

MBIA INC
Form 10-Q
November 05, 2014
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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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Connecticut
(State of incorporation)

06-1185706
(I.R.S. Employer

Identification No.)

1 Manhattanville Road, Suite 301, Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

(914) 273-4545

(Registrant's telephone number, including area code)

113 King Street, Armonk, New York, 10504

(Former name or former address, if changed since last report)

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

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

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

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

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

As of October 30, 2014, 193,197,265 shares of Common Stock, par value \$1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc. (MBIA , the Company , we , us or our) includes statements that are not historical or current facts and are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe , anticipate , project , plan , expect , estimate , intend , will likely result , looking forward , or will continue and similar expressions are used in the forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

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

increased credit losses or impairments on public finance obligations we insure issued by state, local and territorial governments and finance authorities that are experiencing unprecedented fiscal stress;

the possibility that MBIA Corp. will have inadequate liquidity to pay expected claims as a result of increased losses on certain structured finance transactions, in particular residential mortgage-backed securities transactions that include a substantial number of ineligible mortgage loans, or a delay or failure in collecting expected recoveries;

the possibility that loss reserve estimates are not adequate to cover potential claims;

a disruption in the cash flow from our subsidiaries or an inability to access capital and our exposure to significant fluctuations in liquidity and asset values within the global credit markets as a result of collateral posting requirements;

our ability to fully implement our strategic plan, including our ability to maintain high stable ratings for National Public Finance Guarantee Corporation and generate investor demand for our financial guarantees;

deterioration in the economic environment and financial markets in the United States or abroad, and adverse developments in European sovereign credit performance, real estate market performance, credit spreads, interest rates and foreign currency levels;

the effects of governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules; and

uncertainties that have not been identified at this time.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under Risk Factors in Part I, Item 1A of MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2013. In addition, refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions except share and per share amounts)

| | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Assets | | |
| Investments: | | |
| Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$5,274 and \$5,064) | \$ 5,305 | \$ 4,987 |
| Investments carried at fair value | 238 | 204 |
| Investments pledged as collateral, at fair value (amortized cost \$363 and \$483) | 330 | 424 |
| Short-term investments held as available-for-sale, at fair value (amortized cost \$1,147 and \$1,203) | 1,148 | 1,204 |
| Other investments (includes investments at fair value of \$13 and \$11) | 17 | 16 |
| Total investments | 7,038 | 6,835 |
| Cash and cash equivalents | 550 | 1,161 |
| Premiums receivable | 936 | 1,051 |
| Deferred acquisition costs | 229 | 260 |
| Insurance loss recoverable | 575 | 694 |
| Assets held for sale | 29 | 29 |
| Deferred income taxes, net | 1,047 | 1,109 |
| Other assets | 231 | 222 |
| Assets of consolidated variable interest entities: | | |
| Cash | 56 | 97 |
| Investments held-to-maturity, at amortized cost (fair value \$2,730 and \$2,651) | 2,772 | 2,801 |
| Investments held as available-for-sale, at fair value (amortized cost \$0 and \$136) | - | 136 |
| Fixed-maturity securities at fair value | 471 | 587 |
| Loans receivable at fair value | 1,902 | 1,612 |
| Loan repurchase commitments | 365 | 359 |
| Total assets | \$ 16,201 | \$ 16,953 |
| Liabilities and Equity | | |
| Liabilities: | | |
| Unearned premium revenue | \$ 2,125 | \$ 2,441 |
| Loss and loss adjustment expense reserves | 517 | 641 |
| Investment agreements | 659 | 700 |
| Medium-term notes (includes financial instruments carried at fair value of \$202 and \$203) | 1,229 | 1,427 |
| Long-term debt | 1,784 | 1,702 |
| Derivative liabilities | 428 | 1,152 |
| Other liabilities | 276 | 294 |
| Liabilities of consolidated variable interest entities: | | |
| Variable interest entity notes (includes financial instruments carried at fair value of \$2,463 and \$2,356) | 5,235 | 5,286 |
| Payable for loans purchased | 39 | - |

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| | | |
|---|------------------|------------------|
| Derivative liabilities | 7 | 11 |
| Total liabilities | 12,299 | 13,654 |
| Commitments and contingencies (See Note 13) | | |
| Equity: | | |
| Preferred stock, par value \$1 per share; authorized shares 10,000,000; issued and outstanding none | - | - |
| Common stock, par value \$1 per share; authorized shares 400,000,000; issued shares 281,359,451 and 277,812,430 | 281 | 278 |
| Additional paid-in capital | 3,123 | 3,115 |
| Retained earnings | 2,838 | 2,289 |
| Accumulated other comprehensive income (loss), net of tax of \$17 and \$54 | (14) | (86) |
| Treasury stock, at cost 88,167,959 and 85,562,546 shares | (2,347) | (2,318) |
| Total shareholders' equity of MBIA Inc. | 3,881 | 3,278 |
| Preferred stock of subsidiary and noncontrolling interest | 21 | 21 |
| Total equity | 3,902 | 3,299 |
| Total liabilities and equity | \$ 16,201 | \$ 16,953 |

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

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In millions except share and per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------|---------------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Premiums earned: | | | | |
| Scheduled premiums earned | \$ 64 | \$ 80 | \$ 196 | \$ 236 |
| Refunding premiums earned | 52 | 24 | 97 | 112 |
| Premiums earned (net of ceded premiums of \$4, \$2, \$8 and \$7) | 116 | 104 | 293 | 348 |
| Net investment income | 44 | 42 | 136 | 118 |
| Fees and reimbursements | 17 | 5 | 25 | 17 |
| Change in fair value of insured derivatives: | | | | |
| Realized gains (losses) and other settlements on insured derivatives | (24) | (28) | (417) | (1,548) |
| Unrealized gains (losses) on insured derivatives | 48 | 285 | 863 | 1,562 |
| Net change in fair value of insured derivatives | 24 | 257 | 446 | 14 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 57 | 5 | 63 | 62 |
| Investment losses related to other-than-temporary impairments: | | | | |
| Investment losses related to other-than-temporary impairments | (93) | - | (93) | - |
| Other-than-temporary impairments recognized in accumulated other comprehensive income (loss) | 79 | - | 79 | - |
| Net investment losses related to other-than-temporary impairments | (14) | - | (14) | - |
| Net gains (losses) on extinguishment of debt | - | 6 | 3 | 49 |
| Other net realized gains (losses) | 30 | (29) | 31 | (29) |
| Revenues of consolidated variable interest entities: | | | | |
| Net investment income | 12 | 13 | 37 | 43 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 8 | 17 | 34 | 128 |
| Net gains (losses) on extinguishment of debt | - | - | 4 | - |
| Other net realized gains (losses) | (3) | - | (3) | 1 |
| Total revenues | 291 | 420 | 1,055 | 751 |
| Expenses: | | | | |
| Losses and loss adjustment | 20 | 98 | 82 | 92 |
| Amortization of deferred acquisition costs | 13 | 9 | 31 | 36 |
| Operating | 46 | 71 | 141 | 280 |
| Interest | 52 | 59 | 158 | 179 |
| Expenses of consolidated variable interest entities: | | | | |
| Operating | 2 | 2 | 6 | 8 |
| Interest | 10 | 10 | 30 | 34 |