REPORT ON EXAMINATION

OF THE

MBIA INSURANCE CORPORATION

AS OF

DECEMBER 31, 1999

DATE OF REPORT APRIL 20, 2001

EXAMINER GLENDA M. GALLARDO

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

April 20, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21598 dated August 23, 2000 attached hereto, I have made an examination into the condition and affairs of the MBIA Insurance Corporation as of December 31, 1999, and submit the following report thereon.

The examination was conducted at the Company's home office located at 113 King Street, Armonk, New York, 10504.

Wherever the designations "the Company" or "MBIA Corp." appear herein without qualification, they should be understood to indicate the MBIA Insurance Corporation. In addition, wherever the designation the "parent company" appears herein without qualification, it should be understood to indicate MBIA Inc.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1995. This examination covered the four year period from January 1, 1996 through December 31, 1999 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves, unearned premium reserves, contingency reserves, and reinsurance.

The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, which are deemed to require explanation or description.

2. DESCRIPTION OF THE COMPANY

The Company was incorporated as the National Bonding and Accident Insurance Company under the laws of the State of New York in March 1968. In December 1982, the MBL Holding Corporation, a wholly-owned subsidiary of the Mutual Benefit Life Insurance Company, Newark, New Jersey, purchased all of the outstanding capital stock of National Bonding and Accident Insurance Company. In December 1986, the Company was sold to MBIA Inc. adopting the name of Municipal Bond Investors Assurance Corporation. In April 1995, the Company changed its name to MBIA Insurance Corporation.

MBIA Insurance Corporation is the successor to the business of the Municipal Bond Insurance Association, a consortium of five multi-line insurers, which began writing municipal bond insurance in 1974. Four of the five member companies, the Aetna Casualty and Surety Company, Fireman's Fund Insurance Company, Aetna Insurance Company (a Cigna company), and the Continental Insurance Company, participated in the formation of the Company. The Travelers Indemnity Company, the fifth member elected not to join. MBIA Insurance Corporation assumed all of the four predecessor member companies' outstanding municipal bond insurance portfolio. In 1993, MBIA Corp. assumed the remaining business from the fifth member of the Association.

On February 17, 1998, MBIA Inc. completed a merger with CapMAC Holdings, Inc., the parent company of Capital Markets Assurance Corporation ("CapMAC"). On March 19, 1998, the board of directors of MBIA Inc. voted to contribute the common stock of CapMAC to MBIA Insurance

Corporation. Then, effective April 1, 1998, CapMAC became a wholly-owned subsidiary of MBIA Insurance Corporation.

MBIA Insurance Corporation provides financial guaranty insurance to municipalities, governmental authorities and financial institutions for bonds and obligations those entities issue. Existence of such insurance results in an upgrading of an issuer's rating to the highest investment grade. Policies are non-cancellable and remain in effect until the obligation matures. The obligations that MBIA Corp. insures are primarily sold in the new-issue and secondary markets, or those held in insured unit investment trusts (“UIT”).

The municipal obligations that MBIA Corp. insures include both tax-exempt and taxable indebtedness of states, counties, cities, utility districts, and other political subdivisions, as well as airports, higher education and health care facilities. The asset-backed or structured finance obligations typically consist of securities that are payable from, or which are tied to the performance of a specified pool of assets that have a defined cash flow. These types of obligations include residential and commercial mortgages, consumer loans, corporate loans and bonds, and equipment and real property leases.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-five members. As of the examination date, the board of directors was comprised of thirteen members. The board met at a minimum of four times during each calendar year. The directors as of December 31, 1999, were as follows:

Name and Residence	Principal Business Affiliation
Joseph W. Brown Bedford Corners, NY	Chairman and Chief Executive Officer, MBIA Insurance Corporation
W. Thacher Brown Devon, PA	Managing Director, MBIA Insurance Corporation
Neil G. Budnick Stamford, CT	Vice Chairman and Chief Financial Officer, MBIA Insurance Corporation
John B. Caouette Pound Ridge, NY	Vice Chairman, MBIA Insurance Corporation and President, Capital Markets Assurance Corporation
Gary C. Dunton Ridgefield CT	President and Chief Operating Officer, MBIA Insurance Corporation
Margaret D. Garfunkel Scarsdale, NY	Managing Director, MBIA Insurance Corporation
Louis G. Lenzi Roosevelt Island, NY	Managing Director, Deputy General Counsel and Assistant Secretary, MBIA Insurance Corporation
Kevin D. Silva Manhasset, NY	Managing Director and Chief Administrative Officer, MBIA Insurance Corporation
Elizabeth B. Sullivan Patterson, NY	Director of the Internal Audit Unit*, MBIA Insurance Corporation
Christopher W. Tilley Larchmont, NY	Managing Director, MBIA Insurance Corporation
Richard L. Weill Mt, Kisco, NY	Vice Chairman and Secretary, MBIA Insurance Corporation
Ram D. Wertheim Westport, CT	Managing Director, General Counsel and Assistant Secretary, MBIA Insurance Corporation
Ruth M. Whaley Scarsdale, NY	Managing Director and Chief Risk Officer, MBIA Insurance Corporation

*This is the current position held by the officer.

