3-20-2020

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

Alec Buchholtz

Aidan Lawson

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

Alec Buchholtz and Aidan Lawson[2]

September X, 2019

Abstract

In the wake of Lehman Brothers' collapse on September 15, 2008, the big three rating agencies downgraded AIG's credit ratings multiple levels (GAO September 2011 - pp. 6). Due to increasing cash demands by securities borrowers and collateral calls by credit default swap (CDS) customers, AIG faced a liquidity crisis (Ibid. - pp. 6). In an attempt to prevent AIG from filing for bankruptcy, the Federal Reserve Bank of New York (FRBNY) announced on the following day that, through its emergency powers, it would provide the company with an $85 billion Revolving Credit Facility (RCF) (FRB PR, 09/16/2008). The RCF had an initial maturity period of two years (later extended to five years) and was secured by AIG assets and interests in its subsidiaries, and required AIG to grant the FRBNY a 79.9% voting equity interest in the company (Credit Agreement - Exhibit D). Although AIG leaned heavily upon the RCF, the credit line was insufficient to stabilize AIG. The government later provided additional assistance programs and eased the terms of the RCF on multiple occasions (Webel 2017 - pp. 11 - 14). The RCF effectively ended after AIG repaid the last of its loans to the FRBNY on January 14, 2011. FRBNY netted $6.4 billion in capitalized interest and fees from the program, according to the Federal Reserve Board (FRBNY Annual Report (2011) - pp. 60).

Keywords: credit facility, London Interbank Offer Rate, subsidiaries, trust, special purpose vehicles, restructuring, recapitalization, liquidity, preferred shares

---

[1] The Yale Program on Financial Stability (YPFS) has written 7 case studies that examine in detail the various elements of the government's rescue of American International Group:

Buchholtz, Alec and Rosalind Z. Wiggins. 2018. "The Rescue of American International Group, Module A: The Revolving Credit Facility."

Engbith, Lily and Alec Buchholtz. 2018. "The Rescue of American International Group, Module B: The Securities Borrowing Facility."

Buchholtz, Alec. 2018. "The Rescue of American International Group, Module C: AIG Investment Program."

Engbith, Lily. 2017. "The Rescue of American International Group, Module D: Maiden Lane II."

Engbith, Lily. 2018. "The Rescue of American International Group, Module E: Maiden Lane III."

Buchholtz, Alec. 2018. "The Rescue of American International Group, Module F: Credit Facility Trust."

Engbith, Lily. 2018. "The Rescue of American International Group, Module Z: Overview."

[2] Research Associate, New Bagehot Project. Yale Program on Financial Stability.

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 PR, 09/16/2008).	
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-Mo. 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 (GAO September 2011 - pp. 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 (GAO September 2011 - pp. 4 - 7).

The Federal Reserve Bank of New York (FRBNY) 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 PR, 09/16/2008). 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 Section 129, 09/16/2008 - pp. 5 - 6). Usage of the RCF was initially subject to an interest rate of 3-Month LIBOR plus 8.5% (with a 3.5% LIBOR floor) and an annual commitment fee on undrawn funds of 8.5% (Ibid. - pp. 4 - 5) . Additionally, Treasury was to receive a 79.9% equity interest in AIG through the issuance of preferred stock to be managed by an independent trust, giving majority voting rights to the government (Credit Agreement - 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 Section 129, 09/16/2008 - pp. 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 - pp. 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 - pp. 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 (Recapitalization Plan, UST PR, 01-14-2011).

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 - pp. 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 (GAO September 2011 - pp. 7, UST Notes, 12/12/2012). 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 would supply liquidity and capital when investments go awry (Choi 2013 - pp. 73).

Introductory note: In analyzing the programs that are the focus of this survey, a color coded system is used to highlight particularly noteworthy design features. This system is as follows:

Color	**Meaning**
GREEN	A design feature that appears to have been particularly effective based on: a. empirical evidence; and/or b. a widely accepted consensus.
YELLOW	A design feature that is interesting and may be particularly effective or ineffective, but for which there is insufficient evidence for an evaluation.

Contents

I. Overview

Background

In 2008, AIG had over 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 (Actions Related to AIG). As of June 30, 2008, while AIG's balance sheet had approximately $1 trillion in assets (Form 10-Q, June 2008 - pp. 50), AIG had a notional exposure of $441 billion under a super senior credit default swap (CDS) portfolio managed by AIG Financial Products (AIGFP), a subsidiary formed in 1987 (Ibid. - pp. 120). Of the $441 billion, $307 billion was written primarily as capital relief for European financial institutions. (Ibid. - pp. 120) AIGFP had substantial exposures to the U.S. housing market via CDS on multi-sector collateralized debt obligations (CDO) and direct holdings of residential mortgage-backed securities (RMBS). (COP June 2010 - pp. 27)

In the second quarter of 2008, AIG reported its third consecutive quarter of losses, totaling over $18 billion (Form 10-K, 2007; Form 10-Q, March 2008; Form 10-Q, June 2008). AIG raised $20 billion in private capital in May 2008 through common stock, hybrid securities, and debt financing. (GAO September 2011 - pp. 19) However, those funds were unable to satisfy AIG's liquidity needs at the time. (Ibid. - pp. 19 - 24) In July 2008, new AIG CEO Robert Willumstad reached out to the President of the Federal Reserve Bank of New York (FRBNY), Timothy Geithner, and requested access to the Federal Reserve's discount window to help AIG address liquidity problems in its securities lending portfolio and collateral calls on AIGFP's CDS. (COP June 2010 - pp. 58) Geithner believed that providing liquidity to AIG at that moment would intensify creditor runs on AIG. (Ibid. - pp. 58) As losses continued to mount towards 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. (Ibid. - pp. 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 (GAO September 2011 - pp. 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 September 2011 - pp. 28 - 29; Moriarty 2010 - pp. 5 - 6 and Willumstad May 2010 - pp. 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. (Willumstead May 2010 - pp. 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
Multi-sector 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**

Sources: SIGTARP November 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. (NYT NA, 09/17/2008)

On the morning of Monday, September 15, FRBNY President Timothy Geithner initiated an effort to have a private consortium—led by JP Morgan Chase & Co. and Goldman Sachs—arrange a $75 billion syndicated loan for AIG, with 15 financial institutions lending $5 billion each. (FCIC, 2011 - pp. 349; GAO September 2011 - pp. 34; SIGTARP November 2009 - pp. 8) But the bankruptcy of Lehman Brothers, also that morning, made it impossible to bring private lenders into the deal, Fed officials told the FCIC (FCIC, 2011 - pp. 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. (GAO September 2011 - pp. 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-	AA2	A-
Levels Changed	-3	-4	-3

Sources: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings; September 16, 2008.

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 to allow the FRBNY to extend a loan of $85 billion, based on a finding of "unusual and exigent circumstances," to wit, that "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 Minutes 2008 - pp. 4) (12 U.S.C. 343, 2007).[1]

The FRBNY could extend credit after it "obtain[ed] evidence that [AIG] [was] unable to secure adequate credit accommodations from other banking institutions."), and the loan must be "secured to the satisfaction" of the FRBNY.

To "best protect the interests of the U.S. 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 Minutes 2008 - pp. 4) (All these terms were eventually included in the 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 Minutes 2008 - pp. 4)

The FRBNY negotiated the Revolving Credit Facility (RCF) with AIG, the primary objective of which was "to protect the U.S. 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 Actions Related to AIG). (American International Group (AIG), Maiden Lane II And III), Moreover, providing sufficient liquidity would prevent AIG's failure and help AIG "make appropriate dispositions of certain assets over time." (Ibid.) As part of the credit extension, the government required CEO Willumstad to step down as chief executive of AIG (2008 Annual Report - pp. 3 - 4). Secretary Paulson recommended former Allstate CEO Ed Liddy as Willumstad's replacement (2008 Annual Report - pp. 6). Liddy accepted the position of Chairman and CEO of AIG on September 18. (U.S. Court of Federal Claims, June 2015 - pp. 3)

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 Section 129, 09/16/2008 - pp. 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." (Ibid. - pp. 4). They had an initial 2% commitment fee, or $ 1.7 billion, of the aggregate $85 billion credit line. (Ibid. - pp. 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 towards the $85 billion commitment of the RCF. (Credit Agreement - pp. 33 - 34; FRB Section 129, 09/16/2008 - pp. 44)

[1] 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 PR, 09/16/2008).

