2012

Actions Related to AIG

Federal Reserve System: Federal Reserve Bank of New York

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Actions Related to AIG

The information below describes the New York Fed's actions and involvement with AIG. This repository for various sources of public information on federal financial assistance extended to AIG includes timelines, press releases, Congressional testimony and financial data.

- Overview
- Financial Information
- News and Testimony
- Timeline
- Transparency

In September 2008, the Federal Reserve extended credit to American International Group, Inc. (AIG) to preserve the stability of an already fragile U.S. economy and to protect the U.S. taxpayer from the potentially devastating consequences of the company's disorderly failure. From that initial intervention, the New York Fed and the U.S. Department of the Treasury worked with AIG to stabilize the company so that it no longer posed a systemic risk and to ensure repayment of taxpayer assistance.

On January 14, 2011, the New York Fed's assistance to AIG was terminated and its loans to AIG fully repaid. The New York Fed's exit was part of a comprehensive recapitalization announced in September 2010 and closed on January 14, 2011, by the company, the New York Fed, the Treasury Department and the AIG Credit Facility Trust. The recapitalization, which reflected the progress made in reducing the scope, risk and complexity of AIG's operations and stabilizing its operating results, was designed to accelerate the repayment of AIG's obligations to the American public.

On February 28, 2012, and August 23, 2012, respectively, Maiden Lane II LLC (ML II) and Maiden Lane III LLC (ML III) sold the last of the securities they had purchased as part of the Federal Reserve's assistance to AIG.* The New York Fed's management of the ML II and ML III portfolios resulted in the full repayment of the New York Fed's loans to the two LLCs and resulted in a combined net gain of approximately $9.4 billion for the benefit of the U.S. public, including $1.3 billion in interest paid on the loans to the New York Fed.

Background

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Background

The fall of 2008 was a time of severe economic distress, marked by a broad-based decline in home prices, a rise in delinquencies and foreclosures, and a substantial drop in the values of mortgage-backed securities and other related instruments. Major institutions, including IndyMac Bank and Lehman Brothers, experienced debilitating losses that eventually led to their collapse, while Fannie Mae and Freddie Mac were placed into government conservatorship. There was a growing loss of confidence in U.S. and global financial markets, and credit markets were virtually frozen.

Money market funds, long viewed as a safe investment by millions of Americans, were experiencing massive withdrawals. The run on these funds, in turn, severely disrupted the commercial paper market, a vital source of funding for American businesses. Securitization markets started to seize up, especially those reliant on instruments backed by consumer loans. Banks sharply curtailed their lending. A full-fledged panic had started and was spreading rapidly.

The effects of the crisis extended well beyond Wall Street. State governments faced significant budget shortfalls; schools, universities and hospitals curtailed spending; and large and small businesses cut costs and eliminated jobs, leaving millions of Americans unemployed.
AIG, the world's largest insurance company and a major participant in the global trade of derivatives and other financial instruments, was encountering severe liquidity problems, primarily as a result of losses on its mortgage-related investment portfolio and collateral calls on credit default swaps (CDS) and other financial contracts. By mid-September 2008, these liquidity pressures brought the firm to the brink of collapse. On September 15, 2008, downgrades by certain credit rating agencies triggered CDS-related collateral calls that the company could not meet.

In light of the unusual and exigent circumstances at the time, the New York Fed and the Board of Governors of the Federal Reserve System—in close cooperation with the U.S. Department of the Treasury—made the decision to intervene to prevent the imminent collapse of AIG. The decision to lend to AIG was motivated by a single goal: to protect the U.S. and global economies and the American people from the devastating effects that its disorderly failure would have caused in the then prevailing economic environment.

The first response of policymakers to the crisis at AIG was to encourage a private-sector solution. A consortium of private-sector financial institutions was convened at the New York Fed, but specific terms for an AIG financing package could not be agreed upon.