The minutes of all of the meetings of the board of directors and committees thereof held during the examination period were reviewed. This review indicated that board meetings were generally well attended.

As of December 31, 1999, the principal officers of the Company were as follows:

Name	Title
Joseph Warner Brown, Jr.	Chairman and Chief Executive Officer
Neil George Budnick	Vice Chairman and Chief Financial Officer
Gary Charles Dunton	President
Joseph Lowndes Sevely	Treasurer
Richard Leslie Weill	Vice Chairman
Louis George Lenzi	Senior Vice President, General Counsel and Secretary
John Bernard Caouette	Vice Chairman
Elizabeth Breen Sullivan	Managing Director and Controller

B. Territory and Plan of Operation

As of December 31, 1999, the Company was licensed to write business in all fifty states, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico and the US Virgin Islands, France and Spain. The Company also writes business in Latin America, Asia and Europe.

The following schedule reflects direct premiums written countrywide as well as direct premiums written in New York State and the percentage which the New York premium bears to the countrywide premiums:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Percentage of US Premiums Written in New York State
1996	$ 84,660,967	$ 415,023,292	20.40%
1997	$130,634,022	$ 505,036,829	25.87%
1998	$194,479,493	$ 526,561,575	36.93%
1999	$184,266,135	$ 472,184,568	39.02%

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
16 (C,D, E,F)	Surety
17 (A)	Credit insurance
25	Financial Guaranty insurance

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, MBIA Insurance Corp. is required to maintain a minimum surplus to policyholders in the amount of $66,400,000.

MBIA Corp. is the parent company of MBIA Insurance Corp. of Illinois ("MBIA Illinois"), CapMAC and MBIA Assurance, a French subsidiary that writes financial guaranty insurance in the countries of the European Community.

MBIA Assurance writes policies insuring sovereign risk, asset-backed transactions, public infrastructure financings, and certain collateralized obligations of corporations and financial institutions.

MBIA Insurance Corp. of Illinois and CapMAC also write financial guaranty insurance, but their operations are currently in a run-off mode.

The Company currently maintains branch offices in France, Spain and Singapore.

In late 1995, the Company entered into a joint venture agreement with AMBAC Indemnity Corporation, for the purpose of jointly marketing financial guaranty insurance internationally. On March 21, 2000, the two companies restructured the joint venture and agreed to begin marketing financial guaranty insurance independently from each other. Under the restructuring, both companies also agreed to continue to maintain certain reinsurance arrangements for international business until the end of 2001.

Until the early 1990's the Company's marketing strategy targeted mostly the municipal government sector. By the mid 1990's, MBIA Corp. began to write insurance policies for the structured finance and asset-backed market. As explained elsewhere in this report, structured finance and asset-backed obligations are secured by, or payable from a specific pool of assets having a defined cash flow.

C. Reinsurance

Effective April 1, 1998, the Company and CapMAC entered into a reinsurance agreement under which MBIA Corp. agreed to reinsure 100% of CapMAC's net portfolio exposure and its related contingency reserves, and unearned premium liability.

As of December 31, 1998, the Company had in place a reinsurance agreement with its subsidiary, MBIA Illinois, whereby MBIA reinsured 90% of the net insured obligations of the subsidiary. On January 1, 1999, a new reinsurance agreement replacing the 90% Quota Share Cession was executed.

Under this agreement, MBIA Illinois ceded 100% of its net case reserves, unearned premium and contingency reserves to MBIA Corp.

The Company's assumed business represents approximately 13% of its total premium writings for year 1999. Assumed business reflects assumptions from CapMAC, MBIA Assurance, MBIA Illinois, the Association, and AMBAC Indemnity Corporation. About 57% of the assumptions relate to business ceded by CapMAC pursuant to the reinsurance agreement described above.

The Schedule F data as contained in the Company's Annual Statements filed for the years within the examination period was found to accurately reflect the reinsurance transactions with the exception of Schedule F- Part 8, which contained certain information that was not reported according to annual statement instructions. This issue is explained further in this section.