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: Guarantee and Pledge Agreement, 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 (Credit Agreement). 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 3-Month LIBOR plus 8.5% (FRB PR, 09/16/2008). (Credit Agreement - pp. 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. (Ibid. - pp. 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). (Ibid. - pp. 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 (Ibid. - pp. 21). The commitment fee was payable by adding such amount to the outstanding principal and would bear interest until paid. (Ibid. - pp. 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%. (Ibid. - pp. 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.[4] (GAO September 2011 - pp. 7 - 11)

As the parent company, AIG was the only entity allowed to authorize loan requests from the FRBNY and repayments for the RCF. (Credit Agreement) 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 (Ibid. - pp. 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 (Ibid. - pp. 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. (Ibid. - pp. 20)

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

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 (Ibid. - pp. 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 (Ibid. - pp. 27). The partial reductions were also required to be at minimum amounts of $50 million and as an integral multiple of $10 million. (Credit Agreement - pp. 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 non-regulated subsidiaries (FRB PR, 09/16/2008). Additionally, as further consideration and protection of the taxpayer funded RCF, AIG was to issue to the government an equity interest as discussed below under "Equity Interest".

The FRBNY expected AIG to repay the loans primarily through the sale of assets. (Ibid.) Section 2.10 of the Credit Agreement defines 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." (Credit Agreement - pp. 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. (Ibid. - pp. 23) AIG was also subject to a number of customary restrictions on its operations, such as not taking on additional debt or equity interests. (Ibid. - pp. 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 (Guarantee and Pledge Agreement - pp. 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.[5] (Ibid. – Schedule 4) 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. (FRB Section 129, 09/16/2008 - pp. 6)

Equity Interests

[5] 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 June 2010)

In extending credit to AIG, the Fed insisted that the government take an equity interest in the company as well. This was "intended to provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks" (Trust Agreement - pp. 1).

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 anti-dilution provisions attached. (Credit Agreement - Exhibit D; FRB Section 129, 09/16/2008 - pp. 7). The Preferred Stock also carried a liquidation preference of $5.00 per share, or $500,000 in aggregate. (Credit Agreement - 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. (Ibid. - 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 was later adjusted to 77.9% due to other equity interests in AIG acquired by the government.[6] (Trust Agreement - pp. 1) (See discussion at The First Restructuring Plan subsection under the Outcomes section.) .If converted, the government would have effectively held majority ownership in AIG (Credit Agreement - Exhibit D). However, the Series C Preferred Stock could not be issued until the trust was established on January 16, 2009[7] and the necessary number of shares were 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. (Ibid. - Exhibit D) (See discussion at "The Second Restructuring Plan" subsection under 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." (Ibid. - Exhibit D)

Outcomes

The FRBNY's outstanding assistance to AIG under the RCF peaked at $72.3 billion in late October 2008. (FRB) However, AIG continued to experience losses on subprime RMBS investments and collateral calls on CDS contracts during the third quarter of 2008 (Salter 2013 - pp. 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

---

[6] 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 2011 - pp. 71 - 72)

[7] The reasons for the delay in establishing the trust re 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 TARP investment, which might have seemed more pressing.

had substantially increased AIG's leverage and the very high interest rate and commitment fee imposed by the Credit Agreement had lowered its interest coverage ratio (SIGTARP November 2009 - pp. 12 - 13). (These are two metrics rating agencies use to assess a company's financial strength.) (FR Section 129, 11/10/2008 - pp. 4; SIGTARP November 2009 - pp. 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 onerous terms imposed by the original RCF agreements (FR Section 129, 11/10/2008 - pp. 4 - 7).

The First Restructuring Plan. The FRBNY and Treasury announced the first of two restructuring plans on November 10, 2008. (FR Section 129, 11/10/2008) 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 (Series D Warrant) to purchase 2% of AIG's outstanding common stock. (Series D Warrant - pdf pp. 228)

The plan indicated that AIG was to use $35 billion of the proceeds from the Series D stock sale to pay down the amounts borrowed under the RCF.[8] The repayment allowed the FRBNY to decrease the Commitment maximum from $85 billion to $60 billion, as shown in Figure 4.[9] (SIGTARP November 2009 - pp. 4) The remaining $5 billion was allocated as cash on the balance sheet. (YPFS Alvarez Interview).

The plan substantially eased the terms of the Credit Agreement, which had been intentionally designed to be more onerous than private sector alternatives (GAO September 2011 - pp. 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 (FR Section 129, 11/10/2008 - pp. 6). The new agreement effectively cut the RCF interest rate almost in half, from 12% to 6.5%[10] (See Figure 5). The new agreement also extended the maturity of the RCF loan from two to five years (until September 22, 2013), and slashed the commitment fee from 8.5% to 0.75%. (Ibid. - pp. 6) The 79.9% equity interest of the Series C Preferred Stock from 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%.[11] (Trust Agreement – pp. 1, Series D Warrant - pdf pp. 228)[12]

---

[8] **We are looking for the source of this split and will update.**

[9] For a description of the other economic elements of the First Restructuring Plan, see Buchholtz 2018a.

[10]The terms were revised from 3-Month LIBOR plus 8.5% to 3-Month LIBOR plus 3.0%, and continued to include a 3.5% Libor floor (Ibid. - pp. 6).

[11] See the discussion at Key Design Decision #7.

[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. (FR Section 129, 11/10/2008 - pp. 7 - 9). These companies would be named Maiden Lane II and Maiden Lane III , respectively.

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 (FR Sec. 129, 03/02/2009 - pp. 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 (Ibid. - pp. 6) (see Figure 5). The Fed also decided that as partial repayment of the RCF, the FRBNY would accept non-voting preferred interests in two AIG special purpose vehicles (SPVs). (Ibid. - pp. 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). (Ibid. - pp. 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. (Form 8-K, 12/01/2009 - pp. 2) In return, the Commitment of $60 billion, and the then outstanding balance of approximately $46.5 billion, each decreased by the $25 billion aggregate value of the SPV preferred interests. (Amendment No. 4 - pp. 4) For more information on the Second Restructuring Plan, please refer to Buchholtz 2018a.

Additionally, on March 4, the Series C Preferred Stock was issued to the AIG Credit Facility Trust (the trust), pursuant to the terms of the Credit Agreement. (Form 8-K, 03/04/2009) The FRBNY established the Trust on January 16, 2009, appointing three independent trustees to manage the Trust, in consultation with Treasury, based on having "integrity, impeccable reputations in the marketplace and a unique combination of experience successfully leading major corporations and working in the public sector." (AIG Credit Facility Trust FAQ) The FRBNY appointed Jill M. Considine, Chester B. Feldberg, and Douglas Foshee as trustees. (Trust Agreement - pp. 1) For more information on the AIG Credit Facility Trust and its role managing the Series C Preferred Stock, please refer to Buchholtz 2018b.

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. (UST PR, 09/30/2010) The FRBNY, Treasury, AIG two related insurance SPV subsidiaries, and the Trust all signed a Master Transaction Agreement dated December 8, 2010. (Master Transaction Agreement).

