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Thomas Baxter Handwritten Notes – Sept. 14 - Sept.17, 2008

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1 HP/TE

2 Wallmaster

3 JPMC

4 M. Wiseman

5 AIG

6 downgraded by Moody's

7 2B differential

8 1/3CP holder on Fri

9 \$40B (big 1/2 or 9/13 + Nov)

10 L plan: sell cond. assets

11 Core inv: life + prop + c: 100-120B → strong asset

12 Asell US life assets.

13 Main equity

14

15 DiNallo:

16 L lendable Res. → cannot be divided up.

17 M Res. - \$40B @ HC (unencumbered)

18 24-26 not liquid

19 sale of subs for main bonds

20

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Questions

2

3 Could FRBNY lend AIG \$80B

4 vs. Muni sec.

5 Yes 13(3)

6 Could FRBNY lend AIG \$80B

7 sec. by shares of ins. co. sub.

8 Yes 13(3)

9 Could FRBNY lend Bank \$30B

10 with book to book loan

11 to AIG sec. by ins. co. sub.

12 with recourse

13 Yes. 13(3)

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9-15-08

6:57 AM

AIG

gross hld - \$100B

13B (sec 1)

7B (annu)

12B (CP)

50B (FP)

8B (delt)

100 gross hld

\$18B (collateral)

\$82B (hld)

\$90-95 Gasset

\$30-35 B (Holder)

\$50-60B — after net delt

18 mo → 75B front

Numbers are not cring enough

Just print: need someone to run the co

value determiner is real

PFE: \$4

2 Don Justice
3
4

5 ~~100~~ Can't do a term sheet.

6 ~~(15)~~ 100 15 - figure it out as we go.

8 Large value gap.

9
10 \$30B. →

11
12 alt.

13 (1) "pre-packaged" bond purchase

15 (2) access to FR liquidity - could
16 this close the gap. Shirts
17 gap rel. to above.

19 "Halo" effect. (FR)
20 ↳

22 Resolved w/ Min. Collateral damage
23 to system.

24 ↳ FR — be a participant
25 — access to PDCF
26 — need to be in size. — out

1 acceleration in + out of BR.



4 Three tracks:

6 → how many a BR event

8 → large credits

10 → 3 notes destroyed.



13 draw \$15

15 \$150 value

9-16-08

AIG - Direct effects

Total Collapse of Confidence/
situation:

Don't
voluntary transition

- LIBOR 6.5%

- gov pullback in \$ funding

- ~~the~~ WP: pump it out. -

like Aug story!

- monetary pol. Calc. remain
some

- swap line: \$200B.

- dominant other concern: \$/market
New back story.

- Consensus j. on AIG → "it is
too interconnected to
retail." Could be very
damaging if allowed to go.
Markets are even more
fragile.

- Choices:

(a) let them go ahead and
file.

- equity buy / asset purchase

(b) we provide the financing
\$50 Bill thru 13(3)

Sec. by all assets pledge;
legis. to follow to
take us out

1 | GS |

2 |
3 | ↳ basic con → need \$80B
4 | → after tax value: \$50
5 | → share = \$30B

6 | AIG is insolvent

7 | 8:00 AM / 9/16 / HP

8 | BZ / Ksh / Wench

9 | NYF term

10 | Need 80 / rec. 50: (30B) hole

11 | economics - AIG is insolvent

12 | no economic sol

13 | Options:

14 | (1) BR

15 | (2) we provide bridge financing to
16 | wind down

17 | Immediate Prob.

18 | 1. w/d removal of MMF

19 | 2. massive flt. to liquidity

↳ basic systemic prob.

22 | HP

23 | impact on MMF. How it hits the retail side

24 | - Point pt: MMF everywhere are getting

25 | hammered. Leaves a hole. Causes them to

26 | break back. What is diff. about AIG? At

27 | how K's to stable value funds. Also,

28 | @IC contracts. ~~The fall for~~ AIG, the rates.

is big. The impact is primarily on
European banks. But European banks are guaranteed.
We can lend to AIG.

