2021 compared with the same period of 2020 primarily due to a decrease in purchases of treasury stock of $199 million, partially offset by an increase in principal paydowns of medium-term notes of $77 million.

Investments

The following discussion of investments, including references to consolidated investments, excludes investments reported under "Assets of consolidated variable interest entities" on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our AFS investments comprise high-quality fixed-income securities and short-term investments.

Refer to "Note 2: Significant Accounting Policies," and "Note 7: Investments" in the Notes to Consolidated Financial Statements for further information about our accounting policies and investments.

Credit Quality

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, are based on ratings from Moody's and alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's. As of September 30, 2021, the weighted average credit quality rating of the Company's AFS fixed-maturity investment portfolio, excluding short-term investments, was Aa and 92% of the investments were investment grade.

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

LIQUIDITY (continued)

Insured Investments

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ("Insured Investments"), including investments insured by National and MBIA Corp. ("Company-Insured Investments"). When purchasing Insured Investments, the Company's third-party portfolio manager 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 third-party portfolio manager assigns underlying ratings to Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody's or S&P, when a rating is not published by Moody's. When a Moody's or S&P underlying rating is not available, the underlying rating is based on the portfolio manager's best estimate of the rating of such investment. If the Company determines that declines in the fair values of third-party Insured Investments are related to credit loss, the Company will establish an allowance for credit losses and recognize the credit component through earnings.

As of September 30, 2021, Insured Investments at fair value represented $255 million or 9% of consolidated investments, of which $229 million or 8% of consolidated investments were Company-Insured Investments. As of September 30, 2021, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the below investment grade range. Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of September 30, 2021, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the below investment grade range, and investments rated below investment grade in the Company-Insured Investments were 7% of the total consolidated investment portfolio.

Contractual Obligations

For a discussion of the Company's contractual obligations, refer to "Liquidity-Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. During the nine months ended September 30, 2021, MBIA Corp. repaid the remaining outstanding balance of the Refinanced Facility and the Company repurchased $106 million par value outstanding of the GFL MTNs issued by our corporate segment. There were no other material changes in contractual obligations since December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs and investment agreement liabilities. The Company's investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, corporate bonds, MBS and asset-backed securities. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. The Company minimizes its exposure to interest rate risk, foreign exchange 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. There were no material changes in market risk since December 31, 2020 related to interest rates, foreign exchange rates and credit spreads. For a discussion of our quantitative and qualitative disclosures about market risk related to these risks, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

For a discussion of the Company's litigation and related matters, see "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

Item 1A. Risk Factors

The following should be read in conjunction with and supplements the risk factors described under Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Insured Portfolio Loss Related Risk Factors

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

Certain issuers are reporting fiscal stress that has resulted in a significant increase in taxes and/or a reduction in spending or other measures in efforts to satisfy their financial obligations. In particular, certain jurisdictions have significantly underfunded pension liabilities which are placing additional stress on their finances and are particularly challenging to restructure either through negotiation or under Chapter 9 of the United States Bankruptcy Code. If the issuers of the obligations in our public finance portfolio are unable to raise taxes, or increase other revenues, cut spending, reduce liabilities, and/or receive state or federal assistance, we may experience losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and results of operations. The financial stress experienced by certain municipal issuers could result in the filing of Chapter 9 proceedings in states where municipal issuers are permitted to seek bankruptcy protection. In these proceedings, which remain rare, the resolution of bondholder claims (and by extension, those of bond insurers) may be subject to legal challenge by other creditors.

In particular, the Commonwealth of Puerto Rico and several of its public corporations and instrumentalities, which have reported significant fiscal stress, are currently in bankruptcy-like proceedings in the United States District Court for the District of Puerto Rico, pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA").

The extent and duration of any aid from the Federal Emergency Management Agency and other federal agencies that may be offered to Puerto Rico is uncertain. Further, greater involvement of the federal government through its action to deliver disaster relief and support services to Puerto Rico heightens the political risk already inherent in the legacy debt restructuring. This risk could lead the independent oversight board created by PROMESA to oversee Puerto Rico's debt restructuring (the "Oversight Board"), Puerto Rico itself, or the federal government to seek to extract greater concessions from creditors based on the uncertainty of Puerto Rico's long term recovery prospects. In this event, losses at National on select Puerto Rico exposures could increase materially.