The examiner reviewed all the ceded reinsurance contracts that the Company had in effect as of the examination year. All contracts contained the required standard clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of the examination date, the Company has the following reinsurance program in place:

Treaty	Cession
Comprehensive Automatic Treaty Reinsurance Agreement*: 63% Authorized 37% Unauthorized	80 % participation through five reinsurers on domestic cessions and 74.75% on international cessions. Under the Comprehensive Automatic Agreement, the Company may cede certain percentages of domestic and international insured issues that exceed a minimum par amount up to a specified maximum amount. * The remaining 20% cession for this treaty is ceded through the special risk facility program described further herein.
Quota Share Agreement 100% Authorized	100% participation of the Company's domestic gross portfolio on the business classified as corporate utility debt guaranty insurance, debt service reserve fund surety bonds, investment grade asset-backed securities, guaranty insurance contracts, investment grade corporate debt, investment grade structured finance, municipal bond or municipal note insurance.
Stop Loss Reinsurance Agreement 42.86% Authorized 57.14% Unauthorized	Reinsurers agree to indemnify the Company for their proportionate share of the Company's ultimate net loss in excess of the attachment point, which at 12/31/99 was $700,000,000. Coverage is provided with respect to the Company's net retained lines of all bonds classified by the Company as domestic or international asset-backed obligations, mortgage-backed obligations and pooled corporate obligations, which are in effect during the term of the agreement including any run-off period. Reinsurance participation is distributed among three reinsurers.

Special Risk Facility Reinsurance Agreement

This agreement provides coverage for all policies in force attaching on or after the effective date of the contract, which may be specially accepted by the reinsurer in writing or accepted automatically through the reinsurer's participation in the comprehensive automatic treaty described above.

The Company must cede a certain minimum adjusted gross premium over the course of the first six years of this agreement to the reinsurer.

Liability under this contract is ceded 100% to an unauthorized reinsurer.

Second Special Risk Facility Reinsurance Agreement

This agreement provides coverage for all policies in force or attaching on or after August 1, 1998, specially accepted by the reinsurer in writing or accepted automatically through the reinsurer's bound line on any applicable treaty reinsurance (i.e. comprehensive automatic treaty). The contract is subject to certain warranties that the Company has to satisfy throughout the six-year contract term such as the requirement of ceding to the reinsurer a pre-determined dollar amount of premium cessions and of ceding premiums, which distribution must follow specific percentages according to bond type.

Liability under this contract is ceded 100% to an unauthorized reinsurer.

Facultative Cessions

MBIA Corp. also enters into facultative reinsurance arrangements from time to time primarily in connection with issues, which, because of their size, require additional capacity beyond MBIA Corp.'s retention and treaty limits. Under these facultative arrangements, portions of MBIA Corp.'s liabilities are ceded on an issue-by-issue basis.

The Company utilized a type of facultative reinsurance known as "First Loss Reinsurance". Under these contracts MBIA Corp. cedes policy specific exposure on a facultative and on a first dollar of loss basis. These cessions relate to insured obligations backed by diversified pools of receivables with very low loss severity expectations. The objective is to increase the credit quality of the net exposure retained by the Company to meet its internal underwriting guidelines.

Special Per Occurrence Excess of Loss Reinsurance Agreement

In late 1998, the Company experienced a significant loss caused by the default of a series of bonds issued by a Pennsylvania hospital system. The bonds defaulted as a result of the bankruptcy of the parent company of the hospital system. In order to mitigate the financial impact of the incurred loss, the Company negotiated and entered into a special per occurrence excess of loss reinsurance agreement with three major reinsurers. The agreement provides for the reinsurers to cover MBIA's incurred loss for an amount of up to $170,000,000. The transaction was treated as retroactive reinsurance and reported accordingly in the Company's 1998 annual statement. This agreement is still in effect; however, the Company has ascertained that all obligations derived from such agreement for both the Company and reinsurers have been met.

Third Special Risk Facility and Semi Automatic Facultative Reinsurance Agreements

In late 1998, the Company put in place the captioned agreements to carry out a management decision of reducing certain exposure of the Company's insured portfolio.

These contracts are still in effect; however, the Company's premium cession requirements under both contracts have been fulfilled.

