



Municipal Bond Insurance - Past, Present & Future

SFGFOA Annual Investment Seminar

August 18, 2016

Plantation, FL

Nick Sourbis



**national
public finance
guarantee**

Safe Harbor Disclosure

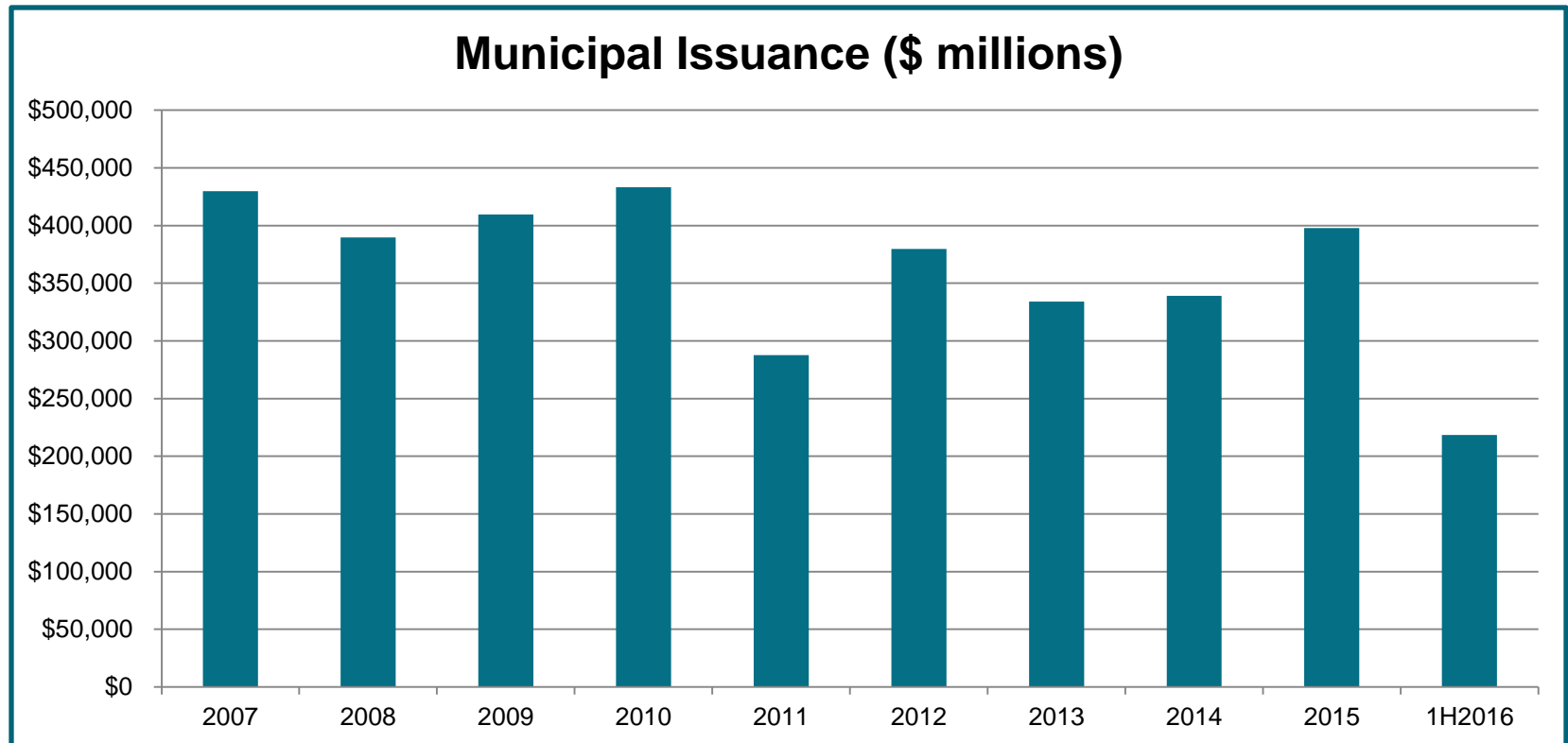
This presentation includes statements that are not historical or current facts and are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “believe”, “anticipate”, “project”, “plan”, “expect”, “estimate”, “intend”, “will likely result”, “looking forward”, or “will continue” and similar expressions identify forward-looking statements. Readers are cautioned that these statements are not guarantees of future performance or events. There are a variety of factors, many of which are beyond the control of National Public Finance Guarantee Corporation (“National”), that could affect the outcome of any events described herein or the operations, performance, business strategy and results of National and could cause its actual results to differ materially from the expectations and objectives expressed in any forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date they are made. National and MBIA Inc. do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made. Information on National should be read in conjunction with, and is qualified in its entirety by, the information filed by its parent company MBIA Inc. with the U.S. Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K, in particular with respect to risk factors associated with National.

