



YPFS Resource Library

11-10-2008

**Moody's maintains present ratings on AIG (senior debt at A3,
review down); comments on 3Q08 results and restructuring plan**

Unknown

<https://elischolar.library.yale.edu/ypfs-documents/1788>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.

Find ratings, research, analysts and more **GO**

Research & Ratings

Products & Solutions

News & Events

Log In | **Register**

Announcement: Moody's maintains present ratings on AIG (senior debt at A3, review down); comments on 3Q08 results and restructuring plan

Global Credit Research - 10 Nov 2008

New York, November 10, 2008 -- Moody's Investors Service is maintaining its present ratings on American International Group, Inc. (NYSE: AIG -- senior unsecured debt at A3, short-term debt at Prime-1, on review for possible downgrade) following announcements of AIG's large net loss for the third quarter of 2008 and of a government-supported restructuring plan.

Moody's noted that the restructuring plan includes a large infusion of preferred stock that would restore much of the capital lost in recent periods, along with transactions that would limit AIG's future losses on some of its most troublesome investment and derivative exposures. The current ratings on AIG incorporate Moody's expectation that the insurer will continue to benefit from strong government support while it executes its divestiture and restructuring plan. The continuing review for possible downgrade reflects the substantial uncertainty surrounding (i) the value that will be received for businesses that are sold, (ii) potential additional losses incurred during the unwinding of other businesses, and (iii) the future performance of businesses that are retained. Such uncertainty is heightened by the weak global economy.

AIG reported a net loss of \$24.5 billion for the third quarter of 2008, driven mainly by net realized capital losses (mostly other-than-temporary impairment of investments), unrealized market valuation losses on derivatives, and other charges related to financial market turmoil and the restructuring plan. Over the past four quarters, AIG has reported cumulative net losses of \$42.9 billion and net unrealized depreciation on investments totaling \$15.9 billion. These losses and write-downs pertain largely to mortgage-related exposures in the credit default swap (CDS) portfolio of AIG Financial Products Corp. (AIGFP) and in the securities lending collateral pool of AIG's US life insurance subsidiaries. Significant cash collateral calls and reductions/terminations of securities borrowing arrangements have strained AIG's liquidity and capital resources.

To help AIG meet its obligations, the Federal Reserve Bank of New York (the Fed) provided the company with an \$85 billion two-year secured revolving credit facility on September 16, 2008. As part of this transaction, the Fed obtained a 79.9% equity interest in AIG. Also, on October 8, 2008, the Fed entered into a \$37.8 billion securities borrowing facility with certain of AIG's US insurance subsidiaries. Under the restructuring plan announced today, the Fed intends to replace the \$85 billion revolving credit facility with a \$40 billion redeemable perpetual preferred stock issue and a \$60 billion five-year secured revolving credit facility, with pricing and other terms that are more favorable to AIG than the current Fed credit facility.

In addition to the recapitalization, AIG and the Fed have announced a de-risking plan that would cap AIG's exposure to further market value deterioration in its mortgage-related securities lending collateral pool and in the multi-sector component of its CDS portfolio. In each case, AIG would transfer these exposures to an unaffiliated special purpose vehicle (SPV) funded by a large tranche of senior financing provided by the Fed and a smaller tranche of subordinated financing provided by AIG. The exposures would be transferred to the SPVs at estimated current market values. The transaction with the securities lending collateral pool is intended to allow for termination of AIG's securities lending program and of the Fed's \$37.8 billion securities borrowing facility. Although AIG will crystallize substantial losses on its mortgage-related exposures through these transactions, the \$40 billion preferred stock investment mitigates that concern, providing significant incremental protection for senior creditors.

To repay its borrowings under the Fed revolving credit facility, AIG is attempting to sell a broad range of businesses, including many of its Life Insurance & Retirement Services, Financial Services and Asset Management operations, as well as some modest-sized General Insurance units. Remaining core operations are intended to include the US-based Commercial Insurance Group, Foreign General Insurance and a majority stake in American International Assurance.