Schedule F Part-8

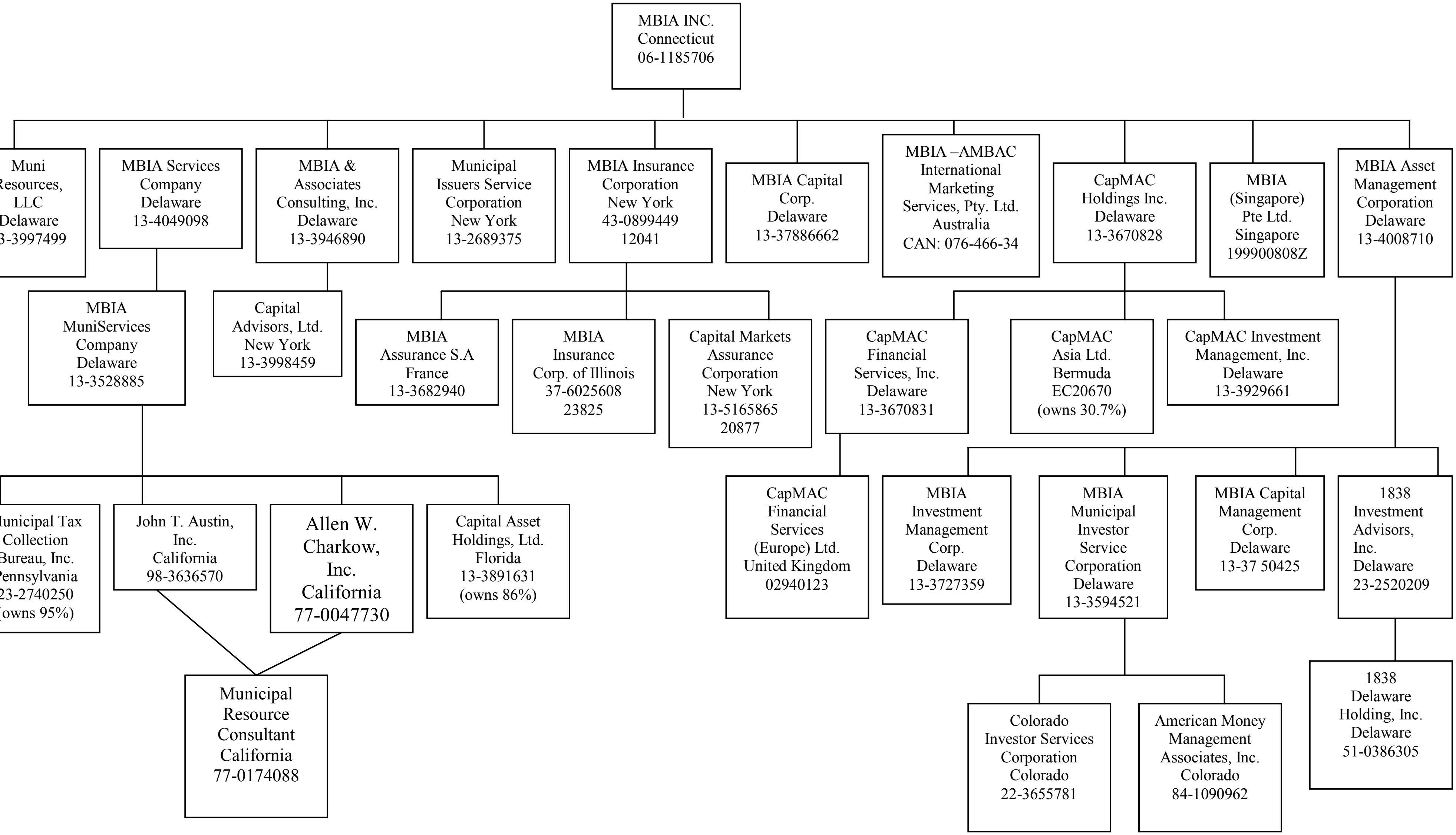
The captioned schedule is used to restate all balance sheet accounts to identify the net credit taken by an insurer for its ceded reinsurance. The examination review of the schedule disclosed that the

Company reported all accounts that are subject to reinsurance gross of ceded reinsurance with the exception of its contingency reserve account.

It is recommended that the Company restate its contingency reserve account to reflect the reinsurance credit taken on such liability.

D. Holding Company System

The Company is a wholly-owned subsidiary of MBIA Inc. As of December 31, 1999, the organization chart of the holding company system is as follows:


MBIA INC. Connecticut 06-1185706
Muni esources, LLC Delaware 3-3997499
MBIA Services Company Delaware 13-4049098
MBIA & Associates Consulting, Inc. Delaware 13-3946890
Municipal Issuers Service Corporation New York 13-2689375
MBIA Insurance Corporation New York 43-0899449 12041
MBIA Capital Corp. Delaware 13-37886662
MBIA –AMBAC International Marketing Services, Pty. Ltd. Australia CAN: 076-466-34
CapMAC Holdings Inc. Delaware 13-3670828
MBIA (Singapore) Pte Ltd. Singapore 199900808Z
MBIA Asset Management Corporation Delaware 13-4008710
MBIA MuniServices Company Delaware 13-3528885
Capital Advisors, Ltd. New York 13-3998459
MBIA Assurance S.A France 13-3682940
MBIA Insurance Corp. of Illinois 37-6025608 23825
Capital Markets Assurance Corporation New York 13-5165865 20877
CapMAC Financial Services, Inc. Delaware 13-3670831
CapMAC Asia Ltd. Bermuda EC20670 (owns 30.7%)
CapMAC Investment Management, Inc. Delaware 13-3929661
unicipal Tax Collection Bureau, Inc. Pennsylvania 23-2740250 (owns 95%)
John T. Austin, Inc. California 98-3636570
Allen W. Charkow, Inc. California 77-0047730
Capital Asset Holdings, Ltd. Florida 13-3891631 (owns 86%)
CapMAC Financial Services (Europe) Ltd. United Kingdom 02940123
MBIA Investment Management Corp. Delaware 13-3727359
MBIA Municipal Investor Service Corporation Delaware 13-3594521
MBIA Capital Management Corp. Delaware 13-37 50425
1838 Investment Advisors, Inc. Delaware 23-2520209
Municipal Resource Consultant California 77-0174088
Colorado Investor Services Corporation Colorado 22-3655781
American Money Management Associates, Inc. Colorado 84-1090962
1838 Delaware Holding, Inc. Delaware 51-0386305

