REPORT ON EXAMINATION

OF THE

MBIA INSURANCE CORPORATION

AS OF

DECEMBER 31, 2008

DATE OF REPORT MAY 17, 2010

EXAMINER GLENDA GALLARDO

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

May 17, 2010

Honorable James J. Wrynn
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 30158 dated September 15, 2008, attached hereto, I have made an examination into the condition and affairs of MBIA Insurance Corporation as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate the MBIA Insurance Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

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

1. SCOPE OF EXAMINATION

The Department has performed an Association examination of the MBIA Insurance Corporation. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

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, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as the National Bonding and Accident Insurance Company under the laws of the State of New York on March 23, 1967. On December 10, 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 ("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 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 the four predecessor member companies' entire outstanding municipal bond insurance portfolio. In 1993, MBIA Insurance Corporation assumed the remaining business from the fifth member of the Association.

In 1990, the Company's parent, MBIA, Inc., formed MBIA Assurance S.A., a wholly-owned French subsidiary, to write financial guarantee insurance in the international community. The stock of MBIA Assurance S.A. was contributed to the Company in 1991.

On January 5, 1990, MBIA Inc. acquired all of the outstanding stock of Bond Investors Group, Inc., the parent company of Bond Investors Guaranty Insurance Company, which name was subsequently changed to MBIA Insurance Corp. of Illinois. MBIA Inc. then contributed the common stock of Bond Investors Group, Inc. to the Company, making the Company the direct parent of MBIA of Illinois.

In early 1998, MBIA Inc. consummated a merger with CapMac Holdings, Inc. After the merger, MBIA Inc. made a capital contribution to the Company of Capital Markets Assurance Corporation, a subsidiary of CapMac Holdings, Inc.

In 2004, MBIA UK Insurance Limited ("MBIA UK"), a wholly-owned subsidiary of the Company incorporated in the United Kingdom, was established to write financial guarantee insurance in the international markets.

In February 2007, the Company incorporated a new subsidiary, MBIA Mexico, S.A. de C.V. ("MBIA Mexico"), through which it writes financial guarantee insurance in Mexico. MBIA Mexico is licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the Mexican Ministry of Finance and Public Credit (Secretaria de Hacienda y Credito Public, or "SHCP" and the Mexican Insurance and Bonds Commission (Comision Nacional de Seguros y Fianzas, or "CNSF").

On December 28, 2007, MBIA Assurance S.A. was restructured with MBIA UK (by way of dissolution or winding-up without liquidation) and governed by the terms of article 1844-5 of the French Civil Code. The operation involved (i) the transfer of all of MBIA Assurance's assets and liabilities to MBIA UK; (ii) the simultaneous transfer of the portfolio of MBIA Assurance S.A.'s financial guarantees to MBIA UK; and (iii) the dissolution without liquidation of MBIA Assurance S.A. Consequently, all previously insured MBIA Assurance S.A. policies are now insured by MBIA UK.

Capital paid up of $15,000,000 is comprised of 100,000 authorized common shares at $150 par value, all of which were issued and outstanding at year end. Gross paid in and contributed surplus is $1,899,851,366. Gross paid in and contributed surplus paid in increased by $671,829,788 during the examination period, as follows:

Year	Description		Amount
2004	Beginning gross paid in and contributed surplus		$1,228,021,578
2004	Surplus contribution	$ 17,779,552	
2005	Surplus contribution	18,108,651	
2006	Surplus contribution	18,562,206	
2007	Surplus contribution	13,998,047	
2008	Surplus contribution	603,381,332	
	Total Surplus Contributions		671,829,788
2008	Ending gross paid in and contributed surplus		$1,899,851,366

Project Transformation:

On February 17, 2009, the Company implemented a restructuring plan called Project Transformation ("Transformation"), which was approved by this Department. Pursuant to the Transformation plan, a new U.S. public finance financial guarantee insurance company was formed using MBIA Insurance Corp. of Illinois, a subsidiary of the Company, which was redomesticated to New York and renamed National Public Finance Guarantee Corporation. ("National"). Ownership of National was transferred from the Company to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc., a Delaware company, which is a subsidiary of MBIA Inc. National was capitalized with approximately $2.1 billion from funds distributed by the Company to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through National Public Finance Guarantee Holdings, Inc.

The Transformation divided the Company's business between itself and National, with the Company retaining its international and structured finance business and transferring to National, via a quota share reinsurance agreement effective January 1, 2009, all of its U.S. public finance exposure, including assigning all rights and obligations with respect to the U.S. public finance business that the Company assumed from Financial Guaranty Insurance Company.

Further details of the Transformation are included in Item 6 (Subsequent Events) of this report.

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 13 nor more than 21 members. The board meets 4 times during each calendar year. At December 31, 2008, the board of directors was comprised of the following 13 members:

Name and Residence	Principal Business Affiliation
Robert B. Blackwell New York, NY	Managing Director, MBIA Insurance Corporation
Joseph W. Brown Bedford Corners, NY	Chairman, MBIA Insurance Corporation
Charles E. Chaplin Greenwich, CT	Vice Chairman, Managing Director and Chief Financial Officer, MBIA Insurance Corporation
Clifford D. Corso Bedford, NY	Managing Director and Chief Investment Officer, MBIA Insurance Corporation
William C. Fallon Rye, NY	Managing Director and Head of Structured Finance, MBIA Insurance Corporation
Douglas C. Hamilton Armonk, NY	Managing Director and Controller, MBIA Insurance Corporation
Anthony M. McKiernan Ridgefield, CT	Managing Director, MBIA Insurance Corporation
Gerard E. Murray New Canaan, CT	Managing Director, MBIA Insurance Corporation
Alfred C. Pastore Ramsey, NJ	Managing Director and Treasurer, MBIA Insurance Corporation
Gary A. Saunders Rye Brook, NY	Director, Deputy General Counsel and Assistant Secretary, MBIA Insurance Corporation
Mitchell I. Sonkin Greenwich, CT	Managing Director, Head of Insured Portfolio Management, MBIA Insurance Corporation
Ram D. Wertheim Westport, CT	Managing Director, General Counsel and Secretary, MBIA Insurance Corporation

