



Fitch: Government Support Overrides 4Q'08 Loss for Most AIG Ratings; Hybrids Downgraded

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Fitch Ratings-Chicago-02 March 2009: U.S. Government support remains firmly in place for American International Group Inc. (AIG) despite a \$61.7 billion fourth quarter-2008 (4Q'08) net loss as actions taken in cooperation with the U.S. Treasury and the Federal Reserve are intended to promote AIG's return to financial stability, according to Fitch Ratings.

However, the possibility of increased future political or other incentives to defer payments on hybrid instruments in order to preserve cash to support repayment of taxpayer funded capital is a concern for AIG's deferrable hybrid securities.

Ratings that Fitch has affirmed with a Stable Outlook include AIG's:

- Long-term IDR of 'A';
- Senior unsecured securities of 'A';
- Insurer Financial Strength (IFS) ratings of subsidiary insurers that AIG intends to retain as part of its previously announced restructuring of 'AA-'.

Ratings that Fitch has downgraded include AIG's:

- Junior subordinated securities to 'BB' from 'A-';
- Trust preferred securities to 'BB' from 'A-'.

Ratings that remain on Rating Watch Evolving include:

- IFS ratings of 'AA-' of subsidiary insurance companies that AIG does not intend to retain as part of its previously announced restructuring plan
- International Lease Finance, Inc.'s (ILFC) and American General Finance Corp's. (AGF) various ratings.

A full list of ratings action can be found at the end of this release.

Today AIG announced the following actions to be taken in cooperation with the U.S. Treasury and Federal Reserve Board. Fitch views these actions positively since they enhance the company's liquidity and reduce the company's annual preferred dividend requirements and financial leverage. Favorably this added level of support highlights the commitment by the U.S. Government to assure that AIG remains financially healthy and meets its future obligations. Negatively, additional support was required due to AIG's very weak performance, as well as AIG's inability to date to move forward in selling assets at reasonable terms consistent with its restructuring plan.

--The U.S. Treasury will commit to purchase \$30 billion of new 10% perpetual non-cumulative preferred shares in AIG. The capital commitment will remain in place for five years and be made available to AIG to draw upon at the company's option as long as the U.S. Treasury's ownership interest in AIG remains greater than 50% and AIG has not entered into bankruptcy.

--The dividend on AIG's existing \$40 billion of outstanding Series D cumulative preferred shares will be revised to a non-cumulative dividend from a cumulative dividend.

--AIG will enter into two separate transactions under which a portion of the company's economic interests in two of its flagship life insurance companies, American Life Insurance Company (ALICO) and American International Assurance (AIA) will ultimately be exchanged with the Federal Reserve Bank of New York. Consideration received by AIG in this exchange will be satisfaction of a portion of the debt due to the FRBNY under the existing \$60

billion senior secured credit facility between AIG and the FRBNY. Fitch's expectation is that the value of this exchange will be \$20-25 billion.

--AIG and the FRBNY will enter into transactions in which certain of AIG's domestic life insurance companies will issue securitization notes to the FRBNY backed by expected future profits on designated blocks of life insurance policies. Consideration received by AIG in this exchange will be satisfaction of a portion of the debt due to the FRBNY under the existing \$60 billion credit facility between AIG and the FRBNY. Fitch's expectation is that the value of this exchange will be up to \$6 billion.

Fitch continues to believe that the U.S. government has significant incentives to assure AIG is successful in implementing its restructuring plan to manage systemic risks primarily emanating from AIG's role as a counterparty within its Financial Products CDS business. AIG's ratings are accordingly based heavily on an assumed 'government support floor'. Absent this assumption of ongoing government support, AIG's IDR and senior debt ratings would not be investment grade.

The downgrade of AIG's hybrid securities ratings reflects Fitch's broader concerns for financial institutions receiving significant government support that that there may be increased future political or other incentives to defer payments on these instruments in order to preserve cash to support repayment of taxpayer funded capital. These downgrades are consistent with actions Fitch has recently taken on deferrable hybrid securities issued by several other large financial institutions globally that have received significant financial support from various governments. Fitch notes, however, AIG has indicated it has no plans to defer.

The Stable Outlook on AIG's IDR and retained insurance company subsidiaries reflects Fitch's rating expectations for the next 12-to-18 months. Beyond that time horizon, AIG's ratings are exposed to above average ratings migration risk due to uncertainty as to AIG's financial profile after it emerges from being government supported. Due to the significant volatility experienced by AIG over the past year, Fitch can not reasonably predict at this time what AIG's ratings levels may be post-government support.

Fitch views the following factors as generating the most uncertainty surrounding AIG's future ratings levels:

--Potential erosion in the competitive position and franchise value of AIG's commercial insurance and foreign general insurance subsidiaries resulting from AIG's well-publicized financial difficulties.

