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Periodic Report Pursuant to Section 129(b) of the Emergency Economic Stabilization Act of 2008: Update on Outstanding Lending Facilities

Federal Reserve System: Board of Governors

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**Periodic Report Pursuant to Section 129(b) of the
Emergency Economic Stabilization Act of 2008:
Update on Outstanding Lending Facilities Authorized by the Board
Under Section 13(3) of the Federal Reserve Act
August 25, 2009**

Overview

The Board of Governors of the Federal Reserve System (the “Board”) is providing the following updates concerning the lending facilities established by the Board under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343). This report is the fifth periodic report filed by the Board pursuant to section 129(b) of the Emergency Economic Stabilization Act of 2008 (“EESA”) and provides an update concerning all of the loans and lending facilities authorized by the Board under section 13(3) since March 1, 2008, that are outstanding. These facilities are the:

- (1) Term Securities Lending Facility;
- (2) Primary Dealer Credit Facility;
- (3) Commercial Paper Funding Facility;
- (4) Term Asset-Backed Securities Loan Facility;
- (5) Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility;
- (6) Loan to Maiden Lane LLC to facilitate the acquisition of The Bear Stearns Companies, Inc. (“Bear Stearns”) by JPMorgan Chase & Co., Inc. (“JPMorgan Chase”); and
- (7) Lending facilities established for American International Group, Inc. (“AIG”).

In addition to the credit facilities discussed in this report, the Board also has authorized the establishment of the following credit facilities under section 13(3) of the Federal Reserve Act: (i) the Money Market Investor Funding Facility (“MMIFF”); (ii) certain residual financing arrangements for Citigroup, Inc. and Bank of America Corporation; and (iii) up to \$8.5 billion in financing to special purpose vehicles that may be established by the domestic life insurance subsidiaries of AIG to facilitate the securitization of designated blocks of existing life insurance policies held by such life insurance companies. No loans have been

made under these credit facilities to date.¹ If a loan is made under any of these facilities in the future, the Board will file a report with the Committees concerning the facility in accordance with section 129(b) of the EESA.

Monthly transparency reports. Starting in June 2009, the Federal Reserve began issuing a separate monthly report that provides considerable new information on the credit and liquidity programs established by the Federal Reserve, including those authorized under section 13(3) of the Federal Reserve Act. The report, entitled *Federal Reserve Credit and Liquidity Programs and the Balance Sheet*,² provides Congress and the public a wide range of data concerning borrowing patterns and collateral under these programs, including the number of borrowers and borrowing amounts by type of institution, collateral by type and credit rating, and data on the concentration of borrowing. These monthly reports also include information on liquidity swap usage by country, quarterly income for important classes of Federal Reserve assets, and asset distribution and other information on the limited liability companies created to avert the disorderly failures of Bear Stearns and AIG.

The new report is part of the Federal Reserve's ongoing efforts to enhance the transparency of its credit and liquidity programs to increase public understanding of the actions the Federal Reserve has taken to stabilize the financial system and to help restore the flow of credit to consumers and businesses. As Chairman Bernanke has stated, the Federal Reserve will continue to look for opportunities to broaden the scope of information and analysis made available to Congress and the public.

A. Term Securities Lending Facility

On March 11, 2008, the Board, in conjunction with the Federal Open Market Committee ("FOMC"), established the Term Securities Lending Facility ("TSLF") and authorized the Federal Reserve Bank of New York (the "New York Reserve Bank") to lend under this program. The TSLF generally is intended to promote

¹ Following the release of the results of the Supervisory Capital Assessment Program, Bank of America Corporation announced on May 7, 2009, that it did not plan to move forward with the residual financing arrangement authorized for the company and the related guarantee protections that would be provided by the Department of the Treasury and the Federal Deposit Insurance Corporation with respect to an identified pool of approximately \$118 billion in assets.

² See <http://www.federalreserve.gov/monetarypolicy/bst.htm>.

liquidity in the financing markets for Treasury and other collateral and, in doing so, foster improved functioning of the financial markets more broadly. Under the TSLF, the Federal Reserve auctions term loans of U.S. Treasury securities to primary dealers³ and accepts a broad range of other securities as collateral. On July 30, 2008, the Federal Reserve established the TSLF Options Program (“TOP”) as an extension of the TSLF. Under the TOP, options to draw shorter-term TSLF loans at future dates are auctioned to the primary dealers. All loans under the facility are collateralized by a pledge of other securities deemed eligible collateral by the New York Reserve Bank. Collateral is pledged by winning dealers from their clearing bank custodial accounts and valued daily.

