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Highlights

Highlights of GAO-11-716, a report to congressional committees

July 2011

TROUBLED ASSET RELIEF PROGRAM

The Government's Exposure to AIG Following the Company's Recapitalization

Why GAO Did This Study

Assistance provided by the Department of the Treasury (Treasury) under the Troubled Asset Relief Program (TARP), and the Board of Governors of the Federal Reserve System (Federal Reserve) to American International Group, Inc. (AIG) represented one of the federal government's largest investments in a private sector institution. AIG is a holding company that, through its subsidiaries, engages in a broad range of insurance and insurance-related activities in the United States and abroad.

As part of GAO's statutory oversight of TARP, this report updates a set of indicators GAO last reported in January 2011. Specifically, GAO discusses (1) trends in the financial condition of AIG and its insurance companies, (2) the status of the government's exposure to AIG, and (3) trends in the unwinding of AIG Financial Products (AIGFP). To update the indicators, GAO primarily used available public filings as of March 31, 2011, and more current publicly available information; reviewed rating agencies' reports; and identified critical activities and discussed them with officials from Treasury, the Federal Reserve, and AIG.

Treasury, the Federal Reserve, and AIG provided technical comments that GAO incorporated, as appropriate.

View GAO-11-716 or key components. For more information, contact Tom McCool at (202) 512-2642 or mccoolt@gao.gov.

What GAO Found

Largely due to the federal assistance Treasury and the Federal Reserve provided to AIG, as measured by several indicators, AIG's financial condition generally has remained relatively stable or showed signs of improvement since GAO's last report in January 2011. However, the company recently recorded losses because of claims resulting from earthquakes and floods, in particular the ones that hit Japan in March 2011. As of March 31, 2011, the outstanding balance of the Federal Reserve and Treasury assistance to AIG was $85 billion, down from $123.1 billion in December 2010 (see table). Also, several indicators on the status of AIG's insurance companies illustrate that its insurance operations are showing signs of recovery. In particular, throughout 2010 and into the first quarter of 2011, additions to AIG life and retirement policyholder contract deposits exceeded withdrawals. In addition, AIG's property/casualty companies have remained stable.

Several indicators also show that the government's exposure to AIG has continued to decline with the execution of AIG's recapitalization in January 2011, but the return to the government on its investment continues to depend on AIG's long-term health, market conditions, and timing of Treasury's exit. With the recapitalization, AIG paid the Federal Reserve Bank of New York (FRBNY) about $21 billion to completely repay its debt to the FRBNY revolving credit facility. Treasury also exchanged its Series C, Series E, and Series F preferred stocks for approximately 1.655 billion shares of AIG common stock that have a cost basis of about $49.148 billion. Consequently, the government's remaining $85 billion in assistance to AIG is composed of balances owed by Maiden Lanes II and III to FRBNY and Treasury's common stock in AIG and preferred interests in AIA Group Limited. As of March 31, 2011, the amount of assistance available to AIG also has been reduced to $123.9 billion. As Treasury sells its stock in AIG to exit the company, several indicators show that the most likely investors will be institutions, many of whom already have holdings in insurance companies.

Several indicators show that AIGFP has continued to unwind its credit default swap (CDS) positions and its portfolio of super senior CDS. AIGFP has decreased its number of outstanding trade positions and its number of employees, and AIG has reported that it wants to complete the active unwind of AIGFP's portfolios by June 30, 2011. Also, AIGFP continues to see overall declines in its super senior CDS portfolio, including regulatory capital, multisector collateralized debt obligations, corporate collateralized loan obligations, and mezzanine tranches (the riskiest portions of related securities that are issued together). The government's ability to fully recoup its exposure to AIG continues to be determined by the long-term health of AIG; changes in market conditions; and how Treasury balances its interest in selling its shares in AIG as soon as practicable while striving to maximize taxpayers' return. GAO will continue to monitor these issues in its future work.