At the time of AIG's liquidity crisis, no effective bankruptcy framework existed for a firm of AIG's type and size. There was no single regulator to step in and manage the company's failure, no single court that could sort out the demands of creditors and shareholders, and no practical way to coordinate among the hundreds of U.S. and foreign regulators responsible for overseeing all of AIG's businesses. The absence of a resolution authority, combined with the size and scope of AIG's businesses and the existing stress on the economy, would have made the consequences of its failure potentially catastrophic, stressing the need for quick, effective action.

Consequences of an AIG Failure

The failure of AIG, a company with more than 76 million customers in approximately 140 countries—more than 30 million customers in the United States alone—posed a direct threat to millions of policyholders, state and local government agencies, 401(k) participants, banks and other financial institutions in the United States and abroad, and would have shattered confidence in already fragile financial markets.

If AIG had been allowed to fail and the parent company had filed for bankruptcy, the consequences and effects could have been severe:

- Many of AIG's insurance subsidiaries could have been seized by their state and foreign regulators facing uncertainty about their rights and claims.
- Seizure of AIG subsidiaries would likely have put a moratorium on claims and withdrawals and could have impaired those claims in the longer term.
- A run on AIG, in the form of a massive cashing in of insurance policies and annuities, would have strained the company's ability to meet its obligations to millions of policyholders.
- State and local government entities that had lent investment funds to AIG would have been exposed to losses in an already difficult and deteriorating municipal budget environment.
- Workers whose 401(k) plans had purchased guarantees in the form of stable-value contracts from AIG could have lost that insurance.
- Pension plans would have been forced to write down their AIG-related assets, resulting in significant losses in participants' portfolios.
- The resulting losses to money market mutual funds, to which millions of Americans entrust their savings, would have had potentially devastating effects on confidence and would have accelerated the run on various financial institutions.
- Global commercial banks and investment banks would have suffered losses on loans.
availability of credit to homeowners and businesses. 
• Confidence in other insurance providers could have been impacted, leading to a possible run on the industry. Given the unusual and exigent circumstances at the time, the potentially far-reaching consequences of an AIG bankruptcy compelled policymakers to take decisive action to intervene.

**Key Dates and Actions**

**September 16, 2008**

The Board of Governors of the Federal Reserve System, relying on its emergency authority granted by Congress under section 13(3) of the Federal Reserve Act and mindful of its responsibility to maintain financial stability and with the full support of the U.S. Treasury Department, authorized the New York Fed to extend a secured revolving credit facility of up to $85 billion to AIG. The New York Fed extended that credit to AIG, and the company agreed to transfer a controlling stake of 79.9 percent of company equity to a trust for the sole benefit of the United States Treasury. AIG's chief executive officer was also replaced. The credit facility initially carried a rate of LIBOR plus 8.5 percent—comparable to the terms contemplated by the consortium of private banks that explored a private-sector solution. The credit facility was secured by a pledge of a substantial portion of AIG's assets.

Additional Information

- Board of Governors Press Release »
- New York Fed Press Release »
- Original Credit Agreement PDF
- Credit Agreement Amendment No. 1 PDF
- Credit Agreement Amendment No. 2 PDF
- Credit Agreement Amendment No. 3 PDF
- Credit Agreement Amendment No. 4 PDF
- Guarantee and Pledge Agreement PDF

The initial emergency $85 billion facility successfully stabilized AIG in the short term, but the company's financial condition and capital structure remained vulnerable to further deterioration in difficult market conditions. In October 2008, borrowing costs continued to rise, credit markets remained essentially frozen and equity markets trended downward.

**October 8, 2008**

The Board of Governors approved an additional secured credit facility that permitted the New York Fed to borrow up to $37.8 billion of investment-grade, fixed-income securities from certain regulated U.S. insurance subsidiaries of AIG in return for cash collateral. By November 20, 2008, AIG received approximately $20 billion in cash collateral under the program, which was returned in full when the program was terminated on December 12, 2008, in connection with the formation of the Maiden Lane II facility (see below).

