



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 31 2009

Re: 2009-03-131
SAM: ALB: TLR

Ms. Tegan Millspaw
Judicial Watch
501 School Street, SW Ste. 500
Washington, DC 20024

Dear Ms. Millspaw:

This is in response to your Freedom of Information Act (FOIA) request in which you requested records relating to the U.S. Government's interventions and/or involvements with American International Group for the time frame of June 2008 until present.

Previously you received an interim response in which you were informed of additional documents awaiting review. That review has now been completed.

It has been determined 343 pages are responsive to your request. Of those pages, 126 pages are appropriate for release in full. It has further been determined 19 pages are appropriate for release with excisions made pursuant to Exemptions 4, 5, and 6 of the FOIA, 5 U.S.C. § 552(b)(2) (4) (5) (6). Exemption 4 of the FOIA, pertains to trade secrets and commercial or financial information obtained from a person and privileged or confidential; Exemption 5 of the FOIA, pertains to certain communications protected by the attorney-client privilege and Exemption 6 of the FOIA, pertains to information the release of which would constitute a clearly unwarranted invasion of the personal privacy of third parties. It has also been determined 120 pages should be withheld in full also pursuant to Exemptions 4, 5, and 6.

Certain records responsive to your request totaling 78 pages are records of the Federal Reserve System or the Financial Stability Oversight Board ("FINSOB"). 37 of the documents are records of the Federal Reserve Board and 41 are records of FINSOB. Accordingly, we are referring your request as it pertains to those records to the Board of Governors of the Federal Reserve System and FINSOB for processing and direct response to you. If you have any questions regarding the status of that referral, you may contact The Federal Reserve Board directly at the following address:

Ms. Jeanne McLaughlin
Freedom of Information Office
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

You may contact FINSOB directly at the following address:


Financial Stability Oversight Board
Freedom of Information Office
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

This letter represents the agency's final response to your request. If you are dissatisfied with the action taken on your request, you may appeal within 35 days from the date of this letter or the date of the letter transmitting the last records of release. Your appeal must be in writing, must be signed by you, and should contain the rationale for the appeal. Your appeal should be addressed to:

Freedom of Information Appeal
Disclosure Services, DO
Department of the Treasury
Washington, DC 20220

Copies of the releasable documents are included on the enclosed compact disk. Please be advised that no fees were incurred in processing your request.

Sincerely,


Stephen A. Moffett
Administrative Officer
Office of Financial Stability

Enclosures

Braun, James

From: Hammond, Donald
Sent: Tuesday, November 25, 2008 7:21 PM
To: Lambright, James; Albrecht, Stephen
Subject: Fw: Transaction Involving American International Group, Inc. - IXOS archive 41 KB

Importance: High

From: Susan.Lam@ny.frb.org
To: Monroe, David
Cc: Monroe, David; Hammond, Donald; Edward.Murphy@ny.frb.org ; Grippo, Gary; Barnshaw, Harold; Joseph.Marraccino@ny.frb.org ; Carfine, Ken; Phillips, Sally; Bloom, Tom; Leon.Taub@ny.frb.org ; NY_General_Ledger@glc.frb.org
Sent: Tue Nov 25 18:54:13 2008
Subject: RE: Transaction Involving American International Group, Inc.

All-

This is e-mail confirms that \$40 billion of principal has been repaid by AIG and was successfully processed by the Discount Window. Please let me know if there's any questions. Thanks.

Susan Lam
Assistant Staff Director
Financial Management- Accounting Operations
Federal Reserve Bank of New York
201-531-3744
201-531-3253 Fax
917-562-9574 Mobile

Dave.Monroe@do.treas.gov

11/25/2008 05:24 PM

To Dave.Monroe@do.treas.gov, Edward.Murphy@ny.frb.org,
Joseph.Marraccino@ny.frb.org, Susan.Lam@ny.frb.org
cc Ken.Carfine@do.treas.gov, Gary.Grippo@do.treas.gov, Sally.Phillips@do.treas.gov,
Harold.Barnshaw@do.treas.gov, Tom.Bloom@do.treas.gov,
Donald.Hammond@do.treas.gov, Dave.Monroe@do.treas.gov
Subject RE: Transaction Involving American International Group, Inc.

Sorry for the false start. Please move forward on this transaction.

David J. Monroe, Director

Office of Fiscal Projections

Office of the Fiscal Assistant Secretary

U.S. Department of the Treasury

202-622-1813

202-622-4775 (fax)

42.7% of all statistics are made up on the spot.

From: Monroe, David

Sent: Tuesday, November 25, 2008 4:56 PM

To: Edward.Murphy@ny.frb.org; Joseph.Marraccino@ny.frb.org; Susan.Lam@ny.frb.org

Cc: Carfine, Ken; Grippo, Gary; Phillips, Sally; Barnshaw, Harold; Bloom, Tom; Hammond, Donald; Monroe, David

Subject: Transaction Involving American International Group, Inc.

Mr. Murphy,

In the capacity of the Federal Reserve Bank of New York as Treasury's fiscal agent, attached is a letter authorizing you to charge the Treasury's General Account and credit an account on the books of your bank related to a restructuring of Federal assistance to AIG. Please let us know when the payment has been accomplished.

The original of this document will be sent to you via Fed Ex.

Thanks,

Dave Monroe

David J. Monroe, Director

Office of Fiscal Projections

Office of the Fiscal Assistant Secretary

U.S. Department of the Treasury

Main Treasury Building

1500 Pennsylvania Avenue, N.W., Room 2040

Washington, DC 20220

202-622-1813

202-622-4775 (fax)

The 50-50-90 rule: Anytime you have a 50-50 chance of getting something right, there's a 90% probability you'll get it wrong.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

November 25, 2008

Mr. Edward Murphy
Executive Vice President, Corporate Group
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001

RE: American International Group, Inc. ("AIG")

Dear Mr. Murphy,

In connection with the Emergency Economic Stabilization Act of 2008 program for systemically significant failing institutions, you are instructed to process the following payment today, November 25, 2008. Acting as Treasury's fiscal agent, the Federal Reserve Bank of New York (the "Bank") shall debit the Treasury's General Account using an SF 5515 (debit voucher) for \$40,000,000,000.00, charging (b) (6), and credit that amount to the account evidencing AIG's indebtedness under the Credit Agreement dated as of September 22, 2008, between AIG and the Bank, as amended from time to time, consistent with the plan to restructure Federal assistance to AIG and allow it to pay down its senior secured revolving credit with the Bank.

Thank you for your cooperation and assistance in this matter. If you have any questions, please call Dave Monroe on 202-622-1813.

Sincerely,

Kenneth E. Carline
Fiscal Assistant Secretary

Braun, James

From: Lambright, James
Sent: Tuesday, November 11, 2008 6:38 AM
To: Davis, Michele; McLaughlin, Brookly; Zuccarelli, Jennifer
Subject: (b) (4)

Here are the company's talking points:

----- Original Message -----

From: Rutherford, Matthew
To: Lambright, James; Ryan, Tony; Albrecht, Stephen; Via, Stafford
Sent: Mon Nov 10 22:45:26 2008
Subject: Fw: (b) (4)

(b) (4)



----- Original Message -----

From: (b) (6) <[REDACTED]@aig.com>
To: Rutherford, Matthew
Sent: Mon Nov 10 22:27:39 2008
Subject: FW: Squaw Peak -- Response Documents

Matt: Thanks for talking to me--here are the facts--call me whenever you want.

(b) (6)

(b) (6)

(b) (4) 70 Pine
Street - 27th Floor New York, NY 10270

(b) (6)

Email: (b) (6)

-----Original Message-----

From: (b) (6)
Sent: Monday, November 10, 2008 2:56 PM
To: (b) (6)
Subject: FW: (b) (4)

(b) (4)

-----Original Message-----

From: (b) (6)
Sent: Wednesday, November 05, 2008 5:43 PM
To: (b) (6)
Cc: (b) (6)
Subject: FW: (b) (4)

(b) (4)

(b) (4)

-----Original Message-----

From: (b) (6)
Sent: Wednesday, November 05, 2008 3:50 PM
To: (b) (6)
Cc: (b) (6)
Subject: (b) (4)

(b) (4)

Thanks,

Braun, James

From: Albrecht, Stephen
Sent: Tuesday, November 25, 2008 11:18 AM
To: Hammond, Donald; Lambright, James
Subject: Fw: (b) (4) - IXOS archive 31 KB

Fyi

From: Bazos, Peter T.
To: Albrecht, Stephen; sarah.dahlgren@ny.frb.org ; James.Hennessy@ny.frb.org ; Brett.Phillips@ny.frb.org ; richard.charlton@ny.frb.org ; amy.flynn@ny.frb.org ; Steven.Manzari@ny.frb.org
Cc: Huebner, Marshall S. ; James, Ethan T. ; Rotsztain, Diego A. ; Beshara, Michel ; Nowak, Rafal A.
Sent: Tue Nov 25 11:10:04 2008
Subject: FW: Future Form 8-Ks
Attached please find the initial draft of (b) (4)

Best regards,

Peter T. Bazos
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Tel: 212.450.4576
Fax: 212.450.3576

From: (b) (6) @AIG.com]
Sent: Tuesday, November 25, 2008 10:47 AM
To: (b) (6)
Cc: (b) (6)
Subject: RE: (b) (4) s
Importance: High

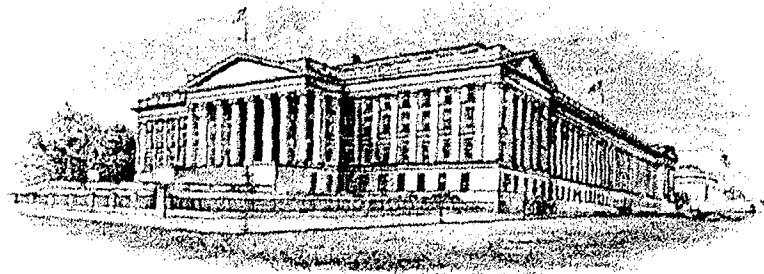
(b) (4)

Braun, James

From: McLaughlin, Brookly
Sent: Monday, November 10, 2008 6:05 AM
To: _DL_TARP
Subject: FW: Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act

This has been released.

From: McLaughlin, Brookly
Sent: Monday, November 10, 2008 6:04 AM
To: McLaughlin, Brookly
Subject: Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE, November 10, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

TREASURY TO INVEST IN AIG RESTRUCTURING UNDER THE EMERGENCY ECONOMIC STABILIZATION ACT

Washington, DC— The Treasury Department today announced that it will purchase \$40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down \$40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place by the new management on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.

Braun, James

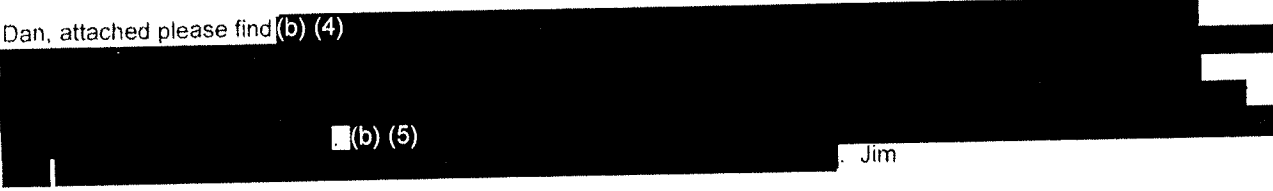
From: Hoyt, Robert
Sent: Thursday, October 30, 2008 12:05 PM
To: Davis, Michele; Fromer, Kevin; Ryan, Tony; Lambright, James
Cc: Palmer, Dustin; Albrecht, Stephen
Subject: FW: AIG (b) (4) - IXOS archive 191 KB

Attached are the docs we have from AIG in relation to their compensation and expense practices.

From: Jester, Dan (Contractor)
Sent: Sunday, October 26, 2008 7:34 PM
To: Hoyt, Robert; Albrecht, Stephen
Subject: Fw: AIG (b) (4)

From: James.Hennessy@ny.frb.org
To: Jester, Dan (Contractor)
Cc: Sarah.Dahlgren@ny.frb.org
Sent: Sun Oct 26 18:56:26 2008
Subject: AIG (b) (4)

Dan, attached please find (b) (4)



(b) (5)

Jim

-----Original Message-----

From: (b) (6)@AIG
Sent: Saturday, October 25, 2008 5:46 PM
To: (b) (6)
Cc: (b) (6)
Subject: Re: (b) (4)

(b) (4)



(b) (4)



----- Original Message -----

From: (b) (6)
To: (b) (6) @AIG
Sent: Sat Oct 25 15:12:34 2008
Subject: (b) (4)

(b) (4)



Braun, James

From: Myrow, Stephen
Sent: Friday, November 07, 2008 8:28 PM
To: 'Sarah.Dahlgren@ny.frb.org'
Cc: Lambricht, James; Ryan, Tony; Via, Stafford; Rutherford, Matthew; Albrecht, Stephen
Subject: RE: Treasury's implementation timeline for AIG

Sarah --

Please find latest timeline attached.

Regards,

Steve



AIG
IMPLEMENTATION TIMETA

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

From: Myrow, Stephen
Sent: Thursday, November 06, 2008 6:55 PM
To: 'Sarah.Dahlgren@ny.frb.org'
Cc: Lambricht, James; Ryan, Tony; Via, Stafford; Rutherford, Matthew; Albrecht, Stephen
Subject: Treasury's implementation timeline for AIG

Sarah,--

I wanted to share with you our internal implementation timeline for the AIG transaction. I would welcome your input if you think we are missing any necessary actions or have any questions regarding our proposed sequencing. Also, I want to make sure that all of the appropriate people at FRBNY and Treasury are coordinating with one another.

Regards,

Steve

<< File: AIG IMPLEMENTATION TIMETABLE (v. 3).doc >>

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

AIG IMPLEMENTATION TIMETABLE

<u>DATE</u>	<u>ACTION</u>	<u>TREASURY PARTY RESPONSIBLE FOR COORDINATION</u>
Fri 7 Nov	<ul style="list-style-type: none"> ■ Finalize program guidelines ■ Finalize term sheet ■ Finalize investment committee decision memo ■ Finalize memo on compliance with unjust enrichment provision ■ Finalize form of Troubled Asset Determination ■ Confirm drawn amount under FRBNY facility ■ OMB apportionment 	<ul style="list-style-type: none"> ■ Myrow ■ Lambright/Albrecht ■ Lambright ■ Rutherford ■ Schaffer ■ Rutherford ■ Bloom
Sat 8 Nov	<ul style="list-style-type: none"> ■ Investment committee votes on program guidelines and AIG investment ■ Finalize FSOB presentation 	<ul style="list-style-type: none"> ■ Lambright (with committee members) ■ Kashkari/Lambright
Sat 8 Nov – Wed 12 Nov	Finalize deal documents	Albrecht (DP&W)
Sun 9 Nov	<ul style="list-style-type: none"> ■ FSOB presentation ■ Fed approval ■ Receive letter from Chairman Bernanke ■ Consult with NCUA and OTS ■ AIG board approval ■ HMP executes Troubled Asset Determination ■ AIG letter accepting term sheet 	<ul style="list-style-type: none"> ■ Kashkari/Lambright ■ Hoyt ■ Hoyt ■ Ryan/Lambright ■ Albrecht/Rutherford ■ Albrecht ■ Albrecht
Sun 9 Nov	Congressional consultations	Fromer
Mon 10 Nov (pre-market)	<ul style="list-style-type: none"> ■ Transmittal of Troubled Asset Determination (timing TBD) ■ 0600: AIG earnings announcement and 10-Q release ■ 0605: Treasury public statement ■ 0605: Fed public statement ■ 0630: Treasury background press availability ■ 0700: Fed background press availability ■ 0730: AIG analyst call 	<ul style="list-style-type: none"> ■ Fromer ■ Rutherford ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Rutherford
Tues 11 Nov	<ul style="list-style-type: none"> ■ Public release of program guidelines ■ Rating agencies publish ratings 	<ul style="list-style-type: none"> ■ Hammond/McLaughlin ■ Rutherford
Thurs 13 Nov	<ul style="list-style-type: none"> ■ Deal documents executed ■ Treasury funding ■ Deal settlement: <ul style="list-style-type: none"> - funds transfer - take custody of securities 	<ul style="list-style-type: none"> ■ Albrecht (DP&W) ■ Grippo ■ Bloom/Grippo/Albrecht <ul style="list-style-type: none"> - Bloom - Grippo (BONY) and Albrecht (form of all securities TBD)
Mon 17 Nov	Public release of transaction report	Hammond/McLaughlin
Thurs 20 Nov	Transmit tranche report to Congress	Hammond/Fromer

DRAFT/PRE-DECISIONAL
MARKET-SENSITIVE

1/21/2009
11:28:46 AM

Braun, James

From: Myrow, Stephen
Sent: Monday, November 17, 2008 6:17 PM
To: Lambright, James; Hammond, Donald; McLaughlin, Brookly; Zuccarelli, Jennifer
Subject: RE: SSFI program guidelines

I would recommend that they go out two days after the AIG closing so we get as much distance from last week's announcement and HMP's testimony tomorrow as possible while still being in compliance with the reporting requirements.

For convenience, they are attached hereto.



SSFI Program
Guidelines (14 No...

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

From: Lambright, James
Sent: Monday, November 17, 2008 6:14 PM
To: Hammond, Donald; Myrow, Stephen; McLaughlin, Brookly; Zuccarelli, Jennifer
Subject: SSFI program guidelines

The TARP Investment Committee just voted its approval of the Guidelines for Systemically Significant Failing Institutions. So, they are available for publication after (or before, I suppose) AIG closing.

Jim

Guidelines
for
Systemically Significant Failing Institutions Program

The United States Department of the Treasury will determine eligibility of participants and allocation of resources under the Emergency Economic Stabilization Act (EESA) pursuant to the Systemically Significant Failing Institutions (SSFI) Program. Unlike the broad-based Capital Purchase Program, Financial Institutions (as defined in EESA) will be considered for participation in the SSFI Program on a case-by-case basis. There is no deadline for participation in this program.

Justification

The primary objective of this program is to provide stability and prevent disruption to financial markets in order to limit the impact on the economy and protect American jobs, savings, and retirement security from the failure of a systemically significant institution. In an environment of substantially reduced confidence, severe strains, and high volatility in financial markets, the disorderly failure of a systemically significant institution could impose significant losses on creditors and counterparties, call into question the financial strength of other similarly situated financial institutions, disrupt financial markets, raise borrowing costs for households and businesses, and reduce household wealth. The resulting financial strains could threaten the viability of otherwise financially sound businesses, institutions, and municipalities, resulting in adverse spillovers on employment, output, and income.

Determination of Systemically Significant Failing Institution Status

In determining whether an institution is systemically significant and at substantial risk of failure, Treasury may consider, among other things:

1. The extent to which the failure of an institution could threaten the viability of its creditors and counterparties because of their direct exposures to the institution;
2. The number and size of financial institutions that are seen by investors or counterparties as similarly situated to the failing institution, or that would otherwise be likely to experience indirect contagion effects from the failure of the institution;
3. Whether the institution is sufficiently important to the nation's financial and economic system that a disorderly failure would, with a high probability, cause major disruptions to credit markets or payments and settlement systems, seriously destabilize key asset prices, significantly increase uncertainty or losses of confidence thereby materially weakening overall economic performance; or
5. The extent and probability of the institution's ability to access alternative sources of capital and liquidity, whether from the private sector or other sources of government funds.

In making these judgments, Treasury will obtain and consider information from a variety of sources, and will take account of any recommendations received from the institution's primary regulator, if applicable, or any other regulatory body in a position to provide insight into the potential consequences of the failure of a particular institution.

Form, Terms, and Conditions of Treasury Investment in the Troubled Assets of a Systemically Significant Failing Institution

Treasury will determine the form, terms, and conditions of any investment made pursuant to this program on a case-by-case basis in accordance with the considerations mandated in EESA. Treasury may invest in any financial instrument, including debt, equity, or warrants, that the Secretary of the Treasury determines to be a troubled asset, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and notice to Congress. Treasury will require any institution participating in this program to provide Treasury with warrants or alternative consideration, as necessary, to minimize the long-term costs and maximize the benefits to the taxpayers in accordance with EESA. Treasury will also require any institution participating in the program to comply with the limitations on executive compensation applicable to SSFIs as set forth in Treasury Notice 2008-PSSF1. In addition, Treasury will consider other measures, including limitations on the institution's expenditures or bonuses, or any corporate governance requirements, to protect the taxpayers' interests or reduce ongoing risks to the financial system.

These program guidelines are being published in accordance with the requirements of Section 101(d) of EESA.

Braun, James

From: Nowak, Rafal A. [rafal.nowak@dpw.com]
Sent: Sunday, November 09, 2008 9:59 PM
To: Albrecht, Stephen; Via, Stafford; Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter; Kashkari, Neel; Abdelrazek, Rawan; Ramanathan, Karthik; 'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Kieran.Fallon@frb.gov'; 'michael.gibson@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; James.Hennessy@ny.frb.org; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org'; 'Charles.Gray@ny.frb.org'; 'Peter.Juhas@morganstanley.com'; 'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James (IBD)'; 'Stephanie.Heller@ny.frb.org'; David.Gross@ny.frb.org; 'Michele.Kalstein@ny.frb.org' tarp_prefs.dpw
Cc:
Subject: (b) (4)
Attachments: (b) (4)

Clients,

Attached please find the

(b) (4)

Regards,

Rafal

Rafal A. Nowak
212.450.4113

From: (b) (6) @New York
To: (b) (6); Huebner, Marshall S.; Studzinski, John; 'Nath, Larry'; (b) (6); 'Schechter, Jason'; (b) (6)
Sent: Sun Nov 09 21:38:44 2008
Subject: (b) (4)

(b) (6)

AIG
70 Pine Street
New York, NY 10270
(b) (6)

Braun, James

From: Fiechter, Jonathan
Sent: Monday, December 29, 2008 5:05 PM
To: Lambright, James
Subject: Fortune article on future of AIG

From: Fiechter, Jonathan
Sent: Monday, December 29, 2008 5:01 PM
To: 'Sarah.Dahlgren@ny.frb.org'; Hsu, Michael
Cc: Spurry, Steven; julie.dolan@ny.frb.org; Amy.Flynn@ny.frb.org; Steven.Manzari@ny.frb.org; James.Hennessy@ny.frb.org; Michael.Alix@ny.frb.org
Subject: RE: TARP & AIG

AIG's rescue has a long way to go

When will the government's costly bailout of the deeply distressed insurance giant be over? Don't expect it to be anytime soon.

By Carol J. Loomis, senior editor at large
Last Updated: December 29, 2008: 10:46 AM ET

NEW YORK (Fortune) -- Within insurance giant American International Group, but known to only a few people, is something irreverently called the "kill list."

It was created by AIG's controller, David Herzog, on Tuesday, Sept. 16, the wild day when the company plunged toward bankruptcy only to be bailed out instead by the U.S. government. Very late that night, Herzog, then 48, sat in the company's New York City headquarters, brooding about the day's events.

Robert Willumstad, CEO for only three months, had learned from the Federal Reserve that he was out, on the theory no doubt that the government can't extend an \$85 billion credit line to a company and leave things in the hands of existing management.

The AIG board had been told that the new CEO was to be Edward Liddy, who had decades before overseen a Sears Roebuck restructuring and then become head of a Sears spin-off, Allstate Insurance. More important to the crisis at hand, Liddy's career had made him a business friend of Secretary of the Treasury Henry Paulson and a member of the Goldman Sachs board.

Minutes before midnight, at 11:54 p.m., Herzog - called by one former AIG officer "a prince, a straight shooter" - wrote a short e-mail to the deposed Willumstad, first thanking him for having stepped up months earlier to the "difficult challenge" of running the company.

Then Herzog flung his e-mail grenade: "Before you leave, I ask only one thing. Please clean the slate for Mr. Liddy. I urge the following dismissals immediately." Herzog next listed the names of one vice chairman, two executive vice presidents, five senior vice presidents, and one vice president. AIG's general counsel was in the pack, and so were the heads of finance, investments, strategic planning, risk, credit, and human resources.

These executives, according to Herzog, "have shown ... a clear pattern of ineptness that contributed to the destruction of one of America's greatest companies. Please, don't make Mr. Liddy figure this out on his own." Herzog thought AIG's 120,000 employees deserved better than that and also "some sense of accountability" for what had happened. "We need leadership," he said, "and these individuals are simply not leaders."

In the one day before Liddy took over, the authority-shorn Willumstad did not fire any of Herzog's designees. In Liddy's regime, two have left. One was Richard Scott, a senior vice president, and the other - the highest-ranking executive on the list - was vice chairman and chief financial officer Steven Bensinger, to whose CFO job Liddy promoted Herzog. The remaining seven executives on his list still work for AIG, as five of them did in fact for longtime chairman Maurice "Hank" Greenberg (who was forced out by the board in early 2005) and his successor, Martin Sullivan (ousted last June).

Asked in mid-December about the midnight blast of David Herzog, new CEO Liddy says it was "one of many information points" he had looked at on his way to making his own decisions about people. Herzog himself recants. "At midnight," he tells Fortune, "after watching a great company crumble, and along with it nine years of my life's work, I sent an emotional and rash e-mail that I deeply regret. It was a product of frustration and fatigue. I disavow it completely, and I have apologized to my colleagues."