Name and Residence	Principal Business Affiliation
*Ruth M. Whaley Scarsdale, NY	Managing Director and Chief Risk Officer, MBIA Insurance Corporation

*This director left the Company and resigned as a board member in early 2009.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2008, the principal officers of the Company were as follows:

Name	Title
Joseph W. Brown	Chairman
Charles E. Chaplin	Vice Chairman, Managing Director and Chief Financial Officer
Alfred C. Pastore	Managing Director and Treasurer
Ram D. Wertheim	Managing Director, General Counsel and Secretary
Douglas C. Hamilton	Managing Director and Controller
Clifford D. Corso	Managing Director and Chief Investment Officer

B. Territory and Business Operations

As of December 31, 2008, the Company was licensed to write business in all fifty states, the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands and Northern Mariana Islands. The Company also owns MBIA UK Insurance Limited ("MBIA UK"), a financial guarantee insurance company licensed in the United Kingdom which writes financial guarantee insurance in the member countries of the European Union and other regions outside the United States. MBIA UK also insures policies previously insured by MBIA Assurance S.A. ("MBIA Assurance"), a French insurance company owned by the Company, which was dissolved on December 28, 2007. In February 2007, the Company incorporated a new wholly-owned subsidiary, MBIA Mexico S.A. de C.V. ("MBIA Mexico"), through which it writes financial guarantee insurance in Mexico.

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	Fidelity and surety
17	Credit
25	Financial guaranty

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, the Company is required to maintain a minimum surplus to policyholders in the amount of $66,400,000

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2004	$368,521,892	$1,042,842,657	35.34%
2005	$320,404,676	$930,156,498	34.45%
2006	$286,306,895	$806,286,973	35.51%
2007	$335,977,341	$846,443,073	39.69%
2008	$313,811,582	$523,158,794	59.98%

The Company issues financial guarantees on municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, obligations collateralized by diverse pools of corporate loans and pools of corporate and asset-backed bonds and bonds backed by other revenue sources such as corporate franchise revenues. The Company's guarantees extend to both new and secondary market issues. The Company has also insured credit default swaps primarily on pools of collateral, which it considered part of its core financial guarantee business. The Company's core platform has been in the public and structured finance sectors. The financial guarantees issued by the Company provide unconditional and irrevocable guarantee of the payment of the principal of, and interest or other amounts owing on, insured obligations when due in the event of default or impairment of such obligations.

As stated above, one segment of the Company's insured portfolio is in structured finance transactions. This portfolio consists in part of consumer asset-backed, commercial real estate transactions as well as residential mortgage backed securities ("RMBS") and collateralized debt obligations ("CDO"). During the last quarter of 2006, the U.S. residential housing sector was showing signs of distress and soon thereafter, housing prices began to decline and default rates of sub-prime mortgages began an accelerated increase. These events were a key factor of a rapid growing global credit crisis that significantly affected the Company's operations. At year end 2007, the Company reported a major increase of its loss reserves that were associated mostly with the Company's exposures to securitizations of RMBS and CDO products. Throughout 2008, the Company experienced significant losses in the RMBS and CDO portfolios in particular.

In February 2008 and in response to the crisis, the Company's new appointed CEO directed the Company to discontinue all writings of Credit Default Swaps and to temporarily stop insuring new structured finance policies.

It is noted that since the beginning of its business operations the Company had been categorized as a triple-A rated company by all major rating agencies within the United States. Maintaining a triple-A rating was believed to be essential for a large financial guarantee insurer in that it facilitates business writings due to the credit enhancement that attaches to the financial product sold to investors/bond-holders when such is guaranteed by triple-A financial guaranty insurers. Such rating also implies that the insurer has the ability to meet all its obligations as they come due. In mid 2008, the Company lost its triple-A rating, limiting its ability to write new business.

C. Reinsurance

Assumed reinsurance accounted for 64.1% of the Company's gross premium written at December 31, 2008. Approximately 63.6% of this business relates to a portfolio of U.S. public finance business written and insured by Financial Guaranty Insurance Company ("FGIC") and which the Company assumed in September 2008. The assumed business consists of a portfolio of net par value obligations of $181 billion. In exchange for taking in this portfolio, the Company received unearned premium of approximately $717 million net of ceding commission. As required by the Department, the funds were placed in a trust. Under the terms of the trust, the funds will be released to the Company as the premium is earned and can be used to pay claims under the reinsurance agreement. The reinsurance was provided on a "cut-through" basis, enabling FGIC's policyholders to receive the benefit of the Company's reinsurance by allowing them to present claims directly to the Company. As of December 31, 2008 the book value of the trust was $853.0 million.

Effective April 1, 1998, the Company entered into a reinsurance agreement with Capital Markets Assurance Corp. ("CapMac"). According to the terms of the agreement, the Company assumed 100% of CapMac's net insured exposure as well as its unearned premiums and contingency reserves.

