



Fitch Downgrades AIG to 'A'; Remains on Rating Watch Negative

Fitch Ratings-Chicago-15 September 2008: Fitch Ratings has downgraded the Issuer Default Rating (IDR) and outstanding debt ratings of American International Group, Inc. (AIG) as follows:

- Long-term IDR to 'A' from 'AA-';
- Senior unsecured debt to 'A' from 'AA-'.
- Short-term IDR to 'F1' from 'F1+';
- Commercial paper program to 'F1' from 'F1+'.

Fitch has also downgraded AIG's holding company and subsidiary debt and insurer financial strength (IFS) ratings. A full list of rating actions is detailed below. The ratings also remain on Rating Watch Negative by Fitch.

The rating actions reflect Fitch's view that AIG's financial flexibility and ability to raise holding company cash is extremely limited due to recent declines in the company's stock price, widening credit spreads, and difficult capital market conditions. The rating actions also reflect benefits derived from a plan announced by New York's governor today that grants certain AIG operating company subsidiaries the authority to exchange up to \$20 billion of assets with AIG in order to promote the company's liquidity. Fitch believes that AIG's ability to fund collateral requirements and replace capital lost due to the company's on-going exposure to the U.S. residential mortgage market is now largely dependent on accessing assets provided under the plan outlined by New York's governor and by asset sales.

AIG's collateral requirements and liquidity needs rise from several sources, including the company's AIG Financial Products (AIGFP) subsidiary's portfolio of credit default swaps written on collateralized debt obligations backed by structured finance CDOs. In the second quarter 2008 AIG posted approximately \$8.2 billion of collateral related to this portfolio, bringing the total collateral posted at July 31, 2008 to \$16.5 billion. Given current difficult market conditions Fitch believes that AIG is likely to face additional material collateral calls on this portfolio. Further, as of July 31, 2008, AIG estimated that it could be required to post \$10.5 billion of additional collateral if the company's ratings are downgraded one notch from current levels by the other major rating agencies and \$13.3 billion of collateral if downgraded by both of the other agencies. AIG's also has potential liquidity needs derived from 2a-7 put contracts the company

sold that Fitch estimates at \$6 billion as of June 30, 2008.

Fitch believes that AIG is likely to pursue other steps to raise cash and capital and that the company may pursue the sale of various operating units. Fitch believes that these measures will take time to develop and thus while they are likely to provide AIG with long-term benefits they are unlikely to provide benefits in the short-term.

Notwithstanding, Fitch believes the accommodations being provided by AIG's insurance regulators has eased the potential liquidity strain being experienced at the holding company level.

Fitch has downgraded the following ratings and kept them on Rating Watch Negative:

American International Group, Inc.

- Long-term IDR to 'A' from 'AA-';
- Senior debt to 'A' from 'AA-';
- Junior subordinated debentures to 'A-' from 'A+';
- Short-term IDR to 'F1' from 'F1+'.

AIG Funding, Inc.

- Commercial paper to 'F1' from 'F1+'.

AIG International, Inc.

- Long-term IDR to 'A' from 'AA-'
- Senior debt to 'A' from 'AA-'.

AIG Life Holdings (US), Inc. (formerly American General Corp.)

- Long-term IDR to 'A' from 'AA-';
- Senior debt to 'A' from 'AA-'.

American General Capital II

- Preferred securities to 'A-' from 'A+'.

American General Institutional Capital A and B

- Capital securities to 'A-' from 'A+'.

HSB Capital Trust I

- Preferred securities to 'A' from 'AA-'.

21st Century Insurance Group

- Long-term IDR to 'A' from 'AA-';
- Senior debt to 'A' from 'AA-'.

United Guaranty Corporation

--Long Term Rating to 'A' from 'AA-'.

Ezer Mortgage Insurance Company (ISR)

--Insurer Financial Strength (IFS) Rating to 'A' from 'AA'.

Fitch has also downgraded the following companies IFS ratings to 'AA-' from 'AA+' and kept on Rating Watch Negative:

Life Companies

- AGC Life Insurance Company;
- AIG Annuity Insurance Company;
- AIG Life Insurance Company;
- AIG SunAmerica Life Assurance Company;
- American General Life and Accident Insurance Company;
- American General Life Insurance Company;
- American International Assurance Company (Bermuda) Limited;
- American International Life Assurance Company of New York;
- American Life Insurance Company;
- First SunAmerica Life Insurance Company;
- SunAmerica Life Insurance Company;
- The United States Life Insurance Company in the City of New York;
- The Variable Annuity Life Insurance Company.

National Union Inter-company Pool Members:

- AIG Casualty Company (formerly Birmingham Fire Ins. Co. of PA);
- American Home Assurance Company;
- American International South Insurance Company;
- Commerce and Industry Insurance Company;
- Granite State Insurance Company;
- Illinois National Insurance Co. ;
- National Union Fire Insurance Company of Pittsburgh, PA;
- New Hampshire Insurance Company;
- The Insurance Company of the State of Pennsylvania.

Lexington Inter-company Pool Members:

- AIG Excess Liability Insurance Company, Ltd. (formerly Starr Excess Liability Ins. Co., Ltd.);
- Landmark Insurance Company;
- Lexington Insurance Company.

AIG Personal Lines Inter-company Pool Members:

- 21st Century Casualty Company;
- 21st Century Insurance Company;
- 21st Century Insurance Company of the Southwest;
- AIG Advantage Insurance Company (formerly Minnesota Ins. Co.);
- AIG Auto Insurance Company of New Jersey;
- AIG Centennial Insurance Company;
- AIG Hawaii Insurance Company;
- AIG Indemnity Insurance Company;
- AIG National Insurance Company, Inc.;
- AIG Preferred Insurance Company;
- AIG Premier Insurance Company;
- American International Insurance Company;
- American International Insurance Company of California;
- American International Insurance Company of New Jersey;
- American International Pacific Insurance Company;
- American Pacific Insurance Company;
- New Hampshire Indemnity Company, Inc..

Non-Pool Companies

- AIU Insurance Company;
- American International Specialty Lines Insurance Company;
- Hartford Steam Boiler Inspection & Insurance Company;
- United Guaranty Residential Insurance Company.

Foreign Domiciled General Ins. Companies

- AIG MEMSA Insurance Company Ltd. (UAE);
- AIG (UK) Ltd. (formerly The Landmark Insurance Co. Ltd. (UK));
- American International Underwriters Overseas, Ltd. (Bermuda).

ASIF Program

ASIF II Program

ASIF III Program

ASIF Global Financial Program

- Program ratings downgraded to 'AA-' from 'AA+'.

The following companies' ratings remain on Rating Watch Negative:

AIG Capital Corporation

- Long-term IDR at 'A';

--Short-term IDR at 'F1'.

International Lease Finance Corp.

--Long-term IDR at 'A';
--Senior unsecured debt at 'A';
--Preferred stock at 'A-';
--Short-term IDR at 'F1';
--Commercial paper at 'F1'.

American General Finance, Inc.

--Long-term IDR at 'A';
--Short-term IDR at 'F1';
--Commercial paper at 'F1'.

American General Finance, Corp.

--Long-term IDR at 'A';
--Senior debt 'at 'A';
--Short-term IDR 'at F1';
--Commercial paper at 'F1'.

AGFC Capital Trust I

--Preferred stock at 'A-'.

AIG Finance (Hong Kong) Ltd.

--Long-term local currency IDR at 'A';
--Senior unsecured at 'A';
--Short-term local currency IDR at 'F1'.

CommoLoCo Inc.

--Short term IDR at 'F1';
--Commercial paper at 'F1'

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