In light of the improvement in financial conditions and the associated reduction in the use of some facilities, on June 25, 2009, the Board, with the concurrence of the FOMC, announced certain modifications to the TSLF. Effective July 1, 2009, TSLF auctions backed by Treasury, agency debt, and agency-guaranteed mortgage-backed securities (“Schedule 1 collateral”) were suspended. The Federal Reserve also suspended the TOP, effective with maturity of the outstanding June TOP loan. TSLF auctions backed by Schedule 1 collateral and investment-grade corporate, municipal, mortgage-backed, and asset-backed securities (collectively, “Schedule 2 collateral”) will be conducted every four weeks, rather than every two weeks as was previously done, and the total amount offered under the TSLF has been reduced to \$75 billion. The Federal Reserve anticipates that the amounts auctioned under the TSLF will be scaled back further over time as permitted by market conditions. However, the Federal Reserve is prepared to resume Schedule 1 TSLF operations and TOP auctions and to increase the frequency of Schedule 2 auctions if warranted by evolving market conditions. The scheduled termination date of the TSLF also was extended from October 30, 2009, to February 1, 2010.

Update. As of August 12, 2009:

- The aggregate par value of Treasury securities lent under the TSLF (including the TOP) was \$2.7 billion; and
- The market value of the collateral pledged under the TSLF was \$3.4 billion.

³ The term “primary dealers” refers to designated banks and securities broker-dealers with which the New York Reserve Bank trades U.S. government securities in conducting open market operations.

The Board does not anticipate any losses to the Federal Reserve or the taxpayers as a result of securities lending under the TSLF. The potential for losses is mitigated by haircuts on the value of the collateral, daily revaluation of the collateral, and limits on the participation of individual dealers. Moreover, loans extended under this program are with recourse to the borrower beyond the specific collateral pledged.

B. Primary Dealer Credit Facility

On March 16, 2008, the Board established the Primary Dealer Credit Facility (“PDCF”) and authorized the New York Reserve Bank to lend under that facility. The PDCF is an overnight loan facility that provides funding to primary dealers secured by collateral eligible for tri-party repurchase agreements in the systems of the major clearing banks. The facility is intended to help address the liquidity needs of primary dealers and foster improved functioning of financial markets more generally.

On September 21, 2008, the Board authorized the London-based broker-dealer subsidiaries of Merrill Lynch & Co., Inc. (“Merrill Lynch”), The Goldman Sachs Group, Inc. (“Goldman Sachs”), and Morgan Stanley to borrow from the New York Reserve Bank under the PDCF. In addition, with the separate approval of the applications of Goldman Sachs and Morgan Stanley to become bank holding companies, the Board authorized the New York Reserve Bank to extend credit to the U.S. primary dealer subsidiaries of these firms under the PDCF against the types of collateral that may be pledged by depository institutions at the Federal Reserve’s primary credit facility. The Board also authorized the New York Reserve Bank to extend the same collateral arrangement to the U.S. primary dealer subsidiary of Merrill Lynch.⁴ On November 23, 2008, in connection with the other actions taken by the Treasury Department (“Treasury”), the Federal Deposit Insurance Corporation and the Federal Reserve with respect to Citigroup, Inc., the Board authorized the London-based broker-dealer subsidiary of Citigroup, Inc. to borrow from the New York Reserve Bank under the PDCF.⁵ On June 25, 2009,

⁴ Merrill Lynch was acquired by Bank of America on January 1, 2009. In February 2009, Merrill Lynch’s primary dealer subsidiary, Merrill Lynch Government Securities Inc., merged with and into Banc of America Securities LLC and, accordingly, ceased to exist as a separate entity.

⁵ Collateral eligible to be pledged under the PDCF includes all collateral eligible as of September 12, 2008, for pledge in tri-party repurchase agreement transactions through the major clearing banks. Such collateral includes (i) all collateral eligible

the Board extended the scheduled termination date of the PDCF from October 30, 2009, to February 1, 2010.