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

U.S. Municipal Market Overview

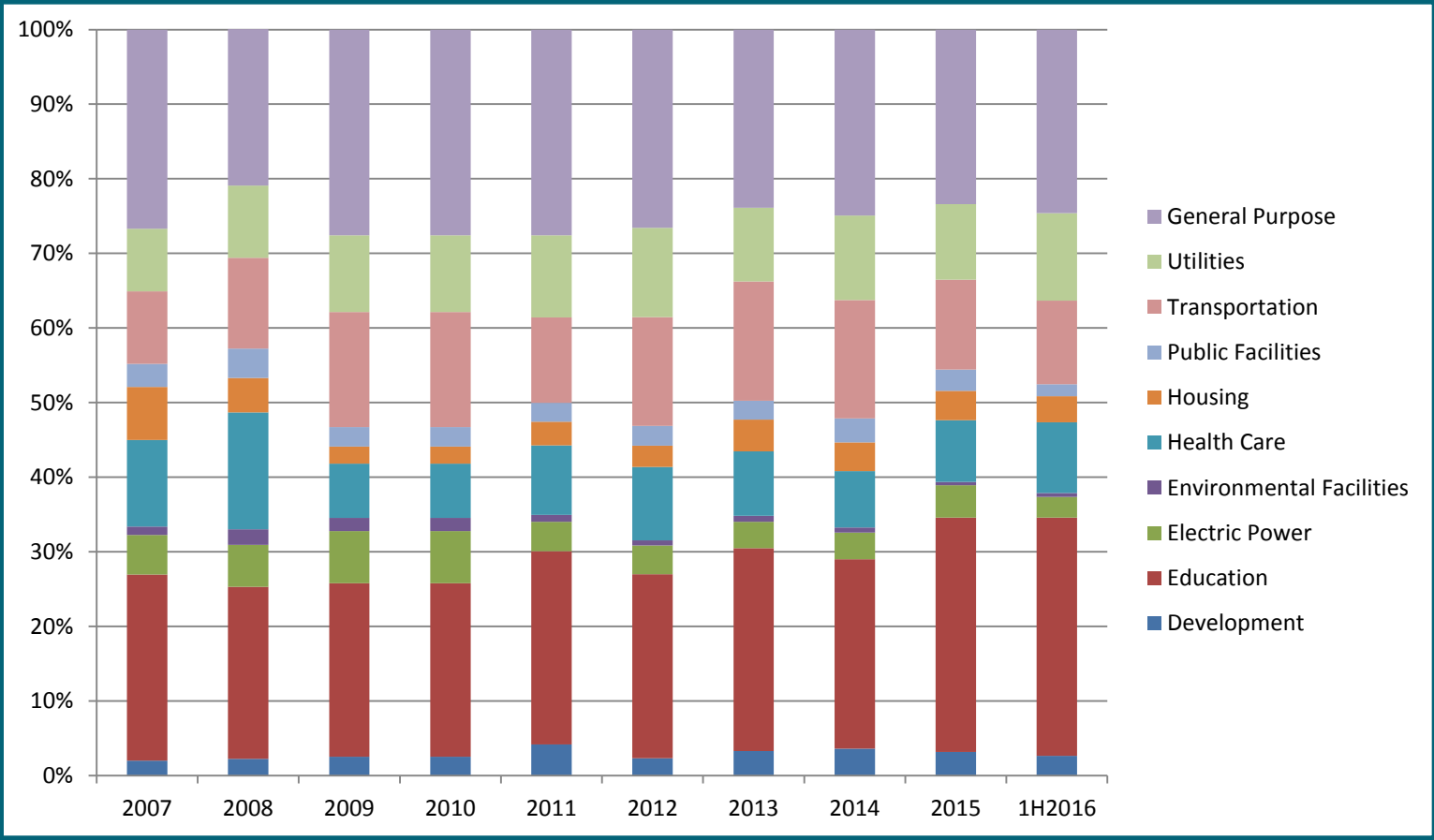


Municipal Market Annual Issuance



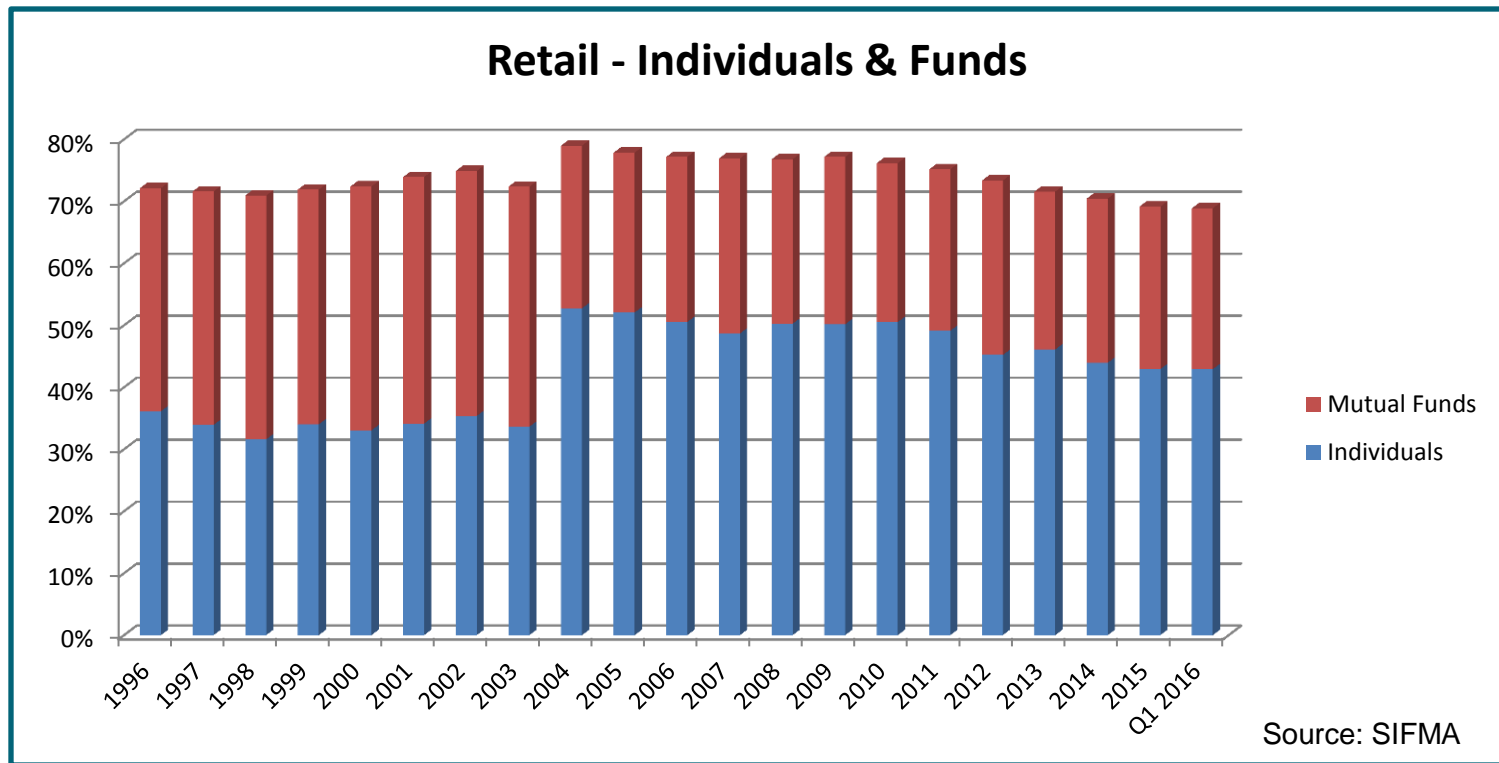
Source: The Bond Buyer

Municipal Market Annual Issuance – Bond Type



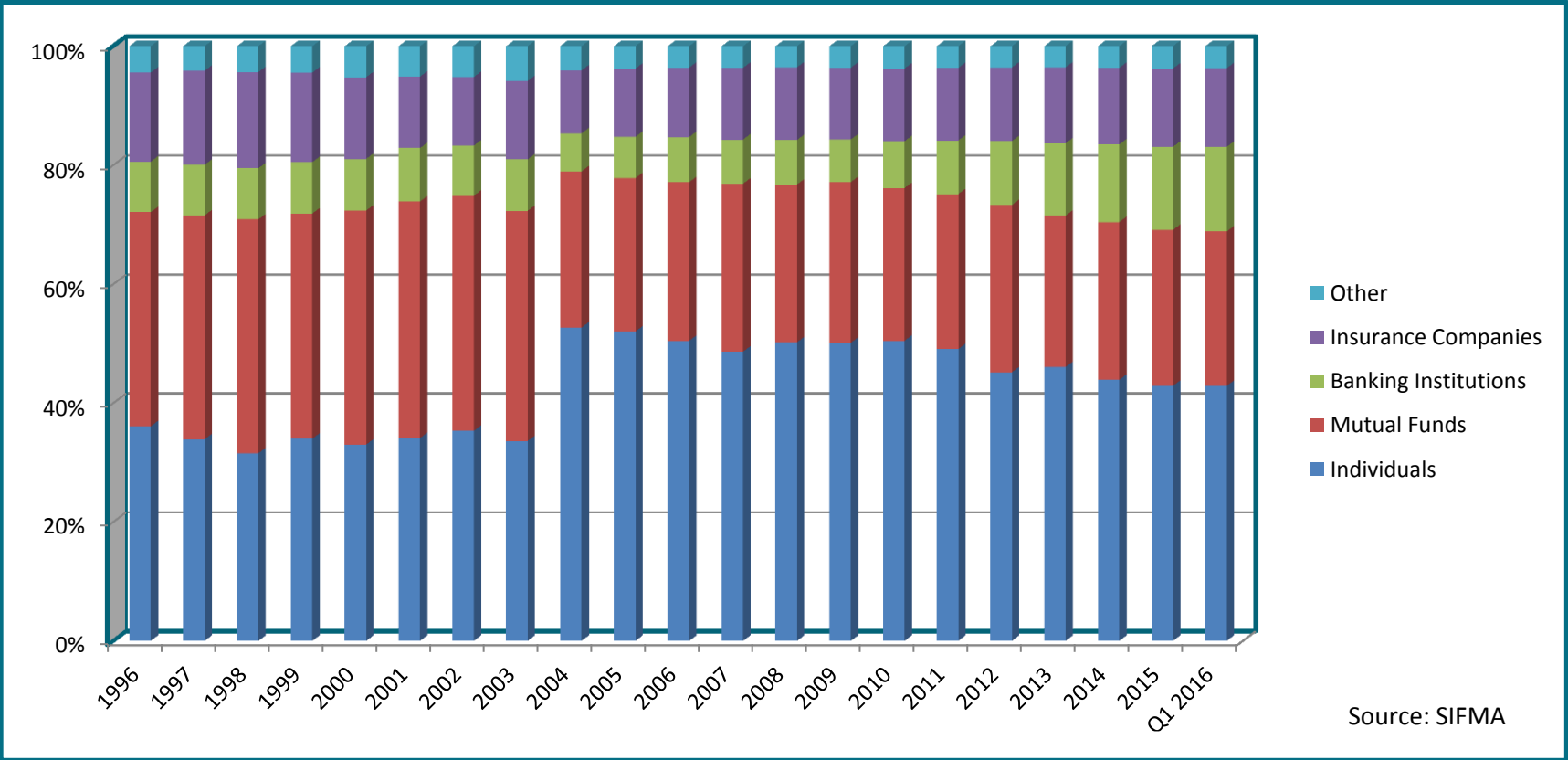
Source: The Bond Buyer

Municipal Holdings Dominated by Retail Investors



- Beginning with 1986 tax reform, retail ownership has grown as bank holdings have declined
- Retail holders have consistently demonstrated a desire for safety and security including third party credit enhancement
- Not surprisingly, the growth of bond insurance coincided with the growth of the retail investor base

Historical Municipal Bond Holdings (% of total)



Muni Market Overview

- \$3.7 trillion in bonds outstanding
- Over 50,000 governmental issuers
 - Over 90,000 when including Special Districts
- Over 1 million CUSIPs
- Over \$2.4 trillion bonds traded with over 9 million transactions in 2015
 - \$9.6 billion avg daily volume in 2015
 - 36,735 avg # of trades per day / Avg trade size approx. \$320,000 in 2015
 - Over 13,000 unique securities traded in 2015

Muni Market Overview

- Approximately 75% of Munis are “owned” by retail
 - Includes bonds held directly and bonds held by “proxy” by Mutual Funds, SMAs, ETFs, Closed-End Funds, Money Market Funds, UITs, etc.
- Very different from the Corporate Bond Market
 - \$8.2 trillion total outstanding vs. \$3.7 trillion for munis
 - Approximately 1,200 unique issuers vs. over 50,000 muni issuers
 - Avg daily volume over \$29.7 billion vs. \$9.6 billion for munis

