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A.I.G. Uses $61 Billion of Fed Loan

By MARY WILLIAMS WALSH

The American International Group said on Friday that it had already drawn down $61 billion of the $85 billion emergency bridge loan it received from the Federal Reserve two weeks ago, an announcement that startled credit ratings agencies.

The emergency loan was supposed to buy the company time to sell its troubled assets in an orderly manner. But the sell-off has not yet begun, and now the insurer faces the additional pressure of trying to sell the businesses at a time when potential buyers are having trouble borrowing money.

Moody's downgraded A.I.G.'s senior unsecured debt on Friday and said it might downgrade other types of the company's debt, which could make it more expensive for A.I.G. to borrow money and do business.

A.I.G.'s chief executive, Edward M. Liddy, told securities analysts on Friday that $53 billion to $54 billion of the Fed's loan had gone to shore up A.I.G.'s troubled structured-finance unit and its securities lending business. Another big block of the Fed's money has been used to support A.I.G.'s daily operations, Mr. Liddy said in a conference call, because demand for the company's commercial paper has dried up as a result of the worldwide credit crisis.

After the conference call, Standard & Poor's said it had changed A.I.G.'s credit watch status to negative, expressing concern about whether A.I.G. would be able to restructure with the help of the Fed, as planned. The change indicated that a downgrade could be coming.

It was a series of downgrades in A.I.G.'s credit ratings in mid-September that set off certain contractual provisions requiring the insurer to post billions of dollars of collateral with its trading partners, a catastrophic event that led to the huge federal bailout.

Since then, A.I.G. has not released any information about whether additional ratings downgrades would lead to any additional collateral calls.

Both ratings agencies cited concerns about A.I.G.'s rapid use of the Fed's loan.

"The $61 billion draw to date on the facility is much larger than we had previously anticipated," said Rodney A. Clark, an analyst with Standard & Poor's, explaining the change in outlook.

A.I.G. is required to pay back its borrowings from the Fed within two years. Mr. Clark said that to raise the money, the rapid drawdown of the loan made it likely that A.I.G. would have to sell off more businesses than Standard & Poor's had expected.

This would leave "a much smaller and less diversified A.I.G." to pay off a proportionally bigger debt to the Fed, Standard & Poor's said in a statement.

In the conference call, Mr. Liddy detailed which of A.I.G.'s subsidiaries he intended to keep and which he was putting up for sale. Over all, he said, the company would hold on to its property and casualty insurance business in the United States and its general insurance businesses outside the country. Together, they generated revenue of about $40 billion in 2007.

In addition, Mr. Liddy said A.I.G. would keep a continuing ownership in its foreign life insurance businesses, most of which operate in Asia.

Other than that, he said, virtually everything else under A.I.G.'s corporate umbrella was for sale. That would include its life insurance companies in the United States, its retirement operations on four continents, its aircraft leasing business, its consumer finance business and other lines of insurance and reinsurance.

Mr. Liddy said these were valuable businesses for which A.I.G. had already received many expressions of interest, although he acknowledged that there was a big difference between a nibble and an actual sale. He said that the Blackstone Group and JPMorgan Chase had been hired to put the businesses up for sale.

Earlier, Mr. Liddy had indicated that he hoped A.I.G. would be able to retain its life insurance business in the United States. But in the conference call on Friday, he said that solving the problems of the financial products unit, which dealt in complex debt securities and credit derivatives, "has caused us a lot of pain."

"We do intend to wind down that operation," he said. "It is not something you can announce on Friday and expect to do by Monday."

Mr. Liddy said that all of the energy being expended on that troubled unit was aimed at winding down its affairs — not getting them up and running again. "We are not entering into any new activity" there, he said.

In response to questions, Mr. Liddy said it was impossible to say exactly how much money A.I.G. would have to raise to pay back the Fed and emerge from its crisis as a smaller company with adequate capital.

“It’s kind of a Rubik’s Cube,” he said. “We need to be very flexible” because of the fluid economic environment.

He said that in addition to using the $85 billion Fed loan, A.I.G. would be able to participate in the $700 billion bailout program signed into law by President Bush on Friday. The additional help from the Treasury might ease some of its financial burdens, Mr. Liddy said.