Moody's said that the proposed recapitalization and de-risking transactions will provide AIG with additional time and flexibility to facilitate asset sales and bolster AIG's operating performance. Terminating the securities lending pool may make the participating life insurers more attractive to potential buyers. In addition, the more favorable capital structure may give various constituents -- customers, distributors, employees, creditors, potential business buyers -- greater confidence that AIG can complete its asset sales and repay the Fed revolving credit facility within a reasonable time frame.

Moody's noted, however, that AIG faces serious headwinds, including the weak global economy and limited availability of financing alternatives for potential business buyers. The company also faces the daunting task of unwinding the remaining operations of AIGFP (beyond the multi-sector component of the CDS portfolio). The costs and timing of this likely prolonged and complex unwinding process are difficult to estimate, but could be substantial. Finally, AIG's ultimate capital structure, assuming successful completion of the global divestiture plan and repayment of the Fed revolving credit facility, would still likely include substantial debt and hybrid securities with large fixed charge requirements. Moody's has estimated that AIG's financial leverage and coverage metrics at that time, absent other capital raising or restructuring initiatives, would be somewhat weak for the single-A debt rating.

Offsetting these challenges and weaknesses is the strong support demonstrated by the Fed. The Fed has shown flexibility in adjusting the amount and terms of its support with changing circumstances at AIG and in the broader financial markets. The current ratings on AIG and its subsidiaries reflect Moody's expectation of continuing Fed support, not only to fund immediate liquidity needs but also to facilitate the global divestiture plan and the unwinding of AIGFP. Without such support, the ratings of AIG and many of its subsidiaries -- including core operations and businesses identified for sale -- would be lower.

Moody's continuing review of the ratings on AIG and its subsidiaries will focus on (i) the firm's evolving liquidity profile, including the level of borrowing under the Fed revolving credit facility; (ii) execution of the de-risking transactions for the securities lending pool and the multi-sector component of the CDS portfolio; (iii) the timing and amounts of cash proceeds generated from asset sales; (iv) development of a comprehensive plan to unwind AIGFP, including estimated costs and timing; (v) the performance of major operating units, whether they are core operations or targeted for sale; and (vi) the resulting financial profile (e.g., financial leverage and fixed charge coverage) of AIG following the asset sales. For those operations being sold, Moody's will consider their intrinsic financial strength as well as the rating profiles of potential acquirers.

The last rating action on AIG took place on October 3, 2008, when Moody's downgraded the senior unsecured debt rating to A3 from A2, with a continuing review for possible downgrade, following the announcement of AIG's global divestiture plan.

AIG, based in New York City, is an international insurance and financial services organization, with operations in more than 130 countries and jurisdictions. The company is engaged through subsidiaries in General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. AIG reported a net loss of \$24.5 billion for the third quarter of 2008. As of September 30, 2008, shareholders' equity was \$71.2 billion (including \$23.0 billion of consideration received for preferred stock not yet issued).

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to punctually pay senior policyholder claims and obligations. For more information, please visit our website at www.moody.com/insurance.

Related Issuers

- [AGFC Capital Trust I](#)
- [AIA International Limited](#)
- [AIG Edison Life Insurance Company](#)
- [AIG Europe Limited](#)
- [AIG Financial Products Corp.](#)

Related Research

- [Credit Opinion: AMERICAN LIFE INSURANCE COMPANY: Semiannual update](#)
- [Credit Opinion: AIA Group Limited: Update following rating affirmation](#)
- [Credit Opinion: AIG Life and Retirement: Semiannual Update](#)
- [Credit Opinion: United Guaranty Residential Insurance Company: Update Following Recent Upgrade to A3 Stable IFS Rating](#)
- [Credit Opinion: AIA Group Limited: Semiannual update](#)

Moody's Integrity Hotline

EU

001-800-506-1440

Japan

KDDI: 00-539-111 then 888-320-1668
NTT: 0034-811-001 then 888-320-1668

Outside of the EU and Japan

1-866-330-MDYS (6397)

Browse By

[Home](#)

[Research & Ratings](#)

[Products & Solutions](#)

[News & Events](#)

[Careers](#)

Contact Us

[Help & Support](#)

[Contact Us](#)

[Submit a Complaint](#)

Terms & Conditions

[Terms of Use](#)

[Privacy Policy](#)

[Proprietary Rights](#)

© 2018 Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their affiliates and licensors. All rights reserved.

Regional Sites: