

AIG's 3Q Report Should Offer More Clues On Subprime Exposure

by dow-jones

CHICAGO -(Dow Jones)- American International Group Inc.'s (AIG) third-quarter earnings report, expected to be released after the market close Wednesday, should provide a window on the extent of its exposure to subprime loans since August, when Chief Executive Martin J. Sullivan said he was "very comfortable" with the insurance giant's U.S. residential mortgage-market holdings.

New York-based AIG has potential exposure on multiple fronts, including business segments that offer mortgage originations and mortgage insurance.

AIG also has investments in mortgage-backed securities and credit-default protection it provides on collateralized debt obligations, or CDOs. These investment vehicles have triggered a lot of concern in the insurance sector, although AIG has said it doesn't foresee losses there.

Broad worries about subprime-mortgage exposure have rattled the sector, and lenders and mortgage insurers have already reported mixed third-quarter results that include rising losses tied to subprime mortgages. Among them are Genworth Financial Inc. (GNW) and Old Republic International Corp.(ORI), which predicted that the market downturn will continue for at least another year.

Such concerns have also pressured AIG, whose shares fell to a 52-week low of \$ 56.37 on Friday. Shares fell from the 52-week high of \$72.97 reached in May as problems in the U.S. residential market and investor concerns about subprime exposure widened.

Investor worry has centered on the prospect of companies taking losses as housing prices fall and some borrowers find themselves unable to refinance or make payments on adjustable mortgages that reset to higher rates.

AIG shares recently rose 3.7% to \$61.73, recovered a bit since Friday thanks to former Chairman and Chief Executive Maurice "Hank" Greenberg.

Greenberg said in a regulatory filing after Friday's close that a shareholder group he leads, which holds a stake of more than 13% in AIG, believes "that there are opportunities to significantly improve the Issuer's performance and strategic direction," and also the value of the shareholders' investment.

Greenberg's move was seen as a positive signal since it showed that AIG's " largest shareholder group also believes that the shares remain very undervalued at current prices," said Goldman Sachs analyst Thomas V. Chohnoky in a recent research note.

Analysts surveyed by Thomson Financial are expecting, on average, that AIG will post third-quarter earnings of \$1.62 a share; the company earned \$1.52 a share a year ago.

Much subprime-related concern in the insurance sector has centered around financial guarantors who sell credit protection called credit default swaps on CDOs, which package subprime mortgage loans into highly rated securities.

Companies including AIG offer protection against defaults in the CDOs. At the end of the second quarter, AIG had \$64 billion in exposure to CDOs backed at least partly by subprime loans.

The insurer said in August, however, that it does not expect to realize any losses from its CDO exposure. The company stopped offering the protection to CDOs backed by subprime collateral in December 2005, at the very beginning of the market decline. Its exposure to 2006 and 2007 vintage loans in its CDO coverage is \$31 million.

By Lavonne Kuykendall, Dow Jones Newswires
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