

AIG Taps \$90.3 Billion, Exceeding Original U.S. Loan

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American International Group Inc. has used \$90.3 billion of a U.S. government credit line since it was bailed out last month, an amount that exceeds the size of the original loan meant to save the insurer.

AIG may need more than the \$122.8 billion now available to the New York-based insurer, Chief Executive Officer Edward Liddy said yesterday. The company, which agreed Sept. 16 to turn over majority control to the U.S. in exchange for an \$85 billion loan, got access to an additional \$37.8 billion this month. AIG's latest balance was revealed today by the New York Federal Reserve, and is up from \$82.9 billion a week ago.

"This emphasizes the uncertainty for anyone trying to put a number" on AIG's cash needs, said Bill Bergman, an analyst at Morningstar Inc. in Chicago. The financial-products unit that caused most of the firm's losses "is a big black hole."

Liddy, the former Allstate Corp. CEO appointed by the government to run AIG last month, is selling businesses including U.S. life insurance, plane leasing and consumer finance to repay the loan. He named Paula Rosput Reynolds today to lead the restructuring six months after she arranged the \$6.2 billion sale of Safeco Corp., AIG said.

AIG, which averted collapse last month with the Fed loan, is dependent on "what happens to the capital markets," Liddy, 62, said late yesterday on PBS's "The NewsHour With Jim Lehrer." The firm needed cash after credit downgrades forced it to post more than \$10 billion in collateral to clients who purchased guarantees on bonds that lost value.

Posting Collateral

"To the extent they continue to go down and we have to keep posting collateral, as it's called in the vernacular of the industry, it's possible it may not be enough," Liddy said.

Liddy said in the interview that he thinks AIG "should be OK," that he still hopes to stay within the \$122.8 billion ceiling and that Treasury efforts to spur lending "seem to be working." A spokesman for the New York Fed declined to comment. Brookly McLaughlin, spokeswoman for the Treasury, didn't return a call seeking comment.

"The money is to meet our cash needs while we work out the rest of our solution, it's not the total solution," said AIG spokesman Nicholas Ashooh. "We still have to sell businesses and still need a permanent solution to the liquidity drain" from securities lending and the fixed-income guarantees known as credit-default swaps.

Reynolds, the former CEO of Seattle-based auto insurer Safeco until it was sold to Liberty Mutual Group Inc. for \$6.2 billion, was named AIG's chief restructuring officer.

Credit Line

AIG got the \$85 billion credit line on Sept. 16 to stave off bankruptcy. It was given access to an additional \$37.8 billion on Oct. 8 to shore up its securities-lending program, which lost money on investments made using collateral from assets it loaned to third parties. AIG agreed to turn over an 80 percent stake to the U.S. in exchange for the first loan.

The insurer may seek a third source of cash by tapping a Fed program that buys commercial paper, a person familiar with the matter said last week. AIG will probably borrow less than \$10 billion through the program, which is scheduled to start next week, the person said.

AIG sold protection on \$441 billion of fixed-income investments, including \$57.8 billion in securities tied to subprime mortgages. The swaps plunged in value as the assets they guaranteed declined, forcing \$25 billion in writedowns over nine months and leading to three quarterly losses.

"We kind of lost our way, AIG did, and we got out of the basic insurance business that we know so well," Liddy said yesterday. "Within the first two or three weeks of taking that loan, we were at the \$69 billion level, so anyone who thinks we didn't need the Federal Reserve as a lifesaver simply doesn't understand the precarious nature of where we were."

'A Lifeline'

The government "threw us a lifeline which we desperately needed so that the rest of the financial system wouldn't be contaminated," he said.

Liddy told employees on Sept. 18 that the original \$85 billion loan was "a really big number, I think that's enough." In an Oct. 3 conference call with analysts, he said that he didn't want to state the company would "never" need more.

"One of the lessons from the savings and loan crisis is that firms that were going under forestalled the recognition of how severe the problem was through accounting, and with the cooperation of regulators," Bergman said. "I certainly hope that's not happening with AIG today."

The insurer agreed to freeze \$19 million due to former CEO Martin Sullivan and \$600 million in compensation for other executives, New York Attorney General Andrew Cuomo said yesterday. AIG also agreed last week to immediately cancel all junkets and perks, according to a statement jointly issued by Cuomo and the company.

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