Fitch would view the emergence, over the next six to twelve months, as evidence of such erosion:

--Market share and gross premium volume declines that are inconsistent with the companies' historical trends and inconsistent with peer company experience;

--Declines in client retention levels that are inconsistent with the companies' historical trends and inconsistent with peer company experience;

--On-going defections of key staff members;

--Underwriting profitability on an accident year and calendar year basis that is inconsistent with the companies' historical trends or peer company results;

--Overall profitability and capital formation rates that are inconsistent with the companies' historical trends or peer company results.

--AIG's commercial and foreign general insurance units' 4Q'08 results generally lagged those of peers as net written premiums declined materially and combined ratios were materially higher than those of peers. Fitch believes that some of this underperformance can be explained by items that are related to the organization's restructuring, such as the large adverse effect a goodwill write-off had on the units' combined ratios. However, Fitch believes that other portions, such as the larger than peers' decline in net premiums written are tied to market concerns with respect AIG's financial stability where insureds with significant insurance exposure to AIG have diversified their insurance coverage.

--AIG Financial Products Corp.'s (AIGFP) portfolio of credit default swap and various derivative contracts could generate material cash and/or capital needs under various scenarios. At Sept. 30, 2008, the notional value of the portfolio, excluding the multi-sector CDO portfolio, was \$306 billion. Fitch believes that the liquidity and capital strain associated with the multi-sector CDO portfolio, which had been the most troublesome portion of the overall

portfolio, have been alleviated by steps AIG and the FRBNY announced in November 2008. While AIGFP's plans to wind-down AIGFP's portfolio appear to be well-designed and implementation appears to be progressing according to plan, Fitch views the portfolio's sheer size as representing a material source of risk.

--AIGFP had \$43 billion of outstanding debt at Sept.30, 2008. Fitch continues to view the majority of this debt as 'matched funded debt' in the sense that there are assets with comparable durations supporting the debt obligations. However, given the potential for continuing financial market volatility that could adversely affect AIGFP, Fitch believes that ability of the companies' matched assets to fully fund these obligations is under heightened stress.

--AIG's American General Finance Corp. subsidiary will also need to rely on support from AIG to fulfill any debt obligations to the extent there is a cash flow shortfall. Importantly, AIG is required to maintain AGF's net worth under the company's fully drawn bank facility, affording additional comfort that AIG is incented to maintain AGF over the near-term.

There is a high potential for future losses from various exposures. AIG's \$61.7 billion net loss for the fourth quarter of 2008 was materially outside of expectations. The results include \$51 billion of after-tax non-cash charges including \$21 billion of tax-related items, a \$13 billion charge for mark-to-market losses on investments that are classified as other than temporarily impaired, a \$5 billion mark-to-market charge on AIGFP's portfolio of CDS contracts, and a \$4 billion goodwill impairment charge.

Fitch has taken the following rating actions:

American International Group, Inc.

--Long-term IDR affirmed at 'A';

--Senior debt affirmed at 'A';

--6.25% series A-1 junior subordinated debentures due March 15, 2087 downgraded to 'BB' from 'A-';

--5.75% series A-2 junior subordinated debentures due March 15, 2067 downgraded to 'BB' from 'A-';

--4.875% series A-3 junior subordinated debentures due March 15, 2067 downgraded to 'BB' from 'A-';

--6.45% series A-4 junior subordinated debentures due June 15, 2077 downgraded to 'BB' from 'A-';

--7.7% series A-5 junior subordinated debentures due Dec. 18, 2062 downgraded to 'BB' from 'A-';

--8.175% series A-6 junior subordinated debentures due May 15, 2058 downgraded to 'BB' from 'A-';

--8% series A-7 junior subordinated debentures due May 22, 2038 downgraded to 'BB' from 'A-';

--8.625% series A-8 junior subordinated debentures due May 22, 2068 downgraded to 'BB' from 'A-';

--5.670% series B-1 debentures due Feb. 15, 2041 downgraded to 'BB' from 'A-';

--5.820% series B-2 debentures due May 1, 2041 downgraded to 'BB' from 'A-';

--5.89% series B-3 debentures due Aug. 1, 2041 downgraded to 'BB' from 'A-';

--Short-term IDR affirmed at 'F1'.

AIG Funding, Inc.

--Commercial paper affirmed at 'F1'.

AIG International, Inc.

--Long-term IDR affirmed at 'A';

--Senior debt affirmed at 'A';

AIG Life Holdings (US), Inc. (formerly American General Corp.)

--Long-term IDR affirmed at 'A';

--Senior debt affirmed at 'A'.