On January 1, 1999, the Company entered into a reinsurance agreement with MBIA Insurance Corp. of Illinois ("MBIA Illinois"), whereby it assumed all unearned premium and contingency reserves of MBIA Illinois. This agreement was terminated effective January 1, 2009 via a commutation arrangement. The commutation transaction occurred as part of Project Transformation described in the Subsequent Event section of this report.

Effective May 14, 2004, the Company entered into an excess of loss reinsurance agreement with MBIA UK. According to the terms of the agreement, the Company would reimburse MBIA UK for incurred losses and loss adjustment expenses in excess of $100,000,000 not to exceed 20% of MBIA UK's net retention as specified in the agreement.

Effective September 14, 2007, the Company entered into a reinsurance agreement with MBIA Mexico. Under the terms of the agreement the Company agrees to assume from MBIA Mexico, 100% of its net liability on financial guarantee business.

Ceded Reinsurance

Surplus Share Treaty Program

Between July 2004 and June 2008, the Company maintained a surplus share treaty with four reinsurers: Channel Re, RAM Re, Mitsui and Swiss Re. The treaty's period ran from July 1 to June 30. The attachment points for each treaty increased from $75 million in 2004 to $150 million in 2005, and to $325 million in 2006 and 2007.

Comprehensive Automatic Reinsurance Program

During the period under examination through June 2008, the Company also maintained a Comprehensive Automatic Reinsurance program with four reinsurers. According to the terms of the agreements each reinsurer was liable for a specified proportionate share of loss and allocated loss adjustment expenses.

Facultative Reinsurance Program

In 2007, the Company entered into a master facultative reinsurance agreement with two insurers Assured Guaranty Corp. and XL Capital Assurance, Inc.(now known as Syncora).

In early 2008, the Company's senior management decided not to renew any of the existing reinsurance treaties.

In 2008, the Company commuted a reinsurance treaty dated October 1998 with Munich Re which had been accounted for as Deposit accounting. With the commutation, the Company recognized $28.9 million as miscellaneous income in its 2008 filed annual statement.

At year end 2008, the Company also entered into commutation agreements with five of its reinsurers. The total impact of the commutations was an increase in surplus of approximately $30.7 million.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d) (2) of the New York Insurance Law.

The Company has obtained appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114 respectively. No exceptions were noted.

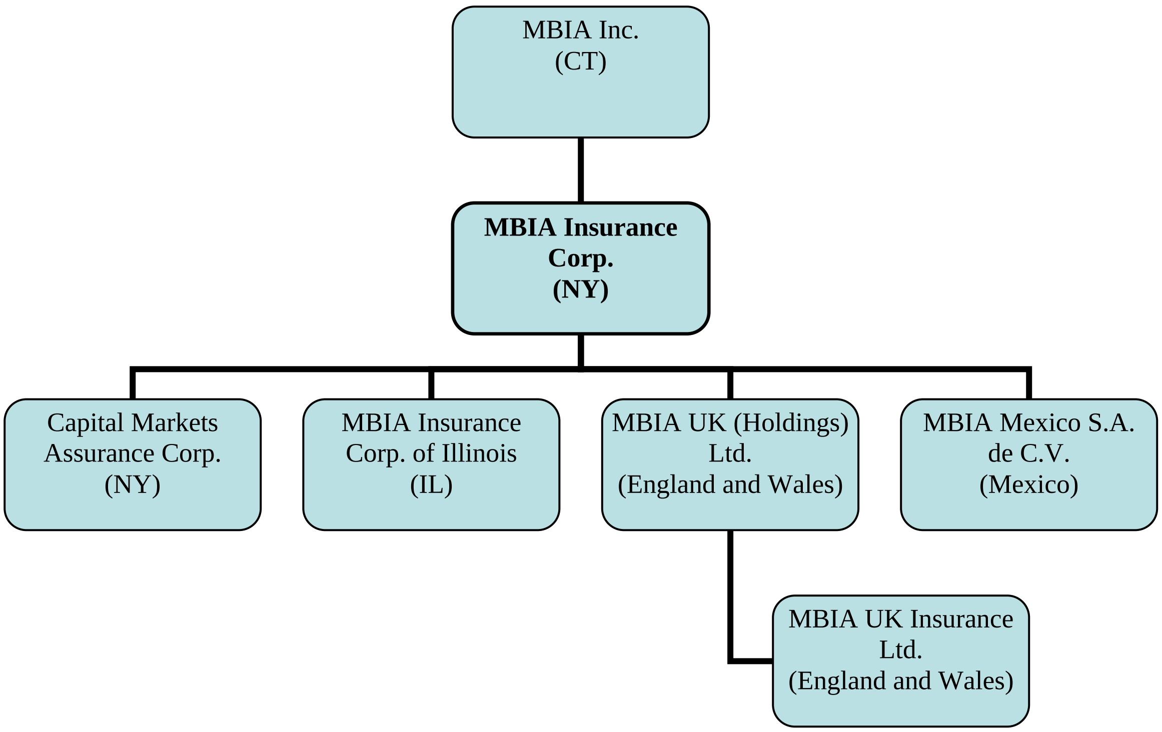
All significant ceded reinsurance agreements in effect during the examination period were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

D. Holding Company System

The Company is a wholly-owned subsidiary of MBIA Inc., a Connecticut corporation. A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2008:



At December 31, 2008, the Company was party to the following agreements with other members of its holding company system:

Repurchase Agreements

The Company maintains two agreements with MBIA Inc. The first agreement, a repurchase agreement in place since 1996, provides that the Company holds securities subject to resale, and transfers securities subject to repurchase of equal amount. The securities the Company holds subject to resale have higher "haircuts" then those it sells subject to repurchase. In the event that the value of the securities transferred by either party declines below the amount outstanding under the facility, a transfer of additional securities is required. Subsequent to the examination, this agreement was terminated effective February 17, 2009 and was reestablished with National.