As of September 30, 2021, National had $2.6 billion of debt service outstanding related to Puerto Rico. Puerto Rico may be unable or unwilling to pay their obligations as and when due, in which case National would be required to pay claims of unpaid principal and interest when due under its insurance policies, which could be material. On January 1, 2021 and July 1, 2021, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and as a result, National paid gross claims in the aggregate of $277 million. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National would experience losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations.

Item 1A. Risk Factors (continued)

On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the "GO PSA"), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The GO PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. The GO PSA contemplates a Commonwealth plan becoming effective on or before December 15, 2021; however, there can be no assurance that such plans will become effective, or on the contemplated timeline. Pursuant to the GO PSA, the Oversight Board and National jointly obtained the entry of an order in the Title III court staying National's participation in actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective. On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to bondholders in the Puerto Rico Highway and Transportation Authority ("HTA") Title III case subject to completing negotiations on a plan support agreement in respect of an HTA plan of adjustment (the "HTA PSA"). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. The Oversight Board has committed to filing a plan of adjustment for HTA by January 31, 2022.

On July 12, 2021, the Oversight Board filed the Fifth Amended Title III Plan of Adjustment and Disclosure Statement, incorporating certain changes and agreements in connection with certain disclosure statement objections. The Disclosure Statement hearing for the Fifth Amended Plan began on July 13, 2021, and on July 14, 2021, the Bankruptcy Court (i) continued the hearing until July 27, 2021 for the sole purpose of considering a possible settlement of objections by Ambac Assurance Corporation and Financial Guaranty Insurance Company, and (ii) overruled all other objections to the Disclosure Statement but required the Oversight Board to include certain additional disclosure on financial and legislative risks. The Court also approved confirmation procedures, subject to the approval of the Disclosure Statement at the continued hearing, including commencing the confirmation hearing on November 8, 2021 and concluding on November 23, 2021. On July 27, 2021, the Oversight Board filed the Sixth Amended Plan and Disclosure Statement, and on July 29, 2021 the Court approved the amended Disclosure Statement for distribution to claimholders of record. On July 30, 2021, the Oversight Board filed the Seventh Amended Plan of Adjustment.

On October 25, 2021, Judge Swain held an emergency hearing in light of the failure of the Puerto Rico legislature to agree by Friday, October 22 to enabling legislation authorizing the distributions under the Plan. Judge Swain ruled at this hearing that mediation with the interested parties commence in order to resolve the legislation needed by the Plan. On October 26, 2021, the Governor of Puerto Rico signed the enabling legislation after it was adopted by both houses of the Puerto Rico legislature. On October 28, 2021, the mediation team filed its statement with the court that the interested parties had engaged in good faith best efforts and it reasonably believed that the Confirmation Hearing can be expected to move forward as currently scheduled, commencing November 8, 2021.

There can be no assurances that the Plan will proceed to confirmation in the current or extended timeline for confirmation or whether the Plan will be confirmable without legislative authorization. In addition, there can be no assurance that, in the event no agreement is reached with the legislature or PSA Creditors, the Title III cases for the Commonwealth and PBA will not be dismissed resulting in the commencement or continuation of litigation to enforce National's contractual rights under the bond documents.

On May 3, 2019, PREPA, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. entered into a Definitive Restructuring Support Agreement which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. as supporting parties (as amended, the "RSA"). The Rule 9019 hearing to approve the RSA has been delayed several times, and most recently was adjourned due to the coronavirus crisis until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under PROMESA, (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely affect the ability of the Oversight Board and RSA Parties to obtain the Rule 9019 Order and approve the RSA.

Item 1A. Risk Factors (continued)

Refer to the “U.S. Public Finance Insurance Puerto Rico Exposures” section in Part I, Item 2 of this Form 10-Q for additional information on our Puerto Rico exposures.

