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### Ash and Friedman Email re Margin Call with AIG Financial Products

Nicolas B. Friedman

Ilana Ash

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**From:** Ash, Ilana  
**Sent:** Friday, July 27, 2007 3:17 PM  
**To:** Friedman, Nicolas B.; Broderick, Craig; Rapfogel, Alan; Wildermuth, David; Hemphill, Lee; Bartie, James M.; Ponomarev, Dmitri  
**Cc:** Young, Greg; Ackermann, Hilary  
**Subject:** RE: \$2bn margin call with AIG Financial Products

**x-gs-classification:** Internal-GS

Collateral sent calls today to CIBC and AIG, but missed the cutoff given the manual update to the marks.

CIBC - 746,800,000 call. Client disputed as they have mtm of 342mm

AIG - 1,810,630,000 call. Client disputed as they have mtm of 64mm

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**From:** Ash, Ilana  
**Sent:** Friday, July 27, 2007 11:34 AM  
**To:** Friedman, Nicolas B.; Broderick, Craig; Rapfogel, Alan; Wildermuth, David; Hemphill, Lee; Bartie, James M.; Ponomarev, Dmitri  
**Cc:** Young, Greg; Ackermann, Hilary  
**Subject:** RE: \$2bn margin call with AIG Financial Products

As an update, the marks did not flow through correctly today so the desk and Collateral are now working on manually updating the marks to get the call out.

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**From:** Friedman, Nicolas B.  
**Sent:** Thursday, July 26, 2007 9:33 PM  
**To:** Broderick, Craig; Rapfogel, Alan; Wildermuth, David; Hemphill, Lee; Bartie, James M.; Ponomarev, Dmitri  
**Cc:** Young, Greg; Ash, Ilana; Ackermann, Hilary  
**Subject:** \$2bn margin call with AIG Financial Products  
**Importance:** High

Here is a quick summary of the situation with AIG Financial Products:

- GS is long protection (short risk) on approx \$23bn of super senior tranches of portfolios primarily comprised of cash Prime and Alt-A ABS CDO securities
- The \$2bn margin call is driven by a massive remarking by Goldman Sachs of the underlying cash ABS CDO securities (down from -6 pts to -20-25 pts in some cases), ahead of all other dealers in the street, which have not yet remarked this type of underliers.
- This remarking is independent from today's market move and reflective of the desk's view that marks were stale primarily because of the general lack of liquidity in the cash market. In their views, marks at only a small discount to par (as they were) do not reflect the increased risk in this market.
- On average, this remarking results in marking down the super senior tranches by approx 10 pts (thus the \$2bn margin call). To give you a sense of the magnitude of price change in spread terms: the updated price on super senior tranches would roughly imply 900 bps versus 2300 bps on super senior tranche observed in the subprime ABS market (TABX 40-100%).
- AIG as well as the appropriate relationship managers within Goldman were given the heads up of the upcoming margin call. According Ram Sundaram, the trader, the client was anticipating a large call at some point but probably not by that exact magnitude.
- Expectation is obviously that AIG will dispute the margin call and Legal is advising that our desk starts a dialogue with the client around rationale behind updated marks. There is a specific dealer poll-dispute resolution process documented the ISDA signed with AIG. But AIG will have to accept our marks if no dealer is willing to provide quotes.

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