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AIG: WHERE IS THE TAXPAYERS' MONEY GOING?

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

MAY 13, 2009

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AIG: WHERE IS THE TAXPAYERS' MONEY GOING?

WEDNESDAY, MAY 13, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Towns, Kanjorski, Maloney, Cummings, Kucinich, Tierney, Clay, Watson, Lynch, Connolly, Kaptur, Kennedy, Van Hollen, Cuellar, Hodes, Welch, Foster, Speier, Issa, Burton, Mica, Souder, Westmoreland, McHenry, Bilbray, Jordan, Flake, and Fortenberry.

Staff present: Beverly Britton, counsel; Kwane Drabo, investigator; Brian Eiler, investigative counsel; Linda Good, deputy chief clerk; Jean Gosa, clerk; Adam Hodge, deputy press secretary; Carla Hultberg, chief clerk; Marc Johnson and Ophelia Rivas, assistant clerks; Phyllis Love and Christopher Sanders, professional staff members; Mike McCarthy, deputy staff director; Jesse McCollum, senior advisor; Amy Miller, special assistant; Leah Perry, senior counsel; Jenny Rosenberg, director of communications; Joanne Royce, senior investigative counsel; Ron Stroman, staff director; Lawrence Brady, minority staff director; John Cuaderes, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Frederick Hill, minority director of communications; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Kurt Bardella, minority press secretary; Christopher Hixon, minority senior counsel; Ashley Callen, minority counsel; and Brien Beattie and Molly Boyl, minority professional staff members.

Chairman TOWNS. The committee will come to order.

Good morning and thank you for being here today. Eight months ago the American taxpayers came to the rescue of AIG with an $85 billion bail-out.

That was followed by more money in November, more again in December, and more money still in March. The taxpayers have now provided more than $180 billion in financial assistance to the AIG. Yet, much of what has been done with that money has been done in the dark. In fact, the one thing that stands out most about the collapse and Federal rescue of AIG is the shroud of secrecy that has blanketed the entire sequence of events. This secrecy has only made the situation worse.

I get the sense when I talk to people back home in Brooklyn that they simply don't understand what happened. And, let me point out they don't like the idea that their tax dollars are being used to bail out a big business. They want to believe that this Federal bailout is necessary, but they wonder whether the money is being used wisely and they want assurances that ultimately they want to get their money back. What is the plan to repay the American people, and does it have a realistic chance of working?

Are the trustees adequately protecting the interest of the American people? In my view, AIG needs to demonstrate that it is headed in the right direction. We need to understand what the long-range plan is for AIG. Are you going to liquidate it or are you going to restructure it in such a way as to return it to profitability and repay the taxpayers' investment?

According to testimony we will hear today, AIG plans to liquidate much of the company and spinoff its insurance assets. Does liquidating the assets in the midst of a bear market make sense? Will this plan maximize the returns of the company in today's economic client?

We know AIG agreed to sell their auto insurance unit. We hear they are negotiating the sale of their Tokyo headquarters building, a unique property adjacent to the Imperial Palace. Will the taxpayers get the best return on their investment by selling a premier property during the worst commercial real estate market in years?

A few days ago we learned that AIG has put together a plan called "Project Destiny." "Project Destiny" is described as a multi-year roadmap for the restructuring of AIG. I requested a copy of this plan, but AIG says that disclosing the plan would undermine its efforts to achieve its goal for the benefit of American taxpayers. AIG says it is consulting on the issue with the New York Feds. In other words, "Trust us. Don't rush us." Everything will be all right, but everything is not all right.

People in my district and throughout the country are hurting, yet AIG has spent millions of dollars on high-priced PR firms and big time lawyers to attack its critics. AIG is paying PR executives as much as $600 an hour in taxpayer dollars. Clearly, AIG is making sure its lawyers and PR firms are watching its back, but who is watching the backs of the American people? The taxpayers.

What should the American people think, when millions of dollars in bonuses are paid to the very people who caused AIG problems in the first place? Less than a week ago, the AIG trustees still felt it necessary to write to Mr. Liddy and urge him to get executive compensation under control. I am surprised and disappointed to see that AIG continues to argue for secrecy. And in his testimony, Mr. Liddy seems to argue that criticism of AIG will somehow hurt the company.

Again, we are hearing "trust us," but we are not willing to let $180 billion go on "trust us." We will question. We will inquire. We will verify and we will not hesitate to probe every aspect of AIG's management and operations to protect the taxpayers' investment.

It is our responsibility to ensure that those public moneys are spent wisely, legally, and in the best interest of the American people. And we will continue to do just that. The question we are raising today should be easy enough to answer, but unfortunately AIG

has failed to fully respond to straightforward requests for information. This cannot continue. As AIG moves forward it has to know that Main Street is just as important as Wall Street.

I am looking forward to hearing today from Mr. Liddy and also the AIG Trustees. On that note, I now yield to the ranking member, Congressman Issa from the State of California.

[The prepared statement of Chairman Edolphus E. Towns follows:]

**HOUSE COMMITTEE ON
OVERSIGHT & GOVERNMENT REFORM**

**OPENING STATEMENT OF
CHAIRMAN EDOLPHUS TOWNS**

Hearing: "AIG: Where Is the Taxpayer's Money Going?"

May 13, 2009

Good morning and thank you all for being here today.

Eight months ago, the American taxpayer came to the rescue of AIG with an $85 billion bailout. That was followed by more money in November, more again in December, and more money still in March. The taxpayers have now provided more than $180 billion in financial assistance to AIG.

Yet much of what has been done with that money has been done in the dark.

In fact, the one thing that stands out most about the collapse and Federal rescue of AIG is the shroud of secrecy that has blanketed the entire sequence of events.

This secrecy has only made the situation worse. I get the sense when I talk to people back home in Brooklyn, and when I hear from constituents and others here in Washington, that people simply don't understand what happened.

Instinctively, they don't like the idea that their tax dollars are being used to bail out big business.

They want to believe that this Federal bailout is necessary. But they wonder whether the money is being used wisely. And they want assurances that ultimately they are going to get their money back.

What is the plan to repay the American people and does it have a realistic chance of working?

Are the trustees adequately protecting the interests of the American people?

In my view, AIG needs to demonstrate that it is headed in the right direction. We need to understand what the long-range plan is for AIG.

Are you going to liquidate it? Or are you going to restructure it in such a way as to return it to profitability and repay the taxpayers' investment?

According to testimony we will hear today, AIG plans to liquidate much of the company and spin off its insurance assets. Does liquidating the assets in the midst of a bear market make sense? Will this plan maximize the returns for the company in today's economic climate?

We know AIG agreed to sell their auto insurance unit. We hear they are negotiating the sale of their Tokyo headquarters building, a unique property adjacent to the Imperial Palace. Will the taxpayers get the best return on their investment by selling a premier property during the worst commercial real estate market in years?

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I requested a copy of this plan, but AIG says that disclosing the plan "would undermine its efforts to achieve its goals for the benefit of American taxpayers." AIG says it is consulting on the issue with the New York Fed.

In other words, "trust us." Everything will be alright.

But everything is not alright. People in my district and throughout the country are hurting, yet AIG has spent millions of dollars on high-priced P.R. firms and big-time lawyers to attack its critics.

AIG is paying P.R. executives as much as $600 an hour in taxpayer dollars. Clearly, AIG is making sure its lawyers and P.R. firms are watching its back. But who is watching the backs of the American people?

What should the American people think when millions of dollars in bonuses are paid to the very people who caused AIG's problems in the first place? Less than a week ago, the AIG Trustees still felt it necessary to write to Mr. Liddy and urge him to get executive compensation under control.

I was surprised and disappointed to see that AIG continues to argue for secrecy. In his testimony, Mr. Liddy seems to argue that criticism of AIG will somehow hurt the company.

Again we are hearing, "Trust us." But we are not willing to let $180 billion go just on trust. We will question, we will inquire, we will verify. And we will not hesitate to probe every aspect of AIG management and operations to protect the taxpayers' investment.

It is our responsibility to ensure that those public monies are spent wisely, legally, and in the best interest of the American people. And we will continue to do just that.

The questions we are raising today should be easy enough to answer, but unfortunately, AIG has failed to fully respond to straightforward requests for information. This cannot continue.

As AIG moves forward, it has to know that Main Street is just as important as Wall Street.

I'm looking forward to hearing today from Mr. Liddy and the AIG Trustees.

Thank you.

Mr. ISSA. Maybe Florida someday, Mr. Chairman. Thank you, Mr. Chairman, and thank you for facilitating this hearing today over the administration's management of $190 billion in bail-out money.

I think it's reasonable to say that most Americans, even Bill Gates, cannot break $190 billion down into a meaningful increment. So, hopefully, accurately, I divided the 300 million or so Americans into that and found it's about $633 for every man, woman and child in this country, plus or minus the latest census.

Mr. Chairman, I voted against these bail-outs; however, I am in the minority, so I have to accept the policies given to me until the American people get their chance to vote on a different policy. And I have an opportunity as the ranking member to demand transparency and accountability on behalf of the American people who have a right to know how their money is being spent. And, Mr. Chairman, I want to thank you for being an equal partner in ensuring that we have that opportunity on a bipartisan basis in this important investigation.

Ensuring transparency and accountability for the more than $190 billion of taxpayers money injected into AIG is a key component of this committee's responsibilities. Just last week we learned AIG paid $454 million in bonuses to its employees in 2008, while in March we were told it was only $120 million. While I understand that there is confusion and it may be that in fact the blame is based on different questions asked to different people in the process of getting the information, this confusion illustrates as much the serious problem in government trying to manage a company this large and this complex.

The continued lack of transparency in this administration's bail-outs adventures, and I just admit much like the previous administration caused me to say, "How dare we find out drip by drip by drip that our government has no ability to say how much money has been spent or on what? How much longer can the American people tolerate the lack of transparency?"

I am pleased that Mr. Liddy is here today and I want to acknowledge that he did not create the problems at AIG, but instead has taken on the very difficult challenge of unwinding an incredibly complex company while facing tremendous scrutiny from the public and from those of us here in Congress. I want to personally say to Mr. Liddy today we will make every effort to make this about how we can work together; how we can achieve the transparency the American people are entitled to; and how we can do no harm to your efforts to maximize the return to all the stockholders of AIG; and, particularly, we are going to be asking about 80 percent that the American people own.

Mr. Chairman, President Obama has promised the American people an unprecedented level of transparency and accountability, and I see our role on the committee as one of holding the President to that promise; and, that includes understanding the role of the three powerful individuals who now head the AIG trust. As designed by Treasury Secretary Geithner, when he ran the New York Fed, I believe that this trust is inherently unconstitutional, unaccountable entity that manages the taxpayers' investments in AIG,

not for the taxpayers, but in the interest of the Federal Government, specifically the U.S. Treasury.

It is important to remember, Mr. Chairman, that those two things are not one and the same. The U.S. Treasury is in fact not the same as the American people who have invested $633 for every man, woman, and child into this company. I want to acknowledge also that for the second panel, the trustees, they did not create this problem, and they will not be held accountable for what was created. However, since they now control 80 percent of the stock of AIG on behalf of, I believe should be the American people and not just the best interest of the Treasury, we must question why AIG trustees are immune from legal liability, so long as they act in the best interest of the Treasury and are indemnified against any lost cost or expense of any kind or character whatsoever.

Who can tell, Mr. Chairman, in light of recent public bullying of Chrysler bondholders who were derided as speculators by President Obama that these causes insulate the trustees from the normal accountability and transparency we demand of all our representatives. The "New York Times" recently reported that this unprecedented trust structure provides cover for officials, who despite the government's large stake in various banks, want to preserve the notion that neither the Treasury or the Fed owns AIG or controls any banks.

Mr. Chairman, I would submit that this is inappropriate for regulators and bureaucrats to use this legal sleight of hand to obscure the influence in running the U.S. financial sector. The American people have a right to know what is being done with their money and how these companies are being run.

Mr. Chairman, I look forward to our witnesses. I appreciate your indulgence, and would ask that additional material be placed in the record so as to preserve time and yield back.

Chairman TOWNS. Without objection.

[The prepared statement of Hon. Darrell E. Issa follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Opening Statement
Ranking Member Darrell E. Issa
Hearing on "AIG: Where Is the Taxpayers' Money Going?"
May 13, 2009

Thank you, Mr. Chairman, for holding today's hearing on the Administration's management of the $190 billion government bailout of AIG.

Mr. Chairman, I voted against these bailouts. However, I am in the minority, so I have to accept these policies as a given until the American people get their chance to vote for a different policy. What I can do, as Ranking Member of this committee, is to demand transparency and accountability on behalf of the American people, who have a right to know how their money is being spent, and I want to thank you, Mr. Chairman, for allowing me to work with you on this important investigation.

Ensuring transparency and accountability for the more than $190 billion of taxpayer money injected into AIG is a key component of this committee's responsibility. Just last week, we learned that AIG paid $454 million in bonuses to its employees in 2008, while in March we were told it was only $120 million. While I understand that this confusion may be blamed on the fact that AIG was asked different questions about the bonuses by different people, this confusion illustrates a much more serious problem: the continued lack of transparency in the Administration's bailout adventures. How dare we find out drip by drip by drip that our government has no ability to say how much of our money is being spent and on what? How much longer can the American people tolerate a lack of transparency?

I am pleased that Mr. Liddy is here, and I want to acknowledge that he did not create the problems at AIG but has instead taken on a very difficult challenge in unwinding a complex company while facing tremendous scrutiny from the public and the Congress.

I am also pleased that the three trustees who manage the taxpayers' nearly 80% stake in AIG are making their first public appearance today to answer for their stewardship of taxpayers' money. Mr. Chairman, President Obama has promised the American people an unprecedented level of transparency and accountability, and I see our role on this Committee as one of holding the President to that promise, and that includes understanding the role of these three powerful individuals.

I am particularly concerned that the AIG Trust, as designed by Treasury Secretary Geithner when he ran the New York Fed, is an unconstitutional and unaccountable entity that manages the taxpayers' investment in AIG, not in the taxpayers' name but in the interest of the federal government, specifically the US Treasury. It is important to remember, Mr. Chairman, that those two things are not one and the same.

I want to acknowledge that none of this is the trustees' fault – they are simply operating within the organization that was created by others, and no doubt do so out of a patriotic spirit of public service. Nevertheless, these three individuals have full power to vote 80% of the shares of AIG, purchased with taxpayer money, while the trust document that gives them this power directs them to operate explicitly in "the best interests of the Treasury," not the best interests of the American people.

Unlike a normal system of corporate governance, which aligns the interests of shareholders and management through the threat of legal and financial penalties, the AIG trustees are virtually immune from any legal liability so long as they act in the "best interests of the Treasury," and are indemnified against "any loss, cost or expense of any kind or character whatsoever." Who can doubt, Mr. Chairman, in light of the recent public bullying of Chrysler bondholders, who were derided as "speculators" by President Obama, that these clauses insulate the trustees from the normal accountability and transparency we demand of our representatives?

The *New York Times* recently reported that this unprecedented trust structure "provides cover for officials who, despite the government's large stake in various banks, want to preserve the notion that neither the Treasury nor the Fed 'owns' AIG or controls any major banks."

Mr. Chairman, I would submit that it is inappropriate for shadowy regulators and bureaucrats to use any legal sleight-of-hand to obscure their influence in running the U.S. financial sector. The American people have a right to know what is being done with their money, how these companies are being run, and what the government is doing to ensure their money is returned to them as quickly as possible. I look forward to addressing these important issues today, and I want to thank you again, Mr. Chairman, for holding this important hearing.

Chairman TOWNS. Thank you very much, Congressman Issa.

I now ask unanimous consent to leave the record open to Members who may submit their opening remarks and questions for the record, and I will leave the record open for that. At this time, I would like to ask the witnesses to please stand, and swear in all of our witnesses.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that they answered in the affirmative. You may be seated. I'm sorry. We have the lights here. When we start out, it's on green. Then it goes to yellow, and then it's red. So when it gets on yellow you can start trying to wrap up, which will allow all the Members an opportunity to raise questions. And maybe something that you didn't say you will get a chance to say it during the question period.

OK. You may begin.

[Mic was off.]

Mr. LIDDY. Let me start over.

Mr. ISSA. You'll never be misquoted until you turn it on.

STATEMENT OF EDWARD M. LIDDY, CHAIRMAN AND CEO OF AMERICAN INTERNATIONAL GROUP, INC.

Mr. LIDDY. Mr. Chairman, Ranking Member Issa, members of the committee, thank you for the invitation to appear before you today.

I appreciate the opportunity to describe for the committee the business plan we are executing in order to put AIG's troubles behind it, to repay the moneys that we owe the American taxpayer, and to secure an outcome that helps to put the American economy back on track. We are working hard to determine the destiny of the component parts of AIG.

Our plan contemplates that AIG's best businesses will establish separate identities from the parent holding company. The parent company will become smaller. The Financial Products unit will cease to exist. How long the plan will ultimately take will very much depend on how quickly and how strongly the global economy recovers, but let me be clear.

Our plan is explicitly designed to avoid having to divest AIG assets at fire sale prices. Just the opposite is true. We intend for taxpayers to realize the fullest possible value from every asset disposition, and we have already made substantial progress in this restructuring. We have reduced but not yet eliminated the systemic risk that AIG presents to the global financial system. We are selling assets where possible despite adverse conditions in global financial markets.

We are stabilizing AIG's liquidity so that we do not need support beyond those amounts already authorized by the government; although, as I said, the economy will be a factor in this. And we are restructuring some businesses for public offerings. We are restructuring other businesses for later disposition or to be wound down so that future losses can be mitigated or avoided. Across these four areas we have in recent weeks achieved a number of important milestones.