During the fourth quarter of 2008, a secured loan facility was entered into between MBIA Inc. and the Company for up to $2 billion. Pursuant to this agreement, MBIA Inc. would transfer securities in its portfolio to the Company in exchange for up to $2 billion in cash. In the event that the book value of the transferred securities decline below the amount outstanding under the facility, MBIA Inc. will be required to transfer additional securities or reduce the outstanding amount. The repurchase agreement has a term of three years but has been partially prepaid.

Expense Allocation Agreement

Effective January 1, 2006, the Company became a party to a management agreement which defines an expense allocation process with MBIA Inc. and its subsidiaries. This allows for the allocation of expenses related to the cost of personnel, space, equipment and other expenses based on actual usage of the parties. This agreement was not submitted to the Department for non-disapproval. This agreement was subsequent terminated in 2010.

Management Service Agreement with CapMac

Effective June 1, 2000 the Company entered into a management service agreement with CapMac. Pursuant to the terms of the agreement, the Company provides management and administrative services to CapMac.

Management Service Agreement with MBIA Illinois

Effective June 1, 2000 the Company entered into a management service agreement with MBIA Illinois. Pursuant to the terms of the agreement, the Company provides management and administrative services to MBIA Illinois. The agreement was terminated effective February 17, 2009.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with members of its holding company group effective January 1, 1987. This agreement was amended and restated effective March 11, 2004 to delete certain participants that were included in the previous agreement. The agreement was submitted to the Department for review and non-disapproval.

Net Worth Maintenance Agreement with MBIA UK

Effective May 14, 2004, the Company and its subsidiary, MBIA UK, entered into a net worth maintenance agreement, which was later amended and restated effective October 2, 2004. Under the terms of the agreement, the Company agrees to maintain the net worth of MBIA UK in an amount equal to the higher of the amount of its current capital required by the regulatory authorities of the United Kingdom or $100,000,000, provided that any contributions by the Company shall not be in excess of 35% of its policyholder's surplus. This agreement was submitted to and approved by the Department according to Article 15 of the New York Insurance Law.

Net Worth Maintenance Agreement with MBIA Mexico

Effective September 14, 2007, the Company and its subsidiary, MBIA Mexico, entered into a net worth maintenance agreement under which the Company agrees to maintain the net worth of MBIA Mexico in an amount equal to the higher of the amount of its current capital required by the regulatory authorities of Mexico or $10,000,000. However, any contributions made by the Company for such purpose when added to contributions to other insurance subsidiaries for similar purposes shall in no event exceed 35% of the Company's policyholder's surplus. This agreement was submitted to and approved by the Department according to Article 15 of the New York Insurance Law.

Management Agreement with MBIA Mexico

The Company and its subsidiary, MBIA Mexico, are party to a management agreement whereby MBIA Mexico appointed the Company to act as its exclusive manager for the purpose of providing management and administrative services in connection with insurance written by MBIA Mexico. The agreement became effective September 14, 2007 and has a term of 10 years upon which it may be renewed for an additional two-year period with the written consent of both parties. This agreement was submitted to and approved by the Department according to Article 15 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	41%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	85%
Premiums in course of collection to surplus as regards policyholders	0%

All of 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 five year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$4,360,464,523	107.17%
Other underwriting expenses incurred	1,090,619,683	26.80
Net underwriting loss	(1,382,210,013)	(33.97)
Premiums earned	$4,068,874,193	100.00%

F. Accounts and Records

Discount rate and presentation

Section 6903(b) of the New York Insurance Law allows financial guarantee insurers a reduction from their loss reserves to account for the time value of money by the application of a discount rate equal to the average rate of return on the admitted assets of the insurer as of the date of the computation of such reserves. The Company’s investment yield ratio at December 31, 2008 as reported by the Insurance Regulatory Information System of the National Association of Insurance Commissioners (“NAIC”)was 3.5%.

At December 31, 2008, the Company discounted its reserves at a rate of 5.03%, representing the rate equal to the yield-to-maturity of the Company’s fixed income investment portfolio, excluding investments in money market funds and including inter-company loans under repurchase agreements.

The use of the discount rate of 5.03% appears to be a deviation from the rate reported by the Insurance Regulatory Information System of the NAIC. It is recommended that the Company submit to the Department, on an annual basis, a justification for the discount rate it uses if such rate differs from the investment yield reported by the Insurance Regulatory Information System of the NAIC and indicate how such rate complies with Section 6903(b) of the New York Insurance Law.

The Company discloses the discount amount that it takes on its loss reserves in its filed annual statement; however, when reconciling the loss reserves to the supporting accounting records, it was noted that the general ledger and trial balance reflect the Company's loss reserves net of the discount amounts. Loss reserves should be reported gross of any adjustments in the Company's ledgers and trial balance. It is recommended that the Company present its loss and loss adjustment expense reserves gross of discount in its ledgers and trial balance.

Annual Statement Disclosure

According to the Company's 2008 Annual Statement, item 13(4) of the Notes to Financial Statements, the Company stated that no preferred stock dividends were paid or declared during 2008. This statement was not accurate since the Company did declare and pay dividends on its preferred stock. When inquired, the Company indicated that the dividend amounts were too immaterial to be disclosed. It is recommended that the Company disclose its paid dividends regardless the amount paid or declared on such dividends.