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. (FRBNY PR, 01/14/2011; Master Transaction Agreement - pp. 28 - 29) This transaction effectively ended the RCF and terminated the Credit Agreement. (Ibid. - pp. 28 - 29) In its 2011 Annual Report, the FRBNY reported approximately $6.4 billion in capitalized interest and fees. (FRBNY Annual Report (2011) - pp. 60)

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 (Recapitalization Plan - pp. 2; Trust Agreement - pp. 2). As a result, when added to other shares that had been acquired, the Treasury owned an aggregate equity stake in AIG of 92.1%. (Recapitalization Plan - pp. 2) As a result of the transfer, the Trust disbanded. (Ibid. - pp. 12)

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. (GAO July 2011 - pp. 168)

To view the changes in the Commitment and the outstanding balance under the RCF at different points in its existence, see Figure 4 below. The outstanding balance includes any capitalized interest and fees in addition to the principal balance drawn from the RCF by AIG. (Recapitalization Plan - pp. 2)

Figure 4: Changes to the Commitment for specific dates from Sept. 2008 to Jan. 2011[13]

Date (Closed)	Max. Amount of Commitment	Outstanding Balance under RCF (in millions)[14]	Reason for Change
September 16, 2008 (Announced)	$37,000	$0	The FRBNY announced $85 billion emergency credit line for AIG.
September 22, 2008 (Executed)	$85,000	$42,066	RCF officially implemented.[15]
November 10, 2008 (Announced)	$85,000	$63,376	First Restructuring Plan announced.
November 25, 2008 (Executed)	$60,000	$35,430	$40 billion TARP investment from Treasury helped pay down principal balance owed. Amendment No. 2.
March 2, 2009 (Announced)	$60,000	$42,468	Second Restructuring Plan announced.
December 1, 2009 (Executed)	$35,000	$21,652	$16B in preferred shares in AIA SPV and $9B in preferred shares in ALICO SPV applied to RCF as debt forgiveness. Amendment No. 4.
May 6, 2010	$34,000	$28,384	Proceeds from sale of HighStar Port Partners, L.P. and other small AIG subsidiaries partially repaid RCF balance.
August 20, 2010	$30,000	$20,717	Proceeds from sale of International Lease Finance Corp debt issuances partially repaid RCF balance.
September 30, 2010 (Announced)	$30,000	$20,018	Recapitalization Plan announced.
January 14, 2011 (Executed)	$0	$0	AIG completed repayment of the RCF using proceeds from AIA and ALICO transactions.

Sources: *Federal Reserve Board Data*, *COP June 2010*

II. Key Design Decisions

1. **The Revolving Credit Facility was created as part of a multi-faceted intervention by the government.**

The Revolving Credit Facility (RCF), 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. (Credit Agreement; FRB PR, 09/16/2008). Interventions would be funded by the FRBNY and Treasury, and would include direct loans, asset

[13] Does not include all intervening transactions.
[14] Amount shown includes principal debt, plus interest and fees.
[15] Outstanding balance includes $37 billion advanced to AIG between September 16 and September 19 via four demand notes.

purchases, and capital injections, and would become the government's largest intervention for any one entity, totaling $182.3 billion (UST Financial Report (FY 2013) - pp. 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 Sept. 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 (GAO September 2011 - pp. 19 – 31). FRBNY officials told 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 (GAO September 2011 - pp. 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" (Title 12 U.S.C. 343 – pp. 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 Minutes 09/16/2008, pp. 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 which differed from the term sheet approved by the Board. (FRB Minutes 09/16/2008, pp. 3-4) U.S. Court of Federal Claims, June 2015 - pp. 20)

Former FRBNY President Geithner has provided further elaboration on the Board's decision. Since Lehman Brothers filed for bankruptcy on the same day, September 16, which only heightened panic throughout financial markets, access to credit was very limited (GAO September 2011 - pp. 7). Given AIG's extreme liquidity needs only seemed to have been growing and two rounds of a private-sector solution had failed, no amount of private funding that could have been available would have been adequate to meet AIG's needs (Ibid. - pp. 35). In the case of aiding an individual firm, and more specifically a non-bank institution like AIG, the objective in Secretary Geithner's view was to "minimize or mitigate the damage to the economy." (Ibid. - pp. 1708)

Finally, authorization under Section 13(3) also required that the credit could be "secured to the satisfaction" of the lending Reserve Bank. (12 U.S.C. 343, 2007) 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 2019, 23, Geithner 2014 – pp. 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.

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 2019, 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 (Credit Agreement - pp. 35 - 36). Section 5.05 also imposed detailed additional reporting requirements, such as in case of default, a change in AIG's corporate rating, or judicial proceedings made against them (Credit Agreement - pp. 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 was 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 had repeatedly stated they had a "binary" choice between letting AIG fail or rescue the entire institution (COP June 2010 - Executive Summary). Tom Baxter, who was the general council at the FRBNY, agreed with this sentiment, and suggested that the consequences of bankruptcy would have been far worse than a wholesale rescue (COP June 2010 - Sec. \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, 09/23/2008)." However, significant internal discussions about the punitive pricing of the initial terms of the loan were had at the FRBNY (See KDD #10 for more details).

Bernanke would, 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 U.S. economy (Bernanke, 10/07/2008)."

The Fed would dramatically alter the terms of the RCF in a Restructuring Plan that was released at 6am on November 10, 2008, the same day of its earnings release was made because officials had anticipated that AIG would show large losses and be prime targets for a ratings downgrade (GAO September 2011 - pp. 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 (Ibid. - pp. 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." (GAO September 2011 - pp. 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, 10/08/14 - pp. 1777 - 1778).

Secretary Geithner later recalled that Secretary Paulson had suggested 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." (Ibid. - pp. 1810) Liddy had experience serving as CEO of Allstate, another major insurance company, for eight years, as well as having served on Goldman Sachs Board of Directors at the time. (Ibid. - pp. 1810, Goldman PR 09/26/2008)

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 ("What Went Wrong at AIG?").

On September 16th, 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." (U.S. Court of Federal Claims, June 2015 - pp. 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 needed $14 billion in immediate funds. (Geithner 2014 – pp. 196). Ultimately, through September 19th, 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. (Guarantee and Pledge Agreement - pp. 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 Dahlgren Interview). Stress scenarios and valuations would be updated daily by Ernst & Young (EY) specialists and would be reported to 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 Dahlgren Interview)

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 June 2010 - pp. 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. (Ibid. - pp. 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 FRBNY to "discount", or purchase paper with interest. (Ibid. - pp. 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 cancelled the four demand notes. (Guarantee and Pledge Agreement - pp. 1 - 2)

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

Ultimately, with time playing a major factor, the FBRNY 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. (GAO September 2011 - pp. 34 - 35) The FRBNY stated that it wanted to adhere to similar terms that the private-sector group would have received in order to ensure taxpayers would receive a deal of equal or greater value. (COP June 2010 - pp. 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." (Ibid. - pp. 71). Also, the term was extended, the interest rate was increased, and the commitment fee was decreased. (See KDDs 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." (GAO September 2011 - pp. 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 January 2010 - pp. 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." (12 U.S.C. 343, 2007). Then-head of FRBNY Tim Geithner 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." 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, Geithner 2014 – pp. 193)

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. (GAO September 2011 - pp. 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. (Guarantee and Pledge Agreement - 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 - pp. 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 - pp. 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. (Guarantee and Pledge Agreement - pp. 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 normal times. The Fed initially set the interest rate and undrawn commitment rate on AIG's credit facility at punitive levels, however (GAO September 2011 - pp. 123 - 126).

The interest rate of 3-Mo. LIBOR plus 8.5%, totaling 12%, was greater than the rate the private-sector consortium included on its term sheet, which was 3-Mo. LIBOR plus 6.5%. (See Figure 5; GAO September 2011 - pp. 125) The rationale for the increase, according to 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." (Ibid. - pp. 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. (Ibid. - pp. 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 more risky 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. (Ibid. - pp. 126)

However, later reports reveal that there was concern about the rate, called "onerous", although there were no changes by the time the FRB's approved the loan to AIG on September 16. (Ibid. - pp. 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. (Ibid. - pp. 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" (U.S. Court of Federal Claims, June 2015 - pp. 31 - 32). Tom Baxter even characterized the rate as, "[m]ore of a loan shark" rate (Ibid. - pp. 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 (GAO September 2011 - pp. 126)."