Update. As of August 12, 2009, there were no loans outstanding under the PDCF.

Although there is currently no borrowing under the PDCF, the Board believes that it is appropriate to continue to provide the PDCF as a backstop facility in the near term while financial market conditions remain somewhat fragile. The Board does not anticipate that lending under the PDCF will result in any losses to the Federal Reserve or the taxpayers. Any loans made under the PDCF are with recourse to the broker-dealer entity beyond the pledged collateral, and the risk of loss is mitigated by daily revaluation of the collateral and haircuts on the collateral value.

C. Commercial Paper Funding Facility

On October 7, 2008, the Board authorized the creation of the Commercial Paper Funding Facility (“CPFF”) and authorized the New York Reserve Bank to extend credit under the facility. The CPFF is designed to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (“SPV”) that purchases three-month unsecured and asset-backed commercial paper (“ABCP”) directly from eligible issuers. Loans provided to the SPV have a three-month term to match the term of the commercial paper acquired. On June 25, 2009, the Board extended the termination date of the CPFF to February 1, 2010, to help ensure the access of U.S. businesses to short-term funding.

for pledge in open market operations, such as Treasury obligations and debt obligations (including mortgage-backed securities) for which the payment of the principal and interest is fully guaranteed by an agency of the United States, and (ii) corporate securities, municipal securities, mortgage-backed securities and asset-backed securities that as of September 12, 2008, were eligible for pledge in tri-party repurchase agreement transactions through the major clearing banks. As noted above, the U.S. primary dealer subsidiaries of certain investment banking firms also may borrow under the PDCF against types of collateral that may be pledged by depository institutions at the discount window.

Update. As of August 12, 2009:

- The aggregate amount of outstanding advances under the CPFF was \$53.5 billion; and
- The value of the collateral pledged under the CPFF, as determined on an amortized cost basis, was \$58.1 billion.

Based on the most recent quarterly review conducted by the New York Reserve Bank, the Board does not anticipate that advances made under the CPFF will result in any losses to the Federal Reserve or the taxpayers. All advances to the SPV are secured by all the assets of the SPV. In addition, in situations where the obligations acquired by the SPV are ABCP, the advances are further secured by the assets that support the commercial paper. To use the CPFF, each issuer also must pay a facility fee. Furthermore, each time an issuer sells commercial paper that is not ABCP to the SPV, the issuer must pay a surcharge unless it has entered into a collateral arrangement for the commercial paper, or obtained an indorsement or guarantee of its obligation on the commercial paper, that is acceptable to the New York Reserve Bank. All fees are retained by the SPV to provide an additional cushion against losses.

D. Term Asset-Backed Securities Loan Facility

In November 2008, the Board and Treasury announced the establishment of the Term Asset-Backed Securities Loan Facility (“TALF”). The TALF is designed to catalyze the securitization markets by providing financing to investors to support their purchases of certain AAA-rated asset-backed securities (“ABS”). These markets have historically been a critical component of lending in our financial system, but they were virtually shuttered after the worsening of the financial crisis in October 2008. By reopening these markets, the TALF will assist lenders in meeting the borrowing needs of consumers and businesses, helping to stimulate the broader economy.

Under the TALF, the New York Reserve Bank will provide up to \$200 billion in non-recourse funding to eligible borrowers owning ABS that is eligible to be pledged as collateral under the facility. Two days each month, borrowers are able to request one or more TALF loans. Loan proceeds are disbursed to the borrower, contingent on receipt by the New York Reserve Bank’s custodian bank of the eligible collateral, an administrative fee, and margin, if applicable. TALF loans are non-recourse to the borrower, except for breaches of representations, warranties and covenants, as further specified in the Master Loan

and Security Agreement for the TALF. As a loan is non-recourse, if the borrower does not repay the loan, the New York Reserve Bank will enforce its rights in the collateral and sell the collateral to a SPV established specifically for the purpose of managing such assets. In order to provide credit protection to the New York Reserve Bank on TALF loans, Treasury, under the Troubled Asset Relief Program, will make up to \$20 billion of subordinated loans to the SPV. Residual returns from the SPV will be shared between the New York Reserve Bank and Treasury. On March 3, 2009, the Board and Treasury announced the launch of the initial phase of the TALF, and on March 25, 2009, Treasury provided a \$100 million subordinated loan to the SPV in support of the TALF.