Classification of Loss Adjustment Expenses

During the review of the Company's expenses it was noted that certain expenses that should have been classified as loss adjustment expenses were categorized as either legal, consulting, or loss prevention expenses. It is recommended that the Company improve its expense classification process to ensure that all expenses and costs associated with its claim obligations are properly classified and allocated as loss adjustment expenses.

Adjusting and Other Expense Reserve

The review of the Company's loss reserves disclosed that the Company does not establish reserves for Adjusting and Other expenses. NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 55 paragraph, 4 states in part the following:

> Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event and, in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability. Liabilities shall be established for any unpaid claims and unpaid losses (loss reserves), unpaid loss/claim adjustment expenses (loss/claim adjustment expense reserves) and incurred costs, with a corresponding charge to income.

Paragraph 5(c) of the SSAP 55 also defines loss adjustment expenses as:

> Expected payments for costs to be incurred in connection with the adjustment and recording of losses defined in subparagraphs 5 a. and 5 b. Examples of expenses incurred in these activities are estimating the amounts of losses, disbursing loss payments, maintaining records, general clerical, secretarial, office maintenance, occupancy costs, utilities, computer maintenance, supervisory and executive duties, supplies, and postage. Loss adjustment expenses can be classified into two broad categories: Defense and Cost Containment (DCC) and Adjusting and Other (AO)

It is recommended that the Company establish a reserve provision for Adjusting & Other expenses to cover future expense costs associated with the adjustment and settlement of its claims liabilities as prescribed by the New York Insurance Law and SSAP No. 55.

Other Invested Assets

At year end 2008, the Company reported in its schedule BA, an invested asset under the caption "New World Funding." This investment represents certain Class A-1J Notes classified as an available-for-sale investment in their GAAP financial statement. These notes are due to mature in 2049 and are limited recourse obligations of New World Funding Trust. They are payable solely from the collateral of New World Funding comprised primarily of the Faxtor HG 2007 floating rate notes also due in 2049 ("the collateral"). These notes receive no interest or principal until the Class A-1S Notes Due 2049 (the senior notes) are repaid.

The Company reported this asset in Schedule BA of its 2008 annual statement with an NAIC designation of 1FE, indicating obligations of the highest quality, with the lowest credit risk and a stable credit profile. It is noted that the underlying collateral of the Faxtor Notes, which was comprised mostly of residential mortgage backed securities, was already in distress. Therefore, the NAIC designation reported by the Company at December 31, 2008 was inaccurate. It is recommended that the Company assign proper NAIC ratings to its assets listed in its investment schedules.

At December 31, 2008, the Company reported an admitted asset in the amount of $180,000,000 for this investment, which according to the Company represented the present value on the expected cash flows of the underlying assets (the Faxtor Notes). It is noted that it is not a publicly traded investment; therefore, there was no readily attainable market value for it. During the first and third quarters of 2009, the Company recorded an Other Than Temporary Impairment adjustment against New World Funding of approximately $85,000,000 and recorded a realized loss in the same amount with a respective charge to surplus. In addition, an unrealized loss of approximately $41,000,000 was reflected in the Company's financial statements bringing the value of the investment down to $54,000,000, as of December 31, 2009. The Company explained that the decline in value was due to credit deterioration of the underlying assets. It is recommended that the Company obtain guidance from the NAIC Security Valuation Office regarding the valuation of loan backed/structured finance financial instruments to make certain that the assets it reports are properly rated and reasonably valued.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 as determined by this examination and as reported by the Company:

Assets	Examination Assets	Examination Assets Not Admitted	Examination Net Admitted Assets	Company Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$6,204,195,179	$ 0	$6,204,195,179	$6,204,195,179	$0
Preferred stocks	47,170,120	0	47,170,120	47,170,120	0
Common stocks	751,398,867	0	751,398,867	751,398,867	0
Properties occupied by the company	92,262,277	0	92,262,277	92,262,277	0
Cash, cash equivalents and short-term investments	5,346,821,487		5,346,821,487	5,346,821,487	0
Other invested assets	402,455,807		402,455,807	402,455,807	0
Receivable for securities	10,591,628	5,782,393	4,809,235	4,809,235	0
Investment income due and accrued	109,733,018	0	109,733,018	109,733,018	0
Uncollected premiums and agents' balances in the course of collection	5,551,543	878,266	4,673,277	4,673,277	0
Amounts recoverable from reinsurers	206,079,483	0	206,079,483	206,079,483	0
Current federal and foreign income tax recoverable and interest thereon	185,949,452	0	185,949,452	185,949,452	0
Net deferred tax asset	239,417,519	160,302,381	79,115,138	79,115,138	0
Electronic data processing equipment and software	7,531,560	7,455,409	76,151	76,151	0
Furniture and equipment, including health care delivery assets	60,703	60,703	0	0	0
Receivables from parent, subsidiaries and affiliates	61,951,423	20,000,000	41,951,423	61,951,423	(20,000,000)
Aggregate write-ins for other than invested assets	51,565,267	15,607,703	35,957,564	35,957,564	0
Totals assets	$13,722,735,333	$210,086,855	$13,512,648,478	$13,532,648,478	$(20,000,000)

