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Highlights

Highlights of GAO-12-574, a report to congressional committees

May 2012

TROUBLED ASSET RELIEF PROGRAM

Government's Exposure to AIG Lessens as Equity Investments Are Sold

Why GAO Did This Study

Assistance provided by Treasury under the Troubled Asset Relief Program (TARP) and by the Federal Reserve to 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 July 2011. Specifically, GAO discusses (1) the status of the government's exposure to AIG and (2) trends in the financial condition of AIG and its insurance companies. To update the indicators, GAO primarily used available public filings as of December 31, 2011, and other publicly available information as of March 31, 2012; reviewed rating agencies' reports; and identified critical activities and discussed them with relevant agency officials.

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

View GAO-12-574. For more information, contact Lawrance L. Evans at (202) 512-4802 or evansl@gao.gov.

What GAO Found

Since GAO's last report in July 2011, more of the assistance provided by the Department of the Treasury (Treasury) and the Board of Governors of the Federal Reserve System (Federal Reserve) to benefit American International Group, Inc. (AIG) has been repaid. As of March 22, 2012, the remaining assistance to AIG was $46.3 billion, including unpaid dividends and accrued interest. This amount includes Treasury's $35.9 billion investment in AIG common stock and a balance of $8.3 billion owed by Maiden Lane III to the Federal Reserve Bank of New York (FRBNY). This remaining assistance was down from $92.5 billion in March 2011 and $154.7 billion in December 2010. Several indicators show that as of March 2012, the government's remaining outstanding assistance to AIG has continued to be reduced, mostly because of repayments on the FRBNY loan to Maiden Lane II; repayment of AIA Aurora, LLC, a special purpose vehicle; and sales of Treasury's common stock in AIG. The government's outstanding assistance to AIG is largely composed of Treasury's common stock in AIG. Treasury's sales of AIG stock in May 2011 and March 2012 have yielded total proceeds of $11.8 billion and reduced Treasury's ownership to 70 percent of the company. Based on the $30.83 closing share price of AIG common stock on March 30, 2012, Treasury could recoup the total value of assistance extended to AIG and take in an additional $2.7 billion including dividends. The remaining assistance through Maiden Lane III will likely be repaid in full and net additional returns to the government. When all the assistance is considered, the amount the federal government ultimately takes in could exceed the total support extended to AIG by more than $15.1 billion. This analysis is primarily based on repayments and recoveries and market valuation of AIG's stock and does not include estimates of subsidy costs associated with the assistance. The actual repayment of the remaining assistance continues to depend on AIG's long-term health, the timing of Treasury's sale and the share price of AIG stock, among other things. As Treasury arranges to sell its stock in AIG to exit the company, several indicators suggest that the most likely buyers will be institutions, many of whom already have considerable holdings in other insurance companies.

Several indicators show that in 2011, AIG had positive net income and its insurance operations were stable and profitable. AIG had a net income for 2011 of $18.5 billion, primarily attributable to an income tax benefit and divested businesses. AIG's operating cash flows declined in 2011, which was mostly due to cash payments covering several years of accrued interest and fees on the FRBNY revolving credit facility and reduction in cash flows from the absence of a full year of operating cash flows of foreign life subsidiaries that were sold during the year. Also, payments on catastrophic loss claims and asbestos liabilities reduced operating cash flows. The indicator on AIG's quarterly insurance operating performance shows that AIG was profitable in most quarters and that investment income contributed considerably to that profitability, including several quarters when insurance underwriting by itself was not profitable. The sustainability of any positive trends in AIG's operations will depend on how well it manages its business in the current economic environment. GAO will continue to monitor these issues.