We are transferring two major foreign life insurance companies, ALICO and AIA, into special purpose vehicles in exchange for a

substantial reduction in AIG's debt to the Federal Reserve. We expect to complete the contractual arrangements for these transfers in the near future. We are also transferring the global property and casualty insurance franchise, known as AIU holdings, into an SPV, a special purpose vehicle. This will secure the value of that very substantial business in preparation for the potential sale of a minority stake, which ultimately may include a public offering of shares, again depending upon market conditions. And we continue to make significant progress in winding down AIG Financial Products. We have reduced the FP risk positions from 44,000 to 27,000 and we have reduced the notional exposure from a peak of approximately $2.7 trillion to just under $1.5 trillion today.

We continue to weigh every action with several criteria in mind. Will it reduce systemic risk? Is it the best use of Federal assistance? Will it enhance our ability to pay back the government? Does it keep our insurance businesses strong and well-capitalized? And does it protect our policyholders?

We are working hard to improve governance at the company. AIG is an incredibly complex entity with over 4,000 legal entities, cross-ownership and a myriad of special purpose structures. Our restructuring plan must make AIG less complicated, less risky, and more transparent. The infusion of government capital to AIG brought with it a substantial new set of relationships with the American taxpayer as AIG's largest single shareholder with the taxpayers' representatives here in Congress, with the Federal Reserve and U.S. Treasury; and, more recently, with the Trustees also appearing today. These relationships are new and in many ways unprecedented.

We work closely with the Federal Reserve Bank of New York and the U.S. Treasury; representatives of the Fed and Treasury and their advisors are engaged with various AIG offices every day. We view them as our partners. We also consult closely with the Trustees, and we appreciate the time they have devoted to understanding our restructuring plan and other critical issues. Their mature business judgment is a major asset.

I have led AIG now for 8 months, almost 8 months, and I want to assure you that the people at AIG today are working as hard as we can to serve our policyholders, our customers, and taxpayers. We need your help as well. It's critical to remember that we are partners. When we at AIG make mistakes, we expect to be criticized, but rampant, unwarranted criticism of AIG serves only to diminish the value of our businesses around the world, the businesses we are attempting to sell to repay the American taxpayer.

We continue to welcome a frank and open dialog with Congress so that you can be in a position to support our efforts. This support is essential and will benefit AIG stakeholders, the American taxpayer most of all. We cannot control the market conditions that will partly determine the timing of AIG's restructuring, but we are confident that our approach is right and that if we do this together we can demonstrate to the world that responsible government and capitalism still strive in the United States.

Mr. Chairman, thank you again for the opportunity to appear before you today; and, I am happy to answer questions that you or the committee might have.

[The prepared statement of Mr. Liddy follows:]

TESTIMONY BY MR. EDWARD M. LIDDY,

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,

AMERICAN INTERNATIONAL GROUP

BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE

ON OVERSIGHT AND GOVERNMENT REFORM

WEDNESDAY, MAY 13, 2009

MR. CHAIRMAN, RANKING MEMBER ISSA, MEMBERS OF THE COMMITTEE, THANK YOU FOR THE INVITATION TO APPEAR BEFORE YOU TODAY.

I APPRECIATE THE OPPORTUNITY TO DESCRIBE FOR THE COMMITTEE THE BUSINESS PLAN WE ARE EXECUTING IN ORDER TO PUT AIG'S TROUBLES BEHIND IT, REPAY THE MONIES THAT WE OWE THE AMERICAN TAXPAYER, AND SECURE AN OUTCOME THAT HELPS TO PUT THE AMERICAN ECONOMY BACK ON TRACK.

AS YOU KNOW, I WAS ASKED LAST SEPTEMBER TO OVERSEE A RESTRUCTURING OF AIG FOLLOWING THE GOVERNMENT'S DECISION TO RESCUE THE COMPANY.

WE ARE WORKING HARD TO DETERMINE THE DESTINY OF THE COMPONENT PARTS OF AIG. OUR PLAN CONTEMPLATES THAT AIG'S BEST BUSINESSES WILL ESTABLISH SEPARATE IDENTITIES FROM THE PARENT HOLDING COMPANY. THE PARENT COMPANY WILL BECOME SMALLER. THE FINANCIAL PRODUCTS UNIT WILL NOT EXIST. THE MAJOR INSURANCE COMPANIES WILL EMERGE WITH DIVERSE PRODUCTS, STRONG MANAGEMENT, AND CLEAR GROWTH STRATEGIES WORTHY OF INVESTOR CONFIDENCE.

HOW LONG THE PLAN WILL ULTIMATELY TAKE WILL VERY MUCH DEPEND ON HOW QUICKLY AND HOW STRONGLY THE GLOBAL ECONOMY RECOVERS. AND, BECAUSE WE ARE ALL COMMITTED TO ENSURING THAT THE MISTAKES OF THE PAST ARE NOT REPEATED, WE MUST TAKE THE TIME AND EXERCISE THE DILIGENCE TO DO THIS RESTRUCTURING PROPERLY.

LET ME BE CLEAR – OUR PLAN IS EXPLICITY DESIGNED TO AVOID HAVING TO DIVEST AIG ASSETS AT FIRE-SALE PRICES. IN FACT, JUST THE OPPOSITE IS TRUE. WE INTEND FOR TAXPAYERS TO REALIZE THE FULLEST POSSIBLE VALUE FROM EVERY ASSET DISPOSITION. AND WE INTEND THAT EVERY COMPANY THAT EMERGES AT THE END OF THE RESTRUCTURING WILL BE STRONG, TRANSPARENT, AND A CREDIT TO ALL OF ITS OWNERS.

WE HAVE ALREADY MADE SUBSTANTIAL PROGRESS IN THIS RESTRUCTURING EFFORT, PRINCIPALLY IN FOUR KEY AREAS:

1. WE HAVE REDUCED, BUT NOT YET ELIMINATED, THE SYSTEMIC RISK THAT AIG PRESENTS TO THE GLOBAL FINANCIAL SYSTEM;
2. WE ARE SELLING ASSETS AND BUSINESSES, DESPITE ADVERSE CONDITIONS IN GLOBAL FINANCIAL MARKETS;
3. WE ARE STABILIZING AIG'S LIQUIDITY SO THAT WE DO NOT NEED SUPPORT BEYOND THOSE AMOUNTS THAT THE GOVERNMENT HAS ALREADY AUTHORIZED, ALTHOUGH AS I HAVE SAID BEFORE THE STATE OF THE ECONOMY WILL BE A FACTOR; AND
4. WE ARE RESTRUCTURING SOME BUSINESSES FOR PUBLIC OFFERINGS, FOR LATER DISPOSITION, OR TO BE WOUND DOWN SO THAT FUTURE LOSSES CAN BE MITIGATED OR AVOIDED.

ACROSS THESE FOUR AREAS, WE HAVE, IN RECENT WEEKS, ACHIEVED A NUMBER OF IMPORTANT MILESTONES, WHICH UNDERSCORE THE PROGRESS WE ARE MAKING.

IN PARTICULAR, WE ARE TRANSFERRING TWO MAJOR FOREIGN LIFE INSURANCE COMPANIES – ALICO AND AIA – INTO SPECIAL PURPOSE VEHICLES IN EXCHANGE FOR A SUBSTANTIAL REDUCTION IN AIG'S DEBT TO THE FEDERAL RESERVE BANK OF NEW YORK. WE EXPECT TO

COMPLETE THE CONTRACTUAL ARRANGEMENTS FOR THESE TRANSFERS IN THE NEAR FUTURE.

WE ARE ALSO TRANSFERRING THE GLOBAL PROPERTY & CASUALTY INSURANCE FRANCHISE, AIU HOLDINGS, INTO AN SPV. THIS MOVE WILL SECURE THE VALUE OF THAT VERY SUBSTANTIAL BUSINESS IN PREPARATION FOR THE POTENTIAL SALE OF A MINORITY STAKE, WHICH ULTIMATELY MAY INCLUDE A PUBLIC OFFERING OF SHARES DEPENDING ON MARKET CONDITIONS.

AND WE CONTINUE TO MAKE SIGNIFICANT PROGRESS IN WINDING DOWN THE COMPLEX DERIVATIVES PORTFOLIO AT AIG FINANCIAL PRODUCTS. WE HAVE REDUCED THE FINANCIAL PRODUCTS RISK POSITIONS FROM 44,000 TO 27,000, AND HAVE REDUCED THE NOTIONAL EXPOSURE FROM A PEAK OF APPROXIMATELY $2.7 TRILLION TO APPROXIMATELY $1.5 TRILLION TODAY.

WE CONTINUE TO EXPLORE MULTIPLE OPTIONS TO BREAK APART THESE TRADING BOOKS SO THAT WE CAN REDUCE THE REMAINING RISKS, SELL OFF PORTIONS OF THE BUSINESS, REPAY OR OTHERWISE RETIRE THE AIGFP DEBT, AND EXIT THIS SEGMENT OF THE FINANCIAL PRODUCTS BUSINESS.

WE CONTINUE TO WEIGH EVERY DECISION REGARDING THIS RESTRUCTURING WITH SEVERAL CRITERIA IN MIND: WILL THIS ACTION FACILITATE A REDUCTION IN SYSTEMIC RISK? IS THIS ACTION THE BEST USE OF THE FEDERAL ASSISTANCE WE ARE RECEIVING? WILL THIS ACTION ENHANCE OUR ABILITY TO PAY BACK THE GOVERNMENT? THE RESTRUCTURING EFFORTS I HAVE DESCRIBED ARE A REFLECTION OF THIS THOUGHT PROCESS.

SO, TOO, ARE THE GOVERNANCE IMPROVEMENTS WE ARE WORKING TO BRING TO THE COMPANY. AIG IS AN INCREDIBLY COMPLEX ENTITY. IT HAS A GLOBAL FOOTPRINT AND AN INTRICATE CAPITAL STRUCTURE CHARACTERIZED BY OVER 4,000 LEGAL ENTITIES, CROSS-OWNERSHIP, AND MYRIAD SPECIAL PURPOSE STRUCTURES. OUR RESTRUCTURING PLAN MUST MAKE AIG LESS COMPLICATED. WE ARE WORKING EVERY DAY TO STREAMLINE THE ORGANIZATION AND CREATE EFFICIENCIES THAT WILL ENHANCE OUR CORE BUSINESSES AND IMPROVE TRANSPARENCY.

THE INFUSION OF SUBSTANTIAL U.S. GOVERNMENT CAPITAL TO AIG BROUGHT WITH IT A SUBSTANTIAL NEW SET OF RELATIONSHIPS FOR THE COMPANY: FIRST AND FOREMOST, WITH THE AMERICAN TAXPAYER AS AIG'S LARGEST SINGLE SHAREHOLDER; WITH THE TAXPAYERS' REPRESENTATIVES HERE IN CONGRESS; WITH THE FEDERAL RESERVE

AND U.S. TREASURY AS OUR PRIMARY DAY-TO-DAY PARTNERS IN GOVERNMENT; AND MORE RECENTLY, WITH THE TRUSTEES ALSO APPEARING TODAY.

GIVEN AIG'S UNIQUE SITUATION, THESE RELATIONSHIPS ARE NOT ONLY NEW, THEY ARE IN MANY WAYS UNPRECEDENTED. WE WORK CLOSELY, FOR EXAMPLE, WITH THE FEDERAL RESERVE BANK OF NEW YORK AND THE U.S. TREASURY. REPRESENTATIVES OF THE FED AND TREASURY, AND THEIR ADVISERS, ARE ENGAGED WITH VARIOUS AIG OFFICES EVERY DAY. WE VIEW THEM AS OUR PARTNERS.

YET, AS WE FORGE THIS PARTNERSHIP, THE PARTNERS KEEP TO THEIR RESPECTIVE ROLES: THE FED, LIKE ANY RESPONSIBLE CREDITOR, MONITORING CAREFULLY AND ADVISING UPON OUR STRATEGIC APPROACH. AND AIG'S EXECUTIVE LEADERSHIP DEVISING AND EXECUTING OUR STRATEGIC PLAN AND MANAGING THE COMPANY IN CLOSE CONSULTATION WITH THE BOARD OF DIRECTORS.

WE ALSO CONSULT VERY CLOSELY WITH THE TRUSTEES – AND WE APPRECIATE THE TIME THEY HAVE DEVOTED TO IMMERSING THEMSELVES IN THE INTRICATE DETAILS OF OUR RESTRUCTURING PLAN AND OTHER CRITICAL ISSUES. THEIR MATURE BUSINESS JUDGMENT IS AN ASSET TO THIS SITUATION.

I HAVE LED AIG FOR EIGHT MONTHS NOW. AND I WANT TO ASSURE YOU THAT THE PEOPLE AT AIG TODAY ARE WORKING AS HARD AS WE CAN TO CONTINUE TO SERVE OUR POLICYHOLDERS AND CUSTOMERS, AND TO SOLVE AN EXTREMELY COMPLEX SET OF PROBLEMS FOR THE BENEFIT OF AMERICA'S TAXPAYERS.

WE NEED YOUR HELP AS WELL TO ACHIEVE THE RESTRUCTURING OF AIG SUCCESSFULLY. IT IS CRITICAL THAT WE NOT LOSE SIGHT OF THE FACT THAT WE ARE PARTNERS. WHEN THE EMPLOYEES OF AIG MAKE MISTAKES, WE EXPECT TO BE CRITICIZED. BUT RAMPANT, UNWARRANTED CRITICISM OF AIG SERVES ONLY TO DIMINISH THE VALUE OF OUR BUSINESSES AROUND THE WORLD – TO THE DETRIMENT OF OUR SHAREHOLDERS, INCLUDING TAXPAYERS, WHO OWN SOME 80% OF AIG.

WE RECOGNIZE OUR RESPONSIBILITY TO WORK HAND IN HAND WITH THE GOVERNMENT TO PRESERVE THAT VALUE, AND I ASSURE YOU THAT IS OUR GOAL. WE CONTINUE TO WELCOME A FRANK AND OPEN DIALOGUE WITH CONGRESS ON OUR PROGRESS IN RESTRUCTURING, SO THAT YOU CAN BE IN A POSITION TO SUPPORT OUR EFFORTS. THIS SUPPORT IS ESSENTIAL AND WILL HELP US TO PRESERVE THE VALUE OF AIG FRANCHISES FOR THE BENEFIT OF AIG'S STAKEHOLDERS – THE AMERICAN TAXPAYER MOST OF ALL.

WE CANNOT CONTROL THE MARKET CONDITIONS THAT WILL PARTLY DETERMINE THE TIMING OF AIG'S RESTRUCTURING. BUT WE ARE CONFIDENT THAT OUR APPROACH IS RIGHT, AND THAT IF WE DO THIS TOGETHER WE CAN DEMONSTRATE TO THE WORLD THAT RESPONSIBLE GOVERNMENT AND CAPITALISM ARE STILL THRIVING IN THE UNITED STATES.

WITH THAT, MR. CHAIRMAN, I THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND AM HAPPY TO ANSWER ANY QUESTIONS YOU AND THE COMMITTEE MAY HAVE.

Chairman TOWNS. Thank you very much for your testimony.

You know, AIG has received over $180 million in financial assistance. Can you provide this committee with assurances that AIG will not require any additional Federal money?

Mr. LIDDY. Congressman, the assurance I can give you is we will do everything we can to not require additional Federal money. But the answer to that question, as I said in my prepared remarks, is so dependent upon what happens to the world economic conditions; and, perhaps more particularly, the world financial markets; we think the money that's been dedicated to us thus far—that's $40 billion of TARP money and approximately $43 billion of Federal Reserve borrowings, when coupled with another $30 billion of TARP, just under $30 billion of TARP that is available to us and the balance of the Federal Reserve borrowing—we think in today's marketplace that is sufficient and we will not need additional money. But that answer is very dependent upon what happens to the overall economic conditions and financial marketplace around the globe.

Chairman TOWNS. Well, can you assure us that the taxpayers will get their money back?

Mr. LIDDY. Again, I'll assure you we're doing everything we can. We have what we think is a terrific plan, a viable plan that's not as dependent on the capital markets as other plans might have been. But asset values have to stay strong. There has to be a capital market that enables us to take businesses public. I think that will happen, but I can't give you a guarantee on that. I can't control what happens in the worldwide financial marketplace.

Chairman TOWNS. Does "Project Destiny" provide that the taxpayers will recover 100 percent of their money?

Mr. LIDDY. It does. Project Destiny, as you indicated in your remarks, basically provides a strategy for each business that comprises AIG, and if the marketplace holds the way it is right now, we think that the American taxpayer will be fully repaid. Again, that's very conditioned upon, the assumption that the world economy and the world financial markets stay where they are or improve as opposed to deteriorating.

Chairman TOWNS. Right. Last week I wrote to you requesting a copy of your plan for the future of AIG called "Project Destiny." Your outside lawyers sent me a letter on Monday saying it was too sensitive to give to the committee and you were discussing it with the New York Feds. Are you trying to hide something? I mean, why can't we get it?

Mr. LIDDY. No. I'm prepared to share with you the broad brush strokes of that plan for as long as you'd like. When we get into the operating details, that is commercially sensitive material. There's a lot of people with whom we compete in the United States and around the globe. And to the extent they have access to that information it would impair our ability to operate those assets and sell those assets for the benefit of the taxpayer.

Chairman TOWNS. Let me ask one other question. Who's in charge of AIG, you or the New York Fed?

