Journal of Financial Crises

Volume 3 | Issue 1

2021

# The Rescue of American International Group Module A: The Revolving Credit Facility

Alec Buchholtz
*Yale School of Management*

Aidan Lawson
*Yale School of Management*



## Recommended Citation

Buchholtz, Alec and Lawson, Aidan (2021) "The Rescue of American International Group Module A: The Revolving Credit Facility," *Journal of Financial Crises*: Vol. 3 : Iss. 1, 20-62.
Available at: https://elischolar.library.yale.edu/journal-of-financial-crises/vol3/iss1/2

# The Rescue of American International Group Module A: The Revolving Credit Facility[1]

*Alec Buchholtz*[2] and *Aidan Lawson*[3]

Yale Program on Financial Stability Case Study
February 19, 2020; Revised April 15, 2021

**Abstract**

On September 15, 2008, the big three rating agencies downgraded AIG's credit ratings multiple levels, exacerbating liquidity strains that the company was experiencing due to increasing cash demands by securities borrowers and collateral calls by credit default swap (CDS) customers. To prevent AIG from filing for bankruptcy, the Federal Reserve (the Fed) announced on the following day that, pursuant to its emergency powers, it would provide the company with an $85 billion Revolving Credit Facility (RCF). The RCF was secured by AIG assets and interests in its subsidiaries and required AIG to grant the US Department of the Treasury a 79.9% voting equity interest in the company. Although AIG leaned heavily upon the RCF, the credit line was insufficient to stabilize AIG. The government later provided additional assistance and eased the terms of the RCF. In January 2011, AIG paid the last of the amounts owed to the Federal Reserve Bank of New York (FRBNY) under the RCF, ending it. The FRBNY netted $6.4 billion in capitalized interest and fees from the program.

**Keywords:** credit facility, preferred shares, trust, liquidity

---

[1] This case study is one the seven Yale Program on Financial Stability (YPFS) case modules considering the various elements of the government's rescue of American International Group:

- "The Rescue of American International Group, Module A: The Revolving Credit Facility." Buchholtz, Alec, and Aidan Lawson. 2021.
- "The Rescue of American International Group, Module B: The Securities Borrowing Facility." Engbith, Lily S., Alec Buchholtz, and Devyn Jeffereis. 2021.
- "The Rescue of American International Group, Module C: AIG Investment Program." Buchholtz, Alec, and Aidan Lawson. 2021.
- "The Rescue of American International Group, Module D: Maiden Lane II." Engbith, Lily S., and Devyn Jeffereis. 2021.
- "The Rescue of American International Group, Module E: Maiden Lane III." Engbith, Lily S., and Devyn Jeffereis. 2021.
- "The Rescue of American International Group, Module F: The AIG Credit Facility Trust." Buchholtz, Alec, and Aidan Lawson. 2021.
- "The Rescue of American International Group, Module Z: Overview." Wiggins, Rosalind Z., Aidan Lawson, Lily S. Engbith, and Andrew Metrick. 2021.

Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

[2] Alec Buchholtz - Research Associate, YPFS, Yale School of Management.

[3] Aidan Lawson - Research Associate, YPFS, Yale School of Management.

# American International Group, Inc.: The Revolving Credit Facility

## At a Glance

| Summary of Key Terms | |
|---|---|
| Purpose: To provide liquidity "to assist AIG in meeting its obligations as they come due" and "facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy" (FRB 2008b). | |
| Announcement Date | September 16, 2008 |
| Operational Date | September 22, 2008 |
| Termination Date | January 14, 2011 |
| Legal Authority | Section 13(3) of the Federal Reserve Act |
| Initial Commitment | $85 billion |
| Initial Interest Rate | 3-month LIBOR plus 8.5%; 3.5% LIBOR floor |
| Initial Commitment Fee | 8.5% |
| Peak Utilization | $72.3 billion on October 28, 2008 |
| Total Amount Loaned | $140.3 billion |

On September 15, 2008, American International Group, Inc. (AIG) experienced a devastating liquidity crunch after three major rating agencies downgraded the company multiple credit levels (US GAO 2011b, 6). AIG's credit downgrades, Lehman Brothers' bankruptcy, and general market panic led AIG counterparties to make mass collateral calls on credit default swap (CDS) contracts with AIG Financial Products, causing the insurance giant to assess its balance sheet to provide cash for withdrawals, nearly leading AIG to declare for bankruptcy (US GAO 2011b, 4–7).

The Federal Reserve Board of Governors (FRB) authorized the Revolving Credit Facility (RCF), a secured $85 billion emergency credit line, with a maturity of two years, to provide liquidity for AIG and its subsidiaries for the repayment of all debt obligations (FRB 2008b). The RCF was secured on AIG's assets, which included equity interests in its foreign and domestic insurance subsidiaries, debt indentures with outside firms, and loans AIG offered via credit facilities and other support agreements (FRB 2008c, 5–6). Usage of the RCF was initially subject to an interest rate of three-month LIBOR plus 8.5% (with a 3.5% LIBOR floor) and an annual commitment fee on undrawn funds of 8.5% (–FRB 2008c, 4–5). Additionally, the government was to receive a 79.9% equity interest in AIG through the issuance of preferred stock to be held and managed by an independent trust established by the Federal Reserve Bank of New York (FRBNY) (FRBNY 2008a, Exhibit D). Prior to the RCF's execution, the FRBNY advanced $37 billion to AIG through a series of demand notes, secured by the same assets and subsidiary equity interests as the RCF, with a separate commitment fee on the $85 billion credit line of 2%, or $1.7 billion (FRB 2008c, 4).

Over the next two and a half years, AIG would gradually pay back any drawn credit, often through the proceeds received from asset sales and subsidiary transactions (Alvarez 2010, 8). Treasury and the FRBNY continued to assist AIG during that time, replacing much of the RCF debt with new equity investments, and subsequently decreased the amount of the FRBNY's commitment under the RCF (Webel 2017, 11–14). After agreeing on a Recapitalization Plan in September 2010, AIG repaid the FRBNY in full on January 14, 2011, effectively ending the RCF (FRBNY 2011; Treasury 2011).

### Summary Evaluation

The RCF achieved its main goal of providing immediate liquidity to a troubled AIG, quelling the effects of liquidity drains long enough for the government to implement additional programs of assistance to AIG in October 2008, November 2008, March 2009, and at various other points (Webel 2017, 9–14). Although the RCF maturity date was extended to five years (until September 2013), the FRBNY was repaid entirely by January 2011, almost three years ahead of schedule, and per the Fed, at a net gain (Anderson 2012; US GAO 2011b, 7). Still, some critics argue that the RCF aggravated a moral hazard problem that incentivizes firms to act, invest, and operate recklessly and under the assumption that the government will supply liquidity and capital when investments go awry (Choi 2013, 73).

| **American International Group: United States Context** | |
|---|---|
| | |
| **GDP (SAAR, Nominal GDP in LCU Converted to USD)** | $14,681.5 billion in 2007<br>$14,559.5 billion in 2008 |
| **GDP per Capita (SAAR, Nominal GDP in LCU Converted to USD)** | $47,976 in 2007<br>$48,383 in 2008 |
| **Sovereign Credit Rating (5-Year Senior Debt)** | As of Q4 2007:<br><br>Fitch: AAA<br>Moody's: Aaa<br>S&P: AAA<br><br>As of Q4 2008:<br><br>Fitch: AAA<br>Moody's: Aaa<br>S&P: AAA |
| **Size of Banking System** | $9,231.7 billion in total assets in 2007<br>$9,938.3 billion in total assets in 2008 |
| **Size of Banking System as a Percentage of GDP** | 62.9% in 2007<br>68.3% in 2008 |
| **Size of Banking System as a Percentage of Financial System** | Banking system assets equal to 29.0% of financial system in 2007<br>Banking system assets equal to 30.5% of financial system in 2008 |
| **5-Bank Concentration of Banking System** | 43.9% of total banking assets in 2007<br>44.9% of total banking assets in 2008 |
| **Foreign Involvement in Banking System** | 22% of total banking assets in 2007<br>18% of total banking assets in 2008 |
| **Government Ownership of Banking System** | 0% of banks owned by the state in 2008 |
| **Existence of Deposit Insurance** | 100% insurance on deposits up to $100,000 for 2007<br>100% insurance on deposits up to $250,000 for 2008 |
| *Sources: Bloomberg; World Bank Global Financial Development Database; World Bank, Bank Regulation and Supervision Survey; Federal Deposit Insurance Corporation.* | |

# I. Overview

## Background

In 2008, American International Group, Inc. (AIG) had more than 76 million customers in nearly 140 countries, offering life, health, corporate, property, and casualty insurance, among other types, and in many instances was the largest issuer of those insurance plans (FRBNY 2012). As of June 30, 2008, while AIG's balance sheet had approximately $1 trillion in assets (AIG 2008, 50), AIG had a notional exposure of $441 billion under a super senior credit default swaps (CDS) portfolio managed by AIG Financial Products (AIGFP), a subsidiary formed in 1987 (AIG 2008, 120). Of the $441 billion, $307 billion was written primarily as capital relief for European financial institutions (AIG 2008, 120). AIGFP had substantial exposures to the US housing market via CDS on multisector collateralized debt obligations (CDOs) and direct holdings of residential mortgage-backed securities (RMBS) (COP 2010, 27).

In the 2008, AIG reported its second quarter results: (its third consecutive quarter of) losses, totaling more than $18 billion (AIG 2008). Despite this, the company raised $20 billion in private capital in May 2008 through common stock, hybrid securities, and debt financing (US GAO 2011b, 19). However, those funds were unable to satisfy AIG's liquidity needs at the time (US GAO 2011b, 19–24). In July 2008, new AIG CEO Robert B. Willumstad reached out to the President of the Federal Reserve Bank of New York (FRBNY), Timothy F. Geithner, and requested access to the Federal Reserve's (the Fed's) discount window to help AIG address liquidity problems in its securities lending portfolio and collateral calls on AIGFP's CDS (COP 2010, 58) Geithner believed that providing liquidity to AIG at that moment would intensify creditor runs on AIG (COP 2010, 58). As losses continued to mount toward the end of the summer, investors saw AIG as a risky investment, and it was unknown as to how much further AIG could fall and whether AIG could pay back any loans in the future (COP 2010, 58–59).

In early September 2008, Willumstad again reached out to the FRBNY for public consultation and aid, while trying to raise capital in the private sector again. During the September 13–14 weekend, the company rejected two proposals from private equity firms and their partners (US GAO 2011b, 22–23). AIG also discussed with the New York state insurance department the possibility of regulatory relief to allow it to temporarily access $20 billion from its insurance company subsidiaries, but this proposal was never finalized (GAO 2011b, 28–29; Moriarty 2010, 5–6; and Willumstad 2010, 4). Collateral calls on CDS positions continued to drain AIG's cash, leading officials to believe AIG could avoid bankruptcy for just another week or two (Willumstad 2010, 4–5). Below, Figure 1 shows the increasing collateral postings AIG made to CDS counterparties in the quarters leading up to its rescue.

**Figure 1: AIG Quarterly Collateral Postings to CDS Counterparties from December 31, 2007, through September 2008 (dollars in millions)**

| Collateral Posting by Portfolio | 12/31/2007 | 03/31/2008 | 06/30/2008 | 09/30/2008 |
|---|---|---|---|---|
| Foreign Regulatory Capital | 0 | 212 | 319 | 443 |
| Multisector CDO Arbitrage | 2,718 | 7,590 | 13,241 | 31,469 |
| Corporate Arbitrage | 161 | 368 | 259 | 902 |
| Total | 2,879 | 8,170 | 13,819 | 32,814 |

*Source: SIGTARP 2009.*

During the week leading up to AIG's rescue, projections of AIG's capital shortfall rose on a daily basis, with values growing from $20 billion to $40 billion and eventually close to $80 billion (Dash and Sorkin 2008).

On the morning of Monday, September 15, FRBNY President Geithner initiated an effort to have a private consortium—led by JPMorgan Chase & Co. and Goldman Sachs—arrange a $75 billion syndicated loan for AIG, with 15 financial institutions lending $5 billion each (FCIC 2011, 349; SIGTARP 2009, 8; and US GAO 2011b, 34). But the bankruptcy of Lehman Brothers, also that morning, made it impossible to bring private lenders into the deal, Fed officials told the Financial Crisis Inquiry Commission (FCIC) (FCIC 2011, 349).

On the afternoon of Monday, September 15, the big three credit rating agencies—Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch Ratings—all downgraded AIG's credit ratings significantly (US GAO 2011b, 6). For the changes in AIG's ratings, see Figure 2 below. AIG, one of the largest insurers in the world, faced potential bankruptcy.

**Figure 2: AIG's Credit Ratings Downgrade by Agency**

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| September 14, 2008 | AA- | Aa3 | AA- |
| September 15, 2008 | A- | A2 | A |
| Levels Changed | -3 | -2 | -2 |

*Sources: FCIC 2011; Bloomberg.*

## Program Description

On September 16, 2008, the Federal Reserve Board of Governors (FRB) passed a resolution invoking Section 13(3) of the Federal Reserve Act of 1913 (12 U.S.C. § 343) to allow the FRBNY to extend to AIG a loan of up to $85 billion, based on a finding of "unusual and exigent circumstances" —"that the disorderly failure of AIG was likely to have a systemic effect on financial markets that were already experiencing a significant level of fragility and that the best alternative available was to lend to AIG to assist it in meeting its obligations in an orderly manner as they came due" (FRB 2008a, 4; GPO 2007a).[4] The FRBNY could extend credit after it determined that AIG was unable to secure adequate credit accommodations from other

[4] The related press release used similar wording but also expanded on potential consequences—"a disorderly failure of AIG could add to already significant levels of financial market fragility and lead to substantially higher borrowing costs, reduced household wealth, and materially weaker economic performance" (FRB 2008b).

sources and the loan would have to be "secured to the satisfaction" of the FRBNY. (FRA 1913).