The Federal Reserve has developed and made publicly available extensive information describing the asset classes eligible for funding under the TALF, the structure of the TALF, the manner in which it operates, borrower and collateral eligibility requirements, and the protections that have been put in place to protect against credit losses and fraud. This information – including the detailed terms and conditions governing the facility and Frequently Asked Questions about the facility – is available at http://www.newyorkfed.org/markets/talf_terms.html.

Asset classes authorized as eligible collateral under the TALF include –

- newly or recently originated commercial mortgage-backed securities (“CMBS”), auto loans, student loans, credit card loans, loans guaranteed by the Small Business Administration, loans or leases relating to business equipment, leases of vehicle fleets, residential mortgage servicing advance receivables, insurance premium finance loans, and floorplan loans; and
- certain high-quality CMBS issued before January 1, 2009 (“legacy CMBS”).

Update. Conditions in the financial markets have improved considerably in recent months. Nonetheless, the markets for ABS backed by consumer and business loans and for CMBS are still impaired and seem likely to remain so for some time. Accordingly, to promote the flow of credit to businesses and households and to facilitate the financing of commercial properties, the Board and Treasury announced on August 17, 2009, that TALF loans would be available against newly issued ABS and legacy CMBS through March 31, 2010. In addition, because new CMBS deals can take a significant amount of time to arrange, the Board and Treasury approved TALF lending against newly issued CMBS through June 30, 2010. The Board and Treasury had previously authorized TALF loans

through December 31, 2009. The Board indicated that it will continue to monitor financial conditions and will consider in the future whether unusual and exigent circumstances warrant a further extension of the TALF to help promote financial stability and economic growth.

On August 17, 2009, the Board and Treasury also announced that, after having conducted a thorough analysis of a number of potential candidates, any further expansion in the types of collateral eligible for the TALF would be held in abeyance. The securities already eligible for collateralizing TALF loans include the major types of newly issued, triple-A-rated ABS backed by loans to consumers and businesses, and newly issued and legacy triple-A-rated CMBS. The Board and Treasury noted, however, that they are prepared to reconsider this decision if financial or economic developments indicate that providing TALF financing for investors' acquisitions of additional types of securities is warranted.

Since the last periodic update report filed under section 129(b) of EESA, additional TALF subscriptions have closed. Loans requested during the July 2009 subscriptions supported the issuance of nine non-CMBS ABS deals worth a total of approximately \$12 billion, of which \$5 billion was financed through the TALF. In addition, \$636 million in TALF loans were extended against legacy CMBS collateral. Approximately \$7 billion in loans were requested and financed during the August 2009 non-CMBS ABS subscription, which supported the issuance of 12 ABS deals worth a total of approximately \$9 billion.

As of August 12, 2009:

- The amount of loans outstanding under the TALF was \$29.6 billion; and
- The value of the collateral pledged under the TALF was \$32.2 billion.

Based on the most recent quarterly review conducted by the New York Reserve Bank, the high credit quality of the collateral accepted, the haircuts applied to each type of collateral accepted, and the credit protection provided by Treasury, the Board currently does not anticipate that the Federal Reserve or taxpayers will incur any net loss on the loans provided by the Federal Reserve under the TALF.

E. Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

On September 19, 2008, the Board authorized the creation of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (“AMLF”) and authorized the Federal Reserve Bank of Boston (“Boston Reserve Bank”) to lend under the AMLF. The AMLF provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality ABCP from money market mutual funds (“MMMFs”) under certain conditions. The program is intended to assist MMMFs that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the market for ABCP as well as the market for money market funds more generally. The collateral for loans is the pledged ABCP, which is equal to the amount of the advances.

The Board on June 25, 2009, extended the scheduled termination date for the AMLF from October 30, 2009, to February 1, 2010, in view of the continued fragility in market conditions. At that time, the Board also adopted certain additional conditions on the AMLF to help ensure that it is used for its intended purpose of providing a temporary liquidity backstop to MMMFs.

