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*Program on Financial Stability*

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9-16-2008

### Scott G. Alvarez Handwritten Notes Regarding Bd Mtg (9/16/ 2008)

Scott G. Alvarez

<https://elischolar.library.yale.edu/ypfs-documents/1502>

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9/16/08

BB, DK,  
KW, RK,  
BD

## Bd Mtg

TG. AIG

- with proper management would be able  
to realize positive net value  
in sale of company over time

- derivatives complicated  
banks around world have direct  
exposure in large units  
to AIG -- none

- default probabilities would rise  
on all financials

- funds may be able to track

- substantial likelihood increase  
risk in fin system

## Proposal

- sizeable loan to AIG  
against all co assets  
↳ change management

- Treas support

- scale of facility around \$8.5b

- Conservatorship model not workable here  
↳ instead think exit bank

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- lend against entity assets  
w/ conditions  
not using GSE type conservatism

- AIG on verge today of bankruptcy decision  
↳ through maybe averted

- NY reps + Treas talking w/ AIG

- what is exposure

- what conditions

- how can this be done: 5/4 approval?

spoke to Dinallo

↳ ~~can~~ <sup>might</sup> protect insurance policy holder  
but not other counterparties

- market may look better, but likely overnight  
+ morning worse

↳ Lehman resolution calving us  
works through

- concern abt others? how far does  
this spread? other ins co? auto ins? GEcap?

- conditions need to be primitive

- coming in senior position  
might need 5/4 vote

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- is AIG solvent?
  - ↳ believe so
  - ↳ isn't that key to difference
- btwn L + AIG?
  - ↳ how explain difference?

↳ much time btwn Mark & now  
for folks to prepare

↳ nature of institution + speed  
of failure

<sup>conditions</sup>  
- ~~actions~~ reactions outside US at least  
as severe as here  
and much AIG exposure

- work on details
- talk to Paulson
- <sup>make</sup> ~~get~~ Congressional contacts

be prepared to Act

DK: think as ~~allowing~~ orderly wind down  
↳ penalty rate

↳ prohibit dividends

Work on Treas letter  
↳ get stronger letter

↳ consult w/ Cong

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