To "best protect the interests of the US government and taxpayers," the Board discussed "collateralizing the loan with all the assets of AIG, receiving a 79.9 percent equity interest in AIG, and reserving the right to veto the payment of dividends to common and preferred shareholders" (FRB 2008a, 4). (All these terms were eventually included in the Revolving Credit Facility, or RCF.) The loan would "not exceed a period of 24 months," with the possibility of a future extension by the FRBNY, through consultation with the FRB (FRB 2008a, 4).

The FRBNY negotiated the Revolving Credit Facility with AIG, the primary objective of which was "to protect the US and global economies and the American people from the devastating effects that [AIG's] disorderly failure would have caused in the then prevailing economic environment." (FRBNY 2012). Moreover, providing sufficient liquidity would prevent AIG's failure and help AIG "make appropriate dispositions of certain assets over time" (FRBNY 2012). As part of the credit extension, the government required CEO Willumstad to step down as chief executive of AIG (Geithner 2010, 1778-81). Treasury Secretary Hank Paulson recommended former Allstate CEO Ed Liddy as Willumstad's replacement and Liddy accepted (Geithner 2010, 1810-11). Liddy accepted the position of chairman and CEO of AIG and was voted in by the Board of directors.

*Credit Advanced to AIG Prior to Close of the RCF*

Between the announcement of the RCF on September 16 and September 19, the FRBNY advanced $37 billion to AIG, at a 14% interest rate, in four installments for the purpose of liquidity assistance to meet collateral calls and for general corporate purposes (FRB 2008c, 4). The FRBNY made these advances to AIG via four promissory notes that were payable on demand to the FRBNY, and which "were secured by a wide range of assets of AIG, including its ownership interest in certain subsidiaries." (FRB 2008c, 4). They had an initial 2% commitment fee, or $1.7 billion, of the aggregate $85 billion credit line (FRB 2008c, 4). Figure 3 below outlines the four demand note advances. Upon signing of the Credit Agreement and related documents establishing the RCF by all parties on September 22, the four demand promissory notes and any interest due on them were "cancelled and amounts due under such notes effectively were transferred to the revolving credit facility" and allocated toward the $85 billion commitment of the RCF (FRBNY 2008a, 33–34; FRB 2008c, 44).

**Figure 3: Four Demand Note Agreements, prior to RCF Execution**

| Date | Amount |
|---|---|
| September 16, 2008 | $14 billion |
| September 17, 2008 | $14 billion |
| September 18, 2008 | $6 billion |
| September 19, 2008 | $3 billion |
| Total | $37 billion |

*Source: FRBNY 2008b, Preamble.*

*The RCF Credit Agreement*

The FRB and AIG entered into the Credit Agreement, providing the terms of the RCF loan commitment on September 22, 2008 (FRBNY 2008a). The RCF provided AIG an $85 billion credit line (which included the $37 billion in demand advances). Any loans that AIG drew down under the RCF were due on maturity of the Credit Agreement, after approximately 24 months, on September 22, 2010, and carried an interest rate of three-month LIBOR plus 8.5% (FRB 2008b; FRBNY 2008a, 21). Interest was payable quarterly by increasing the outstanding principal by the amount of such interest, and any such added amount would also bear interest (FRBNY 2008a, 21). The interest rate, however, had a floor, where at minimum, the interest due with respect to the RCF loans could be no less than 3.5% per annum (the LIBOR floor) (FRBNY 2008a, 10).

In addition, the Credit Agreement provided for an annual commitment fee of 8.5% per annum, payable quarterly, with respect to undrawn amounts under the RCF (FRBNY 2008a, 21). The commitment fee was payable by adding such amount to the outstanding principal and would bear interest until paid (FRBNY 2008a, 21). AIG could have elected to pay any interest and fees in cash, rather than having these capitalized. However, any amounts not paid by the maturity date would be subject to a late fee of the then current interest rate, plus an additional 2% (FRBNY 2008a, 22). Over the lifetime of the RCF, the terms of the Credit Agreement were modified to better facilitate AIG's ability to repay loans, to ensure that credit ratings were improved or maintained, and to ensure the full repayment to the FRBNY for its assistance to AIG (US GAO 2011b, 7–11).[5]

As the parent company, AIG was the only entity allowed to authorize loan requests from the FRBNY and repayments for the RCF (FRBNY 2008a). The protocol for loan requests varied based on the size of the request and on the amount of requests submitted within a set period of days (FRBNY 2008a, 21). To borrow or prepay loan amounts, the FRBNY required advance notice from AIG of between one and three business days, subject to the amount AIG would request or would prepay (FRBNY 2008a, 21). AIG could not have requested more than two borrowings in excess of $10 billion each within any five business days without prior consent from the FRBNY (FRBNY 2008a, 20).

Although the total amount that AIG could borrow under the RCF (the Commitment) was set at $85 billion, the Commitment could have been reduced, according to the Credit Agreement (FRBNY 2008a, 4). With the consent of the FRBNY, AIG could have terminated, or permanently reduced, the Commitment under the RCF, as long as the Commitment was not reduced to less than the principal amount drawn at that time (FRBNY 2008a, 27). The partial reductions were also required to be at minimum amounts of $50 million and at an integral multiple of $10 million (FRBNY 2008a, 22).

Loans under the RCF were secured by most of AIG's assets, which included the stock of practically all of AIG's regulated subsidiaries (domestic and foreign) and the stock of its primary nonregulated subsidiaries (FRB 2008b). Additionally, as further consideration and protection of the taxpayer-funded RCF, AIG was to issue to the government an equity interest as discussed below in the Equity Interests subsection.

The FRBNY expected AIG to repay the loans primarily through the sale of assets. Section 2.10 of the Credit Agreement stated that "any and all Net Cash Proceeds received from an Asset Sale must be used to prepay outstanding Loans and accrued or unpaid interest, no later than the fifth business day after the sale" (FRBNY 2008a, 23). AIG was also required to use the cash proceeds from other major transactions, such as equity issuances, dividends received from subsidiaries, and any excess cash on hand, to repay loans (FRBNY 2008a, 23). AIG was

[5] These modifications included waiver and then suspension of the commitment fee and reduction of the interest rate, among other adjustments.

also subject to a number of customary restrictions on its operations, such as not taking on additional debt or equity interests (FRBNY 2008a, 42 - 48).

*The Guarantee and Pledge Agreement*

Concomitant with the execution of the Credit Agreement, the FRBNY and AIG signed a Guarantee and Pledge Agreement, pursuant to which AIG provided a guarantee and security interests in certain collateral to secure the FRBNY's commitment. AIG guaranteed that any net proceeds from the collateral, whether by sale or another transaction, would be paid to the FRBNY (AIG/FRBNY 2008, 2). The Guarantee and Pledge Agreement considered assets to include equity interests in subsidiaries in the form of capital stock shares, preexisting financing agreements and debt indentures, preexisting credit facilities, and loan agreements (AIG/FRBNY 2008, Schedule 4).[6] The Guarantee and Pledge Agreement limited the equity interests FRBNY would hold as collateral in any foreign subsidiary to 66% of all voting equity interests due to "the adverse tax consequences for AIG or its subsidiaries" that came with owning more (AIG/FRBNY 2008, 6).

*Equity Interests*

In extending credit to AIG, the Fed insisted that the government receive an equity interest in the company as well. This feature had several purposes: (1) to provide compensation to the government for the risks it was taking, (2) to address moral hazard, and (3) to provide the government some control over the company and protect its interests, and (4) to provide some upside benefit to the taxpayers if the company should rebound. (Geithner 2010, 1775-81).

AIG was to issue to an independent trust, "established for the benefit of the United States Treasury," 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock (Series C Preferred Stock), capable of being converted to 79.9% of outstanding AIG common stock, with antidilution provisions attached (FRB 2008c, 7; FRBNY 2008a, Exhibit D). The Preferred Stock also carried a liquidation preference of $5.00 per share, or $500,000 in aggregate (FRBNY 2008a, Exhibit D). It would also have shareholder voting rights on all common stockholder issues, except for any proposals that affected its equity stake, which included the issuance of new common stock (FRBNY 2008a, Exhibit D).

Originally, the trust could have converted the Series C Preferred Stock into 79.9% of the outstanding shares of AIG common stock, but this provision was later adjusted to 77.9% due to other equity interests in AIG acquired by the government (Treasury 2008).[7] (See discussion at "The First Restructuring Plan" subsection in the "Outcomes" section.) If converted, the government would have effectively held majority ownership in AIG (–FRBNY 2008a, Exhibit D). However, the Series C Preferred Stock could not be issued until the trust

[6] A portion of secured assets included equity interests in AIG subsidiaries such as: AIG BG Holdings, Inc.; AIG Capital Corporation; AIG Federal Savings Banks; AIG Retirement Services; AIG Trading Group; American International Underwriters Overseas, Ltd.; American Life Insurance Company; Transatlantic Holdings, Inc.; AIG Life Holdings LLC; AIG Castle Holdings LLC; and AIG Castle Holdings II LLC. AIG also included $1.16 billion in financial instruments to secure the RCF loans, as well as 64 financial agreements held by certain subsidiaries (COP 2010).

[7] The equity interest was specifically limited to be below 80% of the outstanding AIG common stock, the point at which AIG would have had to be consolidated into the government's balance sheet, something the government wished to avoid but ultimately did not because at one point it owned 92% of the company's common stock (COP 2010, 71–72).

was established on January 16, 2009,[8] and the necessary number of shares was authorized on March 4, 2009, which required a special shareholders meeting to vote on the issuance of new common stock sufficient to allow the trust to convert the preferred shares (FRBNY 2008a, Exhibit D). (See discussion at "The Second Restructuring Plan" subsection in the "Outcomes" section.)

The trust could receive any dividends paid on the common stock, equal to "dividends attributable to the [number of shares of common stock equal to 79.9%], minus the dividends, if any paid with respect to shares of common stock previously issued on any partial conversion" (FRBNY 2008a, Exhibit D).

## Outcomes

The FRBNY's outstanding assistance to AIG under the RCF peaked at $72.3 billion in late October 2008 (FRB n.d.). However, AIG continued to experience losses on subprime RMBS investments and collateral calls on CDS contracts during the third quarter of 2008 (Salter 2013, 23). In addition, Fed officials became concerned that the size and terms of the RCF would lead the credit agencies to further downgrade AIG's rating—the large RCF loan had substantially increased AIG's leverage ratio, and the high interest rate and commitment fee had lowered its interest coverage ratio (SIGTARP 2009, 12–13). Leverage and interest coverage ratio are two metrics that rating agencies use to assess a company's financial strength. (FRB 2008d, 4; SIGTARP 2009, 13) The government acted quickly to lower AIG's leverage by replacing debt with equity, and to ease its cash flow pressures, by amending the terms imposed by the original RCF agreements (FRB 2008d, 4–7).

*The First Restructuring Plan.* The FRBNY and Treasury announced the first of two restructuring plans on November 10, 2008 (FRB 2008d). Under this plan, Treasury would invest $40 billion in AIG through the recently enacted Troubled Asset Relief Program (TARP) in exchange for four million shares of AIG Series D Preferred Stock and a warrant to purchase 2% of AIG's outstanding common stock (Treasury 2011). The preferred shares provided for cumulative dividends and carried a liquidation Preference equal to $40 billion. (Treasury 2011, 1).

The plan indicated that AIG was to use proceeds from the Series D stock sale to pay down the amounts borrowed under the RCF. (Treasury 2011, 3) The repayment allowed the FRBNY to decrease the Commitment maximum from $85 billion to $60 billion, as shown in Figure 4 (SIGTARP 2009, 4).[9] The remaining $5 billion was allocated as cash on the balance sheet (YPFS 2018b).

The plan substantially eased the terms of the Credit Agreement, which had been intentionally designed to be more onerous than private sector alternatives (GAO 2011b, 123–130). The Fed stated the purpose was to "enhance AIG's ability to repay the credit extended in full" while allowing more time for the company to dispose of assets in an orderly manner (FRB 2008d, 6). The new agreement effectively cut the RCF interest rate almost in half, from 12%

[8] The reasons for the delay in establishing the trust are not entirely clear but could be related to the fact that the shares were not yet available and that the government was engaging in other transactions with AIG such as Treasury's Troubled Asset Relief Program (TARP) investment, which might have seemed more pressing.

[9] For a description of the other economic elements of the First Restructuring Plan, see Buchholtz 2021a.

to 6.5%.[10] (See Figure 5.) The new agreement also extended the maturity of the RCF loan from two years to five years (until September 22, 2013) and slashed the commitment fee from 8.5% to 0.75%. (FRB 2008d, 6). The 79.9% equity interest of the Series C Preferred Stock issued pursuant to the Credit Agreement was also decreased to 77.9%, adjusting for the 2% equity under the Series D Warrant issued to Treasury and maintaining the government's overall stake in AIG under 80% (Treasury 2008).[11,12]

*The Second Restructuring Plan***.** The government restructured the agreement a second time on March 2, 2009, after AIG reported a $99 billion net loss for 2008 (FRB 2009a, 3).

The FRBNY amended the Credit Agreement to remove the 3.5% LIBOR floor, allowing the interest rate to float down if the base rate did, which occurred immediately (FRB 2009a, 6). (See Figure 5.) The Fed also decided that as partial repayment of the RCF, the FRBNY would accept nonvoting preferred interests in two AIG special purpose vehicles (SPVs) (FRB 2009a, 6). AIG would form the SPVs to hold 100% of the common stock in two of its largest life insurance holding companies: American Life Insurance Company (ALICO SPV) and American International Assurance Company Ltd. (AIA SPV) (FRB 2009a, 6).

In December 2009, the FRBNY received $16 billion in preferred interests in the AIA SPV and $9 billion in preferred interests in the ALICO SPV, each with a liquidation preference of equal value (FRB n.d.). In return, the Commitment of $60 billion, and the then outstanding balance of approximately $42,468 billion, were each decreased by the $25 billion aggregate value of the SPV preferred interests (FRBNY 2009a, 4; FRB n.d.). For more information on the Second Restructuring Plan, please refer to Buchholtz and Lawson 2021a.