Mr. LIDDY. AIG is a shareholder-owned company and we operate according to that, because the largest single shareholder we have is the American public through an 80 percent ownership. The Fed-

eral Reserve and the U.S. Treasury are our partners. We don't do anything without reviewing it with them, making certain that they are in concurrence with it. So it is very much a partnership in terms of the way we think about making decisions.

Chairman TOWNS. Right. So for the record, Mr. Liddy, I want your commitment that you will provide us with a copy of "Project Destiny" by the close of the business day.

Mr. LIDDY. I'll talk to my lawyers about it, sir. I want to provide you everything that you need to understand "Project Destiny," but we are told and the Federal Reserve has asked us to be very careful with the amount of detail we describe. Because that information, as I said, could be very commercially sensitive in the hands of our competitors and it could destroy our ability to pay back the American taxpayer.

So if you will let me please consult with our attorneys about what we can do with that, we will work with you and your staff to provide you what is feasible as quickly as we can.

Chairman TOWNS. Yeah, that kind of goes to a comment that was made by the ranking member. You know, we were talking about transparency. I mean, in some instances some of this we just can't quite understand why we can't have it. And I want you to know that's a big issue as we walk the street. You know, people are saying that they're doing things in secrecy. They're talking about the bonuses that people are getting. And I think that's something that you have to be concerned about in terms of the image of AIG as well.

Mr. LIDDY. I'm very sensitive to it, sir, and that's why we share with the Federal Reserve and the U.S. Treasury everything that we're doing. There are no secrets. Everything that we are doing we share with them. I'm just uncomfortable that if all of the operating details of Project Destiny were to be made public, that it would put us at a severe disadvantage in terms of trying to realize value for the benefit of the American taxpayer.

Chairman TOWNS. Do you honestly believe that you have a right to prevent Congress from reviewing how the taxpayers' money is being spent?

Mr. LIDDY. No. As I said, I'm delighted. I will share as much of the overall broad brushstrokes as I possibly can and I think that will satisfy you. It's the operating details of that plan that I am more concerned about.

Chairman TOWNS. Thank you. My time is expired.

I yield to the ranking member from California.

Mr. ISSA. Thank you, Mr. Chairman, and I would let you go on as long as you wanted to. You were doing extremely well.

Mr. Liddy, I'm going to pick up where the chairman left off, because I think he's on the right track. Did you share this project in its entirety with individuals working for the New York Fed or Treasury?

Mr. LIDDY. Yes, we did.

Mr. ISSA. And was that in camera? And, if so, how did you make that determination that what you shared with them was not going to be shared with your competitors?

Mr. LIDDY. Well, the Federal Reserve is present at every one of our strategic discussions at all of our board meetings and all of our committee meetings.

Mr. ISSA. No. I appreciate what you're saying, but let me move to the point. The point is they're not stockholders. They're sitting as members of the board, members of your executive committee. They're operating your company in the sense that they're insiders. I sit on the board of a public company even today. I'm very familiar with the fact that what you're telling us you can't give us; and, you did tell us you couldn't give it to us, because you said you'd give us the broad brush, the overview.

Basically, you said I won't share with you what I'm sharing with the Treasury. I'm going to ask you in a different way. I know you're going to talk to your lawyers, and Mr. Boggs back there is about the best in town. So maybe you just reach over your shoulder when you get a chance.

Will you, given the same protections from disclosure to your competitors, make available to Congress the information? I understand the information is insider information, and people who have access to it need to understand they can't trade in the stock. They can't do other investments. Given those assurances, will you make that available to designated people from Congress?

Mr. LIDDY. Congressman, I will talk to my lawyer.

Mr. ISSA. Tommy's shaking his head no, so——

Mr. LIDDY. At some point in time, so he'll tell me what we can and cannot do and what we should and should not do.

Mr. ISSA. Mr. Chairman, can we suspend for a moment to give them a chance to talk to counsel?

Chairman TOWNS. I'd be delighted to do so.

Mr. ISSA. Thank you.

[Brief conference held.]

Chairman TOWNS. Yes, you may continue.

Mr. LIDDY. Congressman, there is commercially sensitive information in there. My attorney advises me will work with you to provide everything that we possibly can. The material that goes to the Fed or Treasury goes pursuant to a confidentiality agreement; and, what we are concerned about, if it goes to Congress, does it give free access to our competitors. If we can find a solution to that, we'll provide it to you.

Mr. ISSA. And I appreciate that, so I'll rephrase the question for counsel.

Assuming that we provide for in camera for lack of a better term review by individuals who have signed onto the confidentiality agreement a limited amount, not Congress as a whole, are you prepared to turn over to this committee's designated people for their evaluation, and we would presume. We would probably have knowledgeable people outside this.

Mr. LIDDY. Yes.

Mr. ISSA. The answer is yes?

Mr. LIDDY. Yes, again, exactly the way you worded it, as long as we can get assurances that it doesn't go beyond that group.

Mr. ISSA. OK, well, the chairman and I, I'm sure, will work together to find a way to make that happen because it is important that this branch of government have the same transparency as the

other branch of government currently has on your government-owned entity.

Let me just go through one or two more quick things. If I read the arithmetic roughly right, 80 percent of your company was bought for $40 billion by converting preferred to common. Is that roughly right?

Mr. LIDDY. Yes, except another $30 billion or just under $30 billion is available if we need it. So you need to decide whether you want to include that in the calculation or not.

Mr. ISSA. But that would further dilute the stock?

Mr. LIDDY. Well, it would keep the ownership at 80 percent, so you don't go above the 799.

Mr. ISSA. OK, so getting mark to market, if we will, what is the current value of your stock as an enterprise, your market cap?

Mr. LIDDY. It would be approximately $5 to $6 billion.

Mr. ISSA. So we spent $40 billion, agreed to spend $70 billion to buy $5 billion?

Mr. LIDDY. Well, it's $5 billion plus what it can be worth at the end, if the "Project Destiny" execution goes well and the marketplace cooperates.

Mr. ISSA. But you are a publicly-traded company, so you are worth what you are worth on a given day. Your classic mark to market justification: you're worth $5 billion today; if I went into the market to buy I wouldn't have to pay $30 billion to get no more. I wouldn't have to pay $70 billion to get 79 percent. I would pay a fraction of that if I bought into the other side of the equation. Is that right?

Mr. LIDDY. Yes. The company is worth as you say, the company is worth about $5 to $6 billion.

Mr. ISSA. OK. Additionally, the last point I'll make on the finances, the government lowered your rate to LIBOR plus one, roughly; or, no, LIBOR plus three. Your 3½, 4 percent cost of money on a big part of what the government has loaned you. Is that right?

Mr. LIDDY. Yes.

Mr. ISSA. So the government is making money, because we borrow for less than that, but that's commercially what? Less than half of what you would normally in your financial condition borrow at. Is that right?

Mr. LIDDY. Yes. I don't know whether half is the right number, but it's substantially less than what the rate would be if we were trying to borrow on our own.

Mr. ISSA. The BB&T's preferreds now are trading at par, at 9 percent.

Mr. LIDDY. Right.

Mr. ISSA. So you're getting about half that.

Mr. LIDDY. Yes, it's extensions.

Mr. ISSA. So the government is not losing money on the loan, but in fact you're getting a preferential treatment which hopefully comes back in the stock.

Mr. LIDDY. Correct.

Mr. ISSA. OK, Mr. Chairman, I hope we have a second round, but thank you for the indulgence.

Chairman TOWNS. We will. We will have a second round.

I yield to the gentleman from Pennsylvania, Mr. Kanjorski.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Good morning, Mr. Liddy.

Mr. LIDDY. Good morning.

Mr. KANJORSKI. Since you last appeared before Congress, and that was several months ago, at that time you had indicated that when you took command at AIG it had counter-party obligations of approximately $2.7 trillion and you would reduce that to approximately $1.7 trillion at the last time you testified. Could you give us any indication where that exposure is today?

Mr. LIDDY. Yes, at its zenith, that number was $2.7 trillion. At the end of the first quarter, at the end of April, it was down just below $1.5 trillion. So we continue to make progress. We continue to make good progress.

Mr. KANJORSKI. Do you have any timeframe in mind as to when you will get down to the level that there will not be systemic risk exposure to the taxpayers of the United States?

Mr. LIDDY. I do. First, we'd like to make progress and not every single month and every single quarter, but we think by the end of the year that $1.7 trillion and the 27,000 trades that exist will be materially smaller. The challenge is if you go too fast you wind up settling those trades at a disadvantage to us; and, therefore, it costs the American taxpayer more. So trying to do that with a little balance in the system is appropriate. We think we can get the right balance and make material progress by the end of the year.

Mr. KANJORSKI. Right, thank you.

Did I detect in your response to the chairman and the ranking member in regard to providing your bailout plan of your plan of final execution that you have recorded or indicated exposure to Federal Reserve and Treasury—but have not made it available to the committee staff—is that because you may be suspicious of the congressional billboard company that we have up here on the Hill?

Mr. LIDDY. No, it reflects really just my concern that if that information gets out and gets in the hand of our competitors and it tells them what our roadmap is to resolve AIG's difficulties that they will use it against us, and it will make it even harder to achieve the success that we want to achieve. It's as simple as that.

Mr. KANJORSKI. I'm not criticizing your judgment in humor of the chairman's and the ranking member.

The one thing I'm interested in, and you can be very helpful to us, you know, I am involved in another committee and we are writing and deciding on what we're going to do at the insurance industry; and, when you analyze AIG, you recognize, for all intents and purposes it was a wonderful and very successful insurance company, except it had, as some people call, rogue organizations or offshore organizations, the London group, the financial products division of AIG in London.

They were really the organization that in getting involved in taking positions as counter-parties that they made the great opportunity of risk and weren't the best purchaser of those documents or situations, now that was not regulated, I take it, very stringently by your New York State regulator. Is that correct?

Mr. LIDDY. The financial products business was not regulated by any of the insurance regulators, because it wasn't an insurance subsidiary. It was regulated by the OTS.

Mr. KANJORSKI. OK, now, does OTS have a history or real experience with regulating that type of offshore operation to ICE success in your estimation?

Mr. LIDDY. I think not. I think the last time I was before Congress, I was part of a panel that included the interim director of the OTS and I think he said as much. They simply lack the capacity and the ability to adequately supervise businesses that were in Connecticut, London, Paris, Tokyo, what have you, dealing in these very complicated financial instruments.

Mr. KANJORSKI. After 9 months now, that's a short period of time relatively speaking to get the total lay of the land to understand the culture, but would you feel qualified to render an opinion at this point, that looking at the existence of not only AIG but several insurance companies that have the opportunities to do what they did in getting them to the offshore operation in London and getting into derivatives.

Do you have any opinion as to whether or not it would be helpful and more protective to the American taxpayer to avoid their exposure and to the economy to avoid systemic risk if in some way we developed a Federal insurance charter that would be a regulator of that operation and much more closely involved than the present regulators have been. Can you render that opinion, first; and, if you can't, will you?

Mr. LIDDY. I can give you some preliminary thoughts. I don't know if it's a Federal insurance regulator as much as there needs to be someone who looks at systemic risk across large organizations, so in my judgment, it should have been a great insurance company and should have stuck to that knitting. It should not have gone off into the financial products world. Once it did, I think it would have been helpful if there was an overseer or regulator. Once a company gets to a certain size or engages in certain kinds of products, that company ought to be subject to some broad brushstroke regulation, which I think right now does not exist.

I saw that the individual, Sheila Bair, who heads up the FDIC, had a proposal where you bring together the heads of the Federal Reserve and Treasury, and FDIC, and they would share common knowledge about which institutions perhaps are engaging, either are too large or have too much systemic risk or are engaging in practices that could cause difficulty.

That struck me as a sensible way of using the current regulatory environment, but getting more emphasis on those businesses that simply have become either too large or are engaging things that are outside of their core skills.

Mr. KANJORSKI. I think you are referring to Senator Collins' proposal in the Senate. Is that correct?

Mr. LIDDY. Yeah, I'm sorry. I don't know. When I first read it I thought it was part of an FDIC, part of Sheila Bair's recommendation, but I could have that entirely wrong.

Chairman TOWNS. The gentleman's time is expired.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Chairman TOWNS. Congressman Bilbray from California.

Mr. BILBRAY. Thank you, Mr. Chairman.

The chairman was rightfully saying the concerns of transparency and how far we can go with that just sort of reminded me of the fact that if you had a proposal for major bonuses for your executives, the proposal had billions of dollars out there. Would you ever propose to present them with that argument at midnight and expect them to vote on the commitment within by noon the next day?

Mr. LIDDY. No. I think my approach generally is to provide people the information they need in order to make an informed judgment.

Mr. BILBRAY. Well, do you think the 12 hours for a 1,000-page proposal would be appropriate time for consideration?

Mr. LIDDY. Well, as I said, I want to work with the Congress. I want to work with what you've asked for. I just want to make sure that I protect the interest of the American taxpayer at the back end of this process.

Mr. BILBRAY. I just pointed out, frankly, is that the representatives of the taxpayers, we were actually asked by our chief administrative officer of Congress to ask us to vote to make that kind of commitment within that short a period of time, where I don't think any executive for any company would ask their board of directors do that. But we were asked to do that, and that's when all-hell broke loose when they realized there was a whole lot in that proposal that wasn't there.

Mr. LIDDY. I understand.

Mr. BILBRAY. This issue of hyper-inflation coming down the pike is something we haven't talked about, and I just want to sort of get reassured that with all the hyper-spending that we are seeing the Federal Government do in the last few months and the projects were going to continue to do it, most economists feel there's a great threat that we'll go into hyperinflation.

If hyperinflation kicks in, what are the results on our payback? Now, I assume that we will not be going dollar-for-dollar. It will be value to some degree, but will it be dollar and dollar, and will hyperinflation then reduce the net value of what was paid back to the Treasurer?

Mr. LIDDY. It's a great question. It's a very difficult one to answer, because hyperinflation would be accompanied by a lot of other factors, so you'd have to kind of go through a string of events. What would hyperinflation unleash?

You know, if you owned real assets, fixed assets in a hyperinflationary period, that could be a good thing, because the value of those goes up, but there's nobody around that has any money in order to buy it. So you'd really have to step back and look at it. You know, our plan takes anywhere from 3 to 5 years to fully unfold, given current market conditions.

How quickly a hyperinflation scenario, if it were to occur, how quickly it would occur, don't know. So we could be well down the path toward realizing the repayment of the American taxpayer before any hyperinflationary situation were to occur.

Mr. BILBRAY. So in other words, you're hoping to be able to pay back the taxpayers before the ceiling falls in on the inflationary spiral?

Mr. LIDDY. Well, I'd like to make some major inroads into repaying the American taxpayer and I'm not so sure the ceiling falls in. As I said, hyperinflation will be one element. There could be a host of other things and some offsetting that come with that.

Mr. BILBRAY. OK. Here's the catch. The followup question here is how long you anticipate AIG to take to pay off the debts of the taxpayers.

Mr. LIDDY. Well, I think it will take somewhere between 3 and 5 years; and, what makes the answer so difficult is in formulating a response you have to make a judgment about how strong will the economy be worldwide and how good will the capital markets be worldwide. If they stay about where they are or get better, it's that 3- to 5-year timeframe. If they were to get worse, it could get elongated.

Mr. BILBRAY. Has the administration given you any guidelines on when to start repaying AIG staff?

Mr. LIDDY. They have not given us any guidelines. We work with the Federal Reserve. Any time we use any of the dollars that have been allocated to us, we have to get a waiver from the Federal Reserve. It's our intent to try to start repaying that as quickly as possible. As I mentioned in my oral testimony, we want to take some of our largest assets, and put them in a special purpose vehicle. When we do that, the amount of debt that we've borrowed from the Federal reserve will be reduced proportionately. So we can do that in a matter of months, assuming we can get all the regulatory approvals for these special purpose vehicles done in that timeframe.

Mr. BILBRAY. To what extent have Federal Reserve officials been involved in the strategy of how to pay back this?

Mr. LIDDY. They have been very involved in it. As I said, we treat them as a full partner. We don't do anything without getting involved.

Mr. BILBRAY. So they're involved in day-to-day decisions involved here or is it just general policy?

Mr. LIDDY. No. I wouldn't say day-to-day decisions. I would say more strategy and policy. Sometimes it's hard to tell when you moved from strategy to a policy to a decision, but we just don't want them to be caught off-guard by anything that we are working on.

Mr. BILBRAY. OK. Thank you very much.

Thank you, Mr. Chairman. I yield back.

Chairman TOWNS. Thank you very much. The gentleman's time is expired.

Congressman Cummings from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Good morning, Mr. Liddy.

Mr. LIDDY. Good morning.

Mr. CUMMINGS. First of all I want to thank you for your comments about being concerned about the taxpayers.

We too are concerned, and I heard your comments about criticism. Let me say this. When anyone is getting $182 billion of taxpayers' money, many of those taxpayers who have lost their jobs, savings, health insurance, you are going to get some criticism, no matter what. But let me go to something that Mr. Bernanke said, Fed Chair Bernanke said just a week ago; he said he had no prob-

lem with people receiving high paychecks. He said, but there should be a pay system that prevents excessive risk-taking and at the same time is directly related to performance. Do you agree with that?

Mr. LIDDY. Yes, I do.

Mr. CUMMINGS. And, so, I know that you have come under, AIG has come under criticism for these retention payments and the bonuses and whatever. What is being done consistent with Bernanke's statement that I just quoted to address that issue, if anything?

Mr. LIDDY. It's a great question, Congressman.

Mr. CUMMINGS. Thank you.

Mr. LIDDY. I would say the most important thing we can do is not allow a situation like AIG FP to ever get started again. So when AIG FP, the participants in that business generally got 30 to 35 percent of the profits, that can encourage some risk-taking that simply is out of bounds. So the winding down of FP and the comp programs that we have in place up there right now are not nearly as lucrative.