Insured Market Commentary

Benefits of Bond Insurance

Investors	Issuers
Timely payment of P&I	Greater access to the capital markets
Enhanced liquidity for lesser known issuers	Lower funding cost
Price stability & protection	Diversification of investor base
Enhanced security / structuring & control rights	Single point of contact – document amendments
Remediation skill set	Increased Bonding Capacity – Sureties
Superior credit selection	Simplified credit story for complex bond issues
Simplified risk assessment	Certainty of execution

The Economics of Bond Insurance

Security Type (Same Issuer and Credit)	Rating	Interest Cost	
Uninsured GO Bond	S&P: A	4.0%	Yield determined based on issuer's underlying credit quality
Insured GO Bond	S&P: AA-	3.8%	Reduced yield is accepted by investors due to the higher rating and additional protection from bond insurance

Gross Interest Cost Savings	20 basis points
Cost of Insurance (total premium)	10 basis points
Net Savings from Insurance	10 basis points

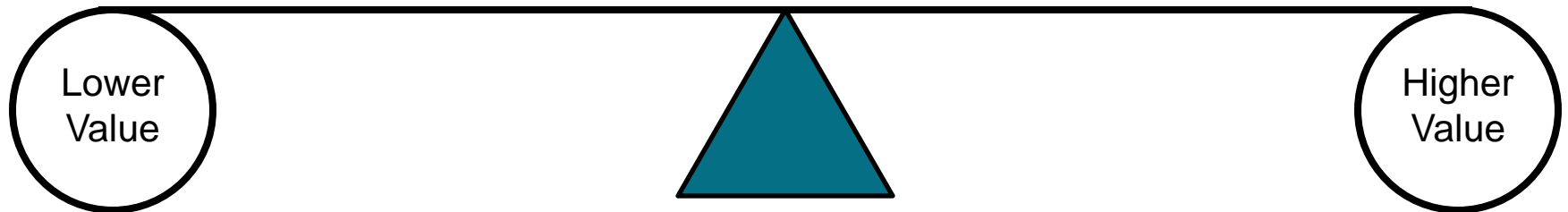
Since 2014, municipal issuers have saved more than \$500 million on a present-value basis through the use of bond insurance

Market Conditions Affect Value of Bond Insurance

Interest rates and general credit concerns impact insurance value

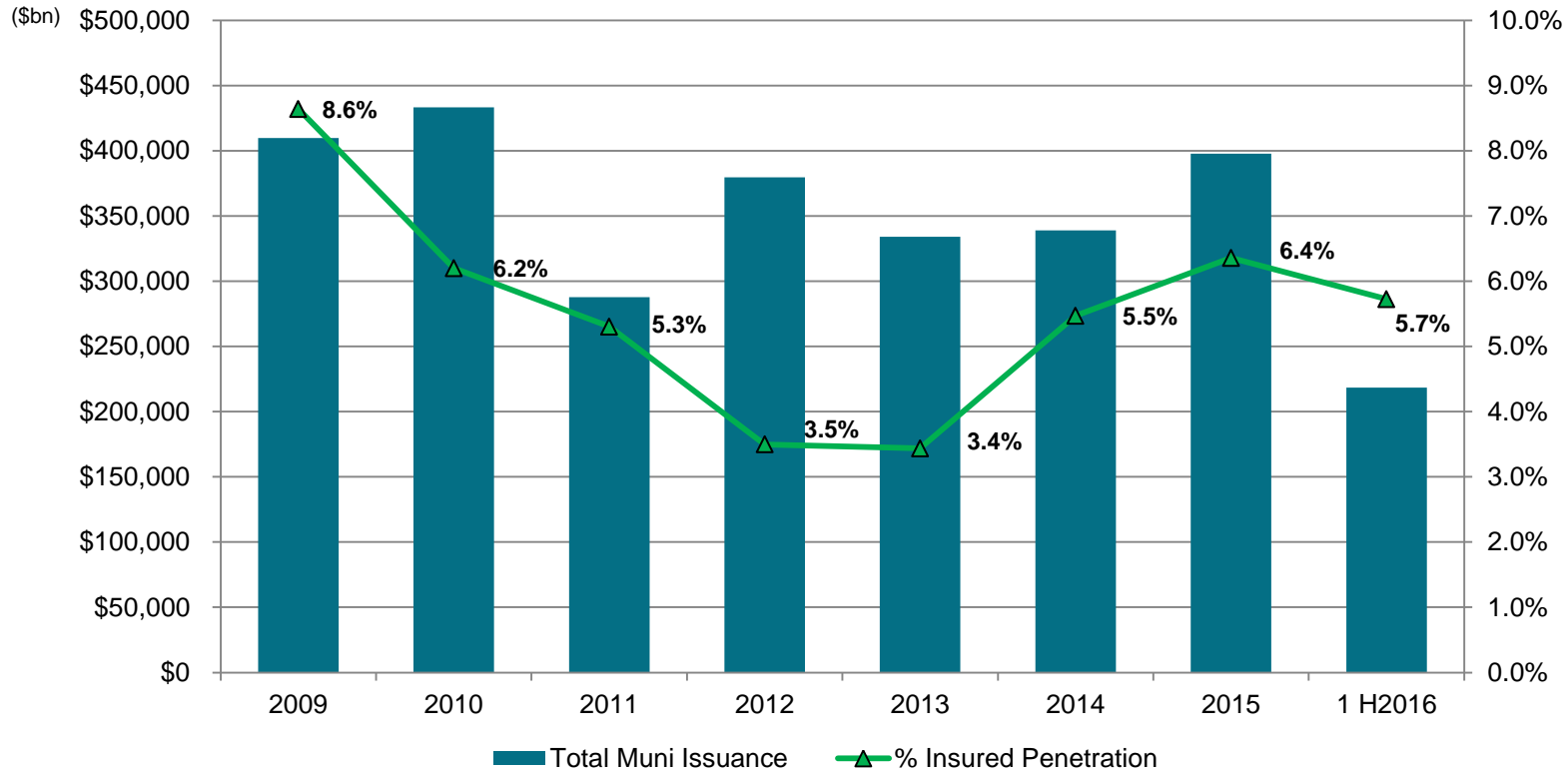
- Stable Interest Rates
- Low Credit Risk