Additionally, on March 4, AIG issued the Series C Preferred Stock to the AIG Credit Facility Trust (the trust). (AIG 2009a). The FRBNY established the trust on January 16, 2009, appointing three independent trustees to manage the trust in consultation with Treasury, based on their having "integrity, impeccable reputations in the marketplace and a unique combination of experience successfully leading major corporations and working in the public sector" (FRBNY 2009b; FRBNY 2010a). The FRBNY appointed Jill M. Considine, Chester B. Feldberg, and Douglas Foshee as trustees (FRBNY 2010a). For more information on the AIG Credit Facility Trust and its role managing the Series C Preferred Stock, please refer to Buchholtz and Lawson 2021b.

*The Recapitalization Plan.* On September 30, 2010, the government announced that it had come to terms with AIG on a Recapitalization Plan for the RCF, which would result in the repayment of all amounts outstanding under the RCF and cancellation of the Commitment and RCF (Treasury 2010). The FRBNY, Treasury, AIG, two related insurance SPV

---

[10]The terms were revised from three-month LIBOR plus 8.5% to three-month LIBOR plus 3.0% and continued to include a 3.5% LIBOR floor (Buchholtz 2021a, 6).

[11] See the discussion at Key Design Decisions No. 13.

[12] Also, under the restructuring plan, the Fed announced that it would create two companies to acquire troubled mortgage-backed securities and CDOs from AIG and gradually sell them as market conditions improved (FRB 2008d, 7–9). These companies would be named Maiden Lane II and Maiden Lane III, respectively.

subsidiaries, and the trust all signed a Master Transaction Agreement dated December 8, 2010 (AIG et al 2010).

In January 2011, AIG repaid to the FRBNY the $20.6 billion of debt outstanding under the RCF, with the proceeds from two separate transactions involving the two SPV insurance subsidiaries (AIG et al 2010, 28–29; FRBNY 2011). This transaction effectively ended the RCF and terminated the Credit Agreement; all amounts due were paid in full (AIG et al 2010, 28–29; FRBNY 2011).

Also, as part of the Recapitalization Plan, the trust converted the Series C Preferred Stock into 563 million shares of AIG common stock and transferred that common stock to the Treasury's General Fund (AIG et al 2010). As a result, when added to other shares that had been acquired, the Treasury owned an aggregate equity stake in AIG of 92% (Treasury 2011). As a result of the transfer, the trust disbanded (AIG et al 2010).

FRBNY had to seek professional aid from a number of different vendors in order to help manage and administer the RCF, through investment banking advisory, due diligence services, legal services, and valuation services (US GAO 2011a, 168).

See Figure 4 for the changes in the Commitment and the outstanding balance under the RCF at different points during its existence.

**Figure 4: Changes to the Revolving Credit Facility Commitment for Specific Dates from September 2008 to January 2011[1]**

| Date | Max. Amount of Commitment (in billions) | Outstanding Balance under RCF (in billions)[2] | Comment |
|---|---|---|---|
| September 16, 2008 | $85,000 | $0 | The FRBNY announced $85 billion emergency credit line for AIG. |
| September 22, 2008 | $85,000 | $42,066[3] | Revolving Credit Facility (RCF) is executed and officially implemented. |
| November 10, 2008 | $85,000 | $63,376 | First Restructuring Plan (1stRP) is announced. |
| November 25, 2008 | $60,000 | $35,430 | 1st RP is executed. $40 billion TARP investment from Treasury helped pay down RCF principal balance owed. Overall Commitment reduced. |
| March 2, 2009 | $60,000 | $42,468 | Second Restructuring Plan (2ndRP) is announced. |
| December 1, 2009 | $35,000 | $21,652 | 2nd RP is executed. $16 billion in preferred shares in AIA SPV and $9 billion in preferred shares in ALICO SPV applied to RCF as debt forgiveness. |
| May 6, 2010 | $34,000 | $28,384 | Proceeds from sale of HighStar Port Partners, L.P. and other small AIG subsidiaries applied to partially repay RCF balance. |
| August 20, 2010 | $30,000 | $20,717 | Proceeds from sale of International Lease Finance Corporation debt issuances partially repay RCF balance. |
| September 30, 2010 | $30,000 | $20,018 | Recapitalization Plan announced. |
| January 14, 2011 | $0 | $0 | AIG completed repayment of the RCF using proceeds from the AIA and ALICO transactions. |

*Notes: [1] Does not include all intervening transactions*
*[2] The outstanding balances include any capitalized interest and fees in addition to the principal balance debt from the RCF.*
*[3] Outstanding balance includes $37 billion advanced to AIG between September 16 and September 19 via four demand notes.*
*Sources: COP 2010; FRB n.d.*

# II. Key Design Decisions

## 1. The Revolving Credit Facility was created as part of a multifaceted intervention by the government.

The Revolving Credit Facility, approved and announced on September 16, 2008, a day after the bankruptcy of Lehman Brothers, was the first of what would be a large package of assistance established by the government to address the insurance giant's severe liquidity and capital issues (FRB 2008b; FRBNY 2008a). Interventions would be funded by the FRBNY and Treasury; would include direct loans, asset purchases, and capital injections; and would become the government's largest intervention for any one entity, totaling $182.3 billion (Treasury 2013, 14).

**2. The Federal Reserve authorized the RCF pursuant to its emergency lending authority under Section 13(3) of the Federal Reserve Act.**

Originally having discouraged AIG from seeking a loan based on Section 13(3), the FRBNY over the September 13–14 weekend considered other routes of assistance for AIG. These included providing access to the Primary Dealer Credit Facility, seeking financing through the Federal Home Loan Bank System, and finding a private sector solution for funding via acquisition (US GAO 2011b, 19–31). FRBNY officials told the US Government Accountability Office (US GAO) that the amount of credit required by the parent would be too large for any AIG subsidiary to obtain, and that, at that point, the timing was too tight to consider alternatives to the Fed credit line (US GAO 2011b, 19–24, 42–43).

Nevertheless, once Lehman Brothers failed, the Federal Reserve Board authorized the FRBNY to enter into the RCF pursuant to Section 13(3) of the Federal Reserve Act, the Board's emergency lending authority, which has three basic requirements: (i) the Board must determine that "unusual and exigent" circumstances exist, by the affirmative vote of at least five members; (ii) the loans must be secured to the satisfaction of the lending reserve bank; and (iii) the lending reserve bank "must have obtained evidence that adequate credit was not available from other banking institutions" (GPO 2007a, 112). In determining that exigent and unusual circumstances existed, the Board considered the size of AIG and that it "faced the imminent prospect of declaring bankruptcy." Further, it also considered "the effect of AIG's disorderly failure on financial markets, the position of the Department of the Treasury on an extension of credit to AIG, and the circumstances presented by this situation as compared with situations recently confronted by the Board." In light of these facts, the Board concluded "that the disorderly failure of AIG was likely to have a systemic effect on financial markets that were already experiencing a significant level of fragility and that the best alternative available was to lend to AIG to assist it in meeting its obligations in an orderly manner as they came due" (FRB 2008a, 3–4).

Thus, the Board authorized the FRBNY to extend the RCF consistent with the general terms also approved by it, although the Board did not approve the ultimate terms that were included in the Credit Agreement, some of which differed from the term sheet approved by the Board (FRB 2008a, 3–4; US Court of Federal Claims 2015, 20).

Former FRBNY President Geithner has provided further elaboration on the Board's decision. When Lehman Brothers filed for bankruptcy on September 15, it was received like a hurricane heightening panic throughout financial markets and causing already tightened credit markets to all but freeze. (US GAO 2011b, 7). Over the prior week, AIG's extreme liquidity needs, had worsened and two rounds of seeking a private sector solution had failed; it did not seem that there was adequate private funding available to meet AIG's needs (US GAO 2011b, 35). In the case of aiding an individual firm, and more specifically, a nonbank institution such as AIG, the objective in Geithner's view was to "minimize or mitigate the damage to the economy" (Geithner 2014b, 1708).

Finally, authorization under Section 13(3) also required that the credit could be "secured to the satisfaction" of the lending Reserve Bank (GPO 2007a). Different from the case of Lehman, where its assets were difficult to assess and were ultimately deemed by FRBNY inadequate to serve as collateral against a loan of the size needed, AIG's insurance subsidiaries were believed to be relatively sound and could continue to provide strong cash flows or could be sold to make up for any losses on the overall company and repay any federal assistance (Geithner 2014a, 193; Geithner 2019, 23). By taking a security interest in the majority of AIG's assets, including the equity in its insurance subsidiaries, FRBNY believed that its loan would be adequately secured.

### 3. The RCF was administered by the Federal Reserve Bank of New York.

The RCF was administered by the FRBNY. As it was similar to other types of lending that the Reserve Bank did, the RCF, per se, did not at first pose particular administrative challenges. However, as discussed in Wiggins et al. 2021, because of the size and nature AIG's businesses, being a nonbank insurance company not usually dealt with by the FRBNY, certain challenges arose in managing the AIG stakeholders and later other elements of the government's response.

Consistent with standard practice, Section 5.04 the Credit Agreement signed in September 2008 required AIG to provide the FRBNY with certain financial statements on a periodic basis so that it could monitor its operations—"its consolidated balance sheet and related statements of income, stockholders' equity and cash flows showing the financial condition of [AIG] and its consolidated Subsidiaries" within 90 days of the end of the fiscal year, with unaudited reports coming sooner (FRBNY 2008a, 35–36). Section 5.05 also imposed detailed additional reporting requirements, such as in the case of a default, a change in AIG's corporate rating, or judicial proceedings made against AIG or its subsidiaries. (FRBNY 2008a, 38–39).

### 4. Both the Federal Reserve and Treasury were active in publicly explaining the details of the RCF in Congressional hearings and to both industry insiders and the public.

Given the size of the RCF and the overall government assistance to AIG, there has been much disclosure and interest in its details. Often, the terms, details, and utilization of the RCF were discussed in connection with other government action. However, from the beginning, there were also singular communications regarding it.

In testimonies to the Congressional Oversight Panel (COP), officials at FRBNY and Treasury repeatedly stated they had a "binary" choice between letting AIG fail or rescue the entire institution (COP 2010, Executive Summary). Tom Baxter, who was the General Counsel at the FRBNY, agreed with this sentiment and suggested that the consequences of bankruptcy would have been far worse than a wholesale rescue (COP 2010, Section 254).

Then–Federal Reserve Board Chairman Ben Bernanke testified in front of the Senate Committee on Banking, Housing, and Urban Affairs on the RCF's impact on the firm. "To mitigate concerns that [the loan] would exacerbate moral hazard and encourage inappropriate risk-taking in the future, the Federal Reserve ensured that the terms of the credit extended to AIG imposed significant costs and constraints on the firm's owners, managers, and creditors" (Bernanke 2008). However, significant internal discussions about the punitive pricing of the initial terms of the loan were had at the FRBNY. (See Key Design Decisions No. 9 for more details.)

Bernanke, in October of 2008, gave a speech at the National Association for Business Economics that also framed the Fed's loan to AIG in a more systemic way. Bernanke explained that, "In the case of AIG, the Federal Reserve and the Treasury judged that a disorderly failure of AIG would have severely threatened global financial stability and the performance of the US economy" (Bernanke 2008).

The Fed would dramatically alter the terms of the RCF in a Restructuring Plan that was released at 6:00 a.m. on November 10, 2008, the same day AIG's earnings release was made because officials anticipated that AIG would show large losses and be a prime target for a ratings downgrade (US GAO 2011b, 52–53). Even with less certainty around a downgrade, FRBNY officials explained that, "government action still would have been necessary, because markets would have punished AIG when it released its earnings report (US GAO 2011b, 53)."

5. **The FRBNY required CEO Robert Willumstad to step down, to be replaced by a new CEO recommended by the government.**

The private sector term sheet contained the condition that any possible investment in AIG must include the "replacement of AIG senior management, including the chief executive officer" (US GAO 2011b, 27).

Secretary Geithner later stated that the market's lack of confidence in AIG, or the market's perception, influenced the government's decision to change AIG's management and replace CEO Willumstad in September 2008 (Geithner 2014b, 1777–1778).

Secretary Geithner later recalled that Secretary Paulson had suggested Ed Liddy to replace Willumstad as AIG CEO "because he was judged as a person with enough relevant, credible experience because [Liddy] managed a large insurance company" and because Secretary Paulson and his special adviser, Ken Wilson, "had a lot of confidence in [Liddy's] judgment" (Geithner 2014b, 1810). Liddy had experience serving as CEO of Allstate, another major insurance company, for eight years. (Geithner, 2014b, 1810).

6. **The FRBNY advanced $37 billion to AIG at a 14% interest rate, prior to the RCF becoming fully operational.**

AIG was in dire need for liquidity to meet collateral calls and satisfy large cash demands from securities borrowers. On September 16, AIG's board approved borrowing $14 billion through a demand note from the FRBNY, as well as additional demand notes, "as any Authorized Officer determines is necessary or appropriate to meet the liquidity needs of [AIG] prior to the execution of the definitive documentation of the Credit Facility." (US Court of Federal Claims 2015, 22–23). Secretary Geithner, in his memoir, *Stress Test*, stated that AIG had originally said it would need $4 billion to meet incoming collateral calls for the morning of the 16th but that AIG underestimated its cash needs and required $14 billion in immediate funds (Geithner 2014a, 196). Ultimately, through September 19, the FRBNY advanced $37 billion, evidenced by four Demand Notes payable to the FRBNY and secured by a range of AIG assets, prior to the execution of the Credit Agreement (FRBNY 2008b, 1).

In an interview YPFS conducted with Sarah Dahlgren, Head of the Supervisory Group at the FRBNY, Dahlgren said the decision to gradually extend the amounts over the course of four days was to ease into the FRBNY's exposure to AIG (YPFS 2018b). Stress scenarios and valuations were updated daily by Ernst & Young (EY) specialists and reported to then–President Geithner and the rest of the FRBNY's AIG team each morning, who would decide whether or not they were comfortable extending an additional advance (YPFS 2018b).