Political and economic conditions in the United States and elsewhere may materially adversely affect our business and results of operations.

As a financial guarantee company, our insured exposures and our results of operations can be materially affected by general political and economic conditions, both in the U.S. and around the world. General global unrest, including fraud, terrorism, catastrophic events, natural disasters, pandemics such as the novel coronavirus COVID-19 (“COVID-19”), or similar events could disrupt the economy in the U.S. and other countries where we have insured exposure or operate our businesses. See Risk Factor “The pandemic caused by the spread of COVID-19 could have an adverse impact on our financial condition and results of operations and other aspects of our business” under “Legal, Regulatory and Other Risk Factors” for additional information on COVID-19. In certain jurisdictions outside the U.S., we face higher risks of governmental intervention through nationalization or expropriation of assets, changes in regulation, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the exposures we insure or reputational harm.

Budget deficits at all levels of government in the U.S., recessions, increases in corporate, municipal, sovereign, sub-sovereign or consumer default rates and other general economic conditions may adversely impact the performance of our insured portfolios and the Company’s investment portfolio. In addition, we are exposed to correlation risk as a result of the possibility that multiple credits will experience losses as a result of any such event or series of events, in particular exposures that are backed by revenues from business and personal travel, such as aircraft securitizations and bonds backed by hotel taxes.

The pandemic caused by the spread of COVID-19 could have an adverse impact on our financial condition and results of operations and other aspects of our business.

The number of COVID-19 cases, hospitalizations and deaths continue to decrease. Nevertheless, the current and longer-term impacts of the virus, including those caused by any new strains, continues to remain uncertain. The extent of any impact on our insured or investment portfolios, or general business operations, will depend on future developments which are highly uncertain, including but not limited to the severity of the pandemic, and the effectiveness of financial and regulatory actions taken at the state and federal levels to contain or address its impact. While the attendant governmental policy and social responses, continue to combat the spread and severity of the COVID-19 pandemic and related public health issues, the effectiveness of such measures cannot be assured. We also cannot predict how political, legal and regulatory responses to the pandemic, such as the nature of and conditions to aid states or municipalities, tax policy, or programs designed to assist impacted individuals, will impact our business.

Federal legislation passed to combat the economic impact of the pandemic has been significant, including the $2.7 trillion Coronavirus Aid, Relief, and Economic Security (“CARES”) Act in 2020, which included significant aid to offset COVID-19 related expenditures of public sector issuers including states, territories, healthcare, higher education and transportation issuers. Also, the Federal Reserve has shown willingness to promote the stability of the financial system that is directly supportive of the municipal market, such as the Municipal Lending Facility created in 2020. In March of 2021, Congress passed the American Rescue Plan Act of 2021, a $1.9 trillion economic stimulus package designed to further stabilize the financial system. This law allocated nearly $350 billion of aid to state and local governments to replace lost revenues resulting from the pandemic with relatively few restrictions on use of said funds. While the unprecedented amount of federal aid directed to state and local municipalities has blunted the impact of the pandemic, not all of the issuers of the obligations in National’s insured portfolio are eligible to receive it. Further, if issuers are unable to raise taxes, reduce spending, or receive federal assistance, the Company may experience new or additional losses or impairments on those obligations, which could materially and adversely affect its business, financial condition and financial results.

Item 1A. Risk Factors (continued)

Any adverse developments on macroeconomic factors resulting from COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the inability to raise taxes or limit spending, could materially and adversely affect the performance of our insured portfolio and our business, financial condition and results of operations. Specifically, such adverse effects could impact whether the individual municipal or structured finance credits we insure will be able to continue to meet their debt service obligations or avoid long term impairment, and could therefore result in an increase in defaults and on the amount of claims we will be obligated to pay on the related insurance policies. Such increases could cause us to revise our loss projections or other guidance we have previously provided. In particular, certain insured municipal credits, including those relating to the Commonwealth of Puerto Rico and its instrumentalities, could come under stress depending in part on the nature of the taxes, fees and revenues pledged to debt repayment and their sensitivity to the related slowdown in economic activity. Further, those structured finance policies in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities, could be negatively impacted by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. These transactions are also subject to servicer risks, which relate to problems with the transaction’s servicer that could adversely impact performance of the underlying assets. Additionally, several of our credits, particularly within our international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Insurance Corporation will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. Further, any national recession that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to all of our insured portfolios.

