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AIG eyes way back into mortgage market

By Telis Demos and Tom Braithwaite in New York

AIG, the insurance group bailed out by the US government after disastrous bets on the mortgage market, is exploring a way of ramping up its activity in the sector once again by buying home loans.

The potential move is a mark of AIG's increasing confidence as it looks to put behind it its $182bn bailout in 2008. It also signals a renewed appetite for innovation nearly four years after its rush into credit derivatives linked to mortgage products almost led to bankruptcy.

"We're now thinking about maybe we should try to find a way to buy the mortgages that we're insuring," said Robert Benmosche, AIG chief executive.

The programme and its details are still under consideration, and it would not begin until at least the fourth quarter of this year. AIG would use underwriting tools developed by one of the group's subsidiaries, United Guaranty Corp, a mortgage insurer, to facilitate investments by other units of the company.

UGC, like other mortgage insurers, is still weighed down by obligations on low-quality home loans written before 2008. But it has updated its underwriting procedures with 17 new criteria, including reviewing each loan directly rather than relying on representations by lenders.

"[UGC] not only gives us some nice profit, but it gives us some incredible insight into a major asset," said Mr Benmosche. "If we're insuring a first-dollar loss, and we know the quality of what we're doing, maybe there's a way of expanding that."

Josh Stirling, analyst at Sanford C. Bernstein, said: "It's hard to disagree with such a plan. They have plenty of data, and could create a risk-based pricing approach that is a relative advantage. At the same time, it's much more common for companies in AIG's position to become more risk averse."

AIG lost nearly $100bn in 2008, largely due to reverses on investments in subprime mortgages and on credit default swaps insuring mortgage securities. The move could mark a return to direct US residential mortgage loan investment. AIG currently holds about $35bn in residential mortgage-backed securities, including some repurchased from the New York Federal Reserve, which acquired the securities as part of AIG's government bailout.

AIG is coming closer to being clear of its obligations to the government. The US Treasury still owns a 70 per cent stake but has been moving to sell more shares with AIG's stock price near $30, allowing the government to sell at a profit.