The Company is party to several agreements with members of its holding company group as follows:

Tax Allocation Agreement

The Company is party to a tax allocation agreement with its parent company and members of its holding company group. On August 31, 1999, a supplement to the agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law. The supplement contained certain provisions that were added to the agreement in order for MBIA Illinois to be in compliance with all applicable Illinois laws and regulations. The examination review of the asset account Federal Income Tax Recoverable disclosed that the Company did not comply with certain provisions of the tax allocation agreement as follows:

Section 4(b) of the agreement states that each Subsidiary of MBIA Corp. shall pay the Company an amount equal to the federal income taxes shown as due on the separate return of such subsidiary reduced by any prepaid amounts made by the subsidiary. Such payments shall be made on or before the date on which the consolidated federal income tax return for the group is filed. It was noted however, that the Company was not reimbursed until after the filing of the tax returns.

Section 4(c) of the agreement related to payment of installments of estimated federal income taxes, requires that each subsidiary shall pay the Company an amount equal to the amount of the installment due which such subsidiary would have been required to pay as an estimated payment of federal income taxes on such date as if such subsidiary were filing a separate federal income tax return. The review disclosed that MBIA Corp. is the only entity that makes the estimated payments throughout the taxable year.

Further, the agreement as written does not specifically name all the participating entities that are party to the agreement, nor does it provide how balances between MBIA Corp. and entities other than the Company's subsidiaries should be settled.

Based on the foregoing, it is recommended that the Company comply with Section 4(b) and (c) of its tax allocation agreement. It is further recommended that the tax allocation agreement be revised to specifically indicate the names of all the participating entities and their direct responsibilities.

Expense Allocation Agreement

The Company is party to an expense allocation agreement dated January 1, 1993, with MBIA Inc. and several of its subsidiaries. The agreement permits that personnel employed by one entity may perform services on behalf of some or all of the other entities, and equipment and facilities owned by one of the parties may be used by some or all of the other parties. The agreement also provides that the cost of personnel, rent, or equipment used by each corporation, should be proportionately allocated based upon the proportionate share of the services rendered or of the equipment usage.

This agreement was submitted to the Department pursuant to Section 1505 of the New York Insurance Law.

Investment Management Agreement

In 1995 the Company received approval from the Department to enter into an investment services agreement with MBIA Securities Corp., now known as MBIA Capital Management Corp. ("CMC"), at which point the management of a substantial portion of the Company's investment portfolio was transferred to CMC. In 1996, CMC acquired full management of MBIA Corp's investment portfolio.

Examination review indicated that the fee paid to CMC had been revised, and that the revised fee was not submitted to this Department for review and non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law. It is recommended that the Company submit the revised fee to the Department for review and non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.

Repurchase Agreements between MBIA Corp. , MBIA Inc. and MBIA Investment Management Corp.

Effective June 1, 1996, the Company entered into two separate repurchase agreements, one with the parent company and a second with MBIA Investment Management Corp. ("MBIA Investment"), an affiliated company. The agreements were put in place to allow the Company to enter into transactions with MBIA Inc. or MBIA Investment, as the case may be, for the sale of certain securities subject to the right of repurchase ("Repurchase Transactions"), and the purchase of certain securities, subject to the seller's right of repurchase ("Reverse Repurchase Transactions").

The agreements were submitted to the Department pursuant to Section 1505 of the New York Insurance Law.

Management Agreement between MBIA Corp. and CapMAC

On January 31, 2000, a management agreement between the Company and its subsidiary, CapMAC, was executed. The agreement empowers MBIA Corp. to act as CapMAC's manager and to provide and perform all the necessary administrative, production, marketing, underwriting, accounting and claim functions with respect to CapMAC's business operations and to act in the name of and on its behalf. On May 10, 2000, the agreement was approved by the Department pursuant to Section 1505 of the New York Insurance Law.

Management Agreement between MBIA Corp. and MBIA Insurance Corporation of Illinois

Effective June 1, 2000, a management agreement between the Company and MBIA Insurance Corp. of Illinois ("MBIA Illinois") was executed. This agreement replaced the management agreement previously in effect and filed December 31, 1989, between the two companies. Under the terms of the agreement, MBIA Corp. agrees to perform all administrative, production, accounting, and claim services for and on behalf of MBIA Illinois. The agreement has a term of ten years with an option to be renewed for additional two-year periods upon the written agreement of both parties.

