AIG reassures investors about subprime holdings

by AP-News

(AP) NEW YORK â€“ American International Group on Thursday told investors the housing market would have to spiral into Depression-era levels before the insurer would be harmed by its exposure to the overall residential mortgage market.

The world's largest insurer has exposure to subprime loans â€“ those made to people with tainted credit â€“ as a lender, investor in mortgage-backed securities and supplier of mortgage insurance. But AIG characterized its exposure as minimal and said it would take declines of 30 percent to 40 percent in home values to dent the market for mortgages with stronger ratings, where most of its holdings lie.

AIG also reassured investors that it has ample enough cash and "doesn't need to liquidate any of its investment securities in a chaotic market."

As conditions in the credit market have tightened, investors have been sensitive to any sign of a ripple effect in which the fallout from defaults on subprime loans would spread to other parts of the lending market. Any news of subprime mortage or credit problems has sent stock prices reeling; on Thursday, the Dow Jone industrials were down by triple digits on concerns about liquidity in the credit markets.

"We believe that it would take declines in housing values to reach Depression proportions â€“ along with default frequencies never experienced â€“ before our AAA and AA investments would be impaired," said Chief Risk Officer Bob Lewis, in a conference call with analysts on Thursday.

Home prices would have to slide by more than a third, and defaults among borrowers with strong credit would have to balloon above 45 percent, to begin to affect the AAA and AA bundles of securities, the company said.

As an investor, AIG has about $94.6 billion in residential mortgage market holdings, equal to about 11 percent of its total invested assets. Of that, $28.7 billion of that, or 30 percent, are in subprime residential mortgage-backed securities.

AIG has said repeatedly that it is "very comfortable with the size and quality of its investment portfolios."

AIG's American General Finance, which originates mortgages, has about $6 billion of its $19.2 billion real estate portfolio invested in the subprime space.

Chief Executive Martin Sullivan told investors that the company remains "well-positioned, even in the event of further deterioration in this market."

AIG shares fell about 1.75 percent Thursday amid the broader downturn in the market. The stock traded down $1.14 at $65.34 in afternoon trading.

On Wednesday, after the market close, AIG reported a 34 percent jump in second-quarter profit on growth in its general and life insurance businesses. Its mortgage guaranty unit posted an operating loss, but the business accounts for a relatively small part of the company's overall earnings.
