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FRBNY Email Mahoney re AIG and the Discount Window

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Adam Ashcraft

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Jim Mahoney/NY/FRS

09/14/2008 09:01 AM

To

Christopher Calabia/NY/FRS, Paul Whynott/NY/FRS

cc

bcc

Subject

Fw: AIG and the discount window

fyi

----- Forwarded by Jim Mahoney/NY/FRS on 09/14/2008 08:58 AM -----

Adam

Ashcraft/NY/FRS

09/14/2008 08:13 AM

To

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cc

Subject

Short comment on the AIG situation, with references attached. One if the Merrill note Warren circulated yesterday.

The bottom line is that this downgrade action is about risk management and not capital, and reflects the unwillingness of AIG to sell or hedge some of its ABS CDO risk, preferring to keep the upside of these exposures to to itself, and thus leave the bondholders vulnerable to a further deterioration in the housing market.

The threat to sell assets is a clear attempt to scare policymarkers into giving the access to the discount window, and avoid making otherwise hard but viable options: sell or hedge the CDO risk (little to no impact on capital), sell subsidiaries, or raise capital.



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ML-S&P on AIG.pdf



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