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AIG CDO LLC Facility: Terms and Conditions

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FEDERAL RESERVE BANK *of* NEW YORK *Serving the Second District and the Nation*

AIG CDO LLC Facility: Terms and Conditions

Effective December 3, 2008

On November 10, the Federal Reserve Board and the U.S. Treasury announced the restructuring of the government's financial support to the American International Group, Inc. (AIG) in order to keep the company strong and facilitate its ability to complete its restructuring process successfully. As part of this restructuring, under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the Federal Reserve Bank of New York to lend up to \$30 billion to a newly formed Delaware limited liability company (LLC) to fund the purchase of multi-sector collateralized debt obligations (CDOs) from certain counterparties of AIG's financial products subsidiary.

Facility

Under the facility, the LLC has offered to purchase multi-sector CDOs from certain third-party counterparties of AIG Financial Products Corp. (AIGFP). In connection with any such purchase, the counterparty agrees to terminate the related credit derivative contracts between the counterparty and AIGFP. The acquisition of the CDOs by the LLC is financed by a senior loan facility made available to the LLC by the New York Fed in an amount of up to \$30 billion (depending on counterparty participation), and an equity contribution by AIG to the LLC in an amount of \$5 billion. The AIG contribution will be the first to absorb losses in the underlying portfolio of assets.

AIGFP, the LLC and the New York Fed have entered into agreements with AIGFP's credit derivative counterparties to terminate approximately \$53.5 billion notional amount of credit derivatives and purchase the related multi-sector CDOs. Of these, CDOs with a principal amount of approximately \$46.1 billion settled on November 25, 2008. Settlement on the remaining \$7.4 billion is contingent upon the ability of the related counterparty to obtain the related multi-sector CDOs and thereby settle with the LLC and terminate the related credit derivative contracts with AIGFP. The amount borrowed by the LLC in connection with the transactions concluded on November 25, 2008 was \$15.1 billion, and AIG also funded its full \$5 billion equity contribution on the same date. AIGFP and the New York Fed are working to terminate those remaining credit derivatives or other similar derivatives that have multi-sector CDOs as underlying reference assets, and to arrange for the LLC to purchase those underlying CDOs. Any additional CDO purchases will result in additional borrowings by the LLC under the credit facility, up to an aggregate maximum of \$30 billion. The New York Fed has all material control rights under the transaction documents, and will act as the managing member of the LLC for so long as the New York Fed is owed any amounts by the LLC.

Terms of the Loan

The loan from the New York Fed will be for a term of 6 years, and may be extended at the New York Fed's discretion.

The interest rate on the loan from the New York Fed is one-month LIBOR plus 100 basis points (currently, a rate of approximately 2.9 percent). AIG's equity contribution will accrue distributions at a rate of one-month LIBOR plus 300 basis points (currently, a rate of approximately 4.9 percent).

Repayment of the loan will begin immediately upon the receipt of proceeds from the CDO portfolio. Payments from the maturity or liquidation of the assets held by the LLC will occur on a monthly basis, and will be made in the following order (each category must be fully paid before proceeding to the next lower category):

- to pay the necessary costs and expenses of the LLC, including those incurred in managing and holding and/or liquidating the assets;
- to pay amounts due under currency hedging transactions that the LLC may choose to enter into from time to time;
- to fund a reserve for necessary expenses payable by the LLC between monthly payment dates;
- to fund a reserve for payments that may be incurred by the LLC in connection with the management of CDO defaults;
- to repay the entire loan principal amount due to the New York Fed;
- to pay all interest due to the New York Fed on its loan;
- to repay the entire \$5 billion equity contribution from AIG;
- to pay distributions accruing to AIG in respect of its equity contribution as described above;

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- to pay amounts due under currency hedging transactions that the LLC may choose to enter into from time to time, to the extent that the counterparty to the hedge is in default.

Any remaining funds will be paid 67% to the New York Fed and 33% to AIG.

As part of the transaction, AIGFP and the New York Fed have entered into an agreement under which either (i) AIGFP will make a payment to the LLC to the extent that the collateral posted by AIGFP with counterparties with respect to terminated credit derivative contracts was less than the negative mark-to-market value of the credit derivative contracts as of October 31, 2008 or (ii) the LLC will make a payment to AIGFP to the extent that the amount of such posted collateral exceeds such negative mark-to-market value.

Liquidation of Assets

BlackRock Financial Management Inc. has been retained by the New York Fed to manage and eventually liquidate the assets held in the LLC portfolio.