Chairman Bernanke noted in a September 2008 Senate hearing that the high rates was 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, 09/23/2008) Additionally, the FRBNY included a LIBOR floor rate of 3.5% to ensure that even with if LIBOR rates fall throughout the RCF lifetime, the FRBNY would still be receiving adequate interest payments from AIG (GAO September 2011 - pp. 125).

Per the FRB, the government reduced the RCF interest rate to 3-Mo. 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." (FR Sec. 129, 11/10/2008 - pp. 6) The GAO reported that FRBNY believed that lowering the interest rate and the commitment fee (see Key Design Decision #5), "reflected AIG's stabilized condition and outlook" after Treasury's $40 billion investment in new equity shares. (GAO September 2011 - pp. 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. (GAO September 2011 - pp. 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 PR, 03/02/2009).

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[16]	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%[17]	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%

Source: FRBNY, GAO review of Federal Reserve System records

10. The RCF carried a one-time commitment fee of two percent.

The initial commitment fee was two percent of the aggregate amount available under the RCF. This came out to about $1.7 billion dollars (Sec 129, 09/16/2008 - pp. 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 five percent that it would have been under the private plan (GAO September 2011 - pp. 125).

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 8.50% 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. (GAO September 2011 - pp. 124 - 126; Credit Agreement - pp. 21) The GAO reported that the FRBNY included the fee to ensure that taxpayers were being compensated "whether AIG used the facility or not." (GAO September 2011 - pp. 126)

The motives to reduce the commitment fee during the First Restructuring Plan was similar to the reason of reducing the interest rate, described in Key Design Decision #4, to increase the insurer's capacity to repay its loan. (FR Sec. 129, 11/10/2008 - pp. 6) Per an FRBNY fact sheet circulated in November 2008, the lower interest rate and commitment fee was a sign that AIG had begun to stabilize based on possible impact of a $40 billion equity investment in the firm made by Treasury under TARP. (GAO September 2011 - pp. 129)

[16] The rate on the private plan was stated generally as LIBOR, while the FRBNY loan specified 3-month LIBOR.
[17] AIG received $500,000 credit on FRBNY commitment fee, related to payment for preferred shares.

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. (GAO September 2011 - pp. 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 Sec. 129, 11/10/2008 - pp. 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 March 2009)

13. The government took a 79.9% equity stake in AIG, 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 Trust Case). This interest was designed to "provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks" (Trust Agreement - pp. 1). 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 - pp. 7)

AIG's Board of Directors met on September 21, 2008, with the expectation that they would be issuing to the U.S. government a set of warrants with non-voting rights.[18] However, after a proposal by the FRBNY, they agreed upon the issuance of preferred stock instead of warrants (U.S. Court of Federal Claims, June 2015 - pp. 25 - 26). Preferred stock granted Treasury voting rights once the stock was issued, while warrants would have only granted voting rights after they were exercised. (Ibid. - June 2015 - pp. 25) To exercise the

[18]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 commitment and also received warrants to purchase common stock representing 79.9 % of the common stock of each GSE. (Ibid. - pp. 71 - 72) (Jester, et al. 2018, 10). 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 he 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, June 2015 - pp. 20 - 26).

warrants, Treasury would have had to pay an estimated strike price of $30 billion. (Ibid. - pp. 25)

The 79.9% equity stake in AIG was included in the private-sector term sheet, according to the COP (COP June 2010 - pp. 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 (Ibid. - pp. 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 GSE. (Ibid. - pp. 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 the warrant to purchase up 2% of AIG common stock. (Credit Agreement, Exhibit D, Form 8-K, 11/26/2008 - pp. 3) The equity stake's decrease to maintain the FBRNY's overall equity stake in AIG under 80%. (COP June 2010 - pp. 71 - 72) To read more information about the Series C Preferred Stock and the AIG Credit Facility Trust, please refer to Buchholtz 2018b.

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

As mentioned in Key Design Decision #6, the government extended the term of the RCF under the Second Restructuring Plan from a two to 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 Dahlgren Interview)

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 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." (GAO September 2011 - pp. 129) Dahlgren stated that for any repayment towards the RCF through the restructurings, the FRBNY always considered the impact on the balance sheet's capital structure, what would AIG look like to external parties like the credit rating agencies and investors, and how does government's risk exposure change. (YPFS Dahlgren Interview)

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. (GAO September 2011 - pp. 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 downgrade by rating agencies and would thus hinder the government's and AIG's effort to stabilize the company. (Ibid. - pp. 52 - 53)

The government aimed to reduce the Commitment and AIG's outstanding loans under the RCF even further under the Second Restructuring Plan. 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 2013 - pp. 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 Alvarez Interview)

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. (GAO September 2011 - pp. 53) Based on an interview conducted by the GAO with an FRBNY advisor, on the Second Restructuring Plan (Ibid. - pp. 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. (UST PR, 1/14/2011) 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, there were some in the FRBNY who 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 it would take time to unwind the company through the sale of various assets to make AIG look like a normal company again. Moreover, the FRBNY wanted to ensure that its exit wouldn't leave AIG in a position where it would revert back to its original problems and eventually fail. (YPFS Dahlgren Interview)

III. Evaluation

The RCF was the first of many actions the U.S. 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 June 2010 - pp. 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 June 2010 - pp. 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 November 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.

The sheer size of the FRBNY and Treasury's overall rescue of AIG, amounting to around $182.3 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.[19] (GAO September 2011 - Summary) 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." (NYT NA, 09/16/2008) One scholar has opined that it is likely the case that no matter how the FRBNY acted, their actions would have received criticism (Goodfriend 2011 - pp. 6 - 7). Whether the FRBNY provided a smaller loan, provided a larger loan, or did nothing at all, Congress was likely to get involved. (Ibid. - pp. 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. (UST Notes, 12/12/2012) Officials have characterized the RCF terms as "harsh," "onerous," and "punitive," intended to force AIG's hand to sell assets and downsize. (U.S. Court of Federal Claims, June 2015 - pp. 31 - 32) The government moved to ease such terms less than two months after the initial loan (Ibid. - pp. 32). Nonetheless, while one FRBNY official 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. (GAO September 2011 - pp. 90)

Another commenter 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 Bank (the Fed) across a variety of programs and facilities and evaluated levels of effectiveness, transparency, availability of options, and consistency. The study concluded that the Fed's decisions to save AIG and Bear (while letting Lehman fail) 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 towards

[19] For a summary of the government's overall rescue of AIG, please refer to Engbith 2018.

market principles. (Herr et al. 2016 - pp. 205) The paper recognized 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. (Ibid. - pp. 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." (Ibid. - pp. 202) While evaluating the level of transparency, it was still unclear to the researchers why the government saved AIG, pointing out that the Fed argued that there was "no time to follow a procedure following market principles." (Ibid. - pp. 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. (Ibid. - pp. 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 - pp. 73). However, she 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, she argues that the entire sum of the rescue cost U.S. taxpayers more money than needed (Ibid. - pp. 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 U.S. taxpayers. AIG paid, if not all, payments, towards collateral calls and the unwinding of the CDS portfolios – which the RCF partially funded – at face value, instead of a lower market value (Ibid. - pp. 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 (Ibid. - pp. 73).