Big prob. What next? How do we
handle it?

USAID:

HP: will do some kind of letter or
briefing will go to Congress. This would
be a BS.

16

11 Congressional leadership - strat of support.

12

13 Plan:

14

FRB lend suff. fin. to avoid
default. We condition finance on
HP will say bridge to new bank
resolution.

16

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Condition

19

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- no loot

21

- Change of support.

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1 | Two Issues

2 | "a simple and elegant solution"

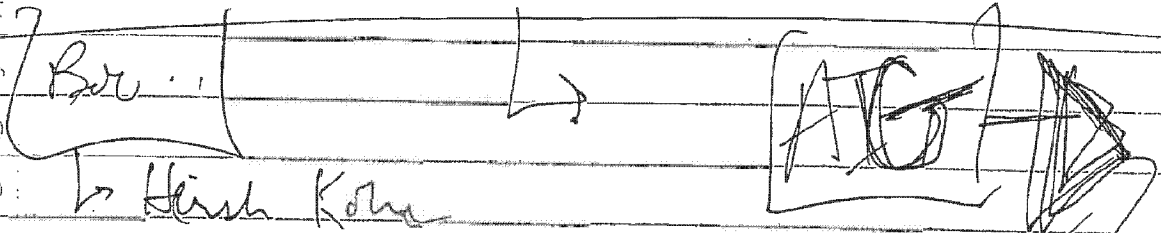
3 | PDD:

- 4 | (1) risk to Barclay (#'s)
- 5 | (2)

- 6 | — (1) ~~potential~~ public scrutiny
- 7 | — (2) ~~potential~~ all
- 8 | — (a) litigate

9 | JPMC: → what their policy?

10 | → AIG → ^{we} wants to be represented. We are not sure Morgan?



12 | ↳ Herb Kohr

13 | ↳ Clearbridge Advisors

14 | ↳ buy Greenberg book

15 | ↳ 90% of dividend

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Orderly disposition

[Capt. Kuster]

Blackstone



1. Change of agent

2. Look w/ consent
to do KYC

3. No firm sale

*KISS

(1)

(2)

1 85B

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5 We will supersede
6 as a state bank
7 book

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11 → need pro ability to
12 control

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14 AIG

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16 ↳ reached for the industry
17 det.

18 ↳

19 → full access to books
20 + records

21
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23 → consent ^{to external} audit

24
25 → 1 year → call sooner

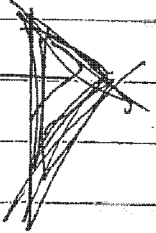
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28 → duration - our option to renew

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→ Consent to ~~endowments~~
~~bank~~ capital treatment

→ No sale of all or part
all assets w/o our approval

→ warrants on shares = probably
okay (79%)



→ Perks secured by team on Capital
stock

→ HRC / Dick Bostick

↳ Complete confidence

↳ spoke to advisors;
unable to put together
a plan

↳ Concept - to each:
unacceptable risk

↳ subst. - firm vs. your
Company.

> As next full cooperation

↳ if we do this / M.

Approval of FRP under

13(3). Also: Sec approval

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↳ need to call bank
lines now

↳ can we make it
today. Then, withdraw
the request.

↳ how much cash: enough
to get to end of day.

558 - 3534

→ draft report (1-2 hours)

→ security document ()
↳ to borrower w/o
being read by lender

We need an Announcement

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[ATC]

[Don Jester]

(1) deep concern @ ATC about what
ins. comms are doing

[PA + TX]

- Disallo - orgnizing NAIC
- sig financ need

could not do it thru ag market

Concl - "unacceptable system risk"

- dev. a proposal to

open sec lending facility

2. step into Consortium proposal

↳ sec int. in length

proposal / warrant for
in common stock

↳ sig significance of
warrant

- Non-exercisable in kind of
FRB if not for FRB, then
for TD

• documentation:

→ Marshall Hall (DP)

→ will update term sheet for
large loan; accompanied
by press release; tell me
funding needs for tomorrow;

→ sec and pledge agreement →
we can lend on demand rate
basis.