Reinsurance Agreements with CapMAC and MBIA Illinois

Effective April 1, 1998, the Company entered into a reinsurance agreement with CapMAC. Pursuant to the agreement, MBIA Corp. assumed 100% of CapMAC's net insured exposure as well as its unearned premiums and contingency reserves. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

On January 1, 1999, a reinsurance agreement between the Company and MBIA Illinois was executed. Under this agreement, MBIA Illinois ceded 100% of its net case reserves, unearned premium and contingency reserves to MBIA Corp. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Advances to Parent

Examination review indicated that during 2000, the Company advanced approximately $64,000,000 to its parent company. Such advances were used by the parent to pay certain of its operating expenses. There was no written agreement between the Company and its parent for these advances. Additionally, the Company was required to notify the Superintendent of this transaction pursuant to the requirements of Section 1505(d)(1) of the Insurance Law, which states as follows:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period: (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer' admitted assets at last year-end;

It is recommended that the Company formalize any and all agreements with members of its holding company system. Furthermore, it is recommended that the Company be compensated for any lost investment income as a result of making these advances to its parent company.

Settlement of Inter-Company Balances

Examination review of the balances reported by the Company under the caption "Receivable from parent, subsidiaries and affiliates" were not always being settled on a timely basis. A portion of the amount reported by the Company was more than ninety days past due. While the past due amount was not considered material to the financial condition of the Company, it is recommended that the Company comply with the provisions of Department Circular Letter 15 (1975), which requires that inter-company balances more than ninety days past due should be reported as non-admitted assets in the Company's filed annual statements. It is further recommended that all inter-company balances be settled in a timely manner.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.19:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	70%

Premiums in course of collection to surplus as regards policyholders	0.11%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$ 241,077,799	19.60%
Loss adjustment expenses incurred	15,727,401	1.28
Other underwriting expenses incurred	338,312,882	27.51
Net Underwriting gain	634,783,924	51.61
Premiums earned	$1,229,902,006	100.00%

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law states in part:

> "Any amount (except an amount upon which an instrument has been issued which upon its face is non-negotiable by the insured) payable to a resident of this state on or because of a policy of insurance other than life insurance… shall be deemed abandoned property if unclaimed for three years by the person entitled thereto… such abandoned property shall be reported to the comptroller.. on or before the first day of April in each succeeding year".

The examination review of the Company's compliance with the law cited above disclosed that while the Company did not have any abandoned property to report, no reports were filed with the Office of the State Comptroller. Insurers that neither hold nor owe abandoned property are nevertheless required to submit an abandoned property report.

It is recommended that the Company annually submit abandoned property reports to the State Comptroller in accordance with Section 1316 of the New York Abandoned Property Law.

G. Accounts and Records

Loan to MBIA Inc.

In January 1999 the Company made a loan to its parent, MBIA Inc., in the amount of $10,000,000. It was noted however, that this loan was not approved by the board of directors as required by Section 1411(a) of the New York Insurance Law which reads as follows:

> "No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law, which requires that loans be approved and authorized by the Company's board of directors.

Disaster Recovery Plan

The Company does not have in place a comprehensive corporate disaster recovery or continuity plan that would outline procedures to prepare the Company for continuing critical business operations in the event of a disastrous occurrence affecting the daily operations of its main office, subsidiaries, or any of its branch offices.

The previous report on examination contained a recommendation that the Company formalize such a plan but such recommendation was not implemented. It is strongly recommended that the Company place high priority on this project and develop and establish a written plan that would enable its personnel to respond effectively to an incident that may disrupt normal business activities and system processings. Once this plan is established, the Company should perform periodic testing to ensure that formulated procedures will operate as intended.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. The statement is the same as the balance sheet filed by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$5,889,461,404	$	$	$5,889,461,404
Common Stocks	198,995,350	101,745,545		300,740,895
Real Estate	82,911,003			82,911,003
Cash and Short-term investments	340,218,032			340,218,032
Other invested assets	220,073,514			220,073,514
Premiums and agents' balances in course of collection (after deducting ceded balances of $6,003,308)	(2,531,926)		227,105	(2,759,031)
Reinsurance recoverable on loss and loss adjustment expense payments	6,320			6,320
Federal income tax recoverable	56,313,735			56,313,735
Electronic data processing equipment	22,192,312		9,199,326	12,992,986
Interest, dividends and real estate income due and accrued		89,483,975		89,483,975
Receivable from parent, subsidiaries and affiliates	36,324,745			36,324,745
Secured notes receivable	10,000,000			10,000,000
Prepaid expenses & other non-admitted assets	7,018,733		7,018,733	
Surrender value of life insurance	3,231,044			3,231,044
Receivable for investments sold	2,668,429			2,668,429
Miscellaneous accounts receivable	1,951,934			1,951,934
Contingent commissions receivable	$1,220,608			1,220,608
Total assets	$6,870,055,237	$191,229,520	$16,445,164	$7,044,839,593