Additionally, our liquidity position and our investment portfolios (and, specifically, the valuations of investment assets we hold) have been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome. Changes in interest rates, reduced market liquidity or a continued slowdown in U.S. or global economic conditions may also adversely affect the values and cash flows of these assets or the investment portfolio yield and income. Further, extreme market volatility may impact our ability to efficiently and effectively react to market events. Market dislocations, decreases in observable market activity or unavailability of information, in each case, arising from the spread of COVID-19, may restrict our access to key inputs used to derive certain estimates and assumptions made in connection with estimating the values of financial instruments within our financial reporting or otherwise, including estimates and changes in long term macro-economic assumptions relating to our estimate of current expected credit losses on our financial assets. Restricted access to such inputs may make our financial statement balances and estimates and assumptions used to run our business subject to greater variability and subjectivity.

Further, while we have implemented operational risk management and business continuity plans and taken preventive measures and other precautions that address the pandemic, there can be no assurance that such measures will prevent a material impact on our business operations. While our employees are no longer working remotely in general, should we once again be required, or choose, to close our offices, an extended period of remote work arrangements could introduce operational risks including but not limited to cybersecurity risk, and impair our ability to manage our business. We also outsource certain business activities to third parties, and thus rely upon the successful implementation and execution of those third parties’ business continuity plans as well. If one or more of the third parties to whom we outsource certain business activities experience operational failures as a result of the impacts from the spread of COVID-19, it may have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

MBIA Corp. Risk Factors

Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured transactions may materially and adversely affect MBIA Insurance Corporation’s statutory capital and its ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if the NYSDFS concludes that MBIA Insurance Corporation will not be able to pay expected claims.

MBIA Insurance Corporation is particularly sensitive to the risk that it will not have sufficient capital or liquid resources to meet contractual payment obligations when due or to make settlement payments in order to terminate insured exposures to avoid losses. While management’s expected liquidity and capital forecasts for MBIA Insurance Corporation reflect adequate resources to pay expected claims, there are risks to the capital and liquidity forecasts as MBIA Insurance Corporation’s remaining insured exposures and its expected salvage recoveries are potentially volatile. Such volatility exists in the amount of excess spread, and other salvage that MBIA Insurance Corporation may collect, including in particular recoveries on the claims it paid in respect of the insured notes issued by Zohar collateralized debt obligation (“CDO”) 2003-1, Limited and Zohar II 2005-1 CDO (collectively, the “Zohar Claims Payments”), and the exposure in its remaining insured portfolio, which could deteriorate and result in significant additional loss reserves and claim payments, including claims on insured exposures that in some cases may require large bullet payments.

Item 1A. Risk Factors (continued)

In July of 2019, MBIA Insurance Corporation consummated a financing facility (the "Refinanced Facility") between MZ Funding LLC ("MZ Funding") and certain purchasers, pursuant to which the purchasers or their affiliates (collectively, the "Senior Lenders"), agreed to refinance the outstanding insured senior notes of MZ Funding, and MBIA Inc. received amended subordinated notes of MZ Funding. In connection with the Refinanced Facility, the Senior Lenders purchased new senior notes issued by MZ Funding with an aggregate principal amount of $278 million. These notes were repaid in September 2021. In addition, MBIA Inc. received amended subordinated notes issued by MZ Funding with an aggregate principal amount of $54 million. The Refinanced Facility is described in more detail under the "Liquidity—MBIA Corp. Liquidity" section in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