- Volatile Interest Rates
- Heightened Credit Risk



Market is moving to a more volatile interest rate environment with increasing credit risk concerns

Industry Stabilization

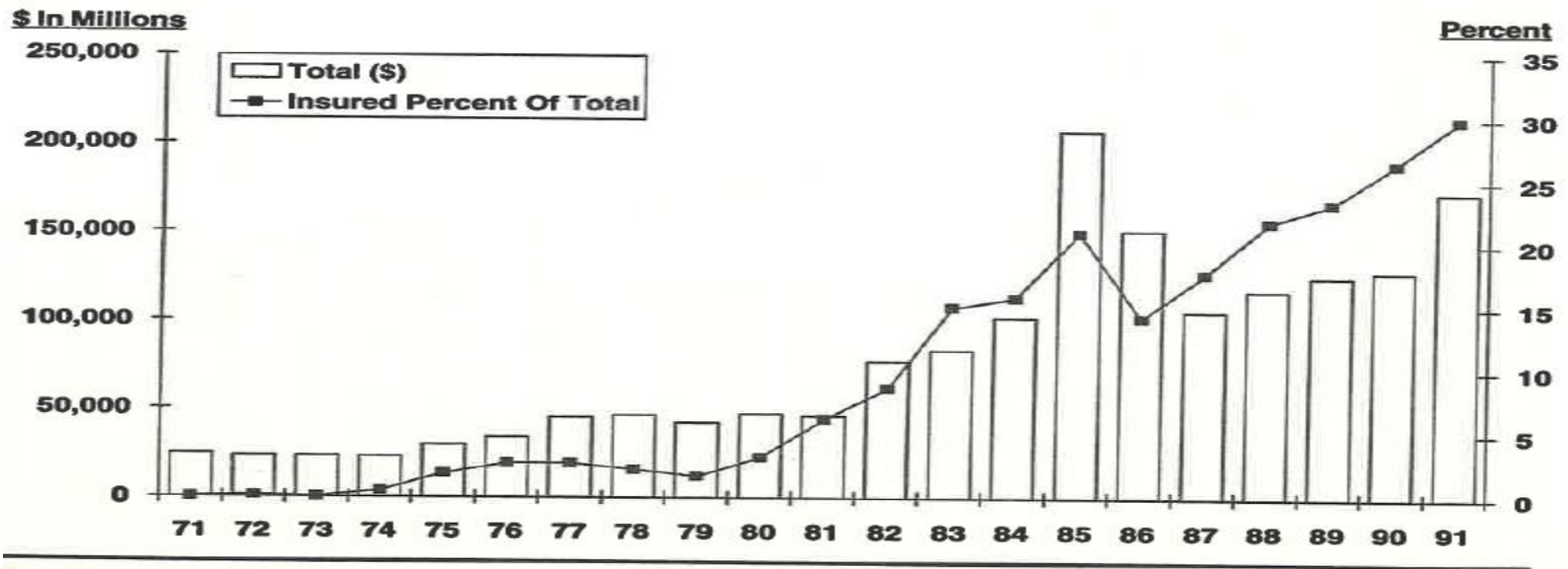


- Bond insurance usage trending positively during period of high profile remediations: Detroit, Stockton, San Bernardino, Puerto Rico

Source: The Bond Buyer

Historical Insured Penetration

New Issue Municipal Bonds (Total Volume versus Insured Percent of Total, 1971–1991)



Source: *The Bond Buyer Yearbook*, 1980–1991 editions; MBIA and AMBAC Reports.

The rebirth of the bond insurance industry will be faster than the genesis of the business, however, history demonstrates it requires diligence and a long-term view

Municipal Bond Market Statistics- “Big Picture”

Issuance:

	2007 Full Year	2015 Full Year	2016 - June YTD
Issuance (Par / Issues)	\$429.9B / 12,659	\$397.7B / 12,989	\$218.5B / 6,679
Bond Insurance	\$200.1B / 5,433	\$25.3B / 1,881	\$12.5B / 958
Insured Penetration	46.6% / 42.9%	6.4% / 14.5%	5.7% / 14.3%
Average Deal Size	\$34.0M	\$30.6M	\$32.7M
Average Insured Deal Size	\$36.8M	\$13.5M	\$13.0M

Market Activity:

	2007 (\$B)	% of Issuance	2015 (\$B)	% of Issuance	% Change '07 to '15	2016 June YTD (\$B)	% of June YTD Issuance
New-Money	274.3	64%	150.5	38%	-45%	86.5	40%
Refunding	75.9	18%	163.8	41%	+116%	90.5	41%
Combined	79.7	19%	83.4	21%	+4.6%	41.5	19%