That e-mail was given to Fortune by someone who knows AIG well and thought that any article about its present and future should take note of management's long-running contribution to its extraordinary problems.

Deciding to publish the e-mail, we sought reactions from the nine people Herzog named. One person, Brian Schreiber, head of strategic planning, accepted our invitation to comment. He says angrily that after learning of the e-mail, he asked Herzog to give an example of anything Schreiber had done that had harmed AIG. "He thought a long time and he could not think of a single example," Schreiber says. "He then emphasized that he views me as important to the success of AIG's restructuring effort."

Wounded gladiator

At the least, the e-mail episode is a vivid illustration of the extreme stress racking the company. Vastly global, spread out indeed over 130 countries, AIG is today a sorely wounded gladiator, with a market value that has crashed from \$180 billion in 2007 to \$5 billion. Competitors sensing a kill are attacking the company however they can, trying to poach its best people and customers.

These aren't just AIG's problems, they're ours. September's \$85 billion from the government - Plan A, let's call it - proved to be too little, and the terms of the deal were more than AIG could handle.

So in November the feds moved to Plan B, whose complex parts add up to a mind-bending bailout of about \$150 billion (which, to supply some perspective, is more than the assets of Procter & Gamble). This deal includes a \$60 billion credit line from the Federal Reserve; \$40 billion of preferred stock that makes the Treasury a 79.9% owner of AIG; and two Fed-sponsored financing vehicles that magically rid AIG's financial statements of about \$50 billion of trouble. The aim of the package, as management sees it anyway, is to keep AIG afloat while it works toward reemerging as a standalone private company and getting Washington out of its life.

The theoretical cost here - \$150 billion - may be reduced by amounts the government derives from owning AIG. Most of all the feds are set to be the beneficiary of a big plan, mapped out originally by Willumstad and unfolded by Liddy, for AIG to sell major assets. These are to include the bulk of both AIG's noninsurance properties and life insurance companies, for a total of perhaps 20 to 25 different sales. Completion of the plan, says CEO Liddy, would reduce AIG's annual revenues from around \$100 billion to perhaps \$40 billion and return the company to its roots, property-and-casualty insurance. Some estimates say the proposed sales could

bring in \$60 billion, an amount equal to the loan portion of the bailout.

Both AIG and the government are burning to make these sales. But unfortunately, prospective buyers for AIG's properties - which Liddy calls "our incredibly world-class assets" - are scarce right now. Many insurance companies that might normally bid have been crippled by investment losses, and acquirers in general can't rustle up financing. Were it forced to unload quickly, says Liddy, AIG would be looking at fire-sale prices that would benefit no one on the selling side. So AIG needs breathing room, and Plan B accommodated, extending the term of the government's main credit line to AIG from two years to five. Two side parts of the deal even have a term of six years and are "subject to extension."

Alas, even five years in close quarters with AIG is way beyond what the government envisioned. The ties that bind these two parties, in fact, bring to mind the 1942 movie classic "The Man Who Came to Dinner," in which Monty Woolley, playing the insufferable Sheridan Whiteside, arrives to dine, injures his hip on the front steps, and stays on for the duration, driving his hosts batty. In today's reality show, AIG is The Company That Came to Dinner, and the trapped, restless host is the government. Don't ask when these two will be parting ways, because there's no date set.

The endpoint, in fact, could be stretched way out by one special AIG troublemaker: a complex noninsurance operation that nobody thinks can be sold but that instead needs to be wound down, a process apt to be both lengthy and expensive. This albatross is AIG Financial Products - FP for short - which is housed in a division called Capital Markets. FP was formed 21 years ago to trade over-the-counter derivatives, and it proceeded to ride the great boom in that business. For most of its history, FP gave longtime CEO Hank Greenberg profits on cue, helping him build a great record of earnings growth - until this streak was rudely smashed several years ago by earnings restatements that involved practically every corner of the company, FP included.

Worse, even as those humiliations were surfacing (and leading as well to Greenberg's departure), AIG got deeply involved with mortgage securities that all too soon were identified as toxic. A nutty investment policy at the company's insurers helped create this problem. But the true agent of doom was FP, which wrote close to \$80 billion of credit default swaps - contracts that insure investors against losing principal and interest - on super-senior tranches of collateralized debt obligations (CDOs) that were loaded with mortgage securities, some of them subprime. A financial tsunami then engulfed AIG, which is structurally a holding company - the parent of a webwork of operating insurers. The CDOs fell in value, and credit ratings for the parent company went down with them. This drop in AIG's creditworthiness triggered clauses in the credit default swaps (CDS) that allowed AIG's counterparties to demand collateral, and those calls for cash put the parent in a vise. There you have the *internal* situation that, in time, shoved AIG into the arms of the government.

The *external* situation is that AIG may have landed in that house of refuge because Lehman Brothers didn't. In the crisis-ridden week leading up to Monday, Sept. 15, the government decided it could not or would not rescue Lehman but instead would let it go bust. Bankruptcy court records have since shown that Lehman had 900,000 derivatives and financial contracts with other parties, and each creditor holding these realized on Monday morning that its check wasn't going to be in the mail. The hazy financial concept called "systemic risk" immediately became hard reality. Credit markets froze worldwide and stayed frozen on Tuesday, which is the day when AIG was headed toward bankruptcy but didn't get there. The theory around, which all of financialdom seems to accept as received truth, is that the government realized by Tuesday that it had erred grievously in letting Lehman go down and knew that it could not compound the error by allowing AIG to fail a day later.

So AIG lived to become a government ward, and in that guise it is unique. True, it is an infamous match for Fannie Mae and Freddie Mac, which are also owned 79.9% by the government. But the world always knew these fraternal twins to be the unacknowledged children of the feds. Until September, conversely, AIG never had the slightest look - at least publicly - of a company that would need government help, much less emergency rescue. Visualize, in fact, a "too big to fail" list, or as the term often goes in these days of derivatives, a "too

interconnected to fail" list. Had several smart, informed, worldly businesspeople been asked in 2007 to name the five top contenders for that list, probably no one would have placed AIG on it. Among onlookers, therefore, AIG's sudden collapse - and its need, my God, for \$150 billion! - tends to be one of the great bafflements of the credit crisis. In statements about why it bailed out AIG, the government has simply muttered "systemic risk." But it has never explained why it took this threat so seriously, and the New York Fed, the government's foster parent for AIG, wouldn't discuss the company at all with Fortune.

Our reporting suggests, though, that fears of systemic risk certainly weren't crazy. FP, in particular, is a breeding ground for this dreaded contagion, because of the derivatives links it has to counterparties around the world. Catch the horrified reaction of a New York currency trader when she heard in September that AIG might go bankrupt: "No!" she said. "AIG would be lots worse than Lehman. AIG is *everywhere*."

Today FP has around \$2 trillion of derivatives, not a big book in this world (J.P. Morgan Chase has more than \$80 trillion) but one known to be loaded with particularly complex and long-dated contracts. The most infamous among these derivatives are the \$80 billion of credit default swaps described above, for which the counterparties were around 25 financial institutions in the U.S. and at least seven other countries. All of the counterparties, of course, were wrung out by the credit crisis and vulnerable to a domino effect if AIG went under. Liddy proves himself a master at understatement in describing the threat to the counterparties: "That would have backed up into their capital adequacy and could have caused a problem."

The remaining \$1.9 trillion of FP's derivatives, many of them commonplace items like interest-rate swaps and currency futures, got little attention as AIG was swooning. But the fact is that these derivatives linked AIG to countless financial and industrial counterparties around the world - among them the one in which that alarmed currency trader works, for example - and could have hung at least some of these institutions out to dry. Another operation in FP had guaranteed \$20 billion of municipal investment agreements, in which FP was in effect holding the funds of U.S. states and cities. An AIG bankruptcy would have made these municipalities general creditors of AIG and probably stung them with losses. Money market funds were also big holders of AIG debt.

Then there is the uncertainty of what a bankruptcy would have done to AIG's insurance companies. Making his own list of AIG systemic risks one day, the superintendent of the New York State insurance department, Eric Dinallo, wrote down the thought that the failure of a company once seen as impregnable might cause a general loss of confidence in the insurance industry. That danger indeed acquired a certain substance on AIG's fateful day of Sept. 16, when news spread globally that the company's operating insurers were set to send \$20 billion of rescue money to parent AIG. In Singapore, some customers promptly rushed to AIG offices and sought to cash out their policies. AIG's public relations people panicked at this insurance version of a run, putting out a weird press release that assured the world - and specifically Asia - that the company's operating insurers would husband their cash for themselves.

In the end, says Dinallo, "it was incalculable as to what the ramifications of a bankruptcy were going to be." The matter, in any case, became moot on Sept. 16. By saving AIG, the federal government preempted the question of what would have happened had it gone down, and moved the argument to what happens now.

'A little less intense life'

Ed Liddy, 62, the man charged with the Herculean task of making AIG valuable again, retired in April as chairman of Allstate, a Chicago company, and became a partner in the private equity firm of Clayton Dubilier & Rice, a job he thought might provide him "a little less intense life." Then Henry Paulson called on September 16th to ask him to take over AIG, assuring him he had just the right combo of insurance and restructuring experience - and besides, "Your country needs you." Well, says Liddy, "you can sit on the sidelines, or you can get in the game and try to help."

Liddy's home base remains Chicago, to which he says he tries to get back every second or third week. Talking to Fortune, he stressed that he flies commercial, booking coach and hoping for an upgrade. This declaration is clearly the result of biting criticism that AIG has received, notably from Congress, for holding expensive junkets for agents and financial planners. Liddy defends the general idea of those as being good for business, but he's grown acutely conscious of AIG's need, in its taxpayer-owned status, to be frugal. About one customer event, a partridge shoot that certain high-placed AIG executives staged in England, Liddy expresses real disgust: "That was wrong. And those people have been severely taken to task. We've reprimanded them, we've shorted their pay."

The hold on costs extends to Liddy's compensation. In salary he's a \$1-a-year-man, and he'll get no bonus for 2008, though one might come in 2009. The same pay arrangements apply to Liddy's biggest hire, his new vice chairman for restructuring, Paula Reynolds, 52, who had been CEO of insurer Safeco until she closed its sale to Liberty Mutual last September. Her next plan was to spend several months cleaning her closets. Then Liddy, whom she had known for years, called, and she signed up. Like Liddy, she's kept a distant home-base - hers is Seattle - to which she tries to get back every so often, flying commercial, of course.

But the work around AIG is consuming these days and, more often than not, darkened by the prospect that this struggling company, with its uncertain future, will lose its best people and customers. Liddy has tried to make light of losses on both fronts. Still, news of employees defecting from AIG continues to surface, and sometimes the departures are consequential. In December, Liddy lost both the CEO, Kevin Kelley, and the COO, Shaun Kelly, of Lexington Insurance, one of AIG's biggest property and casualty companies; both went to Bermuda insurer Ironshore. AIG has also lost people to another Bermuda company, Ace Ltd., which is run by Hank Greenberg's son, Evan Greenberg.

Many of the people remaining at AIG, most of whom of course had nothing to do with its financial sins, are surely demoralized, both by emotional and financial blows. Over the years, valued employees have been paid in part in AIG stock and encouraged by moral suasion or directive to keep it. Reynolds tells the story of a meeting recently at which one person broke down, choking out an explanation that it was hard to focus on work "because we have been wiped out."

The customer story is at this moment uncertain: This article went to press just as AIG was confronting the key date for policy renewals, Jan. 1, at which big-deal moment many commercial buyers of insurance were going to be casting an economic yes or- yes or- no vote about this insurer. The risk manager at one Fortune 500 company said recently that he'd be keeping AIG in his picture but reducing its participation in his coverage. That's a result, Liddy says, he can live with: "What's important is that we keep the relationship." Another AIG customer, a New York broker who places commercial policies, said he'd found certain risk managers and their bosses - treasurers and the like - split over AIG. The risk managers, he said, favored hanging tight to AIG's insurance expertise, while their superiors were leaning toward "Get me out of here."

Short term, the Jan. 1 results will be critical for AIG. Longer term, the main question before the house is Reynolds's restructuring sales, which essentially leave her cleaning out AIG's closets instead of her own. Reynolds, who is nothing if not frank, describes a sales process that sounds on the verge of lunatic - and, yes, expensive: "Everybody's feeding on the company like it was a bankruptcy carcass. Everybody's meter is running. We've got too many bankers, too many consultants. You can't get any work done because there's so much noise - so many people running around." For the record, Blackstone is AIG's primary global advisor. Another consultant, BlackRock, is helping AIG Financial Products value its assets, and McKinsey & Co. is also a consultant to FP.

Through it all, the specter of Hank Greenberg, CEO of AIG for 37 years, haunts the job of redoing the immensely complex company he built (see "Hank's Last Stand," on Fortune.com). A special sales obstacle, says Reynolds, is that AIG has 4,000 subsidiaries and other legal entities, with all manner of cross-ownership among

them. "With all due respect to our former chairman," she says, "a lot of things were done around the 1986 tax act." This is a U.S. law that tightened up tax rules applying to financial services income earned overseas. Reynolds says that while the law's provisions were later effectively repealed, a lot of ownership structures that AIG had built weren't taken down. So simplification is today badly needed, she says, and a big team of lawyers is on the case.

To get warm bodies for that team, Reynolds pulled in help from AIG's operating companies. These are a spread-out collection of silos linked to a holding-company center that is staffed with relatively few people - too few for the job at hand now, say both Reynolds and Liddy. Of course, Greenberg never clustered people at his side. He ran AIG out of his head, seemingly unfazed by an accounting system so inefficient that AIG is notorious among ex-executives for always getting just under the wire when making its SEC filings. The accounting systems plagued the CEOs who followed Greenberg - Sullivan and Willumstad - and remain a trial today. Says Reynolds: "The best businesses are run by people who kick their tires every day. We don't even know where the tires are, much less get to kick them. If we can get back to the size of a company where we can intelligently kick our tires every day, that would be a wonderful outcome."

The misadventures that AIG's silo architecture can create are sharply illustrated by the company's disasters in mortgage securities. These problems certainly were spawned in AIG Financial Products. But the fact is that FP had a moment of enlightenment in late 2005, when it began to believe that the housing boom was nearing an unfortunate end and decided to stop selling credit default swaps on super-senior tranches of CDOs. It had a few deals in the pipeline, however, so total "multisector" CDS - AIG's name for these spiffy items - climbed a bit further in early 2006, to a total of nearly \$80 billion. Later, as 2006- and 2007-vintage mortgages turned toxic, AIG talked proudly to analysts about its wise decision to pull out before trouble hit. The company proved to be excruciatingly wrong in thinking it was safe, of course, since earlier vintages have been creamed too. But the point is that by August 2007 - the start of the credit crisis - CEO Martin Sullivan and FP's boss, Joseph Cassano, were saying to everybody who'd listen that FP had ducked the mortgage bullet by avoiding the 2006 and 2007 securities that were by that time viewed as poisonous.

Various other AIG silos, unfortunately, *weren't* listening. The regulatory statements filed by AIG's operating subsidiaries show that a raft of these companies, and particularly the life insurers among them, were still loading up on late-vintage residential mortgage-backed securities (RMBS) in December 2007 - months after AIG had begun congratulating itself on ducking the mortgage bullet. Why, Liddy is asked, would one arm of AIG be buying mortgage securities while another is pronouncing them dangerous? As if there might be someone in AIG's empire he didn't care to offend, Liddy states his answer carefully: "You know, the company is a highly decentralized, far-flung enterprise. And different pieces of the company took different risks. Let me just leave it at that."

We won't leave it entirely, though, because the RMBS turned out to be connected by tunnel to the netherworld called securities lending. For many years, the AIG operating companies, like many other large holders of fixed-income securities, have lent these to banks and brokers that have reasons for needing them - maybe clients wanting to sell short. For this service, the lenders had received cash collateral that slightly exceeded the value of the bonds. Over the years, AIG's companies had invested this short-term money in conservative, liquid investments and thus been always ready to repatriate the collateral if their customers wanted it back.

But this strategy didn't make much money. So in the middle of this decade, the AIG companies began both to greatly increase the amount of securities lending they were doing - the total hit about \$90 billion in the third quarter of 2007 - and to invest the collateral in longer-term, seemingly safe AAA securities that offered good yields. The main choice for investment was, you guessed it, RMBS. That bit of elegant selection left AIG's operating companies not only using short-term money to invest long, which is known folly, but also putting this money into impenetrable securities poised to both tumble in value and establish new records for illiquidity. When news of AIG's problems spread in 2008, the banks and brokers came tearing back to redeem their cash

collateral, and the AIG companies couldn't hand it over, because it was tied up in unsalable RMBS. This was a second vice that tightened around AIG. One company insider calls this whole investment plot "just one of the dumbest things I've ever seen." (Fortune was refused an interview with AIG's head of investments, Win Neuger, who was one of the executives on Herzog's kill list. A Neuger lieutenant also on the list, Richard Scott, has left, as noted earlier.)

Unfortunately for AIG's restructuring plan, the RMBS - greatly marked down during 2008 - sat at crisis time on the balance sheets of life insurance companies that AIG has since determined to sell. But what buyer wants to take on billions of tainted, impossible-to-value mortgage securities? Enter the government's troops: RMBS having a face value of \$39 billion, marked down to \$19.8 billion by AIG, have just been helicoptered out of the war zone into a new off-balance-sheet financing vehicle. This vehicle has received a six-year, extendable \$19.5 billion Fed loan and \$5.1 billion in equity from AIG. If the loan is paid back and the RMBS meanwhile gain in value, the Fed and AIG will share in the gains, with the Fed getting the lion's share.

A similar split of eventual gains, if there are any, will apply to another special-purpose vehicle set up to sweep most of AIG's multisector CDS risks off the company's financial statements. The Fed has made a \$30 billion loan to this vehicle, and AIG has contributed \$5 billion in equity. To cut through the details of this labyrinthine transaction, the \$35 billion total, plus collateral that AIG's counterparties held, is intended to make these parties whole on about \$65 billion par value of CDOs. Meanwhile, AIG will be freed of its swap obligations on these securities. That will not rid AIG of direct risk on multisector CDS. It will continue to wrestle with \$9.5 billion of swaps that were sheer speculations, rather than insurance-like contracts, and that the government's rescue program is not taking over.

The two new entities will test the theory - widely admired by people who own mortgage securities - that there is good value in these if they are held to maturity. This opinion is indeed endorsed by Rodney Clark, the lead AIG analyst at Standard & Poor's, who thinks that the recoveries on AIG's mortgage securities could be "potentially significant" and that it is regrettable that AIG has given up so much of the upside to the government. Clark's opinion in effect frames a can't-win proposition for the feds: If they make money on the RMBS, that's good for the taxpayer. But because AIG will share so little in the gains, these won't do much to get the company off the government's hands.

Let's sum up the components of the government's largesse: There are three elements that lean on Fed loans: a \$60 billion credit line, and two financing vehicles, one providing a \$19.5 billion loan, the other \$30 billion. Alongside is the Treasury's holding of \$40 billion of AIG preferred stock, paying a 10% dividend. Grand total: \$149.5 billion, which through history will be rounded off to \$150 billion. And that does not take into account the possibility that down the road Plan B will be revealed as inadequate and a Plan C will have to be announced, which will make hara-kiri swords mandatory at the press conference.

The CEO who put AIG financial products into the ill-fated multisector CDS, Joe Cassano, 53, is no longer with AIG. He "stepped down" with AIG's "concurrence" last February, just as the company reported more than \$11 billion of 2007 unrealized losses on the \$80 billion of multisector CDS then outstanding. These losses (not to mention another \$23 billion that came later) trashed the confident statements that Cassano had been making about the CDS. A famous one, from an analysts' meeting in August 2007: "It is hard for us, without being flippant, to even see a scenario ... within any kind of realm of reason that would see us losing \$1 in any of those transactions."). One remarkable fact: A retired AIG director says that a few years ago Cassano was on the short list of candidates to succeed Hank Greenberg as boss of AIG in its entirety.

Today FP has a brand-new interim head, Gerry Pasciucco (pa-SHOE-co), 48, who came in November from Morgan Stanley, which is an advisor to the New York Fed and is more or less lending Pasciucco, a capital markets expert, to FP. Pasciucco knows his mission as if it had been engraved on the inside of his glasses: He is to "de-risk" FP and wind it down with all due speed. Says Liddy: "We are not going to be in that business. I've

made that declaration. I want to get us out."

The overriding question is just how fast that can happen. Liddy himself, speaking to analysts in early October, said it would take a while. And for an "instructive prior situation," he referred the analysts to Warren Buffett's experience in extricating Berkshire Hathaway from General Re Securities, a derivatives operation originally modeled after AIG FP. The notional value of Gen Re's derivatives, however, was only about \$1 trillion at the peak, vs. AIG's \$2 trillion.

Buffett's experience is indeed instructive - "Even to me," the Berkshire CEO cracks. After buying Gen Re in 1998, he tried unsuccessfully to sell the derivatives business and then, in 2001, began to wind it down. Buffett says he told Gen Re's management to be patient at getting the job done, because he knew its difficulties. Derivatives, he presciently told Berkshire's stockholders then, are a little like hell: "easy to enter and almost impossible to exit." That's because if the aim is to terminate all your contracts - tear up the tickets, as they say - you must conduct negotiations with all your counterparties, most of whom will be interested in exacting a pound of flesh.

Four years later, in early 2005, Buffett gave his shareholders an update: Gen Re Securities had started with 23,218 contracts and had worked those down to 2,890. The aggregate losses on this endeavor, he said, had been \$404 million. The settled contract that stood out, he added, was one that had "a term of 100 years!"

Gerry Pasciucco says FP has between 40,000 and 50,000 contracts. The preponderance of those are swaps, and a small part are options. The options are a particular problem in today's volatile markets because they require "dynamic hedging," which means they must be repeatedly hedged as prices swing. Some of Pasciucco's 380 employees are wrestling with that bear, and a raft of others are trying to settle contracts. Many of these stretch out for years, because from its start FP knew that contracts beyond, say, 20 years in length attracted the least competition and therefore were odds on to be moneymakers. Pasciucco doesn't know of any 100-year contracts in the shop. But there is one, he says, that runs to 2080.

Pasciucco has divided FP business into 23 segments - for instance, commodities is a segment - and says he is intent on winding these down in a very organized way. At his office in Wilton, Conn. (the other of FP's big offices is in London), he sometimes gets thoughts about the creditworthiness of counterparties from Fed officials who are based on the premises. He says those observers recognize the need to balance the competing objectives of speed, careful use of cash, and getting maximum value out of FP's business.

Pasciucco will not say how long he's slated to stay around FP, but it is clear he's thinking more like one year than five. The business, he says, will gradually get wound down, and then AIG will be left with a relatively small number of contracts (which is in fact Buffett's situation) and what insurers call a "tail" that extends residual risk into future years.

It's not easy to believe it's going to be that simple. Nothing about derivatives is, and FP is hardly a routine player. Another party sensing there may be a lasting issue here is Moody's, which in December said of FP's wind-down: "The costs and duration of this process are difficult to estimate and could be substantial."

Liddy, however, presents himself as an optimist about AIG. He sees the company selling its properties and regaining strength to the point that it can talk to the government about ways to cut down that 79.9% ownership. All that he says on this point is very vague: "There's just more thinking that needs to be applied to that." Meantime, he says AIG has a good "partnership" with the government. He treats this partner like the gorilla it is: "Whenever you want to do anything that requires shareholder approval," he says, "you have to go spend some time with them."

Not all parts of the world are as cheerful about AIG's future, partly because the company's stock price - under

\$2 a share - suggests a waif hanging on by its fingernails. In December, a financial Web site, 24/7 Wall Street, actually listed the company as one that wouldn't be around at the end of 2009. That seems extreme, if only because it is not easy to imagine the government walking away from the \$150 billion it already has on the table. On the other hand, appearing on Meet the Press right after AIG was saved from bankruptcy, Hank Paulson dared to use the L-word, saying the government had put up its funding facility (then \$85 billion) "to allow the government to liquidate this company...." And then he left the thought unfinished, as he referred to avoiding "a real catastrophe in our financial system."

Among the less sanguine AIG experts around is Hank Greenberg, who hangs on every move the company makes. Speaking recently in the quiet Park Avenue offices of C.V. Starr & Co., which he heads and which is AIG's largest shareholder after the government, he talked about the people who call to tell him they are leaving AIG and about the poor insurance results it reported in the third quarter. The unspoken subtext in everything he says is that things would be different if he were there.

Meanwhile, he clearly does not approve of the way Uncle Sam is treating its guest. "The government," he says, "should realize that its purpose is to get paid back, not wring every dollar of income it can out of the company today." He doubts that AIG is viable unless there's a Plan C - some lightening of the burden that interest and dividends place on the company and some move by the government to be more generous in sharing gains it extracts. Whether or not Greenberg is right about the need for the government to alter its approach, it seems clear that AIG will be dining at the taxpayer table for years to come. ■

Henshaw, Michelle

From: Via, Stafford
Sent: Thursday, October 30, 2008 12:39 PM
To: 'Sarah.Dahlgren@ny.frb.org'; Kevin.J.Ryan@morganstanley.com; Meg.McConnell@ny.frb.org; Albrecht, Stephen; Peter.Juhas@morganstanley.com; Eric.Bischof@morganstanley.com; Steven.Manzari@ny.frb.org
Cc: Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter; Albrecht, Stephen; Via, Stafford; Kashkari, Neel; Abdelrazek, Rawan
Subject: Agenda and Dial in # for AIG Call at 2:00 p.m. (Thursday)

Please see below the agenda and dial information for the 2:00 p.m. call this afternoon (Thursday).

