Financial Week
The Home Page of Corporate Finance

# AIG may get loan boost ahead of crucial earnings call

## Rumors swirling that U.S. may revise terms of $85 billion bridge loan; no asset sales yet

**By Beth Braverman**

November 7, 2008 ET



American International Group's third-quarter conference call, slated for early Monday morning, may finally shed some light on what the insurer has done with the billions it has borrowed from several taxpayer-financed lines of credit.

Analysts, investors and regulators, who widely expect the insurer to post its fourth consecutive quarterly loss, will be looking for clues as to how AIG could have burned through so much money so quickly. They'll also be seeking proof that the company has not suffered massive defections from disenchanted employees and policyholders.

"The earnings call, in this case, is a lot more important than the numbers," said Morningstar senior equity analyst Bill Bergman.

Another important group that may also tune in to Monday's call: potential buyers of AIG's subsidiaries.

Chief executive officer Edward Liddy told *Business Insurance* this week that some suitors were waiting for the company to post its third-quarter results.

"We are not going to lack for serious buyers," he said. "There will be really good values attached to these various properties. For most CEOs, you don't get a crack at some of the assets that we have for sale during your lifetime as a CEO. I think we're going to be just fine in this regard."

AIG has sought to unload some assets since receiving an $85 billion bridge loan from the New York Fed Sept. 16. So far, the insurer has announced no deals.

In the meantime, the company has tapped into two other sources of federal cash, a $38 billion security lending facility and a $21 billion commercial credit line.

AIG spokesman Peter Tulupman said that as of Friday, AIG had reduced its borrowing under the original bridge loan to $61 billion (from $65.5 billion) by using funds from the commercial paper program. The comany also increased its borrowing under the securities lending facility from $18 billion to $20 billion.

Neither AIG nor the Fed has said how deeply it has drawn down the commercial paper facility, although AIG has used at least $12 billion in funds from that line to pay down its bridge loan. That brings AIG's total current borrowings to between $93 billion and $102 billion, on about $144 billion in total available credit.

AIG must pay 8.5 percentage points over three-month Libor on the original $85 billion loan in addition to an initial gross commitment fee of 2% of the entire loan facility. The besieged insurer also must pay 8.5% a year on any undrawn amount in the facility.

The company's management has said the $37.8 billion securities lending facility carries prevailing "commercial terms," but it has not disclosed them. The Fed commercial paper program carries interest rates of about 1.5%.

AIG's share price jumped Friday on news reports that the Fed may consider renegotiating the onerous terms of the bridge loan or might provide a backstop to the insurer's credit default contracts. AIG has had to continue to post collateral on those swap arrangements.

Mr. Tulupman declined to comment on the report, and a representative from the Fed did not return calls for comment.

Some analysts and shareholders, including former chief executive officer Maurice "Hank" Greenberg, have said it would be impossible for AIG to repay the bridge loan as it stands.

"It is in the best interest of the federal government, as a major creditor and the majority shareholder, to work in a flexible way to solve the problem," said John Ward, chief executive of Cincinnatus Partners, a private equity firm specializing in the insurance industry. "I fully expect they will [renegotiate] given the lack of progress on the sale of AIG assets."

**URL for this article:**
http://www.financialweek.com/apps/pbcs.dll/article?AID=/20081107/REG/811079975