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G.A.O. Report Says A.I.G. Is Stabilized

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The research arm of Congress reported on Monday that the American International Group's financial condition had stabilized but that it was not clear whether the giant insurance group would ever be able to repay the federal government.

The Government Accountability Office said the $182 billion bailout package had succeeded in breaking A.I.G.'s calamitous fall and had produced signs of improvement in its insurance businesses. But the company's ability to restructure and survive over the long term depends on "market conditions and continued government support," the office concluded.

Paying off the debt to the government will be a slow, hard process, the report suggested, because raising the money will mean selling businesses that make up 65 percent of the company and employ roughly 70,000 people.

That difficulty stands in stark contrast to the relative ease with which many of the nation's biggest banks have begun to repay the government funds they were extended during the depths of the financial crisis.

The report suggested that A.I.G. would struggle just to stay current on its government debt, much less repay it. Under the initial bailout agreement, A.I.G. was to pay a 10 percent dividend on preferred stock, in exchange for $40 billion in capital from the Treasury. A quarterly dividend payment of about $1 billion is coming due in November. The company does not appear to have the means to pay it, and was granted the option of not paying as part of a debt relief package in March. If the company misses four payments, though, the Treasury can elect two directors to its board.

The report also cast questions about a debt restructuring with the Federal Reserve Bank of New York. The plan, outlined in March in broad strokes, would allow A.I.G. to extinguish about $8.5 billion of debt by giving the Fed an ownership stake in the future cash flows of its domestic life insurance businesses. The transaction has not been scheduled nor have details been disclosed, and it is not clear that the insurance units really have $8.5 billion to spare.

The assessment of A.I.G.'s prospects coincided with word that a senior House Democrat was planning to ask the Federal Reserve and the Treasury about possibly easing the terms of A.I.G.'s government debt yet again.

Representative Edolphus Towns, Democrat of New York, the chairman of the House Committee on Oversight and Government Reform, began considering debt relief after meeting last week with Maurice R. Greenberg, A.I.G.'s former chief executive, according to a spokeswoman.

The terms of A.I.G.'s rescue have been eased three times, because they threatened to crush the troubled company. Some elements of the most recent package, announced in March, have not been fully adopted.

Mr. Greenberg led A.I.G. as it grew into the world's largest insurance group before being forced out during an accounting scandal in 2005. He and a group of companies he controls are still the largest common shareholder, although the federal government took an 80 percent interest when it first rescued the company a year ago.

Ever since the bailout, Mr. Greenberg has been an outspoken critic of the government's plans to dismantle the company and sell parts to repay the federal government. He has argued that this would destroy value, and that it would be better for the government to provide long-term loans so that A.I.G. can keep operating as a group and pay back the government more slowly but, probably, more completely.

For most of the last year, A.I.G. paid little attention to its former leader. Recently, a new chief executive, Robert Benmosche, conceded that Mr. Greenberg might have some useful ideas.

The spokeswoman for Mr. Towns said the congressman had been hearing reports about "fire-sale prices" for A.I.G.'s businesses, and had wanted to find out whether Mr. Greenberg's ideas might be better for taxpayers. She said that after the meeting Mr. Towns had asked the committee staff to study Mr. Greenberg's proposals, which include greatly reducing the government's stake in A.I.G., among other things.

The G.A.O. confirmed that A.I.G. had been getting low prices on its asset sales, but said that the amount coming in on the sales was rising. As of the end of the third quarter of this year, it had taken in a total $8.6 billion. That is still far short of the amount needed, but some large businesses have yet to be sold.

The report listed a number of indicators that the government would be monitoring to assess A.I.G.'s long-term viability. Among them were its credit ratings, its available cash and its success in winding down the trading unit, called A.I.G. Financial Products, that sold the exotic derivatives that set off last fall's crisis.

"The ongoing potential of systemic risk remains a concern until A.I.G. is restructured and market conditions improve," the report said.

The government also said it would watch the prices that traders were charging each other to guarantee A.I.G.'s debts, also through the buying and selling of derivatives.

The insurance group's credit ratings have been unchanged since March, for the most part. That was when the Fed and Treasury took steps to ease the terms of A.I.G.'s debt for the third time. (One rating agency, Fitch, downgraded the insurer's debt in May but has kept its ratings constant since then.)

The ratings are important because if they fall, A.I.G.'s trading partners can demand collateral on their contracts — precisely the situation that led to the global crisis last fall. The amount they could seek would vary, depending on the severity of the downgrade. As of late May, a three-notch downgrade by either Standard & Poor's or Moody's would have required A.I.G. to post $7.7 billion.

A lower credit rating might disqualify A.I.G.'s business units from working with the Fed's commercial paper facility, something that already happened to its airline-leasing unit, which was downgraded in January and appears to be running into a liquidity problem.

In addition to rating insurers' creditworthiness, the agencies also rate their "financial strength," a reference to their ability to fulfill their promises to policyholders. The G.A.O. said that if A.I.G.'s financial strength rating were to fall, its life insurance businesses would be "severely affected," with high surrender rates and the suspension of policy sales by some firms.

Its property and casualty businesses would also be affected, the G.A.O. said, estimating that if A. M. Best downgraded the financial strength of A.I.G.'s property and casualty businesses, premiums could decline by about 50 percent. That would cause operating losses and might prompt many employees to leave.