Participants

Treasury
NY Fed
Morgan Stanley

Agenda

1. Rating agency updates/timeline
2. Status of stand alone term sheet
3. Status of systemic effects/rationale information memo

Dial in #

202-927-2255
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Please let me know if there are any questions.
Thanks,
Stafford

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1/14/2009

Henshaw, Michelle

From: Myrow, Stephen
Sent: Tuesday, November 04, 2008 9:17 AM
To: Lambright, James; Ryan, Tony
Cc: Via, Stafford
Subject: A.I.G. Fraud Scheme Cost Investors \$544 Million, Judge Finds (NYT/DealBook)

A.I.G. Fraud Scheme Cost Investors \$544 Million, Judge Finds

November 4, 2008, 6:27 am

A financial manipulation scheme cost **American International Group** investors at least \$544 million, a judge has estimated, a finding that could mean the five former executives convicted in the fraud will face lengthy prison terms when sentenced.

The case is unrelated to A.I.G.'s mortgage-related losses that led to a near collapse of the company in September and an \$85 billion emergency line of credit from the Federal Reserve.

Four former executives at General Re, a unit of Warren E. Buffett's **Berkshire Hathaway**, and one former A.I.G. executive were found guilty by a federal jury in Connecticut in February of fraud and conspiracy. The charges stemmed from a reinsurance deal in 2000 that prosecutors said misled investors about A.I.G.'s financial condition.

A sentencing date has not yet been set, but the judge's written ruling on Friday on the size of the investors' losses means that each defendant is expected to face stringent sentencing guidelines when their penalties are determined.

In economic crimes, victims' financial losses are central in calculating sentencing guidelines for defendants. The judge's finding that the fraud had more than 250 victims also ratchets up the potential prison time each defendant may face.

Federal sentencing guidelines are advisory for judges, who can depart from them if they choose.

Based on the judge's calculations, the sentencing guidelines in the case likely will be "through the roof," said Douglas Berman, a law professor at Ohio State University and expert in white-collar sentencing matters.

"We're looking at a suggested guideline range of at least decades" of prison time for each defendant, he said. "There is a separate question of whether the judge will consider it

necessary and appropriate to impose a prison sentence that is so long, particularly because these are first-time offenders.”

Convicted at trial were General Re’s former chief executive Ronald Ferguson, former chief financial officer Elizabeth Monrad, former assistant general counsel Robert Graham, former senior vice president Christopher Garand, and AIG former vice president of reinsurance Christian Milton.

Prosecutors, in court papers, have sought “substantial” prison terms. Defense lawyers have pleaded for leniency.

At the center of the case was a finite reinsurance transaction that prosecutors said allowed AIG to improperly boost loss reserves by \$500 million in 2000 and 2001, artificially bolstering its share price.

In estimating the investor losses, U.S. District Judge Christopher Droney rejected calculations by a government expert that they could be as high as \$1.4 billion. The judge concluded that the same expert, using a different methodology, made a “reasonable estimate” of losses between \$544 million and \$597 million.

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(b) (6) @aig.com'; (b) (6) @aig.com'; (b) (6) @AIG.com'; Reeder,
Robert; 'Trevinom@sullcrom.com'; 'Sharaby, Linda'; DeLaMater, Robert; Fisher, Ann Bailen;
Welshimer, Mark J; Kahn, Richard A.; Fishman, Jared M.; Greco, Anthony D.; Wang, Yang;
Jacobson, Eli D.; Solomon, Andrew P.; Fiorini, Judith R.; Altman, Z. Dan; Albrecht, Stephen;
Via, Stafford; Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter; Kashkari, Neel;
Abdelrazek, Rawan; Ramanathan, Karthik; 'Deborah.P.Bailey@frb.gov';
'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Kieran.Fallon@frb.gov';
'michael.gibson@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; James.Hennessy@ny.frb.org;
'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org';
'Charles.Gray@ny.frb.org'; 'Peter.Juhas@morganstanley.com';
'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James (IBD);
'Stephanie.Heller@ny.frb.org'; David.Gross@ny.frb.org; 'Michele.Kalstein@ny.frb.org'; 'Lu,
Jingjing'
Cc: tarp.prefs.dpw
Subject: AIG - Preferred Stock and Warrant Offerings - Executed Letter Agreement
Attachments: Executed.Letter.Agreement.pdf

All,

Attached please find the executed Letter Agreement.

Regards,

Rafal

Rafal A. Nowak
Associate
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Phone: 212.450.4113
Fax: 212.450.3113
rafal.nowak@dpw.com


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To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

The undersigned hereby confirm that they have reached an agreement in principle consistent with the annexed term sheet for the purchase and sale of the Senior Preferred Stock and Warrant.

UNITED STATES DEPARTMENT OF
THE TREASURY

AMERICAN INTERNATIONAL
GROUP, INC.

By: 
NEEL KASHKARI - INTERIM ASSISTANT
SECRETARY FOR FINANCIAL STABILITY
Dated: November 9, 2008

By: _____

The undersigned hereby confirm that they have reached an agreement in principle consistent with the annexed term sheet for the purchase and sale of the Senior Preferred Stock and Warrant.

UNITED STATES DEPARTMENT OF
THE TREASURY

AMERICAN INTERNATIONAL
GROUP, INC.

By: _____

By: Edward M. Bradley

Dated: November 9, 2008

Annex

Term Sheet for the purchase and sale of the Senior Preferred Stock and Warrant

[Attached]

TARP AIG SSFI Investment

Senior Preferred Stock and Warrant

Summary of Senior Preferred Terms

Issuer:	American International Group, Inc. ("AIG").
Initial Holder:	United States Department of the Treasury (the "UST").
Size:	\$40 Billion aggregate liquidation preference.
Security:	Senior Preferred, liquidation preference \$10,000 per share; provided that UST may, upon transfer of the Senior Preferred, require AIG to appoint a depository to hold the Senior Preferred and issue depository receipts.
Ranking:	Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to the Senior Preferred. At the meeting of stockholders called to effect the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock, AIG shall propose an amendment to its Restated Certificate of Incorporation to allow the Senior Preferred to rank senior to the convertible preferred stock.
Term:	Perpetual life.
Dividend:	The Senior Preferred will accrue cumulative dividends at a rate of 10% per annum. Dividends will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Dividends will be payable when, as and if declared by the Board of Directors of AIG. Accrued but unpaid dividends shall compound quarterly.
Redemption:	At any time that (i) the AIG Credit Facility Trust (or any successor entity established for the benefit of the United States Treasury) "beneficially owns" less than 30% of the aggregate voting power of AIG's voting securities and (ii) no holder of the Senior Preferred controls AIG, then AIG may redeem the Senior Preferred in whole or in part at a redemption price equal to 100% of its liquidation preference, plus an amount equal to accrued and unpaid dividends (including, if applicable, dividends on such amount). "Control" for this purpose means the power to direct the management and policies of AIG, directly or indirectly, whether through the ownership of voting securities, by contract, by the power to control AIG's Board of Directors or otherwise. "Beneficially owns" is as defined in Rule 13d-3 under the Securities Exchange Act of 1934. For the avoidance of doubt, while there is AIG's Board of Directors control (or the potential to gain AIG's Board of Directors control) by the holder of the Senior Preferred, then AIG is not permitted to redeem the Senior Preferred.
Restrictions on Dividends:	Subject to certain exceptions, for as long as any Senior Preferred

is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred ("Parity Stock"), or common shares (other than (i) in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred and (ii) in the case of junior preferred shares, dividends payable solely in common shares), nor may AIG repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or declared and a sum sufficient for the payment thereof set apart.

Common dividends: The UST's consent shall be required for any increase in common dividends per share until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

Repurchases: The UST's consent shall be required for repurchases of any common shares, other capital stock, trust preferred securities or other equity securities (other than (i) repurchases of the Senior Preferred, (ii) repurchases of junior preferred shares or common shares ("Junior Stock") in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice (including purchases to offset share dilution pursuant to a publicly announced repurchase plan), (iii) any redemption or repurchase of rights pursuant to any stockholders' rights plan and (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the signing date of UST's agreement to purchase the Senior Preferred or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock), until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. Notwithstanding the foregoing, following the redemption in whole of the Senior Preferred held by UST or the transfer by UST of all of the Senior Preferred to one or more third parties not affiliated with UST, AIG may repurchase, in whole or in part, at any time the Warrant then held by UST at the fair market value of the Warrant so long as no holder of the Warrant controls AIG as provided in clause (ii) of "Redemption" above.

Voting rights: The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares other than the convertible preferred stock ranking senior or pari passu to the Senior Preferred, (ii) any amendment that adversely affects the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction unless the Senior Preferred remains outstanding or is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent and the Senior Preferred or such preference shares have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less

favorable to the holders thereof than those of the Senior Preferred immediately prior to such transaction, taken as a whole.

If dividends on the Senior Preferred are not paid in full for four dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect the greater of 2 directors and a number of directors (rounded upward) equal to 20% of the total number of directors after giving effect to such election. The right to elect directors will end when full dividends have been paid for all past dividend periods.

Transferability:

The Senior Preferred will not be subject to any contractual restrictions on transfer other than such as are necessary to insure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Senior Preferred as promptly as practicable, but in any event within 15 days, after notification by the UST and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Senior Preferred, AIG will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable best efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, AIG will appoint a depository to hold the Senior Preferred and issue depository receipts.

**Claim in
Bankruptcy:**

Equity claim with liquidation preference to common equity claim.

**Acceleration
Rights:**

None

Use of Proceeds:

To repay the senior secured revolving credit facility governed by the Credit Agreement dated as of September 22, 2008 (the "Credit Agreement") between AIG and the Federal Reserve Bank of New York ("FRBNY").

Tax Treatment:

Dividends on the Senior Preferred are non tax-deductible to AIG.

**Restrictions on
Expenses:**

AIG shall continue to maintain and implement its comprehensive written policy on corporate expenses and distribute such policy to all AIG employees. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries; (iii) govern (a) the hosting, sponsorship or other

payment for conferences and events, (b) the use of corporate aircraft, (c) travel accommodations and expenditures, (d) consulting arrangements with outside service providers, (e) any new lease or acquisition of real estate, (f) expenses relating to office or facility renovations or relocations and (g) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

**Restrictions on
Lobbying:**

AIG shall continue to maintain and implement its comprehensive written policy on lobbying, governmental ethics and political activity and distribute such policy to all AIG employees and lobbying firms involved in any such activity. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries and affiliated foundations; (iii) govern (a) the provision of items of value to any government officials, (b) lobbying and (c) political activities and contributions; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

Reporting:

Except as otherwise agreed, AIG shall provide the UST (i) the information required to be provided by AIG to the FRBNY pursuant to Section 5.04 of the Credit Agreement, (ii) the notices required by Section 5.05 of the Credit Agreement, in each case within the time periods for delivery thereof specified in the Credit Agreement and (iii) such executive compensation information as is required for purposes of the Emergency Economic Stabilization Act of 2008 ("EESA") and the regulations and guidelines thereunder; provided that, after the termination of the Credit Agreement, such informational and notice requirements as are provided in Section 5.04 and Section 5.05 of the Credit Agreement shall remain in full force and effect until such time as the UST no longer owns any shares of Senior Preferred. In addition, AIG shall promptly provide the UST such other information and notices as the UST may reasonably request from time to time.

**Executive
Compensation:**

As a condition to the closing of this investment, AIG shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI. Accordingly, as a condition to the closing of this investment, AIG and its senior executive officers covered by the EESA ("SEOs") shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with,

and following the closing and for so long as the UST holds any equity or debt securities of AIG issued under this agreement (the "Relevant Period"), AIG shall agree to be bound by the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSF1. As an additional condition to the closing, AIG and its SEOs shall grant to the UST and the SEOs shall grant to AIG waivers releasing the UST, and, in the case of the SEOs release, AIG, from any claims that AIG and such SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSF1.

In addition to Notice 2008-PSSF1, the following will apply:

1. AIG shall undertake during the Relevant Period to limit any golden parachute payments to its most senior employee group, who are currently referred to as Senior Partners ("Senior Partners"), (other than its SEOs) to the amounts permitted by the regulations relating to participants in the EESA Capital Purchase Program and the guidelines and Interim Final Rule (31 CFR Part 30) relating thereto as if they were SEOs (except that equity denominated awards settled solely in equity shall not be included in such limit), and AIG shall grant the UST a waiver releasing the UST, and shall use its best efforts to obtain waivers from the Senior Partners releasing the UST and AIG, from claims that AIG may have against the UST and that such Senior Partners may have against the UST or AIG as a result of such limits, and shall have obtained such waivers from AIG and its U.S.-based Senior Partners prior to and as an additional condition to the closing.

2. The annual bonus pools payable to Senior Partners in respect of each of 2008 and 2009 shall not exceed the average of the annual bonus pools paid to Senior Partners for 2006 and 2007 (in each case exclusive of AIG's historic quarterly bonus program, the amount of which will not increase for any participant, and subject to appropriate adjustment for new hires and departures).

Risk Management Committee:

AIG shall establish, within 30 days of the issuance of the Senior Preferred, and maintain, at least until the UST ceases to own any shares of the Senior Preferred, the Warrant or any other equity or debt securities of AIG, a risk management committee of the AIG's Board of Directors that will oversee the major risks involved in AIG's business operations and review AIG's actions to mitigate and manage those risks.

Miscellaneous:

The dividend rate as provided in "Dividend" above is subject to adjustment in the sole discretion of the Secretary of the Treasury in light of, inter alia, then-prevailing economic conditions and the financial condition of AIG, with the objective of protecting the U.S. taxpayer.

Summary of Warrant Terms

- Warrant:** The UST will receive a warrant ("Warrant") to purchase a number of shares of common stock of AIG ("Common Stock") equal to 2% of the issued and outstanding shares of Common Stock on the date of investment. The initial exercise price for the Warrant shall be \$2.50 per share of Common Stock (representing the par value of the Common Stock on the date of the investment), subject to customary anti-dilution adjustments; provided that the initial exercise price per share of Common Stock shall be adjusted to the par value per share of the Common Stock following the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock. The Warrant shall be net share settled or, if consented to by AIG and the UST, on a full physical basis.
- Term:** 10 years
- Exercisability:** Immediately exercisable, in whole or in part.
- Transferability:** The Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Warrant and the Common Stock underlying the Warrant as promptly as practicable, but in any event within 15 days after notification by the UST, and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Warrant or the Common Stock underlying the Warrant, AIG will also grant to the UST piggyback registration rights for the Warrant and the Common Stock underlying the Warrant. AIG will apply for the listing on the New York Stock Exchange of the Common Stock underlying the Warrant and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrant and the underlying Common Stock.
- Voting:** The UST will agree not to exercise voting power with respect to any shares of Common Stock issued to it upon exercise of the Warrant.
- Substitution:** In the event AIG is no longer listed or traded on a national securities exchange the Warrant will be exchangeable (in whole or in part), at the option of the UST, for an economic interest (to be determined by the UST after consultation with AIG) of AIG classified as permanent equity under GAAP having a fair market value (as determined by the UST) equal to the portion of the Warrant so exchanged.

Braun, James

From: Kyrwood, Jason [jason.kyrwood@dpw.com]
Sent: Monday, November 10, 2008 2:44 AM
To: Nowak, Rafal A.; (b) (6) @AIG.com; (b) (6) @aig.com;
 (b) (6) @AIG.com; (b) (6) @aig.com; (b) (6) @aig.com; (b) (6) @aig.com; (b) (6) @AIG.com;
 Reeder, Robert; Trevinom@sullcrom.com; Sharaby, Linda; DeLaMater, Robert; Fisher, Ann
 Bailen; Welshimer, Mark J; Kahn, Richard A.; Fishman, Jared M.; Greco, Anthony D.; Wang,
 Yang; Jacobson, Eli D.; Solomon, Andrew P.; Fiorini, Judith R.; Altman, Z. Dan; Albrecht,
 Stephen; Via, Stafford; Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter;
 Kashkari, Neel; Abdelrazek, Rawan; Ramanathan, Karthik; Deborah.P.Bailey@frb.gov;
 Jon.D.Greenlee@frb.gov; Rich.Ashton@frb.gov; Kieran.Fallon@frb.gov;
 michael.gibson@frb.gov; Sarah.Dahlgren@ny.frb.org; James.Hennessy@ny.frb.org;
 Steven.Manzari@ny.frb.org; Meg.McConnell@ny.frb.org; Amy.Flynn@ny.frb.org;
 Charles.Gray@ny.frb.org; Peter.Juhas@morganstanley.com;
 Eric.Bischof@morganstanley.com; Kevin.J.Ryan@morganstanley.com; Head, James (IBD);
 Stephanie.Heller@ny.frb.org; David.Gross@ny.frb.org; Michele.Kalstein@ny.frb.org; Lu,
 Jingjing
Cc: Brandow, John M.; Chase, Beverly Fanger; Dahlen, Jenny M.; Huebner, Marshall S.; James,
 Ethan T.; Kaya, Ezgi; Kyrwood, Jason; Nowak, Rafal A.; Page, Aaron; Rotsztain, Diego A.;
 Smith, Bradley Y.; Wang, Olivia; Wright, John T.; Dahlen, Jenny M.; Vonnegut, Eli James;
 Greg.Cavanagh@ny.frb.org
Subject: Executed Credit Agreement Amendment. - IXOS archive 187 KB

Executed credit agreement amendment, including final Exhibit D setting forth revised terms of convertible pref shares, is attached.

Jason Kyrwood
Ph: (212) 450 4653
Fax: (212) 450-3653

From: Nowak, Rafal A.
Sent: Sunday, November 09, 2008 8:12 PM
To: (b) (6) @AIG.com'; (b) (6) @aig.com'; (b) (6) @AIG.com'; (b) (6) @aig.com'; (b) (6) @aig.com'; (b) (6) @aig.com'; (b) (6) @aig.com'; (b) (6) @aig.com'; (b) (6) @AIG.com'; Reeder, Robert; Trevinom@sullcrom.com'; 'Sharaby, Linda'; DeLaMater, Robert; Fisher, Ann Bailen; Welshimer, Mark J; Kahn, Richard A.; Fishman, Jared M.; Greco, Anthony D.; Wang, Yang; Jacobson, Eli D.; Solomon, Andrew P.; Fiorini, Judith R.; Altman, Z. Dan; 'Stephen.Albrecht@do.treas.gov'; 'Stafford.Via@do.treas.gov'; 'Tony.Ryan@do.treas.gov'; 'Stephen.Myrow@do.treas.gov'; 'James.Lambright@do.treas.gov'; 'Peter.Bieger@do.treas.gov'; 'Neel.Kashkari@do.treas.gov'; 'Rawan.Abdelrazek@do.treas.gov'; 'Karthik.Ramanathan@do.treas.gov'; 'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Kieran.Fallon@frb.gov'; 'michael.gibson@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; James.Hennessy@ny.frb.org; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org'; 'Charles.Gray@ny.frb.org'; 'Peter.Juhas@morganstanley.com'; 'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James (IBD)'; 'Stephanie.Heller@ny.frb.org'; David.Gross@ny.frb.org; 'Michele.Kalstein@ny.frb.org'; 'Lu, Jingjing'
Cc: tarp.prefs.dpw
Subject: AIG - Preferred Stock and Warrant Offerings - Executed Letter Agreement

All,

Attached please find the executed Letter Agreement.

Regards,

Rafal

Rafal A. Nowak
Associate
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Phone: 212.450.4113
Fax: 212.450.3113
rafal.nowak@dpw.com

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To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of November 9, 2008 to the Credit Agreement dated as of September 22, 2008 (as amended from time to time, the "**Credit Agreement**") between AMERICAN INTERNATIONAL GROUP, INC., as Borrower (the "**Borrower**") and FEDERAL RESERVE BANK OF NEW YORK, as Lender (the "**Lender**").

PRELIMINARY STATEMENTS

(1) WHEREAS, Borrower intends to issue 2008 Preferred Stock (as defined below) having an aggregate liquidation preference of \$40 billion.

(2) WHEREAS, Borrower has requested Lender to amend the Credit Agreement in connection with such issuance and to make certain other changes as described herein, and Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement to effect such changes as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "this Agreement", "hereof", "hereunder", "herein" and "hereby" and each other similar reference in the Credit Agreement, and each reference in any other Loan Document to "the Credit Agreement", "thereof", "thereunder", "therein" or "thereby" or other similar reference to the Credit Agreement, shall, after the Amendment No. 2 Effective Date (as defined in Section 9 of this Amendment), refer to the Credit Agreement as amended hereby.

Section 2. *Amendments to Definitions.* Section 1.01 of the Credit Agreement is amended by adding or amending (as applicable) the following definitions to read in their entirety as follows:

“**2008 Preferred Stock**” shall mean the Series D Preferred Stock of the Borrower, par value \$5.00 per share, issued to the United States Department of the Treasury.

“**2008 Warrants**” shall mean warrants issued by the Borrower to the United States Department of the Treasury concurrently with the issuance of the 2008 Preferred Stock.

"Applicable Margin" shall mean 3.00% per annum.

"Maturity Date" shall mean September 13, 2013.

"Subject Issuer" shall mean any Person that is a Subject Issuer as defined in the Guarantee and Pledge Agreement, excluding any Person whose Equity Interests are not (and are not required to be) subject to any Lien in favor of the Lender pursuant to the Guarantee and Pledge Agreement."

Section 3. Amendment to Available Commitment Fee. Section 2.05(a) of the Credit Agreement is hereby amended by replacing the reference to "8.50%" therein with "0.75%".

Section 4. Commitment Reduction. Section 2.10(h) of the Credit Agreement is hereby amended to read in its entirety as follows:

"(h) Simultaneously with any prepayment required by paragraph (b), (c) or (d) of this Section 2.10, the Commitment shall be automatically and permanently reduced (i) in the case of any prepayment from the Net Cash Proceeds of the issuance of 2008 Preferred Stock and the 2008 Warrants, to \$60,000,000,000 and (ii) otherwise, in an amount equal to that portion of the Net Cash Proceeds required to be applied to prepay the Original Principal Amount of the Loans pursuant to such paragraphs."

Section 5. Amendments to Certain Covenants. The proviso to Section 6.06(a) of the Credit Agreement is hereby amended by replacing "and" where it appears at the end of clause (i) thereof with a semicolon and adding the following new clause (iii) after clause (ii) thereof:

"and (iii) so long as no Default shall have occurred and be continuing or would result therefrom, the Borrower may make payments of cumulative compounding dividends on its 2008 Preferred Stock at a rate not to exceed 10% per annum"

Section 6. Amendments to Exhibit D. Exhibit D of the Credit Agreement is hereby amended to read in its entirety as set forth on Exhibit A hereto.

Section 7. Certain Technical Amendments. (a) Clause (E) of the proviso to Section 6.06(b) is hereby amended to read in its entirety as follows

"(E) clause (i) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness or secured Swap Contracts permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness or such Swap Contracts, as the case may be".

(b) Schedule 8.01 of the Credit Agreement is hereby amended by replacing the entry requiring that notices be copied to Joyce M. Hansen with the following new entry:

Federal Reserve Bank of New York
33 Liberty Street New York, New York 10045
Attention: James R. Hennessy, Counsel and Vice President
Telecopy: (212) 720-7797
Telephone: (212) 720-5024
E-mail: james.hennessy@ny.frb.org

Section 8. Representations of Borrower. The Borrower represents and warrants on the Amendment No. 2 Effective Date that (i) the representations and warranties of Borrower contained in Article 3 of the Credit Agreement and by any Loan Party in any other Loan Document shall be true and correct on and as of the Amendment No. 2 Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date; and (ii) no Default or Event of Default shall exist on the Amendment No. 2 Effective Date after giving effect to this Amendment.

Section 9. Conditions to Effectiveness. This Amendment shall become effective on the date (the "**Amendment No. 2 Effective Date**") when, and only when, each of the following conditions shall have been satisfied to the satisfaction of Lender:

- (a) **Execution of Counterparts.** Lender shall have received from Borrower a counterpart hereof signed by Borrower.
- (b) **Execution of Consent.** Lender shall have received counterparts of a consent substantially in the form of Exhibit B to this Amendment, duly executed by each Guarantor.
- (c) **Expenses.** Lender shall have received reimbursement for all costs and expenses (including fees, charges and disbursements of counsel to Lender) to the extent required by Section 8.05(a) of the Credit Agreement, including in connection with the preparation, negotiation and execution of this Amendment.
- (d) **Consummation of 2008 Preferred Stock Issuance.** Borrower shall have consummated the issuance of 2008 Preferred Stock having a liquidation preference of not less than \$40,000,000,000 on or prior to the Amendment No. 2 Effective Date.

