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Fed Will Auction Securities From AIG Bailout This Week

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NEW YORK—The Federal Reserve Bank of New York and a unit of BlackRock Inc. kicked off a plan to dispose of assets the central bank acquired in the bailout of American International Group Inc., offering $1.5 billion of subprime mortgage bonds for sale in a Wednesday auction, according to traders.

BlackRock Solutions, which is handling the widely-watched sale, on Monday afternoon circulated a list of roughly 50 mortgage securities to Wall Street dealers seeking competitive bids on the bonds.

Investors interested in the bonds will have to bid through dealers that are participating in the auction. Those dealers have until 1 p.m. on Wednesday to submit bids on the securities, which are backed by subprime and so-called "Alt-A" home loans issued between 2005 and 2007.

The $1.5 billion amount refers to the bonds' face value; and represents about 5% of the assets, held in a vehicle known as Maiden Lane II. Traders said market prices on individual securities could range from less than 10 cents to 90 cents on the dollar, depending on the bond.

Monday's "bid list" includes bonds that are "good, bad and indifferent," said Dan Nigro, chief executive officer of Warfield Consultants in Montclair, N.J, who has seen the list. "It is designed to be a cross-section of what the Fed has to offer. It will spur interest and shows what's in the portfolio."

Last week, the Fed rejected a $15.7 billion offer from AIG to buy back all the securities in Maiden Lane II, which holds roughly 800 securities with a total fair market value of $15.9 billion, according to Fed data, and a total face value of roughly $30 billion. It said that instead, it would instead gradually auction off the assets in the market to maximize their value for taxpayers.

The Fed is owed $12.8 billion on a loan it provided to Maiden Lane II to buy the securities, and sale proceeds would pay down that loan. AIG's offer would have guaranteed the Fed a $1.5 billion profit on its investment under the terms of the vehicle. The Fed is now under pressure to show that it can get more money for taxpayers by selling the bonds in the market over time.

BlackRock Solutions, the New York Fed's investment manager, will handle the sales of portions of the portfolio and individual bonds over time.

The size of Monday's bid list could give an indication of the pace at which the New York Fed intends to dispose of the assets. Traders earlier expected the first sale to include something in the range of $100 million to $2 billion worth of securities. A report from Bank of America Corp. said the initial list size could be $500 million so as not to risk causing market disruptions; subsequent lists could range from $1 billion to $1.5 billion on a weekly basis.

The Fed hasn't provided a timetable for the sales but dealers expect auctions to be held on a weekly basis. The

Fed said last week it would transact only "if the best available bid represents good value for the public." Dealers said "reserve levels" will apply in the first and subsequent auctions, meaning that if bids fail to exceed a certain minimum price, the Fed won't sell the securities.

A spokesman for the New York Fed and a spokeswoman for BlackRock had no comment.

—Matt Wirz and Mary Pilon contributed to this article.

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