A.I.G. Takes a Hit of $1.95 Billion on Housing Investments

by The-New-York-Times

The American International Group, the worldâ€™s largest insurance company, said yesterday that it wrote down nearly $2 billion in investments related to mortgages in the third quarter and expected to write down an additional $550 million in the next quarter.

The reduction in value in A.I.G.â€™s investments, detailed as part of its third-quarter earnings report, was the latest in a string of write-downs from big financial institutions and underscored the gravity of the growing crisis in housing-related investments. Merrill Lynch, Citigroup and Morgan Stanley have reported billions in write-downs over the last month.

A.I.G.â€™s write-downs were smaller than many on Wall Street had anticipated, and some analysts said they expected the companyâ€™s announcement to feed uncertainty about the extent of its exposure to the troubled mortgage-related investments. A result, they said, could be a further slide in the companyâ€™s already declining stock price. Some investors had expected a write- down of as much as $10 billion.

Before the announcement, A.I.G.â€™s shares closed down $4.15, or 6.7 percent, at $57.90, far below its price of about $75 two years ago. They fell as low as $56.50 after hours.

â€œSome people are skeptical that A.I.G. has made the correct assessmentâ€• of its exposure, said Clifford Gallant, an analyst at Keefe, Bruyette & Woods. They are concerned, he said, that â€œthere may be more out there.â€•

For the quarter, net income fell 27 percent, to $3.09 billion, or $1.19 a share, compared with $4.22 billion, or $1.61 a share, in the period a year earlier. Much of the decline, the company said, was attributable to losses in several of its core businesses as a result of declines in the home mortgage business. A.I.G. said it had a decline of $3.5 billion in the value of some investments before taxes. It said that $1.6 billion of that decline, and an additional $352 million, was from mortgage-related investments. Those assets remained on the companyâ€™s books and were thus not reflected in net income.

Martin J. Sullivan, A.I.G.â€™s chief executive, said that â€œwhile U.S. residential mortgage and credit market conditions adversely affected our results, our active and strong risk management processes helped contain the exposure.â€•

Mr. Sullivan said A.I.G.â€™s main commercial insurance unit, airline leasing business and asset-management arm reported strong income growth. But he said life insurance and retirement businesses suffered â€œas market volatility adversely affected investment returns of certain asset classes.â€•

The insurer reported an overall loss of $864 million in an investment portfolio of $872.3 billion. That included $149 million in losses related to residential mortgage-backed securities investments.

Wall Street analysts said they regarded the write-down by A.I.G. as less disturbing than those by the banks. So far, no other insurers have reported comparable write-downs, and the analysts said they did not expect to see management changes or financial collapses at any insurance companies.

Citigroup has written down at least $12 billion in mortgage-related securities, and Merrill Lynch has written down $8.4 billion. Those companiesâ€™ chief executives have stepped down amid the losses. Morgan Stanley said last night that it would take a $3.7 billion charge for assets tied to subprime mortgages.

A.I.G. and other insurance companies invested in mortgage-related securities mainly for the flow of interest, the analysts said, and they are expected to hold them until maturity in three to five years.

â€œThe big difference for the banks is that they may be forced to sell these securities,â€• said Thomas V. Cholnoky, an analyst for Goldman Sachs. â€œThis is not a liquidity crisis for A.I.G. as it potentially is for the banks. A.I.G. generated $8.4 billion in cash flow in the first six months of this year. It has more than $1 trillion in assets.â€•

The write-down came as A.I.G.â€™s stock was trading near its low for the year and a few days after Maurice R. Greenberg, the companyâ€™s former chief executive and a large shareholder, suggested in a federal securities filing that he was contemplating trying to force management changes at A.I.G.

Mr. Greenberg, 82, resigned in March 2005 as chairman and chief executive of A.I.G., which he built into a financial giant over nearly 40 years, after the New York attorney general began investigating the companyâ€™s accounting practices. Mr. Greenberg and A.I.G. have been feuding since.

In the securities filing, Mr. Greenberg said that he saw opportunities to significantly improve A.I.G.â€™s â€œperformance and strategic directionâ€• and that he was â€œevaluating strategic alternativesâ€• for the company.
Some insurance experts interpreted Mr. Greenbergâ€™s securities filing as an indication that he planned to try to rally support from other shareholders and to try to replace some members of the A.I.G. board. Ken Frydman, a spokesman for Mr. Greenberg, declined to comment.
Ron Shelp, who worked at A.I.G. for 12 years and has written a biography of Mr. Greenberg, â€œFallen Giant,â€• said Mr. Greenbergâ€™s timing suggested he thought the company was vulnerable. â€œI think heâ€™s been waiting for the right situation,â€• Mr. Shelp said.
Some Wall Street analysts said they doubted that Mr. Greenberg could foment a revolution. The top investors in the company, they said, are not known as activist shareholders and might regard a fight over the leadership as having the potential to drive share prices even lower.

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