While MBIA Insurance Corporation believes that it will receive substantial recoveries on the loans made to, and equity interests in, companies that, until late March of 2020, were purportedly controlled and managed by the sponsor and former collateral manager of the Zohar CDOs referenced above (collectively, the "Zohar Collateral"), recoveries thus far on the Zohar CDOs' interests in the portfolio companies have been below expectations, and there remains significant uncertainty with respect to the realizable value of the remaining Zohar Collateral. Further, as the monetization process at the remaining portfolio companies continues to unfold in coordination with the new directors and managers in place, and new information concerning the financial condition of the portfolio companies is disclosed, we may again revise our expectations for recoveries. There can be no assurance that such information will not lead to material revisions to our expectations for the recovery from any individual portfolio company.

If the amount of recoveries on the Zohar Collateral falls below our expectations, MBIA Insurance Corporation would likely incur substantial additional losses, which could materially impair its statutory capital and liquidity. Further, MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under its other issued policies, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the NYIL and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. As noted, however, given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any material economic long-term liquidity impact on MBIA Inc.

MBIA Corp. insures certain transactions that continue to perform poorly and increased losses or a delay or failure in collecting expected recoveries may materially and adversely affect its financial condition and results of operations.

MBIA Corp. insures certain structured finance transactions that remain volatile and could result in additional losses, which could be substantial. MBIA Corp. has also recorded significant loss reserves on its residential mortgage-backed securities ("RMBS") and collateralized debt obligation ("CDO") exposures, and there can be no assurance that these reserves will be sufficient, in particular if the economy deteriorates. These transactions are also subject to servicer risk, which relates to problems with the transaction's servicer that could adversely affect performance of the underlying assets. As of September 30, 2021, MBIA Corp. recorded expected excess spread recoveries (the difference between interest inflows on assets and interest outflows on liabilities) of $94 million, including recoveries related to consolidated VIEs, on our RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, $46 million is included in "Insurance loss recoverable" and $48 million is included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. The aggregate amount of excess spread depends on the future loss trends, which include future delinquency trends, average time to charge-off/liquidate delinquent loans, the future spread between Prime and the LIBOR interest rates, and borrower refinancing behavior (which may be affected by changes in the interest rate environment), that results in voluntary prepayments. Excess spread also includes subsequent recoveries on previously charged-off loans associated with insured second-lien RMBS securitizations. There can be no assurance that this recovery will be received in its entirety or in the expected timeframe.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents purchases or repurchases made by the Company or National in each month during the third quarter of 2021:

Month	Total Number of Shares Purchased [(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
July	75	$12.03	-	$ -
August	83	11.83	-	-
September	107	11.03	-	-
	265	$11.56	-	$ -

(1) Represents shares repurchased in open market transactions as investments in the Company's non-qualified deferred compensation plan.

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.
*101.INS.	XBRL Instance Document - the instance document does not appear in the Interactive Data File because iXBRL tags are embedded within the Inline XBRL document.
*101.SCH.	XBRL Taxonomy Extension Schema Document.
*101.CAL.	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF.	XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB.	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE.	XBRL Taxonomy Extension Presentation Linkbase Document.
*104.	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.

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 3, 2021	/s/ Anthony McKiernan Anthony McKiernan Chief Financial Officer
Date: November 3, 2021	/s/ Joseph R. Schachinger Joseph R. Schachinger Controller (Chief Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Fallon, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021 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 any change in the Company’s internal control over financial reporting that occurred during the Company’s third quarter of 2021 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/ William C. Fallon

William C. Fallon
Chief Executive Officer
November 3, 2021

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony McKiernan, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021 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 any change in the Company’s internal control over financial reporting that occurred during the Company’s third quarter of 2021 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/ Anthony McKiernan

Anthony McKiernan
Chief Financial Officer
November 3, 2021

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 Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William C. Fallon, 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 results of operations of the Company.

/s/ William C. Fallon
William C. Fallon
Chief Executive Officer
November 3, 2021

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 Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony McKiernan, 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 results of operations of the Company.

/s/ Anthony McKiernan
Anthony McKiernan
Chief Financial Officer
November 3, 2021