In 2016 refundings continue to represent a large percentage of all issuance

Source: The Bond Buyer

Top 20 Largest Insured Issuers: 2007

Par Insured	Issuer	ST	Und Mdy	Und S&P	Use of Proceeds
\$ 2,778,185,000	Los Angeles Unified School District	CA	Aa3	AA-	Primary & Secondary Education
\$ 2,088,705,699	California Statewide Communities Dev. Authority	CA	A2/A3	AA-	Various
\$ 2,012,540,000	Citizens Property Insurance Corporation	FL	Aa3	A+	Gen Purpose/Pub Impt
\$ 1,911,270,000	Dormitory Authority of the State of New York	NY	Various	Various	Education/Gen Purpose/Pub Impt
\$ 1,735,350,065	District of Columbia	DC	A1	A+	Gen Purpose/Pub Impt/Housing
\$ 1,733,685,000	Miami-Dade County (FL)	FL	A2	A-	Airports
\$ 1,709,885,000	Illinois Finance Authority	IL	Aa3	AA	Gen Purpose/Pub Impt/Hospitals
\$ 1,644,770,000	The Commonwealth of Massachusetts (MA)	MA	Aa2	AA	Gen Purpose/Pub Impt
\$ 1,535,500,000	Port Authority of New York and New Jersey	NY	A1/A2	AA-/A+	Seaports/Marine Terminals/Gen Pur.
\$ 1,515,125,000	City of Chicago	IL	Aa3	AA-	Gen Purpose/Pub Impt
\$ 1,492,660,725	Puerto Rico Sales Tax Financing Corporation	PR	A1	A+	Gen Purpose/Pub Impt
\$ 1,368,310,000	Massachusetts School Building Authority (MA)	MA	Aa2	AA+	Primary & Secondary Education
\$ 1,348,185,000	City of Philadelphia (PA)	PA	A3	A-	Gen Purpose/Pub Impt
\$ 1,335,735,000	State of California (CA)	CA	A1	A+	Gen Purpose/Pub Impt
\$ 1,171,055,000	New Jersey Transportation Trust Fund Auth.	NJ	A1	AA-	Mass/Rapid Transit
\$ 1,072,656,000	Clark County (NV)	NV	Aa3	A+	Airports/General Purpose
\$ 1,065,171,311	New Jersey Economic Development Authority	NJ	A1	AA-	Parking Facilities/Economic Dev
\$ 1,020,000,000	Harris County Health Facilities Dev. Corp.	TX	Aa2/A2/NR	AA	Hospitals
\$ 1,006,075,000	East Bay Municipal Utility District	CA	Aa2/Aa3	AA+	Water & Sewer
\$ 1,000,000,000	Bay Area Toll Authority	CA	Aa3	AA	Bridges

- Includes aggregate debt insured by Issuer for 2007 – includes several sales throughout year
- Largest insured issuers were insured by various insurers: ACA, AGC, Ambac, CIFG, FGIC, FSA, MBIA, Radian, XL

Source: Ipreo

Top 20 Largest Insured Issuers: YTD 2016 (6/30)

Par Insured*	Issuer	ST	Und Mdy	Und S&P	Use of Proceeds
\$411,950,000	New York Transportation Development Corp	NY	Baa3	NR	Airports
\$180,000,000	Alameda Corridor Transportation Authority	CA	Baa2	BBB+	Mass/Rapid Transit
\$175,385,000	State Public School Building Authority	PA	NR	A	Primary & Secondary Education
\$171,685,000	Successor Agency to the RDA of the City of Pittsburg	CA	NR	BBB+	Gen Purpose/Pub Impt
\$154,660,000	Maryland Economic Development Corporation	MD	Baa2	NR	Higher Education
\$144,355,000	City of Cleveland	OH	Baa1	A-	Airports
\$137,225,000	Parking Authority of the City of New Brunswick	NJ	NR	A+	Parking Facilities
\$126,545,000	New Jersey Educational Facilities Authority	NJ	A2 / A3 / Baa1	A / NR	Higher Education
\$122,515,000	Grand Rapids Public Schools	MI	A1	NR	Primary & Secondary Education
\$118,820,000	City of Lancaster	PA	A1	NR	Gen Purpose/Pub Impt
\$114,640,000	Beaver County	PA	NR	A-	Gen Purpose/Pub Impt
\$112,600,000	Riverside Redevelopment Agency	CA	NR	A	Econ Dev
\$111,875,000	Greenwood Fifty School Facilities, Inc.	SC	A1	A-	Primary & Secondary Education
\$109,910,000	Elk Grove Unified School District	CA	NR	A	Primary & Secondary Education
\$103,375,000	Electric Plant Board of the City of Paducah	KY	Baa1	A-	Electric & Public Power
\$95,195,000	Colton Joint Unified School District	CA	A1 / NR	A+	Primary & Secondary Education
\$92,425,000	Evansville Redevelopment Authority	IN	NR	A	Gen Purpose/Pub Impt
\$91,750,000	Commonwealth of Pennsylvania	PA	Aa3	AA-	Gen Purpose/Pub Impt
\$88,900,000	Kern County Water Agency	CA	Aa3	A+	Water & Sewer
\$86,725,000	Hernando County School Board	FL	NR	NR	Primary & Secondary Education

* Includes aggregate debt insured by Issuer

Source: Ipreo

Insured Statistics: 2007

Top 20 Insurance Usage By Underwriter *

Lead Manager	Par Insured
Citigroup	\$ 30,003,933,830
UBS Securities	\$ 19,481,211,263
Merrill Lynch	\$ 17,403,007,218
Goldman Sachs	\$ 12,050,527,865
JPMorgan	\$ 10,136,631,562
Lehman Brothers	\$ 9,266,613,878
Morgan Stanley	\$ 9,020,848,402
RBC Capital Mkts	\$ 6,898,142,179
Bear Stearns	\$ 6,624,745,000
Piper Jaffray	\$ 6,581,492,606
Banc of America	\$ 6,565,275,416
Morgan Keegan	\$ 5,291,492,582
A.G. Edwards	\$ 3,655,355,743
Stone & Youngberg	\$ 3,578,959,199
Siebert Brandford	\$ 2,398,760,000
Wachovia Bank	\$ 2,366,476,358
George K. Baum	\$ 2,168,600,368
City Securities	\$ 1,940,465,000
Fifth Third Secs	\$ 1,618,006,174
Seattle-Northwest	\$ 1,562,883,342