They are specifically targeted so that you get paid if you achieve certain objectives. So I think that is right on point with Chairman Bernanke's view that there's got to be a risk reward and a pay for performance standpoint. So I think we are making good progress on that. In the basic operations at AIG, we have almost always had that, you know, that is much more traditional-looking in terms of the leverage than there is on a bonus plan, how much of a relationship there is between a base salary and a performance-based bonus, and they are very performance-based. So in most areas at AIG I think we are in pretty good shape. It was more in the AIG FP area where I think the compensation systems got out of bounds.

Mr. CUMMINGS. So let me make sure I understand now. We had bonuses and retention payments, I think, in more than just FP. Right?

Mr. LIDDY. Yes. I was trying to respond to the specific part of Mr. Bernanke's comment that there ought to be a tradeoff between risks and rewards.

Mr. CUMMINGS. All right. Now, what can the American people expect as owners of 79 percent of this company with regard to bonuses and retention payments in, say, the next year? After all, and I am going to say this over and over again wherever I go, to losing their jobs, their homes, to losing everything. And so they have no sympathy for AIG.

So I'm just wondering what can you tell them? They're watching you, about what they can expect to see as they're seeing the foreclosure signs go up in front of their houses. What can they expect to see in the "New York Times" and "The Washington Post" about bonuses and retention payments at AIG?

Mr. LIDDY. Specifically, with retention payments we are trying to recast as many of those as we can to make them performance-based so that you have to earn them, not simply stay for a certain period of time. As I am told there are Treasury regulations which will be forthcoming that will be very specific about how much you can pay, what base salaries are, what bonuses can be, how those bonuses can be paid. As soon as we get that material, we will re-

vise our comp systems to be in 100 percent compliance with those regulations.

Mr. CUMMINGS. Last question: did AIG write swaps on any debt held by creditors to General Motors or Chrysler? And, if so, what can you tell me about those swaps?

Mr. LIDDY. I don't know. I saw that question someplace and I just don't have any information on it.

Mr. CUMMINGS. It is a very important question.

Mr. LIDDY. I'd be delighted to get the information.

Mr. CUMMINGS. How soon do you think we can get it?

Mr. LIDDY. We'll do it as quickly as we can, sir.

Mr. CUMMINGS. Yeah, we want to look into that very carefully; and, let me ask you this. On January 15th you told me when we met that you expected to be able to pay back the debt within 5 years. At that time, of course, I didn't know that AIG would have its largest loss in the history of any company in the world when we lost. What's your project today?

Mr. LIDDY. As I answered this Congressman over here, I think the answer is 3 to 5 years, but it is very dependent upon what happens to the capital markets. And that loss, as I have attempted to explain in the past to many of you, that loss had two major components. One was worldwide asset values plummeted in the fourth quarter.

When asset values go down, we have to reflect that loss in our P&L and that's what drove that loss. Second, when you're worried about the components of your business, you have things like good will and deferred tax assets. You aren't going to be able to realize those and you write them off. Those two things alone were the major drivers of that loss.

I think the answer, we will be able to repay the taxpayer in that 3- to 5-year timeframe, but it is heavily dependent upon what happens with the worldwide economic situation, the success of the stimulus programs that all of the world's governments are bringing to bear, and the condition of the financial markets. We are not an island and those issues play such a large role in our ability to make progress paying back the taxpayer.

Chairman TOWNS. The gentleman's time is expired.

I yield 5 minutes to Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman.

If you decide to start a subcommittee on oversight of AIG I will volunteer to serve on it.

Chairman TOWNS. That's good to know.

Mr. FORTENBERRY. Mr. Liddy, thank you for coming. You are in a difficult position. I understand you are basically not paid for this. You have taken this on to restructure the company.

In that regard I appreciate your willingness to do it. You very much understand though the cynicism with which very often your testimony is not because of the pent-up anger, and particularly in Congress, but more specifically among the American people about the reckless actions of this company previously.

And in that regard I'd like to take a step back if we could and trace a process by starting with just a general question. Can you explain to the American people who is AIG? You were formerly organized as a thrift holding company. The various business compo-

nents of that, the business sector or one of those components that went bad in terms of the creation of exotic financial instruments, and then how are you suggesting a restructuring of the company and management to deal with it?

Mr. LIDDY. Sure. AIG consists of a number of component parts, and let's just think about it as a string. There are property casualty businesses. There are worldwide life and savings businesses. There are domestic life and savings businesses. There's a couple of large businesses like International Lease Finance.

I think we own more airplanes than any other entity in the world. And in that general area there's also the AIG Financial Products. So most of what I tried to describe very briefly just now is it's an insurance company with a few exceptions.

One of those large exceptions was starting in about 1987 or so AIG got into a non-insurance business called AIG Financial Products, FP for short. And that's where we wrote very sophisticated derivatives, credit default swaps, hedges and things of that nature. The credit default swaps generally performed well until the complete liquidity collapse that occurred in 2007. Many of the credit default swaps, the multi-sector credit default swaps that were written by AIG were tied to the housing market. When the housing market collapsed, those credit default swaps called for the posting of collateral. We had to keep ensuring the value of those instruments and we ran into a severe liquidity squeeze.

That's when the Federal Reserve and the U.S. Treasury came forward and the first rescue package was essentially a loan of up to $85 billion extended to us by the Federal Reserve. While that solved one problem, it created another problem because we didn't have enough equity to support the $85 billion, so that then was subsequently redone to include a balance of equity from TARP and debt from the Federal Reserve.

Mr. FORTENBERRY. You stated that the default swaps performed well; that, however, the reserves underlying the risk to manage those default swaps were clearly not there, which begs the earlier question about the overall structure under which AIG was operating, a thrift holding company and lack of regulatory oversight there.

Mr. LIDDY. Yeah. As you know, Congressman, I was not there. I had been at the helm for 8 months, and so my time and energy is focused on today, tomorrow, and less on yesterday. What I do appreciate after being on the job for almost 8 months is I don't think the financial products business belonged or attached to AIG in any way, shape or form.

And so when Congressman Kanjorski asked me the question about oversight, I think there needs to be substantially greater oversight of financial institutions. And maybe we can do that with any existing regulators to make sure that those that are either very large or pose systemic risk really get monitored on a regular basis so you can't have this kind of event occur again.

Mr. FORTENBERRY. Let's quickly move to an issue of the bonuses. We were told earlier it was $120 million. In 2008 new information has come out that it is $450 million. Why the discrepancy?

Mr. LIDDY. We apologize for any confusion. We are asked so many questions on bonuses and each person wants it sliced a

slightly different way. The first question we were asked was corporate bonuses. To us that means bonuses paid at the corporate center or paid from the corporation. That was the $121 million. We were then asked a separate question, a subsequent question. Well, how many bonuses were paid corporate wide anywhere in the company, worldwide, in Japan, in South America or whatever.

That's a different question and that's the larger number, so we're trying to slice the information in accordance with each individual request that we get. We get them from Congress. We get them from the Senate. We get them from regulators and from the Fed and Treasury. We're being as cooperative as we can. Sometimes, we are drowning in requests.

Mr. FORTENBERRY. Back to the earlier question about your plans for management restructuring. For management restructuring we have divided the business into three categories. The three largest and most valuable businesses that we have we intend to take public or sell a minority stake in. That will generate much of the funds we need in order to repay the taxpayer. Some of the businesses will be held and we will wait for a better day to sell them. Another section of the business is maybe a part of AIG going forward. It will take, we think, 3 to 4 to 5 years, if the marketplace stays where it is today or gets better in order to repay the taxpayer, but we have a strategy to do exactly that.

Chairman TOWNS. The gentleman's time has expired.

Mr. FORTENBERRY. Thank you, Mr. Chairman.

I yield now 5 minutes to the gentleman from Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

Mr. Chairman, I am asking these questions on behalf of my constituents in Ohio who are policemen, firemen, teachers and other public employees in Ohio, who AIG defrauded, defrauded their pension funds. These are people who protect our neighborhoods, teach our children, dedicate themselves to public service, and AIG cheated them out of $96 million.

Now, AIG has admitted on multiple occasions to guilty pleas and restatements of 24 transactions that the company defrauded investors and lied to regulators. My question to Mr. Liddy: Does your business plan include settlement of lawsuits against AIG for bid rigging, accounting fraud, and market manipulation of AIG stock prices?

We know that you paid an $800 million settlement to the SEC and $375 million to the New York Attorney General. And, if it does include it, why after receiving $85 billion on September 16, 2008, and after you assumed the duties of CEO of AIG on September 18, 2008, why is it that AIG has cutoff communications with representatives of a class action which includes police, firefighters, teachers and other public employees in Ohio whose pension funds AIG defrauded? And, how can you tell this committee that those 8 months which have passed, which are contemporaneous with you becoming CEO, that you did not direct AIG to basically stall and continue the defrauding of these public employees in Ohio? Mr. Liddy.

Mr. LIDDY. Congressman. I'm sorry. I just am not familiar with all the particulars of the particular suit that you have just referenced.

Mr. KUCINICH. Well, let me help you. On March 26th you sat in front of a Financial Services Committee when this issue was asked. I want the members of this committee to follow this now.

You were asked about this before. You told the committee you would look into it, do everything you can to make sure it gets resolved. Now you said you would do everything on March 26th. This was after people had already been waiting for months to hear whether their pensions were going to be secure. Can you name one thing?

Just name one thing that you've done to get this matter resolved with respect to defrauding policemen, firemen, teachers and the public employees in the State of Ohio defrauding the pension fund. Can you name one thing that you as the CEO have done about this?

Mr. LIDDY. Anything involving legal settlements or legal challenges I depend on our very substantial legal department to resolve. I believe that they have been in either negotiation or contacts. I don't know but we will meet with you. I will personally meet with you to make sure that we advance the situation.

Mr. KUCINICH. Well, that's fine. I want the committee to be aware of this. AIG repaid counter parties one to one. Counter parties in England, in Germany, in France. Dollar-for-dollar you repaid them, but when it comes to police and firefighters and teachers in Ohio, zero for the dollars they invested. This is during your watch. You can't say this is about some other CEO. This is not acceptable, Mr. Liddy. You cannot get $182 billion, as my friend Mr. Cummings pointed out, and say, well, we want to be spared criticism. Yes, this is criticism.

AIG cheated police, firefighters, teachers, and public employees in Ohio out of $96 million. That may not seem like a lot of money to a firm that's used to dealing in trillions. But you cheated people who save lives, who teach our children, and I want to know right now what you're going to do about it. What are you going to do about this?

Mr. LIDDY. Well, as I said, we will meet, and I will meet with you right after this meeting if you'd like and we can begin to understand exactly where we are. I just don't have the information on it. All of the things that you've mentioned, I'm very sensitive to them. They did all occur before my watch, but I am prepared to take responsibility to decide whether they should be resolved; and, if so, how.

Mr. KUCINICH. Well, you know, we know the two other parties have already been settled in the class action case: Price Waterhouse and General Reinsurance Corp. Do you just feel that when it comes to public employees you can roll them? You can just dismiss them? Is this your attitude? You haven't resolved this, Mr. Liddy, on your watch.

Mr. LIDDY. We will work with you and do everything we can to get it resolved, sir.

Mr. KUCINICH. Mr. Liddy, I am the chairman of the Subcommittee on Domestic Policy; and until this matter is resolved, you are going to keep getting called in front of Congress to explain why it's OK for AIG to cheat police, firemen, teachers and public employees.

We're not going to let you go, Mr. Liddy, and I will talk to you after the meeting, but you are not going to roll this Member, guaranteed.

Mr. LIDDY. Yes. We'll get together after the meeting. We will do everything we can to make sure we resolve it.

Mr. KUCINICH. You said that on March 26th. I have your quote.

[Audience member sneezes.]

Mr. KUCINICH. God bless you. Mr. Liddy, thanks for being here, but there is a moment here of truth and you are going to have to remember these police, firefighters, and teachers. Mr. Chairman, I came to this Congress not to represent these people on Wall Street who have been shafting the American people. I came here to represent my constituents and that is who I am speaking on behalf of right now. Not going to let you go. Not going to let you get away with it.

Thank you.

Chairman TOWNS. Thank you, and the gentleman's time is expired.

The gentleman from North Carolina, Mr. McHenry, 5 minutes.

Mr. MCHENRY. Thank you, Mr. Chairman.

Mr. Liddy, thank you from coming back before Congress and I know this is not one of the more joyful days of your life. When did you receive the honor of being CEO of AIG?

Mr. LIDDY. When did I?

Mr. MCHENRY. Yes.

Mr. LIDDY. Middle of September; September 18th, I think was the date.

Mr. MCHENRY. September 18th, OK. And in the whole run-up there's a Washington Post story today, which I am sure you caught this morning about AIG entitled, "Officials knew of AIG bonuses a month before fire storm." Now, I just want to touch on this.

You have received enough in the way of questions on this and I think you have answered everything to the fullest extent you could, but documents show that senior officials of the Federal Reserve Bank of New York received details about the bonuses more than 5 months before the fire storm erupted and were deeply engaged with AIG as well as outside lawyers, auditors, and public relations firms about the potential controversy.

But, the New York Fed did not raise an alarm with the Obama administration until the end of February. So, interestingly enough, the New York Fed was very engaged and well-informed on this matter long before it came to public light. Is that true?

Mr. LIDDY. Yes, the AIG FP bonuses were a topic of great consideration starting in about the end of October, beginning of November.

Mr. MCHENRY. Was the chairman of the Federal Reserve and the Bank of New York informed of these bonuses?

Mr. LIDDY. I can't answer that.

Mr. MCHENRY. Did you have a conversation with the chairman of the Federal Reserve or the Bank of New York?

Mr. LIDDY. No. I did not. I don't think so.

Mr. MCHENRY. In the fall you never had a discussion?

Mr. LIDDY. The conversations as I remember them would have been more with the people that we interface with at the Federal Reserve on a regular basis; but there would not, if you mean by

chairman, you mean Chairman Bernanke, no. There would have been no conversation with him and I don't think there was any.

Mr. MCHENRY. What about the head of the New York Fed?

Mr. LIDDY. Yeah, I just don't recall who the conversations were with.

Mr. MCHENRY. Did you have any conversations in the fall with Timothy Geithner?

Mr. LIDDY. Not in the fall. I don't believe so. No.

Mr. MCHENRY. OK, so you had no conversations.

Mr. LIDDY. Mr. Geithner had pretty much recused himself from many of these activities because either they were considering him for the spot of the Treasury Secretary or he had already been nominated.

Mr. MCHENRY. Well, when some of these actions took place, there wasn't even a President-elect at the time. So you didn't have any conversations with Timothy Geithner during September or October of last year?

Mr. LIDDY. Not on this topic. I don't remember that, but I'd have to go back and check. I don't think so. No.

Mr. MCHENRY. OK. If you could submit that to the committee I'd certainly appreciate it. So you are saying you didn't have any? Apparently, you are saying you didn't have any conversations with him whatsoever?

Mr. LIDDY. Oh, on bonuses you mean, or in general?

Mr. MCHENRY. If you listen to me specifically, did you have any conversations with a Mr. Timothy Geithner in September, October, November or December of last year?

Mr. LIDDY. Yes, I would say in October or November preceding the revision of the original bail-out program, I would have met with Mr. Geithner.

Mr. MCHENRY. Did you have any mention of the word bonus with Mr. Geithner?

Mr. LIDDY. No. Not in those meetings. No.

Mr. MCHENRY. Did you have any discussion with Mr. Geithner in September, October, November or December in any way, shape, or form regarding anything to do with the word bonus or what a bonus means?

Mr. LIDDY. No. I don't believe so.

Mr. MCHENRY. OK. Thank you. I'm not an attorney, but it seems a little slippery the way you are trying to answer this so I want to make sure we have that on the record.

Recent data about commercial real estate predictions for this coming year and the following year, this is the substance of what I'd like to talk about. And I am sorry we had to belabor that and it was painful for me as well to try to ask that question and get a direct answer from you. But increasing vacancies, we have a discussion about the real estate industry, and specifically with the commercial real estate industry this year and next regarding increasing vacancies, and perhaps loan defaults, as liquidity for refinancing remains very scarce.

We see a lot of troubles in the CNBS market, obviously, so we talk about AIG's commercial real estate portfolio and loan exposure, and how you think this portfolio will hold up if it were subjected to a stress test style of assessment that the 19 largest banks

went through, if you could touch on commercial real estate in your loan portfolio and your exposure there.

Mr. LIDDY. We have a substantial commercial real estate portfolio either in owned real estate or CNBS's as you refer to them. Those things lost substantial value in the fourth quarter and our write-down of those in fact was what contributed to our very large loss in the fourth quarter.

You know, I am worried about that portfolio. I am worried about real estate in general. If there is a lack of economic activity, I think it does not go well for commercial real estate at all. If the stimulus money that's being brought to bear on our economic travails does in fact work, then I think we could work our way out of that.

I do not have a sense of what that timing would be, but I think commercial mortgages and CNBS's in general, which a lot of insurers invest in, because they are long-dated assets that match long-dated liabilities. I think that those asset classes could be under some stress for a while.

Chairman TOWNS. The gentleman's time has expired.

I yield 5 minutes to the gentleman from Massachusetts, Congressman Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman. Thank you, Mr. Liddy, for being here with us today.

Let me ask you. About November 2008, the Federal Reserve Bank of New York established Maiden Lane 3, a financing agency. And correct me if I'm wrong. Was that the agency that provided the money for AIG to then go out and purchase some of the underlying subprime securities, about $27 billion?