Liabilities

Losses	$199,471,807
Loss adjustment expenses	4,984,496
Contingent commissions	3,280,744
Other expenses	45,679,762
Taxes, licenses & fees	(834,873)
Unearned premiums	2,375,822,863
Amounts withheld or retained by company for account of others	33,718,090
Payable for securities	18,947,813
Contingency reserve	1,738,729,623
Securities sold under agreements to repurchase	207,481,354
Bank overdraft	4,191,252
Total liabilities	4,631,472,931
Common capital stock	15,000,000
Gross paid in and contributed surplus	1,106,058,681
Unassigned surplus	1,292,307,981
Surplus as regards policyholders	2,413,366,662
Total liabilities and surplus	$7,044,839,593

NOTE: The Internal Revenue Service completed its audits of the consolidated income tax returns filed on behalf of the Company for tax years 1996-1997. All material adjustments, if any, made subsequent to date of the examination and arising from said audits are reflected in the financial statements included in this report. Audits covering tax years 1998-1999 are currently in progress while those covering tax years 2000 and 2001 are yet to commence. The examiner is unaware of any potential exposure of the Company to any tax assessment that may result from such audits and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $1,139,228,387 during the four-year examination period January 1, 1996 through December 31, 1999, detailed as follows:

Underwriting Income:		
Premiums earned:		$1,229,902,006
Deductions:		
Losses incurred	$241,077,799	
Loss adjustment expenses incurred	15,727,401	
Other underwriting expenses incurred	338,312,882	
Total underwriting deductions		595,118,082
Net underwriting (gain)		$634,783,924
Investment Income		
Net investment income earned	$1,190,529,732	
Net realized capital gains	90,514,926	
Net investment gain		1,281,044,658
Other Income		
Retroactive reinsurance gain	$166,250,000	
Miscellaneous income	877,112	
Interest expense on securities sold	(30,222,209)	
Total other income		136,904,903
Net income before dividends to policyholders and federal & foreign income taxes		2,052,733,485
Federal & foreign income taxes incurred		388,537,837
Net income		$1,664,195,648

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, December 31, 1995 per report on examination			$1,274,138,275
Net income	$1,664,195,648	$	
Net unrealized capital gains	59,720,860		
Change in non-admitted assets		14,512,684	
Change in foreign exchange		9,568,213	
Surplus paid in	394,736,050		
Dividends to stockholders		209,000,000	
Allocation of surplus to contingency reserve		901,574,125	
Change in reserve for other contingencies	7,500,000		
Purchase of taxes & loss bonds	147,730,893		
Miscellaneous loss in surplus		42	
Total gains and losses	2,273,883,451	$1,134,655,064	
Net increase in surplus as regards policyholders			$1,139,228,387
Surplus as regards policyholders, December 31, 1999, per report on examination			$2,413,366,662

4. LOSSES

The examination liability of $199,471,807 for losses is the same as the liability reported by the Company in its 1999 filed annual statement.

In addition to these reserves, the Company is required to maintain a contingency reserve on all its insured obligations. The amount required for this reserve depends on the type of obligation being insured and it is established according to Section 6903(a) of the New York State Insurance Law. As of December

31, 1999, the Company reported a contingency reserve net of reinsurance in the amount of $1,738,729,623.

The examination analysis of the Company's loss reserves was based on information contained in the Company's internal records, financial statements and actuarial reports prepared by its outside actuary.

The Company has established a loss reserve committee that provides oversight of loss and loss adjustment expense reserves. The main functions of the loss reserve committee are to establish case reserves and to review information provided by the Insured Portfolio Management Group ("IPM") of troubled issues, which may occur in instances where an existing case reserve has been established, an initial case reserve is to be established, or cases where a reserve may be established in the future.

All outstanding issues insured by MBIA Corp. are monitored by the Insured Portfolio Management Group. The main function of the IPM is to detect any deterioration in credit quality which could interrupt the timely payment of interest and debt service of an insured obligation. All issues that have case reserves established are included in the Company's classified list. The Company's criteria for placing an issue in the classified list is having fairly certain knowledge of the amount of the loss and dates combined with the certainty that there is little or no opportunity to take remediation measures.

Remediation is one the activities that the IPM group performs. Once a potential problem with an insured issue has been identified, the IPM will take remedial actions to eliminate, reduce or limit the risk of loss for the Company.

As of December 31, 1999, the Company had established case reserves for fifteen claims. Approximately 78% of the Company's loss reserve relates to a claim caused by the default of a series of bonds issued by a Pennsylvania hospital system, the parent of which filed for bankruptcy in 1998. The reserve established on these obligations is reported net of salvage and discount. The second largest claim reflected in the Company's financials was related to the default of an obligation issued by a hospital that filed for bankruptcy in 1994. This claim was settled in 2000.