The Congressional Oversight Panel's June 2010 Oversight Report noted that between the announcement of the RCF and the actual implementation, Morgan Stanley and EY, whom the FRBNY hired for collateral valuation services in part due to their insurance expertise, completed their assessments of AIG's business (COP 2010, 227). While these assessments were in progress, the FRBNY was capable of securing any advances on the collateral that they valued as "satisfactory" for the amount extended (COP 2010, 227). The FRBNY argued that the ability to advance funds on interest-bearing notes and/or credit agreements was part of the Section 13(3) lending authority, which allows the Reserve banks to "discount" or purchase paper with interest (COP 2010, 226–227).

At the execution of the Credit Agreement, the FRBNY transferred over any existing credit and payments due from the advances to the RCF and then canceled the four demand notes (FRBNY 2008b, 1–2).

### 7. The FRBNY initially set the RCF at $85 billion.

Ultimately, with time playing a major factor, the FRBNY recommended extending a loan to AIG on a set of terms that was influenced by the $75 billion term sheet created by the unsuccessful private consortium (US GAO 2011b, 34–35). The FRBNY stated that it wanted to adhere to terms similar to those that the private sector group would have received in order to ensure taxpayers would receive a deal of equal or greater value (COP 2010, 71). However, some terms were altered by the FRBNY.

While the term sheet had proposed lending AIG $75 billion, the FRBNY added $10 billion as a "cushion … in anticipation of looming liquidity concerns, and because the FRBNY did not want to increase the line of credit at a later date" (COP 2010, 71). Also, the term was extended, the interest rate was increased, and the commitment fee was decreased. (See Key Design Decisions Nos. 9–11 below for further discussion of these terms.)

According to Federal Reserve Board staff, the loans provided by the RCF were to be utilized to "meet preexisting liquidity needs and not for investment in assets that would generate returns" (US GAO 2011b, 128). During a hearing of the House Committee on Oversight and Government Reform, Secretary Geithner noted that while this initial $85 billion credit line "stemmed the bleeding by satisfying AIG's immediate liquidity needs," it was not enough and required further restructuring and intervention by the government (Geithner 2010, 7).

### 8. The FRBNY secured the RCF on AIG's assets and equity interests in AIG subsidiaries.

According to Section 13(3) of the Federal Reserve Act, any Federal Reserve Bank, in this case the FRBNY, making a loan pursuant thereto, must secure any such loan "to the satisfaction of the Federal Reserve bank" (GPO 2007a). Geithner, who in 2008 was President of the FRBNY further explained this: "In the case of AIG, however, we believed there was a reasonable chance that AIG's assets in the form of its insurance businesses around the world were stable enough and valuable enough to support a loan large enough to prevent default." (Geithner 2014a, 193) By taking a security interest in the majority of AIG's assets, including the equity in its insurance subsidiaries, FRBNY believed that its loan would be adequately secured (Geithner 2019, 23).

Prior to the execution of the RCF on September 22, 2008, the FRBNY sent a team to AIG to "monitor collateral valuation practices, risk management, and exposures of various subsidiaries." Part of their job was to ensure that any funds AIG utilized from the RCF did not exceed the value of the collateral (US GAO 2011b, 43).

In exchange for the credit extended under the RCF, the FRBNY placed a lien on a large portion of the assets of the parent company, AIG International Group, Inc., and equity interests in AIG's domestic and foreign regulated subsidiaries (–FRBNY 2008b, Section 3). FRB General

Counsel Scott Alvarez said that proceeds from the sales of assets would help AIG repay the FRBNY all debt under the RCF (Alvarez 2010, 8). Treasury's Chief Restructuring Officer, Jim Millstein, said the value of the assets would protect taxpayers if AIG did not maintain its viability in the long run (Millstein 2010, 7).

In addition to the collateral posted under the Guarantee and Pledge Agreement, as additional consideration for the RCF, the 100,000 shares of Series C Preferred Stock issued also secured the loan (FRBNY 2008b, 16–18).

## 9. The interest rate was initially set at punitive levels but was later reduced.

During a crisis, central banks typically lend at interest rates that are lower than market rates but high compared to rates in normal times. However, the Fed initially set the interest rate and undrawn commitment rate on AIG's RCF at a level that would be called punitive. (US GAO 2011b, 123–126).

The original interest rate of the RCF was three-month LIBOR plus 8.5%, totaling 12%, which was greater than the rate the private sector consortium included on its term sheet, which was (unspecified) LIBOR plus 6.5% (US GAO 2011b, 125) (Also See Figure 5.) The rationale for the increase, according to a GAO analysis of FRB records and interviews with FRBNY officials, was to "impose terms sufficiently high to provide incentive for [AIG] to repay assistance, whether it borrowed all available or not" (US GAO 2011b, 90). According to FRBNY officials, many aspects of the initial terms resembled bankruptcy financing, and reflected the company's condition, the nature of its business, and the large exposure the government faced (US GAO 2011b, 126). The officials stated that the RCF's interest rate was higher than the rate the private sector had proposed because the loan had become riskier since origination of the private sector's term sheet, which was prior to Lehman Brothers' bankruptcy, and thus, the terms were intended to be onerous (US GAO 2011b, 126).

However, later reports reveal that there was concern about the rates, called "onerous," although there were no changes by the time the FRB approved the loan to AIG on September 16 (US GAO 2011b, 126). FRBNY discount window staff felt they were "extremely high and a burden to AIG and thus … contrary to the idea of trying to sustain the firm," according to the GAO (US GAO 2011b, 125). The Fed substantially lowered RCF rates in the first restructuring plan of November 2008, after significant internal discussions. Prior to the November 2008 restructuring, significant figures, such as Dan Jester from Treasury, made their opinions of the terms known. Jester "asked FRBNY to 'rethink the terms of the deal; deal was onerous" (US Court of Federal Claims 2015, 31–32). Tom Baxter even characterized the rate as "[m]ore of a loan shark" rate (US GAO 2011b, 32). However, FRBNY officials recounted that they "intended the original Revolving Credit Facility terms to be onerous, as a way to motivate AIG to quickly repay FRBNY and to give AIG an incentive to replace the government lending with private financing" (US GAO 2011b, 126).

Chairman Bernanke noted in a September 2008 Senate hearing that the high rates were justified to mitigate concerns that the extension of the $85 billion credit line "would exacerbate moral hazard and encourage inappropriate risk-taking in the future" (Bernanke 2008). Additionally, the FRBNY included a LIBOR floor rate of 3.5% to ensure that even if LIBOR rates fell throughout the RCF lifetime, the FRBNY would still be receiving adequate interest payments from AIG (US GAO 2011b, 125).

Per the FRB, the government reduced the RCF interest rate to three-month LIBOR plus 3.0% in November 2008 in the First Restructuring Plan in order "to enhance AIG's ability to repay the credit extended in full" (FRB 2008d, 6). The GAO reported that FRBNY believed that lowering the interest rate and the commitment fee (see Key Design Decisions No. 9 and No. 10), "reflected AIG's stabilized condition and outlook" after Treasury's $40 billion investment in new equity shares (US GAO 2011b, 129).

Through the Second Restructuring Plan, the government removed the LIBOR floor to help further lower the cost of borrowing under the RCF for AIG (US GAO 2011b, 129–130). Based on the then-current LIBOR rates and the outstanding balance on the RCF at the time, AIG estimated that the removal of the LIBOR floor would save AIG $1 billion in interest costs annually, further alleviating the insurance firm's ongoing liquidity problems (AIG 2009c).

**Figure 5: Comparison of Private Plan to the RCF and Its Restructuring**

| Loan Term | Private Plan | Original RCF | November 2008 Restructuring | March 2009 Restructuring |
|---|---|---|---|---|
| Amount | $75 billion | $85 billion | $60 billion | Announcement of future reduction; later set at $35 billion in December 2009 |
| Maturity | 18 months | 24 months | 5 years | 5 years |
| Rate on Drawn Amounts[13] | LIBOR +6.5%, with 3.5% LIBOR floor | LIBOR +8.5%, with 3.5% LIBOR floor | LIBOR +3.0%, with 3.5% LIBOR floor | LIBOR +3.0% (elimination of floor amount) |
| Rate on Undrawn Amounts | — | 8.5% | 0.75% | 0.75% |
| Commitment Fee | 5.0% | 2.0%[14] | N/A | N/A |
| Other Fee | 1% at 6 months, 1% at 12 months | — | — | — |
| Default Rate | — | Normal rate +2.0% | Normal rate +2.0% | Normal rate +2.0% |

*Sources: US GAO 2011b.*

## 10. The RCF carried a one-time commitment fee of 2%.

The initial commitment fee was 2% of the aggregate amount available under the RCF. This came out to about $1.7 billion dollars (FRB 2008c, 4). While the terms of the FRBNY loan were generally harsher than those that the private sector proposed, the commitment fee was far less than the 5% that it would have been under the private plan (US GAO 2011b, 125).

[13] The rate on the private plan was stated generally as LIBOR, while the FRBNY loan specified three-month LIBOR.

[14] AIG received a $500,000 credit on FRBNY's commitment fee, related to payment for preferred shares.

### 11. An annual fee on undrawn funds was initially set at 8.5% and later reduced to 0.75%.

Under the Credit Agreement, the FRBNY charged AIG a commitment fee of 8.5% per annum of the daily amount of the Commitment that was undrawn, payable on a quarterly basis, despite such a fee not being included in the original, private sector initiative that had existed prior to Lehman's failure (FRBNY 2008a, 21; US GAO 2011b, 124–126). The GAO reported that the FRBNY included the fee to ensure that taxpayers were being compensated "whether AIG used the facility or not" (US GAO 2011b, 126).

The motives to reduce the commitment fee during the First Restructuring Plan were similar to the reason for reducing the interest rate (discussed in Key Design Decisions No. 9), to increase the insurer's capacity to repay its loan (FRB 2008d, 6). Per an FRBNY fact sheet circulated in November 2008, the lower interest rate and commitment fee were a sign that AIG had begun to stabilize based on the possible impact of a $40 billion equity investment in the firm made by Treasury under TARP (US GAO 2011b, 129).

### 12. The maturity of the RCF was initially set at two years and later extended to five years.

The initial government term sheet presented to AIG lengthened the private sector maturity date of the RCF from 18 months to 24 months in order to provide AIG with additional time to repay any borrowings from the FRBNY and to allow AIG ample time to sell off its life insurance subsidiaries and securities (US GAO 2011b, 125).

Treasury stated that the November 2008 extension of the RCF's maturity date to five years (September 22, 2013) was intended to provide AIG "… adequate time to affect its asset disposition plan in a manner most likely to achieve favorable returns for the sale of its various businesses" (FRB 2008d, 6). Donald Kohn, Vice Chairman of the FRB, testified that the actions taken on November 10 were "designed to facilitate AIG's execution of its divestiture plan in an orderly manner, and thereby protect the interests of the taxpayers, both by preserving financial stability and by giving AIG more time to repay the Federal Reserve and return the Treasury's investment" (Kohn 2009).

### 13. The government took a 79.9% equity stake in AIG, which was administered by an independent trust.

As a condition of the RCF, AIG was required to issue to the government a 79.9% equity interest in the company, which would be held by an independent trust established by FRBNY for the benefit of the Treasury. (See Buchholtz and Lawson 2021b.) This feature had several purposes: (1) to provide compensation to the government for the risks it was taking, (2) to address moral hazard, and (3) to provide the government some control over the company and protect its interests, and (4) to provide some upside benefit to the taxpayers if the company should rebound. (Geithner 2010, 1775-81, 1811-23). Treasury's Chief Restructuring Officer, Jim Millstein, said the equity interest was included "to provide additional compensation to taxpayers for their assistance, and to penalize the shareholders of [AIG] for the fact that [AIG] had no alternative but to ask the government for extraordinary assistance" (Millstein 2010, 7).

AIG's board of directors met on September 21, 2008, with the expectation that they would be issuing to the US government a set of warrants with nonvoting rights.[15] However, after a proposal by the FRBNY, they agreed upon the issuance of preferred stock instead of warrants (US Court of Federal Claims 2015, 25–26). Preferred stock granted Treasury voting rights once the stock was issued, while warrants would have granted voting rights only after they were exercised (US Court of Federal Claims 2015, 25). To exercise the warrants, Treasury would have had to pay an estimated strike price of $30 billion (US Court of Federal Claims 2015, 25).

The 79.9% equity stake in AIG was included in the private sector term sheet, according to the COP (COP 2010, 72). Although it was extraordinary for the Federal Reserve to insist on government equity as a condition for a loan, the FRBNY believed that "the taxpayer should receive the same terms and conditions that the private sector wanted," according to the COP (COP 2010, 72). Additionally, a maximum 79.9% stake allowed the trust the largest share of ownership without requiring the government to consolidate AIG's debts and assets onto its own balance sheet, as would be required by generally accepted accounting principles (GAAP). This approach was similar to the government stakes in rescues earlier that month of Fannie Mae and Freddie Mac. In addition to the preferred stock, the government also received warrants to purchase common stock representing 79.9 % of the common stock of each government-sponsored enterprise (COP 2010, 71–72).

In the same vein, the original 79.9% equity stake of the Series C Preferred Stock decreased to 77.9% after Treasury's November 2008 TARP investment provided a warrant to purchase up 2% of AIG common stock (COP 2010, 71–72). The equity stake was decreased to maintain the FRBNY's overall equity stake in AIG under 80% (COP 2010, 71–72). To read more information about the Series C Preferred Stock and the AIG Credit Facility Trust, please refer to Buchholtz and Lawson 2021b.

### 14. The Commitment under the RCF was aggressively reduced over time.

As mentioned in Key Design Decisions No. 12 the government extended the term of the RCF under the Second Restructuring Plan from a two-year to a five-year period, with a new maturity date of September 22, 2013. Yet, the Commitment was reduced in an aggressive manner, so that all loans outstanding under the RCF were repaid and the RCF terminated by January 14, 2011. According to Sarah Dahlgren, the reductions of the Commitment were all aimed at satisfying the credit rating agencies and, therefore, about "trying to get AIG to the right balance sheet structure, [and make AIG] an ongoing company that looked like a normal company" (YPFS 2018a).