Update. As of August 12, 2009:

- The aggregate amount of outstanding advances under the AMLF was \$113 million, for which an equal amount of ABCP at amortized cost has been pledged as collateral.

The Board does not expect that advances under the AMLF will result in any realized losses to the Federal Reserve or the taxpayers. The program is limited to ABCP that receives the highest rating from a major credit rating agency. Moreover, the ABCP is supported by the assets backing the paper.

F. Loan to Maiden Lane LLC to facilitate the acquisition by JPMorgan Chase & Company of Bear Stearns

On March 16, 2008, the Board authorized the New York Reserve Bank to make a senior loan to a limited liability company, Maiden Lane LLC (“Maiden Lane”), to acquire \$30 billion of identified, less liquid assets of Bear Stearns to facilitate the purchase of Bear Stearns by JPMorgan Chase. As part of the agreement among the parties, JPMorgan Chase agreed to lend \$1 billion to Maiden

Lane that is subordinated for repayment purposes to the New York Reserve Bank's loan. When the loan closed on June 26, 2008, because of adjustments in the values of some of the assets purchased by Maiden Lane from Bear Stearns, the New York Reserve Bank lent \$28.8 billion to Maiden Lane, and JPMorgan Chase lent \$1.1 billion to Maiden Lane. The New York Reserve Bank's loan is secured by a first priority security interest in all of the assets of Maiden Lane.⁶

Update. As of August 12, 2009:

- The principal amount of, and accrued interest on, the loan extended by the New York Reserve Bank to Maiden Lane was \$28.8 billion and \$357 million, respectively; and
- The current fair value of the net portfolio holdings of Maiden Lane as reported on the Board's weekly H.4.1 Statistical Release was \$26.0 billion.

Consistent with generally accepted accounting principles ("GAAP"), the portfolio holdings of Maiden Lane are revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold in an orderly market on the measurement date. The fair value reported for August 12, 2009, is based on the revaluations as of June 30, 2009. The fair value determined through these revaluations may fluctuate over time. The fair value of the portfolio holdings that is reported on the weekly H.4.1 Statistical Release also reflects any accrued interest earnings, principal repayments, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses.

Based on the most recent analysis of the projected returns on the portfolio holdings conducted in connection with the quarterly revaluation, the Board does not anticipate that the loan to Maiden Lane will result in any net realized losses to the Federal Reserve or taxpayers. Because the collateral assets for the loan to Maiden Lane are expected to generate cash proceeds and may be sold over time or held to maturity, the current reported fair value of the net portfolio holdings of Maiden Lane does not reflect the amount of aggregate proceeds that could be received from the assets of Maiden Lane over the extended term of the loan. The collateral will be managed with a longer term outlook that is designed to reduce the effects of the unnaturally strong downward market pressures that have been

⁶ The Federal Reserve also extended a bridge loan under section 13(3) to Bear Stearns on March 14, 2008. This loan was repaid in full and with interest on March 17, 2008.

associated with the recent liquidity crisis. The ten-year term of the loan provides an opportunity to dispose of the assets in an orderly manner over time and to collect interest on the assets held by Maiden Lane prior to their sale or other disposition. In addition, JPMorgan Chase will absorb the first \$1.1 billion of realized losses, should any occur. Moreover, under the terms of the agreement, the New York Reserve Bank is entitled to any residual cash flow generated by the collateral after the loans made by the New York Reserve Bank and JPMorgan Chase are repaid.

G. Loans to American International Group, Inc.

AIG is a large, diversified financial services company that, as of September 30, 2008, reported consolidated total assets of slightly more than \$1 trillion.⁷ AIG operates in four general business lines through a number of subsidiaries: (i) general insurance; (ii) life insurance and retirement services; (iii) financial services; and (iv) asset management. In 2008, AIG's U.S. life and health insurance businesses ranked first in the United States in terms of net premiums written (\$52.7 billion) and third in terms of total assets at year-end (\$309.6 billion). For the same period, AIG's U.S. property and casualty insurance businesses ranked second in the United States in terms of net premiums written (\$31.9 billion) and first in terms of total assets at year-end (\$121.3 billion). AIG conducts insurance and finance operations in more than 130 countries and jurisdictions and has more than 74 million individual and corporate customers and 116,000 employees globally. In the United States, it has approximately 30 million customers and 50,000 employees, and provides insurance to approximately 180,000 small businesses and other corporate entities, which employ approximately 106 million people in the United States.

