Aig bailout and aig bailout exit plan

AIG Bailout & Exit Plan Bailout Plan American International Group (AIG) was the largest insurance group which struggled to exist during the 2008 recession. But it was protected from failure by a bailout from the US Government. “ The U. S. government seized control of American International Group Inc. -- one of the world's biggest insurers -- in an $85 billion deal that signaled the intensity of its concerns about the danger a collapse could pose to the financial system.” (Krnitschnig, 2008) If the bailed was denied, the repercussions would have been much higher and larger than what was caused by the fall of Lehman Brothers. Post the financial stress, AIG’s credit rating was downgraded and it required $14. 5 billion in collateral in order to improve the credit rating. When private banks denied support, government became the sole option. For the US government, it was a hard bargain. After many rounds of meetings the government decided to lend up to $85 billion. But this threshold was later crossed and the total bailout value reached about $182 billion in different forms. This resulted in the government owning 80% of the then struggling insurer. This equity holding was in the form of equity participation notes. This loan was granted by the government for a period of 2 years. The government had negotiated on all ways to protect the taxpayers’ money. This two year loan carried an interest rate of 8. 5% points plus the LIBOR rate. Apart from that it also carried collateral right on major assets of AIG. Thus, if market and the company prosper, the government will receive huge returns through its equity stake. If it happens otherwise, it can recoup the investment through the claim on assets and the interest on loans. The government bailout helped AIG to sell off its unprofitable business and to get restructured into a healthy operational position. Exit Plan AIG’s bailout exit plan came out in the mid of

2010. There will be a series of activities involved in the exit plan. AIG and the Federal Government intend to complete the exit in a time span of 18 months to 2 years. (Son, 2010) AIG has decided to convert the government holdings into common stock of the company which will then be offered for sale in the market. The US treasury holds about $49. 1 billion in the form of preferred stock. This will be first swapped with the common stock and thereafter it will be offered in the open market. The swap will give the treasury, shares at $28. 70 each. “ The government will receive about 1. 66 billion shares of AIG common stock in exchange for the $49. 1 billion in preferred shares it holds in AIG.” (FoxNews, 2010) By the sale of these shares at price range of $28 – $30, the government will sit back with a clean profit of nearly $13 billion. The company will issue warrants to the common stock holders that will allow them to buy new shares that will be issued by the government. Another part of the bailout was a $20 billion in loan from the Federal Reserve. This will be returned by the proceeds from the sale of its assets and by issue of stock to the treasury for the residual value. AIG will sell its subsidiary American Life Insurance Co. to MetLife Inc. It will also spin of American International Assurance Co. into a new entity. These two activities will be the major selling in order to repay the Federal Reserve’s loan. AIG bailout can be termed as one of the most successful bailouts carried on by any government. Though it was been criticized in the beginning it turned out to be a profitable business for the US Government. Works Cited Karnitschnig, Matthew, Deborah Solomon, Liam Pleven and Jon E. Hilsenrath. “ US to Take Over AIG in $85 Billion Bailout.” The Wall Street Journal. Page 4. 23 May 2011. Son, Hugh. “ AIG Announces U. S. Bailout Exit Plan; Shares Climb.” Bloomberg

Businessweek. 23 May 2011. “ Treasury Announces ‘ Exit Strategy’ for AIG Bailouts.” Fox News. 23 May 2011.