Formal reductions of the Commitment and repayment of outstanding loans were enacted through two restructurings and a Recapitalization Plan agreed to by AIG, the FRBNY, and

---

[15] The "equity kicker" as originally conceived was also similar to the government's terms in the rescues, earlier that month, of Fannie Mae and Freddie Mac, where the government received preferred stock for its loan commitments and also received warrants to purchase common stock representing 79.9 % of the common stock of each government-sponsored enterprise (Jester et al. 2018, 10; Millstein 2010, 71–72). In the Starr International case, the trial court found that the term sheet approved by the Board of Governors did not include key features; it originally stated that the form of equity would be warrants not convertible, nonvoting preferred stock, and that the stock would be held by an independent trust (US Court of Federal Claims 2015, 20–26).

Treasury, which implemented amendments to the Credit Agreement and provided additional government investments in AIG. Restructurings "reduced AIG's degree of indebtedness and improved its ability to cover interest payments," two crucial aspects utilized by "the marketplace and rating agencies in assessing AIG's future risk" (US GAO 2011b, 129). Dahlgren stated that for any repayment toward the RCF through the restructurings, the FRBNY always considered the impact on the balance sheet's capital structure, what AIG would look like to external parties like the credit rating agencies and investors, and how the government's risk exposure would change (YPFS 2018a).

The first formal decrease of the Commitment from $85 billion to $60 billion came after a large portion of Treasury's TARP investment in November 2008 paid down part of AIG's outstanding debt balance under the RCF (US GAO 2011b, 129). Per FRBNY officials, the announcement of this first restructuring was intended to coincide with the reporting of AIG's third quarter results, assuming that quarterly losses would result in additional downgrades by rating agencies and would thus hinder the government's and AIG's effort to stabilize the company (US GAO 2011b, 52–53).

The government aimed to reduce the Commitment and AIG's outstanding loans under the RCF even further under the Second Restructuring Plan in March 2009. However, the debt reduction did not formally occur until December of that year, after the FRBNY accepted $25 billion worth of preferred interests in both the AIA SPV and the ALICO SPV (Webel 2017, 14). According to Scott Alvarez, the FRB's General Counsel, the FRB considered the SPVs "incidental to the collection of debt" under the banking concept of debt previously contracted, where the equity interest could be sold as a way of recouping debt on the RCF (YPFS 2018b).

FRBNY officials stated that the March 2009 plan more heavily focused on "AIG's asset sale plans and the performance of its insurance subsidiaries," with credit ratings continuing to effect the FRBNY's decisions surrounding AIG assistance (US GAO 2011b, 53). Based on an interview conducted by the GAO with an FRBNY advisor, on the Second Restructuring Plan (US GAO 2011b, 53): "… potential losses, combined with AIG's deteriorating business performance, difficulties selling assets, and a volatile market environment, meant that a ratings downgrade was likely unless the government took additional steps to assist the company … a main rating agency concern was whether AIG could successfully execute its restructuring plan over the multiyear period envisioned."

Finally, the Recapitalization Plan reduced the Commitment to zero following the repayment of the RCF on January 14, 2011, well in advance of its September 2013 maturity date (Treasury 2011). For more details on the sources of the reductions, please refer to the Outcomes section and Figure 4.

### 15. The FRBNY would exit the RCF only when AIG normalized operations.

The FRBNY's Head of the Supervisory Group, Sarah Dahlgren, said that the FRBNY's investment would only be exited once AIG was believed to be stable, where it could operate as a "normal company." According to Dahlgren, some people in the FRBNY believed that exiting the RCF sooner, within six months to a year, was in the best interest of protecting the taxpayer. However, it was also understood that unwinding the company through the sale of various assets to make AIG look like a normal company again would take time. Moreover, the FRBNY wanted to ensure that its exit would not leave AIG in a position where it would revert back to its original problems and eventually fail (YPFS 2018a).

# III. Evaluation

The RCF was the first of many actions the US government took to rescue AIG. Although the government's commitment of $85 billion was $10 billion more than the $75 billion proposed in the private sector solution, the $85 billion facility proved insufficient to meet AIG's needs (COP 2010, 84). It was soon realized that the firm's problems were not only liquidity constraints but also issues such as devaluation of assets that weakened it and risked downgrades (COP 2010, 84–87). The government extended new programs and interventions to AIG, just weeks following the RCF's implementation, as cash collateral calls and liquidity drains only grew through the end of 2008 (SIGTARP 2009, Introduction). Additionally, two restructuring plans (November 2008 and March 2009) and a final Recapitalization Plan (September 2010) were implemented by the government over the RCF's lifetime. Each significantly affected the RCF.

It should be noted, however, that the RCF was an unprecedented undertaking by the Fed and was implemented at a time of  extreme stress for the financial system; the FRBNY had little information about AIG's true financial situation. Given, this, it not so surprising that as the FRBNY learned more about the company's real situation, changes were needed.

The sheer size of the FRBNY and Treasury's overall rescue of AIG, amounting to around $182 billion, has been heavily criticized, as the funds came from taxpayer money and no one was sure whether AIG would be capable of repaying all loan amounts (US GAO 2011b, Summary).[16] Many observers questioned why the Fed assisted AIG less than 24 hours after Lehman failed without government assistance. House Speaker Nancy Pelosi believed the "staggering sum" extended by the FRBNY to AIG was "just too enormous for the American people to guarantee" (Andrew, de la Merced, and Walsh 2008). One scholar has opined that it is likely the case that no matter how the FRBNY acted, its actions would have received criticism (Goodfriend 2011, 6–7). Whether the FRBNY provided a smaller loan, provided a larger loan, or did nothing at all, Congress was likely to get involved (Goodfriend 2011, 6–7).

Still, the Obama Administration, Treasury, and the FRBNY viewed the overall intervention for AIG as reasonably successful, given that the firm avoided bankruptcy and ultimately repaid all amounts owed to the FRBNY and to AIG counterparties. Moreover, the government reported a net gain for taxpayers (Anderson 2012). Officials have characterized the RCF terms as "harsh," "onerous," and "punitive," intended to force AIG's hand to sell assets and downsize (US Court of Federal Claims 2015, 31–32). The government moved to ease such terms less than two months after the initial loan (US Court of Federal Claims 2015, 32). Nonetheless, while one FRBNY official has likened the RCF to debtor-in-possession financing, the official said that the terms were consistent with Section 13(3) because, if a loan is risky, there must be sufficient protection for the Reserve Bank making it (US GAO 2011b, 90).

Another commenter has noted that AIG used much of the loans drawn under the RCF to pay off "debt holding counterparties, which were paid in full without giving up any formal reductions, where some of the $85 billion could have been saved were third-party bank creditors negotiated with" (Davidoff 2009).

In a study conducted at the Berlin School of Economics and Law, researchers analyzed the decisions of the Federal Reserve  across a variety of programs and facilities and evaluated levels of effectiveness, transparency, availability of options, and consistency. The study concludes that the Fed's decisions to save AIG and Bear Stearns (while letting Lehman fail)

[16] For a summary of the government's overall rescue of AIG, please refer to Wiggins et al 2021.

were fairly effective (according to the study's metrics), but the arguments by the Fed for the interventions were unconvincing, as the rescues did not help build trust toward market principles (Herr, Rüdiger, and Wu 2016, 205). The paper recognizes that the Fed considered that AIG's core business of insurance was stable enough to be an attractive sale to investors, whereas no one in the market was attracted to Lehman's offerings at the time (Herr, Rüdiger, and Wu 2016, 205). Thus, the decision to rescue AIG and Bear Stearns and let Lehman fail scored low on the study's score system, representing a decision that was "justified and following the right intentions, but not satisfying in its results or involving too much risk on the taxpayers' side and creating wrong incentives for market participants" (Herr, Rüdiger, and Wu 2016, 202). While evaluating the level of transparency, the researchers find that it was still unclear why the government saved AIG, pointing out that the Fed argued that there was "no time to follow a procedure following market principles" (Herr, Rüdiger, and Wu 2016, 205). Transparency on the decision to rescue the financial institutions received the lowest possible score, with the study concluding that poor transparency contributed to market destabilization, as well as the public's negative impression that the Fed was protecting Wall Street's interests, not Main Street's (Herr, Rüdiger, and Wu 2016, 205).

Another paper by Jin Wook Choi assesses AIG's rescue as a prime example of how the government encouraged a general sentiment of "too big to fail," for a variety of reasons. First, Choi points out that the terms of borrowing were more favorable to AIG than any other financial institution during the financial crisis, especially following the First Restructuring Plan on November 10, 2008 (Choi 2013, 73). However, he makes no reference to the equity interest dilution included in the RCF, which others have argued made it a particularly stringent deal for AIG. Second, Choi argues that the entire sum of the rescue cost US taxpayers more money than needed (Choi 2013, 73). The FRBNY did not attempt to include any concessions or haircut discounts from AIG creditors, leaving the full burden of the cost on AIG shareholders and US taxpayers. AIG made payments, if not all, toward collateral calls and the unwinding of the CDS portfolios—which the RCF partially funded—at face value, instead of a lower market value (Choi 2013, 73). Finally, Choi points out that the government's actions created a general moral hazard problem, where institutions may seek to continue risky behavior in the marketplace with the idea that the government will save them if market conditions became unstable (Choi 2013, 73).

Contrary to Choi's point of view, many others believe that the original terms of the Credit Agreement, the extension of an $85 billion credit line up-front, as well as the interest rates and fees attached, were actually a heavy burden for AIG (US Court of Federal Claims 2015, 31–32). Though both the FRBNY and AIG came to an agreement, some have characterized the conditions of the original assistance as "relatively onerous terms with a high interest rate" (Webel 2009, Summary). To some, it seemed that the short duration of the loan of two years, with the interest rate and stringent commitment fee, was placing "a great deal of pressure on AIG to sell assets quickly, at deep discounts, in a weak market" (Salter 2013, 26). In order to alleviate those pressures, the threat from credit agencies of further downgrades, and mounting losses, the two parties restructured the Credit Agreement to slash the interest rate and commitment fee on undrawn funds of the RCF just a month and a half after its implementation (Salter 2013, 27). According to one Treasury official, reducing the AIG loan rate and implementing other facilities and investments in November 2008, was "the best way to stabilize AIG" and that "it gives the company the room it needs in its capital structure to execute its asset disposition plan" (Zuill 2008).

Other scholars have characterized the RCF intervention as a "forced takeover" or as a "quasi-nationalization" of AIG by the US government due to the Series C Preferred Stock and accompanying equity interest (Blinder 2013, 179). The inclusion of the Series C Preferred Stock in the Credit Agreement led one of AIG's largest shareholders, Starr International Company (Starr), to bring a derivative suit against the government and AIG in 2011, alleging that the government's rescue of AIG, specifically its assuming almost 80% of the equity ownership, "constituted a taking without just compensation and an illegal exaction, both in violation of the Fifth Amendment to the US Constitution" (Starr v. United States and AIG 2015, 1–2).

The FRBNY argued that although AIG's regulated subsidiaries and other assets secured the RCF, the "equity kicker" was necessary to ensure that it "provided a return to adequately compensate for the significant risk of lending to AIG" (HLR 2016, footnote 33).

The trial court found that the FRBNY's actions under the RCF amounted to an illegal exaction because (1) the Federal Reserve Act (FRA) did not authorize the bank to take a controlling interest in AIG, and (2) the Trust was not independent but under the control of the FRBNY. (Starr v. United States and AIG 2015, 62–67).[17] However, while the court found that the government's actions were not justified, it also found that such actions "did not cause any economic loss to AIG shareholders." (Starr v. United States and AIG 2015, 65–66). In the end, the court awarded zero damages to Starr, because it concluded that its AIG shares would have been worthless if the government not intervened (Starr v. United States and AIG 2015, 65–66).

Starr appealed the lack of damages to the Federal Circuit Court, which vacated the lower court's decision on the basis that Starr did not have standing to bring the case because the "federal illegal exaction claim" on which the case was based belonged exclusively to AIG, not to its shareholders (Starr v. United States and AIG 2017, 3). Therefore, the case has no precedential value.

Notably, in a separate opinion, concurring in part and supporting the majority's opinion, Justice Wallach, writes that he would have found that the government's actions were authorized under FRA Section 13(3) read together with Section 4(4)'s incidental powers provisions, which do not prohibit the taking of equity as the term of a loan. Under his view, because he would have found the actions authorized, such actions could not be the basis of an illegal exaction claim. (Starr v. United States and AIG 2017, pdf 51-60) Although Starr petitioned the Supreme Court to review the case, the court declined to hear it (Starr International Company, Inc. Petitioner v. United States 2017).

# IV. References

Alvarez, Scott G. 2010. "Testimony by Scott G. Alvarez, General Counsel, Board of Governors of the Federal Reserve System, before the Congressional Oversight Panel Regarding the Federal Reserve's Decision to Extend Credit under Section 13(3) of the Federal Reserve Act." Congressional Oversight Panel, US Congress, May 26, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Scott%20Alvarez,%20Gene

[17] Also see a related case, *Starr International Company, Inc. v. FRBNY 2012*, in which the court held that the FRBNY had not breached its fiduciary duty to AIG under Delaware corporate law. In considering the FRBNY's motion to dismiss, the court found that no such fiduciary duty existed because the FRBNY (1) did not control AIG as a majority shareholder, nor (2) exercise actual control over the company. In reaching its decision the court upheld the independence of the AIG Trust.

ral%20Counsel%20of%20Federal%20Reserve%20Board%20of%20Governors%20Testimony%20for%20COP_052610.pdf.

American International Group, Inc. 2008. “2Q 2008 Form 10-Q.” August 6, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/JX-041.pdf.

——. 2009a. “Certificate of Designations of Series C Perpetual, Convertible, Participating Preferred Stock.” New York: American International Group, Inc., March 2, 2009. https://ypfs.som.yale.edu/node/4235.

