April 2010

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# Highlights

Highlights of GAO-10-475, a report to congressional committees

# TROUBLED ASSET RELIEF PROGRAM

## Update of Government Assistance Provided to AIG

### Why GAO Did This Study

Assistance provided by the Department of the Treasury (Treasury) under the Troubled Asset Relief Program (TARP) and the Board of Governors of the Federal Reserve System (Federal Reserve) to American International Group, Inc. (AIG)—a holding company that, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad—represents one of the federal government's largest investments in a private sector institution since the financial crisis began in 2008. Treasury and the Federal Reserve provided assistance to AIG in September 2008 that was restructured in November 2008 and March 2009. As part of GAO's statutorily mandated oversight of TARP, this report updates the risk and repayment indicators GAO originally reported in September 2009 (GAO-09-975). Specifically in this report, GAO discusses (1) trends in AIG's financial condition, (2) trends in the unwinding of AIG Financial Products (AIGFP), (3) the financial condition of AIG's insurance companies, and (4) the status of AIG's repayment of its federal assistance. To update the indicators, GAO primarily used data as of December 31, 2009, and more current publicly available information; reviewed rating agencies' reports; identified critical activities; and discussed them with officials from Treasury, Federal Reserve, and AIG.

Treasury, Federal Reserve, and AIG provided technical comments that are incorporated, as appropriate.

View GAO-10-475 or key components.
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### What GAO Found

Since our last report in September 2009, AIG's financial condition has remained relatively stable, as measured by several indicators, largely due to the federal assistance provided by the Federal Reserve and Treasury to assist AIG as a result of their determination that the company posed systemic risk to the financial system. Specifically, the Federal Reserve and Treasury have made more than $182 billion available to assist AIG since March 2008. As of December 31, 2009, the outstanding balance of the assistance provided to AIG was $129.1 billion, about $8.4 billion more than the balance on September 2, 2009 (see table). The federal assistance also appears to be facilitating a more orderly restructuring of the company. GAO's indicators show that, in general, the improvements in AIG's condition in the second quarter of 2009 continued into the third and fourth quarters due largely to ongoing federal assistance.

Several indicators show that AIGFP has continued to unwind its credit default swap positions. AIGFP also has shown progress in unwinding its Super Senior credit default swap portfolio but has made less progress in reducing the remaining multi-sector collateralized debt obligations (securities backed by a pool of bonds, loans, or other assets) portfolio. Several indicators on the status of AIG's insurance companies illustrate that AIG's insurance operations are showing signs of recovery, but federal assistance has been a critical factor. For the first time since the second quarter of 2008, additions to AIG life and retirement policyholder contract deposits have exceeded withdrawals. AIG's property/casualty companies also have shown some improvements.

AIG is continuing to repay its debt to the federal government, but much of the progress reflects the numerous exchanges of debt that AIG owed the Federal Reserve Bank of New York Revolving Credit Facility (facility) with various issues of preferred equity. As a result of this shift from debt to equity, which has occurred gradually, the authorized amount of the facility has decreased and the amount of preferred equity interests held in AIG and various special purpose vehicles for the government has increased. For example, as of December 30, 2009, the amount of assistance available to AIG through the facility had dropped to $35 billion and the amount AIG owed the facility had dropped to $23.4 billion, while the amount of equity or equity interest held by the government increased to almost $95 billion. Consequently, the government's exposure to AIG is increasingly tied to the future health of AIG, its restructuring efforts, and its ongoing performance. However, the sustainability of any positive trends in AIG's operations depends on how well it manages its business in this current economic environment. Similarly, the government's ability to fully recoup the federal assistance will be determined by the long-term health of AIG, the company's success in selling businesses as it restructures, and other market factors such as the performance of the insurance sectors and the credit derivatives markets that are beyond the control of AIG or the government. We will continue to monitor these issues in our future work.

