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AIG's Suit Against NY Fed Temporarily Halted

By [Sindhu Sundar](#)

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Law360, New York (February 26, 2013, 10:49 PM EST) -- A New York federal judge on Tuesday stayed [American International Group Inc.](#)'s suit against a [Federal Reserve Bank of New York](#) vehicle over whether it owns billions of dollars in tort claims against big banks that promoted residential mortgage-backed securities to the insurer.

U.S. District Judge Lewis A. Kaplan granted the vehicle Maiden Lane II LLC's bid to stay the suit while another federal court in California rules on whether AIG has standing to bring a \$10 billion fraud suit in that court accusing [Bank of America Corp.](#)'s Countrywide Financial Corp. of ignoring residential mortgage-backed securities underwriting standards.

The cases are related because the New York Fed got involved in the Bank of America suit, siding with the bank's argument that AIG could not bring such claims against BofA because the insurer had transferred litigation claims relating to RMBS that Maiden Lane II had acquired, according to court documents.

"Whatever conclusions the California court ultimately reaches on these matters in any case presumably would be reviewable on appeal by an aggrieved party," Judge Kaplan said in his order. "Given the availability of that court of action, there is no justification for a wasteful, unseemly and unnecessary contest between sister courts over where the controversy should proceed at this time."

Judge Kaplan did note Tuesday that the New York Fed and AIG had agreed to resolve their dispute relating to the vehicle only in New York and that the New York Fed's involvement in the BofA row in California seems

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like a bid to skirt those forum requirements of its agreement with AIG.

But AIG could try to persuade the California court that the New York case should go first because of that forum requirement in its agreement with the New York Fed, or seek other such relief, Judge Kaplan said in the order.

AIG, which had brought its suit against BofA in August 2011, said the tort claims were never intended to be allocated to Maiden Lane II, a vehicle created by the Federal Reserve Bank of New York to purchase nearly \$21 billion in AIG's mortgage-backed securities to ease liquidity concerns as part of a 2008 government bailout, according to court documents.

In December 2008, to help resolve monetary problems in AIG's securities lending program, the New York Fed created Maiden Lane II as a special purpose vehicle to purchase more than 850 different RMBS tranches from AIG for their \$20.8 billion market value, AIG said. The amount was \$18 billion less than their purchase price, according to AIG's January complaint against Maiden Lane.

AIG is represented by Michael B. Carlinsky, Kevin S. Reed, Maria Ginzburg, Isaac Nesser and Ian Marcus Amelkin of [Quinn Emanuel Urquhart & Sullivan LLP](#).

Maiden Lane II LLC is represented by John S. Kiernan of [Debevoise & Plimpton LLP](#).

The case is American International Group Inc. et al. v. Maiden Lane II LLC, case No. 1:13-cv-00951, in the U.S. District Court for the Southern District of New York.

--Additional reporting by David McAfee. Editing by Chris Yates.

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