———. 2009b. “New Measures Will Reduce Debt Owed to Government, Strengthen Capital Based, Allow Time to Execute Restructuring Plan under Better Market Conditions.” Press release, March 2, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Press_Release_U.S._Government_Provides_Support_For_Continued_Restructuring_Of_AIG_20090302_1.pdf.

American International Group, Inc. (AIG), ALICO Holdings LLC, AIA Aurora LLC, Federal Reserve Bank of New York, US Department of the Treasury and AIG Credit Facility Trust. 2010b. “Master Transaction Agreement.” December 8, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Master_Transaction_Agreement_20101208.pdf. (AIG et al 2010)

American International Group, Inc. (AIG) and Federal Reserve Bank of New York (FRBNY). 2008. Guarantee and Pledge Agreement among American International Group, Inc. and the Federal Reserve Bank of New York. 22 September 2008. https://ypfs.som.yale.edu/library/guarantee-and-pledge-agreement-among-american-international-group-inc-and-federal-reserve (AIG/FRBNY 2008)

Anderson, Matt. 2012. “AIG Wrap-Up: Treasury Sells Final Shares of AIG Common Stock, Positive Return on Overall $182 Billion AIG Commitment Is Now $22.7 Billion.” United States Department of the Treasury, December 12, 2012. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG%20WRAP-UP_%20Treasury%20Sells%20Final%20Shares%20of%20AIG%20Common%20Stock,%20Positive%20Return%20on%20Overall%20$182%20Billion%20AIG%20Commitment%20Is%20Now%20$22.7%20Billion.pdf.

Andrew, Edmund L., Michael J. de la Merced, and Mary Williams Walsh. 2008. “Fed’s $85 Billion Loan Rescues Insurer.” *New York Times*, September 16, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/NYT_Fed's_$85_Billion_Loan_Rescues_Insurer_20080917.pdf.

Bernanke, Ben S. 2008. “US Financial Markets.” Testimony of Ben S. Bernanke before the Committee on Banking, Housing, and Urban Affairs, US Senate, September 23, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/fcic-docs/2008-09-23%20Bernanke%20Financial%20Markets%20(Senate%20Testimony).pdf.

Blinder, Alan S. 2013. *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead*. New York: Penguin Group. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/After%20the%20Music%20Stopped_%20The%20Financial%20Crisis,%20the%20Response,%20and%20the%20Work%20Ahead%20-%20Alan%20S.%20Blinder%20-%20Google%20Books.pdf.

Buchholtz, Alec, and Aidan Lawson. 2021a. "The Rescue of American International Group, Module C: AIG Investment Program." *Journal of Financial Crises* 3, no. 1. https://elischolar.library.yale.edu/journal-of-financial-crises/.

Buchholtz, Alec, and Aidan Lawson. 2021b. "The Rescue of American International Group, Module F: Credit Facility Trust." *Journal of Financial Crises* 3, no. 1. https://elischolar.library.yale.edu/journal-of-financial-crises/.

Choi, Jin Wook. 2013. "The 2007–2010 US Financial Crisis: Its Origins, Progressions, and Solutions." *Journal of Economic Asymmetries* 10 (November): 65–77. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Choi_Journal_of_Economic_Assymetries_The_2007-2010_US_Financial_Crisis_201311.pdf.

Congressional Oversight Panel (COP). 2010. "The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy." June 2010 Oversight Report, Congressional Oversight Panel, US Congress. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Congressional_Oversight_Panel_June_2010_Report_20100610_2.pdf.

Dash, Eric, and Andrew Ross Sorkin. 2008. "Throwing a Lifeline to a Troubled Giant." *New York Times*, September 17, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Throwing%20a%20Lifeline%20to%20a%20Troubled%20Giant%20-%20The%20New%20York%20Times.pdf.

Davidoff, Steven M. 2009. "Short-Term Solutions to Long-Term Problems." *New York Times*, Dealbook, March 26, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/NYT_Short-Term_Solutions_to_Long-Term_Problems_20090326.pdf.

Federal Reserve Act of 1913 (FRA), Section 13(3). "Powers of Federal Reserve Banks: Discounts for Individuals, partnerships and corporations." 12 U.S.C. § 343. (FRA 1913)

Federal Reserve Bank of New York. 2008a. "Credit Agreement." Federal Reserve Bank of New York, September 22, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Credit_Agreement_20080922.pdf.

——— 2008b. "Guarantee and Pledge Agreement." Federal Reserve Bank of New York, September 22, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG%20Guarantee_pledge_agreement.pdf.

——— 2009a. "Amendment No. 4 to Credit Agreement." Federal Reserve Bank of New York, December 1, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Amendment_No._4_to_Credit_Agreement_20091201_0.pdf.

———. 2009b. "Statement Regarding Establishment of the AIG Credit Facility Trust." New York: Federal Reserve Bank of New York, January 16, 2009. https://ypfs.som.yale.edu/node/4142.

———. 2010a. "AIG Credit Facility Trust Frequently Asked Questions." Federal Reserve Bank of New York, February 2010.

https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Credit_Facility_Trust_FAQ_20100221.pdf.

———. 2011. "New York Fed Ends AIG Assistance with Full Repayment." Press release, January 14, 2011. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_FRBNY_Ends_AIG_Assistance_with_Full_Repayment_20110114_0.pdf.

———. 2012. "Actions Related to AIG." Federal Reserve Bank of New York website. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Actions%20Related%20to%20AIG%20-%20FEDERAL%20RESERVE%20BANK%20of%20NEW%20YORK.pdf.

Federal Reserve Board of Governors (FRB) . n.d. "AIG Revolving Credit Facility." Federal Reserve Board of Governors data, September 2008 to November 2010. https://ypfs.som.yale.edu/library/federal-reserve-aig-revolving-credit-Facility-data.

———. 2008a. "Extension of Credit to American International Group, Inc." Minutes of the Federal Reserve Board of Governors, September 16, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/monetary20090311a1.pdf.

———. 2008b. "Federal Reserve Board, with Full Support of the Treasury Department, Authorizes the Federal Reserve Bank of New York to Lend up to $85 Billion to the American International Group." Press release, September 16, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_FRB_with_full_support_of_Treasury_Department_authorizes_the_FRBNY_to_lend_$85_billion_to_AIG_20080916.pdf.

———. 2008c. "Secured Credit Facility Authorized for American International Group, Inc. on September 16, 2008." Federal Reserve Board of Governors, Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008, September 16, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/129aigseccreditfacility.pdf.

———. 2008d. "Restructuring of the Government's Financial Support to the American International Group, Inc. on November 10, 2008." Federal Reserve Board of Governors, Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008, November 10, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Section129_EESA_Restructuring_Gov_Fin_Support_AIG_2008.pdf.

———. 2009. "US Treasury and Federal Reserve Board Announce Participation in AIG Restructuring Plan." Press release, March 2, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_US_Treasury_and_FRB_Announce_Participation_in_AIG_Restructuring_Plan_20090302.pdf.

The Financial Crisis Inquiry Commission. 2011. The Financial Crisis Inquiry Report. January 2011.
https://ypfs.som.yale.edu/node/3366 (FCIC 2011)

Geithner, Timothy F. 2010. "Written Testimony of Timothy F. Geithner before the House Committee on Oversight and Government Reform." Committee on Oversight and Government Reform, US House of Representatives, January 27, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US%20Dept%20of%20the%20Treasury%20Secretary%20Testimony%20Written%20Testimony%20before%20the

%20House%20Committee%20on%20Oversight%20and%20Government%20Reform%20 01-27-2010.pdf.

Geithner, Timothy F. 2014a. *Stress Test: Reflections on Financial Crises*. New York: Crown Publishers. https://ypfs.som.yale.edu/sites/default/files/Stress%20Test_%20Reflections%20on%20Financial%20Crises%20-%20Timothy%20F.%20Geithner%20-%20Google%20Books_0.pdf.

Geithner, Timothy F. 2014b. "Testimony of Timothy F. Geithner before the US Court of Federal Claims." Starr International Company, Inc. v. United States, October 8, 2014. 121 Fed. Cl. 428 (June 15, 2015). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/2014.10.08%20-%20DAY%208%20-%20Full.pdf.

Geithner, Timothy F. 2019. "The Early Phases of the Financial Crisis: Reflections on the Lender of Last Resort." *Journal of Financial Crises* 1, no. 1: 1–38. https://elischolar.library.yale.edu/journal-of-financial-crises/vol1/iss1/1.

Goodfriend, Marvin. 2011. "Central Banking in the Credit Turmoil: An Assessment of Federal Reserve Practice." *Journal of Monetary Economics* 58, no. 1 (January): 1–12. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Goodfriend_Journal_of_Monetary_Economics_Central_Banking_in_the_Credit_Turmoil_20100908_0.pdf.

Government Publishing Office. 2007a. "Discount of Obligations Arising out of Actual Commercial Transactions." United States Code, Title 12–Banks and Banking, Federal Reserve Act of 1913. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/USCODE-2007-title12.pdf.

Government Publishing Office. 2007b. "Establishment of Rates of Discount." United States Code, Title 12–Banks and Banking, Federal Reserve Act of 1913. 12 U.S.C. § 357. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/USCODE-2007-title12.pdf.

Harvard Law Review. 2016. "Starr International Company, Inc. v. United States." *Harvard Law Review* 129, no. 3 (January): 859–66. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Starr%20International%20Co.%20v.%20United%20States%20-%20Harvard%20Law%20Review.pdf.

Herr, Hansjörg, Sina Rüdiger, and Jennifer Pédussel Wu. 2016. "The Federal Reserve as Lender of Last Resort during the Subprime Crisis–Successful Stabilisation without Structural Changes." *Journal of Economics and Political Economy* 3, no. 2 (June): 192–210. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Herr_Rudiger_Wu_Journal_of_Economics_and_Political_Economy_The_Federal_Reserve_as_Lender_of_Last_Resort_During_the_Subprime_Crisis_201606.pdf.

Jester, Dan, Matthew Kabaker, Jeremiah Norton, and Lee Sachs. 2018. "Rescuing the Mortgage Giants." Preliminary Discussion Draft, Conference on Responding to the Global Financial Crisis: What We Did and Why We Did It, Brookings Institution, Washington, DC, September 11–12, 2018. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/09%20GSEs%20II%209_10%20REV%20Prelim%20Disc%20Draft%202018.09.11.pdf.

Kohn, Donald L. 2009. "Testimony of Donald L. Kohn before the Senate Committee on Banking, Housing, and Urban Affairs." Committee on Banking, Housing, and Urban Affairs, US Senate, March 5, 2009.

https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_Donald_Kohn_Testimony_before_Senate_Committee_on_Banking_Housing_Urban_Affairs_20090305.pdf.

Millstein, Jim. 2010. "Written Testimony of Jim Millstein, Chief Restructuring Officer, US Department of the Treasury, before the Congressional Oversight Panel." Congressional Oversight Panel, US Congress, May 26, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Millstein_Testimony_before_Congressional_Oversight_Panel_20100526.pdf.

Moriarty, Michael. 2010. "Testimony to the Congress of the United States Congressional Oversight Panel Hearing on American International Group." Congressional Oversight Panel, US Congress, May 26, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/fcic-docs/2010-05-26%20Michael%20Moriarty%20Testimony%20before%20the%20Congressional%20Oversight%20Panel.pdf.

Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2009. "Factors Affecting Efforts to Limit Payments to AIG Counterparties." Audit Report, November 17, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/SIGTARP_Factors_Affecting_Efforts_to_Limit_Payments_to_AIG_Counterparties_20091117.pdf.

Salter, Malcolm S. 2013. "Annals of Crony Capitalism: Revisiting the AIG Bailout." Harvard University, Edmond J. Safra Research Lab Working Papers, No. 32, December 5, 2013. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Salter_Harvard_University_Annals_of_Crony_Capitalism_Revisiting_the_AIG_Bailout_20131205_0.pdf.

Starr International Company, Inc. v. United States and American International Group, Inc. No. 1-11-cv-00779-TCW. Filed: June 15, 2015. US Court of Federal Claims. Opinion and order. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Court_of_Federal_Claims_Opinion_of_Justice_Wheeler_20150615_1.pdf.

Starr International Co. Inc. v. the United States and American International Group, Inc. 2015-5103, 2015-5133. Decided: May 9, 2017. US Court of Appeals for the Federal Circuit. Opinion for the court filed by Chief Judge Prost. Opinion concurring-in-part and concurring-in-the-result filed by Circuit Judge Wallach. https://ypfs.som.yale.edu/library/starr-international-company-v-us-may-09-2017.

"Starr International Company, Inc. Petitioner v. United States" 2017. No. 17-540. Petition Denied. Supreme Court of the United States

United States Department of the Treasury (Treasury). 2008. TARP AIG SSFI Investment – Senior Preferred Stock and Warrant: Summary of Senior Preferred Terms. November 10, 2008. https://ypfs.som.yale.edu/library/tarp-aig-ssfi-investment-senior-preferred-stock-and-warrant-summary-senior-preferred-terms

———. 2010. "Statement by the US Treasury Department on AIG Exit Plan." Press release, September 30, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Statement%20by%20the%20US%20Treasury%20Department%20on%20AIG%20Exit%20Plan.pdf.

———. 2011. Treasury Announces Completion of the American International Group Recapitalization Transaction. January 14, 2011.

https://ypfs.som.yale.edu/node/4147

———. 2013. Office of Financial Stability – Troubled Asset Relief Program (FY 2013). Agency Financial Report. December 5, 2013.
https://ypfs.som.yale.edu/library/office-financial-stability-troubled-asset-relief-program-fy-2013

United States Government Accountability Office (US GAO). 2011a. "Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance." GAO-11-696, Report to Congressional Addressees, July 21, 2011. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/GAO_Report_07-2011.pdf.

United States Government Accountability Office. 2011b. "Review of Federal Reserve System Financial Assistance to American International Group, Inc." GAO-11-616, Report to Congressional Addressees, September 30, 2011. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/GAO%20Report%20on%20Federal%20Reserve%20AIG%20Intervention.pdf.

Webel, Baird. 2009. "Ongoing Government Assistance for American International Group (AIG)." Congressional Research Service (CSR) Report to Congress, March 16, 2009. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Webel_Congressional_Research_Service_Ongoing_Government_Assistance_for_AIG_20090316.pdf.

