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Highlights

Highlights of GAO-11-46, a report to congressional addressees

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) represents one of the federal government's largest investments in a private-sector institution since the financial crisis began in 2008. AIG is a holding company that, through its subsidiaries, engaged in a broad range of insurance and insurance-related activities in the United States and abroad.

As part of GAO's statutory oversight of TARP, this report updates a set of indicators GAO last reported in April 2010. Specifically, GAO discusses (1) trends in AIG's financial condition, (2) trends in the unwinding of AIG Financial Products (AIGFP) and the financial condition of AIG's insurance companies, and (3) the status of the government's exposure to AIG. To update the indicators, GAO primarily used available public filings as of September 30, 2010, and more current publicly available information; reviewed rating agencies' reports; and identified critical activities and discussed them with officials from Treasury, the Federal Reserve, and AIG.

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

View GAO-11-46 or key components.
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TROUBLED ASSET RELIEF PROGRAM

Third Quarter 2010 Update of Government Assistance Provided to AIG and Description of Recent Execution of Recapitalization Plan

What GAO Found

Largely due to the federal assistance Treasury and the Federal Reserve provided to AIG, as measured by several indicators, AIG's financial condition has generally remained relatively stable or showed signs of improvement since GAO's last report in April 2010. As of September 30, 2010, the outstanding balance of the Federal Reserve and Treasury assistance to AIG was $123.7 billion, down from $129.1 billion in December 2009 (see table). Overall, federal assistance appears to be facilitating a more orderly restructuring of the company.

Several indicators show that AIGFP has continued to unwind its credit default swap positions and its portfolio of super senior credit default swaps. Several indicators on the status of AIG's insurance companies illustrate that its insurance operations are showing signs of recovery, but federal assistance has been a critical factor. In particular, in the first three quarters of 2010, additions to AIG life and retirement policyholder contract deposits exceeded withdrawals and the companies' pretax operating incomes, which increased slightly in 2009 remained positive. AIG's property/casualty companies have remained stabilized.

AIG repaid some of its debt to the federal government, but a larger volume of activity involved exchanging AIG's debt on the revolving credit facility (facility) with the Federal Reserve Bank of New York (FRBNY) for federally owned preferred interests in AIG ($40 billion) and AIA Group Limited (AIA) and American Life Insurance Company (ALICO) special purpose vehicles (SPV) ($25 billion). 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 SPVs for the government has increased. For example, as of September 30, 2010, the amount of assistance available to AIG through the facility had been reduced to $29.2 billion and the amount AIG owed the facility was reduced to $20.5 billion. Also, FRBNY'S preferred interests in the SPVs created to hold the shares of certain foreign life insurance companies—AIA and ALICO—have increased nearly $1 billion and the Series F stock held by Treasury has increased more than $2 billion since December 31, 2009. Upon the execution of the recapitalization plan on January 14, 2011, all of the government's assistance to AIG is now in the form of common stock and preferred interests. Consequently, the government's, and thus the taxpayer's, exposure to AIG increasingly is expected to be tied to the success of AIG, its ongoing performance, and its value as seen by investors of AIG's common stock. The sustainability of any positive trends in AIG's operations depends on how well AIG manages its business, and the government's ability to fully recoup the federal assistance will be determined by the long-term health of AIG and subject to uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. GAO will continue to monitor these issues in its future work.

Overview of Federal Assistance Provided to AIG as of September 30, 2010

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	FRBNY created a revolving credit facility to provide 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 Treasury, which gives the trust an approximately 79.75 percent voting interest in AIG.	$29.175[a]	n/a	$20.470	On January 14, 2011, AIG announced that it executed the signed recapitalization plan, which stated that AIG is using the net cash proceeds from the recent AIA IPO and the sale of ALICO to MetLife to repay the FRBNY revolving credit facility.
	FRBNY created a 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	13.656[b]	Proceeds from asset sales in Maiden Lane II will be used to repay the FRBNY loan.
	FRBNY created an SPV called Maiden Lane III to provide AIG liquidity by purchasing collateralized debt obligations from AIGFP counterparties in connection with the termination of credit default swaps. FRBNY again provided a loan to the SPV for the purchases.	30	n/a	14.638[b]	Proceeds from asset sales in Maiden Lane III will be used to repay the FRBNY loan.
	AIG created two SPVs, one for AIA and one for ALICO, to hold the shares of certain of its foreign life insurance businesses. On December 1, 2009, FRBNY received preferred interests in the SPVs of $16 billion and $9 billion, respectively, in exchange for reducing debt 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 of the federal assistance.	n/a	25	25.955	On November 1, 2010, AIG announced the completion of an initial public offering of AIA on the Hong Kong Stock Exchange that generated gross proceeds of $20.51 billion. Also, on November 1, 2010, AIG announced that it had closed on the sale of ALICO to MetLife for approximately $16.2 billion, of which $7.2 billion is in cash. The cash proceeds will allow AIG to fully repay and close the revolving credit facility on closing of the recapitalization plan.
Treasury	Treasury purchased Series D cumulative preferred stock of AIG. AIG used the proceeds to pay down part of the FRBNY 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	7.378[c]	Proceeds from dispositions of AIG businesses and internal cash flows of AIG.
Subtotals		**$81.675**	**$94.835**		
Total authorized (debt and equity)			**$176.510[d]**		
Total outstanding assistance				**$123.702**	

Source: GAO analysis of AIG Securities and Exchange Commission filings, Federal Reserve, and Treasury data.

[a]The borrowing limit on the revolving credit facility was initially $85 billion, but was reduced to $60 billion in November 2008 and then reduced again to $35 billion in December 2009. The facility was reduced to $34.2 billion by March 31, 2010, to $33.728 billion by June 30, 2010, and to $29.175 billion by October 6, 2010; these reductions were attributed to repayments from proceeds obtained from the sale of various assets and businesses. The authorized and outstanding balances ast of September 30, 2010, shown above, include outstanding principal and exclude accrued interest and fees of $6.182 billion. The AIG loan balance reported in the H.4.1 reflects the outstanding principal balance, capitalized interest, unamortized deferred commitment fees, and the allowance for the loan restructuring, which was initially recorded in July 2009.

[b]Government debt shown for Maiden Lane facilities as of September 29, 2010, are principal only and do not include accrued interest of $408 million for Maiden Lane II and $499 million for Maiden Lane III.

[c]As of January 14, 2011, AIG had drawn down approximately $21 billion as part of the restructuring plan.

[d]The Federal Reserve and Treasury had made $182.3 billion in assistance available as of December 31, 2009. This amount was subsequently reduced to $176.5 billion.