Contrary to Choi's point of view, many believed 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 (U.S. Court of Federal Claims, June 2015 - pp. 31 - 32). Though both the FRBNY and AIG came to an agreement, some 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 - pp. 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. (Ibid. - pp. 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." (Insurance Journal NA, 11/09/2008)

Other scholars have characterized the RCF intervention as a "forced takeover" or as a "quasi-nationalization" of AIG by the U.S. government due to the Series C Preferred Stock and accompanying equity interest. (Blinder 2013 - pp. 179) The inclusion of the Series C Preferred Stock in the Credit Agreement led one of AIG's majority shareholders, Starr International Company, one of AIG's largest shareholders, to bring a derivative suit against the government and AIG in November 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 U.S. Constitution." (U.S. Court of Federal Claims, June 2015 - pp. 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 January 2016, fn33)[20]

The decision of *Starr International Co. v. United States* found that the FRBNY acted illegally in its acquisition of AIG equity interests, as it "intentionally kept the shareholders in the dark" for much of the process. (U.S. Court of Federal Claims, June 2015 - pp. 66 - 67) However, the United States Court of Federal Claims also concluded that while the government's actions of taking 79.9% ownership, later 92%, were not justified under the Federal Reserve Act and its amendments, they "did not cause any economic loss to AIG shareholders." In the end, the Court awarded zero damages to Starr International and shareholders, because it concluded that the value of the property of Starr would have been nothing had the government not intervened (Ibid. - pp. 63 - 67).

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. (U.S. Court of Federal Claims, 05/09/2017 - pp. 3, Circuit Court decision) Although Starr International petitioned the Supreme Court to review the case, the court declined to hear it. (Supreme Court Ruling)

IV. References

Alvarez, Scott. "Testimony of Scott G. Alvarez, General Counsel, Board of Governors of the Federal Reserve System before the Congressional Oversight Panel." Congressional Oversight Panel. May 26, 2010. (Alvarez 2010). https://cybercemetery.unt.edu/archive/cop/20110402031647/http://cop.senate.gov/documents/testimony-052610-alvarez.pdf

American International Group, Inc. "AIG Closes Two Transactions That Reduce Debt AIG Owes Federal Reserve bank of New York by $25 Billion." American International Group,

[20] We are searching for the primary source mentioned it the FN. And will update.

Inc. December 1, 2009. (AIG PR, 12/01/2009). http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjE4ODl8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1

American International Group, Inc. "Form 10-Q." Federal Reserve Board of Governors. June 30, 2008. (Form 10-Q June 2008). https://www.sec.gov/Archives/edgar/data/5272/000095012308008949/y59464e10vq.htm

American International Group, Inc. "Certificate of Designations of Series C Perpetual, Convertible, Participating Preferred Stock." American International Group, Inc. March 2, 2009. (Certificate of Designations: Series C Preferred Stock). https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv3wiwf.htm

American International Group, Inc. "Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement." American International Group, Inc. March 2, 2009. (Stock Purchase Agreement: Series C Preferred Stock). https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv10w91.htm

American International Group, Inc. "New Measures Will Reduce Debt Owed to Government, Strengthen Capital Based, Allow Time To Execute Restructuring Plan Under Better Market Conditions." American International Group, Inc. March 2, 2009. (AIG PR, 03/02/2009). https://www.sec.gov/Archives/edgar/data/5272/000095012309003740/e74794exv99w2.htm

Anderson, Matt. "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. (UST Notes, 12/12/2012). https://www.treasury.gov/connect/blog/Pages/AIG-wrapup.aspx

Andrew, Edmund L., Michael J. de la Merced & Mary Williams Walsh. "Fed's $85 Billion Loan Rescues Insurer." New York Times. September 16, 2008. (NYT NA, 09/16/2008). http://www.nytimes.com/2008/09/17/business/17insure.html

Bernanke, Ben S. "Testimony of Ben S. Bernanke before the Senate Banking Committee." Senate Committee on Banking, Housing, and Urban Affairs. September 23, 2009. (Bernanke September 2009). https://www.banking.senate.gov/public/?a=Files.Serve&File_id=BBBA8289-B8FA-46A2-A542-B65065B623A1

https://www.federalreserve.gov/newsevents/testimony/bernanke20080923a1.htm

Blinder, Alan S. "After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead." Penguin Random House. January 24, 2013. (Blinder 2013). https://books.google.com/books/about/After_the_Music_Stopped.html?id=6Mdh5yuHavgC

Buchholtz, Alec. "The Rescue of American International Group, Module C: AIG Investment Program." Yale Program on Financial Stability New Bagehot Project. 2018. (Buchholtz 2018a).

Buchholtz, Alec. "The Rescue of American International Group, Module F: Credit Facility Trust." Yale Program on Financial Stability New Bagehot Project. 2018. (Buchholtz 2018b).

Choi, Jin Wook. November 2013. "The 2007-2010 U.S. financial crisis: Its origins, progressions, and solutions." The Journal of Economic Asymmetries. (Choi 2013). http://www.sciencedirect.com/science/article/pii/S1703494913000121

Congressional Oversight Panel. June 10, 2010. "The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy." Congressional Oversight Panel. (COP June 2010). https://cybercemetery.unt.edu/archive/cop/20110401232818/http://cop.senate.gov/documents/cop-061010-report.pdf

Dash, Eric & Andrew Ross Sorkin. September 17, 2008. "Throwing a Lifeline to a Troubled Giant." New York Times. (NYT NA, 09/17/2008). http://www.nytimes.com/2008/09/18/business/18insure.html

Davidoff, Steven M. March 26, 2009. "Short-Term Solutions to Long-Term Problems." Dealbook – New York Times. (Davidoff 2009). https://dealbook.nytimes.com/2009/03/26/short-term-solutions-to-long-term-problems/

Engbith, Lily. "American International Group, Inc. – Overview." Yale Program on Financial Stability New Bagehot Project. March 2018. (Engbith 2018).

Federal Reserve Bank of New York. 2012. "Actions Related to AIG." Federal Reserve Bank of New York. (FRBNY Actions Related to AIG). https://www.newyorkfed.org/aboutthefed/aig#slide2

Federal Reserve Bank of New York. April 17, 2009. "Amendment No. 3 to Credit Agreement." Federal Reserve Bank of New York. (Amendment No. 3). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_3.pdf

Federal Reserve Bank of New York. December 1, 2009. "Amendment No. 4 to Credit Agreement." Federal Reserve Bank of New York. (Amendment No. 4). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_4.pdf

Federal Reserve Bank of New York. "Fourth Amended and Restated Limited Liability Company Agreement of AIA Aurora LLC, A Delaware Limited Liability Company." Federal Reserve Bank of New York. December 1, 2009. (AIA LLC Agreement). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/aia_aurora_agreement.pdf

Federal Reserve Bank of New York. "Second Amended and Restated Limited Liability Company Agreement of ALICO Holdings LLC, A Delaware Limited Liability Company." Federal Reserve Bank of New York. December 1, 2009. (ALICO LLC Agreement). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/alico_holdings_agreement.pdf

Federal Reserve Bank of New York. "Master Transaction Agreement." Federal Reserve Bank of New York. December 8, 2010. (Master Transaction Agreement). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/master_transaction_agreement.pdf

Federal Reserve Bank of New York. "AIG Credit Facility Trust Frequently Asked Questions." Federal Reserve Bank of New York. February 2010. (FRBNY Credit Facility Trust FAQ). https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/2010/Trust_FAQ_Final.pdf

Federal Reserve Bank of New York. "New York Fed Ends AIG Assistance with Full Repayment." Federal Reserve Bank of New York. January 14, 2011. (FRBNY PR, 01/14/2011). https://www.newyorkfed.org/newsevents/news/aboutthefed/2011/oa110114.html

Federal Reserve Bank of New York. "Credit Agreement." Federal Reserve Bank of New York. September 22, 2008. (Credit Agreement). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/original_credit_agreement.pdf

Federal Reserve Bank of New York. "Guarantee and Pledge Agreement." Federal Reserve Bank of New York. September 22, 2008. (Guarantee and Pledge Agreement). https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/guarantee_pledge_agreement.pdf

Federal Reserve Board of Governors. "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." Federal Reserve Board of Governors. September 16, 2008. (FRB PR 09/16/2008). https://www.federalreserve.gov/newsevents/pressreleases/other20080916a.htm