Mr. LIDDY. Yes.

Mr. TIERNEY. Now, you did that and you canceled the contracts that you had with those counterparties. Am I right?

Mr. LIDDY. Yes.

Mr. TIERNEY. OK. Would you provide copies of those contracts to this committee?

Mr. LIDDY. The Federal Reserve would have to do that, because the Federal Reserve did that. So let me just explain. While we were the counterparty, we would fight tooth and nail with them. Once the Federal Reserve decided that we would put money into a financing entity, a special purpose vehicle, then the Federal Reserve took over the responsibility for the negotiation of those settlements and the cancellation of the contracts. They would have to provide those. So they took them all.

Mr. TIERNEY. All right, thank you. The special purpose entity, will you explain to me how that was structured?

Mr. LIDDY. AIG put in the equity. AIG sold the underlying assets at some cents on the dollar. I don't remember the exact number, 45 or 50.

Mr. TIERNEY. To raise the equity?

Mr. LIDDY. No. The equity came from money that the U.S. Treasury had provided us, but then we sold the assets and the sale of those assets went into Maiden Lane 3.

Mr. TIERNEY. So, I'm just trying to learn here. So the sale of the assets were the subprime instruments?

Mr. LIDDY. It was the underlying assets that were valued at, as I said, 45 or 50 cents on the dollar. The Federal Reserve then

bought them and that money went into the funding of Maiden Lane 3.

Mr. TIERNEY. The reports are that you paid full value for the subprime securities. Is that accurate?

Mr. LIDDY. Again, the Federal Reserve did that.

Mr. TIERNEY. They paid full value for that?

Mr. LIDDY. Yeah, the Federal Reserve did that. In fact, we don't even know what they did because we were out of that process.

Mr. TIERNEY. Before that all happened, AIG had been having serious collateral disputes with Goldman Sachs over certain values involved in their portfolios. Correct?

Mr. LIDDY. Oh, it was any counterparty, not just Goldman Sachs. It was any counterparty. It gets to the root of mark to market. You and I can look at the same set of facts and you can take it as one value. I can take it as another.

Mr. TIERNEY. And, I guess, Mr. Chairman, we would need to go and get those contracts from the Fed.

The question here, Mr. Liddy, obviously is why we paid full value when there was legitimate disputes as to the value and that's why we didn't negotiate a better arrangement on that. And you're telling us that it's the Fed we should speak to and not you, because you weren't involved in that.

Mr. LIDDY. Yes, we were asked to step aside once those financing vehicles were set up; and, I believe the Federal Reserve had the responsibility for those.

Mr. TIERNEY. OK. Now, Mr. Kanjorski asked you a question about regulation going forward and you answered on that. Why wouldn't we favor some sort of a regulatory system that disallowed entities like this from getting too large and too diverse as opposed to just having somebody oversee them and sort of watch over them?

Why wouldn't we go back to something in the nature of Glass Steagall and that type of operation where we just simply say you can't get that diverse and that large. Do you want to comment on that?

Mr. LIDDY. You know, I would. I'm not so sure it's the issue of large. It's a matter of breadth. So if you are in one product line and you are really muscular in it, and you are very good at it and you know it, that's one thing. But if you are in 20 different product lines, and that's the definition of large, that seems to me to have a different level of risk. So I think it's probably the center point for a debate that ought to occur. I just don't think a situation where an AIG of really a primary insurance company should have a Financial Products business attached to it.

Mr. TIERNEY. Thank you for that. You had another $43.7 billion between September 2008 and December 2008 that was from the public that used to satisfy financial counterparties with respect to the securities lending operations of AIG. Were there any negotiations involved in those payments, or were they contractually obligated for the amount that you paid?

Mr. LIDDY. No. That's a whole different situation. It's where we have to pay a dollar back to somebody who's got our assets. If we want our assets back, we have to give them a dollar. But the investments we had invested are a dollar and had declined, so it's a much different situation than a credit default swap.

Mr. TIERNEY. All right. Would you be able to make those contracts available?

Mr. LIDDY. I assume I will ask our general counsel and I'm always worried about who's on the other end and did we sign a confidentiality agreement that we won't make anything available if you will give us the time to research whether we can do that. We will come right back to you.

Mr. TIERNEY. Thank you. I yield back, Mr. Chairman.

Chairman TOWNS. Thank you very much. The gentleman yields.

The gentleman from Arizona, Congressman Flake.

Mr. FLAKE. Thank you, Mr. Chairman.

Mr. Liddy, can you tell us what the administration's plans are moving forward with AIG?

Mr. LIDDY. I cannot. I don't have any idea. I think I know what my marching orders are and that is to run the company as well as we can and in a way that is responsible. It gives us a chance to pay back the American taxpayer, preserves the jobs, and that's what we are trying to do.

Mr. FLAKE. Well, great. I didn't think you could answer that question. I just asked that to point out that the minority has asked for an administration witness for quite a while. It would be helpful to know what the administration has planned, but we are unable to ascertain that and I appreciate that's not your job to answer that question. It was just difficult from our side.

We don't know what the administration has planned and I hope that we have some hearings coming up where we can find that out. I would ask, though. There has been some talk that AIG, in its effort to come back, is undercutting competition offering insurance products under value and making it difficult for competition. Who are your main competitors?

Mr. LIDDY. Domestically, Ace, Zurich, OCSA, Alliance, Travelers; I would also say that a number of organizations have looked at that issue. The GAO looked at it and they commented on it the last time I was here before Congress. The Federal Reserve has commissioned its own study of that, and we just don't do that. We don't put the Federal money into the property casualty businesses and then use that as a competitive advantage. And I think any analysis that's been done would support that. Brokers have done that same kind of analysis, and there doesn't appear to be much validity to it.

Mr. FLAKE. So any allegation that is taking place has no basis in reality?

Mr. LIDDY. I don't believe so. You know, it's a very competitive marketplace, and like most areas of business people fight tooth and nail, but in terms of us appropriately or inappropriately pricing our product, we do not do that. What I don't want to do is have this company get out of the mess that it's in, and then find out that the book of business that we have is underpriced and we've got insurance issues. We are just not going to do that.

Mr. FLAKE. Right. Well, you can see why some might be concerned about that whenever government is backing someone. We've seen it with the GSEs. There's simply less care taken.

Mr. LIDDY. Yes. No, I understand it 100 percent. Again, I'd say if you look at the early results of the GAO study or some work done

by the Federal Reserve or work done by Brokers, I think you'll find little, if any, validity to that issue.

Mr. FLAKE. OK. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

The gentleman from Missouri, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

Chairman TOWNS. Five minutes.

Mr. CLAY. Thank you.

Mr. Liddy, welcome back. AIG continues to pose significant losses, despite infusions of taxpayer dollars amounting to over $180 billion. Just last month AIG experienced a shocking $61.7 billion loss, a quarterly loss, which was the highest in U.S. corporate history. Is AIG really too big to fail and hasn't it already failed?

Mr. LIDDY. Well, as I explained earlier, there were reasons for that loss. It had to do with market valuations and then writing off assets on our balance sheet which we thought did not have as much value as we were carrying them on.

I would point out to you that just last week we reported our results for the first quarter and that loss was not $62 billion. It was $4.3 billion, which was substantially less than the loss was in the first quarter of 2008. So we believe we are making some progress. I don't think that AIG has failed. I think, as I've attempted to say in my oral remarks and in response to several questions, it's a very complicated institution. It's a very complicated situation.

We have a good plan to work our way out of this and hopefully to repay the American taxpayer, but it is heavily dependent upon economic recovery and the capital markets staying where they are or improving.

Mr. CLAY. Now given these jaw-dropping figures, I am concerned that any taxpayer investment in AIG can be equated to throwing money into a bottomless pit. It appeared that taxpayers are simply propping AIG up. Is AIG in effect a sinkhole?

Mr. LIDDY. No. As I said, I don't believe so. I think we have a good plan that we will be able to pay the American taxpayer. Some very vital businesses will emerge from AIG, will be a much smaller, more transparent, more nimble company, so I would not categorize it as a sinkhole.

Mr. CLAY. Let me ask you about the AIG Financial Products Division. Did AIG retain any of the executives in its Financial Products Division that ran AIG into the ground?

Mr. LIDDY. The short answer is no. The top three, four or five people are folks that I would say I characterize as the architects and builders of the multi-sector, credit default swap, those people are gone. Do we have people who do credit analysis or trade on securities, yes; but, they weren't the architects and builders and engineers of that program.

Mr. CLAY. So you are not working with a completely new team at the Financial Products Division?

Mr. LIDDY. We are working with a completely new leadership team. Many of the folks who are executing on those contracts are the same, but they are executing under different standards, and different leadership, and different requirements.

Mr. CLAY. You know, all of the losses that we have talked about today have occurred under your watch as CEO. So tell the commit-

tee what exactly you are doing today that is so different from what you have done in the past few months so you will better protect taxpayers' investment in AIG and ensure a return on their investment.

Mr. LIDDY. Well, we are trying very hard, and I think making good progress to wind down the AIG financial progress, which posed the systemic risk that we represented to the U.S. financial system. And we've made good progress on it. If asset values continue to go down, we could continue to record losses. Hopefully, that does not occur.

Mr. CLAY. Thank you for your answers.

Mr. Chairman, I yield back.

Chairman TOWNS. Thank you very much.

As you know, we have votes on the floor and what I would like to do is recess until 12:15 and return. And of course that would give us enough time to have the three votes plus get a drink of water. So we will recess until 12:15.

[Recess.]

Chairman TOWNS. I recognize the gentleman from Massachusetts for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

I also thank the ranking member in his absence for holding this hearing, and I want to thank Mr. Liddy for appearing before this committee again to help us with our work.

Mr. Liddy, the title of today's hearing is "AIG: Where Is the Taxpayer Money Going?" And, in addition to that, in the letter of invitation that was sent to you and discussed with your counsel, in part, we asked you to respond to the question where is the Federal financial assistance going. Where is the taxpayer money going?

Regrettably, in your written testimony, we gave you ample opportunity to provide a written response of reasonable length to that question, where is the Federal money, where is the taxpayer money going. You did not respond to that in any significant fashion. There's not a sentence in there that addresses the central questions of where is the taxpayer money going. And, look. I am trying to work with you.

I understand that you came out of retirement to do this. I understand you are working for a dollar a year. I understand all that, but we are not getting the responses that we expect. I don't think there's a majority shareholder in this country—only 80 percent of any company—that is being treated like the American taxpayer is in this case. It's a plain fact that AIG would have gone bankrupt but for the goodness of the American people to step forward and rescue this company. That should have been a game changer on your side. That should have signaled a shift that this company is now 80 percent or 79.9 percent owned by the taxpayer, and it is a new ball game, one of transparency and accountability to the American taxpayer.

I have not seen that happen. I did not see that happen in the bonus controversy, which continues, because the numbers are different now than the last time you were here. And this lack of information that will get back to you—I'll have somebody dig up those documents for you—and a complete absence of any response to the central question of where the taxpayer money is in your opening

statement or in the written testimony that we asked you to provide.

I am disappointed at that. I would love to work with you. You know, I am not here to be contentious, but I am here to do my job on behalf of the American taxpayer. And I associate myself strongly with the words of Mr. Kucinich earlier today. I feel like you're trying to roll us and you're trying to obfuscate things and obstruct us from doing the job that we need to do.

You did mention in your statement the fact that AIG has reduced their nominal exposure from $2.7 trillion to $1.5 trillion. So let me ask you about that, since you haven't responded to the central question of the hearing. Let me ask you about that and reduce the nominal issues and the notional exposure from $2.7 trillion to $1.5 trillion. But, how much of that reduction have you accomplished by shifting the exposure to the American people, either through the Fed to Treasury, through Maiden Lane, or through any of these TALF or any of these other federally or taxpayer-backed entities?

Mr. LIDDY. Little if any of that reduction to notional exposure would have anything to do with the number of items that you just mentioned. That notional exposure had been reduced by settling those trades, selling the books of business, and just overall downsizing of the business known as AIG FP.

Mr. LYNCH. Well, let me ask you. I know the Treasury approved up to $52.5 billion in loans in order to purchase troubled assets that were formerly owned by AIG, now owned by the U.S. Government. Wouldn't that result in a shift from AIG to the Government?

Mr. LIDDY. Yes, that would have. And, I'm sorry. I was trying to draw a reference to the last time we had a conversation about this what has changed. So Maiden Lane was put in place in November 2008 and you are absolutely correct. Some of those assets would have been transferred into the Federal Reserve after they did a very thorough valuation analysis of what their potential would be. Since then, any reduction in the notional value has not been as the result of a transfer.

Mr. LYNCH. OK. There's also up to $34.5 billion in Fed loans retired by securities and equity interest provided to the government by AIG. That's on top of the $52.5 billion that I first mentioned.

Mr. LIDDY. Those were all items that were a part of Maiden Lane, either 2 or 3, and go back to November. Since then we haven't transferred any additional risk to the American public.

Mr. LYNCH. So you are basically saying this is right then. The $87 billion here went from AIG to the U.S. Government here.

Mr. LIDDY. Well, assets. Assets with real values got transferred to the Federal Reserve, and they got transferred at—I don't remember the exact number—45.

Mr. LYNCH. Are these?

Mr. LIDDY. No. The assets got transferred to the Federal Reserve at cents on the dollar. Let's say 50 cents on the dollar, so the Federal Reserve has the opportunity and the American public has the opportunity to benefit from any appreciation or recovery in those asset values. That's what Maiden Lane 2 and 3 are all about.

Mr. LYNCH. I don't have enough time. I wish you had in your testimony outlined where the taxpayers' money has gone.

Mr. LIDDY. Congressman, can I address that? The last time I was here, we provided a very exhaustive document that showed exactly where all of the taxpayer money has gone. So of the $82 billion, $40 billion of TARP and roughly $42 or $43 billion of a loan from the Federal Reserve, it's a very exhaustive analysis.

It breaks it down into how much went to the counterparties, how much went to municipalities to protect the guaranteed investment contracts, how much to pay off debt that was called because we'd lost our ratings. How much went to securities lending? There's a very exhaustive analysis that's a part of the record that explains that in some detail. We aren't trying to obfuscate anything. We thought we had already provided that. And, if you like, we will provide you another copy, but I think it will answer all your questions.

Mr. LYNCH. Well, I think when we titled this hearing "Where did the money go," and we send you an invitation, and we say, "tell us what you did with the Federal financial assistance," I think that sort of is asking that. And so now we have this hearing and we have you up here and we don't have any response, and that bothers me to no end. You know?

We are going to have to have you back up here. You know, I'm with Kucinich on this. We're not going to be rolled on this and when we ask you a question and we get all these people together and we have a hearing, and we ask you a specific question to address on your testimony, by God we want the answer.

We own 80 percent of your company. You exist because the American taxpayer purchased, you know, 79.9 percent of your shares. And so there's an obligation due here. There's a transparency that's owed to the American taxpayer and we don't see it, and it is particularly frustrating. Let me ask you.

I did see some of the counterparty obligations here that when the first money went into AIG, one of the top beneficiaries was Goldman Sachs at $12.4 billion. Now the person who arranged that deal was Secretary Paulson, formerly of, associated with that firm. Did you feel any pressure or anything in terms of the order in which you had to compensate or provide those funds to those individual firms? Did you feel any conflict there?

Mr. LIDDY. I did not. And the final resolution, the final determination of who got what, was made by the Federal Reserve, not by people at AIG.

Mr. LYNCH. OK. Well, that explains a lot. OK. But again I'm going to ask that the committee reinvite you to another hearing at which you actually can get into that central question of where that taxpayer money went. Maybe we could do that in conjunction with Mr. Kucinich and the questions he had. But at this point, I will yield back.

Thank you, Mr. Chairman.

Mr. LIDDY. And Congressman, I will provide to you within the next couple days a fresh copy of what we provided the previous committee that I was at, which goes into great detail as to where the money went.

Chairman TOWNS. Thank you very much.

Congressman Connolly from Virginia.

Mr. CONNOLLY. Thank you. Thank you, Mr. Chairman; Mr. Liddy.

Welcome, Mr. Liddy. A couple of questions. Your predecessor, Mr. Greenberg, testified before this committee a few weeks ago, and he indicated that he would now favor Federal regulation of credit defaults, swap instruments and derivatives, for that matter.

Do you share that opinion that the Federal Government needs to regulate those financial instruments?

Mr. LIDDY. Yeah. I think they need to be put on an exchange. I think they need to be standardized, and there needs to be a lot more transparency. And if there was Federal regulation, you would get all of those.

Mr. CONNOLLY. And if I understood your testimony this morning, Mr. Liddy, you believe that in retrospect, where AIG went wrong was frankly branching out into such financial instruments in the form of AIG FP, specifically.

Mr. LIDDY. Yes. Those instruments are more appropriate for large commercial banks and investment banks that have the skill sets, a more refined skill set to handle them. It's not appropriate for an insurance company, in my judgment.

Mr. CONNOLLY. Right.

Could you just review for me the figures I thought I heard you give in your testimony this morning. How much did AIG get pumped into the company directly from appropriated dollars from this body? And how much came directly from the Federal Reserve?

Mr. LIDDY. As we stand right now, the money that's been advanced to the company is $40 billion out of TARP, out of the Treasury program, and about $43 billion in loans from the Federal Reserve.

Mr. CONNOLLY. Got you.

Mr. LIDDY. Now, in addition to that—let me just finish—in addition to that, there's another $30 billion of TARP that we can draw on if we need it; and there's an additional $17 billion to top the $43 billion off to $60 billion, that we could drawn from as a loan from the Federal Reserve.

Mr. CONNOLLY. OK. Thank you.