In addition to its on-balance-sheet positions, AIG is a major participant in a wide range of derivatives markets through its Financial Services division, and particularly through its AIG Financial Products business unit ("AIGFP"), and is a significant counterparty to a number of major national and international financial institutions. AIG also is a major provider of protection to municipalities, pension funds, and other public and private entities through guaranteed investment contracts and products that protect participants in 401(k) retirement plans. A significant portion of the guaranteed investment agreements and financial

⁷ September 30, 2008, is the reporting date closest to the date on which the Federal Reserve's involvement with AIG commenced. As of June 30, 2009, the company's reported total consolidated assets were \$830 billion.

derivative transactions entered into by AIGFP include provisions that require AIGFP, upon a downgrade of AIG's long-term debt ratings, to post additional collateral or, with the consent of the counterparties, assign or repay its positions or arrange a substitute guarantee of its obligations by an obligor with higher debt ratings.

Beginning in September 2008, the Federal Reserve and Treasury have taken a number of steps to prevent a disorderly failure of AIG. A disorderly failure of AIG would likely have led to a further steep decline in confidence in the global banking system and possibly to the collapse of other major financial institutions. At best, the consequences of AIG's failure would have been a significant intensification of an already severe financial crisis and a further worsening of economic conditions. Conceivably, its failure could have triggered a 1930s-style global financial and economic meltdown, with catastrophic implications for production, incomes, and jobs.

As described in the reports previously filed with the Committees, the Board initially authorized the New York Reserve Bank on September 16, 2008, to lend up to \$85 billion to AIG under a secured, revolving credit facility (the "Revolving Credit Facility"). In November 2008, Treasury acquired \$40 billion in newly-issued senior preferred stock of AIG and, in conjunction with this investment, the Board authorized the New York Reserve Bank to –

1. Restructure the Revolving Credit Facility by, among other things, reducing to \$60 billion from \$85 billion the total amount of credit available under the facility;
2. Provide senior secured credit to a newly formed limited liability company, Maiden Lane II LLC ("ML-II"), to partially fund the acquisition by ML-II of residential mortgage-backed securities ("RMBS") purchased by AIG with the cash collateral received through the securities lending operations of AIG's regulated insurance subsidiaries. On December 12, 2008, ML-II acquired from AIG's life insurance subsidiaries approximately \$39.3 billion (par value) of RMBS;⁸ and

⁸ The proceeds received by AIG and its insurance subsidiaries from the establishment of ML-II were used to terminate the securities lending program operated by certain of AIG's regulated insurance subsidiaries. Accordingly, the

3. Provide senior secured credit to a separate, newly formed limited liability company, Maiden Lane III LLC (“ML-III”), to partially fund the acquisition by ML-III from the counterparties of AIG Financial Products of multi-sector collateralized debt obligations (“CDOs”) protected by credit default swaps and similar contracts written by AIG Financial Products.⁹ ML-III commenced operations on November 25, 2008, through the acquisition of approximately \$46.1 billion (par value) of multi-sector CDOs. An additional \$16 billion (par value) of multi-sector CDOs were acquired by ML-III through additional closings that occurred on December 18, 2008, and December 22, 2008.

In March 2009, Treasury and the Federal Reserve announced an additional restructuring of the government’s assistance to AIG to help address the capital and liquidity needs of the company, facilitate the execution of AIG’s global divestiture program in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers.¹⁰ As part of this restructuring, Treasury established a new equity capital facility for AIG pursuant to which AIG may obtain up to \$30 billion of capital as needed over the 5-year life of the facility in exchange for newly-issued non-cumulative preferred stock. Treasury also exchanged the \$40 billion of cumulative perpetual preferred shares that it acquired in November 2008 for preferred shares with revised terms that more closely resemble common equity.