Webel, Baird. 2017. Government Assistance for AIG: Summary and Cost. Congressional Research Service. October 13, 2017.
https://ypfs.som.yale.edu/node/3556

Wiggins, Rosalind Z., Aidan Lawson, Steven Kelly, Lily S. Engbith, and Andrew Metrick. 2021. "American International Group, Inc. – Overview." *Journal of Financial Crises* 3, no. 1. https://elischolar.library.yale.edu/journal-of-financial-crises/.

Willumstad, Robert B. 2010. "Written Statement of Robert B. Willumstad, Former Chief Executive Officer of the American International Group, before the Congressional Oversight Panel." Congressional Oversight Panel, US Congress, May 26, 2010. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Robert%20Willumstad,%20Former%20Chairman%20and%20CEO%20of%20AIG%20Testimony%20for%20COP_052610.pdf.

Yale Program on Financial Stability. 2018a. Interview with Sarah Dahlgren, May 22, 2018. https://som.yale.edu/faculty-research-centers/centers-initiatives/program-on-financial-stability/lessons-learned-oral-history-project (YPFS Dahlgren Interview).

Yale Program on Financial Stability. 2018b. Interview with Scott G. Alvarez, September 27, 2018.

https://som.yale.edu/faculty-research-centers/centers-initiatives/program-on-financial-stability/lessons-learned-oral-history-project (YPFS Alvarez Interview).

Zuill, Lilla. 2008. "AIG Reworks Bailout; Fed Ups Support to $150B, Lowers Interest Rate." *Insurance Journal*, November 9, 2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Insurance_Journal_AIG_Reworks_Bailout_Fed_Ups_Support_to_$150B_Lowers_Interest_Rate_20081109.pdf.

# V. Key Program Documents

### Summary of Program

Actions Related to AIG – *page on Federal Reserve Bank of New York's website covering highlights, timelines, and documents surrounding the Bank's actions on AIG.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Actions%20Related%20to%20AIG%20-%20FEDERAL%20RESERVE%20BANK%20of%20NEW%20YORK.pdf.

June Oversight Report: The AIG Rescue (Congressional Oversight Report, June 10, 2010) – *Congressional Oversight Panel released information on AIG's rescue, highlighting hearing testimonies, government actions, and impacts of government intervention.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Congressional_Oversight_Panel_June_2010_Report_20100610_2.pdf.

### Implementation Documents

Credit Agreement (September 22, 2008) – *document that authorized the extension of an $85 billion Revolving Credit Facility from the Federal Reserve Bank of New York to AIG and listed the terms of such a facility.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Credit_Agreement_20080922.pdf.

Guarantee and Pledge Agreement (September 22, 2008) – *agreement between Federal Reserve Bank of New York and AIG on the pledging of assets and subsidiaries in exchange for the access to credit.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG%20Guarantee_pledge_agreement.pdf.

Amendment No. 1 to Credit Agreement (September 22, 2008) – *document that amended the Credit Agreement to state that the execution of the terms of the Credit Agreement was to have taken place by September 25, 2008.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Amendment_No._1_to_Credit_Agreement_20080925.pdf.

Amendment No. 2 to Credit Agreement (November 9, 2008) – *document that amended the Credit Agreement to reduce the amount available in the RCF from $85 billion to $ 60 billion, as well as reduced the interest rate to three-month LIBOR plus 3.0%, from three-month LIBOR plus 8.5%.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Amendment_No._2_to_Credit_Agreement_20081109.pdf.

Amendment No. 3 to Credit Agreement (April 17, 2009) – *document that amended the Credit Agreement to state that loan prepayments had to be made anytime on a date prior to 2:00 p.m. NYC time and included the Summary of Terms for the issuance of Series C Preferred Stock.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Amendment_No._3_to_Credit_Agreement_20090417_0.pdf.

Amendment No. 4 to Credit Agreement (December 1, 2009) – *document that amended the Credit Agreement to state that 100% of Net Cash Proceeds from stock issuance of AIA SPV, ALICO SPV, and their respective subsidiaries of AIA and ALICO would be applied to fees and loans on Credit Agreement and that dividends would be paid out to owners of equity interest in the SPVs, except for AIG and its subsidiaries.*

https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Amendment_No._4_to_Credit_Agreement_20091201_0.pdf.

AIG Credit Facility Trust Agreement (January 16, 2009) – *agreement that established the AIG Credit Facility Trust as announced in the Credit Agreement, and the responsibilities and powers of the Trustees.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_AIG_Credit_Facility_Trust_Agreement_20090116.pdf.

US Government Provides Support for Continued Restructuring of AIG (March 02, 2009) – news release that announced the *restructuring plan for AIG, including the intent to establish two special purpose vehicles for AIA and ALICO and the issuance of preferred stock within each for the Federal Reserve, which would invest $26 billion in the SPVs. The amount of the Credit Facility was also drawn down to $35 billion.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Press_Release_U.S._Government_Provides_Support_For_Continued_Restructuring_Of_AIG_20090302_1.pdf.

Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement (March 1, 2009) – *purchase agreement entered into by the Federal Reserve Bank of New York and AIG over the 100,000 shares of Series C Stock issued through the Certificate of Designations.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Series_C_Preferred_Stock_Purchase_Agreement_20090301_0.pdf.

Series C Certificate of Designations (March 1, 2009) – *document announcing the AIG's intent to issue 100,000 shares of Series C convertible, preferred shares on March 4, 2009, in accordance with the Credit Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Certificate_of_Designations_Series_C_Preferred_Stock_20090301_0.pdf.

ALICO Preferred Interest Purchase Agreement (June 25, 2009) – *purchase agreement entered into by the Federal Reserve Bank of New York and AIG for $9 billion in preferred shares of ALICO Holdings LLC to be issued when the SPV was established.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_AIG_ALICO_Preferred_Interests_Purchase_Agreement_20090625.pdf.

AIA Preferred Interest Purchase Agreement (June 25, 2009) – *purchase agreement entered into by the Federal Reserve Bank of New York and AIG for $16 billion in preferred shares of AIA Aurora LLC to be issued when the SPV was established.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Press_Release_ALICO_AIA_to_be_Placed_in_Special_Purpose_Vehicles_20090625.pdf.

Second Amended and Restated Limited Liability Company Agreement of ALICO Holdings LLC (December 1, 2009) – *document that effectively established the limited liability company special purpose vehicle, called ALICO Holdings LLC, for the AIG subsidiary of ALICO.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_AIG_ALICO_Holdings_LLC_Agreement_20091201.pdf.

Fourth Amended and Restated Limited Liability Company Agreement of AIA Aurora LLC (December 1, 2009) – *document that effectively established the limited liability company special purpose vehicle, called AIA Aurora LLC, for the AIG subsidiary of AIA.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_AIG_AIA_Aurora_LLC_Agreement_20091201_0.pdf.

Recapitalization Plan Summary of Terms (September 30, 2010) – *document explaining the terms of the full recapitalization of AIG and the effective termination of the Credit Facility through the net proceeds received from AIA IPO on the Hong Kong Stock Exchange and the sale of ALICO to MetLife, Inc., as well as the repurchase of preferred shares in the AIA and ALICO SPVs by AIG from the Federal Reserve.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Recapitalization_Plan_Summary_of_Terms_20100930.pdf.

Master Transaction Agreement (December 8, 2010) – *agreement between AIG, the ALICO SPV, the AIA SPV, Federal Reserve Bank, Treasury, and AIG Credit Facility Trust over the closing of the Recapitalization Plan announced on September 30, 2010, completing transactions of the repayment of the Credit Facility; conversion of Treasury preferred shares to common shares; the repurchase of preferred shares in SPVs by AIG; the termination of the AIG Credit Facility Trust; and delivery of any other certificates, agreements, or documents by all parties.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Master_Transaction_Agreement_20101208.pdf.

Amended and Restated Purchase Agreement (January 14, 2011) – *exchange agreement between Treasury and AIG to exchange Series F Stock from the Securities Purchase Agreement for preferred units in the AIA SPV and ALICO SPV, 20,000 shares of Series G Preferred Stock.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Amended_Restated_Purchase_Agreement_20110114.pdf.

Guarantee, Pledge, and Proceeds Application Agreement (January 14, 2011) – *agreement between AIG and the AIA and ALICO SPVs in which the SPVs guaranteed the payment of all loans under Intercompany Loan Agreements that AIG itself could not make.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Guarantee_Pledge_and_Proceeds_Application_Agreement_20110114.pdf.

Certificate of Elimination (January 14, 2011) – *certificate that eliminated all of Treasury's Series C Preferred Stock after having converted it to common stock, as listed in the Master Transaction Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Certificate_of_Elimination_Series_C_Preferred_Stock_20110114_0.pdf.

AIA Aurora LLC Intercompany Loan Agreement (January 14, 2011) – *agreement between AIG and AIA SPV stating that AIA SPV would loan $19 billion to AIG, unsecured, for the purpose of repaying the outstanding amount under the Credit Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_AIA_Aurora_LLC_Intercompany_Loan_Agreement_20110114.pdf.

ALICO Holdings LLC Intercompany Loan Agreement (January 14, 2011) – *agreement between AIG and ALICO SPV stating that AIA SPV would loan $757 million to AIG, unsecured, for the purpose of repaying the outstanding amount under the Credit Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_ALICO_Holdings_LLC_Intercompany_Loan_Agreement_20110114_0.pdf.

Registration Rights Agreement (January 14, 2011) – *agreement between AIG and Treasury whereby AIG would issue 1.655 billion shares of common stock to Treasury as part of the Recapitalization Plan, through the common stock held by the Trust from the Credit Agreement and the common stock converted from all other preferred shares Treasury received through government aid packages to AIG.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Registration_Rights_Agreement_20110114_2.pdf.

Agreement to Amend Warrants (January 14, 2011) – *agreement between AIG, the AIA SPV, the ALICO SPV, the Federal Reserve Bank of New York, Treasury, and AIG Credit Facility Trust to issue warrants to purchase common stock from November 25, 2008 (Securities Purchase Agreement) and April 17, 2009 (Securities Exchange Agreement).* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Agreement_to_Amend_Warrants_20110114.pdf.

**Legal/Regulatory Guidance**

Section 13 of the Federal Reserve Act – *law that states authorizes the Federal Reserve to lend to non-banks in emergencies if certain requirements are met.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRA_Section_13_Sept_19_2008_0.pdf.

**Press Releases/Announcements**

Board of Governors Announces Emergency Lending Revolving Credit Facility for AIG (September 16, 2008) – *press release announcing the extension of an $85 billion credit line to AIG under Section 13(3) of the Federal Reserve Act to provide liquidity to AIG to meet maturing debt obligations.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_FRB_with_full_support_of_Treasury_Department_authorizes_the_FRBNY_to_lend_$85_billion_to_AIG_20080916.pdf.

Statement by the Federal Reserve Bank of New York Regarding AIG Transaction (September 29, 2008) – *statement on federal aid to AIG explaining the purpose of the loan and intent to stabilize AIG while maximizing value for taxpayers.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRBNY_Statement_by_the_FRBNY_Regarding_AIG_Transaction_20080929.pdf.

Board of Governors Announces Restructuring of Financial Support to AIG (November 10, 2008) – *press release announcing a $40 billion investment through TARP in AIG and changes to the Credit Facility including reduction of the RCF to $60 billion, the reduction of the interest rate, reduction of the commitment fee, and extension to five years.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_FRB_and_Treasury_Department_announce_restructuring_of_financial_support_to_AIG_20081110.pdf.

Treasury Announces Investment in AIG Restructuring under the Emergency Economic Stabilization Act (November 10, 2008) – *press release announcing the purchase of $40 billion in senior preferred shares through TARP to help pay down the Credit Facility.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Treasury_to_Invest_in_AIG_Restructuring_Under_EESA_20081110_2.pdf.

US Treasury and Federal Reserve Board Announce Participation in AIG Restructuring Plan (March 2, 2009) – *joint press release announcing the First Restructuring Plan for AIG, which included investing in two special purpose vehicles for AIG subsidiaries AIA and ALICO, the removal of the interest rate LIBOR floor on the Credit Facility, and the issuance of Series C Preferred Stock from the Credit Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_US_Treasury_and_FRB_Announce_Participation_in_AIG_Restructuring_Plan_20090302.pdf.

AIG Announces Placement of ALICO and AIA into Special Purpose Vehicles (June 25, 2009) – *press release announcing issuance of $16 billion of preferred interests in AIA SPV and $9 billion of preferred interests in ALICO SPV to the Federal Reserve Bank of New York, which aimed to* *reduce the Credit Facility to $35 billion from $60 billion.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Press_Release_ALICO_AIA_to_be_Placed_in_Special_Purpose_Vehicles_20090625.pdf.

AIG Closes Transactions to Form ALICO SPV and AIA SPV (December 1, 2009) – *press release announcing the closure of transactions to transfer $25 billion in preferred interests in AIA and ALICO SPVs to Federal Reserve Bank.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Press_Release_AIG_Closes_Two_Transactions_that_Reduce_Debt_AIG_Owes_FRBNY_by_$25_billion_20091201_0.pdf.

Treasury Update on AIG Investment Valuation (November 1, 2010) – *Treasury announcement that the AIA IPO raised $20.5 billion in cash proceeds and ALICO's sale raised $16.2 billion in total, $7.2 billion of which was in cash, where all cash proceeds would go to repayment on the Credit Facility.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Treasury_Update_on_AIG_Investment_Valuation_20101101.pdf.

Treasury Announces the Completion of AIG's Recapitalization (January 14, 2011) – *Treasury announcement that AIG's Recapitalization Plan was complete and the Credit Facility had been terminated. Also, Treasury owned 92% of the company after conversion of preferred shares to common stock.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/US_Treasury_Treasury_Announces_Completion_of_AIG_Recapitalization_Transaction_20110114_0.pdf.