The review of the case loss reserves established by the Company for two asset-backed issues reported at year-end 2000 disclosed that the components of the case loss reserves are mainly to cover expense costs related to remedial measures taken by the Company to reduce the risk of an actual claim payment rather than to cover a claim payment.

It is recommended that the Company properly classify its loss reserves and allocate reserves associated with expenses related to cost containment as loss adjustment expenses.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of $4,984,496 for loss adjustment expense reserves is the same as the liability reported by the Company in its 1999 annual statements.

The examination analysis of the captioned reserve disclosed that the Company does not allocate any of its internal costs related to remedial measures taken to mitigate or reduce the risk of loss on obligations for which claim reserves have been established or claim payments have been made, to its loss adjustment expense account. Further, costs associated with the handling of claims were not classified as loss adjustment expenses.

Part 107.3 (b) of Department Regulation 30 provides the following guidelines:

> "*Loss adjustment expenses.* Loss adjustment expenses shall comprise all expenses incurred wholly or partially in connection with the adjustment and recording of policy claims, including the totals of the operating expense classification, claim adjustment services; the types of expenses included in claim adjustment services, when the activities resulting in such types of expenses are performed by employees; and including related expenses incurred in the following activities: estimating amounts of claims; paying and receiving; entering and keeping general and detail records; general clerical, secretarial, office maintenance, supervisory and executive duties; handling personnel, supplies, mail, etc. and all other activities reasonably attributable to the adjustment and recording of policy claims in connection with claims reported, paid and outstanding, and reinsurance thereon."

It is recommended that the Company allocate a percentage of its operating expenses that are associated with the handling, adjustment, and recording of losses to its loss adjustment expense item account.

For future filings with this Department, the Company should comply with the guidelines established in Statement of Statutory Accounting Principles No. 55 of the NAIC Accounting Practices and Procedures Manual that define and classify loss adjustment expenses into two categories, Defense and Cost Containment ("DCC") and Adjusting and Other ("AO"), and further explains that DCC costs should include expenses whether they may be internal or external.

6. MARKET CONDUCT ACTIVITIES

A review of the Company's market conduct activities was not conducted due to the limited scope of the examination.

7. SUBSEQUENT EVENT

On April 6, 2001, a California utility company filed bankruptcy proceedings. MBIA Corp. has insured certain bond obligations issued by the utility company. The direct net exposure for the Company on the debt service and interest is approximately $1.282 billion. The Company represents that approximately 61% of the direct net par exposure is secured by first mortgage bonds.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three comments and recommendations as follows (page numbers refer to the prior report):

ITEM			PAGE NO.
A.		Accounts and Records	
	i.	It is recommended that MBIA Inc. reimburse the Company for salary and office space as stated in the expense allocation agreement. The Company complied with this recommendation.	7
	ii.	It is recommended that the Company develop and establish a formalized written plan that outlines steps and procedures, to follow in case of a disaster; so as to prevent the loss of valuable data and to ensure the continuance of business operations with minimal interruption. The Company has not complied with this recommendation. A similar recommendation is reiterated herein.	7
B.		Losses and Loss Adjustment Expenses	
	i.	It is recommended that the Company report a salvage accrual related to a debt restructuring only when restructuring of the loan program has actually taken place. The Company complied with this recommendation.	17

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Reinsurance	
	It is recommended that the Company restate its contingency reserve account to reflect the reinsurance credit taken on such liability in accordance with annual statement instructions, Schedule F Part-8.	13
B	Holding Company System	
	Tax Allocation Agreement	
	i. It is recommended that the Company comply with Sections 4(b) and (c) of its tax allocation agreement.	16
	ii. It is further recommended that the tax allocation agreement be revised to specifically indicate the names of all the participating entities and their direct responsibilities.	16
	Investment Management Agreement	
	It is recommended that the Company submit the revised fee for review and non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.	17
	Advances to Parent	
	i. It is recommended that Company formalize any and all agreements with members of its holding company system.	19
	ii. It is further recommended that the Company be compensated for any lost investment income.	19
	Settlement of Inter-Company Balances	
	i. It is recommended that the Company comply with Department Circular Letter 15 (1975).	19
	ii. It is recommended that all inter-company balances be settled in a timely manner.	19

Respectfully submitted,

/S/
Glenda Gallardo
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

GLENDA GALLARDO, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

/S/
Glenda Gallardo

Subscribed and sworn to before me

this _____ day of _________ 2001.

Appointment No 21598

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Glenda Gallardo

as proper person to examine into the affairs of the

MBIA Insurance Corporation

and to make a report to me in writing of the condition of the said

Corporation

with such other information as she *shall deem requisite.*

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 23 rd *day of* *August, 2000*

NEIL D. LEVIN
Superintendent of Insurance