In conjunction with Treasury's investment, the Board authorized the New York Reserve Bank under section 13(3) of the Federal Reserve Act to extend up to approximately \$8.5 billion in credit to SPVs to be established by domestic life insurance subsidiaries of AIG. The SPVs would repay the loans from the net cash flows they receive from designated blocks of existing life insurance policies held by the parent insurance companies. The proceeds of the new credit extensions to

\$37.8 billion securities borrowing facility authorized by the Board for AIG in October 2008 under section 13(3) of the Federal Reserve Act was terminated on December 12, 2008, and all outstanding balances under that facility were repaid in full. During the term of the facility, the Federal Reserve received interest on the loans provided and, as expected, the securities borrowing facility did not result in any losses to the Federal Reserve or the taxpayers.

⁹ This protection was terminated in connection with the purchase of the CDOs by ML-III.

¹⁰ Additional information concerning the actions authorized in March is contained in the report filed by the Board with the Committees on March 9, 2009.

the SPVs will be used by AIG to pay down an equivalent amount of the company's outstanding borrowings under the Revolving Credit Facility. The amounts lent, the percentage subtracted from the par value of the collateral taken by the New York Reserve Bank, and the other terms of the credit to be extended will be determined based on valuations acceptable to the Reserve Bank following due diligence by the Reserve Bank and its advisors.

In connection with the March restructuring, the Board also authorized a number of additional actions to reduce and restructure AIG's outstanding debt under the Revolving Credit Facility. These actions included a reduction in the Revolving Credit Facility in exchange for preferred interests in two SPVs to be created to hold all of the outstanding common stock of American Life Insurance Company ("ALICO") and American International Assurance Company Ltd. ("AIA"), two life insurance holding company subsidiaries of AIG. These exchanges did not involve the authorization of any additional extension of credit under section 13(3) of the Federal Reserve Act. The Board also announced that, in connection with these exchanges and the securitization of life insurance cash flows described above, and assuming that such transactions occurred at their maximum authorized value, the maximum available amount under the Revolving Credit Facility would be reduced from \$60 billion to \$25 billion. The interest rate payable on outstanding advances under the Revolving Credit Facility (3-month LIBOR plus 300 basis points) also was modified to remove the floor (3.5 percent) on the 3-month LIBOR component.

As noted in the last periodic report under section 129(b), on June 25, 2009, the New York Reserve Bank entered into agreements with AIG to carry out the transactions involving AIA and ALICO that were authorized in March 2009. These transactions are expected to close by the end of 2009, pending the completion of the necessary regulatory approval processes.

Update.

Revolving Credit Facility. As of August 12, 2009, the net outstanding balance under the Revolving Credit Facility was \$40.7 billion.¹¹ As discussed in

¹¹ Consistent with GAAP, the reported value of the AIG revolving credit facility as of July 29, 2009, has been reduced by a \$1.3 billion adjustment for loan restructuring. This adjustment is related to the most recent loan modification, announced on March 2, 2009, which eliminated the floor on the interest rate. In accordance with GAAP, this restructuring adjustment is intended to recognize the

the report filed on November 17, 2008, AIG is unconditionally obligated to repay the unpaid principal amount of all advances under the Revolving Credit Facility, together with accrued and unpaid interest thereon and any unpaid fees, on the maturity date. Also, all outstanding balances under the Revolving Credit Facility are secured by the pledge of assets of AIG, including AIG's ownership interest in its regulated U.S. and foreign subsidiaries.¹² Furthermore, AIG's obligations to the New York Reserve Bank continue to be guaranteed by many of AIG's domestic, nonregulated subsidiaries that each has more than \$50 million in assets.¹³ These guarantees themselves are separately secured by assets pledged to the New York Reserve Bank by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time by signing a short supplemental agreement.

The New York Reserve Bank's agreement to provide advances under the Revolving Credit Facility also is specifically conditioned on the Reserve Bank being satisfied in its sole discretion with the nature and value of the collateral securing AIG's obligations at the time of the advance, and on the Reserve Bank being reasonably satisfied in all respects with the corporate governance of AIG. Representatives of the New York Reserve Bank are in regular contact with AIG's senior management and attend all AIG board of directors meetings, including committee meetings, as an observer. The New York Reserve Bank also has staff monitoring the company's funding, cash flows, use of proceeds and progress in pursuing its global divestiture plan. Control and management of the daily business and operations of AIG and its subsidiaries continue to be vested in the chairman and chief executive officer of AIG and his management team.¹⁴ These and other provisions protect the interests of the Federal Reserve and taxpayers in providing for full repayment by AIG of all of its Federal Reserve borrowing.

economic effect of the reduced interest rate and will be recovered as the adjustment is amortized over the remaining term of the credit extension.