Additional Information

- Board of Governors Press Release »

Additionally, toward the end of October 2008, four AIG affiliates began participating in the Federal Reserve's Commercial Paper Funding Facility (CPFF) on the same terms and conditions as other participants in the program. The CPFF program ended in April 2010 without incurring any credit losses.

Additional Information

- CPFF »

Despite having access to these additional credit facilities, AIG continued to face serious liquidity pressures related to losses on residential mortgage-backed securities, and its exposure to CDS contracts.

**November 10, 2008**

The Board of Governors and the U.S. Treasury Department announced the restructuring of financial support to AIG in order to provide the company more time and greater flexibility to sell assets and repay that support. Measures included certain modifications to the New York Fed's credit facility, including a reduction of the interest rate to three-month LIBOR plus 300 basis points, and a reduction of the fee charged on undrawn funds to 75 basis points (from the

Actions Related to AIG - FEDERAL RESERVE BANK of NEW YORK

- Holder of more than $10 billion in loans from state and local government entities
- Issuer of approximately $38 billion of stable-value wrap contracts
- Issuer of approximately $20 billion of commercial paper, held in large part by money market mutual funds
In addition, the U.S. Treasury Department announced its plan to purchase $40 billion of newly issued AIG preferred shares under the Troubled Asset Relief Program (TARP), the proceeds of which were used to reduce the balance of the Fed's credit facility. The total amount available to AIG under the credit facility was also reduced from $85 billion to $60 billion.

Finally, the Board of Governors, relying on its emergency authority granted by Congress under section 13(3) of the Federal Reserve Act, approved the creation by the New York Fed of two new secured lending facilities designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities. These new facilities resulted in the creation of two new special purpose vehicles (SPVs): Maiden Lane II LLC and Maiden Lane III LLC.

**About the Facilities**

Maiden Lane II LLC and Maiden Lane III

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**Additional Information**

Board of Governors Press Release »

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**January 16, 2009**

The New York Fed, with the full support of the U.S. Treasury Department, established the AIG Credit Facility Trust to hold the controlling equity interest in AIG. The Trust was established for the sole benefit of the United States Treasury, the general fund of the U.S. government, and thus effectively for the benefit of U.S. taxpayers. The New York Fed appointed three independent trustees to control the Trust.

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**March 2, 2009**

The U.S. Treasury Department and the Federal Reserve announced the outline of a restructuring of assistance to AIG designed to strengthen the company's capital position and provide it with additional time to restructure and strengthen its finances. The measures included an authorization by the Board of Governors for the New York Fed to acquire up to $26 billion of preferred interests in special purpose vehicles formed to hold two of AIG's largest foreign life insurance subsidiaries: American International Assurance Co., Ltd. (AIA), and American Life Insurance Company (ALICO), in satisfaction of an equivalent amount of the outstanding balance of, and the amount available under, the credit facility. This step was intended to reduce AIG's financial leverage, and thus relieve pressures on the credit ratings of the parent company. Acquiring the preferred interest also facilitated the independence of these two subsidiaries in anticipation of their eventual sale or initial public offering.

Additional measures included a reduction in the interest rate on the credit facility; changes to the terms of the U.S. Treasury Department's existing TARP investment; the establishment of an additional TARP facility of up to approximately $29.8 billion that AIG could draw upon as needed in exchange for the issuance of additional preferred equity to the Treasury Department; and the authorization by the Board of Governors of a potential securitization of certain life insurance cash flows in amounts up to $8.5 billion. In February 2010, AIG announced that it would not pursue the securitization option.

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**June 25, 2009**

In accordance with the restructuring announced on March 2, 2009, the New York Fed agreed to receive from AIG $16 billion of preferred equity in the SPV formed to hold AIA and $9 billion of preferred equity in the SPV formed to hold ALICO in satisfaction of an equivalent amount of the outstanding balance of, and amount available under, the revolving credit facility.

