

NEW YORK (Dow Jones) -- Insurer American International Group Inc., succumbing to relentless investor pressure that drove its shares down 31% on Friday alone, is pulling together a survival plan that includes selling off some of its most valuable assets, raising more capital and possibly going to the Federal Reserve for help, people familiar with the situation said.

The measures are aimed at staving off a downgrade by major credit-rating firms. AIG executives worried that such an action would set off a chain reaction that could be fatal to the firm. The insurer, which has already raised \$20 billion in fresh capital so far this year, was seeking to raise an additional \$40 billion to avoid a downgrade.

During a weekend scramble to shore up its finances, AIG turned down a capital infusion from a group of private-equity firms led by J.C. Flowers & Co. because an option tied to the offer would have effectively given them control of the company, an 89-year-old giant that does business in nearly every corner of the world.

The proposed option would have allowed the firms to acquire AIG for \$8 billion under certain conditions. That price is just one-fourth of AIG's current market value.

J.C. Flowers didn't respond to messages seeking comment.

When AIG's board rejected the capital infusion, the company's recently appointed chairman and chief executive, Robert Willumstad, took the extraordinary step of reaching out to the Federal Reserve for help. Mr. Willumstad asked New York Federal Reserve President Timothy Geithner if the Fed could backstop some asset sales.

Two other private-equity firms -- Kohlberg Kravis Roberts & Co. and TPG -- offered to inject capital into AIG if the Fed agreed to provide the insurer with a bridge loan until its restructuring plan was completed.

AIG viewed the request to the Fed not as a bailout but rather as a temporary measure that would give the insurer some breathing room until it was able to dispose of the assets.

As of late Sunday, the Fed had yet to decide whether to offer the assistance. The Fed usually deals with banks and brokers, and it wasn't clear what it could do. Mr. Geithner didn't respond to a request for comment and a company spokesman had no comment.

The assets AIG intends to sell include its domestic automotive business and its annuities unit, according to people familiar with the matter. It also looked into selling its aircraft-leasing arm, International Lease Finance Corp., but it isn't clear whether action on ILFC will be part of the emergency steps.

AIG also considered shifting assets from its regulated insurance business to its holding company, which would help the holding company respond to demands for cash or collateral. But that plan was met with resistance from regulators and by late Sunday it appeared unlikely it would come together.

The rush for cash represents a remarkable comedown for AIG, whose role in global finance is in many ways as critical as investment banks such as Lehman Brothers. AIG's troubles were one of the subjects at the weekend meeting of Wall Street chiefs and regulators at the New York Fed.

Eric Dinallo, the insurance superintendent in AIG's home state of New York, took a significant role in the talks over the weekend, according to a person familiar with the matter. One key issue, the person said, was the proposed shift of assets. Insurers typically face stringent regulations on how they use their assets, as regulators seek to make sure that they can meet their obligations to policyholders.

The turmoil in housing and credit markets has hammered AIG, largely because of contracts it sold protecting others against losses tied to subprime loans and other risky assets. AIG's stock has fallen nearly 80% this year. It reported a second-quarter net loss of \$5.36 billion last month after a first-quarter loss of \$7.81 billion.

Among its challenges: It doesn't have access to the Fed's lending window, as some other troubled financial firms do. It could face significant claims from Hurricane Ike, which battered the Texas coast over the weekend. It had to pay a stiff premium in August when it borrowed money in the corporate bond market.

As recently as Thursday, AIG said it was sticking to a schedule to unveil its strategic plan on Sept. 25. But its shares fell 31% on Friday alone. Late that day, Standard & Poor's warned that it could cut AIG's credit rating by one to three notches, citing concerns that AIG would have difficulty raising capital. Such a step would make it more expensive for AIG to borrow and further undermine investor confidence in the company.

Earlier this year, AIG considered selling or spinning off ILFC, the aircraft-leasing arm, but it decided against the idea in June. Since then, AIG's position has deteriorated, making it more likely that it would try again to unload the unit.

AIG could also raise cash by selling its investments in Blackstone Group LP, which is also helping to advise the insurer on its restructuring. AIG owns a stake in Blackstone worth about \$700 million. It also has roughly \$1 billion in investments in Blackstone's funds, according to regulatory filings, that it could sell in the secondary market.

It's not clear whether AIG has buyers lined up for any of the assets it wants to sell. Also unclear is how much interest private-equity firms would take in an AIG investment, and whether they have enough capital to make a dent in AIG's problems.

"The numbers are too daunting," said a senior executive at a large private-equity firm. Given AIG's huge balance sheet, "we just don't have enough capital to fill the hole."

Over four decades, former Chief Executive Maurice R. "Hank" Greenberg built AIG into one of the world's largest financial firms. He traveled the globe in an effort to expand AIG's reach, notably in China. He made major acquisitions, and pushed AIG into new businesses beyond the world of traditional insurance. For years, investors paid a hefty premium to buy AIG shares.

Now it's not even the most valuable insurer in the U.S., as measured by market capitalization.

A 2005 accounting scandal precipitated Mr. Greenberg's departure. He has denied wrongdoing. A protege, Martin Sullivan, ran the company until this summer when he was replaced under shareholder pressure with Mr. Willumstad, a former Citigroup Inc. executive who has been AIG's chairman since 2006.

When Mr. Willumstad said in June that he would release his turnaround plan in a few months, some wondered whether that gave him enough time to get his hands around such a multifaceted enterprise. But rapid shifts in the market have forced his hand.

Mr. Willumstad reached out to Mr. Greenberg after taking over in June, But a spokesman for Mr. Greenberg said the former CEO wasn't involved in the weekend talks, "though he repeatedly offered to assist in anyway he could" -- suggesting that Mr. Willumstad was pursuing his own strategy.

The aircraft-leasing arm could be part of his efforts. Founded in 1973, ILFC boasts a fleet of more than 900 airplanes valued at more than \$50 billion. It is the largest single customer for both Boeing Co. and European Aeronautic Defence & Space Co.'s Airbus. Given that ILFC logged record operating income of \$352 million in the second quarter, its value may be relatively high at the moment compared to some other AIG units.

S&P said AIG had enough money to pay claims and post collateral, if needed -- an important statement, given that AIG could have to post billions of dollars if it got downgraded.

AIG had over \$1 trillion in assets at the end of the second quarter. Its shareholders equity -- assets minus liabilities -- stood at about \$78 billion at that point.

-- Matthew Karnitschnig, Liam Pleven and Peter Lattman, The Wall Street Journal