¹² In the case of foreign subsidiaries, the equity interest the Reserve Bank will accept as collateral is limited to 66 percent ownership in order to avoid adverse tax consequences for AIG or its subsidiaries.

¹³ Regulated subsidiaries, such as insurance companies, typically are not permitted to provide such guarantees.

¹⁴ AIG announced that on August 10, 2009, Harvey Golub assumed the role of Non-Executive Chairman of the Board, and Robert H. Benmosche assumed the roles of President and Chief Executive Officer of AIG and was elected a member of the board of directors, to replace the retiring Edward Liddy.

In light of the complexities involved in valuing the extremely broad and diverse range of collateral and guarantees securing these advances, any estimate of the aggregate value that ultimately will or may be received from the sale of collateral or the enforcement of the guarantees in the future is speculative and disclosure of any such estimate could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the loan. Given the substantial assets and operations supporting repayment of the loan and the equity investment made by Treasury in AIG, and based on the Federal Reserve's most recent quarterly review of the security arrangements supporting the Revolving Credit Facility, the Federal Reserve expects that the credit extension, including interest and commitment fees under the modified terms of the facility, will be fully repaid and, thus, that the Revolving Credit Facility will not result in any net loss to the Federal Reserve or taxpayers.

Maiden Lane II and Maiden Lane III. As of August 12, 2009:

- The principal amount of, and accrued interest on, the loan extended to ML-II by the New York Reserve Bank was \$16.9 billion and \$186 million, respectively;
- The current fair value of the net portfolio holdings of ML-II as reported on the Board's weekly H.4.1 Statistical Release was \$14.8 billion;
- The principal amount of, and accrued interest on, the loan provided to ML-III by the New York Reserve Bank was \$20.2 billion and \$247 million, respectively; and
- The current fair value of the net portfolio holdings of ML-III as reported on the Board's weekly H.4.1 Statistical Release was \$20.9 billion.

Consistent with GAAP, the portfolio holdings of ML-II and ML-III are revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold in an orderly market on the measurement date. The fair value reported for August 12, 2009, is based on the revaluations as of June 30, 2009. The fair value determined through these revaluations may fluctuate over time. The fair values of the portfolio holdings of ML-II and ML-III that are reported on the Board's weekly H.4.1 Statistical Release reflect the most recent valuations of the portfolio holdings of ML-II and ML-III adjusted to reflect any accrued interest earnings, principal repayments, expense payments and, to the extent any may have occurred since the most recent valuation date, realized gains and losses.

Based on the most recent analysis of the projected returns on the portfolio holdings of each entity conducted in connection with the quarterly revaluations, the Board does not anticipate that the loans to ML-II or ML-III will result in any net realized losses to the Federal Reserve or taxpayers. Because the collateral assets for the loans to ML-II and ML-III are expected to generate cash proceeds and may be sold over time or held to maturity, the current reported fair values of the net portfolio holdings of each of ML-II and ML-III do not reflect the amount of aggregate proceeds that could be received from the assets of the relevant entity over the extended term of the loan to the entity. The collateral will be managed with a longer term outlook that is designed to reduce the effects of the unnaturally strong downward market pressures that have been associated with the recent liquidity crisis. In addition, AIG has a \$1 billion subordinated position in ML-II and a \$5 billion subordinated position in ML-III. These subordinated positions are available to absorb first any loss that ultimately is incurred by ML-II or ML-III, respectively. The Federal Reserve also is entitled to interest on the loans to ML-II and ML-III while they are outstanding and 5/6ths and 2/3rds of any residual cash flow generated by the collateral held by ML-II and ML-III, respectively, after the senior note of the New York Reserve Bank and the subordinate position of AIG are repaid.

Authorization of Additional Section 13(3) Credit in Connection with the Securitization of Life Insurance Cash Flows. As of August 12, 2009, no credit had been extended pursuant to this authorization, and the New York Reserve Bank continued to work with its advisors and the company to implement the securitization structure and value any notes to be received by the New York Reserve Bank.