Liabilities, surplus and other funds Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$1,870,696,512	$1,870,696,512	$ 0
Other expenses (excluding taxes, licenses and fees)	142,132,142	142,132,142	0
Unearned premiums	4,005,836,770	4,005,836,770	0
Ceded reinsurance premiums payable (net of ceding commissions)	8,520,659	8,520,659	0
Amounts withheld or retained by company for account of others	55,028,416	55,028,416	0
Payable for securities	34,305	34,305	0
Aggregate write-ins for liabilities	3,947,977,450	3,947,977,450	0
Total liabilities	$10,030,226,254	$10,030,226,254	$ 0
Surplus and other funds			
Common capital stock	$15,000,000	$15,000,000	$ 0
Preferred capital stock	275,908,000	275,908,000	0
Surplus notes	952,655,000	952,655,000	0
Gross paid in and contributed surplus	1,899,851,368	1,899,851,368	0
Unassigned funds (surplus)	339,007,856	359,007,856	(20,000,000)
Surplus as regards policyholders	$3,482,422,224	$3,502,422,224	$(20,000,000)
Total liabilities, surplus and other funds	$13,512,648,478	$13,532,648,478	$(20,000,000)

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2005. Audits covering tax years 2005 through 2008 are currently under examination. Because the Company has filed for a refund claim for its capital losses in 2008 through a carry-back claim to 2005, 2006 and 2007, tax year 2005 was re-opened. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $3,931,814 during the five year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income		
Premiums earned		$4,068,874,193
Deductions:		
Losses and loss adjustment expenses incurred	$4,360,464,523	
Other underwriting expenses incurred	1,121,363,135	
Aggregate write-ins for underwriting deductions	(30,743,452)	
Total underwriting deductions		5,451,084,206
Net underwriting gain or (loss)		($1,382,210,013)
Investment Income		
Net investment income earned	$2,218,268,508	
Net realized capital gain	144,305,489	
Net investment gain or (loss)		$2,362,573,997
Other Income		
Aggregate write-ins for miscellaneous income	22,267,391	
Total other income		$22,267,391
Net income before dividends to policyholders and before federal and foreign income taxes		$1,002,631,375
Net income after dividends to policyholders but before federal and foreign income taxes		$1,002,631,375
Federal and foreign income taxes incurred		52,204,548
Net Income		$950,426,828

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2004			$3,478,490,410
Net income	$950,426,828		
Net unrealized capital gains or (losses)	82,749,123		
Change in net unrealized foreign exchange capital gain (loss)		33,812,054	
Change in net deferred income tax	115,240,876		
Change in nonadmitted assets		118,818,302	
Change in surplus notes	952,655,000		
Capital changes paid in	275,908,000		
Surplus adjustments paid in	671,829,788		
Dividends to stockholders		2,181,300,000	
Aggregate write-ins for gains and losses in surplus	0	710,947,445	
Total increases and decreases in surplus	$3,048,809,615	$3,044,877,801	
Net increase in surplus			3,931,814
Surplus as regards policyholders per report on examination as of December 31, 2008			$3,482,422,224

4. RECEIVABLE FROM PARENT AND SUBSIDIARIES

The examination admitted asset for the captioned item of $41,951,423 is $20,000,000 less than the $61,951,423 reported by the Company as of December 31, 2008.

The examination adjustment represents a $20,000,000 write off on a receivable balance that was due from its UK subsidiary that was made subsequent to the examination year.

5. LOSSES

As of December 31, 2008, the Company reported a liability for the captioned items in the amount of $1,870,696,512. During 2008, the Company significantly increased its case reserves due to the unprecedented levels of delinquencies and new defaults in the U.S. residential mortgage markets. During 2009, the Company reported additional incurred losses and loss adjustment expenses for accident years 2008 and prior totaling $990,013,000. Through March 31, 2010, the additional development had increased to $1,013,222,000. During 2009, the Company recognized estimated recoveries, net of reinsurance of $1.4 billion related to a review of mortgage loan files underlying the Company's insured transactions. The actual collection of these estimated recoveries is subject to the outcome of litigation.

A review of the Company's case reserve modeling and assumptions was performed by the Department's Capital Markets Bureau ("CMB"). The review did not indicate any basis for rejecting or amending the Company's 2008 reserves, despite the dramatic increase in the Company's reserves from 2008 to 2009. Such increases were not deemed to be attributable to flaws in the Company's methodologies or models, but rather to the accelerated deterioration in the housing and mortgage markets and the impact this had on financial markets, institutions, and the global economy.

MBIA's reserve models are consistent with 'best practices' among other financial guaranty insurers, other sophisticated market participants, and specialist vendors, and continue to evolve. Their models and methodologies are consistently applied within and across similar sectors (ABS, RMBS, and ABS-CDO), and are substantially consistent across reporting quarters (some changes are made from time to time). The key assumptions are conditional prepayment and default rates ("CPR" and "CDR" respectively), severity, and their respective paths over time (vectors). Assumptions for key variables were, methodically, rationally and consistently made, with intent to minimize subjectivity by deriving them from observable data rather than from broad macroeconomic forecasts; this method is inherently lagging. The alternative type of "best practice" model is dependent upon such macroeconomic forecasts for variables such as GDP and unemployment, both nationally and regionally as the model's drivers for house price, CPR, CDR, severity and their vectors; this approach is more forward-looking but significantly more subjective. In 2009, estimates for recoveries on loan put-backs pursuant to deal 'representations & warranties' also became a significant assumption.