Section 10. Certain Consequences Of Effectiveness. On and after the Amendment No. 2 Effective Date, the rights and obligations of the parties hereto shall be governed by the Credit Agreement as amended by this Amendment; *provided* that the rights and obligations of the parties to the Credit Agreement

with respect to the period prior to the Amendment No. 2 Effective Date shall continue to be governed by the provisions of the Credit Agreement prior to giving effect to this Amendment. Each Loan Document, as specifically amended hereby, is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects. Without limiting the foregoing, the Security Documents and all of the Collateral do and shall continue to secure the payment of all obligations under the Loan Documents as amended hereby.

Section 11. *Governing Law.* This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 12. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery by telecopier of an executed counterpart of a signature page to this Amendment shall be effective as delivery of an original executed counterpart of this Amendment.


IN WITNESS WHEREOF, the parties hereto have caused this
Amendment to be duly executed as of the date first above written.

AMERICAN INTERNATIONAL
GROUP, INC., as Borrower

By: Kathleen E. Shannon
Name:
Title:

[Signature Page to Amendment No. 2 to Credit Agreement]

FEDERAL RESERVE BANK OF NEW
YORK, as Lender

By: 
Name: Steven J. Manzari
Title: Senior Vice President

[Signature Page to Amendment No. 2 to Credit Agreement]

EXHIBIT A

[See next page].

EXHIBIT D

Summary of Terms of Preferred Stock and Related Issues

Issuer	American International Group, Inc. ("AIG").
Purchaser	AIG Credit Facility Trust, a new trust established for the benefit of the United States Treasury ("Trust").
Securities	100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock, par value \$5.00 per share ("Preferred Stock").
Consideration	\$500,000 plus the lending commitment of the Federal Reserve Bank of New York ("NY Fed"); AIG's board will acknowledge the receipt of value at least equal to the aggregate par value of the shares of Preferred Stock in connection with their issuance.
Voting rights	Except where a class vote is required by law, the Preferred Stock will vote with the common stock on all matters submitted to AIG's stockholders, and will be entitled to an aggregate number of votes equal to (i) the Initial Number of Shares (as defined below), as adjusted pursuant to the anti-dilution provisions, minus (ii) the votes, if any, attributable to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the number of votes attributable to the Preferred Stock shall not exceed 77.9% of the aggregate number of votes of the Preferred Stock and the shares of common stock then outstanding.
Dividends	The Preferred Stock will be entitled to participate in any dividends paid on the common stock, and shall receive (i) the dividends attributable to the Initial Number of Shares, as adjusted pursuant to the anti-dilution provisions, minus (ii) the dividends, if any, paid with respect to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the dividends attributable to the Preferred Stock shall not exceed 77.9% of the aggregate amount of dividends paid on the Preferred Stock and the shares of common stock then outstanding.
Conversion	Upon the effectiveness of the amendment to AIG's restated certificate of incorporation described in clause (i) under "Stockholder vote," the Preferred Stock will be convertible into a number of shares of common stock (the "Initial Number of Shares") equal to the excess of (a) the product of 3.9751244 times the Number of Outstanding Shares over (b) 53,798,766 (the number of shares of common stock underlying the 2008 Warrants). The "Number of Outstanding Shares" means, as of any date, the number of shares of common stock outstanding as of the date of issuance of the Preferred Stock plus the number of shares of common stock, if any, issued on or prior to such date in settlement of AIG's Equity Units.
Anti-Dilution Provisions	The Preferred Stock will have customary anti-dilution provisions.
Term	Perpetual.

**Liquidation
preference**

Stockholder vote

\$500,000 in aggregate.

AIG's board will call a meeting of stockholders as soon as practicable after the issuance of the Preferred Stock. At that meeting, the stockholders, with the common stockholders voting as a separate class in the case of the matters in clause (i), will vote on, among other things, (i) amendments to AIG's certificate of incorporation to (a) reduce the par value of AIG's common stock to \$0.000001 per share and (b) increase the number of authorized shares of common stock to 19 billion and (ii) any other measures deemed by the NY Fed to be necessary for the conversion of the Preferred Stock or the operation of the Facility, including the pledging of collateral thereunder.

Equity issues

So long as the Trust's equity ownership, determined as the sum of its ownership of common stock and the number of shares of common stock underlying the Preferred Stock (whether or not the Preferred Stock is then convertible), shall equal or exceed 50% of the Initial Number of Shares (as adjusted pursuant to the anti-dilution provisions), AIG shall not issue any capital stock, or any securities or instruments convertible or exchangeable into, or exercisable for, capital stock, without the written consent of the Trust other than (i)(x) issues of capital stock to satisfy any security or instrument existing on September 16, 2008 that is exercisable for, convertible into or exchangeable for common stock, (y) in respect of equity compensation awards issued in the ordinary course of business under AIG's Amended and Restated 2007 Stock Incentive Plan or AIG's Amended and Restated 2002 Stock Incentive Plan or (z) in respect of any tax-qualified plan approved in the ordinary course of business by the Board of Directors of AIG that meets the requirements of Section 423 of the Internal Revenue Code and (ii) subsequent to written notice from the Trust that AIG's corporate governance arrangements are satisfactory to the trustees (x) in respect of equity compensation awards issued under any equity compensation plan (including any material amendments thereto) approved by shareholders after September 16, 2008 in accordance with the shareholder approval requirements of the NYSE Listed Company Manual or (y) in any one year, up to 0.5% of the outstanding shares of common stock pursuant to any other employee benefit plan, employment contract or similar arrangement that is approved by the Compensation and Management Resources Committee of the Board of Directors of AIG.

Governance

AIG and its board will work in good faith with the trustees of the Trust to ensure corporate governance arrangements satisfactory to the trustees.

Registration rights

AIG will enter into a customary agreement providing for demand registration rights for the Preferred Stock and the underlying common stock, will apply for the listing on the NYSE of the common stock underlying the Preferred Stock, and will take such other steps as the NY Fed may reasonably request to facilitate the transfer of the Preferred Stock or common stock received on conversion of the Preferred Stock.

Regulation

AIG will take all actions necessary or expedient for obtaining any regulatory approvals, notices, waivers or consents related to the issuance and acquisition of the Preferred Stock and will assist the NY Fed in such matters.

NYSE

AIG will take all actions necessary or expedient for obtaining NYSE approval for the issuance and voting of the Preferred Stock, including actions required of the audit committee of the board of AIG to take advantage of the exemption from the NYSE's stockholder approval requirements set forth in Section 312.05 of the NYSE Listed Company Manual.

Takeover laws

AIG will take all actions necessary or expedient in order to exempt the acquisition and ownership of the Preferred Stock and any common stock issued upon conversion of the Preferred Stock from (i) the requirements of any applicable "moratorium", "control share", "fair price" or other anti-takeover laws and regulations of any jurisdiction, including Section 203 of the Delaware General Corporation Law, and (ii) any other applicable provision of the organizational documents of AIG or the comparable organizational documents of any subsidiary of AIG.

EXHIBIT B

Reference is made to Amendment No. 2 dated November [], 2008 between American International Group, Inc., as Borrower (the "**Borrower**") and Federal Reserve Bank of New York, as Lender (the "**Lender**") (the "**Amendment**"). Unless otherwise specifically defined herein, each term used herein that is defined in the Amendment shall have the meaning assigned to such term in the Amendment.

Each of the undersigned hereby consents to the Amendment and hereby confirms and agrees that (a) notwithstanding the effectiveness of the Amendment, each Loan Document to which it is party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the Amendment, each reference in the Loan Documents to the "Credit Agreement", "thereof", "thereunder", "therein" or "thereby" or similar references to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by the Amendment and (b) the Loan Documents to which each of the undersigned is a party and all of the Collateral described therein do, and shall continue to, secure the payment of all obligations under the Loan Documents, as amended hereby.

[GUARANTORS]

By: _____
Name:
Title:

Braun, James

From: Davis, Michele
Sent: Monday, November 10, 2008 5:51 AM
To: McLaughlin, Brookly; Kashkari, Neel; Lambright, James; Albrecht, Stephen; 'Tfratto@who.eop.gov'; Hoyt, Robert
Subject: Fw: *Embargoed release for 6 am on AIG* - IXOS archive 46 KB
Importance: High

----- Original Message -----

From: Michelle.A.Smith@frb.gov <Michelle.A.Smith@frb.gov>
To: Michelle.A.Smith@frb.gov <Michelle.A.Smith@frb.gov>; david.skidmore@frb.gov <david.skidmore@frb.gov>; susan.stawick@frb.gov <susan.stawick@frb.gov>; Deborah.A.Lagomarsino@frb.gov <Deborah.A.Lagomarsino@frb.gov>; Joe.Pavel@frb.gov <Joe.Pavel@frb.gov>; cecelia.m.bradshaw@frb.gov <cecelia.m.bradshaw@frb.gov>
Sent: Mon Nov 10 05:43:01 2008
Subject: *Embargoed release for 6 am on AIG*

Good morning -- attached please find a release on AIG, embargoed for 6am (See attached file: AIG Restructuring Press Release.doc)

The Federal Reserve will host a technical background briefing call at 8am.
One line per news organization please, as the number of lines is limited.
Conf call number: 800-853-0223.
Conference code: 961751#

FEDERAL RESERVE press release



For release at 6:00 a.m. EST

November 10, 2008

The Federal Reserve Board and the U.S. Treasury on Monday announced the restructuring of the government's financial support to the American International Group (AIG) in order to keep the company strong and facilitate its ability to complete its restructuring process successfully. These new measures establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers.

Equity Purchase

The U.S. Treasury on Monday announced that it will purchase \$40 billion of newly issued AIG preferred shares under the Troubled Asset Relief Program. This purchase will allow the Federal Reserve to reduce from \$85 billion to \$60 billion the total amount available under the credit facility established by the Federal Reserve Bank of New York (New York Fed) on September 16, 2008.

Credit Facility

Certain other terms of the existing New York Fed credit facility, established on September 16, will be modified to help achieve the objectives described above. In particular, the interest rate on the facility will be reduced to three-month Libor plus 300 basis points from the current rate of three-month Libor plus 850 basis points, and the fee on undrawn funds will be reduced to 75 basis points from the current rate of 850 basis points. The length of the facility will be extended from two years to five years. The other material terms of the facility remain unchanged. The facility will continue to be secured by a lien on many of the assets of AIG and of its subsidiaries.

Additional Lending Facilities

The Federal Reserve Board has authorized the New York Fed to establish two new lending facilities relating to AIG under section 13(3) of the Federal Reserve Act. These facilities are designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities.

Residential Mortgage-Backed Securities Facility

In one new facility, the New York Fed will lend up to \$22.5 billion to a newly formed limited liability company (LLC) to fund the LLC's purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio. AIG will make a \$1 billion subordinated loan to the LLC and bear the risk for the first \$1 billion of any losses on the

(more)

portfolio. The loans will be secured by all of the assets of the LLC and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

Proceeds from this facility, together with other AIG internal resources, will be used to return all cash collateral posted for securities loans outstanding under AIG's U.S. securities lending program. As a result, the \$37.8 billion securities lending facility established by the New York Fed on October 8, 2008, will be repaid and terminated.

Collateralized Debt Obligations Facility

In the second new facility, the New York Fed will lend up to \$30 billion to a newly formed LLC to fund the LLC's purchase of multi-sector collateralized debt obligations (CDOs) on which AIG Financial Products has written credit default swap (CDS) contracts. AIG will make a \$5 billion subordinated loan to the LLC and bear the risk for the first \$5 billion of any losses on the portfolio. In connection with the purchase of the CDOs, the CDS counterparties will concurrently unwind the related CDS transactions. The loans will be secured by all of the LLC's assets and will be repaid from cash flows produced by these assets as well as the proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

The U.S. Government intends to exit its support of AIG over time in a disciplined manner consistent with maximizing the value of its investments and promoting financial stability.

Braun, James

From: Albrecht, Stephen
Sent: Wednesday, November 05, 2008 9:39 PM
To: Ryan, Tony; Lambright, James; Rutherford, Matthew; Via, Stafford
Cc: Hoyt, Robert
Subject: Fw: Call with AIG 11/5/08

See below. Looks like AIG has some (b) (5)

From: Wright, John T.
To: Albrecht, Stephen
Cc: james.hennessy@ny.frb.org ; Sarah.Dahlgren@ny.frb.org ; Huebner, Marshall S. ; James, Ethan T. ; Rotsztain, Diego
A. ; Chase, Beverly Fanger ; Wright, John T.
Sent: Wed Nov 05 21:00:22 2008
Subject: Call with AIG 11/5/08

Dear All:

(b) (5)



(b) (5)



Please let us know if you would like to further discuss.

Jack

To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

John T. Wright
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Phone: 212-450-4879
Fax: 212-450-3879
Email: jwright@dpw.com

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Braun, James

From: Via, Stafford
Sent: Tuesday, November 04, 2008 5:57 PM
To: Lambright, James; Rutherford, Matthew; Albrecht, Stephen
Subject: Fw: AIG Senior Preferred Stock - Revised Term Sheet

From: Ryan, Kevin (GCM)
To: Ryan, Tony; Via, Stafford
Sent: Tue Nov 04 17:53:08 2008
Subject: FW: AIG Senior Preferred Stock - Revised Term Sheet

Kevin Ryan, Managing Director
Morgan Stanley | Global Capital Markets
1585 Broadway | Floor 04
New York, NY 10036
Phone: +1 212 761-2825
Fax: +1 212 507-2944
Kevin.J.Ryan@morganstanley.com

From: Nowak, Rafal A. [<mailto:rafal.nowak@dpw.com>]
Sent: Tuesday, November 04, 2008 5:12 PM
To: 'Stafford.Via@do.treas.gov'; 'Tony.Ryan@do.treas.gov'; 'Stephen.Myrow@do.treas.gov'; 'James.Lambright@do.treas.gov'; 'Peter.Bieger@do.treas.gov'; 'Stephen.Albrecht@do.treas.gov'; 'Neel.Kashkari@do.treas.gov'; 'Rawan.Abdelrazek@do.treas.gov'; 'Karthik.Ramanathan@do.treas.gov'; 'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; 'James.Hennessy@ny.frb.org'; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org'; Juhas, Peter (IBD); Bischof, Eric (IBD); Ryan, Kevin (GCM); Head, James (IBD)
Cc: Brandow, John M.; Huebner, Marshall S.; James, Ethan T.; Smith, Bradley Y.; Chase, Beverly Fanger; Wright, John T.; Rotsztain, Diego A.; Kyrwood, Jason; Kaya, Ezgi; Nowak, Rafal A.
Subject: RE: AIG Senior Preferred Stock - Revised Term Sheet

Further to current discussion please see below a bullet point summary of the Section 5.04 of the Credit Agreement reporting requirements:

- annual and quarterly consolidated financial statements;
- an annual budget and divestiture plan with quarterly update reports and ongoing notification of material developments;
- copies of board packages and any management letters;
- regulatory filings by insurance subsidiaries;
- weekly cash reports and 13-week cash flow projections;
- satisfactory risk assessment reports;
- notices of default, litigation, ERISA events and material adverse change;
- notice of any ratings change; and
- notice of certain regulatory actions and other events with respect to insurance subsidiaries

Rafal

Rafal A. Nowak
212.450.4113

From: Nowak, Rafal A.

Sent: Monday, November 03, 2008 11:31 PM

To: 'Stafford.Via@do.treas.gov'; 'Tony.Ryan@do.treas.gov'; 'Stephen.Myrow@do.treas.gov';
'James.Lambright@do.treas.gov'; 'Peter.Bieger@do.treas.gov'; 'Stephen.Albrecht@do.treas.gov';
'Neel.Kashkari@do.treas.gov'; 'Rawan.Abdelrazek@do.treas.gov'; 'Karthik.Ramanathan@do.treas.gov';
'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Sarah.Dahlgren@ny.frb.org';
'James.Hennessy@ny.frb.org'; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org';
'Peter.Juhas@morganstanley.com'; 'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James
(IBD)'

Cc: Brandow, John M.; Huebner, Marshall S.; James, Ethan T.; Smith, Bradley Y.; Chase, Beverly Fanger; Wright, John
T.; Rotsztain, Diego A.; Kyrwood, Jason; Kaya, Ezgi; Nowak, Rafal A.

Subject: AIG Senior Preferred Stock - Revised Term Sheet

All,

Attached please find a revised draft of the AIG Senior Preferred Stock Term Sheet and a blackline of same against the
draft sent to you earlier today.

Please let us know if you have any questions or comments.

Kindest regards,

Rafal

Rafal A. Nowak
Associate
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Phone: 212.450.4113
Fax: 212.450.3113
rafal.nowak@dpw.com

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received in error.

Braun, James

From: Myrow, Stephen
Sent: Thursday, October 30, 2008 7:19 AM
To: Lambright, James; Kashkari, Neel; Ryan, Tony; Albrecht, Stephen
Subject: Fw: A Question for A.I.G.: Where Did the Cash Go? (NYT)

FYI

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

From: Stephen Myrow
To: Myrow, Stephen
Sent: Thu Oct 30 07:16:31 2008
Subject: A Question for A.I.G.: Where Did the Cash Go? (NYT)
October 30, 2008

A Question for A.I.G.: Where Did the Cash Go?

By MARY WILLIAMS WALSH

The American International Group is rapidly running through \$123 billion in emergency lending provided by the Federal Reserve, raising questions about how a company claiming to be solvent in September could have developed such a big hole by October. Some analysts say at least part of the shortfall must have been there all along, hidden by irregular accounting.

"You don't just suddenly lose \$120 billion overnight," said Donn Vickrey of Gradient Analytics, an independent securities research firm in Scottsdale, Ariz.

Mr. Vickrey says he believes A.I.G. must have already accumulated tens of billions of dollars worth of losses by mid-September, when it came close to collapse and received an \$85 billion emergency line of credit by the Fed. That loan was later supplemented by a \$38 billion lending facility.

But losses on that scale do not show up in the company's financial filings. Instead, A.I.G. replenished its capital by issuing \$20 billion in stock and debt in May and reassured investors that it had an ample cushion. It also said that it was making its accounting more precise.

Mr. Vickrey and other analysts are examining the company's disclosures for clues that the cushion was threadbare and that company officials knew they had major losses months before the bailout.

Tantalizing support for this argument comes from what appears to have been a behind-the-scenes clash at the company over how to value some of its derivatives contracts. An accountant brought in by the company because

of an earlier scandal was pushed to the sidelines on this issue, and the company's outside auditor, PricewaterhouseCoopers, warned of a material weakness months before the government bailout.

The internal auditor resigned and is now in seclusion, according to a former colleague. His account, from a prepared text, was read by Representative Henry A. Waxman, Democrat of California and chairman of the House Committee on Oversight and Government Reform, in a hearing this month.

These accounting questions are of interest not only because taxpayers are footing the bill at A.I.G. but also because the post-mortems may point to a fundamental flaw in the Fed bailout: the money is buoying an insurer — and its trading partners — whose cash needs could easily exceed the existing government backstop if the housing sector continues to deteriorate.

Edward M. Liddy, the insurance executive brought in by the government to restructure A.I.G., has already said that although he does not want to seek more money from the Fed, he may have to do so.

Continuing Risk

Fear that the losses are bigger and that more surprises are in store is one of the factors beneath the turmoil in the credit markets, market participants say.

"When investors don't have full and honest information, they tend to sell everything, both the good and bad assets," said Janet Tavakoli, president of Tavakoli Structured Finance, a consulting firm in Chicago. "It's really bad for the markets. Things don't heal until you take care of that."

A.I.G. has declined to provide a detailed account of how it has used the Fed's money. The company said it could not provide more information ahead of its quarterly report, expected next week, the first under new management. The Fed releases a weekly figure, most recently showing that \$90 billion of the \$123 billion available has been drawn down.

A.I.G. has outlined only broad categories: some is being used to shore up its securities-lending program, some to make good on its guaranteed investment contracts, some to pay for day-to-day operations and — of perhaps greatest interest to watchdogs — tens of billions of dollars to post collateral with other financial institutions, as required by A.I.G.'s many derivatives contracts.

No information has been supplied yet about who these counterparties are, how much collateral they have received or what additional tripwires may require even more collateral if the housing market continues to slide.

Ms. Tavakoli said she thought that instead of pouring in more and more money, the Fed should bring A.I.G. together with all its derivatives counterparties and put a moratorium on the collateral calls. "We did that with ACA," she said, referring to ACA Capital Holdings, a bond insurance company that filed for bankruptcy in 2007.

Of the two big Fed loans, the smaller one, the \$38 billion supplementary lending facility, was extended solely to prevent further losses in the securities-lending business. So far, \$18 billion has been drawn down for that purpose.

For securities lending, an institution with a long time horizon makes extra money by lending out securities to shorter-term borrowers. The borrowers are often hedge funds setting up short trades, betting a stock's price will fall. They typically give A.I.G. cash or cashlike instruments in return. Then, while A.I.G. waits for the borrowers to bring back the securities, it invests the money.

In the last few months, borrowers came back for their money, and A.I.G. did not have enough to repay them because of market losses on its investments. Through the secondary lending facility, the insurer is now sending those investments to the Fed, and getting cash in turn to repay customers.

A spokesman for the insurer, Nicholas J. Ashooh, said A.I.G. did not anticipate having to use the entire \$38 billion facility. At midyear, A.I.G. had a shortfall of \$15.6 billion in that program, which it says has grown to \$18 billion. Another spokesman, Joe Norton, said the company was getting out of this business. Of the government's original \$85 billion line of credit, the company has drawn down about \$72 billion. It must pay 8.5 percent interest on those funds.

An estimated \$13 billion of the money was needed to make good on investment accounts that A.I.G. typically offered to municipalities, called guaranteed investment contracts, or G.I.C.'s.

When a local government issues a construction bond, for example, it places the proceeds in a guaranteed investment contract, from which it can draw the funds to pay contractors.

After the insurer's credit rating was downgraded in September, its G.I.C. customers had the right to pull out their proceeds immediately. Regulators say that A.I.G. had to come up with \$13 billion, more than half of its total G.I.C. business. Rather than liquidate some investments at losses, it used that much of the Fed loan.

For \$59 billion of the \$72 billion A.I.G. has used, the company has provided no breakdown. A block of it has been used for day-to-day operations, a broad category that raises eyebrows since the company has been tarnished by reports of expensive trips and bonuses for executives.

The biggest portion of the Fed loan is apparently being used as collateral for A.I.G.'s derivatives contracts, including credit-default swaps.

The swap contracts are of great interest because they are at the heart of the insurer's near collapse and even A.I.G. does not know how much could be needed to support them. They are essentially a type of insurance that protects investors against default of fixed-income securities. A.I.G. wrote this insurance on hundreds of billions of dollars' worth of debt, much of it linked to mortgages.

Through last year, senior executives said that there was nothing to fear, that its swaps were rock solid. The portfolio "is well structured" and is subjected to "monitoring, modeling and analysis," Martin J. Sullivan, A.I.G.'s chief executive at the time, told securities analysts in the summer of 2007.

Gathering Storm

By fall, as the mortgage crisis began roiling financial institutions, internal and external auditors were questioning how A.I.G. was measuring its swaps. They suggested the portfolio was incurring losses. It was as if the company had insured beachfront property in a hurricane zone without charging high enough premiums.

But A.I.G. executives, especially those in the swaps business, argued that any decline was theoretical because the hurricane had not hit. The underlying mortgage-related securities were still paying, they said, and there was no reason to think they would stop doing so.

A.I.G. had come under fire for accounting irregularities some years back and had brought in a former accounting expert from the Securities and Exchange Commission. He began to focus on the company's accounting for its credit-default swaps and collided with Joseph Cassano, the head of the company's financial products division, according to a letter read by Mr. Waxman at the recent Congressional hearing.

When the expert tried to revise A.I.G.'s method for measuring its swaps, he said that Mr. Cassano told him, "I have deliberately excluded you from the valuation because I was concerned that you would pollute the process."

Mr. Cassano did not attend the hearing and was unavailable for comment. The company's independent auditor, PricewaterhouseCoopers, was the next to raise an alarm. It briefed Mr. Sullivan late in November, warning that it had found a "material weakness" because the unit that valued the swaps lacked sufficient oversight.

About a week after the auditor's briefing, Mr. Sullivan and other executives said nothing about the warning in a presentation to securities analysts, according to a transcript. They said that while disruptions in the markets were making it difficult to value its swaps, the company had made a "best estimate" and concluded that its swaps had lost about \$1.6 billion in value by the end of November.

Still, PricewaterhouseCoopers appears to have pressed for more. In February, A.I.G. said in a regulatory filing that it needed to "clarify and expand" its disclosures about its credit-default swaps. They had declined not by \$1.6 billion, as previously reported, but by \$5.9 billion at the end of November, A.I.G. said. PricewaterhouseCoopers subsequently signed off on the company's accounting while making reference to the material weakness.

Investors shuddered over the revision, driving A.I.G.'s stock down 12 percent. Mr. Vickrey, whose firm grades companies on the credibility of their reported earnings, gave the company an F. Mr. Sullivan, his credibility waning, was forced out months later.

The Losses Grow

Through spring and summer, the company said it was still gathering information about the swaps and tucked references of widening losses into the footnotes of its financial statements: \$11.4 billion at the end of 2007, \$20.6 billion at the end of March, \$26 billion at the end of June. The company stressed that the losses were theoretical: no cash had actually gone out the door.