**Overview of Federal Assistance Provided to AIG as of December 31, 2009**

Dollar in billions

| | Description of the federal assistance | Amount of assistance authorized: Debt | Amount of assistance authorized: Equity | Outstanding balance | Sources to repay the government |
|---|---|---|---|---|---|
| **Implemented** | | | | | |
| **Federal Reserve** | Federal Reserve Bank of New York (FRBNY) created a Revolving Credit Facility to provide AIG a revolving loan that AIG and its subsidiaries could use to enhance their liquidity positions. In exchange for the facility and $0.5 million, a trust received Series C preferred stock for the benefit of the Treasury, which gave the trust a 77.9 percent voting interest in AIG. | $35[a] | N/A | $23.435 | Proceeds from dispositions of AIG businesses, internal cash flows, and restructuring part of the Revolving Credit Facility from debt into equity. The initial commitment fee paid by AIG was reduced by $0.5 million to pay for the Series C shares. The trust must reimburse FRBNY for this amount when it disposes of the Series C shares. |
| | FRBNY created a special purpose vehicle (SPV)—Maiden Lane II—to provide AIG liquidity by purchasing residential mortgage backed securities from AIG life insurance companies. FRBNY provided a loan to Maiden Lane II for the purchases. FRBNY also terminated its securities lending program with AIG, which had provided additional liquidity associated with AIG's securities lending program when it created Maiden Lane II. | 22.5 | N/A | 15.739[b] | Proceeds from asset sales in Maiden Lane II will be used to repay the FRBNY loan to Maiden Lane II. |
| | FRBNY created an SPV called Maiden Lane III to provide AIG liquidity by purchasing collateralized debt obligations from AIG Financial Products' counterparties in connection with the termination of credit default swaps. FRBNY again provided a loan to the SPV for the purchases. | 30 | N/A | 18.159[b] | Proceeds from asset sales in Maiden Lane III will be used to repay the FRBNY loan. |
| | AIG created two SPVs, one for one for American International Assurance Company, Ltd (AIA) and one for American Life Insurance Company (ALICO), to hold the shares of certain of its foreign life insurance businesses to enhance AIG's capital and liquidity, and facilitate an orderly restructuring of AIG. FRBNY received on December 1, 2009, preferred equity interests in the SPVs of $16 billion and $9 billion, respectively, in exchange for reducing debt by AIG owed on the Revolving Credit Facility. The SPVs allowed AIG to strengthen its balance sheet by reducing debt and increasing equity and also were intended to facilitate dispositions to generate cash for repayment. | N/A | 25 | 25 | On March 1, 2010, AIG announced agreement to sell AIA to Prudential PLC for approximately $35.5 billion (approximately $25 billion in cash plus $10.5 billion in equity linked securities and preferred stock). On March 8, 2010, AIG announced agreement to sell ALICO to Met Life for approximately $15.5 billion ($6.8 billion in cash plus $8.7 billion in Met Life equity and equity-linked securities). |
| **Treasury** | Treasury purchased Series D cumulative preferred stock of AIG. AIG used the proceeds to pay down part of the Revolving Credit Facility. Series D stock was later exchanged for Series E noncumulative preferred stock. Unpaid dividends on the Series D shares were added to the principal amount of Series E stock that Treasury received. | N/A | 40 | 41.605 | Proceeds from dispositions of AIG businesses and internal cash flows of AIG. |
| | Treasury purchased Series F noncumulative preferred stock of AIG. Treasury has committed to provide AIG with up to $29.835 billion through an equity capital facility to meet its liquidity and capital needs in exchange for an increase in the aggregate liquidation preference of the Series F shares. | N/A | 29.835 | 5.179 | Proceeds from dispositions of AIG businesses and internal cash flows of AIG. |
| | **Subtotals** | **$87.5** | **$94.835** | | |
| | **Total authorized and outstanding assistance[c]** | | **$182.335** | **$129.117** | |

Source: AIG SEC filings, Federal Reserve, and Treasury data.

Notes: Analysis does not include AIG's government debt under the FRBNY Commercial Paper Funding Facility of $4.739 billion as of December 31, 2009. This facility expired for new issuances on February 1, 2010, and will close upon maturity of all remaining commercial paper outstanding.

[a]The facility was initially $85 billion, was reduced to $60 billion in November 2008, and was reduced to $35 billion in December 2009. Balance shown includes accrued interest and fees of $5.535 billion.

[b]Government debt shown for Maiden Lane facilities as of December 31, 2009, are principal only and do not include accrued interest of $265 million for Maiden Lane II and $340 million for Maiden Lane III. Principal owed as of March 31, 2010, was $14.970 billion for Maiden Lane II and $16.929 billion for Maiden Lane III.

[c]Does not include AIG's participation in the Federal Reserve's Commercial Paper Funding Facility.