Federal Reserve Board of Governors. "Restructuring of the Government's Financial Support to the American International Group, Inc. on March 2, 2009." Federal Reserve Board of Governors. March 2, 2009. (FRB Section 129, 03/02/2009). https://www.federalreserve.gov/monetarypolicy/files/129aigrestructure03022009.pdf

Federal Reserve Board of Governors. "Restructuring of the Government's Financial Support to the American International Group, Inc. on November 10, 2008." Federal Reserve Board of Governors. November 10, 2008. (FRB Section 129, 11/10/2008). https://www.federalreserve.gov/monetarypolicy/files/129aigrestructure.pdf

Federal Reserve Board of Governors. "Extension of credit to American International Group, Inc." Federal Reserve Board of Governors. September 16, 2008. (FRB Minutes 2008). https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20090311a1.pdf

Federal Reserve Board of Governors. "Secured Credit Facility Authorized for American International Group, Inc. on September 16, 2008." Federal Reserve Board of Governors. September 16, 2008. (FRB Section 129, 09/16/2008). https://www.federalreserve.gov/monetarypolicy/files/129aigseccreditfacility.pdf

Federal Reserve Board of Governors. "American International Group (AIG), Maiden Lane II and III." Federal Reserve Board of Governors. February 12, 2016. (FRB AIG Background). https://www.federalreserve.gov/regreform/reform-aig.htm

Federal Reserve Board of Governors. "AIG Revolving Credit Facility." Federal Reserve Board of Governors. September 2008 to November 2010. (FRB Data). https://www.federalreserve.gov/regreform/files/aig.rc.xls

Felkerson, James Andrew. "A detailed look at the Fed's crisis response by funding facility and recipient." Jerome Levy Economics Institute of Bard College. 2012. (Felkerson 2012). https://www.econstor.eu/bitstream/10419/121982/1/689983247.pdf

Moriarty, Michael. "Testimony to the Congress of the United States Congressional Oversight Panel Hearing on American International Group." May 26, 2010. https://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-05-26%20Michael%20Moriarty%20Testimony%20before%20the%20Congressional%20Oversight%20Panel.pdf.

Geithner, Timothy F. Stress Test. Penguin Random House. Paperback. 2014. (Geithner 2014).

Geithner, Timothy F. (2019) "The Early Phases of the Financial Crisis: Reflections on the Lender of Last Resort," Journal of Financial Crises: Vol. 1 : Iss. 1, 1-38. Available at: https://elischolar.library.yale.edu/journal-of-financial-crises/vol1/iss1/1

Geithner, Timothy F. "Testimony of Timothy F. Geithner before the House Committee on Oversight and Government Reform." House Committee on Oversight and Government Reform. January 27, 2010. (Geithner January 2010). https://oversight.house.gov/wp-content/uploads/2012/01/20100127geithner.pdf

Geithner, Timothy F. "Testimony of Timothy F. Geithner before the U.S. Court of Federals Claims." U.S. Court of Federal Claims. October 8, 2014. (Geithner, 10/08/2014). https://web.archive.org/web/20161104124753/http://starrvstheus.com/docs/2014.10.08%20-%20DAY%208%20-%20Full.pdf

Goodfriend, Marvin. January 2011. "Central banking in the credit turmoil: An assessment of Federal Reserve practice." Journal of Monetary Economics. (Goodfriend 2011). http://www.sciencedirect.com/science/article/pii/S0304393210001194#

Government Publishing Office. "United States Code, Title 12 – Banks and Banking, Federal Reserve Act." Federal Reserve Board of Governors. (12 U.S.C. 343, 2007). https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf

Government Publishing Office. "United States Code, Title 12 – Banks and Banking, Federal Reserve Act." Federal Reserve Board of Governors. (12 U.S.C. 357, 2007). https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf

Harvard Law Review. January 11, 2016. "Starr International Co. v. United States." Harvard Law Review. (HLR January 2016). https://harvardlawreview.org/2016/01/starr-international-co-v-united-states/

Herr, Hansjorg, Sina Rudiger, & Jennifer Pedussel Wu. June 2016. "The Federal Reserve as Lender of Last Resort during the Subprime Crisis – Successful Stabilisation without Structural Changes." Journal of Economics and Political Economy. (Herr et al. 2016). http://www.zbw.eu/econis-archiv/bitstream/handle/11159/283/2-02-The%20Federal%20Reserve%20as%20Lender%20of%20Last%20Resort%20During%20the%20Subprime%20Crisis.pdf?sequence=1

Jester, Dan, Matthew Kabaker, Jeremiah Norton, and Lee Sachs. *Rescuing the Mortgage Giants, Preliminary Discussion Draft, September 11-12, 2018.* http://ypfs.som.yale.edu/file/2274

Kohn, Donald L. March 5, 2009. "Testimony of Donald L. Kohn before the Senate Committee on Banking, Housing, and Urban Affairs." Senate Committee on Banking, Housing, and Urban Affairs. (Kohn March 2009). https://www.federalreserve.gov/newsevents/testimony/kohn20090305a.htm

McKenna, Francine. September 14, 2012. "Did the Government Profit From AIG? That's the Wrong Question." American Banker. (American Banker NA, 09/14/2012). https://www.americanbanker.com/opinion/did-the-government-profit-from-aig-thats-the-wrong-question

Millstein, Jim. May 26, 2010. "Written Testimony of Jim Millstein, Chief Restructuring Officer, U.S. Department of the Treasury before the Congressional Oversight Panel." Congressional Oversight Panel. (Millstein 2010). https://cybercemetery.unt.edu/archive/cop/20110401232000/http://cop.senate.gov/documents/testimony-052610-millstein.pdf

Office of the Special Inspector General for the Troubled Asset Relief Program. November 17, 2009. "Factors Affecting Efforts to Limit Payments to AIG Counterparties." Office of the Special Inspector General for the Troubled Asset Relief Program. (SIGTARP November 2009) https://fcic.law.stanford.edu/documents/view/1286

Salter, Malcolm S. December 5, 2013. "Annals of Crony Capitalism: Revisiting the AIG Bailout." HBS Negotiations, Organizations, and Markets Unit. (Salter 2013).

https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2364090_code2015429.pdf?abstractid=2364090&mirid=1&type=2

Tilson, James & Robert E. Prasch. January 24, 2013. “The True Cost of the AIG Bailout.” Ritholtz Wealth Management. (Ritholtz Wealth Management January 2013). http://ritholtz.com/2013/01/the-true-cost-of-the-aig-bailout/

United States Court of Federal Claims. “Starr International Company, Inc. v. the United States.” United States Court of Federal Claims. June 15, 2015. (U.S. Court of Federal Claims, June 2015).
https://ecf.cofc.uscourts.gov/cgi-bin/show_public_doc?2011cv0779-443-0

United States Department of the Treasury. “Statement by the US Treasury Department on AIG Exit Plan.” United States Department of the Treasury. September 30, 2010. (UST PR, 09/30/2010).
https://www.treasury.gov/press-center/press-releases/Pages/tg880.aspx

United States Government Accountability Office. “Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance.” United States Government Accountability Office. July 2011. (GAO July 2011).
http://www.gao.gov/new.items/d11696.pdf

United States Government Accountability Office. “Review of Federal Reserve System Financial Assistance to American International Group, Inc.” United States Government Accountability Office. September 2011. (GAO September 2011).
www.gao.gov/assets/590/585560.pdf

Webel, Baird. “Ongoing Government Assistance for American International Group (AIG).” Congressional Research Service. March 16, 2009. (Webel 2009).
https://fas.org/sgp/crs/misc/R40438.pdf

Willumstad, Robert B. “Testimony of Robert B. Willumstad, Former Chief Executive Officer of the American International Group before the Congressional Oversight Panel.” Congressional Oversight Panel. May 26, 2010. (Willumstad May 2010).
https://cybercemetery.unt.edu/archive/cop/20110401232000/http:/cop.senate.gov/documents/testimony-052610-willumstad.pdf

Yale Program on Financial Stability. Interview with Sarah Dahlgren. Yale Program on Financial Stability. May 22, 2018. (YPFS Dahlgren Interview).