Insured deals by S&P underlying rating

S&P Under.	Total Par	Percent of Insured Par
UNDEF	\$ 36,198,377,941	18.8%
AA-	\$ 35,930,459,837	18.6%
A+	\$ 29,309,403,398	15.2%
AA	\$ 23,939,432,705	12.4%
A	\$ 22,509,055,068	11.7%
NR	\$ 15,352,242,033	8.0%
A-	\$ 12,096,096,165	6.3%
AA+	\$ 8,516,113,144	4.4%
BBB+	\$ 3,064,210,803	1.6%
BBB-	\$ 2,167,464,983	1.1%
BBB	\$ 1,918,668,002	1.0%
AAA	\$ 1,264,677,000	0.7%
A-1+	\$ 217,865,000	0.1%
BB+	\$ 103,700,000	0.1%
SP-1+	\$ 86,475,000	0.0%
BB	\$ 75,000,000	0.0%

Citigroup accounted for 16% of total insured par

Insured deals by Moody's underlying rating

Moody's Under.	Total Par	Percent of Insured Par
UNDEF	\$ 39,045,118,642	20.3%
Aa3	\$ 39,037,347,629	20.3%
A1	\$ 31,653,912,429	16.4%
A2	\$ 23,729,990,478	12.3%
Aa2	\$ 19,014,171,699	9.9%
NR	\$ 17,191,707,555	8.9%
A3	\$ 12,343,620,991	6.4%
Aa1	\$ 4,099,084,289	2.1%
Baa1	\$ 2,502,488,173	1.3%
Baa2	\$ 2,064,051,143	1.1%
Baa3	\$ 1,489,838,050	0.8%
MIG1	\$ 259,425,000	0.1%
Aaa	\$ 218,815,000	0.1%
VMIG1	\$ 99,670,000	0.1%

Insured Deals By Offering Type

	Par Insured	Percent of Total Insured Par
Negotiated	\$157,151,064,924	82%
Competitive	\$ 35,498,586,154	18%

Source: Ipreo

* Top ten lead managers account for 66% of total insured par while the top twenty lead managers account for 82% of insured par

Insured Statistics: YTD 2016

Top 20 Insurance Usage By Underwriter *

Lead Manager	Par Insured
Stifel Nicolaus	\$2,023,124,659
Citigroup	\$1,407,485,450
RBC Capital Mkts	\$997,960,739
Raymond James	\$801,712,681
Morgan Stanley	\$767,573,353
Robert W. Baird	\$722,856,579
Piper Jaffray	\$559,630,000
Roosevelt & Cross	\$556,380,233
BA Merrill Lynch	\$507,025,000
SAMCO Cap Mkts	\$418,773,357
PNC Capital Markets	\$293,080,000
William Blair	\$291,315,000
Janney Montgomery	\$262,964,000
Boenning & Scattergood	\$224,870,000
Mesirow Financial	\$215,870,000
Crews & Associates	\$207,345,000
Hutchinson Shockey	\$193,585,000
Goldman Sachs	\$174,610,000
Hilltop Securities	\$173,015,000
Fifth Third Secs	\$160,465,000

* Top ten lead managers account for 68% of total insured par while the top twenty lead managers account for 85% of insured par

Insured deals by S&P underlying rating

S&P Underlying	Total Par	Percent of Insured Par
A+	\$3,552,652,746	27.7%
NR	\$3,372,201,574	26.3%
A	\$3,004,048,070	23.4%
A-	\$1,481,102,000	11.6%
BBB+	\$628,875,000	4.9%
AA-	\$354,925,266	2.8%
BBB	\$249,040,000	1.9%
AA	\$80,755,000	0.6%
BBB-	\$58,400,000	0.5%
A	\$39,715,000	0.3%

Insured deals by Moody's underlying rating

Moody's Underlying	Total Par	Percent of Insured Par
NR	\$7,776,641,664	60.7%
A1	\$1,413,125,267	11.0%
A2	\$950,508,660	7.4%
Baa1	\$689,763,871	5.4%
A3	\$641,815,000	5.0%
Baa3	\$504,185,000	3.9%
Aa3	\$420,650,193	3.3%
Baa2	\$395,475,000	3.1%
Aa2	\$29,550,000	0.2%

Insured Deals By Offering Type

	Par Insured	Percent of Total Insured Par
Negotiated	\$10,052,824,104	78%
Competitive	\$2,768,890,551	22%

Source: Ipreo

Competitive Landscape

2007	Par Insured	Market Share (by Par)	Number of deals
Ambac	\$46,079,638,039	24.3%	974
ACA	\$ 623,697,774	0.3%	24
AGC	\$ 3,364,189,000	1.8%	128
CIFG	\$ 4,293,321,868	2.3%	334
FGIC	\$28,973,909,071	15.3%	329
FSA	\$46,477,794,964	24.5%	1,586
MBIA	\$44,570,416,856	23.5%	938
Radian	\$ 2,282,020,000	1.2%	195
XL	\$13,109,291,258	6.9%	534
Total	\$189,774,278,829		5,042

YTD 7/16	Par Insured	Market Share (by Par)	Number of deals
AGM & MAC	\$7,295,824,804	51%	474
BAM	\$6,479,809,959	45%	502
National	\$502,370,000	4%	47
	\$14,278,004,763		1,023

Source: IPREO

Competitive Landscape

- Municipal only business model, initially proposed by MBIA, has become an industry trend
- Embedded profitability of monoline business model predicated on existence of a large back book
- Size, liquidity and quality of underlying insured portfolios provides market support to issuers and investors

Rating Agency Approaches

- *Kroll (AA+ Stable)*
 - Traditional bond insurer claims-paying capability analysis
 - Rating based on evaluation of insured portfolio and ability of claims-paying resources to support potential losses
 - Rates two of the active bond insurers
- *S&P (AA- Stable)*
 - Combines capital adequacy with ongoing enterprise value analysis
 - National deemed to have “extremely strong capital adequacy” and a strong competitive position
 - Rates all three active bond insurers
- *Moody’s (A3 Negative)*
 - Current criteria effectively caps bond insurer ratings in the Single-A category
 - Rating analytics include a significant emphasis on new business generation and market share
 - Rates two of the active bond insurers

