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# AIG Bonds Are in Demand

*Investors Line Up for Fed's First Auction of Subprime Debt*

By ANUSHA SHRIVASTAVA

NEW YORK—The Federal Reserve Bank of New York's much-anticipated auction Wednesday of \$1.5 billion of subprime bonds inherited from American International Group Inc. was deemed successful by industry participants, noting that most of the bonds sold at prices that met expectations.

The New York Fed, working through a unit of BlackRock Inc., sold 42 of 52 bonds on offer this week, for a total of \$1.33 billion.

The auction was the first of a series the New York Fed is conducting in an effort to rid itself of assets in a large portfolio of residential mortgage-backed bonds it acquired in rescuing AIG in 2008.

"We are hearing that of the 42 that traded, half traded into retail hands, which means the auction was strong," said Paul Norris, head of structured products at Dwight Asset Management in Burlington, Vt. "The bonds were sold at about the level expected, which means the auction was a success."

Industry participants said dealers saw solid interest from investors for these bonds and many didn't win bids. This could encourage the Fed to sell more bonds in the next installment, they said.

"The bonds are already being offered for more than the original indications," said Daniel Nigro, chief executive of Warfield Consultants in Montclair, N.J. "The overwhelming majority of the list traded at more than the estimated price, indicating healthy demand by dealers and investors."

There was a slight delay in announcing the winning bids, according to some participants. About 45 dealers had been invited to participate in the auction. Those who made bids were expecting to hear whether their bids were accepted 90 minutes after submitting the bids.

The Fed has posted some details about the sale on its website and will announce the date and size of the next auction.

The New York Fed intends to sell all the assets in a vehicle known as Maiden Lane II. It 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.

Last week, the Fed rejected a \$15.7 billion offer from AIG to buy back all the securities in Maiden Lane II and said it would instead gradually auction off the assets in the market to maximize their value for taxpayers. The Fed and BlackRock declined comment. An AIG spokesman didn't return calls for comment.

## *Treasuries Take a Fall*

Investors sold longer-dated bonds amid concern that a philosophically divided Fed will lose control of inflation

4/22/2011

Fed Sees Solid Demand for AIG Bonds ...

in the future. In late afternoon trading, the benchmark 10-year note was 16/32 lower in price to yield 3.545%. The 30-year bond was 1 7/32 lower to yield 4.585%. The two-year note was 2/32 lower to yield 0.846%. Yields move inversely to prices.

—Min Zeng

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