Yale Program on Financial Stability. Interview with Scott Alvarez. Yale Program on Financial Stability. September 27, 2018. (YPFS Alvarez Interview).

Zuill, Lilla & Mark Felsenthal. “AIG Reworks Bailout, Fed Ups Support to $150B, Lowers Interest Rate.” Insurance Journal. November 9, 2008. (Insurance Journal NA, 11/09/2008). http://www.insurancejournal.com/news/national/2008/11/09/95371.htm

V. Key Program Documents

Summary of Program

- June Oversight Report: The AIG Rescue (Congressional Oversight Report, 06/10/2010) – *Congressional Oversight Panel releases information on AIG's rescue, highlighting hearing testimonies, government actions, and impacts of government intervention* https://cybercemetery.unt.edu/archive/cop/20110401232818/http://cop.senate.gov/documents/cop-061010-report.pdf

- 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://www.newyorkfed.org/aboutthefed/aig/index.html#slide1

- Recapitalization Plan Summary of Terms (09/30/2010) – *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 SPV and the ALICO SPVs by AIG from the Federal Reserve.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/Recapitalization_Summary_Terms.pdf

Implementation Documents

- Credit Agreement (09/22/2008) – *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://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/original_credit_agreement.pdf

- Guarantee and Pledge Agreement (09/22/2008) – *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://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/guarantee_pledge_agreement.pdf

- Amendment No. 1 of Credit Agreement (09/23/2008) – *amended the Credit Agreement to state that the execution of the terms of the Credit Agreement will have taken place by September 25, 2008.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_1.pdf

- Amendment No. 2 of Credit Agreement (11/10/2008) – *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 3-Month LIBOR plus 3.0%, from 3-Month LIBOR plus 8.5%.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_2.pdf

- Amendment No. 3 of Credit Agreement (04/17/2009) – *amended the Credit Agreement to state that loan prepayments must be made anytime on a date prior to 2:00 pm and includes the Summary of Terms for the issuance of Series C Preferred Stock.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_3.pdf

- Amendment No. 4 of Credit Agreement (12/01/2009) – *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://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_4.pdf

- AIG Credit Facility Trust Agreement (01/16/2009) – *agreement that established the AIG Credit Facility Trust as announced in the Credit Agreement, and the responsibilities and powers of the Trustees.* https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/2009/AIGCFTAgreement.pdf

- U.S. Government Provides Support for Continued Restructuring of AIG (03/02/2009) – *restructuring plan is announced for AIG, announcing the intent to establish two special purpose vehicles for AIA and ALICO and the issuance of preferred stock within each for the Federal Reserve, who will invest $26 billion in the SPVs. The amount of the Credit Facility is also drawn down to $35 billion.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003740/e74794exv99w2.htm

- Series C Certificate of Designations (03/01/2009) – *document announcing the intent to issue 100,000 shares of Series C Convertible, Preferred Shares on March 4, 2009, in accordance with the Credit Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv3wiwf.htm

- Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement (03/01/2009) – *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://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv10w91.htm

- ALICO Preferred Interest Purchase Agreement (06/25/2009) – *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 is established.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/alico_preferred_interest_purchase_agreement.pdf

- AIA Preferred Interest Purchase Agreement (06/25/2009) – *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 is established.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/aia_interests_purchase_agreement.pdf

- Second Amended and Restated Limited Liability Company Agreement of ALICO Holdings LLC (12/01/2009) – *document that effectively established the limited liability company special purpose vehicle, called ALICO Holdings LLC, for the AIG subsidiary of ALICO.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/alico_holdings_agreement.pdf

- Fourth Amended and Restated Limited Liability Company Agreement of AIA Aurora LLC (12/01/2009) – *document that effectively established the limited liability company special purpose vehicle, called AIA Aurora LLC, for the AIG subsidiary of AIA.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/aia_aurora_agreement.pdf

- Recapitalization Plan Summary of Terms (09/30/2010) – *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://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/Recapitalization_Summary_Terms.pdf

- Master Transaction Agreement (12/08/2010) – *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://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/master_transaction_agreement.pdf

- Amended and Restated Purchase Agreement (01/14/2011) – *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://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv2w1.htm

- Guarantee, Pledge, and Proceeds Application Agreement (01/14/2011) – *agreement between AIG and the AIA/ALICO SPVs, that the SPVs guarantees the payment of all loans under Intercompany Loan Agreements that AIG itself cannot make.*

https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w1.htm

- Certificate of Elimination (01/14/2011) – *certificate that eliminates all Treasury's Series C Preferred Stock after converting it to common stock, as listed in the Master Transaction Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv3w2.htm

- AIA Aurora LLC Intercompany Loan Agreement (01/14/2011) – *agreement between AIG and AIA SPV that states that AIA SPV will loan $19 billion to AIG, unsecured, for the purpose of repaying the outstanding amount under the Credit Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w2.htm

- ALICO Holdings LLC Intercompany Loan Agreement (01/14/2011) – *agreement between AIG and ALICO SPV that states that AIA SPV will loan $757 million to AIG, unsecured, for the purpose of repaying the outstanding amount under the Credit Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w3.htm

- Registration Rights Agreement (01/14/2011) – *agreement between AIG and Treasury to where AIG will 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://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w4.htm

- Agreement to Amend Warrants (01/14/2011) – *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://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w5.htm

Legal/Regulatory Guidance

- Section 13 of the Federal Reserve Act – *law that states what rights the Federal Reserve has in the case of emergency lending, bankruptcy, and recapitalization of financial firms and institutions.* https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf

Press Releases/Announcements

- Board of Governors Announce Emergency Lending Revolving Credit Facility for AIG (09/16/2008) – *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://www.federalreserve.gov/newsevents/press/other/20080916a.htm

- Statement by the Federal Reserve Bank of New York Regarding AIG Transaction (09/29/2008) – *statement on federal aid to AIG explaining the purpose of the loan, and intent to stabilize AIG while maximizing value for taxpayers.* https://www.newyorkfed.org/newsevents/news/markets/2008/an080929.html

- Board of Governors Announce (11/10/2008) – *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://www.federalreserve.gov/newsevents/press/other/20081110a.htm

- Treasury Announces Investment in AIG Restructuring Under the Emergency Economic Stabilization Act (11/10/2008) – *press release announcing the purchase of $40 billion in senior preferred shares through TARP to help pay down the Credit Facility.* https://www.treasury.gov/press-center/press-releases/Pages/hp1261.aspx

- U.S. Treasury and Federal Reserve Announce Participation in AIG Restructuring Plan (03/02/2009) – *joint press release announcing the First Restructuring Plan for AIG which includes 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://www.federalreserve.gov/newsevents/press/other/20090302a.htm

- AIG Announces Placement of ALICO and AIA into Special Purpose Vehicles (06/25/2009) – *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 aims to reduce the Credit Facility to $35 billion from $60 billion.* http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9OTExNHxDaGlsZElEPS0xfFR5cGU9Mw==&t=1

- AIG Closes Transactions to Form ALICO SPV and AIA SPV (12/01/2009) – *press release announcing the closure of transactions to transfer $25 billion in preferred interests in AIA and ALICO SPVs to Federal Reserve Bank.* http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjE4ODl8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1

- Treasury Update on AIG Investment Valuation (11/01/2010) – *Treasury announces that the AIA IPO raised $20.5B in cash proceeds and ALICO's sale raise $16.2B in total, $7.2B of which is in cash, where all cash proceeds will go to repayment on the Credit*

Facility.
https://www.treasury.gov/press-center/press-releases/Pages/pr_11012010.aspx