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**December 1, 2009**

The New York Fed received preferred interests in the AIA and ALICO SPVs, and accordingly reduced the outstanding balance of, and amount available under, the $60 billion revolving credit facility by $25 billion. The New York Fed's preferred interests earned an annualized return of 5 percent. Under the terms of the transaction, subject to certain limited exceptions, all proceeds from the voluntary sale or public offering of the assets or businesses held by

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**Additional Information**

Board of Governors Press Release »

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**Additional Information**

AICO Preferred Interest Purchase Agreement PDF
AIA Preferred Interests Purchase Agreement PDF

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March 1, 2010

AIG agreed to sell AIA to U.K.-based insurer Prudential plc. for $35.5 billion. Following further negotiations, the deal was terminated by the companies on June 2, 2010. AIG subsequently announced plans to conduct an initial public offering of AIA (see below).

March 8, 2010

AIG announced the sale of ALICO to U.S.-based insurer MetLife, Inc., for approximately $15.5 billion, including $6.8 billion in cash. Net cash proceeds from the sale were required to partially redeem the New York Fed's preferred interests in the ALICO SPV. The MetLife securities received in the transaction as noncash consideration were sold over time to further redeem the New York Fed's preferred interests and subsequently to reduce the outstanding balance of the credit facility.

July 2010

AIG announced plans to conduct an initial public offering of AIA by seeking a listing of AIA on the Hong Kong Exchange, subject to regulatory approvals and market conditions. The proceeds were to be used to redeem the New York Fed's preferred interests in the AIA SPV and subsequently to reduce the outstanding balance of the credit facility.

September 30, 2010

AIG announced an agreement with the U.S. Department of the Treasury, the New York Fed and the trustees of the AIG Credit Facility Trust on a comprehensive recapitalization plan designed to repay all its obligations to American taxpayers. The measures include an accelerated repayment and termination of the New York Fed's credit facility, the acquisition of the majority of the New York Fed's preferred interests in the AIA and ALICO special purpose vehicles by the U.S. Treasury Department, and the conversion of the AIG preferred stock currently owned by the Treasury Department and the Credit Facility Trust into common equity.

November 1, 2010

AIG announced that it raised approximately $36.7 billion in gross proceeds to repay a significant portion of the government’s assistance to AIG through its sale of American Life Insurance Company (ALICO) and the initial public offering of AIA Group Limited (AIA). On November 1, AIG closed the sale of ALICO to MetLife, Inc. for approximately $16.2 billion, including approximately $7.2 billion in cash and the remainder in MetLife securities. On October 29, AIG received gross proceeds from the initial public offering of AIA totaling approximately $20.51 billion (including the exercise of the over-allotment option granted to the underwriters). Under the terms of the recapitalization plan announced by AIG on September 30, 2010, the net cash proceeds of these transactions (totaling approximately $26.9 billion), as well as certain additional proceeds from future asset dispositions, were held by the New York Fed as agent for the special-purpose vehicles created to hold AIA and ALICO, AIA Aurora LLC and ALICO Holdings LLC. At the closing of the recapitalization plan, the proceeds were applied first as full repayment and termination of the credit facility extended to AIG by the New York Fed and then to redeem a portion of the New York Fed's preferred interests in AIA Aurora LLC and ALICO Holdings LLC. The MetLife securities received from the ALICO sale were sold over time, subject to certain lock-up provisions and market conditions, to provide additional funds to redeem the preferred interests.

January 14, 2011

The New York Fed, AIG, the U.S. Treasury Department and the trustees of the AIG Credit Facility Trust closed the recapitalization announced in September 2010, which was designed to accelerate the repayment of AIG's obligations to American taxpayers.

With the closing of the recapitalization, the New York Fed's revolving credit facility was fully
its remaining preferred interests in the AIA and ALICO special-purpose vehicles either
redeemed by AIG or purchased and transferred to the U.S. Department of the Treasury.

The accelerated repayment of the New York Fed freed up collateral that enabled the company to
access private debt markets, an essential step toward facilitating the U.S. Department of the
Treasury's sale of the common stock it owned as consequence of the recapitalization.