Overview of Federal Assistance Provided to AIG as of March 31, 2011

Dollar in billions

	Description of the federal assistance	Amount of assistance authorized: Debt	Amount of assistance authorized: Equity	Outstanding balance	Sources to repay the government
Federal Reserve	FRBNY created a Special Purpose Vehicle (SPV)—Maiden Lane II—to provide AIG liquidity by purchasing residential mortgage-backed securities from AIG life insurance companies. FRBNY provided a loan to Maiden Lane II for the purchases. FRBNY also terminated its securities lending program with AIG, which had provided additional liquidity associated with AIG's securities lending program when it created Maiden Lane II.	$22.5[a]	n/a	$12.353[a]	Proceeds from asset sales, asset maturities, and interest will be used to repay the FRBNY loan. In March 2011, AIG offered to buy the Maiden Lane assets, but FRBNY rejected this offer.
	FRBNY created an SPV called Maiden Lane III to provide AIG liquidity by purchasing collateralized debt obligations from AIGFP's counterparties in connection with the termination of CDS. FRBNY again provided a loan to the SPV for the purchases.	30	n/a	12.346[a]	Proceeds from asset sales, asset maturities, and interest will be used to repay the FRBNY loan.
Treasury	On January 14, 2011, as part of the closing of the recapitalization, Treasury provided up to $2 billion in liquidation preference to AIG through a new AIG facility (Series G cumulative mandatory convertible preferred stock). AIG drew all but $2 billion remaining under the Series F to purchase a portion of the SPV preferred interests that were exchanged with Treasury.	n/a	2	0	The facility was undrawn.[b]
	The preferred interests in the AIA and ALICO SPVs had an aggregate liquidation preference of approximately $26.4 billion at December 31, 2010, which were purchased by AIG and transferred to Treasury as part of the closing of the recapitalization. The remaining preferred interests, which have an aggregate liquidation preference of approximately $20.3 billion following a partial repayment on January 14, 2011, with proceeds from the sale of ALICO, were transferred from FRBNY to AIG and subsequently transferred to Treasury as part of the recapitalization.	n/a	20.3	11.164[c]	Under the agreements, the SPVs generally may not distribute funds to AIG until the liquidation preferences and preferred returns on the preferred interests have been repaid in full and concurrent distributions have been made on certain participating returns attributable to the preferred interests.
	In total, Treasury received 1.655 billion shares of AIG common stock (approximately 92 percent of the company).[d]	n/a	49.148[d]	49.148[d]	Over time, Treasury will sell the shares, with the goal of recouping taxpayers' funds.
	Subtotal	**$52.5**	**$71.448**		
	Total authorized (debt and equity)		**$123.948[e]**		
	Total authorized and outstanding assistance			**$85.011**	

Source: GAO analysis of AIG SEC filings, Federal Reserve, and Treasury data.

[a]Government debt shown for the Maiden Lane facilities is as of March 30, 2011, and reflects principal only and does not include accrued interest of $492 million for Maiden Lane II and $586 million for Maiden Lane III. As of May 25, 2011, principal owed was $10.542 billion and $11.985 billion and accrued interest was $514 million and $610 million for Maiden Lane II and Maiden Lane III, respectively.

[b]On May 27, 2011, the available amount of the Series G preferred stock was reduced to $0 as a result of AIG's primary offering of its common stock and the Series G preferred stock was cancelled.

[c]In February 2011 AIG used $2.2 billion of proceeds from the sale of two life insurance companies to reduce the ALICO and AIA liquidation preferences. On March 8, 2011, AIG used $6.9 billion from the sale of MetLife equity securities to repay Treasury's remaining $1.4 billion of preferred interests in the ALICO SPV and reduce by $5.5 billion Treasury's remaining preferred interests in the AIA SPV. On March 15, 2011, Treasury received another payment of $55.8 million, reducing the remaining preferred interest on the AIA SPV to $11.164 billion.

[d]Treasury's cost basis in AIG common shares of $49.148 billion comprises of liquidation preferences of $40 billion for series E preferred shares, $7.543 billion for series F preferred shares, and unpaid dividend and fees of $1.605 billion. On May 24, 2011, Treasury sold 200 million shares of its common stock in AIG and on May 27, 2011, AIG issued and sold 100 million shares of common stock, reducing its holdings to approximately 1.5 billion shares, or approximately 77 percent of the equity interest in AIG, and increasing the total number of outstanding common shares to approximately 1.9 billion.

[e]The Federal Reserve and Treasury had made $182.3 billion in assistance available as of December 31, 2009. This amount was subsequently reduced to $123.9 billion.