Although MBIA had not posted (through 2009) any reserves for CDO comprised of commercial mortgage-backed securities ("CMBS") or commercial real estate whole-loans ("CRE"), such CMBS-CDO have structural (i.e., CDs of mezzanine securities) and sector (i.e., real estate) similarities to the very problematic ABS-CDO exposures. The Company models their CMBS-CDO using Trepp models (a 3rd party vendor) and stress scenarios from outside analysts. These scenarios use loan-level parameters such as property type, location, debt service coverage ratios ("DSCR"), loan to value (LTV), etc. CMB examined the model and assumptions in detail. Separately, CMB constructed its own model using Bloomberg's analytical functions in Excel to stress-test MBIA's CMBS-CDO portfolio under fifteen different scenarios by applying five CDR and three severity assumptions to each security (i.e., CUSIP) in each CDO, and each CDO's attachment point. CMB was able to calibrate its results to MBIA's.

Case reserves for financial guaranty insurance companies differ from those of traditional property and casualty insurance companies. The primary difference is that traditional property and casualty case reserves include only claims that have been incurred and reported to the insurance company. Unlike traditional property and casualty claims, financial guaranty losses arises from the extension of credit protection and occur as the result of the credit deterioration of the issuer or underlying assets of the insured obligations over the lives of those insured obligations. A case reserve is determined using cash flow or similar models that represent the Company's estimate of the net present value of the anticipated shortfall between (a) schedule payments on the insured obligation plus anticipated loss adjustment expenses and (b) anticipated cash flow from and proceeds to be received on sales of any collateral supporting the obligation and other anticipated recoveries. The Company uses assumptions, which represent current and forward looking perspectives of the underlying risks and market conditions. However, the Company is only able to forecast assumptions using data available at the time of the analysis.

The Company establishes a case basis loss reserve ("case reserve") for the estimated present value of a claim when reported by primary insurers or when, in the Company's opinion, the insured risk is in default or the likelihood of default is probable and determinable on the balance sheet date. Pursuant to Section 6903(b) of the New York Insurance Law, a financial guaranty company is allowed to discount its loss reserves by application of a discount rate equal to the average rate of return on the admitted assets of the insurer as of the day of the computation of such reserves. As of the examination date, the Company discounted certain financial guaranty liabilities at an annual rate of 5.03%. The amount of discount reflected as a reduction in the Company's loss reserves as of December 31, 2008 was $3,191,204,000.

In addition to case reserves, the Company is required to establish and maintain contingency reserves for the protection of insureds and claimants against the effect of excessive losses occurring during adverse economic cycles. The amount required for these reserves depends on the type of bonds being insured and are established pursuant to the provisions of Section 6903(a) of the New York Insurance Law. Reinsurers are required to establish a contingency reserve equal to their proportionate share of the reserves established by the primary insurer. As of December 31, 2008, the Company reported contingency reserves in the amount of $2,594,927,337.

6. SUBSEQUENT EVENTS

Reserve for Lane Cove Obligation:

At December 31, 2009, the Company reported a reserve for Lane Cove Bonds in the amount of approximately $59 million, which represented approximately 63% of the outstanding principal amount of the bonds. The reserve represented the Company's estimate of the cost to purchase the remaining 25% of the bonds it did not own at that date and was based on the average price the Company paid to acquire the 75% it previously purchased. The Company has advised that in the first quarter of 2010, it entered into a claims settlement agreement with holders of almost all of the remaining bonds outstanding at prices ranging from $0.58 to $0.61 per dollar. It is noted that the consummation of this agreement is contingent upon the sale of the Lane Cove Tunnel concession, which is subject to the approval of the Australian Government. If the Company is not able to purchase the remaining 25% of the Lane Cove bonds at a discounted price, it will be liable for 100% of the principal amount of those bonds.

Project Transformation:

As previously mentioned in Item 2 of this report, in February 2009, the Company restructured its business (referred to as "Transformation") by ceding all of its U.S. public finance exposure, including assigning all rights and obligations with respect to the U.S. public finance business that the Company assumed from Financial Guaranty Insurance Company, to National Public Finance Guarantee Corporation ("National"), a newly formed U.S. public finance financial guarantee insurance company. Pursuant to the terms of the reinsurance and assignment agreements, covered policyholders and certain ceding reinsurers can make claims for payment directly against National. The Company retained its international and structured finance business. The exposure transferred to National under the reinsurance and assignment agreements totaled approximately $554 billion of net par outstanding. The exposure retained by the Company totaled approximately $233 billion of net par outstanding. The Transformation was achieved through the execution of several transactions, which were submitted to and approved by the Department, as follows:

1) The Company paid a dividend to MBIA Inc. in the amount of approximately $1.147 billion in cash and securities;

2) The Company redeemed from MBIA Inc, its sole shareholder, 32,064 shares of its capital stock, in exchange for i) approximately $938 million in cash and securities, and ii) all of the issued and outstanding shares of MBIA Illinois (which subsequently redomesticated to New York and was renamed National Public Finance Guarantee Corporation);

3) The Company entered into a reinsurance transaction with National. The reinsurance transaction was effectuated through the execution of the following agreements: (a) a 100% Quota Share Reinsurance Agreement, effective January 1, 2009 (b) an Assumption and Assignment Agreement, dated February 17, 2009 pertaining to the Services Agreement dated December 1, 2008 between the Company and FGIC (c) an Assumption and Assignment Agreement dated February 17, 2009 pertaining to the Reinsurance Agreement between the Company and FGIC dated September 30, 2008 (d) a Trust Agreement among the Company, FGIC and Bank of New York Mellon Corporation dated October 22, 2008 and (e) a Commutation and Release Agreement pertaining to an existing reinsurance agreement dated January 1, 1999 between the Company and MBIA Illinois; Also, National issued a second-to-pay master trust policy for the benefit of all policyholders covered by the aforementioned Reinsurance and Assumption Agreements that were executed to effectuate Transformation.