"If these aren't cash losses, why are you having to put up collateral to the counterparties?" Mr. Vickrey asked in a recent interview. The fact that the insurer had to post collateral suggests that the counterparties thought A.I.G.'s swaps losses were greater than disclosed, he said. By midyear, the insurer had been forced to post collateral of \$16.5 billion on the swaps.

Though the company has not disclosed how much collateral it has posted since then, its \$447 billion portfolio of credit-default swaps could require far more if the economy continues to weaken. More federal assistance would then essentially flow through A.I.G. to counterparties.

"We may be better off in the long run letting the losses be realized and letting the people who took the risk bear the loss," said Bill Bergman, senior equity analyst at the market research company Morningstar.

Braun, James

From: Albrecht, Stephen
Sent: Friday, November 21, 2008 7:15 PM
To: Kashkari, Neel; Abdelrazek, Rawan
Cc: Hammond, Donald; Lambright, James
Subject: FW: AIG - signature pages for UST - IXOS archive 31 KB

Neel and Rawan -

We'll need to get this signed on Monday to send to Davis Polk.

From: Page, Aaron [mailto:aaron.page@dpw.com]
Sent: Friday, November 21, 2008 7:08 PM
To: Albrecht, Stephen
Cc: Nowak, Rafal A.
Subject: RE: AIG - signature pages for UST

Steve,

Just as a reminder, we will need UST's signature page to the SPA at some point prior to Tuesday's anticipated closing. We will obviously hold it in escrow until authorized to release at closing. Thanks.

Aaron Page
Davis Polk & Wardwell
T: (212) 450-4650, F: (212) 450-3650

From: Page, Aaron
Sent: Wednesday, November 12, 2008 11:13 AM
To: 'Stephen.Albrecht@do.treas.gov'
Cc: Nowak, Rafal A.
Subject: AIG - signature pages for UST

Steve,

Please find attached the signature pages for the Securities Purchase Agreement and for the direction letter (assuming AIG agrees to direct the proceeds to be credited against its FRBNY account).

At your convenience, please arrange for these Treasury to execute the attached and return electronic copies to me. In addition, please arrange for five original copies to be mailed to my attention at the address provided below. We will obviously hold all signatures in escrow until we are authorized to release at closing.

Thanks,

Aaron Page
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017

To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be

used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Confidentiality Note: This e-mail is intended only for the person or entity to which it is addressed and may contain information that is privileged, confidential or otherwise protected from disclosure. Dissemination, distribution or copying of this e-mail or the information herein by anyone other than the intended recipient, or an employee or agent responsible for delivering the message to the intended recipient, is prohibited. If you have received this e-mail in error, please notify the sender immediately and destroy the original message and all copies.

In witness whereof, this Agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

AMERICAN INTERNATIONAL
GROUP, INC.

By: _____
Name:
Title:

UNITED STATES DEPARTMENT OF
THE TREASURY

By: _____
Name:
Title:

Date: November ____, 2008

Henshaw, Michelle

From: Rutherford, Matthew
Sent: Friday, November 07, 2008 2:16 PM
To: Myrow, Stephen
Cc: Lambright, James
Subject: 10-Q

FRBNY says the 10-Q is going out at 6 am.

provided

Braun, James

From: Myrow, Stephen
Sent: Friday, November 07, 2008 8:28 PM
To: 'Sarah.Dahlgren@ny.frb.org'
Cc: Lambright, James; Ryan, Tony; Via, Stafford; Rutherford, Matthew; Albrecht, Stephen
Subject: RE: Treasury's implementation timeline for AIG

Sarah --

Please find latest timeline attached.

Regards,

Steve



AIG
IMPLEMENTATION TIMETA

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

From: Myrow, Stephen
Sent: Thursday, November 06, 2008 6:55 PM
To: 'Sarah.Dahlgren@ny.frb.org'
Cc: Lambright, James; Ryan, Tony; Via, Stafford; Rutherford, Matthew; Albrecht, Stephen
Subject: Treasury's implementation timeline for AIG

Sarah --

I wanted to share with you our internal implementation timeline for the AIG transaction. I would welcome your input if you think we are missing any necessary actions or have any questions regarding our proposed sequencing. Also, I want to make sure that all of the appropriate people at FRBNY and Treasury are coordinating with one another.

Regards,

Steve

<< File: AIG IMPLEMENTATION TIMETABLE (v. 3).doc >>

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

AIG IMPLEMENTATION TIMETABLE

<u>DATE</u>	<u>ACTION</u>	<u>TREASURY PARTY RESPONSIBLE FOR COORDINATION</u>
Fri 7 Nov	<ul style="list-style-type: none"> ■ Finalize program guidelines ■ Finalize term sheet ■ Finalize investment committee decision memo ■ Finalize memo on compliance with unjust enrichment provision ■ Finalize form of Troubled Asset Determination ■ Confirm drawn amount under FRBNY facility ■ OMB apportionment 	<ul style="list-style-type: none"> ■ Myrow ■ Lambright/Albrecht ■ Lambright ■ Rutherford ■ Schaffer ■ Rutherford ■ Bloom
Sat 8 Nov	<ul style="list-style-type: none"> ■ Investment committee votes on program guidelines and AIG investment ■ Finalize FSOB presentation 	<ul style="list-style-type: none"> ■ Lambright (with committee members) ■ Kashkari/Lambright
Sat 8 Nov – Wed 12 Nov	Finalize deal documents	Albrecht (DP&W)
Sun 9 Nov	<ul style="list-style-type: none"> ■ FSOB presentation ■ Fed approval ■ Receive letter from Chairman Bernanke ■ Consult with NCUA and OTS ■ AIG board approval ■ HMP executes Troubled Asset Determination ■ AIG letter accepting term sheet 	<ul style="list-style-type: none"> ■ Kashkari/Lambright ■ Hoyt ■ Hoyt ■ Ryan/Lambright ■ Albrecht/Rutherford ■ Albrecht ■ Albrecht
Sun 9 Nov	Congressional consultations	Fromer
Mon 10 Nov (pre-market)	<ul style="list-style-type: none"> ■ Transmittal of Troubled Asset Determination (timing TBD) ■ 0600: AIG earnings announcement and 10-Q release ■ 0605: Treasury public statement ■ 0605: Fed public statement ■ 0630: Treasury background press availability ■ 0700: Fed background press availability ■ 0730: AIG analyst call 	<ul style="list-style-type: none"> ■ Fromer ■ Rutherford ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Davis/McLaughlin ■ Rutherford
Tues 11 Nov	<ul style="list-style-type: none"> ■ Public release of program guidelines ■ Rating agencies publish ratings 	<ul style="list-style-type: none"> ■ Hammond/McLaughlin ■ Rutherford
Thurs 13 Nov	<ul style="list-style-type: none"> ■ Deal documents executed ■ Treasury funding ■ Deal settlement: <ul style="list-style-type: none"> - funds transfer - take custody of securities 	<ul style="list-style-type: none"> ■ Albrecht (DP&W) ■ Grippo ■ Bloom/Grippo/Albrecht <ul style="list-style-type: none"> - Bloom - Grippo (BONY) and Albrecht (form of all securities TBD)
Mon 17 Nov	Public release of transaction report	Hammond/McLaughlin
Thurs 20 Nov	Transmit tranche report to Congress	Hammond/Fromer

DRAFT/PRE-DECISIONAL
MARKET-SENSITIVE

1/21/2009
11:12:48 AM

Braun, James

From: McLaughlin, Brookly
Sent: Monday, November 10, 2008 7:25 AM
To: DL_FYI; DL_TARP; Fratto, Tony
Subject: BLMBRG - U.S. Treasury to Purchase \$40 Billion AIG Shares (Update2)

U.S. Treasury to Purchase \$40 Billion AIG Shares (Update2) 2008-11-10 12:13:37.330 GMT

(Adds Treasury officials' comments from fourth paragraph.)

By Craig Torres and John Brinsley

Nov. 10 (Bloomberg) -- The U.S. Treasury will take a \$40 billion stake in American International Group Inc., and the Federal Reserve will open two new emergency loan units to finance the company's securities, the government said today.

The new terms of the government's assistance are less costly than the Fed's first loan to AIG on Sept. 16, the statement released in Washington said. The New York Fed gave the original loan to prevent widespread default against AIG creditors in the same week that Lehman Brothers Holdings Inc. collapsed.

"These new measures establish a more durable capital structure and resolve liquidity issues," as well as "protect the interests of the U.S. government and taxpayers," the statement said.

The Treasury, in a separate statement, called AIG a "systemically important company." A Treasury official, speaking to reporters on a conference on condition of anonymity, said Treasury Secretary Henry Paulson and Fed Chairman Ben S. Bernanke late yesterday briefed members of President-elect Barack Obama's transition team on the matter.

Separately, the insurer said today it lost a record \$24.5 billion, or \$9.05 a share in the period ended Sept. 30, compared with profit of \$3.09 billion, or \$1.19, a year earlier, AIG said in a regulatory filing.

Smaller Loan

Today's announcement indicates the Fed will reduce its original credit line to AIG to \$60 billion from \$85 billion. The interest rate on the facility will be reduced to the three-month London interbank offered rate plus 3 percentage points, from a previous spread of 8.5 percentage points, the statement said.

AIG's assets continue to secure the loan.

The Fed also invoked emergency authority to set up two new emergency loan facilities.

"These facilities are designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities," the Fed said.

In one new facility, the New York Fed will lend as much as \$22.5 billion to a new limited liability company to fund the purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio. AIG will make a \$1 billion subordinated loan to the LLC and bear the risk for the first \$1 billion of any losses, the Fed said.

The second lending facility lets the New York Fed lend as much as \$30 billion for collateralized debt obligations of AIG.

CDO Collateral

"The loans will be secured by all of the assets of the LLC and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets," the

Central Bank said. The new loans are repaid."

The capital injection into AIG will come from a \$100 billion pool authorized by Congress for Treasury to use at its discretion, rather than the \$250 billion allocated to purchase stakes in the country's banks, a Treasury official said. The government will get a 10 percent dividend for its preferred shares in the insurer, the Treasury official said.

The Treasury's purchase of \$40 billion in newly issued preferred shares from the New York-based insurer using the agency's \$700 billion Troubled Asset Relief Program, a financial rescue package that Congress passed in early October.

"This restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner," the Treasury said in a statement, calling the insurer a "systemically important company."

For Related News:

AIG earnings stories: AIG US <EQUITY> TCNI ERN <GO> Stories on the insurance industry: NI INS <GO> Stories on the credit crunch: NI CRUNCH <GO>

--Editors: Brendan Murray, Rick Green

To contact the reporters on this story:

Craig Torres in Washington at +1-202-654-1220 or ctorres3@bloomberg.net; John Brinsley in Washington at +1-202-654-4315 or jbrinsley@bloomberg.net

To contact the editor responsible for this story:

Daniel Moss at +1-202-624-1881 or dmoss@bloomberg.net

Braun, James

From: Albrecht, Stephen
Sent: Tuesday, December 16, 2008 12:06 PM
To: Lambright, James; Hsu, Michael; Grippo, Gary; Morse, Duane
Cc: Spurry, Steven; Fiechter, Jonathan
Subject: RE: AIG Risk Assessment

Under our agreement, we will be getting the same financial reporting that FRBNY is getting under their lending facility. Our information is supposed to be sent to the TARP compliance office. Without getting into detail, I know it is a very robust set of reporting. I would suggest talking to the FRBNY to discuss the data that is being reported, what has been useful, etc., given they have been dealing with this data for a while, and we now have rights to the exact same info.

From: Lambright, James
Sent: Tuesday, December 16, 2008 11:39 AM
To: Hsu, Michael; Grippo, Gary; Morse, Duane; Albrecht, Stephen
Cc: Spurry, Steven; Fiechter, Jonathan
Subject: Re: AIG Risk Assessment

Mike, I've also looped in Duane and Steve to get a readout on what we have the right to demand from AIG as we monitor program performance vs what we will merely be asking politely for. Thanks.

From: Hsu, Michael
To: Grippo, Gary
Cc: Spurry, Steven; Fiechter, Jonathan; Lambright, James
Sent: Tue Dec 16 11:33:13 2008
Subject: AIG Risk Assessment

Gary,

Before Steve and I embark on a risk assessment of the AIG investment (see email chain below and attachment), Lambright suggested that we touch base with you about what information TARP has gotten and will get via BONY from TARP's position as a preferred equity holder.

Maybe we can touch base briefly later today?

Thanks,
-mike

From: Lambright, James
Sent: Monday, December 15, 2008 9:17 PM
To: Fiechter, Jonathan
Cc: Kashkari, Neel; Schweitzer, Howard; Morse, Duane; Abdelrazek, Rawan; Hsu, Michael; Spurry, Steven; Miller, David N
Subject: RE: AIG Risk Assessment

Thanks, Jonathan, for the thought your team and you are putting into this. My additions to your note:

- Section II: perhaps this would naturally be included in your discussion of the derivatives portfolio, but we should monitor the status of the newly created Fed facilities to reduce AIG's exposure to collateral calls associated with these securities.

- Section II and/or Looking Ahead: We should monitor the posture of the ratings agencies and their primary concerns (eg, debt:equity levels, exposure to collateral calls, etc).

Thanks,
Jim

From: Fiechter, Jonathan
Sent: Monday, December 15, 2008 11:19 AM
To: Lambright, James
Cc: Kashkari, Neel; Schweitzer, Howard; Morse, Duane; Myrow, Stephen; Abdelrazek, Rawan; Hsu, Michael; Spurry, Steven
Subject: AIG Risk Assessment

Jim,

As you know we are obligated by EESA to determine the effectiveness of TARP investments. While much of the focus has understandably been on the CPP, we also need to stay on top of how our investments in AIG (and soon CITI) have met the underlying objectives of act. I am following up on a note that I sent our last week (see below).

The objectives of the AIG investment under the SSFI were laid out very well in your note that went to the Investment Committee. We would propose to follow up on the TARP investment by preparing a risk assessment note that spells out the objectives (based on your note) and then create both a benchmark for AIG today and then establish metrics to track AIG's progress (or lack thereof) in coming months. Steve and Mike have put together the attached outline of what would be covered in the risk note and have proposed spending some time with the NYFed examiners of AIG to gather information and get their take on the situation.

Before scheduling any conversations/visits with folks at the NYFed folks (they personally know the AIG examiners), they wanted to meet with you to find out what information you (or your team has), any steps along these lines that you are planning, and to get a sense of what additional info you might like. In particular, we want to make sure we're leveraging your work and not reinventing the wheel.

I recognize how busy you are on Detroit but when you get the chance, I'd appreciate your giving them your reaction to the attached.

Thanks,

Jonathan

Jonathan L Fiechter
Interim Chief Risk Officer,
Troubled Asset Relief Program
US Department of the Treasury
202-622-8722 (office)

From: Fiechter, Jonathan
Sent: Wednesday, December 10, 2008 11:45 AM
To: Wolfteich, Paul; Bloom, Tom; Schweitzer, Howard; Lambright, James; McLellan, Don; Morse, Duane; Grippio, Gary; Abdelrazek, Rawan

Cc: Bull, Whitney; Hsu, Michael; Spurry, Steven; Struckmeyer, Charles
Subject: AIG

As part of the TARP mandate regarding assessments of the effectiveness of the use of TARP funds, I recommend that a note on the SSFI program (and the TARP investment in AIG) be prepared. Presumably, the note would lay out the objectives of the SSFI injection based on Jim Lambright's note on AIG and then make an assessment of how well these objectives were (are being) met and the risk that additional funds might be needed. As with other TARP programs, one of the challenges will be assessing the effect of TARP in combination with the other government actions.

I would propose that Steve and Mike take a crack at preparing such a note (Steve and Mike know the folks at the NY Fed who are in AIG right now and could try to get information on the outstanding AIG exposures).

But before asking them to do this, I wanted to double-check that others are not already doing this. Don Hammond and I had talked about a team going up to the NY Fed and AIG — Don was going to take the lead in arranging the meeting but I am not certain how far he got.

Jonathan

Braun, James

From: Myrow, Stephen
Sent: Friday, November 07, 2008 5:02 PM
To: Rutherford, Matthew; Davis, Michele; Zuccarelli, Jennifer; McLaughlin, Brookly; Lambright, James; Via, Stafford; Ryan, Tony; Albrecht, Stephen; Fromer, Kevin; Mueller, King; Kashkari, Neel
Subject: RE: AIG Story

I noticed their stock moved higher than most today.

Stephen A. Myrow
Chief of Staff to the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Tel: 202-622-4993
E-mail: stephen.myrow@do.treas.gov

From: Rutherford, Matthew
Sent: Friday, November 07, 2008 5:00 PM
To: Davis, Michele; Zuccarelli, Jennifer; McLaughlin, Brookly; Lambright, James; Via, Stafford; Ryan, Tony; Albrecht, Stephen; Myrow, Stephen
Subject: AIG Story

UPDATE 1-AIG, U.S. in talks to restructure loan - source
Fri Nov 7, 2008 3:15pm EST Email | Print | Share | Reprints | Single Page | Recommend (0) [-] Text [+]
Market News
Oil rises as U.S. jobs data hits dollar
Wall St jumps on bargain hunting in volatile week
GM shares sink 16 percent after quarterly loss
More Business & Investing News... Featured Broker sponsored link
¥ € \$ - Learn. Practice. Trade. (Adds details, background, byline)

By Paritosh Bansal

NEW YORK, Nov 7 (Reuters) - American International Group Inc (AIG.N: Quote, Profile, Research, Stock Buzz) is in talks with the U.S. government to restructure the troubled insurer's credit facility, which could lead to the government buying AIG preferred shares worth several billion dollars, a source familiar with the matter said on Friday.

The talks are at a sensitive stage and it is not a done deal, with terms still being worked out, the source said. An announcement could be made as soon as this weekend or on Monday, when AIG is due to report its quarterly results.

The government extended AIG, once the world's largest insurer, \$85 billion in bailout financing in September, and later raised the loan to \$123 billion.

The initial credit line has a two-year term, carrying a steep interest rate. AIG also had to grant the government warrants for a nearly 80 percent stake in the company.

As of Nov. 5, the insurer owed \$81.2 billion -- \$61.3 billion under the \$85 billion credit facility, and \$19.9 billion under a subsequent \$37.8 billion securities lending agreement.

The terms being discussed include a reduction in the interest rate and increasing the term of the existing loan, which could be extended to five years, the source said. Currently the loan carries an interest rate of 8.5 percent over the London Interbank Offered Rate, which sets the cost of borrowing between banks.

An equity injection through preferred shares may also come with a reduction in the size of the \$85 billion facility, the source said.

The talks with the government also include the possibility of setting up vehicles to reduce cash drain on AIG associated with credit default swaps and securities lending, the source said.

Among the options being discussed is a plan to set up a facility where the government would buy residential mortgage-backed securities from AIG's securities lending portfolio.

The size of the facility is unclear and the final figure could change substantially, but in talks earlier this week the size being considered was \$20 billion to \$25 billion, the source said. Such a facility would wipe out the one for \$37.8 billion created in October, the source said.

Under the other vehicle, the government would buy some of the bonds underlying credit default swaps, a type of insurance contract providing the buyer with protection against risk. Such a facility would be offset by the cash collateral of about \$30 billion that AIG has posted to back those CDS and that the government can expect to get back, the source said.

The size of such a facility is also under discussion and could again change substantially, but in talks earlier this week it was seen to be in the range of \$60 billion to \$70 billion, the source said.

"This is really just the portion of the credit default swap book that has caused like 90 percent of the writedowns," the source said. "They will only take out the bad stuff."

AIG spokesman Joe Norton said, "AIG continues to work on its plan to find a permanent solution to its liquidity losses, sell assets so it can repay the Federal Reserve Loan with interest, and explore other avenues to help AIG restore its financial health." (Additional reporting by Lilla Zuill; editing by John Wallace) (For more M&A news and our DealZone blog, go to www.reuters.com/deals)

Braun, James

From: Rutherford, Matthew
Sent: Friday, November 07, 2008 5:06 PM
To: Davis, Michele; Zuccarelli, Jennifer; McLaughlin, Brookly; Via, Stafford; Ryan, Tony; Lambright, James; Myrow, Stephen
Subject: Total USG Exposure to AIG

All:

The charts below detail the total amount of current and potential exposure the USG has to AIG before and after the potential investment. It should be helpful for the press next week and some derivative of it will be in the justification memo.

Pre-Investment Exposure*

	Current	Potential
FRBNY Senior Credit Facility	\$61	\$85
FRBNY Sec Lending Facility	\$20	\$37.8
FRBNY CPFF	n/a	\$21
Total	\$81	\$144

* As of November 6

Post-Investment Exposure

	Hyothetical	Potential
FRBNY Senior Credit Facility*	\$21	\$60
FRBNY Maiden Lane II	\$23	\$23
FRBNY Maiden Lane III	\$30	\$30
FRBNY CPFF	n/a	\$21
Treasury Preferred	\$40	\$40
Total	\$74	\$174

* Assumes no additional draw down on Friday November 7

Braun, James

From: McLaughlin, Brookly
Sent: Sunday, November 09, 2008 6:23 PM
To: Hammond, Donald; Albrecht, Stephen; Lambright, James; Kashkari, Neel; Bloom, Tom; Fiechter, Jonathan; Ryan, Tony; Grippo, Gary; Carfine, Ken; Hoyt, Robert; Schaffer, Laurie; Rutherford, Matthew; Via, Stafford; Davis, Michele; Wilkinson, Jim; Schweitzer, Howard; McCormick, David; Fromer, Kevin; Mueller, King; Foley, Trip; Nason, David; Stoltzfoos, Jeffrey; Renander, Sonja; Jaconi, Kristen; Gilbreath Sowell, Karen; Zuccarelli, Jennifer
Cc: McLaughlin, Brookly
Subject: RE: FINAL PRESS RELEASE - IXOS archive 78 KB

Thanks all for latest edits. This is now final.

TREASURY TO INVEST IN AIG RESTRUCTURING UNDER THE EMERGENCY ECONOMIC STABILIZATION ACT

Washington, DC— The Treasury Department today announced that it will purchase \$40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down \$40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place in October on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.

-30-

From: McLaughlin, Brookly
Sent: Sunday, November 09, 2008 4:29 PM
To: Hammond, Donald; Albrecht, Stephen; Lambright, James; Kashkari, Neel; Bloom, Tom; Fiechter, Jonathan; Ryan, Tony; Grippo, Gary; Carfine, Ken; Hoyt, Robert; Schaffer, Laurie; Rutherford, Matthew; Via, Stafford; Davis, Michele; Wilkinson, Jim; Schweitzer, Howard; McCormick, David; Fromer, Kevin; Mueller, King; Foley, Trip; Nason, David; Stoltzfoos, Jeffrey; Renander, Sonja; Jaconi, Kristen; Gilbreath Sowell, Karen
Cc: McLaughlin, Brookly
Subject: FINAL PRESS RELEASE

Attached and pasted below is my best attempt to combine all of the edits.

I'd like to call this final – but if anyone sees something they can't live with please let me know in the next couple hours.

Reminder: given the early release schedule there will not be time for another round of considerations/edits in the morning.

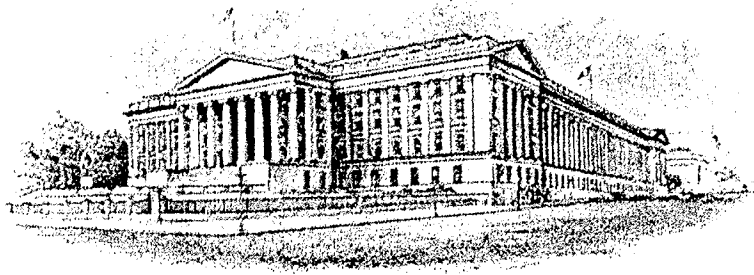
**TREASURY TO INVEST IN AIG RESTRUCTURING
UNDER THE EMERGENCY ECONOMIC STABILIZATION ACT**

Washington, DC— The Treasury Department today announced that it will purchase \$40 billion in senior preferred stock from the American Insurance Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down \$40 billion of the Federal Reserve's secured lending facility.

"Today's steps are necessary to protect the financial system by preventing the failure of a systemically important institution," said ??.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. To ensure further taxpayer protections, the AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring extra golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL TIME, November 10, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

TREASURY TO INVEST IN AIG RESTRUCTURING UNDER THE EMERGENCY ECONOMIC STABILIZATION ACT

Washington, DC— The Treasury Department today announced that it will purchase \$40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down \$40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place in October on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.

-30-

Braun, James

From: Nowak, Rafal A. [rafal.nowak@dpw.com]
Sent: Sunday, November 09, 2008 8:46 PM
To: Albrecht, Stephen; Via, Stafford; Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter; Kashkari, Neel; Abdelrazek, Rawan; Ramanathan, Karthik; 'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Kieran.Fallon@frb.gov'; 'michael.gibson@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; 'James.Hennessy@ny.frb.org'; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org'; 'Charles.Gray@ny.frb.org'; 'Peter.Juhas@morganstanley.com'; 'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James (IBD)'; 'Stephanie.Heller@ny.frb.org'; 'David.Gross@ny.frb.org'; 'Michele.Kalstein@ny.frb.org' tarp.prefs.dpw
Cc:
Subject: (b) (4)
Attachments: (b) (4)
Importance: High

Clients,

Attached please find the final Restructuring Press Release.