- Treasury Announces the Completion of AIG's Recapitalization (01/14/2011) – *Treasury announces that AIG's Recapitalization Plan is complete and the Credit Facility has been terminated. Also, Treasury now owns 92% of the company after conversion of preferred shares to common stock.* https://www.treasury.gov/press-center/press-releases/Pages/tg1024.aspx

Media Stories

- Fitch Announces a Downgrade in AIG's Credit Rating (Fitch Ratings – 09/15/2008) – *press release on Fitch's downgrade of AIG and reasoning behind the rating*. https://www.fitchratings.com/site/pr/435016

- AIG: Pressure Mounts with Downgrades (CNN – 09/16/2008) – *press release on AIG's downgrades across the Big Three credit rating agencies.* http://money.cnn.com/2008/09/15/news/companies/AIG/?postversion=2008091519

- Fed's $85 Billion Loan Rescues Insurer (New York Times – 09/16/2008) – *news article on the Federal Reserve's decision making process on extending an $85 billion loan to AIG.* http://www.nytimes.com/2008/09/17/business/17insure.html

- AIG Reworks Bailout, Fed Ups Support to $150B, Lowers Interest Rate (Insurance Journal, 11/09/2008) – http://www.insurancejournal.com/news/national/2008/11/09/95371.htm

- Short-Term Solutions to Long-Term Problems (New York Times – 03/26/2009) – *news article discussing the federal government's interventions during the crisis, specifically with AIG, and if actions taken help solve the long-term problem too?* https://dealbook.nytimes.com/2009/03/26/short-term-solutions-to-long-term-problems/

- AIA Shares surge 17% in Hong Kong debut (Financial Times – 10/29/2010) – *news article on AIA IPO on Hong Kong Stock Exchange.* https://www.ft.com/content/e993c254-e301-11df-9735-00144feabdc0

Key Academic Papers

- The AIG Bailout (Sjostrom, 11/2009) – https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwji44Wp2YnVAhVLej4KHbHPDIEQFggmMAA&url=http%3A%2F%2Fscholarlycommons.law.wlu.edu%2Fcgi%2Fviewcontent.cgi%3Farticle%3D1062%26context%3Dwlulr&usg=AFQjCNGDAu_mMuQ6fai4BLYQdpV6E9iS2Q&cad=rja

- June Oversight Report: The AIG Rescue (Congressional Oversight Panel, 06/10/2010) – *Congressional Oversight Panel releases information on AIG's rescue, highlighting* *hearing testimonies, government actions, and impacts of government intervention* https://www.gpo.gov/fdsys/pkg/CPRT-111JPRT56698/html/CPRT-111JPRT56698.htm

- Central banking in the current credit turmoil: An assessment of Federal Reserve practice (Goodfriend, 09/08/2010) – http://www.sciencedirect.com/science/article/pii/S0304393210001194#

- A detailed look at the Fed's crisis response by funding facility and recipient (Felkerson, 2012) – https://www.econstor.eu/bitstream/10419/121982/1/689983247.pdf

- Annals of Crony Capitalism: Revisiting the AIG Bailout (Salter, Malcolm S., Harvard University, 12/05/2013) – https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2364090

- The Federal Reserve as Lender of Last Resort During the Subprime Crisis (Herr, Rudiger, Wu, 06/2016) – http://www.zbw.eu/econis-archiv/bitstream/handle/11159/283/2-02-The%20Federal%20Reserve%20as%20Lender%20of%20Last%20Resort%20During%20the%20Subprime%20Crisis.pdf?sequence=1

- Rethinking Board Function in the Wake of the 2008 Financial Crisis (Sharpe, 06/2011) – https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1856723_code242499.pdf?abstractid=1856723&mirid=1&type=2

- Starr International Co. v. United States (Harvard Law Review, 01/11/2016) – https://harvardlawreview.org/2016/01/starr-international-co-v-united-states/

- The 2007-2010 U.S. Financial Crisis: It's Origins, Progressions, and Solutions (Choi, 11/2013) – http://www.sciencedirect.com/science/article/pii/S1703494913000121#

Reports/Assessments

- AIG 8-K (SEC, 09/23/2008) – *AIG declares that the Board of Directors it will suspend dividends on common stock.* https://www.sec.gov/Archives/edgar/data/5272/000095012308011312/y71451e8vk.htm

- AIG 10-K (SEC, 03/02/2009) – *AIG files 2008 annual financial report to SEC.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794e10vk.htm

- Donald Kohn Testimony before Senate Committee on Banking, Housing, and Urban Affairs (U.S. Senate, 05/05/2009) – https://www.federalreserve.gov/newsevents/testimony/kohn20090305a.htm

- Ongoing Government Assistance for American International Group (AIG) (Webel, Baird, Congressional Research Service, 03/16/2009) – *report by the Congressional Research Service that describes the origin of AIG's financial problems and assistance the government extended to AIG to save it from collapse https://fas.org/sgp/crs/misc/R40438.pdf*

- Troubled Asset Relief Program: Update of Government Assistance Provided to AIG (Government Accountability Office, 04/2010) – http://www.gao.gov/new.items/d10475.pdf

- AIG 8-K (SEC, 09/30/2010) – *AIG submits a material definitive agreement to the SEC on the Recapitalization Plan for repayment to the FRBNY of the Revolving Credit Facility.* https://www.sec.gov/Archives/edgar/data/5272/000095012310090261/y86866e8vk.htm

- AIG Schedule 14C (SEC, 12/07/2010) – *AIG releases a notice of shareholder action describing the terms of the Recapitalization Plan and Master Transaction Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012310111059/y87682aprer14c.htm

- AIG Schedule 14A (SEC, 04/04/2011) – *AIG releases a notice of an annual meeting of shareholders, scheduled for May 11, 2011.* https://www.sec.gov/Archives/edgar/data/5272/000093041311002523/c64660_def14a.htm

- Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance (Government Accountability Office, 07/2011) – www.gao.gov/new.items/d11696.pdf

- Troubled Asset Relief Program: Government's Exposure to AIG Lessens as Equity Investments are Sold (Government Accountability Office, 05/2012) – https://www.gao.gov/assets/600/590677.pdf

- Starr International Co. vs. United States and American International Group, Inc. (United States Court of Federal Claims, 06/15/2015) – *opinion and order from the U.S. Court of Federal Claims stating that Federal Reserve's taking of AIG equity interests were illegal, but zero damages were awarded as there were no economic consequences to shareholders as a result of actions.* https://ecf.cofc.uscourts.gov/cgi-bin/show_public_doc?2011cv0779-443-0

Timeline

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 22, 2008:	AIG and the Federal Reserve Bank of New York sign the official Credit Agreement and Guarantee and Pledge Agreement that implements the Revolving Credit Facility officially, with a maturity date of September 22, 2010.
September 23, 2008:	The 1st 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 2nd 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 3-Month LIBOR plus 3.0%. 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 having absolute discretion over the issuance of dividends and stock payments.
March 2, 2009:	AIG and the Federal Reserve announced a joint press release, stating that two special purpose vehicles would be created for two of AIG's largest life insurance subsidiaries, AIA and ALICO, where the Federal Reserve Bank of New York would receive preferred interests and dividends in, "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.

April 17, 2009:	The 3rd 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."
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 would be received on conversion to common stock. The issuance of the Series C Preferred Stock was originally agreed upon in the Credit Agreement.
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 over 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 4th 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, would 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 to 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 Group LLC to Prudential plc for approximately $35.5 billion, of which $25 billion would be in cash, $8.5 billion in equity and equity-linked securities, and $2 billion in Prudential preferred stock. AIG says proceeds would 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 price offering (IPO) for 67% of the AIA business on the Hong Kong 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 $15 billion, not including accumulated interest and fees ($21 billion). The repayment reduces the Commitment of the RCF 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 U.S. 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 was 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 to 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 is 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 marked 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.