1-1-2011

AIG Email re BET Valuation for Multi Sector CDO Book

Elias Habayeb

From:	Habayeb, Elias
Sent:	01/11/2008 07:01:37 PM
To:	Herzog, David
Subject:	RE: BET Valuations for Multi-Sector CDO book

Based on the latest run of the actuarial model, we have about $48 million in exposure below the super senior attachment point, but it appears that we still do not expect to incur any economic losses.

Are you on the ground – I am in the office

From: Herzog, David
Sent: Friday, January 11, 2008 7:00 PM
To: Habayeb, Elias
Subject: Re: BET Valuations for Multi-Sector CDO book

What are the updated views in terms of "Economic Losses" on the book?

----- Original Message -----
From: Habayeb, Elias
To: Bensinger, Steven
Cc: Lewis, Robert (AIG Enterprise Risk Mgmt); Dooley, William; Herzog, David
Sent: Fri Jan 11 07:31:22 2008
Subject: Fw: BET Valuations for Multi-Sector CDO book

Steve,

Joe provided us with a peak into the preliminary valuations for the super senior credit derivatives as of year end, which are surprisingly large. Their preliminary estimates for the cumulative mark to market loss assuming he is able to get folks comfortable with the basis adjustment between the spread on a bond versus a credit derivative is $2.8 billion (we had previously announced a cumulative mark of $1.5 billion as of november 30). The $2.8 billion estimate assumes a 7% basis adjustment which he thinks is appropriate. If the basis adjusment is not factored in, then the cumulative mark to market loss is $5.8 billion. While folks agree in principle that a basis adjustment is appropriate, the question is whether there is empirical data to support it in a market that lacks trading. Joe and his team are pulling together the support which they think is adequate for our, pwc and kpmg's review.

The difference between these new estimates and what we published in november is not simply the marks for December. They also include a revision of the earlier estimates based on the availability of more data and changes to the modelling. However, he does not have a break down of what relates to pre december v december, and is not planning on doing so at this time.

The valuations being done as of December are meant to be more refined than what was previously done. First, AIG-FP is collecting more information than what was available to it in the third quarter. As of Q3, the best independent data they had were the JPM spreads which were spreads on generic assets. Since then, they identified a new source of data, which is from the CDO collateral managers. The CDO collateral managers are providing them with indications on the majority of the reference obligations in the underlying collateral pools. Second, AIG-FP has made more changes to the BET and implemented an indepedent validation method too.

Also these marks are limited to the multi-sector CDO.

Based on my conversation with him just now, they are not done with the valuations and they have more work to do. Beyond the chain of emails here and a couple more that I had with him in the past 12 hours, we don't have any more information. ERM will be in wilton on monday to go through these valuations. Joe thinks that is the earliest he can share information with us beyond these emails.

He also asked to keep these estimates among us until they are done with their work.

Please let me know if you want to discuss.

----- Original Message -----
From: Cassano@aigfpc.com <Cassano@aigfpc.com>
To: elias.habayeb@aig.com <elias.habayeb@aig.com>; William.Dooley@aig.com <William.Dooley@aig.com>
Cc: Micottis@aigfpc.com <Micottis@aigfpc.com>; Bridgwater@aigfpc.com <Bridgwater@aigfpc.com>; Forster@aigfpc.com <Forster@aigfpc.com>
Sent: Fri Jan 11 04:55:35 2008
Subject: RE: BET Valuations for Multi-Sector CDO book

The change in value can be ascribed to a wide array of events , the market is one factor and an important one, there were also more downgrades during the period to underlying reference collateral that causes a greater than market value change .We have also gained greater precision in our efforts to get more data from the managers and hence are less reliant on matrix pricing .We have also continued to add enhancements, refinements to many aspects of data collection and modeling . While the numbers in October and November were approximations and estimates the values used ,the data inputs and the modeling have all been improved through time

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From: Habayeb, Elias [mailto:Elias.Habayeb@aig.com]
Sent: Friday, January 11, 2008 12:57 AM
To: Cassano, Joseph; Dooley, William
Cc: Micottis, Pierre; Bridgwater, James; Forster, Andrew
Subject: RE: BET Valuations for Multi-Sector CDO book

Joe,

I understand that these are preliminary and subject to change. However, is the difference between the marks below and the $1.15B for Oct and Nov driven by events in December? Or do these marks also reflect a revision of the previously published Oct and / or Nov marks?

Elias

From: Cassano@aigfpc.com [mailto:Cassano@aigfpc.com]
Sent: Thursday, January 10, 2008 6:59 PM
To: William.Dooley@aig.com; elias.habayeb@aig.com
Cc: Micottis@aigfpc.com; Bridgwater@aigfpc.com; Forster@aigfpc.com
Subject: FW: BET Valuations for Multi-Sector CDO book

Internal only ,For disucusion only , preliminary estimates only ,all numbers are subject to change.

Below please find our current estimates of the value of the super senior book as of the end of December. These are life to date valuation estimates. To give these numbers context as to the change from the last estimates and marks we have taken or supplied in the past you need to deduct the appoximately $1.5 billion we have already reported ($350 million booked for 3rd quarter) and the $1.15 billion of estimates as of Novemeber.($550 million estimate in the 3rd quarter Q for October and the $500 to $600 million estimate at the end of November.)

As you will see the valuation adjustment varies significantly depending upon the cash vs. synthetic baisis percentage charge you apply. Based upon the documentation we have from the market we see the basis anywhere between 5/10 pct up front . What we are showing here is what the value is if , first we apply no baisis to the results of using the cash prices only from the BET model; second, we show what the life to date valuation adjustment would be depending on applying varying percenatge of cash basis add on spread . While we believe it is very reasonable and conservative to use the mid market of the indications we have received i.e. 7%, we recognise that we must support and document our conclusion . We are in the process of putting that documentation together. We also believe there can be no argument to the use of the minimum of 5% as the charge for the cash vs synthetic basis. For clarity and completness I am supplying the range of outcomes to you.

For illustration and the avoidance of doubt; if it is agreed that the cash synthetic basis add on is 7% then the change from the estimates and bookings to date is approx $.1.3 billion resulting in a total market valuation adjustment of $2.8 billion for the 4th quarter.

Please keep in mind these numbers are still preliminary and are subject to adjustment as we continue to comb through the data. The team will be continuing to review the data and results of the modeling tommororw and all numbers are subject to change .

Cash-Synthetic Basis Add-On	Value of Multi-Sector CDO book, inc Cashflow Diversion benefits
0%	-5,811,375,582
5%	-3,584,839,025
6%	-3,168,738,365
7%	-2,793,560,331

Joe