Now, with respect to governance, if I understand it correctly, there are three federally appointed trustees?

Mr. LIDDY. Yes.

Mr. CONNOLLY. All of them are appointed by the Federal Reserve, is that correct?

Mr. LIDDY. You should ask them. They represent Treasury as the owner of the $79.9. I think they were appointed by the Federal Reserve, because the Federal Reserve delegated that responsible by Treasury.

But I'm not involved in that process.

Mr. CONNOLLY. Right. But with respect to thetrustees, I mean, their names are Jill Considine, Chester Feldberg, and Douglas Foshee. That ring a bell?

Mr. LIDDY. Yes. Yes.

Mr. CONNOLLY. Those are all Federal Reserve appointees, are they not?

Mr. LIDDY. Yes. But I'm sorry, where I'm stumbling, because I'm just not involved in it, as I think they represent the Treasury's interest, the ownership interest——

Mr. CONNOLLY. You say you're not involved——

Mr. LIDDY. In the selection and role of the trustees.

Mr. CONNOLLY. In the selection. But you certainly are involved in interaction with——

Mr. LIDDY. Oh, absolutely, yes.

Mr. CONNOLLY. Are there any other Federal trustees?

Mr. LIDDY. No.

Mr. CONNOLLY. So, for example, there are no elected officials or anyone appointed by this elected body as a trustee of AIG?

Mr. LIDDY. No. Certainly not that I'm aware of.

Mr. CONNOLLY. Hmm.

They don't attend board meetings, is that correct?

Mr. LIDDY. They do not. The Federal Reserve has delegates at every building meeting and every committee meeting.

Mr. CONNOLLY. And is the board still pretty much a private sector-like board?

Mr. LIDDY. Private sector?

Mr. CONNOLLY. Well, what I'm asking is, is there a clear delineation between the public trustees representing Federal interests of almost 80 percent and the board of directors that apparently, I'm asking, stays pretty much privately controlled and appointed?

Mr. LIDDY. There is a delineation, but again the linchpin of that would be the representatives from the Federal Reserve, who are observers and overseers at every board meeting, every committee meeting, every strategy meeting, every discussion that we have.

Mr. CONNOLLY. So representatives of the Federal Reserve sit in on board meetings?

Mr. LIDDY. Yes, they do.

Mr. CONNOLLY. Got you. Unlike these trustees?

Mr. LIDDY. Correct.

Mr. CONNOLLY. Going back to the governance question, what is the distinction, then, between the role of these trustees and those members of the Federal Reserve who sit on board meetings, overseeing that procedure?

Mr. LIDDY. I'm going to answer, and then I think you should address that to the trustees.

The trustees are the protectors of the 79.9 percent ownership and the value that we'd like to create for that. The Federal Reserve is representing its interests as a lender, and has in the past been asked by the Treasury to also kind of coordinate Treasury's interaction with the company, so that there can be only one organization doing it instead of splitting it.

We have 360-degree oversight with an awful lot of people wanting to understand what our strategy is, and what our execution is. The Fed has been asked to try to coordinate that 360-degree oversight.

Mr. CONNOLLY. My time is probably running out. But let me ask a final question. With respect to bonuses, one of the rationales, in the public record anyhow, for bonuses, was recruitment and retention. How many folks—with respect to the bonuses in question—how many folks left the company, who received bonuses?

Mr. LIDDY. Yeah. I would say very few.

Mr. CONNOLLY. Now are you talking about—and here's where it's very easy to get off the track—you're talking FP retention bonuses, or overall company bonuses? Or what——

Mr. LIDDY. Well, I'll gladly go with the FP bonuses for a minute. On the FP sector, we had about maybe 10 to 12 to 15 resignations. We've had several of those people rescind those resignations and stay with us, even as they worked to return their bonuses.

I don't know if the resignations are over yet. Some have said, you know, "I'm going to help you wind this down and be as professional as I can, but then I want to get on with my life, and I want to resign."

So I don't know that my answer is reflective of what will eventually happen.

Mr. CONNOLLY. If it's possible to get us data for the record in terms of that list of people who qualified for bonuses and/or got bonuses, and how many of them left the company or stayed with the company?

Mr. LIDDY. OK.

Mr. CONNOLLY. I would appreciate that.

Mr. LIDDY. Thank you.

Mr. CONNOLLY. Thank you, Mr. Chairman. I yield back.

Chairman TOWNS. Thank you.

I yield 5 minutes to Mr. Westmoreland, gentleman from Georgia.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

Mr. Liddy, how many lawsuits are currently pending between AIG and CV Star, Star International, and/or Mr. Hank Greenberg?

Mr. LIDDY. I can't give you an exact number, but several, and there are several that are quite large. I try to keep a finger on the pulse of the largest ones, but then I rely upon our general counsel and our legal department to handle those issues.

Mr. WESTMORELAND. How much money has AIG spent on these lawsuits and legal fees so far? And how long do you think this could go on? And how much money has AIG set aside or projected for the future cost of these lawsuits?

Mr. LIDDY. I don't have the details, sir. We can provide them to you. But I would say the largest one and largest lawsuits we have involves a lawsuit with Seco, and it has a $4 billion potential recovery attached to it.

And so working to get that money so that it can be used for the benefit of the taxpayers, we think makes some sense.

Mr. WESTMORELAND. OK. But you know, from what I've been reading or told is that this could take 3 or 4 years and tens of millions of dollars to get these lawsuits settled, with CV Star or Mr. Greenberg or Star International.

Mr. LIDDY. Well, the first of those lawsuits is scheduled to go to trial on June 15th of this year.

Mr. WESTMORELAND. OK.

Mr. LIDDY. And the start of that lawsuit would go back to, oh, 2005, 2006. So an awful lot of work has already been done with respect to it. So the issue becomes: Do you continue to pursue it, because you're not very close to what you think will be a legal victory involving a fair amount of money.

Mr. WESTMORELAND. But that's one of the lawsuits. You said you didn't know exactly how many are pending.

Mr. LIDDY. No. I know that one, because it's one of the larger. Then there's a suit against Mr. Greenberg to the tune of about $1.6 billion to recover the fines and penalties that the company paid as

a result of his behavior, that was determined. That's what we had to do in order to pay the attorney general of the State of New York.

Mr. WESTMORELAND. OK. But you will get us the information about how many lawsuits are pending?

Mr. LIDDY. Yes.

Mr. WESTMORELAND. And where they're at in the legal process, if you don't mind?

Mr. LIDDY. With respect to Mr. Greenberg?

Mr. WESTMORELAND. Yes. That would be fine.

According to the news reports—and I want to ask you if this is true—that Mr. Greenberg has offered to submit all these matters to a mandatory arbitration. Are those news accounts true?

Mr. LIDDY. We've gone through various forms of either mediation or arbitration in the past, generally without any successful conclusion. And now that all the work has been done and this trial is ready to start, and the judge who is going to hear it has been briefed and is knowledgeable on it, most of those activities are no longer ongoing, but we certainly have engaged in those discussions before.

Mr. WESTMORELAND. But I think my question is: Are the news reports true that it would be mandatory arbitration? Binding arbitration? Binding arbitration?

Mr. LIDDY. Yeah. I don't think so. No. Again, we're going to quickly exhaust my level of expertise in terms of exactly what that would be. And that's what I——

Mr. WESTMORELAND. Well, could you get that information too? To find out if these news reports are true that it would be a binding arbitration that he has suggested that he and AIG go through?

Mr. LIDDY. Yes.

Mr. WESTMORELAND. Because, you know, to be honest with you, Mr. Liddy, now that AIG is about 80 percent taxpayer owned, I would think that if this binding arbitration was an offer that was out there for both sides to do, that it might be in the best interests of the American taxpayer to get these things settled, rather than going on for years and years and years, paying these legal fees.

And I'm sure that binding arbitration with whoever the arbiter would be could, in fact, in the end result, bring this to a close and save the taxpayers, myself, and my kids and grand kids millions of dollars over this period of time.

You mentioned yourself that this had been going on since 2005 in this one case. And so if there's more than one case, how much longer could it go on? How much more money are we going to spend on lawyers? And what would be the harm in going to a binding arbitration?

Mr. LIDDY. Well, as I said, we have attempted to do that on numerous occasions with Mr. Greenberg on at least one suit, and probably others.

And now all of the work and effort has been teed up to actually take this to trial. So we think we have an excellent chance to——

Mr. WESTMORELAND. So you've never been to binding arbitration is what you're saying?

Mr. LIDDY. I'll provide you the detail. I just don't know.

Mr. WESTMORELAND. OK. Because I mean, if you've been to binding arbitration, it looks like it will be binding. I don't want to badger you, and I'm not trying to——

Mr. LIDDY. No—I've been through several rounds of mediation——

Mr. WESTMORELAND. Well, I would like to know the details on that, because I feel like since, you know, we now own 80 percent of the company, that we do have an interest in that, and an ongoing litigation that could cost millions of dollars——

Mr. ISSA. Would the gentleman yield?

Mr. WESTMORELAND. I will.

Mr. ISSA. Thank you.

Mr. Liddy, earlier I asked you about the current stock value, you know, of your stock. But I didn't ask you about your portfolio in its entirety. As an enterprise value, what would you say the fairly stated enterprise value of the going concern you run today is? Not what could liquidate it for, but what the enterprise value is? So that we could decide what you believe it is worth in a fair market. Not what it's going to earn over years in which you get artificially low loans and stock, which is paying no dividend; but what do you believe the enterprise is worth today?

Mr. LIDDY. I would go back to the discussion we had earlier. I think it's the equity value. It's about 2.7 billion shares, I think, at approximately $2 a share. Because it's not just the assets that you have to value. It's all the liabilities.

It's the $40 billion that we want to pay——

Mr. ISSA. Well, that's why I asked for the enterprise value——

Mr. LIDDY. There's $250 billion of other debt that we owe. So I think the enterprise value is at most what the equity value is worth today.

Mr. ISSA. So you're saying you're worth $5 billion, and you've got $190 billion of the stockholders' investment?

Mr. LIDDY. Well, again, the key is to be able to manage this situation over time, so that we can liquidate the liabilities, pay back everything, and then have a value retained, which the trustees are the guardians of.

Chairman TOWNS. Thank you, gentlemen. The time is expired.

Mr. ISSA. Mr. Chairman—and I'll yield back my time—but I would like to make a request that we do get this information from Mr. Liddy and AIG as far as the future liability that could be imposed upon the taxpayers.

Chairman TOWNS. Without objection, and we will hold the record open for the information.

The Gentlewoman from Ohio, Ms. Kaptur.

[The information referred to follows:]

Board of Directors

Terms expire December 31 of the year indicated.

CLASS A *elected by member banks to represent member banks*

Richard L. Carrión (bio) 2010
Chief Executive Officer and Chairman
Banco Popular de Puerto Rico

Charles V. Wait (bio) 2011
President, Chief Executive Officer and Chairman of the Board
The Adirondack Trust Company

Jamie Dimon (bio) 2009
Chairman of the Board and Chief Executive Officer
JPMorgan Chase

CLASS B *elected by member banks to represent the public*

Jeffrey R. Immelt (bio) 2011
Chairman and Chief Executive Officer
General Electric Company

Vacant

Vacant

CLASS C *appointed by Board of Governors to represent the public*

Lee C. Bollinger (bio) 2009
President
Columbia University

Denis M. Hughes (bio) Acting Chair, 2011
President
New York State AFL-CIO

Vacant

May 2009

Primary Dealers with the Federal Reserve Bank of New York

Those which are **bolded** are subsidiaries or parts of the counterparties paid $1 billion or more by AIG.

BNP Paribas Securities Corp. ($4.9b)

Banc of America Securities LLC ($12 b)

Barclays Capital Inc. ($8.5 b)

Cantor Fitzgerald & Co.

Citigroup Global Markets Inc. ($2.3 b)

Credit Suisse Securities (USA) LLC

Daiwa Securities America Inc.

Deutsche Bank Securities Inc. ($11.8 b)

Dresdner Kleinwort Securities LLC ($2.2b)

HSBC Securities (USA) Inc. (3.5b)

J. P. Morgan Securities Inc. ($1.6 b – listed as JP Morgan/Morgan Stanley on OGR Memo)

Mizuho Securities USA Inc.

Morgan Stanley & Co. Incorporated ($1.6 b – listed as JP Morgan/Morgan Stanley on OGR Memo)

RBS Securities Inc.

UBS Securities LLC. ($5.0 b)

Ms. KAPTUR. I thank you, Mr. Chairman, and welcome, Mr. Liddy.

Mr. Chairman, I would like to place in the record, as I begin my questioning here, the list of the current board of directors of the Federal Reserve Bank of New York as well as the list of primary dealers with the Federal Reserve Bank of New York, and the amount of funds that have been provided to the different institutions that are primary dealers, as being counterparties to some of the funds that were received through AIG.

Chairman TOWNS. Without objection.

Ms. KAPTUR. I thank you.

Mr. Liddy, may I ask you, what is the actual address at which AIG is headquartered?

Mr. LIDDY. 70 Pine Street.

Ms. KAPTUR. 70 what?

Mr. LIDDY. Pine, P-i-n-e, in New York.

Ms. KAPTUR. P-i-n-e. Is that in New York City?

Mr. LIDDY. Yes, it is.

Ms. KAPTUR. OK. Where in New York City is it? Is it part of the Wall Street Community?

Mr. LIDDY. Yes. It's lower Manhattan.

Ms. KAPTUR. It's lower Manhattan. Who would be your closest financial neighbors there?

Mr. LIDDY. The Federal Reserve is two blocks away.

Ms. KAPTUR. All right. Thank you.

The American people have now given AIG nearly $200 billion, and I guess others have stated we own about 79.9 percent of AIG. Have you paid the taxpayers back any of the money that they have lent you to date?

Mr. LIDDY. We have. We're required—whenever we sell an asset, we're required to take the proceeds of that asset, to the extent we can get out of the insurance companies whatever's been sold, we pay it back to the Federal Reserve.

Ms. KAPTUR. And how much have you paid back to the taxpayers of the United States?

Mr. LIDDY. Several billion dollars. I don't have the exact——

Ms. KAPTUR. Billion? Several billion?

Mr. LIDDY. Yes.

Ms. KAPTUR. So it was paid to the Federal Reserve. That doesn't necessarily mean it's deposited in the Treasury to be refunded to the American people, I take it?

Mr. LIDDY. That's correct. It's in satisfaction of the debt that we owe to the Federal Reserve.

Ms. KAPTUR. All right. So you could provide more accurate numbers, dates, and amounts returned to the Federal Reserve——

Mr. LIDDY. Yes——

Ms. KAPTUR. Since the original infusions to AIG?

Mr. LIDDY. Yes.

Ms. KAPTUR. And could you also submit for the record, a list of your board of directors, please?

Mr. LIDDY. Sure.

Ms. KAPTUR. Thank you.

Next question. Approximately how much have you paid out to your employees in bonuses and dividends to your shareholders over the last 6 months?

Mr. LIDDY. We've paid no dividends to shareholders. We're not allowed to do that. As soon as we received help from the Federal Reserve, all dividends to the shareholders were not allowed.

Bonuses. There are so many ways to slice this number. I just can't answer it. If you would give us the time to respond in writing, that's a better way to do that, and we will do that shortly.

Ms. KAPTUR. All right. We would very much appreciate that as soon as you can give it to us.

Let me ask you, the funds AIG has been given by the American people, 40 percent of it was then redirected to other Wall Street firms, as I understand it. And the largest recipient was Goldman Sachs, that received $12.9 billion. Is my understanding correct?

Mr. LIDDY. Yes. There are two or three firms that received double-digit—you know, $10, $11, $12, $13 billion in settlement of legal contracts.

Ms. KAPTUR. Yes. And at least five of those that received these funds are the worst offenders in the subprime market, including JP Morgan Chase, Wachovia, Citigroup, HSBC, Bank of America. It's very interesting to see who got funds, when they're responsible for three-quarters of the subprime mess in the housing market that this country is facing.

I would ask you to use your power, since you've given them money, to get them to do loan workouts at the local level, where citizens are outraged that companies like JP Morgan Chase, which is the top of my bad-boys list for not returning phone calls.

Thousands and thousands of families in places like Ohio are affected by their recalcitrance, and arrogance. And it offends me to see that they get money and they perform so poorly.

But my question in regards to Goldman Sachs. Could you clarify your relationship with Goldman Sachs, the largest recipient of these counterparty funds through AIG, $12.9 billion? What years did you serve as a member of the board of Goldman Sachs, please?

Mr. LIDDY. I was on the board for approximately 5½ years. Don't remember the year exactly I went on, but I exited that relationship as soon as I became the chairman and CEO of AIG back in September 2008.

Ms. KAPTUR. September 2008. Is there a specific date?

Mr. LIDDY. Tendered my resignation as soon as I could get to it, within a week or 10 days of my being appointed.

Ms. KAPTUR. Did you leave in early September or late September?

Mr. LIDDY. It would be after September 18th, but before September 30th.

Ms. KAPTUR. After September 18th. Thank you. Is it true that you served as chairman of the audit committee of the Goldman Sachs?

Mr. LIDDY. I did for the last year of my service.

Ms. KAPTUR. All right. So you would have done that through middle-to-late September last year?

Mr. LIDDY. Yes.

Ms. KAPTUR. All right. Bloomberg News reported on April 17th that you currently own 27,129 shares of Goldman Sachs stock. Is that true?

Mr. LIDDY. Yes.

Ms. KAPTUR. All right. Could you please estimate the market value of that to date?

Mr. LIDDY. $3-plus million.

Ms. KAPTUR. All right. And you currently hold that?

