

AIG Gets Revised Bailout Of \$150 Billion From US

by AP-News

In a record bailout of a private company, the government on Monday provided a new \$150 billion financial-rescue package to troubled insurance giant American International Group, including \$40 billion for partial ownership.

The action, announced by the Federal Reserve and the Treasury Department, was taken as it became increasingly clear that an original financial lifeline thrown to AIG in September would be insufficient to stabilize the teetering company.

All told, the moves boost aid to the company to more than \$150 billion.

Fed officials, however, expressed confidence that the money would be repaid to taxpayers. The \$40 billion infusion comes from the recently enacted \$700 billion financial bailout package.

Edward Liddy, who became AIG's CEO during the initial government bailout in September, welcomed the new package in a live interview on CNBC.

"I think the new package is a quantum improvement over the old one," Liddy said. "The old one has some terms associated with the loan that we're almost punitive in nature. This one is an equity investment, a loan that's much more advantageous to us and I think it reflects the Treasury and Fed's new way of thinking about the global financial crisis so I think it's a much more contemporary arrangement." See interview below.

The government is buying preferred shares of AIG stock, giving taxpayers an ownership stake in the company. In turn, restrictions will be placed on executive compensation at the firm.

As part of the new arrangement, the Federal Reserve is reducing a \$85 billion loan it had made available to AIG to \$60 billion.

The Fed also is replacing a separate \$37.8 billion loan to the insurance company with a \$52.5 billion aid package.

The actions were needed to "keep the company strong and facilitate its ability to complete its restructuring process successfully," the government said.

Shares of AIG surged on the news. The company's stock has traded between \$1.25 and \$62.30 in the past year. It marked the first time money from the \$700 billion bailout package Congress enacted last month has gone to any company other than a bank.

The Treasury Department, which is overseeing the program, has promised to inject \$250 billion into banks in return for partial ownership.

The original notion behind the bailout package was to help financial institutions lend money more freely again, one of the main reasons the economy is in danger of getting stuck in a long and painful recession.

Until Monday, all of AIG's bailout relief was coming from the Fed. The Fed, earlier this year, said it would loan a total of \$123 billion to AIG. The insurance company was later allowed to access another \$20.9 billion through the Fed's "commercial paper" program.

That's where the Fed is buying mounds of companies' short-term debt often used for crucial day-to-day expenses, such as payrolls and supplies.

Monday's restructuring provides AIG with easier terms on the original Fed loan.

The new package reduces the interest rate AIG will pay and will extend the loan term to five years from two, reducing the need for AIG to sell off business lines and other assets at firesale prices to repay the government.

Under the new \$52.5 billion package, the loans will last for six years.

Through two new facilities, the Fed will fund the purchase of both residential mortgage-backed securities from AIG's portfolio, and collateralized debt obligations, which are complex financial instruments that combine various slices of debt.

By taking these troubled assets off AIG's balance sheet, it should take stress off the company, giving it more breathing room and helping to prevent future losses, Fed officials said.

The Fed doesn't believe it will suffer losses because it is hopeful the market for such distressed investments will recover as the economy and financial markets rebound.

AIG reported Monday that continued financial market turmoil resulted in a large third-quarter loss. The New York-based company said it lost \$24.47 billion, or \$9.05 per share, after a profit of \$3.09 billion, or \$1.19 per

share, a year ago.

Results included pretax losses of \$18.31 billion tied to the declining value of AIG's investment portfolio. They also were hurt by catastrophe losses and charges related to restructuring.

Excluding items, operating losses totaled \$3.42 per share—missing analysts' average loss estimate of 90 cents per share, according to Thomson Reuters.

AIG in early October said it would sell certain business units to pay off the \$85 billion Fed loan. The company, however, said it plans to retain its U.S. property-and-casualty and foreign general insurance businesses.

It also plans to keep an ownership interest in its foreign life-insurance operations.

AIG is a colossus on Wall Street and financial districts worldwide, with operations in more than 130 countries and \$1 trillion in assets on its balance sheet.

Besides life, property and other insurance offerings, AIG provides asset-management services and airplane leases.

Its myriad businesses are also linked to mutual funds, annuities and other retirement products held by millions of ordinary Americans.

But perhaps the biggest concern about AIG is the dizzying array of complex financial instruments it structured for commercial banks, investment banks and hedge funds around the globe—many of which were directly or indirectly linked to the value of U.S. mortgages.-----

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