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## Insurers Buy Banks in Effort to Get Aid

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U.S. life insurers, weakened by losses on their immense investment portfolios, are maneuvering to get a slice of government bailout funds by buying up tiny banks.

On Monday, [Lincoln National Corp.](#) said it agreed to buy a small savings-and-loan institution in Goodland, Ind. In recent days [Genworth Financial Inc.](#) said it agreed to buy a thrift in Maple Grove, Minn., and [Hartford Financial Services Group Inc.](#) said it had struck a deal to purchase Federal Trust Corp., in Sanford, Fla.

The insurers' goal: Turn themselves into savings-and-loan holding companies, and thus qualify for infusions from the government under the \$700 billion Troubled Asset Relief Program.

It isn't yet clear whether insurers have received approval of government financing. But regulators have an interest in shoring up the insurance industry, one of the biggest providers of capital to U.S. businesses through its purchases of bonds.

The insurance industry's interest in getting TARP money complicates a heated competition for limited bailout funds.

On Monday, Treasury Secretary [Henry Paulson](#) told [The Wall Street Journal](#) that the government is unlikely to use what remains of the rescue fund to launch any substantial new programs. Instead, the government will keep in reserve some of the money from the TARP, and thus give flexibility in the bailout to the incoming administration.

While it remains early in the process, the actions of the past few days suggest a potentially significant change in the way the insurance business will be structured and regulated. For one thing, access to TARP funds requires levels of federal oversight that currently don't apply to all insurance holding companies.

Of the \$350 billion in bailout funds the Treasury has to work with right now,

\$250 billion was marked for direct capital infusions into the nation's financial system. An additional \$40 billion was set aside for American International Group Inc., the giant insurer recently bailed out by the government.

In fact, an influx of government money into the insurance industry could also help AIG, which has been scrambling to sell some of its businesses to repay its massive government loan. The natural buyers would be other insurers -- and TARP money might help them finance purchases like these, people close to the matter say.

Still, the Treasury may expose itself to criticism that it is simply shifting taxpayers' financial exposure from AIG to other insurers if it uses TARP money to support the sale of pieces of AIG to rivals.

On Monday, the Treasury said it has now provided \$158.6 billion in capital to 30 financial institutions. That figure includes a total of \$125 billion to nine major banks, as well as \$33.6 billion to a variety of other financial institutions. That leaves a diminished pot of money, \$91.4 billion, for insurers to go after, along with other financial firms.

Also on Monday, the Treasury announced new terms allowing thousands of privately held U.S. banks to join publicly traded firms in applying for federal funds -- a move that would potentially increase the pool of institutions vying for capital by nearly 4,000. These banks will have until Dec. 8 to apply for the capital injections.

Insurers are important to the health of financial markets. Among other things, life insurers are among the biggest holders of the nation's corporate debt, with \$1.3 trillion on their books. That, say analysts, gives the government a strong incentive to aid them.

As turmoil from the stock and bond markets has seeped into the insurance industry, insurers have been hoarding cash to calm shareholders.

The insurance business is state-regulated. But the government fund is open to financial companies that are federally regulated. So insurers seeking TARP cash that aren't already federally regulated holding companies must first apply for that status.

One route to federal regulation involves buying a thrift. Once under the federal umbrella, assets across all of its units would figure in the calculation for an allocation of capital through TARP. The companies' insurance units would remain state-regulated.

The inclusion of insurers in TARP would mark the latest evolution of that

program, which has been rapidly broadened by the Treasury since being passed by Congress in October. Though not initially promoted as a helping hand for insurers, the change would fit with the Treasury's stated goal of stabilizing global financial markets.

Life insurers make money by collecting premiums on insurance policies, then investing that money in the market. In good times, they make money on both ends -- investment gains, and profits on premiums.

But they can't take many more quarters like the one they just endured. In the third quarter, they took billions of dollars of realized losses from the collapse of holdings in the financial sector.

They also took billions of dollars of unrealized losses as the prices of corporate bonds dropped sharply while investors dumped them in order to buy safer U.S. Treasuries.

At the same time, their variable-annuity businesses are suffering as the stock market drops. On many variable annuities sold over the past six years, insurers promised their customers guaranteed minimum returns. But the value of investments in the variable-annuities have declined; meanwhile, more of those guarantees may come due over the next five to 10 years.

Amid all this, insurers' stock prices have taken a beating. Shares of Genworth, a big mortgage insurer, are down 95% so far this year as homeowner defaults have mounted. Hartford's shares are off 89%, and Prudential's and Lincoln's are each off 78%.

Financial-services research firm Keefe, Bruyette & Woods estimates that publicly traded life insurers would be eligible for sums ranging from about \$76 million to roughly \$8 billion for giant [MetLife Inc.](#), the largest publicly traded U.S. life insurer by assets. The calculations were based on government filings showing insurers' invested assets, and the assumption that insurers would be eligible for percentages akin to what banks had received.

MetLife declined to comment.

Hartford says it estimated that it would be eligible for an infusion of \$1.1 billion to \$3.4 billion under existing Treasury guidelines. Shannon Lapierre, a Hartford spokeswoman, said the insurer worked with the Office of Thrift Supervision in identifying tiny Federal Trust Corp., with \$602 million in assets, as an acquisition candidate. The deal is valued at \$10 million.

Lincoln National, the 12th-largest U.S. life insurer, said it agreed to purchase Newton County Loan & Savings, with just \$7 million in assets, based in

Goodland, Ind. A spokeswoman for Lincoln, which didn't release terms of the deal, said it is making application because, "it's prudent in this market" to have additional potential sources of capital. She said the company estimated it is eligible for up to \$3 billion.

Genworth's agreement in principle is with InterBank FSB, a four-branch bank that has \$895.5 million in assets. Terms weren't disclosed.

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