Regards,

Rafal

Rafal A. Nowak
212.450.4113

From: (b) (6) @New York
To: 'Schechter, Jason'; (b) (6) @AIG; (b) (6); (b) (6); Huebner, Marshall S.; James, Ethan T.; 'Nath, Larry'; Studzinski, John; (b) (6); (b) (6); Monfried, David; sarah.dahlgren@ny.frb.org
Sent: Sun Nov 09 20:25:50 2008
Subject: This is the (b) (4)

(b) (6)

AIG
70 Pine Street
New York, NY 10270
(b) (6)

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

Braun, James

From: Rutherford, Matthew
Sent: Monday, November 03, 2008 8:15 PM
To: Ryan, Tony; Via, Stafford; Lambright, James; Albrecht, Stephen
Subject: Fw: Invitation: (b) (5) (Oct 22 01:45 PM EDT in tbd; Call-in: 888-808-6929; Code: 942 4305) - IXOS archive 1013 KB

Per our discussion on the call today.

From: James, Ethan T.
To: Rutherford, Matthew
Cc: 'Sarah.Dahlgren@ny.frb.org'; 'Amy.Flynn@ny.frb.org'
Sent: Mon Nov 03 18:43:15 2008
Subject: FW: Invitation: (b) (5) (Oct 22 01:45 PM EDT in tbd; Call-in: 888-808-6929; Code: 942 4305)
Matt:

(b) (5)

(b) (5)

Happy to discuss if you'd like.

ETJ

ps: Amy, I don't have Matt's e-ddress, but guessed at what it might be. Could you pls forward if I've gotten it wrong? ET

From: James, Ethan T.
Sent: Tuesday, October 21, 2008 9:58 PM
To: 'Amy.Flynn@ny.frb.org'; Smith, Bradley Y.; Chris.McShea@ey.com; James.Hennessy@ny.frb.org; Jim.Mahoney@ny.frb.org; Jonathan.Polk@ny.frb.org; Joyce.Hansen@ny.frb.org; Marc.Symons@ey.com; Paul.Whynott@ny.frb.org; Peter.Juhas@morganstanley.com; Robert.Patalano@ny.frb.org; Sarah.Dahlgren@ny.frb.org; Steven.Manzari@ny.frb.org; Rotsztain, Diego A.; Beshara, Michel
Cc: Faisal.Ratansi@morganstanley.com; Shelley.Singh@morganstanley.com; Telma.Valadao@ey.com
Subject: RE: Invitation: (b) (5) (Oct 22 01:45 PM EDT in tbd; Call-in: 888-808-6929; Code: 942 4305)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

(b) (5)

We hope this is a helpful start.

ETJ

From: Amy.Flynn@ny.frb.org [mailto:Amy.Flynn@ny.frb.org]

Sent: Tuesday, October 21, 2008 8:24 PM

To: Smith, Bradley Y.; Chris.McShea@ey.com; James, Ethan T.; James.Hennessy@ny.frb.org; Jim.Mahoney@ny.frb.org; Jonathan.Polk@ny.frb.org; Joyce.Hansen@ny.frb.org; Marc.Symons@ey.com; Paul.Whyntott@ny.frb.org; Peter.Juhas@morganstanley.com; Robert.Patalano@ny.frb.org; Sarah.Dahlgren@ny.frb.org; Steven.Manzari@ny.frb.org

Cc: Faisal.Ratansi@morganstanley.com; Shelley.Singh@morganstanley.com; Telma.Valadao@ey.com

Subject: Invitation: (b) (5) (Oct 22 01:45 PM EDT in tbd; Call-in: 888-808-6929; Code: 942 4305)

Calendar Entry

Subject	(b) (5)	
When	Date	10/22/2008
	Time	01:45 PM - 02:45 PM (1 hour)
Where	Location	tbd; Call-in: 888-808-6929; Code: 942 4305
Chair	Amy Flynn/NY/FRS	
Invitees	bradley.smith@dpw.com, Chris.McShea@ey.com, ethan.james@dpw.com, James.Hennessy/NY/FRS@FRS, Jim.Mahoney/NY/FRS@FRS, Jonathan.Polk/NY/FRS@FRS, Joyce.Hansen/NY/FRS@FRS, Marc.Symons@ey.com, Paul.Whyntott/NY/FRS@FRS, Peter.Juhas@morganstanley.com, Robert.D.Patalano/NY/FRS@FRS, Sarah.Dahlgren/NY/FRS@FRS, Steven.J.Manzari/NY/FRS@FRS	
Required (to)	Faisal.Ratansi@MorganStanley.com, Shelley.Singh@morganstanley.com, Telma.Valadao@ey.com	
Optional (cc)		

Call-in: 888-808-6929

Code: 942 4305

Location for those attending at the Fed will be confirmed shortly.

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Braun, James

From: Nowak, Rafal A. [rafal.nowak@dpw.com]
Sent: Monday, November 10, 2008 12:24 AM
To: Albrecht, Stephen; Via, Stafford; Ryan, Tony; Myrow, Stephen; Lambright, James; Bieger, Peter; Kashkari, Neel; Abdelrazek, Rawan; Ramanathan, Karthik; 'Deborah.P.Bailey@frb.gov'; 'Jon.D.Greenlee@frb.gov'; 'Rich.Ashton@frb.gov'; 'Kieran.Fallon@frb.gov'; 'michael.gibson@frb.gov'; 'Sarah.Dahlgren@ny.frb.org'; James.Hennessy@ny.frb.org; 'Steven.Manzari@ny.frb.org'; 'Meg.McConnell@ny.frb.org'; 'Amy.Flynn@ny.frb.org'; 'Charles.Gray@ny.frb.org'; 'Peter.Juhas@morganstanley.com'; 'Eric.Bischof@morganstanley.com'; 'Kevin.J.Ryan@morganstanley.com'; 'Head, James (IBD)'; 'Stephanie.Heller@ny.frb.org'; David.Gross@ny.frb.org; 'Michele.Kalstein@ny.frb.org'; tarp.prefs.dpw; Heckart, Robert L.; Bjerke, Bjorn; Anderson, Paul; Breyfogle, Molly C.
Cc:
Subject: FW: Final Materials - IXOS archive 1861 KB

Clients,

(b) (4)

(b) (4)

Kindest regards,

Rafal

Rafal A. Nowak
212.450.4113

From: (b) (6)
To: (b) (6) @New York ; (b) (6) ; (b) (6) ; (b) (6) ; Huebner, Marshall S.; (b) (6) ; (b) (6) ; Nath, Larry ; (b) (6) ; Monfried, David (b) (6)
Sent: Mon Nov 10 00:14:09 2008
Subject: Final Materials

Attached are the final materials for tomorrow's announcement, including:

(b) (4)

The information, and any attachments contained in this email may contain confidential and/or privileged information and is intended solely for the use of the intended named recipient(s). Any disclosure or

dissemination in whatever form, by another other than the intended recipient is strictly prohibited. If you have received this transmission in error, please contact the sender and destroy this message and any attachments. Thank you.

AIG Workstream Timeline

Date	Task
Thu 10/31	<ul style="list-style-type: none"> • Complete consultations with ratings agencies • Agree on general parameters of restructuring with Fed
Sat 11/1	
Sun 11/2	
Mon 11/3	<ul style="list-style-type: none"> • Finalize term sheet for distribution to AIG • Company consults with ratings agencies to discuss earnings
Tue 11/4	
Wed 11/5	<ul style="list-style-type: none"> • Finalize agreed term sheet • Ratings agencies affirm satisfaction with plan • Begin drafting deal documents
Thu 11/6	
Fri 11/7	<ul style="list-style-type: none"> • Clear EESA documents (program guidelines, troubled asset determination, and decision memo)
Sat 11/8	<ul style="list-style-type: none"> • Finalize EESA documents (program guidelines, troubled asset determination, and decision memo) • Finalize deal documents • Finalize letter from Chairman Bernanke • TARP Investment Committee approves restructuring
Sun 11/9	<ul style="list-style-type: none"> • Present documents to FSOB for approval • Board of Governors approves restructuring
Mon 11/10 (am)	<ul style="list-style-type: none"> • Consult with NCUA and OTS • Receive executed letter from Chairman Bernanke

Updated 1/23/2009 at 12:02:48 PM

PRIVILEGED & CONFIDENTIAL – DELIBERATIVE AND PRE-DECISIONAL WORK PRODUCT

AIG Workstream Timeline

<u>Date</u>	<u>Task</u>
Mon 11/10 (am)	<ul style="list-style-type: none"> • Secretary signs Troubled Asset Determination • AIG Board approves restructure • Execute final deal documents
Mon 11/10 (4-5:30 pm)	<ul style="list-style-type: none"> • AIG releases 10-Q • AIG earnings announcement • Consult with Congress
Mon 11/10 (pm)	<ul style="list-style-type: none"> • Media rollout (Treasury and Fed announcements) • Announce restructuring of AIG • Publish program guidelines
Tue 11/11	<ul style="list-style-type: none"> • AIG investors' call • Rating agencies publish ratings

Updated 1/23/2009 at 12:02:48 PM

PRIVILEGED & CONFIDENTIAL – DELIBERATIVE AND PRE-DECISIONAL WORK PRODUCT

Braun, James

From: Grippo, Gary
Sent: Tuesday, November 25, 2008 5:59 PM
To: Lambright, James
Subject: FW: Receipt of AIG Certificates

Just another one of the validations.....

From: (b) (6) @bnymellon.com [mailto:courtney.bartholomew@bnymellon.com]
Sent: Tuesday, November 25, 2008 5:37 PM
To: Grippo, Gary; Monroe, David; Carfine, Ken
Cc: (b) (6) @bnymellon.com; (b) (6) @bnymellon.com; (b) (6) @bnymellon.com;
(b) (6) @bnymellon.com
Subject: Receipt of AIG Certificates

Treasury,

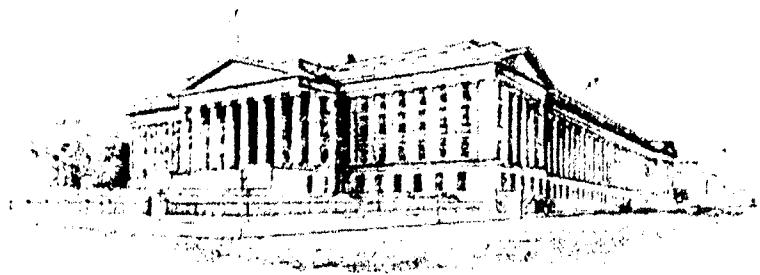
This is to confirm that BNYM is in possession of a certificate from American International Group, Inc. (AIG) for \$40,000,000,000.00 in senior preferred shares as part of the EESA program for systemically significant failing institutions.

Regards,
(b) (6)

(b) (6) • The Bank of New York Mellon Global Corporate Trust
Structured Finance - Mortgage-Backed Securities • Te (b) (6) • Fax 212.815.3986 • Mobile (b) (6) •
(b) (6) @bnymellon.com

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U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL TIME, November 10, 2008

CONTACT Brookly McLaughlin, (202) 622-2920

TREASURY TO INVEST IN AIG RESTRUCTURING UNDER THE EMERGENCY ECONOMIC STABILIZATION ACT

Washington, DC— The Treasury Department today announced that it will purchase \$40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down \$40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. To ensure further taxpayer protections, AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.

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TARP AIG SSFI Investment

Senior Preferred Stock and Warrant

Summary of Senior Preferred Terms

Issuer:	American International Group, Inc. ("AIG").
Initial Holder:	United States Department of the Treasury (the "UST").
Size:	\$40 Billion aggregate liquidation preference.
Security:	Senior Preferred, liquidation preference \$10,000 per share; provided that UST may, upon transfer of the Senior Preferred, require AIG to appoint a depositary to hold the Senior Preferred and issue depositary receipts.
Ranking:	Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to the Senior Preferred. At the meeting of stockholders called to effect the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock, AIG shall propose an amendment to its Restated Certificate of Incorporation to allow the Senior Preferred to rank senior to the convertible preferred stock.
Term:	Perpetual life.
Dividend:	The Senior Preferred will accrue cumulative dividends at a rate of 10% per annum. Dividends will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Dividends will be payable when, as and if declared by the Board of Directors of AIG. Accrued but unpaid dividends shall compound quarterly.
Redemption:	At any time that (i) the AIG Credit Facility Trust (or any successor entity established for the benefit of the United States Treasury) "beneficially owns" less than 30% of the aggregate voting power of AIG's voting securities and (ii) no holder of the Senior Preferred controls AIG, then AIG may redeem the Senior Preferred in whole or in part at a redemption price equal to 100% of its liquidation preference, plus an amount equal to accrued and unpaid dividends (including, if applicable, dividends on such amount). "Control" for this purpose means the power to direct the management and policies of AIG, directly or indirectly, whether through the ownership of voting securities, by contract, by the power to control AIG's Board of Directors or otherwise. "Beneficially owns" is as defined in Rule 13d-3 under the Securities Exchange Act of 1934. For the avoidance of doubt, while there is AIG's Board of Directors control (or the potential to gain AIG's Board of Directors control) by the holder of the Senior Preferred, then AIG is not permitted to redeem the Senior Preferred.
Restrictions on Dividends:	Subject to certain exceptions, for as long as any Senior Preferred

is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred ("Parity Stock"), or common shares (other than (i) in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred and (ii) in the case of junior preferred shares, dividends payable solely in common shares), nor may AIG repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or declared and a sum sufficient for the payment thereof set apart.

Common dividends: The UST's consent shall be required for any increase in common dividends per share until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

Repurchases: The UST's consent shall be required for repurchases of any common shares, other capital stock, trust preferred securities or other equity securities (other than (i) repurchases of the Senior Preferred, (ii) repurchases of junior preferred shares or common shares ("Junior Stock") in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice (including purchases to offset share dilution pursuant to a publicly announced repurchase plan), (iii) any redemption or repurchase of rights pursuant to any stockholders' rights plan and (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the signing date of UST's agreement to purchase the Senior Preferred or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock), until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. Notwithstanding the foregoing, following the redemption in whole of the Senior Preferred held by UST or the transfer by UST of all of the Senior Preferred to one or more third parties not affiliated with UST, AIG may repurchase, in whole or in part, at any time the Warrant then held by UST at the fair market value of the Warrant so long as no holder of the Warrant controls AIG as provided in clause (ii) of "Redemption" above.

Voting rights: The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares other than the convertible preferred stock ranking senior or pari passu to the Senior Preferred, (ii) any amendment that adversely affects the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction unless the Senior Preferred remains outstanding or is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent and the Senior Preferred or such preference shares have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less

favorable to the holders thereof than those of the Senior Preferred immediately prior to such transaction, taken as a whole.

If dividends on the Senior Preferred are not paid in full for four dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect the greater of 2 directors and a number of directors (rounded upward) equal to 20% of the total number of directors after giving effect to such election. The right to elect directors will end when full dividends have been paid for all past dividend periods.

Transferability: The Senior Preferred will not be subject to any contractual restrictions on transfer other than such as are necessary to insure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Senior Preferred as promptly as practicable, but in any event within 15 days, after notification by the UST and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Senior Preferred, AIG will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable best efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, AIG will appoint a depositary to hold the Senior Preferred and issue depositary receipts.

Claim in Bankruptcy: Equity claim with liquidation preference to common equity claim.

Acceleration Rights: None

Use of Proceeds: To repay the senior secured revolving credit facility governed by the Credit Agreement dated as of September 22, 2008 (the "Credit Agreement") between AIG and the Federal Reserve Bank of New York ("FRBNY").

Tax Treatment: Dividends on the Senior Preferred are non tax-deductible to AIG.

Restrictions on Expenses: AIG shall continue to maintain and implement its comprehensive written policy on corporate expenses and distribute such policy to all AIG employees. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries; (iii) govern (a) the hosting, sponsorship or other

payment for conferences and events, (b) the use of corporate aircraft, (c) travel accommodations and expenditures, (d) consulting arrangements with outside service providers, (e) any new lease or acquisition of real estate, (f) expenses relating to office or facility renovations or relocations and (g) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

**Restrictions on
Lobbying:**

AIG shall continue to maintain and implement its comprehensive written policy on lobbying, governmental ethics and political activity and distribute such policy to all AIG employees and lobbying firms involved in any such activity. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries and affiliated foundations; (iii) govern (a) the provision of items of value to any government officials, (b) lobbying and (c) political activities and contributions; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

Reporting:

Except as otherwise agreed, AIG shall provide the UST (i) the information required to be provided by AIG to the FRBNY pursuant to Section 5.04 of the Credit Agreement, (ii) the notices required by Section 5.05 of the Credit Agreement, in each case within the time periods for delivery thereof specified in the Credit Agreement and (iii) such executive compensation information as is required for purposes of the Emergency Economic Stabilization Act of 2008 ("EESA") and the regulations and guidelines thereunder; provided that, after the termination of the Credit Agreement, such informational and notice requirements as are provided in Section 5.04 and Section 5.05 of the Credit Agreement shall remain in full force and effect until such time as the UST no longer owns any shares of Senior Preferred. In addition, AIG shall promptly provide the UST such other information and notices as the UST may reasonably request from time to time.

**Executive
Compensation:**

As a condition to the closing of this investment, AIG shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI. Accordingly, as a condition to the closing of this investment, AIG and its senior executive officers covered by the EESA ("SEOs") shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with,

and following the closing and for so long as the UST holds any equity or debt securities of AIG issued under this agreement (the "Relevant Period"), AIG shall agree to be bound by the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI. As an additional condition to the closing, AIG and its SEOs shall grant to the UST and the SEOs shall grant to AIG waivers releasing the UST, and, in the case of the SEOs release, AIG, from any claims that AIG and such SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI.

In addition to Notice 2008-PSSFI, the following will apply:

1. AIG shall undertake during the Relevant Period to limit any golden parachute payments to its most senior employee group, who are currently referred to as Senior Partners ("Senior Partners"), (other than its SEOs) to the amounts permitted by the regulations relating to participants in the EESA Capital Purchase Program and the guidelines and Interim Final Rule (31 CFR Part 30) relating thereto as if they were SEOs (except that equity denominated awards settled solely in equity shall not be included in such limit), and AIG shall grant the UST a waiver releasing the UST, and shall use its best efforts to obtain waivers from the Senior Partners releasing the UST and AIG, from claims that AIG may have against the UST and that such Senior Partners may have against the UST or AIG as a result of such limits, and shall have obtained such waivers from AIG and its U.S.-based Senior Partners prior to and as an additional condition to the closing.

2. The annual bonus pools payable to Senior Partners in respect of each of 2008 and 2009 shall not exceed the average of the annual bonus pools paid to Senior Partners for 2006 and 2007 (in each case exclusive of AIG's historic quarterly bonus program, the amount of which will not increase for any participant, and subject to appropriate adjustment for new hires and departures).

Risk Management Committee:

AIG shall establish, within 30 days of the issuance of the Senior Preferred, and maintain, at least until the UST ceases to own any shares of the Senior Preferred, the Warrant or any other equity or debt securities of AIG, a risk management committee of the AIG's Board of Directors that will oversee the major risks involved in AIG's business operations and review AIG's actions to mitigate and manage those risks.

Miscellaneous:

The dividend rate as provided in "Dividend" above is subject to adjustment in the sole discretion of the Secretary of the Treasury in light of, inter alia, then-prevailing economic conditions and the financial condition of AIG, with the objective of protecting the U.S. taxpayer.

Summary of Warrant Terms

Warrant:	The UST will receive a warrant ("Warrant") to purchase a number of shares of common stock of AIG ("Common Stock") equal to 2% of the issued and outstanding shares of Common Stock on the date of investment. The initial exercise price for the Warrant shall be \$2.50 per share of Common Stock (representing the par value of the Common Stock on the date of the investment), subject to customary anti-dilution adjustments; provided that the initial exercise price per share of Common Stock shall be adjusted to the par value per share of the Common Stock following the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock. The Warrant shall be net share settled or, if consented to by AIG and the UST, on a full physical basis.
Term:	10 years
Exercisability:	Immediately exercisable, in whole or in part.
Transferability:	The Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Warrant and the Common Stock underlying the Warrant as promptly as practicable, but in any event within 15 days after notification by the UST, and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Warrant or the Common Stock underlying the Warrant, AIG will also grant to the UST piggyback registration rights for the Warrant and the Common Stock underlying the Warrant. AIG will apply for the listing on the New York Stock Exchange of the Common Stock underlying the Warrant and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrant and the underlying Common Stock.
Voting:	The UST will agree not to exercise voting power with respect to any shares of Common Stock issued to it upon exercise of the Warrant.
Substitution:	In the event AIG is no longer listed or traded on a national securities exchange the Warrant will be exchangeable (in whole or in part), at the option of the UST, for an economic interest (to be determined by the UST after consultation with AIG) of AIG classified as permanent equity under GAAP having a fair market value (as determined by the UST) equal to the portion of the Warrant so exchanged.

FEDERAL RESERVE press release



For release at 6:00 a.m. EST

November 10, 2008

The Federal Reserve Board and the U.S. Treasury on Monday announced the restructuring of the government's financial support to the American International Group (AIG) in order to keep the company strong and facilitate its ability to complete its restructuring process successfully. These new measures establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers.

Equity Purchase

The U.S. Treasury on Monday announced that it will purchase \$40 billion of newly issued AIG preferred shares under the Troubled Asset Relief Program. This purchase will allow the Federal Reserve to reduce from \$85 billion to \$60 billion the total amount available under the credit facility established by the Federal Reserve Bank of New York (New York Fed) on September 16, 2008.

Credit Facility

Certain other terms of the existing New York Fed credit facility, established on September 16, will be modified to help achieve the objectives described above. In particular, the interest rate on the facility will be reduced to three-month Libor plus 300 basis points from the current rate of three-month Libor plus 850 basis points, and the fee on undrawn funds will be reduced to 75 basis points from the current rate of 850 basis points. The length of the facility will be extended from two years to five years. The other material terms of the facility remain unchanged. The facility will continue to be secured by a lien on many of the assets of AIG and of its subsidiaries.

Additional Lending Facilities

The Federal Reserve Board has authorized the New York Fed to establish two new lending facilities relating to AIG under section 13(3) of the Federal Reserve Act. These facilities are designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities.

Residential Mortgage-Backed Securities Facility

In one new facility, the New York Fed will lend up to \$22.5 billion to a newly formed limited liability company (LLC) to fund the LLC's purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio. AIG will make a \$1 billion subordinated loan to the LLC and bear the risk for the first \$1 billion of any losses on the

(more)

portfolio. The loans will be secured by all of the assets of the LLC and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

Proceeds from this facility, together with other AIG internal resources, will be used to return all cash collateral posted for securities loans outstanding under AIG's U.S. securities lending program. As a result, the \$37.8 billion securities lending facility established by the New York Fed on October 8, 2008, will be repaid and terminated.

Collateralized Debt Obligations Facility

In the second new facility, the New York Fed will lend up to \$30 billion to a newly formed LLC to fund the LLC's purchase of multi-sector collateralized debt obligations (CDOs) on which AIG Financial Products has written credit default swap (CDS) contracts. AIG will make a \$5 billion subordinated loan to the LLC and bear the risk for the first \$5 billion of any losses on the portfolio. In connection with the purchase of the CDOs, the CDS counterparties will concurrently unwind the related CDS transactions. The loans will be secured by all of the LLC's assets and will be repaid from cash flows produced by these assets as well as the proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

The U.S. Government intends to exit its support of AIG over time in a disciplined manner consistent with maximizing the value of its investments and promoting financial stability.