U.S. Public Finance Sector Opportunities

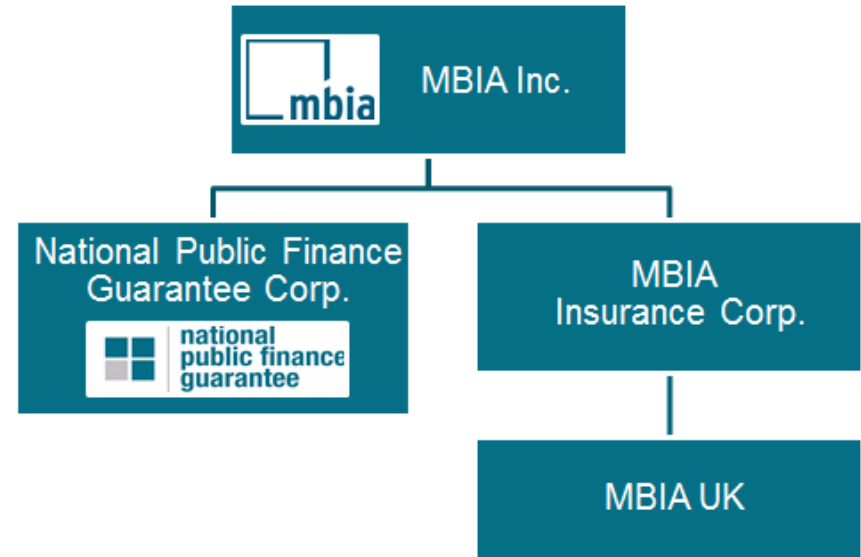
- Local Government Obligations and Tax Supported
- State Obligations
- Water and Sewer
- Transportation
- General Fund Obligations
- Electric and Gas
- Other Local Tax Backed
- Healthcare
- Tax Allocation Bonds
- Housing
- Private Higher Education and Not for Profit
- Public Infrastructure

Who Is National Public Finance Guarantee?



National Public Finance Guarantee (“National”)

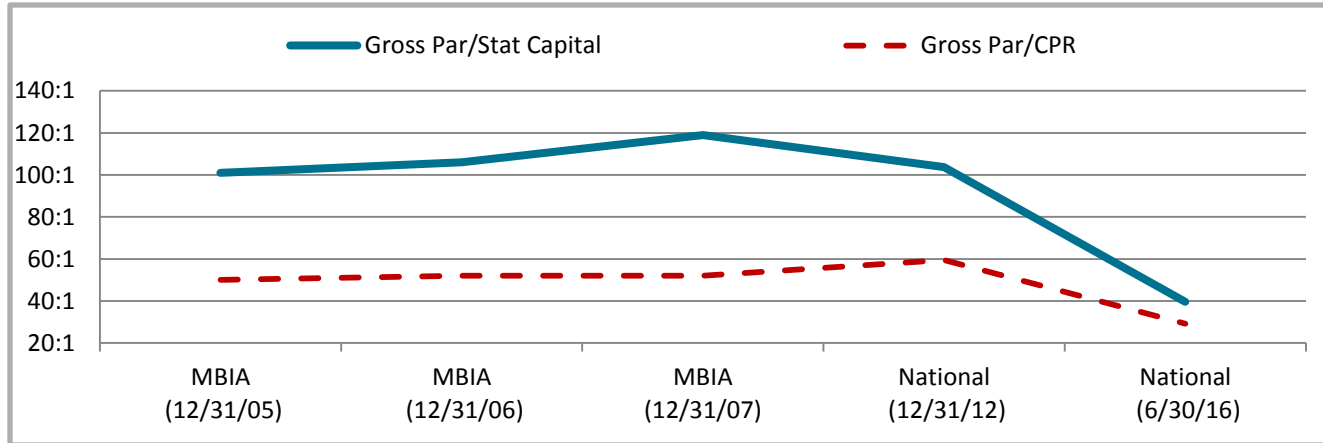
- *Largest municipal-only bond insurer, as measured by insured par*
 - \$138.5 billion insured portfolio
 - Rated AA+ stable (Kroll), AA- stable (S&P) and A3 negative (Moody’s)
- *Exceptional financial strength*
 - Claims-Paying Resources of \$4.7 billion, supported by a high quality investment portfolio
- *National’s unique value proposition*
 - Frequently traded and liquid insured portfolio
 - A “start-up” with 40 years experience
 - Proactive monitoring of a wide range of credit and legal issues
 - Bond trading levels demonstrate significant value ascribed to National’s insurance



Data as of June 30, 2016

National - Lower Leverage Post Financial Crisis

	National (6/30/16)	National (12/31/12)	MBIA (12/31/07)
Gross Par Outstanding (\$ in billions)	\$139	\$337	\$762
U.S. Public Finance	100%	100%	60%
Statutory Capital (\$ in millions)	\$3,497	\$3,248	\$6,382
Claims Paying Resources (\$ in millions)	\$4,737	\$5,659	\$14,562
Gross Par/Statutory Capital (lower is better)	40:1	104:1	119:1
Gross Par/Claims Paying Resources (lower is better)	29:1	60:1	52:1



National's leverage, with a 100% municipal-only portfolio, is lower than pre-crisis Triple-A rated MBIA

National's Business Strategy

- National will only provide financial guarantees for U.S. Public Finance credits
 - includes sureties for debt service reserve and similar funds
- Business plan incorporates steady ramp-up of new business subject to:
 - Managing to National's conservative underwriting standards
 - Adherence to National's risk limits (single risk, sector & geographic) which reduce and prevent concentration of risk within a sector or to an issuer
- National's investment portfolio is managed with a focus on high quality, liquid fixed income investments

New Business Development

Nick Sourbis
Head of Investor Relations
(914) 765-3385
nicholas.sourbis@nationalpfg.com

Primary Market Inquiries
pubfin@nationalpfg.com

Secondary Market Inquiries
secondary@nationalpfg.com
(866) 685-9090

www.nationalpfg.com



**national
public finance
guarantee**