Mr. LIDDY. No, I don't. I own about 8,000 shares outright, which I bought when Goldman Sachs went public in 2000–2001, and the rest of it I receive as compensation as a director. I did not take any cash. I took it in deferred stock, the deferred stock you can't get at until you retire from the board. And some time in May or June that would be available to me. So it's been restricted.

Ms. KAPTUR. But in any case, you have a direct interest in Goldman Sachs. You have a financial interest in Goldman Sachs. And I understand you may also have some other type of agreement with them, where you were paid some type of lump sum?

Mr. LIDDY. I don't have any other type of agreement with——

Ms. KAPTUR. So your only interest would be the stock then? Several million dollars?

Mr. LIDDY. Yes.

Chairman TOWNS. The gentlewoman's time is expired.

Ms. KAPTUR. I thank you, Mr. Chairman.

Chairman TOWNS. Congressman Souder from Indiana?

Mr. SOUDER. Thank you. I'm going to yield to the ranking member in a minute. I didn't want to repeat questions when I was over at Homeland Security earlier.

But I have a question on the bonuses. What on bonuses at AIG, what percent of a normal salary typically before all this happened would bonuses be? In other words, is it an integral part of someone's pay or is it intermittent? Is it a small amount, 5 percent? Is it——

Mr. LIDDY. It's literally all over the lot. There's 115,000 people who work at AIG, so typically that bonus as a percentage of the base would be lower, at the lower ends of the organization, and higher as you work higher into the organization.

Mr. SOUDER. And since, just like at Goldman Sachs you were getting stock dividends, that was as a trustee, did AIG get stock dividends, or were they always cash?

Mr. LIDDY. No. At AIG you could have a base salary. You could have an annual performance bonus and then there'd be a long-term bonus. The long-term bonus would be stock, and at the time you were expected to hold that stock until you retired from the company, and if you left before you retired, you could lose it.

Mr. SOUDER. And my understanding as we've gone through these different hearings is the argument for the bonuses was, is that we needed to retain personnel. The company could fold, and particularly keep personnel.

Is that——

Mr. LIDDY. Again——

Mr. SOUDER. Not the last round on the legal argument, but this has been going—AIG has had these problems way back before December. And the question is that in the bonus round, part of the

feeling was, and what my question is to follow that—and you can explain if that's not true—is that right now there's not a lot of whole lot of other types of jobs available, certainly with the resume coming off of some of the problems at AIG, it would be a very difficult time to do that.

In my district, we're getting hammered by unemployment. They're looking at the bonuses, and they're saying "We don't get bonuses when our company goes down. We get laid off."

And it becomes problematic as to why AIG would need the bonuses to retain personnel, why AIG would be paying such huge bonuses, when I have some companies in my district where bonuses can be 40 percent of their normal salary, and they're not getting any bonuses.

Why is it unique in your industry and firm? Are they like commissions? And I'd just like to hear a little bit more of an explanation.

Mr. LIDDY. Sure.

Mr. SOUDER. Because I don't know how to explain it, because I haven't heard a good explanation anybody's buying.

Mr. LIDDY. Mm-hmm. I think we need to be careful with how we use that word, bonus, because it can represent so many different things, and it's what's caused members of this committee some frustration, so let me see if I can quickly explain it.

There are normal annual performance bonuses; if you do a good job on this, in addition to your salary you'll get 15, 20, 25, 40 percent over and above that.

So I guess you could look at it as a commission, but it's in our industry. It really is a performance based bonus.

That was earlier in the day we had the conversation about that total, about $450-some million paid over the entire breadth of our company and against a payroll of some $7.5 to $8 billion in size.

So that's one form of a bonus, an annual variable pay or a performance bonus.

Then there were retention bonuses put in place. I think the ones you were referring to are at AIG FP. They were designed in 2007, put in place in 2008.

And when we decided and knew that we were going wind that business down, we asked people to stay, to not leave until they accomplished certain things: Sell a book of business, make it less risky. To the extent they did that, they were paid a retention bonus or an award, again, for some level of performance.

So it depends upon which area of that you're really poking at.

Mr. SOUDER. In other words, I understand the basic choices. I've been in the middle of companies before I came to Congress that had all those different ranges. Sometimes things like annual performance bonuses don't become performance bonuses. They become expected. And that my question is so were dividends, yet your dividends are zero.

So why would the company have made decisions to continue, at any level, things that are supposed to be performance based? Did you have a big exodus of employees at different times, indeed? Was it critical to the survival of the company? Because it seems odd that you were saying to the people who invested—many of whom were trust funds and retired people, people who owned that—that

you get nothing, but we're going to continue things that are supposed to be performance-based, when the performance of AIG was not good for an extended period of time, not just the last few months.

Mr. LIDDY. Well, I think, Congressman, you have to break it down into pieces, so the total performance of the business as a whole may not have looked good because it was severely damaged by one or two enterprises—but then there were a host of other enterprises that performed well.

And to the extent that those people who work in those businesses earned those performance bonuses, they would have been paid. If they didn't earn them, they would have gotten zero.

Chairman TOWNS. The gentleman's time is expired.

Mr. SOUDER. It's an interesting thing that people with the stock didn't get treated the same way.

Chairman TOWNS. Thank you very much.

Gentleman from Rhode Island, Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman. Welcome, Mr. Liddy.

I think you obviously heard a great deal of frustration from many people here, because obviously we represent our constituents, who are undergoing a great deal of economic struggle, and as you no doubt understand yourself, are very frustrated just with their own economic circumstance, and after having seen the travails of the financial system, are questioning the very basic foundation of our financial system in every form.

And that's the reason why these questions seem so directed at you, but please understand, we understand that your goal is to try to get the best deal possible for the taxpayer. And believe me, in doing so, it will be for the best interest of all of our constituents that AIG is able to pay back the taxpayer, and certainly I think all of us are interested in that.

And certainly taking your expertise to be able to do that will be something that we're all interested in seeing being fruitful and successful.

One of the things that I think will be of a great deal of concern, I know, for all of our constituents down the road, as you've heard echoed over and over again with respect to these bonuses, is this notion of transparency.

And when you started in your remarks talking about how, you know, AIG is the parent company, and you talked about separating off various other entities from AIG, I think that what it raised in terms of questions with respect to Project Destiny and how you're going to move forward, is when we as a Congress passed limitations on, you know, future bonuses, you know, from being used out of the TARP, the question is, is whether these future, if you will, special purpose vehicles, these separate entities that are no longer part of "AIG proper" are going to be considered TARP recipients for purposes of the rules and governance of these bonuses.

And as such, you know, all I know is that if my constituents here a couple years down the line, that there's a subsidiary of a TARP recipient whose CEO is pulling down some huge bonus, albeit it's a successful subsidiary and you know, it's helping to kick back the dollars that we need for the taxpayers overall, it's just going to drive them nuts.

And so, what I need to get an answer from you now is: are these kind of separate companies, are they going to be under the same governance for purposes of the TARP regulations that AIG is under?

Mr. LIDDY. If they're still owned by AIG and a part of AIG, yes, it's our understanding they absolutely will be. There will come a point in time when they're completely disassociated from AIG. They're totally separate companies.

That will be a good day, because that means we will have gotten dollars, and we've used those dollars to repay the Federal Government—either the loan to the Federal Reserve or the TARP dollars.

I suspect when that occurs, because they will not be TARP-related at all, then they would not be subject to it. But that would be a good thing. As long as they're owned by AIG and a part of AIG, and AIG is subject to TARP dollars, then the subsidiary and pieces of AIG are subject too.

Mr. KENNEDY. Mr. Chairman, I'd just call your attention to this. I think it's going to be a fine line where we're going to have to watch. Because I guarantee it's going to come back and bite us all in the behind, if we're not careful in terms of what constitutes something that's owned by AIG or something that's now no longer part of AIG, because it's been spun off by AIG.

American people aren't going to look at it so clearly as, you know, maybe lawyers might. And we all are going to be in the soup politically, if we're not careful. And I just would like to make sure that we are very sensitive to that.

For purposes of the fact that down the road, we're going to need to go back to the taxpayer on occasion to get them to, you know, have their confidence in their Federal Government.

And if they don't have confidence that we were true to our word at the beginning, and if they perceive that there was some kind of shades of gray here that we're held back and not fully forthcoming, they are going to feel as if nothing was on the level.

And I just worry about the kind of perception that it's going to create, in terms of future efforts on our part to get any kind of support in the future for our financial system, which, of course, as you know, has been key to our being able to recover the confidence that we needed in order to keep this financial system from going completely belly up.

I'd also like to ask just——

Chairman TOWNS. The gentleman's time is expired.

Mr. KENNEDY. OK.

Chairman TOWNS. The gentleman's time is expired.

Mr. KENNEDY. Thanks.

Chairman TOWNS. Congressman Turner.

Mr. TURNER. Thank you, thank you so much, Mr. Chairman.

Ranking member, I appreciate your continued focus on the issue of the financial crisis that we've had, and how that we look further into holding people accountable.

My community has been significantly impacted by the mortgage foreclosure crisis, which was a precursor of the financial meltdown that we saw in our financial industry.

My primary county in my district of Montgomery County, with a population of approximately around 500,000, since I have been in

Congress for 6½ years, has had 27,000 foreclosures, 27,000 foreclosures in an area of about 500,000 people.

Most recently, last week, this Congress moved forward with calling for a commission that would look at the mortgage foreclosure crisis and its contributions to the financial crisis.

When the financial crisis was first identified, there was a discussion of the issue of toxic assets, which people described as mortgage-backed securities. And we know that AIG had issues with mortgage-backed securities, and also credit default swaps that were related to mortgage-backed securities.

From the experience in my community, where we had the mortgage foreclosure crisis, what we saw with those individuals at the Fair Housing Lending Center saw, and others who tried to impact this and to assist families that were going through it, is that the loan-to-value ratio of loans that the families received, primarily through refinancing started with the family being underwater—meaning that the value of the loan that the family was given exceeded the value of the property.

I'm from Ohio. We're not an area that has had wild speculation in property values and escalation, modest appreciation. So that a loan-to-value ratio where you're underwater, where you start the loan underwater, structurally is a loan that if there's any difficulty at all is going to go to foreclosure.

The asset, of course, is not valued high enough to back the loan as collateral, and the family is left with leaving the home sometimes to abandonment, and to the financial institutions.

This commission that's moving forward is going to take a look at this issue. It's going to take a look at the issue of how did we get into this problem of the mortgages that were granted?

And I believe that what we're going to see is probably the largest theft or fraud in history, where there was a systematic effort to give people loans that either exceeded the value of their property or were in such a high loan-to-value ratio that the loan itself was likely to result in foreclosure.

So, sir, what I want to ask you is: I'm looking for documents where our financial institutions had knowledge or knew that this process was happening.

I believe that if there were mortgage-backed securities that were issued, where the issuers knew that the collateral was insufficient to support the value of the loan, that's fraud.

I believe that if the loan-to-value ratios are not disclosed to subsequent purchasers, that it affects the very level of the risk for the mortgage-backed securities, and therefore, I think that also is fraud.

And it certainly affects the value of the underlying mortgage and the suspicion that it would have a higher likelihood for default.

I understand you have a very big organization, but I am assuming that somewhere along the way, someone in your organization—an analyst, someone who is reviewing the processes of the trading of mortgage-backed securities, the issuing of them, the issuing of mortgages—someone who is looking at this, may have brought to the attention of the company, or others that there was a problem with the loan-to-value ratios that were being packaged and then traded.

Because I can tell you that in my community, on the ground, the problem existed.

So my question to you is: Has anyone ever discussed this issue with you that there was a problem with the loan-to-value ratio of the underlying mortgages inherent in the mortgage-backed securities that were subject to credit default swaps?

And also, would you be willing to share with this committee, for the purposes of sharing with the commission that's going to be empaneled, any documents or information that you have, where there is a discussion of how that loan-to-value ratio affects the level of risk for the mortgage-backed securities, with it being out of whack?

In other words, any documents that you have where someone says, "I have a concern that this loan-to-value ratio is such that the loan exceeds the value of the asset, that the collateral is insufficient to support the value of the loan, the mortgage, that lack of collateral value and that excessive loan-to-value ratio affects the level of risk for these mortgage-backed securities, and therefore their ultimate value?"

Mr. LIDDY. Yes. I would add one thing to what you just said. In AIG's—particularly AIG FP's situation, we ensured those values. So it wasn't just one individual home. They all went into a pool, and different institutions would aggregate those pools. So what would come out of it, you'd have 100,000 loans.

So you didn't get to look at the loan-to-value ratio at each one of those. You'd look at the rating. Many of those were rated triple-A by the rating agencies, and when the AIG FP people underwrote them, they took at face value that they were triple-A rated.

So we have some of the same angst over the situation, as you do. We'll help you in whatever you'd like and any way we can. I just caution you that we're kind of down at the bottom of the food chain as well, and by the time we looked at these things, they had been aggregated to a point where we didn't look at loan-to-value ratios on an individual house; we looked at them, at a whole pool of items.

So we may not be a source of information that you're seeking. If we are, we'll help you with it. But we could be a source, at a minimum, equally frustrated. Because we assumed, we took at face value that these were triple-A rated. They were not.

Mr. TURNER. And that's why I'm asking for your help. Because if we have this commission empaneled and they're given the responsibility to look at it, this is going to be like pulling threads to get to what was, I believe ultimately a systematic process for this to occur.

And you might have information that helps lead us in the right direction.

Mr. LIDDY. And if we do, we'll be delighted to share it with you.

Chairman TOWNS. The gentleman's time is expired.

The gentlewoman from California, Congresswoman Speier?

Ms. SPEIER. Thank you, Mr. Chairman. Thank you, Mr. Liddy, for appearing before the committee and answering our questions.

Let me just at the outset underscore something you said now a couple of times. Today and once before the hearing before the Financial Services Committee. And then one way or another, you said

AIG should return to its core operations, to its knitting, as you put it.

That would suggest that we should reinstate the Glass Steagall Act, doesn't it?

Mr. LIDDY. I'm not sure if we should go back to it, but we should sure have a very rigorous debate between whether what we've allowed to happen has gone too far.

Ms. SPEIER. Well, you, by your own admission today, said you should never have been involved in derivatives. It was Glass Steagall that gave you the opportunity to get involved in derivatives.

Had you been just an old-fashioned insurance company with reserves that you had to maintain, none of this would have happened, correct?

Mr. LIDDY. Oh, with respect to AIG and our insurance operations versus AIG FP, correct. But I don't necessarily—my response to you was meant to suggest I don't necessarily know that I would generalize from our situation to the overall Glass Steagall situation.

Ms. SPEIER. All right. Let's kind of talk about where we are. When Secretary Paulson came before us, he said we're going to get all of our money back from AIG; in fact, we'll make money.

We spend a lot of time around here talking about a 79 percent interest that we own AIG; except for the fact that we have no say.

And that's the big problem. The taxpayers are absolutely apoplectic about the fact that there were hundreds of bonuses of a million dollars or more given to AIG employees, who brought this company down, and the taxpayers are picking up the tab.

Now, my question to you is: On the heels of what the gentleman from California, Mr. Issa asked earlier: Can we really ever expect that the taxpayers are going to be repaid? I mean, if in fact you're talking about $70 billion in TARP money, another $50 billion that we paid for Maiden Lane, and another $60 billion in a loan from the Fed. And you're worth $5 billion.

I mean, we've all got to be scratching our heads. How can you possibly repay the taxpayers?

Mr. LIDDY. Well, the $5 billion is what's worth after you've sold many of the good assets and paid off many of your liabilities, including the Federal Reserve and all the other debt that we have.

So some of the businesses that I've mentioned in the course of our discussion today, a business like AIA, it's probably got a value of $25 billion. A business like ALICO, it probably has a value of 18. Our property casualty business has a book value of $35 or $38 billion.

So you just keep going down the list, and there's great opportunity for the taxpayer to be repaid. But—sorry to be repetitive—it's very much a function of what happens to the economy and what happens to the capital markets.

Ms. SPEIER. How much did the Financial Products Unit pay in taxes? Or did it pay anything in taxes since it was located in London?

Mr. LIDDY. The taxes would have been, their earnings would have been added in with all the other earnings of the businesses that comprise AIG to get an aggregate number, and we would have

paid taxes to the appropriate jurisdiction on that aggregate number.

So if that's important to you, we'll get you the number in terms of what we've paid in taxes over the last couple of years. But AIG FP would have just been a piece of it.

Ms. SPEIER. But if it was located in London, I mean, it could have been a tax haven for AIG, could it not? And all of the profits just retained in AIG FP and not brought back to the United States, and therefore taxes not paid on it.

Mr. LIDDY. Yeah. It would depend upon where those taxes were recognized. And as we sit here right now, I just don't have the answer to that.

Ms. SPEIER. Would you report back to the committee on precisely how much AIG paid in total in taxes, and then if in fact AIG FP paid any taxes at all?

Mr. LIDDY. Mm-hmm.

Ms. SPEIER. The GAO recently came out with a report in April, recommending that all the contracts be renegotiated regarding executive compensation at a AIG, if and when the $30 billion was sought by AIG.

I presume you've seen that report, and I'd like you to comment on it.

Mr. LIDDY. You, we are trying to do that in many cases, particularly with respect to FP. We're going back to the contractual arrangements that were entered into at the end of 2007, beginning of 2008. They call for retention payments in 2010. We are working now to restructure those payments to make them more performance oriented. We're going to comply with whatever the rules and regulations are that come out when the Treasury promulgates them.

Ms. SPEIER. And I guess my final question—although my time is now up—I will yield back.

Chairman TOWNS. Thank you very much.