AIG

- Largest insurance company in the world -- Diversified Global -- \$1 trillion in assets (1.4X Lehman).
 - Financial products
 - largely unregulated -- huge exposures -- losses
 - interconnected to global financial institutions
 - systemic risk; notional derivative exposure of \$2.7 trillion
 - With credit stress
 - 9/15/08 -- downgraded -- huge liquidity pressure
 - FRBNY \$85 billion emergency secured debt facility
 - Very costly to operate
 - Two year term and 79.9% ownership
 - Fees
 - Drawn -- LIBOR + 850
 - Undrawn -- 850 BPS
 - Int. -- PIK
 - To be repaid by asset disposition
 - Payback scenario
 - Sell 20 assets
 - \$80 billion
 - \$ (10) billion
 - \$70 billion
 - Restructure to smaller U.S. and International P&C Insurance Company
 - \$35 billion retained business

Rational for Restructuring

1. Unstable capital structure and liquidity needs confidence given uncertainty in capital markets
2. Continued pressure -- ratings -- continued liquidity pressure
 - a. Must take steps to enhance stability and reduce uncertainty
3. Plan
 - a. Inject preferred equity and more stable capital structure
 - b. Uncertainty of RMBS and CDO exposure

Benefits

Retain current 'A' status
Enhance liquidity profile
Encourage/facilitate likelihood of realizing maximum value for assets marked for sale

Systemic Implications

1. Continued uncertainty in global capital markets since 9/16/08
 - material declines in capital equity markets, life insurers, P&C
2. AIG expected to report severe losses of \$23 billion in Q3
3. A rating downgrade would
 - trigger \$40 billion in collateral calls -- threat to bankruptcy
 - undermine investor confidence
4. Loss of confidence in retail market -- insurance/annuities
 - dislocations very costly
5. Operating/Fin/Leverage -- debt holders
 - secure loss -- pension plans, mutual funds, etc.
 - transition mechanism to other financial institutions
6. Financial Services Industry -- confidence further eroded
 - especially important in insurance
7. Hedges to Counterparties -- loss -- hard to replace
 - ex. Transit Companies
8. Seizure of operating companies by State Insurance Regulators
 - while offset to insurance guarantee funds market stress

Restructure

1. New preferred equity \$40 billion
2. Perpetual cumulative 10% coupon (PIK)
3. Funded by TARP
 - Financial protections -- 79.9% warrants, dividend protection, redemption claims
 - Business practices
 - Executive Compensation -- TARP
 - Systemically significant financial institutions
 - Severance benefits to all employees
 - Bonus limitations
 - Expenses
 - Lobbying
 - Investor reporting
 - Risk committee

Fed

- Restructure debt facility
 - Existing \$85 billion reduced to \$60 billion
- Current facility
 - Drawn \$60 billion of \$85 billion
- Post restructuring
 - \$40 billion in equity
 - \$21 billion in 'drawn'
 - \$39 billion in 'available capacity'
- Fed is also reducing interest rates and increasing term
 - Drawn -- LIBOR + 300
 - Undrawn -- 75 bps
 - Term: 2 years to 5 years

Overall Goal

- De-risk company from liquidity and capital standpoint
- Create sustainable capital structure
- Facilitate transition to long-term business model
- Affirm current rating

Lambright, James

From: Rutherford, Matthew
Sent: Friday, November 07, 2008 5:06 PM
To: Davis, Michele; Zuccarelli, Jennifer; McLaughlin, Brookly; Via, Stafford; Ryan, Tony;
Lambright, James; Myrow, Stephen
Subject: Total USG Exposure to AIG

All:

The charts below detail the total amount of current and potential exposure the USG has to AIG before and after the potential investment. It should be helpful for the press next week and some derivative of it will be in the justification memo.

Pre-Investment Exposure*

	Current	Potential
FRBNY Senior Credit Facility	\$61	\$85
FRBNY Sec Lending Facility	\$20	\$37.8
FRBNY CPFF	n/a	\$21
Total	\$81	\$144

* As of November 6

Post-Investment Exposure

	Hyothetical	Potential
FRBNY Senior Credit Facility*	\$21	\$60
FRBNY Maiden Lane II	\$23	\$23
FRBNY Maiden Lane III	\$30	\$30
FRBNY CPFF	n/a	\$21
Treasury Preferred	\$40	\$40
Total	\$74	\$174

* Assumes no additional draw down on Friday November 7



Moody's Investors Service

Global Credit Research

Credit Opinion

14 AUG 2008

Credit Opinion: American International Group, Inc.

American International Group, Inc.

New York, New York, United States

Ratings

Category	Moody's Rating
Rating Outlook	NEG
Senior Unsecured	Aa3
Rated Intercompany Pool Members	
Rating Outlook	STA
Insurance Financial Strength	Aa3
AIG SunAmerica Life Assurance Company	
Rating Outlook	NEG
American Life Insurance Company	
Rating Outlook	STA
Insurance Financial Strength	Aa2
AIG Life Insurance Company	
Rating Outlook	NEG
Insurance Financial Strength	Aa2
American General Life Insurance Company	
Rating Outlook	NEG
Insurance Financial Strength	Aa2

Contacts

Analyst	Phone
Bruce Ballentine/New York	1.212.553.1653
Alan Murray/New York	
Robert Riegel/New York	
Max Zornelo/New York	

Key Indicators

American International Group, Inc. [1]

	TTM 6/08	2007	2006	2005	2004	2003
Total Assets (\$ Mil.)	\$1,049,876	\$1,060,505	\$ 979,410	\$ 853,048	\$ 801,007	\$ 675,602
Equity (\$ Mil.)	\$ 78,088	\$ 95,801	\$ 101,677	\$ 86,317	\$ 79,673	\$ 69,230
Total Revenue (\$ Mil.)	\$ 82,233	\$ 110,064	\$ 113,387	\$ 108,781	\$ 97,823	\$ 79,601
Net Income (\$ Mil.)	\$ (15,369)	\$ 6,200	\$ 14,048	\$ 10,477	\$ 9,839	\$ 8,108
Financial Leverage	19.4%	18.3%	16.5%	14.9%	15.7%	16.6%
Earnings Coverage (1 yr.)		6.5x	20.5x	21.0x	23.9x	19.6x
Cashflow Coverage (1 yr.) [2]		11.2x	9.1x	12.5x	13.7x	11.9x

[1] Information based on consolidated GAAP financial statements. [2] AIG changed its reporting basis for unrestricted subsidiary dividend capacity in 2007, so cashflow coverage at YE 2007 is not directly comparable to prior-year levels.

Opinion

SUMMARY RATING RATIONALE

American International Group, Inc. (NYSE: AIG - senior unsecured debt rated Aa3, negative outlook) is a leading global insurance and financial services firm, with operations in more than 130 countries and jurisdictions. The company is engaged through subsidiaries in General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Just over 40% of the company's 2007 revenues were derived from domestic

(US) operations, with nearly 60% coming from other markets around the world. AIG's extraordinary diversification helps it to withstand challenges in particular business lines or geographic regions and to generate substantial earnings and capital over time.

On August 7, 2008, Moody's affirmed AIG's ratings and reiterated the negative outlook. At the same time, Moody's affirmed the insurance financial strength (IFS) ratings of AIG's Domestic Life Insurance & Retirement Services (DLIRS) subsidiaries, while changing the DLIRS rating outlook to negative from stable. These rating actions followed AIG's announcement of a \$5.4 billion net loss for the second quarter of 2008. The loss included significant unrealized market valuation losses on mortgage-exposed credit default swaps (CDS) at AIG Financial Products Corp. (AIGFP), as well as realized capital losses on investments, largely other-than-temporary impairment (OTTI) on residential mortgage-backed securities (RMBS) held by the DLIRS companies. Over the past nine months, AIG has absorbed after-tax unrealized market valuation losses on CDS totaling \$16.8 billion and after-tax realized capital losses (principally OTTI on RMBS) totaling \$9.1 billion. Also during this period, the company has posted to its equity account net after-tax unrealized depreciation of investments (largely RMBS) totaling \$12.1 billion.

The negative outlook on the DLIRS companies reflects their weakened capital position as a result of OTTI losses, which generally flow through the regulatory financial statements and reduce regulatory capital. The DLIRS companies also face heightened liquidity risk, given that their RMBS are held predominantly within the securities lending collateral pool. Securities lending typically involves relatively short-term funding (secured by the lent securities), with the cash collateral invested in longer-term assets (including RMBS). The negative outlook on AIG (parent company) incorporates the challenges within DLIRS, as well as the growing CDS liabilities and collateral requirements at AIGFP, whose obligations are unconditionally guaranteed by AIG.

The recent rating affirmations were based on Moody's understanding that AIG will actively address potential liquidity and capital needs at various operating units, including DLIRS and AIGFP. We expect that AIG will maintain robust coverage of such needs, even in severely adverse scenarios. Failure to address these concerns in the near term could lead to rating downgrades at the parent company, DLIRS and/or other operating units. Moody's has estimated that AIG's ultimate economic losses on CDS and RMBS will likely be materially smaller than the current market values would suggest. Nevertheless, current market values have a meaningful impact on collateral requirements at AIGFP and regulatory capital levels at several insurance subsidiaries.

AIG's current ratings reflect its leading market positions in all major business segments, its broad business and geographic scope, its historically strong earnings and cash flows, and its demonstrated access to capital markets. These strengths are tempered by the intrinsic volatility in certain General Insurance and Financial Services business units, by the significant volume of spread-based investment business in the Asset Management segment, and by the company's sizable exposure to the US residential mortgage market.

Credit Profile of Significant Subsidiaries/Activities

AIG Property Casualty Group (2007 revenues: \$38.0 billion, 35% of consolidated total)

The AIG Property Casualty Group (formerly Domestic General Insurance) encompasses the AIG Commercial Insurance Group (CIG - formerly Domestic Brokerage Group), Transatlantic Holdings, Inc. (TRH), Personal Lines and Mortgage Guaranty. Moody's maintains Aa3 IFS ratings (stable outlook) on eight members of CIG, reflecting CIG's position as the largest US writer of commercial insurance, its broad diversification and its expertise in writing large and complex risks. These strengths are somewhat offset by CIG's relatively high, albeit improving, gross underwriting leverage and its history of adverse loss development following the last soft market for property & casualty insurance.

TRH, approximately 59% owned by AIG, is a holding company for Transatlantic Reinsurance Company (TRC), a leading US-based broker-market reinsurer with expertise in specialty casualty lines. TRC's Aa3 IFS rating (stable outlook) reflects its lead position on many treaties, relatively steady profitability and sound capitalization. These strengths are partly offset by competition from larger global reinsurers and by the inherent volatility of catastrophe exposed business.

Moody's maintains a Aa3 IFS rating (negative outlook) on United Guaranty Residential Insurance Company (UGRIC), the lead company of AIG's Mortgage Guaranty unit. The rating is based on UGRIC's conservative underwriting practices, as evidenced by its limited exposure to the highest-risk mortgage products, coupled with its robust capital adequacy and solid competitive position. UGRIC's rating benefits from a net worth maintenance agreement from AIG plus a fixed-dollar-limit reinsurance agreement provided by a CIG member. Moody's expects UGRIC to sustain operating losses over the next several quarters as a result of continued weakness in the US housing market. However, the company is well positioned to take advantage of new business opportunities and improved terms of trade given its strong credit profile relative to peers. Moody's also maintains a Aa3 IFS rating (negative outlook) on United Guaranty Mortgage Indemnity Company based on an unconditional guarantee from UGRIC. Two other members of the Mortgage Guaranty unit carry IFS ratings of A1 (negative outlook), based on their respective exposures to second-lien mortgage loans and student loans - market segments where conditions are unlikely to improve over the medium term, in Moody's view. These ratings also benefit from a net worth maintenance agreement from AIG plus affiliated reinsurance.

Foreign General Insurance (2007 revenues: \$13.7 billion, 12% of consolidated total)

Foreign General Insurance consists of several property & casualty insurance agencies and underwriting companies offering commercial and consumer insurance through a range of marketing and distribution channels. The group operates in Asia, the Pacific Rim, the UK, Europe, Africa, the Middle East and Latin America, adapting to local laws and customs as needed.

AIG UK Limited (AIG UK) is the group's flagship property & casualty insurer in the UK, having absorbed the UK business of a CIG company in December 2007. The Aa3 IFS rating (stable outlook) on AIG UK reflects its strong market position, healthy profitability and generally conservative investment strategy. Offsetting these strengths to some extent is the focus on commercial lines, which Moody's views as inherently more volatile than personal lines. The rating on AIG UK incorporates explicit and implicit support, including a net worth maintenance agreement from AIG and extensive reinsurance from affiliates.

In 2006, AIG acquired Central Insurance Co. Ltd., a diversified non-life insurer in Taiwan with a solid market presence but a record of volatile operating results. During 2007, AIG changed the company's name to AIG General Insurance (Taiwan) Co., Ltd. (AIGGI Taiwan), and merged the Taiwan branch of a CIG company into AIGGI Taiwan. Moody's upgraded the IFS rating of AIGGI Taiwan from Baa1 to A2 in July 2007 and to A1 in March 2008. With a stand-alone rating of A3, AIGGI Taiwan receives two notches of rating uplift from parental support in the form of financial flexibility, transfer of technical knowledge, management expertise and risk sharing. Because its rating relies on significant parental support, AIGGI Taiwan's rating outlook is negative, following that of AIG.

Domestic Life Insurance & Retirement Services (2007 revenues: \$15.3 billion, 14% of consolidated total)

Moody's maintains Aa2 IFS ratings (negative outlook) on ten members of the DLIRS segment, based on the group's multi-faceted distribution network, broad and varied product portfolio, and leading market positions in several products, including term life, universal life, structured settlements and certain classes of annuities. The ratings also reflect the strategic and financial benefits of AIG ownership, such as the AIG brand, cross-selling arrangements, and common investment management and administrative services. These strengths are tempered by the group's significant exposure to US RMBS, held predominantly within the securities lending collateral pool, as discussed above.

Foreign Life Insurance & Retirement Services (2007 revenues: \$38.3 billion, 35% of consolidated total)

The Foreign Life Insurance & Retirement Services segment encompasses international and local subsidiaries with operations in Europe, Latin America, the Caribbean, the Middle East, Australia, New Zealand and Asia, including extensive operations in Japan. The group sells products largely to indigenous persons through multiple distribution channels, including full-time and part-time agents, independent producers, direct marketing, brokers and financial institutions.

Moody's maintains a Aa2 IFS rating (stable outlook) on American Life Insurance Company (ALICO), based on its well established operations in more than 50 overseas markets (particularly in Japan, which accounts for about two-thirds of ALICO's operating income), along with its favorable record of growing organically in existing markets and expanding into new markets. The rating also recognizes the company's strong brand name and distribution channels, sound capitalization and consistent operating performance. These strengths are tempered by competition from local and foreign players in Japan, political risk in certain emerging markets, and ALICO's relatively large exposure to affiliated investments, mainly AIG common stock.

ALICO's Japanese operations are complemented by those of AIG Edison Life Insurance Company (AIG Edison - IFS rating of Aa2, stable outlook) and AIG Star Life Insurance Co., Ltd. (not rated), giving AIG a strong and diversified presence in the Japanese life insurance market. The AIG Edison rating reflects the company's healthy profitability, solid capital base and diversified distribution channels, tempered by agent retention and business persistency rates that are below expectations for the rating level. The rating incorporates one notch of uplift from the close affiliation with ALICO. Without such support, AIG Edison would have a stand-alone rating of Aa3.

American International Assurance Company, Limited (not rated) and its affiliates, including American International Assurance Company (Bermuda) Limited (AIAB - IFS rating of Aa3, stable outlook), make up the largest and most diversified life insurance group in Southeast Asia. The rating on AIAB reflects its leading position in the life insurance market in Hong Kong, where it has garnered the largest market share and is supported by a strong brand name. The rating also recognizes the company's consistent operating performance, well established and efficient agency force, and healthy capitalization. These strengths are somewhat offset by the possible threat to AIAB's market position, given the intense competition in Hong Kong and Korea, by the challenge AIAB faces in its effort to broaden distribution channels, and by its exposure to affiliated investments, mainly AIG common stock.

Financial Services (2007 revenues: -\$1.3 billion, -1% of consolidated total)

The Financial Services segment engages in aircraft and equipment leasing, capital market transactions, consumer finance and insurance premium financing. The Aircraft Finance business, conducted by International Lease Finance Corporation (ILFC - senior unsecured debt rated A1, negative outlook), is a global leader in leasing and remarketing advanced technology commercial jet aircraft. ILFC's ratings reflect its high-quality aircraft portfolio and solid relationships with aircraft manufacturers and airlines. Tempering this view is the cyclical nature of the business, as well as ILFC's sizable order position and residual value risk. The ratings incorporate AIG ownership

and support, evidenced by capital contributions to ILFC totaling more than \$1 billion since 2001. Absent such support, ILFC's ratings would be lower. ILFC's negative rating outlook follows that of AIG.

The Capital Markets unit comprises the global operations of AIGFP (backed long-term issuer rating of Aa3, negative outlook) and subsidiaries. AIGFP engages as principal in a variety of standard and customized financial products with corporations, financial institutions, governments, agencies, institutional investors and high net-worth individuals worldwide. This unit also raises funds through municipal reinvestment contracts and other private and public note offerings, investing the proceeds in a diversified portfolio of debt, equities and derivatives. The Aa3 ratings on AIGFP and several of its subsidiaries are based on general and deal-specific guarantees from AIG. AIGFP has substantial notional exposure to the US residential mortgage market through super-senior CDS and cash CDOs, a portfolio that is now in runoff. In February 2008, AIG appointed an interim CEO to oversee this operation and launched a search for a new permanent CEO. In connection with this management shift, Moody's expects that AIG will take a fresh look at the strategic direction and risk appetite at AIGFP.

The Consumer Finance unit includes US operations conducted mainly by American General Finance Corporation (AGFC - senior unsecured debt rated A1, negative outlook) and international operations conducted by AIG Consumer Finance Group, Inc. (AIGCFG). AGFC's ratings are based on its strong US market presence, disciplined approach to the business and implicit support from AIG. Over the past decade, AGFC has focused its growth efforts on real estate secured loans, which accounted for about three-fourths of the loan portfolio as of year-end 2007. The portfolio, which includes meaningful levels of subprime and non-prime loans, has experienced some deterioration in credit quality along with the overall US housing sector, but AGFC's delinquency and charge-off rates remain within the company's target bands. We believe that AGFC's adherence to conservative underwriting standards have enabled the company to weather the housing market slump reasonably well compared to many other financial institutions. Nevertheless, AGFC's core profitability has fallen, and will continue to be pressured by rising loss provisions and the sharp fall-off in mortgage banking activity. Absent the implicit parental support, AGFC's ratings would be lower. AGFC's negative rating outlook follows that of AIG.

Asset Management (2007 revenues: \$5.6 billion, 5% of consolidated total)

The Asset Management segment comprises a variety of investment related products and services for institutions and individuals worldwide. The group's main activities are spread-based investing, institutional asset management, brokerage services and mutual funds. The spread-based investment business, formerly conducted through the SunAmerica companies, is now conducted through AIG's Matched Investment Program. The institutional asset management business, known as AIG Investments, provides a range of equity, fixed income and alternative investment products and services to AIG subsidiaries and affiliates, other institutional clients and high-net-worth individuals. The brokerage services and mutual funds operations provide broker/dealer services and mutual funds to retail investors, group trusts and corporate accounts through an independent network of financial advisors.

Credit Strengths

Credit strengths/opportunities of the group include:

- One of the world's largest and most diversified financial service firms, with leading market positions in various business lines and countries
- Historically strong earnings and cash flows across all major business segments
- Excellent financial flexibility, although this has been weakened somewhat by earnings and capital volatility related to US residential mortgage exposures

Credit Challenges

Credit challenges/risks include:

- Sizable exposure to US residential mortgage market through various business units and activities, particularly CDS written by AIGFP and RMBS held by US life insurance subsidiaries
- Intrinsic volatility in certain General Insurance and Financial Services business units
- Significant volume of spread-based investment business within the Asset Management segment

Rating Outlook

The negative outlook on AIG (and on subsidiaries whose ratings rely on meaningful explicit or implicit parental support) reflects the company's exposure to further volatility in the US residential mortgage market as well as uncertainty surrounding the strategic direction of AIGFP.

What Could Change the Rating - Up

Given the current negative outlook, there is limited upward pressure on the rating; however, factors that could lead to a stable outlook include:

- Improving or stable stand-alone credit profiles of major operating units
- Strong group profitability, with returns on equity exceeding 15%
- Remediation of all material weaknesses in internal controls over financial reporting
- Adjusted financial leverage (including pension and lease adjustments and excluding debt of finance-type operations and match-funded investment programs) comfortably below 20%

What Could Change the Rating - Down

Factors that could lead to a downgrade include:

- A decline in the stand-alone credit profile of one or more substantial operating units
- Weak group profitability, with returns on equity remaining below 10% over the next few quarters
- A decline in financial flexibility, with adjusted financial leverage exceeding the low 20s (percent), or adjusted pretax interest coverage remaining below 8x over the next few quarters
- Incremental losses on investments or derivatives causing a further decline in shareholders' equity
- A material shift in the company's strategic emphasis away from insurance (e.g., Financial Services accounting for more than 20% of consolidated operating income)

Recent Results

AIG reported total revenues of \$19.9 billion and a net loss of \$5.4 billion for the second quarter of 2008. Shareholders' equity was \$78.1 billion as of June 30, 2008.

Capital Structure and Liquidity

Moody's believes that AIG's financial flexibility has been weakened by the firm's exposure to the US mortgage market and the related losses, write-downs and decline in shareholders' equity. On the other hand, the company demonstrated broad access to the capital markets through its issuance of more than \$20 billion of capital during May 2008 - a positive for creditors in Moody's view. The new issuance included approximately \$7.5 billion of common stock, \$5.9 billion of equity units (hybrids) and \$6.9 billion of junior subordinated debentures (hybrids). The hybrid securities were designed to receive significant equity treatment for financial leverage calculations.

As of June 30, 2008, AIG reported total borrowings of \$178.6 billion, a majority of which was "operating" debt (i.e., supporting assets of the Financial Services segment and AIG's Matched Investment Program). AIG's adjusted "financial" debt (reflecting Moody's standard pension and lease adjustments, our basket treatment of hybrids, and the exclusion of operating debt) amounted to \$26.0 billion. AIG's adjusted financial leverage has increased from 18.3% at year-end 2007 to 19.4% as of June 30, 2008, as a result of mortgage-related losses and write-downs recorded during the first half of the year, largely offset by the capital issuance in May. Moody's notes that the newly issued hybrid securities carry significant fixed charges that will reduce AIG's earnings coverage and dividend capacity coverage of fixed charges going forward. We expect that earnings coverage will decline from a historic range of 20-24 times to a normalized range of about 8-12 times, while dividend capacity coverage will decline from a historic range of 9-14 times to a normalized range of about 6-8 times. Moody's believes that AIG will continue to benefit from its broad business diversification and access to capital market funding.

Moody's believes that AIG has sufficient liquidity - through cash on hand, dividends from diversified subsidiaries, external credit facilities and an intercompany credit facility - to service parent company obligations and to support subsidiaries under current market conditions. The company generates strong operating cash flows on a consolidated basis, with yearly amounts averaging about \$22 billion over the past three years. A majority of the cash flows pertain to insurance operations that are subject to regulatory limits on the payment of dividends to a parent company. Still, the pro forma dividend capacity coverage of fixed charges (6-8 times) is reasonable for AIG's current rating category. AIG has taken steps to enhance its liquidity in response to credit market turmoil over the past year. The company has increased its holdings of cash and short-term investments across major business units, and has established an interdisciplinary Liquidity Risk Committee to monitor and manage liquidity risks throughout the firm. AIG's consolidated cash and short-term investment position has grown from \$29.4 billion at year-end 2006 to \$82.2 billion as of June 30, 2008. The large position in cash and short-term investments is constraining AIG's investment income and overall profitability to some degree. Moody's regards this as a prudent trade-off in the current unsettled credit markets.

AIG gets a portion of its funding through a \$7 billion commercial paper program (\$5.8 billion outstanding at June 30, 2008). The commercial paper is issued through subsidiary AIG Funding, Inc. (AIG Funding) and guaranteed by AIG. The program is backed by external and intercompany credit facilities. External facilities include two syndicated bank revolvers totaling \$3.75 billion, primarily to back commercial paper. One of these facilities (\$2.125 billion) expires in July 2009 (with a one-year term-out option) and the other (\$1.625 billion) expires in July 2011. AIG and AIG Funding also share a \$3.2 billion bank facility expiring in December 2008 (with a one-year term-out option) which allows for the issuance of letters of credit with terms of up to eight years. As of June 30, 2008, nearly all of this facility was being used for letters of credit. Finally, AIG has a \$5.335 billion intercompany credit facility provided by several of its insurance subsidiaries, expiring in September 2008 (with a one-year term-out option). Moody's expects that these facilities will be renewed in similar form before they expire.

In addition to its guarantee of AIG Funding debt, AIG guarantees the debt and counterparty obligations of certain subsidiaries, most importantly AIGFP. AIGFP manages its liquidity position to withstand severe market disruptions. AIGFP conducts regular liquidity stress tests that assume no access to capital markets, contingent liability payouts at the earliest possible dates, and haircuts on relatively liquid investment securities. The stress tests also consider the impact of potential rating downgrades on AIGFP's collateral posting requirements. As of July 31, 2008, AIGFP had posted collateral in respect of super-senior CDS in an aggregate net amount of \$16.5 billion. At that time, AIG's senior unsecured debt ratings (and AIGFP's backed long-term issuer ratings) were Aa3 by Moody's and AA- by Standard & Poor's. The company estimated as of that date that a downgrade to A1 by Moody's and to A+ by Standard & Poor's would permit AIGFP's counterparties to call for approximately \$13.3 billion of incremental collateral. As noted above, Moody's current ratings on AIG (and on AIGFP) incorporate our expectation that the company will maintain robust coverage of potential liquidity needs, even in severely adverse scenarios.

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Moody's Investors Service

Global Credit Research

Rating Action

3 OCT 2008

Rating Action: American International Group, Inc.

Moody's downgrades AIG (senior to A3); ratings remain under review

New York, October 03, 2008 -- Moody's Investors Service has downgraded the senior unsecured debt rating of American International Group, Inc. (NYSE: AIG) to A3 from A2. This rating action reflects Moody's view that if AIG successfully completes the divestiture and restructuring plan announced today, its business diversification will be significantly reduced. AIG's long-term ratings and its Prime-1 short-term rating remain on review for possible downgrade, reflecting the substantial execution risk in the restructuring plan, particularly given the current turbulent credit market.

In the past year, AIG has reported substantial losses and write-downs associated with mortgage-backed securities, largely through its credit default swap and securities lending portfolios. Significant cash collateral calls and maturities related to these activities in recent weeks have caused the company to borrow heavily under the \$85 billion revolving credit facility recently provided by the Federal Reserve Bank of New York (as authorized by the Federal Reserve Board (the Fed)). Total borrowings under the two-year secured facility amounted to \$61 billion as of September 30, 2008, and more borrowings are expected in the months ahead.

