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Letter to Timothy F. Geithner

Henry M. Paulson Jr.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
SECRETARY OF THE TREASURY

October 8, 2008

Timothy F. Geithner
President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear Mr. ^{Tim}Geithner:

During this period of financial turmoil, we have worked together to enhance the stability, liquidity and orderliness of our financial markets. Over the past several months, it became clear that the situation at AIG presented a substantial and systemic threat to those financial markets.

I believe the Federal Reserve Bank of New York's provision of a special liquidity facility to AIG in order to allow the company to meet its obligations was necessary to prevent the substantial disruption to financial markets and the economy that could well have occurred from a disorderly wind-down of AIG. On behalf of the Department of the Treasury, I fully support the FRBNY's action and acknowledge that, if any loss arises out of this facility, the loss will be treated by the FRBNY as an expense that may reduce the net earnings transferred by the FRBNY to the Treasury general fund.

I look forward to working with the Federal Reserve to put in place a comprehensive framework for addressing systemic risk in the financial system. An important part of this will entail a framework for dealing with the threats to the stability of the financial system posed by the precipitous failure of large complex financial institutions.

Sincerely,

Henry M. Paulson, Jr.