

Treasury's Authority Under EESA

- Able to directly purchase Troubled Assets from a Financial Institution.
 - Troubled Assets are any financial instrument -- including debt, equity, or warrants -- that the Secretary determines to be a troubled asset after consultation with Fed Chairman.
- Must make purchase pursuant to a program established by the Office of Financial Stability (OFS).
 - On November 8, 2008, the OFS Investment Committee approved program guidelines for a Systemically Significant Failing Institution (SSFI) Program.
 - On November 8, 2008, the OFS Investment Committee also recommended approved of the proposed equity investment in AIG pursuant to the SSFI Program.
- As a direct purchase, Treasury must receive warrants from AIG under EESA.
- As a direct purchase of greater than \$300 million of troubled assets, executive compensation limitations apply under EESA.

Financial Terms of Proposed Equity Investment in AIG

- Senior Preferred Stock
 - Size: \$40 billion
 - Dividend: 10% per annum
 - Protections include:
 - Restriction on dividends and repurchases
 - Board representation upon deferred dividends
- Warrants
 - Option to purchase up to 2% of common stock outstanding on date of investment
 - Exercise Price: \$2.50 per share
 - Term: 10 years
 - Treasury agrees to not use common stock voting rights if warrant exercised

Additional Deal Terms

- Restrictions on corporate expenses.
- Restrictions on lobbying.
- Most stringent limitations on executive compensation under EESA, plus extra limitations on the top 70 executives and a freeze on bonus pool.
- Corporate governance requirements, including formation of risk management committee under the board of directors.

Investment Considerations

- This investment targets systemic risks -- overriding objective of providing stability and preventing disruption to financial markets in order to limit the impact on the economy and protect American jobs, savings, and retirement security.
- The form and terms of this restructuring have been crafted to the maximum extent possible to protect taxpayers' interest.

Closing Timeline

DATE	ACTION
Sun 9 Nov	<ul style="list-style-type: none"> -- FSOB presentation -- Federal Reserve vote -- AIG board approval -- Secretary Paulson executes Troubled Asset Determination -- Parties execute letter accepting term sheet
Mon 10 Nov (pre-market)	AIG, Fed and Treasury announcements
Tues 11 Nov	<ul style="list-style-type: none"> -- Public release of SSFI Program guidelines -- Rating agencies publish ratings
Thurs 13 Nov	<ul style="list-style-type: none"> -- Deal documents executed -- Deal funding and settlement
Mon 17 Nov	Public release of transaction report
Thurs 20 Nov	Transmit tranche report to Congress