Moody's believes that the asset sales plan announced today, if successful, will enable the company to repay borrowings under the Fed facility and emerge as a more focused, albeit less diversified, insurance firm. The continuing review for possible downgrade incorporates the risk that the situation may deteriorate, either because of shortfalls in executing the restructuring plan or because of declines in the business or financial profiles of the operations to be retained. Moody's believes that the risk of such deterioration is materially mitigated by the involvement of the Fed and the enhanced market liquidity that will likely result from the US Government's pending \$700 billion financial rescue plan.

Following the restructuring, AIG's core businesses are expected to include the US-based Commercial Insurance Group (CIG), Foreign General Insurance (Foreign General) and a majority stake in American International Assurance (AIA). The parent company's A3 senior debt rating is now three notches below the Aa3 insurance financial strength ratings of the CIG companies, the largest core operating unit. A three-notch differential is common among US insurance groups, but this represents an expansion of the notching for AIG, based on Moody's view that AIG will be materially less diversified following the restructuring. AIG's Prime-1 short-term rating reflects the significant protection to short-term creditors afforded by the Fed credit facility in the near term.

Moody's also announced rating actions on several AIG subsidiaries whose ratings depend on explicit or implicit parental support (see list below). Ratings on most AIG units remain on review for possible downgrade. Moody's expects to revisit the stand-alone ratings, and perhaps the public ratings, for the major life insurance operations over the next few weeks. Certain operating units have been placed on review with direction uncertain, signaling potential sales to buyers whose credit profiles could be stronger, weaker or similar to that of AIG.

The success of the restructuring plan, in Moody's view, hinges largely on AIG's ability to contain and reduce risk in its mortgage exposed investment and derivative portfolios. A majority of the borrowings under the Fed credit facility have been used to address liquidity and capital needs stemming from these exposures. Moody's noted that further deterioration in market values within these portfolios could further strain the company's resources through such mechanisms as increased collateral calls or reductions/terminations of funding arrangements. Such strains could weaken the company's credit profile, which may lead to additional rating downgrades. In such an event, contingent additional capital and liquidity needs could be triggered. The rating agency expects that AIG -- with the support and interest of the Fed -- will pursue various means to limit the risks associated with market value volatility in its investment and derivative portfolios.

AIG's core insurance operations are fundamentally solid, said Moody's. CIG is the largest US commercial insurer, with a sound capital base, well diversified product offerings and expertise in writing large and complex risks. Foreign General is the top provider of accident & health insurance globally, operating in some 80 countries and adapting to local laws and customs as needed. The AIA companies make up one of the largest and most diversified life insurance groups spanning Asia and Australia.

The insurance and other operations identified for sale include market leaders in many business lines and geographic areas. Major units expected to be sold include Domestic Life Insurance and Retirement Services, one of the largest and most diversified life insurance groups in the US; American Life Insurance Company, one of the largest international life insurers, with operations in more than 50 countries; International Lease Finance Corporation, a global leader in leasing and remarketing advanced technology commercial aircraft;

and a minority stake in AIA. AIG's sales plans encompass well over a dozen substantial businesses.

Moody's noted that all of AIG's operations are subject to significant reputational risk in connection with the recent liquidity strains that gave rise to the Fed credit facility. Challenges facing AIG managers include retaining clients, distributors and employees; demonstrating that the operating companies have ample resources to meet their obligations; generating new business; and facilitating divestitures. It will take time to determine the extent to which recent events may have weakened the companies' standing in their respective markets.

Moody's continuing review of the ratings on AIG and its subsidiaries will focus on (i) the firm's evolving liquidity profile, including the level of borrowing under the Fed credit facility; (ii) steps taken to contain and reduce risk in the investment and derivative portfolios, including any associated losses or costs as well as any potential benefit from the US Government's pending \$700 billion financial rescue plan; (iii) the timing and amounts of cash proceeds generated from asset sales; (iv) the performance of major operating units, whether they are core operations or targeted for sale; and (v) the resulting financial flexibility profile (e.g., financial leverage and fixed charge coverage) of AIG following the asset sales. For those operations being sold, Moody's will consider their intrinsic financial strength as well as the rating profiles of potential acquirers.

The last rating action on AIG took place on September 18, 2008, when Moody's reiterated the existing ratings and the review for possible downgrade, following the activation of the Fed credit facility.

Moody's has downgraded the following ratings and kept them on review for possible further downgrade:

American International Group, Inc. -- long-term issuer rating to A3 from A2, senior unsecured debt to A3 from A2, subordinated debt to Baa1 from A3;

AGFC Capital Trust I -- backed preferred stock to Baa3 from Baa2;

AIG General Insurance (Taiwan) Co., Ltd. -- insurance financial strength to A3 from A1;

AIG Life Holdings (US), Inc. -- backed senior unsecured debt to A3 from A2;

AIG Retirement Services, Inc. -- backed senior unsecured debt to A3 from A2, backed preferred stock to Baa2 from Baa1;

American General Capital II -- backed trust preferred stock to Baa1 from A3;

American General Finance Corporation -- long-term issuer rating to Baa1 from A3, senior unsecured debt to Baa1 from A3;

American General Institutional Capital A & B -- backed trust preferred stock to Baa1 from A3;

Capital Markets subsidiaries -- AIG Financial Products Corp., AIG Matched Funding Corp., AIG-FP Capital Funding Corp., AIG-FP Matched Funding Corp., AIG-FP Matched Funding (Ireland) P.L.C., Banque AIG -- backed senior unsecured debt to A3 from A2;

Mortgage Guaranty subsidiaries (second-lien and student loans) -- United Guaranty Commercial Insurance Company of North Carolina, United Guaranty Residential Insurance Company of North Carolina -- backed insurance financial strength to Baa1 from A3.

Moody's has placed the following rating on review for possible downgrade:

American General Finance, Inc. -- short-term debt at Prime-2.

The following ratings remain on review for possible downgrade:

American International Group, Inc. -- short-term issuer rating at Prime-1;

AIG Edison Life Insurance Company -- insurance financial strength at Aa3;

AIG Financial Products Corp. -- backed short-term debt at Prime-1;

AIG Funding, Inc. -- backed short-term debt at Prime-1;

AIG Liquidity Corp. -- backed short-term debt at Prime-1;

AIG Matched Funding Corp. -- backed short-term debt at Prime-1;

AIG SunAmerica funding agreement-backed note programs -- AIG SunAmerica Global Financing Trusts, ASIF I & II, ASIF III (Jersey) Limited, ASIF Global Financing Trusts -- senior secured debt at Aa3;

AIG SunAmerica subsidiaries -- AIG SunAmerica Life Assurance Company, First SunAmerica Life Insurance Company, SunAmerica Life Insurance Company -- insurance financial strength at Aa3; short-term insurance financial strength at Prime-1;

AIG UK Limited -- insurance financial strength at A1;

American International Assurance Company (Bermuda) Limited -- insurance financial strength at Aa3;

American Life Insurance Company -- insurance financial strength at Aa3;

Commercial Insurance Group subsidiaries -- AIG Casualty Company; AIU Insurance Company; American Home Assurance Company; American International Specialty Lines Insurance Company; Commerce and Industry Insurance Company; National Union Fire Insurance Company of Pittsburgh, Pennsylvania; New Hampshire Insurance Company; The Insurance Company of the State of Pennsylvania -- insurance financial strength at Aa3;

Domestic Life Insurance & Retirement Services subsidiaries -- AIG Annuity Insurance Company, AIG Life Insurance Company, American General Life and Accident Insurance Company, American General Life Insurance Company, American International Life Assurance Company of New York, The United States Life Insurance Company in the City of New York, The Variable Annuity Life Insurance Company -- insurance financial strength at Aa3;

Mortgage Guaranty subsidiaries (first-lien loans) -- United Guaranty Mortgage Indemnity Company, United Guaranty Residential Insurance Company -- backed insurance financial strength at Aa3.

Moody's has downgraded the following ratings and placed them on review with direction uncertain:

ILFC E-Capital Trusts I & II -- backed preferred stock to Baa3 from Baa2;

International Lease Finance Corporation -- senior unsecured debt to Baa1 from A3, preferred stock to Baa3 from Baa2, senior unsecured debt shelf to (P)Baa1 from (P)A3.

Moody's has placed the following ratings on review with direction uncertain:

International Lease Finance Corporation -- short-term debt at Prime-2;

Transatlantic Holdings, Inc. -- senior unsecured debt at A3, senior unsecured debt shelf at (P)A3, subordinated debt shelf at (P)Baa1;

Transatlantic Reinsurance Company -- insurance financial strength at Aa3.

Moody's maintains a negative outlook on the following ratings:

American General Finance Corporation -- short-term debt at Prime 2;

CommoLoco, Inc. -- backed short-term debt at Prime-2.

The following ratings have been (downgraded and) withdrawn for business reasons:

AIG Capital Corporation -- long-term issuer rating to Baa2 from Baa1; short-term issuer rating at Prime 2.

AIG, based in New York City, is a leading international insurance and financial services organization, with operations in more than 130 countries and jurisdictions. The company is engaged through subsidiaries in General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. AIG reported total revenues of \$19.9 billion and a net loss of \$5.4 billion for the second quarter of 2008. Shareholders' equity was \$78.1 billion as of June 30, 2008.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to punctually pay senior policyholder claims and obligations. For more information, please visit our website at www.moody.com/insurance.

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RATINGS DIRECT®

October 8, 2008

Research Update:

**American General Finance Corp.
Rating On CreditWatch Negative;
Trust-Preferred On Watch Pos.**

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Rationale

Ratings List

www.standardandpoors.com/ratingsdirect

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Research Update:

American General Finance Corp. Rating On CreditWatch Negative; Trust-Preferred On Watch Pos.

Rationale

On Oct. 8, 2008, Standard & Poor's Ratings Services placed its 'BBB' long-term counterparty credit rating on American General Finance Corp. (AGFC) on CreditWatch with negative implications.

At the same time, we placed our rating on the company's trust-preferred securities on CreditWatch with positive implications, and affirmed the 'A-3' short-term counterparty credit rating.

The CreditWatch Negative on AGFC stems from concerns about the potential funding and liquidity challenges the company faces now that the rating no longer incorporates parental support. It also reflects our view that this uncertainty regarding parental support is occurring at a time when AGFC's operating risks have increased because of weakening residential real estate markets and slower consumer spending.

The CreditWatch Positive on AGFC's trust-preferred securities reflects the likelihood that the notching between this instrument and the counterparty credit rating will be reduced as a result of less concern about forced suspension of equity-linked dividend payments. We had lowered our ratings on AGFC's trust-preferred stock and certain other units of ultimate parent American International Group Inc. (AIG; A-/Watch Neg/A-1) to 'B' from 'BBB' because of the U.S. Federal Reserve's Sept. 16, 2008, statement that the U.S. government would have the right to veto AIG's common and preferred dividends under the \$85 billion credit line extended by the Federal Reserve Bank of New York to AIG. We now believe, however, that it is unlikely that AGFC's trust-preferred dividends would in fact be vetoed, although AIG has suspended its own common dividend.

Ratings List

Ratings Affirmed

American General Finance Corp.
Commercial Paper (3 issues)
Local Currency

A-3

CreditWatch Action

To

From

American General Finance Corp.
Counterparty Credit Rating

BBB/Watch Neg/A-3 BBB/Negative/A-3

American General Finance Corp.

Research Update: American General Finance Corp. Rating On CreditWatch Negative; Trust-Preferred On Watch Pos.

Senior Unsecured (275 issues)	BBB/Watch Neg	BBB
AGFC Capital Trust I Preferred Stock (1 issue)	B/Watch Pos	B/Watch Neg
Ratings Affirmed		
American General Finance Corp. Commercial Paper (3 issues) Local Currency	A-3	

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Fitch Discusses AIG Rating Watch Revision in Light of Federal Reserve Actions Ratings

17 Sep 2008 2:54 PM (EDT)

Fitch Ratings-London/New York-17 September 2008: Earlier today, Fitch Ratings revised its Rating Watch on American International Group, Inc. (AIG) and its subsidiaries to Evolving from Negative following the announcement that its board has approved a transaction under which the Federal Reserve Bank of New York (Federal Reserve) will provide AIG with a two year \$85 billion secured revolving credit facility. In exchange, the U.S. Government will receive a 79.9% ownership interest in AIG.

The Evolving Rating Watch is intended to communicate the highly dynamic nature of AIG's current financial situation, which could evolve positively or negatively for different subsidiaries or securities. Fitch's expectation is that it may revise ratings, Outlooks or Watches on individual securities' ratings or specific legal entities within the AIG group, as it furthers its analysis and more details become available. Such actions could occur over the near or intermediate term.

For AIG as a whole, Fitch views this transaction as a favorable development that alleviates significant near-term liquidity concerns and provides a source of funding for potential future collateral requirements that are primarily derived from AIG's AIG Financial Products Corp. (AIGFP) subsidiary. Additionally, Fitch believes that the agreement with the Federal Reserve provides a platform of stability for AIG's primary operating subsidiaries and significantly curtails substantive pressure on AIG to sell assets quickly to fund potential cash calls. Fitch believes that this will enable AIG to take a more comprehensive and deliberate approach to restructuring the company that better serves the interests of policyholders and creditors.

These positives are tempered by the transaction's effective subordination of essentially all of AIG's senior debt and hybrid instruments. Loans under the facility are collateralized by all of AIG's assets and of its primary non-regulated subsidiaries and include the stock of substantially all of the regulated subsidiaries. Due to the comparative high cost, AIG has incentive to use the facility sparingly, though Fitch acknowledges that AIG will need to actively draw down on this facility over the intermediate term.

Fitch views AIG's most pressing challenges as evolving from meeting immediate liquidity needs to managing higher financial leverage, and related pressures on fixed charge coverage, likely to arise as a result of draws on the credit facility. To provide funds needed to service debt obligations, Fitch believes that AIG will likely sell a significant number of its operating company subsidiaries, and that these sales may include subsidiaries that Fitch had previously viewed as core operations. AIG needs to optimize operating company results under very difficult market conditions, in order to retain significant value in its subsidiaries that may be monetized in the future. Fitch believes any subsidiary would be considered for sale, and the ratings impact for any subsidiary that is ultimately sold would be greatly influenced by the credit quality of the buyer and terms of the sale.

Fitch's ongoing analysis of AIG will include an assessment of the extent to which AIG may access funds available under the Federal Reserve transaction, and thus add to the company's outstanding debt leverage, and what the prospects for repayment are given various forms of asset sales and projected internal cash generation.

Fitch is also evaluating the extent to which AIG's capital structure includes securities with the ability to defer interest payments. AIG's capital structure includes traditional and trust preferred securities and the company's agreement with the Federal Reserve grants the US government the ability to veto payment of dividends on preferred stock. Fitch believes that AIG may stop paying dividends on traditional preferred securities and/or elect to defer interest on outstanding trust preferred securities on holding company securities.

Fitch's Rating Watch revision from earlier today affects the following global entities:

American International Group, Inc.
 --Long-term IDR 'A';
 --Senior debt 'A';
 --Junior subordinated debentures 'A-';
 --Short-term IDR to 'F1';

AIG Funding, Inc.
 --Commercial paper 'F1'.

AIG International, Inc.
 --Long-term IDR 'A';
 --Senior debt 'A';

AIG Life Holdings (US), Inc. (formerly American General Corp.)
 --Long-term IDR 'A';
 --Senior debt 'A';

American General Capital II
 --Preferred securities 'A-';

American General Institutional Capital A and B
 --Capital securities 'A-';

HSB Capital Trust I
 --Preferred securities 'A';

21st Century Insurance Group

--Long-term IDR 'A';
 --Senior debt 'A'

United Guaranty Corporation
 --Long Term Rating 'A';

Ezer Mortgage Insurance Company (ISR)
 --Insurer Financial Strength (IFS) Rating 'A';

ASIF Program
 ASIF II Program
 ASIF III Program
 ASIF Global Financial Program
 --Program ratings 'AA-';

AIG Capital Corporation
 --Long-term IDR 'A';
 --Short-term IDR 'F1';

International Lease Finance Corp.
 --Long-term IDR 'A';
 --Senior unsecured debt 'A';
 --Preferred stock 'A-';
 --Short-term IDR 'F1';
 --Commercial paper 'F1';

American General Finance, Inc.
 --Long-term IDR 'A';
 --Short-term IDR 'F1';
 --Commercial paper 'F1';

American General Finance, Corp.
 --Long-term IDR 'A';
 --Senior debt 'A';
 --Short-term IDR 'F1';
 --Commercial paper 'F1';

AGFC Capital Trust I
 --Preferred stock 'A-';

AIG Finance (Hong Kong) Ltd.
 --Long-term local currency IDR 'A';
 --Senior unsecured 'A';
 --Short-term local currency IDR 'F1';

CommoLoCo Inc.
 --Short term IDR 'F1';
 --Commercial paper 'F1';

The Rating Watch status on the following 'AA-' Insurer Financial Strength (IFS) ratings have been revised to Evolving from Negative:

Life Companies
 --AGC Life Insurance Company;
 --AIG Annuity Insurance Company;
 --AIG Life Insurance Company;
 --AIG SunAmerica Life Assurance Company;
 --American General Life and Accident Insurance Company;
 --American General Life Insurance Company;
 --American International Assurance Company (Bermuda) Limited;
 --American International Life Assurance Company of New York;
 --American Life Insurance Company;
 --First SunAmerica Life Insurance Company;
 --SunAmerica Life Insurance Company;
 --The United States Life Insurance Company in the City of New York;
 --The Variable Annuity Life Insurance Company;

National Union Inter-company Pool Members:
 --AIG Casualty Company (formerly Birmingham Fire Ins. Co. of PA);
 --American Home Assurance Company;
 --American International South Insurance Company;
 --Commerce and Industry Insurance Company;
 --Granite State Insurance Company;

--Illinois National Insurance Co. ;
 --National Union Fire Insurance Company of Pittsburgh, PA;
 --New Hampshire Insurance Company;
 --The Insurance Company of the State of Pennsylvania.

Lexington Inter-company Pool Members:
 --AIG Excess Liability Insurance Company, Ltd. (formerly Starr Excess Liability Ins. Co., Ltd.);
 --Landmark Insurance Company;
 --Lexington Insurance Company.

AIG Personal Lines Inter-company Pool Members.
 --21st Century Casualty Company;
 --21st Century Insurance Company;
 --21st Century Insurance Company of the Southwest;
 --AIG Advantage Insurance Company (formerly Minnesota Ins. Co.);
 --AIG Auto Insurance Company of New Jersey;
 --AIG Centennial Insurance Company;
 --AIG Hawaii Insurance Company;
 --AIG Indemnity Insurance Company;
 --AIG National Insurance Company, Inc.;
 --AIG Preferred Insurance Company;
 --AIG Premier Insurance Company;
 --American International Insurance Company;
 --American International Insurance Company of California;
 --American International Insurance Company of New Jersey;
 --American International Pacific Insurance Company;
 --American Pacific Insurance Company;
 --New Hampshire Indemnity Company, Inc..

Non-Pool Companies
 --AIU Insurance Company;
 --American International Specialty Lines Insurance Company;
 --Hartford Steam Boiler Inspection & Insurance Company;
 --United Guaranty Residential Insurance Company.

Foreign Domiciled General Insurance Companies
 --AIG MEMSA Insurance Company Ltd. (UAE);
 --AIG (UK) Ltd. (formerly The Landmark Insurance Co. Ltd. (UK));
 --American International Underwriters Overseas, Ltd. (Bermuda).

The Rating Watch status on the following National Insurer Financial Strength (NIFS) ratings remains Negative:

--AIG South Africa Limited 'AAA' (zaf)
 --AIG Life South Africa Limited 'AAA' (zaf)

The Rating Watch status on the following National Insurer Financial Strength (NIFS) ratings has been revised to Evolving from Negative:

--La Interamericana Cia de Seguros de Vida y Ahorro S.A. 'AA+'(chl)
 --La Interamericana Cia de Seguros Generales S.A. 'AA+'(chl)
 --AIG Union y Desarrollo, S.A. y Filial 'AA'(slv)
 --AIG, S.A. Seguro de Personas 'AA'-(slv)

The following National Insurer Financial Strength (NIFS) rating has been downgraded to reflect rating actions taken on AIG earlier today and the Rating Watch has been revised to Evolving from Negative:

Nan Shan Life Insurance Company Ltd
 --National IFS to 'AA(twn)' from 'AAA(twn)'.

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October 15, 2008

CreditWatch Status Of Two AIG Insurance-Backed Bond Ratings Revised To Negative

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NEW YORK (Standard & Poor's) Oct. 15, 2008--Standard & Poor's Ratings Services today revised its CreditWatch implications on two American International Group Inc. insurance-supported bond issues to negative from developing (see list).

These rating actions follow our Oct. 3, 2008, CreditWatch revision of our counterparty credit rating on American International Group (NYSE: AIG) to negative from developing (see "CreditWatch Status Of Ratings On AIG And Guaranteed Subs Revised To Negative" on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com).

The ratings on the affected issues are based on the financial guarantee insurance policies provided by American International Group (the insurer), which guarantee the timely payment of interest and principal according to the transactions' terms.

CREDITWATCH STATUS REVISED TO NEGATIVE

Transaction	Series	To	Rating	From
Broward County Housing Finance Authority, FL				

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CreditWatch Status Of Two AIG Insurance-Backed Bond Ratings Revised To Negative

	2004B	A-/Watch Neg/A-1	A-/Watch Dev/A-1
Tulsa Industrial Authority, OK			
	2000	A-/Watch Neg/A-1	A-/Watch Dev/A-1

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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 troubled assets 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 approved 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.

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Recommended

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Financial Terms of Proposed Equity Investment in AIG

- Senior Preferred Stock
 - Size: \$40 billion
 - Dividend: 10% per annum
 - Protections include:
 - redemption rights
 - restriction on dividends and repurchases
 - voting rights 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

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Additional Deal Terms

- Restrictions on corporate expenses
- Restrictions on lobbying
- Most stringent limitations on executive compensation under EESA
- 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 investment have been structured to the maximum extent possible to protect taxpayers' interest.
- The prospects of recovery of capital and a return on the equity investment to the taxpayer are highly speculative.

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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 -- AIG executes 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

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**I. Executive Compensation Limits under TARP—CCP,
Imposed on the 9 participating banks**

Institution must limit senior executive severance benefit to less than 3 times executive's average taxable compensation for 5 years preceding termination.

- Limit applies to severance benefits triggered by:
 - involuntary termination
 - termination in connection with bankruptcy, insolvency or receivership.
- Limit applies to CEO, CFO and next 3 most highly compensated executive officers ("SEOs").

Institution must limit to \$500,000 per SEO its annual deduction for compensation.

- No exception for performance-based compensation.
- Deferral does not avoid the deduction limit -- excess amount non-deductible when paid.

Institution must require clawback of SEO bonus and incentive payments based on financial statement/performance metrics later determined materially inaccurate.

- Accounting restatement not required.
- Misconduct not required.

Institution must eliminate incentives for SEOs to take unnecessary and excessive risks --

- Institution's compensation committee (or similar board committee) must:
 - Promptly (w/in 90 days) review its SEO compensation arrangements with its senior risk officer (or other like personnel) to ensure arrangements do not encourage SEOs to take unnecessary and excessive risks.
 - At least annually discuss and review with the senior risk officer to the relationship between institution's risk management policies/practices and SEO incentive compensation arrangements; and
 - Certify annually that it has complied with the above.

- Public institutions must include the annual certification in the institution's annual proxy statement Compensation Discussion and Analysis.

II. Additional/Alternative Executive Compensation Limitations under Other TARP Programs

Program for Systemically Significant Failing Institutions

- CPP rules continue to apply to CPP participants, plus absolute prohibition on severance payments to CEOs.

Troubled Asset Acquisitions Program

- CPP rule continue to apply to CPP participants, plus absolute prohibition on entering into new arrangement with any CEO providing severance in excess of CPP limit.
- Golden parachute denial of deduction 280G excise tax rules apply to existing CEO severance agreements

III. Existing Executive Limitations Agreed to with AG Cuomo

- Accounting of all compensation paid to AIG senior executives
- Assist in recovering any improper expenditures
 - Including compensation paid to former CEO Martin Sullivan and former head of Financial Products Unit ("FP") Joseph Cassano
- No payments to former CFO, Vice Chairman -- Financial Services Steven Bensinger under his employment agreement in light of AG review
- No distributions of funds from the \$600 million of deferred compensation and bonus pools of FP to [executives/employees of FP]

IV. Existing Expense Control Policies Initiated by AIG

- Cancellations of all meetings, conferences and other related events not strictly justified by legitimate business needs. (More than 160 conferences and events to be cancelled.)
- Establishment of Special Governance Committee which will institute new expense management controls
 - To be designed at Board Level

- Controls to be supervised by CAO Richard Booth covering inter alia:
 - Consulting arrangements
 - use of corporate aircraft
 - signing of new leases
 - office renovations > \$100,000
 - relocation of offices or facilities
 - meeting events and functions >\$25,000
 - review of current such matters >\$100,000
- Need more information on foregoing