4) The Company entered into a Master Services Agreement with National, effective February 17, 2009.

In order to maintain its capital at an amount equal to or greater than $15 million, the Company amended its charter, cancelled the aforementioned 32,064 shares, and increased the par value of its remaining 67,936 common shares from $150 to $220.80.

As a result of Transformation, National is now a stand-alone, separately capitalized and governed insurance company. The Company retained its structured finance and international insured exposure, as well as its guarantee of investment agreement contracts that were issued by the Company's investment management services operations.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 13 recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Reinsurance	
i.	It is recommended that the Company report all transactions with its reinsurers in Schedule F on all future financial statements filed with the Department.	7
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company account for the loss portfolio transfer in accordance with Part 112.7 of Department Regulation 108.	12
	The Company has complied with this recommendation.	
iii.	It is further recommended that the Company account for the "Special Risk Facilities" using deposit accounting.	12
	The Company has complied with this recommendation.	
iv.	It is recommended that the Company refile its December 31, 2004 annual statement with this Department and reflect the proper statutory accounting for both the loss portfolio transfer and the related "Special Risks Facilities".	12
	The Company has complied with this recommendation.	
B.	Accounts and Records	
	Real Estate It is recommended that the Company comply with SSAP No. 40 and properly record the value of its real estate.	17
	The Company has complied with this recommendation.	
	US Airways Pass Thru Certificates	
i.	It is recommended that the Company report all preferred trust securities as preferred stocks and include them in Schedule D-Part 2-Section 1 of all future financial statements.	18
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
ii.	It is also recommended that the Company review and make improvements in its investment accounting, reporting, internal controls, and investment oversight practices and functions to prevent future misclassifications.	18
	The Company has complied with this recommendation.	
iii.	Separately, two lines or rows were used to describe each security in Schedule D-1. This format is neither necessary nor desirable. It was recommended that the Company avoid this presentation format in future hardcopy and electronic filings.	18
	The Company has complied with this recommendation.	
C.	Other Invested Assets	
	It is recommended that the Company account for the costs associated with acquiring those securities for which it provides a financial guaranty as a loss payment.	23
	The Company has complied with this recommendation.	
D.	Deposit Premiums	
	It is recommended that the Company account for these reinsurance agreements in accordance with Chapter 22 in future financial statements filed with this Department. This recommendation also applies to the examination adjustments set forth in items 6, 9 and 11 herein.	24
	The Company has complied with this recommendation.	
E.	Loss Adjustment Expenses	
i.	It is recommended that the Company comply with the provisions of SSAP No. 55 and allocate a portion of its loss reserves to loss adjustment expenses on all future filed financial statements.	25
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company follow the guidelines set forth in the NAIC Annual Statement Instructions and properly complete all exhibits and schedules in all future financial statements.	25
	The Company has complied with this recommendation.	

ITEM PAGE NO.

F. Salvage on Tax Liens

It is recommended that the Company comply with SSAP 55 and properly record salvage receivable as a reduction to loss reserves. 28

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM PAGE NO.

A Accounts and Records

Discounting

i. It is recommended that the Company submit to the Department, on an annual basis, a justification for the discount rate it uses if such rate differs from the investment yield reported by the Insurance Regulatory Information System of the NAIC and indicate how such rate complies with Section 6903(b) of the New York Insurance Law. 16

16

ii. It is recommended that the Company present its loss and loss adjustment expense reserves gross of discount in its ledgers and trial balance.

16

Annual Statement Disclosures

It is recommended that the Company disclose its paid dividends regardless of the materiality of such dividends.

16

Loss Adjustment Expense classification

It is recommended that the Company improve its expense classification process to ensure that all expenses and costs associated with its claim obligations are properly classified and allocated as loss adjustment expenses.

Adjusting & Other Expenses 17

It is recommended that the Company establish a reserve provision for Adjusting & Other expenses to cover future expense costs associated with the adjustment and settlement of its claims liabilities as prescribed by the New York Insurance Law and SSAP No.55.

ITEM		PAGE NO.
	Other invested assets	
	It is recommended that the Company assign proper ratings to its assets listed in its investment schedules. It is further recommended that the Company obtain guidance from the NAIC Security Valuation Office regarding the valuation of loan backed/structures finance financial instruments to make certain that the assets it reports are properly rated and reasonably valued.	18
B	Receivable from parent and subsidiaries	
	The Company's balance for the captioned account was reduced by an examination adjustment, which represents a $20,000,000 write off on a receivable balance that was due from its UK subsidiary made subsequent to the examination year.	22
C	Loss and loss adjustment expenses	
	During 2009, the Company reported additional incurred losses and loss adjustment expenses for accident years 2008 and prior totaling $990,013,000. Through March 31, 2010, the additional development had increased to $1,013,222,000. During 2009, the Company recognized estimated recoveries, net of reinsurance of $1.4 billion related to a review of mortgage loan files underlying the Company's insured transactions. The actual collection of these estimated recoveries is subject to the outcome of litigation.	22
D	Subsequent Events	
	Lane Cove If the Company is not able to purchase the remaining 25% of the Lane Cove bonds at a discounted price, it will be liable for 100% of the principal amount of those bonds.	25

Respectfully submitted,

/s/
Glenda Gallardo
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Glenda Gallardo, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Glenda Gallardo

Subscribed and sworn to before me

this__________ day of ____________________, 2010.

Appointment No: 30158

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *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 15th *day of* September, 2008

ERIC R. DINALLO
Superintendent of Insurance