21st Century Insurance Group

--Long-term IDR affirmed at 'A';

--Senior debt affirmed at 'A'

ASIF Program

ASIF II Program

ASIF III Program

ASIF Global Financial Program

--Program ratings affirmed at 'AA-'.

American General Capital II

--8.5% preferred securities due July 1, 2030 downgraded to 'BB' from 'A-';

American General Institutional Capital A and B

--7.57% capital securities due Dec. 1, 2045 downgraded to 'BB' from 'A-';

American General Institutional Capital B

--8.125% capital securities due March 15, 2046 downgraded to 'BB' from 'A-';

HSB Capital Trust I

--5.06% Preferred securities due July 15, 2027 downgraded to 'BB' from 'A-';

Fitch has affirmed the following 'AA-' IFS ratings with a Stable Outlook:

National Union Inter-company Pool Members:

--AIG Casualty Company (formerly Birmingham Fire Ins. Co. of PA);

--American Home Assurance Company;

--American International South Insurance Company;

--Commerce and Industry Insurance Company;

--Granite State Insurance Company;

--Illinois National Insurance Co. ;

--National Union Fire Insurance Company of Pittsburgh, PA;

--New Hampshire Insurance Company;

--The Insurance Company of the State of Pennsylvania.

Lexington Inter-company Pool Members:

--AIG Excess Liability Insurance Company, Ltd. (formerly Starr Excess Liability Ins. Co., Ltd.);

--Landmark Insurance Company;

--Lexington Insurance Company.

Foreign-Domiciled General Insurance Companies

--AIG MEMSA Insurance Company Ltd. (UAE);

--AIG (UK) Ltd. (formerly The Landmark Insurance Co. Ltd. (UK));

--American International Underwriters Overseas, Ltd. (Bermuda).

Fitch has also affirmed the following National Scale IFS ratings with a Stable Rating Outlook:

--La Interamericana Compania de Seguros Generales S.A. (LIG): 'AA+'(chl);

--AIG Union Y Desarrolo, S.A. (AIG Union): 'AA'(slv);

--AIG South Africa Limited 'AAA' (zaf)

--AIG Life South Africa Limited 'AAA' (zaf)

Additionally, Fitch has affirmed the following 'AA-' IFS ratings with a Negative Rating Outlook:

--United Guaranty Residential Insurance Company

The following 'AA-' Insurer Financial Strength (IFS) ratings remain on Rating Watch Evolving:

--AGC Life Insurance Company;

--AIG Annuity Insurance Company;

--AIG Life Insurance Company;

--AIG SunAmerica Life Assurance Company;

--American General Life and Accident Insurance Company;

--American General Life Insurance Company;

--American International Assurance Company (Bermuda) Limited;

--American International Life Assurance Company of New York;

--American Life Insurance Company;

--First SunAmerica Life Insurance Company;

--SunAmerica Life Insurance Company;

--The United States Life Insurance Company in the City of New York;

--The Variable Annuity Life Insurance Company.

AIG Personal Lines Inter-company Pool Members:

- 21st Century Casualty Company;
- 21st Century Insurance Company;
- 21st Century Insurance Company of the Southwest;
- AIG Advantage Insurance Company (formerly Minnesota Ins. Co.);
- AIG Auto Insurance Company of New Jersey;
- AIG Centennial Insurance Company;
- AIG Hawaii Insurance Company;
- AIG Indemnity Insurance Company;
- AIG National Insurance Company, Inc.;
- AIG Preferred Insurance Company;
- AIG Premier Insurance Company;
- American International Insurance Company;
- American International Insurance Company of California;
- American International Insurance Company of New Jersey;
- American International Pacific Insurance Company;
- American Pacific Insurance Company;
- New Hampshire Indemnity Company, Inc..

Non-Pooled Companies

- AIU Insurance Company;
- American International Specialty Lines Insurance Company;
- Hartford Steam Boiler Inspection & Insurance Company;

The following National Scale IFS rating remains on Rating Watch Evolving:

- La Interamericana Compania de Seguros de Vida S.A. (LIV) 'AA+' (chl)

The following ratings remain on Rating Watch Evolving:

International Lease Finance, Corp.

- Long-term IDR 'A';
- Senior unsecured debt 'A';
- Preferred stock 'A-';
- Short-term IDR 'F1';
- Commercial paper 'F1'.

American General Finance, Inc.

- Long-term IDR 'BBB';
- Short-term IDR 'F1';
- Commercial paper 'F1';

American General Finance, Corp.

- Long-term IDR 'BBB';
- Senior debt 'BBB';
- Short-term IDR 'F1';
- Commercial paper 'F1';

AGFC Capital Trust I

- Preferred stock 'BB';

CommoLoCo Inc.

- Short term IDR at 'F1';
- Commercial paper 'F1';

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