**Media Stories**

Fitch Announces a Downgrade in AIG's Credit Rating (*Fitch Ratings*, September 15, 2008) – *press release on Fitch's downgrade of AIG and reasoning behind the rating*. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Fitch_Fitch_Downgrades_AIG_to_'A'_Remains_on_Rating_Watch_Negative_20080915.pdf.

AIG: Pressure Mounts with Downgrades (CNN, September 16, 2008) – *news report on AIG's downgrades across the big three credit rating agencies.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/CNN_AIG_Pressure_Mounts_with_Downgrades_20080921.pdf.

Fed's $85 Billion Loan Rescues Insurer (*New York Times*, September 16, 2008) – *news article on the Federal Reserve's decision-making process on extending an $85 billion loan to AIG.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/NYT_Fed's_$85_Billion_Loan_Rescues_Insurer_20080917.pdf.

AIG Reworks Bailout; Fed Ups Support to $150B, Lowers Interest Rate (*Insurance Journal*, November 09, 2008). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Insurance_Journal_AIG_Reworks_Bailout_Fed_Ups_Support_to_$150B_Lowers_Interest_Rate_20081109.pdf.

Short-Term Solutions to Long-Term Problems (*New York Times*, March 26, 2009) – *news article discussing the federal government's interventions during the crisis, specifically with AIG, and if actions taken helped solve the long-term problem too.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/NYT_Short-Term_Solutions_to_Long-Term_Problems_20090326.pdf.

AIA Shares Surge 17% in Hong Kong Debut (*Financial Times*, October 29, 2010) – *news article on AIA IPO on the Hong Kong Stock Exchange.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIA%20shares%20surge%2017percent_Financial%20Times.pdf.

**Key Academic Papers**

The AIG Bailout (Sjostrom 2009). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Afterword_AIG_Bailout_2015.pdf.

Central Banking in the Current Credit Turmoil: An Assessment of Federal Reserve Practice (Goodfriend 2011). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Goodfriend_Journal_of_Monetary_Economics_Central_Banking_in_the_Credit_Turmoil_20100908_0.pdf.

A Detailed Look at the Fed's Crisis Response by Funding Facility and Recipient (Felkerson 2012). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Felkerson_Bard_College_A_detailed_look_at_the_Fed's_crisis_response_by_funding_facility_and_recipient_2012_0.pdf.

Annals of Crony Capitalism: Revisiting the AIG Bailout (Salter 2013). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Salter_Harvard_University_Annals_of_Crony_Capitalism_Revisiting_the_AIG_Bailout_20131205_0.pdf.

The Federal Reserve as Lender of Last Resort during the Subprime Crisis (Herr, Rüdiger, and Wu 2016). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Herr_Rudiger_Wu_Journal_of_Economics_and_Political_Economy_The_Federal_Reserve_as_Lender_of_Last_Resort_During_the_Subprime_Crisis_201606.pdf.

Rethinking Board Function in the Wake of the 2008 Financial Crisis (Sharpe 2010). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Sharpe_Journal_of_Business_and_Technology_Rethinking_Board_Function_in_the_Wake_of_the_2008_Financial_Crisis_201106.pdf.

Starr International Co. v. United States (Harvard Law Review 2016). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Starr%20International%20Co.%20v.%20United%20States%20-%20Harvard%20Law%20Review.pdf.

The 2007–2010 US Financial Crisis: Its Origins, Progressions, and Solutions (Choi 2013). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Choi_Journal_of_Economic_Assymetries_The_2007-2010_US_Financial_Crisis_201311.pdf.

**Reports/Assessments**

AIG Form 8-K (US Securities and Exchange Commission, September 23, 2008) – *AIG declared that its board of directors was suspending dividends on common stock.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Form_8-K_Suspension_of_Dividends_20080923.pdf.

AIG Form 10-K (US Securities and Exchange Commission, March 2, 2009) – *AIG filing of its 2008 annual financial report to the SEC.*

https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Form_10-K_20090302.pdf.

Donald Kohn Testimony before Senate Committee on Banking, Housing, and Urban Affairs (Kohn 2009). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/FRB_Donald_Kohn_Testimony_before_Senate_Committee_on_Banking_Housing_Urban_Affairs_20090305.pdf.

Ongoing Government Assistance for American International Group (AIG) (Webel 2009) – *report by the Congressional Research Service describing the origin of AIG's financial problems and assistance the government extended to AIG to save it from collapse.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Webel_Congressional_Research_Service_Ongoing_Government_Assistance_for_AIG_20090316.pdf.

Troubled Asset Relief Program: Update of Government Assistance Provided to AIG (Government Accountability Office 2010). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/GAO_TARP_Update_of_Government_Assistance_Provided_to_AIG_201004.pdf.

AIG Form 8-K (US Securities and Exchange Commission, September 30, 2010) – *AIG's material definitive agreement submitted to the SEC on the Recapitalization Plan for repayment to the FRBNY of the Revolving Credit Facility.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Certificate_of_Elimination_Series_C_Preferred_Stock_20110114_0.pdf.

AIG Schedule 14C (US Securities and Exchange Commission, December 7, 2010) – *AIG's notice of shareholder action describing the terms of the Recapitalization Plan and Master Transaction Agreement.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Schedule_14C_20101207.pdf.

AIG Schedule 14A (US Securities and Exchange Commission, April 4, 2011) – *AIG's notice of an annual meeting of shareholders, scheduled for May 11, 2011.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/AIG_Schedule_14A_20110404.pdf.

Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance (Government Accountability Office 2011). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/GAO_Report_07-2011.pdf.

Troubled Asset Relief Program: Government's Exposure to AIG Lessens as Equity Investments Are Sold (Government Accountability Office 2012). https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/GAO_TARP_Governments_Exposure_to_AIG_Lessens_as_Equity_Investments_Are_Sold_201205.pdf.

## Appendix A - Timeline of Significant Events

| | |
|---|---|
| September 15, 2008: | Standard & Poor's downgrades AIG from 'AA-' to 'A-' rating. Moody's downgrades AIG from 'AA3' to 'AA2' rating. Fitch downgrades AIG from 'AA-' to 'A-' rating. |
| September 16, 2008: | The Federal Reserve, with the support of Treasury, authorizes to extend an emergency credit facility to AIG, up to $85 billion, to prevent AIG's failure by providing sufficient liquidity and "make appropriate dispositions of certain assets over time." |
| September 16-22, 2008 | Prior to the RCF's execution, the FRBNY advances $37 billion to AIG through a series of demand notes, |
| September 22, 2008: | AIG and the Federal Reserve Bank of New York sign the official Credit Agreement and Guarantee and Pledge Agreement that implement the Revolving Credit Facility officially, with a maturity date of September 22, 2010. |
| September 23, 2008: | The first amendment to the Credit Agreement is agreed upon, further defining the Borrower and Lender, with execution by officers of each to occur on September 25, 2008. |
| November 10, 2008: | AIG and Treasury agree in principle, under the Troubled Asset Relief Program (TARP), for Treasury to purchase $40 billion in newly issued Series D Preferred Stock with limited class voting rights, reducing Treasury's controlling equity interest from Series C Preferred Stock to 77.9%. |
| November 10, 2008: | The second amendment to the Credit Agreement is agreed upon, reducing the amount available from the Revolving Credit Facility from $85 billion to $60 billion, as well as the interest rate to three-month LIBOR plus 3.0%, with a 3.5% LIBOR floor. The term length of the RCF is extended from two years to five years. |
| January 16, 2009: | The Federal Reserve Bank of New York announces the formation of the AIG Credit Facility Trust, headed by three independent trustees, which will hold the 77.9% equity interest in AIG and have absolute discretion over the issuance of dividends and stock payments. |
| March 2, 2009: | AIG and the Federal Reserve announce a joint press release, stating that two special purpose vehicles will be created for two of AIG's largest life insurance subsidiaries, AIA and ALICO, |

where the Federal Reserve Bank of New York will receive preferred interests and dividends "equal to a percentage of the fair market value" of the two subsidiaries. AIG also files a Certificate of Designations agreeing to issue 100,000 shares of Series C Preferred Stock. The Credit Agreement is also amended to remove the 3.5% LIBOR floor interest rate.

March 4, 2009: Following the filing of the Certificate of Designations, AIG issues 100,000 shares of Series C Preferred Stock, at $5.00 par value per share, equal to 79.9% voting power that will be received on conversion to common stock. The issuance of the Series C Preferred Stock was originally agreed upon in the Credit Agreement.

April 17, 2009: The third amendment to the Credit Agreement is agreed upon, giving AIG "the right at any time and from time to time to prepay the Loans, in whole or in part, by giving telephonic notice to the Lender not later than 2:00 p.m. NYC time, the Required Number of Days prior to the proposed date of such prepayment." "Each such telephonic notice of prepayment shall be confirmed promptly by email to the Lender."

June 25, 2009: The Federal Reserve Bank of New York releases Preferred Interest Purchase Agreements for AIG's life insurance subsidiaries AIA and ALICO stating the terms of the purchases.

June 30, 2009: The AIG Annual Meeting of Shareholders takes place, where common stockholders vote down the increase of common stock to more than 5 million. A vote passes to issue a 1:20 reverse stock split, giving way to allow the Trust to convert the Series C Preferred Stock into AIG common stock, equal to $23 million in value at the time.

December 1, 2009: The fourth amendment to the Credit Agreement is agreed upon, changing mandatory prepayments from the "fifth Business Day" to the "fifteenth Business Day" following the receipt of Net Cash Proceeds. Additionally, 100% of Net Cash Proceeds from the issuance of stock (or other disposition) in the AIA SPV and ALICO SPV, or their respective subsidiaries of AIA and ALICO, will be applied to the fees and expenses on the Credit Agreement and then paid out to owners of any equity interest (not including AIG and its subsidiaries) in the two SPVs.

| | |
|---|---|
| December 1, 2009: | In accordance with the March 2, 2009, Second Restructuring Plan, AIG releases two Agreements to create two special purpose vehicles in the form of Limited Liability Companies from the common stock of AIA and ALICO, establishing AIA Aurora LLC and ALICO Holdings LLC. With the formation of the SPVs, the two Preferred Interest Purchase Agreements released on June 25, 2009, are closed, enabling the transfer of $16 billion in preferred shares through the AIA SPV and $9 billion in preferred shares through the ALICO SPV to the Federal Reserve Bank of New York, thus reducing the amount available from the Revolving Credit Facility from $60 billion to $35 billion. |
| March 1, 2010: | AIG announces a definitive agreement for the sale of AIA Aurora LLC to Prudential plc for approximately $35.5 billion, of which $25 billion will be in cash, $8.5 billion in equity and equity-linked securities, and $2 billion in Prudential preferred stock. AIG says proceeds will help to redeem preferred interests in the AIA SPV and repay some of the outstanding amount borrowed under the Revolving Credit Facility. |
| March 8, 2010: | AIG announces that it will sell its subsidiary ALICO to MetLife, Inc. for $15.5 billion, of which $6.8 billion will be in cash. Proceeds from the sale will be used to help repay AIG's outstanding balance on the Revolving Credit Facility. |
| May 6, 2010: | AIG announces the sale of HighStar Port Partners, L.P., reducing the amount under available under the Revolving Credit Facility to $34 billion. |
| June 2, 2010: | AIG files a termination of the sale agreement between AIA Aurora LLC and Prudential plc announced on March 1, 2010. |
| August 6, 2010: | AIG announces an initial public offering (IPO) for 67% of the AIA business on the Hong Kong Stock Exchange, where proceeds from the IPO will be used to help repay AIG's outstanding balance on the Revolving Credit Facility. |
| August 20, 2010: | AIG repays $3.95 billion in cash from the issuance of senior secured notes by International Lease Finance Corporation to the Federal Reserve Bank of New York Revolving Credit Facility, reducing AIG's outstanding principal balance to slightly more than $20 billion, inclusive of accumulated interest and fees. The Commitment under the RCF is also reduced from $34 billion to $30 billion. |

| | |
|---|---|
| September 30, 2010: | Treasury, the Federal Reserve Bank of New York, and AIG Credit Facility Trust announce an agreement on a comprehensive Recapitalization Plan designed to repay all obligations to the US government, including all loans under the Credit Facility. |
| October 29, 2010: | AIG receives gross proceeds from the AIA IPO of $20.51 billion. |
| November 1, 2010: | AIG completes the sale of ALICO to MetLife at $16.2 billion, of which $7.2 billion will be in cash and the remainder provided in MetLife securities. |
| December 8, 2010: | Between AIG, the two SPVs of ALICO Holdings and AIA Aurora LLC, Federal Reserve Bank of New York, Treasury, and the AIG Credit Facility Trust, a Master Transaction Agreement is filed in accordance with the terms set forth in the Recapitalization Plan, where the remaining debt under the Credit Facility will be repaid, exchanges between preferred interests in SPVs will facilitate the repayment, other preferred shares in AIG will be exchanged for common stock, and warrants will be issued to purchase shares of AIG common stock as agreed upon. |
| January 14, 2011: | The Federal Reserve Bank of New York announces that AIG has completed the repayment of all loans provided under the Revolving Credit Facility and that the RCF is hereby ended. Treasury exchanges its $49.1 billion in preferred shares, originally purchased from the TARP injection, into common AIG stock, increasing its ownership stake to roughly 92%, with shares to be sold off over time in the open market. The remainder of the Recapitalization Plan continues as scheduled. |
| February 28, 2012: | The remaining securities in the Maiden Lane II LLC portfolio are sold off by the Federal Reserve Bank of New York, for a net gain of $2.8 billion off its management of the MLII portfolio. |
| July 23, 2012: | The remaining securities in the Maiden Lane III LLC portfolio are sold off by the Federal Reserve Bank of New York, for a reported net gain of $6.6 billion off its management of the MLIII portfolio. This marks the end of government assistance related to AIG during the crisis. |
| December 11, 2012: | Treasury sells its remaining shares of AIG common stock, reducing the government's equity stake in AIG to zero. Treasury reports a net gain of about $51 billion from the sales of 1.655 million shares of AIG common stock. |

Development of this case study has been supported by a generous grant from the Alfred P. Sloan Foundation to the Yale Program on Financial Stability.