## New York Fed's Role and Objectives

In connection with its assistance to AIG, the rights of the New York Fed were those of a creditor.

From September 22, 2008, until its loans to AIG were repaid in full on January 14, 2011, the
New York Fed operated under a credit agreement that contained significant conditions and
protections to help ensure the full repayment of the loans, including accrued interest and fees.

In its role as creditor, the New York Fed regularly received information from AIG regarding the
company's financial condition and operations. The New York Fed, in coordination with the
Treasury Department, worked with AIG management in ongoing efforts to implement of the
company's business and restructuring strategy. In accordance with the terms of the credit
facility, the New York Fed sent observers to each of the company's board of directors meetings.

The New York Fed had a dedicated team, led by senior officials, whose sole role was to review
AIG's financial condition, monitor the use of cash and exercise the New York Fed's contractual
consent rights over decisions that could affect the company's ability to repay its loan. The team
had frequent on-site contact with the company to ensure that the New York Fed was informed of
AIG's funding needs, cash flows, liquidity, earnings, asset valuations and overall progress in
pursuing corporate restructuring, including the divestiture of assets.

From the outset of its intervention, the New York Fed was focused on addressing two
overarching goals with respect to AIG: 1) stabilizing AIG; and 2) obtaining full
repayment of the assistance that was provided.

The New York Fed was also assisted by professional advisors in its daily monitoring of AIG.
The New York Fed team's ongoing oversight of the company was supplemented by a number of
firms in a range of fields, including accounting, investment banking, asset valuation and legal
decision. Under the terms of the revolving credit facility, AIG reimbursed the New York Fed for
advisory fees and other out-of-pocket expenses.

To the extent that the New York Fed was a party to certain transactions with the company, the
New York Fed did, when appropriate, provide comments to certain AIG securities filings and
related disclosures. Such comments were intended to strengthen the accuracy and consistency of
the disclosure in question, and any such comments were provided with the full understanding
that AIG is ultimately responsible for its own disclosure obligations under federal securities
laws.

## Additional Information

- New York Fed Press Release »
- AIG Press Release »

February 28, 2012

The New York Fed announced the sale of the remaining securities in the Maiden Lane II LLC
(ML II) portfolio.* Net proceeds from sales of all the securities, as well as cash flow the
securities generated while held by ML II, enabled the full repayment of the loan the New York
Fed had made to ML II and resulted in a net gain for the benefit of the U.S. public.

## Additional Information

- New York Fed Press Release »

August 23, 2012

The New York Fed announced the sale of the remaining securities in the Maiden Lane III LLC
(ML III) portfolio. Net proceeds from sales of all the securities, as well as cash flow the
securities generated while held by ML III, enabled the full repayment of the loans the New York
Fed made to ML III and resulted in a net gain for the benefit of the U.S. public.

## Additional Information

- New York Fed Press Release »
At the time it provided AIG with assistance, the New York Fed did not have statutory authority to supervise or regulate AIG or its subsidiaries. The company's regulated subsidiaries are supervised by numerous government bodies, which include U.S. state insurance regulators and the financial and insurance supervisors of many foreign jurisdictions. Also, as a publicly listed company in the United States, the parent company is subject to the rules and regulations of the U.S. Securities and Exchange Commission. AIG's management team and board of directors are responsible for the day-to-day management of the company, as well as for its accounting, auditing and controls.

Over time, significant progress has been made to stabilize the company by reducing its risk profile and implementing an orderly restructuring plan. Many of the risk areas that brought AIG to the brink of failure have been addressed, or are in process of being addressed, including the orderly wind-down of AIG Financial Products Corp.

*As part of the close-out procedures for Maiden Lane II LLC, on August 22, 2012, the New York Fed sold eight residual securities that had been factored to zero and consequently dropped from the portfolio holdings report published by the New York Fed. There was no active notional balance associated with these positions as the securities were fully written down prior to the last ML II sale on February 28, 2012; thus, the subsequent sale of these zero-factor securities had no material impact on the net gain reported for the ML II portfolio.*