Analysts: Bailout For The Hartford Could Keep Firm Intact

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With $3.4 billion in government aid in its back pocket — or at least promised — the pressure is off The Hartford to sell one or more of its businesses to raise additional capital.

Wall Street analysts Friday applauded the U.S. Treasury's decision to invest in The Hartford Financial Services Group, which is facing the possibility of a breakup amid mounting investment losses.

"This is a real game changer," said Jeffrey Schuman, an analyst at Keefe, Bruyette & Woods Inc. in Hartford. "They will continue to review operations and look to make changes. I don't see them pursuing large asset sales right now."

The Hartford declined comment Friday on whether the government's preliminary approval of funding would affect any sale of business lines, which the insurer confirmed April 30 it was considering.

Keeping the 199-year-old company together could mean more job stability for employees, even as The Hartford continues to trim its workforce to cut expenses this year. The insurer laid off 125 in the Hartford area at the end of last year, bringing its employment in the area to 12,500.

Investors Friday had a more muted reaction to the government's investment. Early in the day, The Hartford's shares shot up as much as $2.12 to $16.87, but lost all of the gain and then some by the close of trading, ending the day at $14.60, down 15 cents.

"The company and the stock have been under pressure for a while, so investors may still be cautious," Schuman said.

Experts said the federal bailout can be viewed by investors and policyholders as a plus because it strengthens finances.

"But some may view it as a bit of a scarlet letter indicating that there may be a problem," said Richard Shore, a lawyer specializing in insurance at the firm Gilbert Oshinsky in Washington.

Late Thursday, the U.S. Treasury said The Hartford and five other major insurers, including Lincoln National and Prudential Financial Inc., both with significant operations in Hartford, had won preliminary approval for funding.

Prudential is leaning against taking the bailout, according to Bloomberg News, citing unnamed sources.

The former head of The Hartford's property casualty business, Neal S. Wolin, is now in confirmation proceedings for the deputy treasury secretary post. Wolin has said he would have no role in decisions affecting The Hartford, and, when asked if Wolin was involved in the decision, a Treasury spokesman said, "Absolutely not."

As investment losses have mounted at The Hartford, especially in the life insurance unit, the company has maintained that it has enough of a capital cushion to meet its commitments to policyholders. But it needed more capital to guard against future losses.

The $3.4 billion injection from the Capital Purchase Program of the Treasury's Troubled Asset Relief Program — the maximum available to The Hartford — will give the government and taxpayers preferred shares in The Hartford, which pay a dividend, and warrants to buy common stock.

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The government does not get a say in strategic decisions, but if the company doesn't pay dividends on the preferred shares for four consecutive quarters, the government can appoint someone to the board of directors.

There are limits on executive pay. Because of the size of the investment in The Hartford, the top 25 highest paid executives can't be paid bonuses, with some exceptions for restricted stock, according to Treasury officials.

The Hartford and the other insurers were eligible for the bailout money in part because they received approval to operate a federally chartered bank or savings and loan.