1 \$40B available for rego.
2 DP: deal counsel.

4 SH issue → pledge of voting shrs.
5 ~~the~~ of B rule
6 → avoid dems

8 Conduct -

10 1. Term sheet - invite

11 2. Sec. doc - if we fund on demand note

12 3. Credit agreement - many

13 cov.; Regt. warranties;

14 create breathe space to

15 value many sales; we are

16 making a loan

17 4. Term sheet (how big to
18 credit agreement) → ??

19 5. need work starts to

20 discuss tax issue (§382 issue)

21 6. Swigson: counsel for loan

22 : plan to register SH's will be
23 mitigated.

24 7. Reg. by Swigson:

25 (a) noted

26 (b) common will voluntary; all is a stock one

27 (c) help us reach cov. 17 LPL

28 8. Brent Smith: speak to Erin Lindauer

→ WR: Call Polukoff.

trip sug.

Term Sheet

USTD: better letter than BS.

- Repurchase agreement → HC collateral
- Security agreement documentation → tomorrow
- Credit agreement: 160pg.

will read st

14 vs 12

Steve Albert

passed over

Warrants

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Monday

Jonathan Hughes

→ Berje, Jim

9. Wisen
10. Cohn
11. Beattie
12. Willmott

Issues:

1. a fiduciary out if someone else comes along
2. equity = would be 79.9% = would like it to be 50%

Yes

No

Board accepted transaction

→ cover document

1 HRC

2
3 (A) Le Bob Willmsted - how he is handled
4 personally. He was not quite
5 positive he really was
6 an important element
7

8 (B)

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~~1/1/82~~

1. Morris Offset

↳ generate a deal w/ K&N Target + H. Greenberg

↳ want w/d replent

↳ Beatrice - why weren't matters

↳ new up

2. Steve Shapiro

↳

Steve McMillin

↳ how much to draw down

↳

S & P: from neg to dev
upgrade ST CP ratings

Will C i c trigger close out of CFC?
CDS w/ TP's where AIG is reference entity.

What are creditor rights issues that get elevated?

↳ when not satis.

↳ they arise if we do not intend to re-pay all creditors.

↳ what will they do?

• Cred. seeking to re-convert loans as equity.

Warrants not exercisable in hands of FRB?

Noting preferred.

↳ way to avoid.

John's issues: overwhelming issue is to protect the \$ going in.

Suggested = loan not subj. to SH approval.

= issue pref. stock; allow led to issue a sh of preferred that gave TD a golden share

1. Some kind of commission.

for the debt re purchaser.

1. ~~best~~ forbearance on bond capital

2. bank holiday (shorter days)

3. RTC.

~~FWRA~~

↳ Couldn't we

* 4. MMF's: open discount window at margin open

5. shorting constraints

6. DW access

7. CME → w/ removal from funds

8. T.D. → full bore on using Fannie/Freddie + T.D. with

→ flt. from non-bank funds to trad. banks.

Etter -

SH note:

Convertible preferred.

Change in control

→ don't have reserves.

Q.C

(1) Did USTB have auth to take a gift and hold it?

→ E.C.C.A.: old stat to stop new deal agencies from forming Corporation to front as an agency or instrumentality

(2) Gov't of limited powers Unless you find it, it does not exist.

all full duty of people

Marshall: put in a lot of
people
our choosing.

5 : so long as the FR
6 owns the preferred,
7 the vote is our
8 delegate to Bd of Dir.

9 : replace Bd. of Directors
10 the drilling conversation.

11 : vote = 99.9%

12 ↳ Wachtell view of
13 the view.

14 ↳ also involve NASD

15 distressed company rule

16 ↳ loses prior equity
17 richest all the time.

18 ?
19 prepared for a \$5
20 per share (100 shares)
21 for vote etc.

22 ↳ Corporation → not enough
23 authorized shares (Hi 40's)

24 → Can you get a warrant for
25 preferred shares — do there enough
26 to do this?

→ old term into a new

harant fa à poutance

→ early term fee

→ hard log

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AIG Equity Considerations

1. Qualified Financial & Other Contracts

- Does a change in control trigger any QFC provisions/events of default? If yes, what are the consequences in the market?
 - CDS between 3rd parties where AIG is a "reference entity"
 - AIG CDS
 - AIG Debt
 - Derivative contracts
 - Lines of credit?
 - Other?

*Mindin - escalation
lig. needs to be
effected.*

2. Thrift/Banking Considerations

- What are the implications of the Treasury Dept. or FRBNY owning a controlling interest in a Thrift holding company?
 - How will OTS regulate? Can Treasury have a voice regarding the Thrift considering the statutory wall prohibiting Treasury from "intervening in any matter or proceeding before the OTS?"
 - Will there be a competitive advantage or disadvantage due to government ownership?
 - What operational issues will need to be addressed by the government as shareholder?
 - Are there any FDIC or OCC issues to consider?

*Kim: OTS
is only reg.
when*

3. Regulatory Approvals

- What regulatory approvals will need to be obtained for the change of control to be completed?
 - Federal - OTS, FTC?
 - State - 50 state insurance regulators?
 - International insurance regulators (EU, others)?
 - Who will be responsible for obtaining approval - AIG?
 - Other countries' "CFIUS" approvals based on AIG ownership of foreign entities.

*ASR
Proposed
130 countries*

4. Operational Issues

- What operational decisions will need to be made by the USG as shareholder?
- What conflicts may arise with USG ownership?

*Account
After
AIG to
control.*

**PRIVILEGED
PRE-DECISIONAL MATERIAL**

- E.g. what dealings with foreign governments will now be imputed to USG (e.g. Indian govt insurance policies, managing foreign employees)?
- What holdings does AIG hold in foreign governments that will now vest in the USG (e.g. Taiwan debt holdings) Are there any limits on what investments USG can hold, or hold an interest in?
- Will there be a competitive advantage or disadvantage due to government ownership?
- What will be the USG role as shareholder in any liquidation activity, and how will those decisions be made?

5. Securities Laws

- Are there any filings or regulatory issues that would fall to the USG as shareholder, rather than to AIG?

6. Tax Issues

- Section 382 considerations and potential rule issuance
- Others?

7. Federal Budget

- Will a controlling interest in AIG force AIG to come "on balance sheet"? What are the budget implications? Does it matter whether Treasury or FRBNY holds the interest?

*MTM
assets &
liabilities*

8. Federal Law

- Does the Government Corporation Control Act (31 USC 9102) prohibit USG ownership of AIG?
- Does the Treasury Gift Acceptance Authority 31 USC 321(d)(1) authorize Treasury to accept the equity as consideration under the FRBNY deal?
- Does the Treasury Disposition Authority (31 USC 324) authorize Treasury to dispose of/liquidate any equity held by Treasury?

9. Policy Issues

- What other agencies would be affected by USG ownership? State? SEC?
- What firewalls would need to be erected to protect USG interests and Treasury or FRBNY employees?

**PRIVILEGED
PRE-DECISIONAL MATERIAL**

- Does USG control create a hybrid situation similar to the GSEs?
- What are the implications of USG control if there is another major insurance event (e.g. hurricanes, earthquakes)?
- How does control over mortgage insurance business affect the USG approach to the housing crisis?

10. Implementation Options

- Which entity (Treasury or FRBNY) needs to hold the equity?
- Warrants v. Preferred?
- Limitations on voting rights?
- Blind Trust?
- Financial Agent to administer?

Attorney-Client Communication/Treasury Deliberative Process