We're not going to have a second round. But if you have a question, I will recognize you to ask your question.

Congressman Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman and Mr. Liddy.

The AIG had a filing with the Securities and Exchange Commission recently, in which was included a letter that you sent to individuals who were to receive bonuses. If you need to, I have a copy of the letter to refresh your memory.

Now in this letter—this letter by the way was sent 4 days after you became the CEO, you became the CEO on the 18th, the letter was sent on the 22nd—it was a little more than a week after AIG received $85 billion from the Fed.

And what you write—and after you called for transparency, you wrote a letter to employees who were disclosed the company's recent SEC report, saying, "As this special award is being made to a very select group of executives, I ask that you treat it as confidential."

The letter goes on to assure this select group that "in the event the AIG entity that is your employer, the company, experiences a change in control that is consummation of a merger, consolidation,

statutory share exchange and similar form of corporate transaction involving the sale or other disposition of all or substantially all of the company's assets to an entity that is not in an affiliate of the company, AIG guarantees the payment of the 2008 special cash retention award on the dates and under the conditions specified above."

First of all, you are familiar with that letter, are you not?

Mr. LIDDY. I haven't read it in quite a while, so I'm familiar with the issue, yes.

Mr. KUCINICH. OK. Based on that letter is it true that even if the United States took over AIG 100 percent that these bonuses would be awarded?

Mr. LIDDY. No. In fact, many of them have not. Many of them have been restructured, or they have been—the payment of them has been delayed, and we're looking at revising them and trying to figure out how do we pay them? How do we keep people that we need to run these businesses? But how do we honor both the spirit and the intent of what comes out with the Treasury regulations?

Mr. KUCINICH. So you're telling this committee that it is the position of AIG management, of which you're the CEO, that this letter that you sent, that's part of your SEC filing, is no longer operative?

Mr. LIDDY. No. It's what causes us such difficulty, Congressman. We have that letter, which can be viewed as a contract; but we have a new set of events, which says it's going to take a lot longer to pay back the American taxpayer. How do we balance those two? How do we balance a commitment that we made, with the understanding that we have right now, that the fact that it's going to take us longer to repay the American taxpayer?

It's difficult. We need the leadership of this business, of our businesses, if we're going to keep them viable, sell them, and pay back the taxpayer. So that's where there's great tension in the system right now. How do you keep the leadership, pay them competitive wages, honor a commitment like that, but still be responsive to whatever new legislation is put in place?

Mr. KUCINICH. So do you intend to honor the commitment that you made in the letter?

Mr. LIDDY. I'm going to wait to see what comes forward from the Treasury to see if those kinds of payments are permitted, if they need to be restructured, if they need to be more performance-based. I just don't have enough information to answer the question. And I'm told that those rules and regulations will be forthcoming in a number of weeks.

Mr. KUCINICH. Will you be able to let this committee know whether or not you intend to honor the letter that says that you're going to pay bonuses to people, essentially that they'd be able to collect bonuses at taxpayers' expense, even if the government has a bigger stake?

Mr. LIDDY. Yes. Many of those dollars, to the extent they go to people that are senior executives, that would have to be reported, we'd have to make an 8-K filing or a 10-Q filing. You'll know it.

Mr. KUCINICH. Well, because the reason why I ask if we'd know, Mr. Chairman, is because you had asked the previous recipients of this letter to keep the matter confidential. So are we to expect a more forthcoming approach, more transparency in the dealings

with this committee? Or are you going to have the confidential relationships with your employees to pass on bonuses to them, without this committee being aware of it?

Mr. LIDDY. No. We intend to be transparent in everything that we do.

Mr. KUCINICH. Thank you, Mr. Chairman.

Chairman TOWNS. All right. Let me just say this before I recognize Congressman Tierney. You know, Mr. Liddy, I hope you recognize what people on the street are saying. You know, like when I go home to Brooklyn, they are saying, "How do you pay a person, give him a bonus, when they have failed? They put us in this mess, and now you're going to give him a bonus for it."

I mean, I don't know how we answer people when we hear that. So I think that you need to really keep that in mind, as you move forward, because that's the thing that the people out there are so angry about.

And then of course when they say it's a retention, why would you want to retain them? You know. And that's what we're hearing in the street.

And I don't know whether or not, you know, you're getting this as you talk to people, but that's the thing that we're really, really getting.

And then the other one is they say to us, you know, "Why would you give them, you know, a retention bonus? First of all, they've failed. And the fact that the economy is so messed, where can they go?"

I mean, these are issues that are being raised. So I just think, you know, so you can sort of get a feel from our frustration up here, as we deal with our constituents in terms of how we answer this.

And believe me, that's an issue that's been raised, you know, day in and day out.

I yield to the Congressman from Massachusetts, Congressman Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

Mr. Liddy, when Hank Greenberg was in front of this committee, I asked him whether or not he believed that AIG should have been allowed to go bankrupt, or whether they should have been bailed out. And his answer was that he thought that the company should have been allowed to go bankrupt, that would not have created a systemic problem.

What's your response to that? What do you believe to be the case?

Mr. LIDDY. I wasn't there when that decision was made, and neither was Hank, so that——

Mr. TIERNEY. No——

Mr. LIDDY. That was the decision that the Treasury and Federal Reserve made. You know, as I examine the situation, I think it would not have been good if it had gone bankrupt.

And the reason I think that is first, the institutional shock wave at that time—I mean, those were dark days in the middle of September when people were very concerned about the survivability of the worldwide financial system.

So we had had Fannie and Freddie being taken over. We had had Bear Stearns several months before that. We had WAMU, we

had the failure of Lehman Brothers. I think if AIG had gone bankrupt, it really would have sent shockwaves through the system.

So I think the passage of time has led me to conclude it would not have been a good idea to do that.

AIG also, not just institutionally, from a retail standpoint, an individual customer standpoint, we have 81 million policies. Life insurance, pensions, retirement and savings plans. The difficulty of managing something that large in 130 different countries, regulated by 400 regulators, would have been something the world has never seen.

So I think it would have created much more difficulty than the current situation that we find ourselves would have.

Mr. TIERNEY. And yet we could still end up there?

Mr. LIDDY. You know, we have a plan that we don't think puts us there. You just, you never know what's going to happen. As I've said many times, we are so dependent upon what happens with the economic recovery and what happens to the values of our assets, which are driven by the capital markets.

We think we have a plan that prevents that, it's a good plan. It takes time to implement.

Mr. TIERNEY. I just note there's a distinct possibility to me that would not have been good, which I think the way you phrase it, and whether or not it still should have been allowed to go bankrupt, because, you know, no bankruptcy situation is good.

The question really would have been: Would it have been catastrophic or would it have been systemic?

Mr. LIDDY. Yes.

Mr. TIERNEY. And your belief is that it would have?

Mr. LIDDY. I think it would have been catastrophic and systemic. As I said, the folks that had to make that decision, they were making that decision not in a vacuum, but in the context of an awful lot of other moving pieces. And people I think were genuinely afraid of the damage that an AIG bankruptcy could do on top of the heels of the Lehman Brothers' bankruptcy.

Mr. TIERNEY. Thank you.

I yield back, Mr. Chairman.

Chairman TOWNS. Thank you very much.

Yes, Congresswoman Marcy Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

Going back to Goldman Sachs, Mr. Liddy, as a member of the board of Goldman Sachs through last September, were you involved in any of the meetings or discussions leading up to the disposition of Lehman Brothers or Bear Stearns, during which time advice was given to Treasury Secretary Paulson, the former chairman of Goldman Sachs, on those institutions' disposition?

Mr. LIDDY. Yes. Anything that would have transpired before whenever I resigned, which I think is the 23rd, 24th, 25th, if there were board meetings on those subjects, I would have participated in those meetings.

Ms. KAPTUR. Yes. And how would we obtain minutes of those meetings, and a full understanding of your role?

Mr. LIDDY. I don't keep any records like that. You'd have to go to the Goldman Sachs general counsel and ask them for that.

Ms. KAPTUR. Mr. Chairman, I would very much like to ask that the committee use its subpoena power to obtain those records.

Let me ask this. Today there are many people staffing you. We recognize some of their faces. And I'm wondering if for the record, those individuals who currently are working for AIG directly or on contract to AIG, could stand up in the audience and provide for the record the organizations or firms for which they work and the terms of their contract? For those individuals that are currently under contract or working directly for AIG, could you please stand up?

Thank you. Anyone else? Anyone else?

All right. I'd appreciate it very much if those firms and the contracts could be made a part of the public record, Mr. Chairman.

Chairman TOWNS. Without objection, so ordered.

Ms. KAPTUR. I thank the gentleman very much, and I have two additional requests for information. One, Mr. Liddy, can you provide for the record the names of individuals who in late 1998 or thereabouts worked for and ran the AIG Financial Products Division, created it actually, and developed and issued the first credit default swaps, and also any internal documents related to the initiation and development of AIG's credit default swap and route of activity, from its inception?

Mr. LIDDY. Congresswoman, what was the year, I'm sorry? The year was?

Ms. KAPTUR. When it started. You referenced the year 1998?

Mr. LIDDY. Oh, AIG FP started in 1987.

Ms. KAPTUR. All right. When did the credit default swap piece of it get started?

Mr. LIDDY. Well, I'll have to get you the exact date. I understand your request, so whenever they started——

Ms. KAPTUR. I want the historical development of that division. It appears to be very important. When you appeared before Congress a couple of weeks ago, you said only 20 people worked for that division. Is that possible?

Mr. LIDDY. No. There were 400 people in that division. The folks that worked in the credit default swap area, there were probably 20 of them. But there were only three or four who designed the multi-sector credit default swaps that caused us the difficulty that we're in.

Ms. KAPTUR. Well, I think it's important for us to unwind back to the beginning of what happened. So we would look for the information about that inside of AIG. And if goes back to 1987, then let's see when it morphed, and when it became something other than what it was originally, and who actually did that.

I understand, did that occur in England, or in this country, the actual creation of the idea to do that?

Mr. LIDDY. I think Mr. Greenberg started it in 1987 and then it got ramped up to a greater extent in the late 1990's and early 2000's, and it would have been simultaneously in Connecticut and London.

Ms. KAPTUR. I think it's very important for us to understand what happened. And I think seeing who worked for that instrumentality inside of AIG from inception through the morphing that

happened after Glass Steagall's upturning by these Congress would be most interesting.

Also to provide for the record all materials your firm possesses on the $2.2 billion diverted to Dresdner Kleinwort in Germany, and particularly the financial assessments made to justify their receipt of funds, how does Dresdner Kleinwort get involved in all this, particularly since they have been in deep trouble in Germany, and are being acquired by Commerce Bank and by Allianz Insurance Group in Germany?

I'm very interested in how you got involved in Dresdner Kleinwort. Do you wish to comment for the record on that at this point?

Mr. LIDDY. No. That was all before my time. I don't have any sense of it at all.

Ms. KAPTUR. All right. It's my understanding that Dresdner Kleinwort, through some process I would like to unravel, became the possessor of a great deal of subprime housing paper from this country. I would like to know how it was transferred to them? Through which firms and what years? And what caused them to collapse?

Mr. LIDDY. Yeah. I just don't know that we have any information on that whatsoever. To the extent we had a relationship with them, we'll provide you the material.

Ms. KAPTUR. Well, you've given them $2.2 billion.

Mr. LIDDY. Right——

Ms. KAPTUR. You must have some kind of relationship with them.

Mr. LIDDY. But I would assume that will be satis—in some sort of a credit default swap contract, or what have you. But all the other information, you know, how much did they participate in subprime lending, we wouldn't have that information.

Chairman TOWNS. The gentlewoman's time is expired.

Ms. KAPTUR. Were you ordered to give them the $2.2 billion by the Federal Reserve?

Mr. LIDDY. The Federal Reserve, when we set up Maiden Lane 3, took responsibility for the settlement of all of those credit default swap contracts.

Ms. KAPTUR. Thank you.

Chairman TOWNS. Yes. Thank you very much.

Mr. ISSA. Thank you, Mr. Liddy.

Boy, I've got a couple of ones that I know are sort of like you've heard before. But what I wanted to say first was, please consider taking this $400-plus million in bonuses, breaking it down, not necessarily just for one member, but for the public, into those people who were generating EBIT in sections of the company that are providing positive cash-flow and positive EBIT.

And let people understand that these are performers who are delivering real value, who should be rewarded because you need that profit as part of your going concern.

And then whatever's left, we can argue about. But I'm hoping for the sake of all of us on the—and for the public, we make it very clear that even in a company that's having bad times, even when a car dealership is only selling 12 cars, you still pay a commission to the guy that sold 11 of them.

OK. You pay a bonus to the guy that sold 11 out of the 12 cars.

Mr. LIDDY. Mm-hmm.

Mr. ISSA. So to the extent that you have those individuals, whatever dollars, I think those performers—maybe not by name, but by category, should be identified so the American people don't see a big number and assume that this was all just a giveaway.

I spent too long in business to not understand your problem of keeping good people that can keep the ship afloat, particularly the ones that are producing in divisions that are producing.

I want to get to one closing set of questions, though. Your predecessor, I guess two ago, Mr. Greenberg, when he came to us, he not only told us that you should have filed bankruptcy, but he basically led me to believe that you had an obligation to file bankruptcy. The Treasury had an obligation. Everyone had an obligation.

When you had a going concern opinion, you stop working for the stockholders and you start working for the secured creditors. That's just a reality of your board, that as viable going concern, you maximize shareholder value. As soon as you are not a going concern, you have to look to your in-order preferred creditors, secured creditors, and you have an obligation to them.

Mr. Greenberg led us to believe—and I've checked with bankruptcy experts, and it appears he's right—that tens of billions of dollars were paid out that had your firm filed bankruptcy, would not have been paid, because the corpus that was bankrupt was firewalled from other parts of the company; therefore, yes, FP would have gone bankrupt. It would have delivered whatever assets it had. Other claims against the company to the extent they existed, would have been cleared in bankruptcy.

But huge parts, some of the very companies you're talking about that have large value, would have been fire-walled from that.

How do you respond to that?

Mr. LIDDY. I think the regulators in those 130 countries that we do business would have grabbed those insurance assets and would have held onto them and wouldn't have released them to anybody.

And there would have been a very substantial debate internationally about who owned and who controlled those assets.

Mr. ISSA. So what you're saying is you couldn't count on the rule of law, so that's why the Treasury ordered you to pay moneys to people like Goldman Sachs, who you paid with dollars that were put into the corpus and paid out of the corpus in excess of any kind of value that it had, but are burdened to the parent company around what otherwise what would have been a firewall?

Mr. LIDDY. Well, once a decision was made not to declare bankruptcy, that sets in motion a whole series of events. You have to honor the contracts. The Federal Reserve decided that we should pay 100 cents on the dollar. That 100 cents on the dollar should be paid in the settlement of those various——

Mr. ISSA. Yeah, but these were credit default swaps that I could have bought for a fraction of that on an open market to the extent that somebody was floating them at the time, right?

So we paid more than their current value at the time we paid them off.

Mr. LIDDY. I believe that's what the Federal Reserve decided was in the best interests of the financial system.

Mr. ISSA. OK. So the Federal Reserve paid a premium. I just want to make sure we have it, because we have three trustees we're entrusting with our money, going forward.

The Federal Reserve paid a known premium, and they paid it not to FP—so that we're all talking about FP—they paid it to the parent company and caused you to take onto your balance sheet and your stockholders to be diluted, based on a decision the Treasury made for you not to file bankruptcy, and in fact for you to go down there way.

And as you said, they made the decision. You got your instructions from the Fed and Treasury. That's what you've said here, right?

Mr. LIDDY. Well, the Federal Reserve, it's not just getting instructions. The Federal Reserve handled those discussions and negotiations to settle those counterpart——

Mr. ISSA. Right. So the question I'm going to be asking the trustees, going forward—because they're in a similar situation, but a little different than you—your board and you had an independent responsibility to your stockholders, now 20 percent, used to be 100 percent, and to other creditors, that when the decision was made outside of your company not to go into bankruptcy, and the decision was made to take all of the assets otherwise not encumbered in a normal firewalled situation, and put them in, your company today, whatever it's worth, owes this money to the Treasury, to the American people, but it owes it based on decisions that were made, that were not prudent on their face for your company.

May have been prudent for the world, may have been prudent for the financial markets, but they weren't prudent for your company in the ordinary course of you get to make the decision.

Mr. LIDDY. Well, Congressman, it could turn out that they were very prudent. It's all a matter of whether, at the end of this whole situation, we're able to pay back the American public all the money that's been either loaned to or invested in AIG.

Mr. ISSA. But I just asked you what your enterprise value is worth in the last round.

Mr. LIDDY. Right.

Mr. ISSA. And I asked you so you'd have an opportunity to take the $35 billion here, the $40 billion here, and say "These enterprises, after we get into a good situation, are worth X amount—"

Mr. LIDDY. Mm-hmm——

Mr. ISSA. Offsetting, you know, 100 percent of the debt potentially, and returning—because a year ago, a year and a half ago, you could have been worth $100 billion for your stock price—I agree that our investment of $40 to $70 billion at the height of your stock in the last 2 years would have been whole.

My question to you, though, was—and I'd like you answer for the record—is: Break down what you believe the enterprise value is today. Mr. Kashkari, when he was before this committee, told us he didn't know what he paid for things and he didn't know what they were worth, and he couldn't answer it, but he'd give us a report in 30 days. He resigned in roughly 29 days, apparently, so he's not back.

Mr. LIDDY. Mm-hmm.

Mr. ISSA. Please do not think that you're not going to be back before us, if you can't answer what you believe today the enterprise value is, so that given a static economy—not pie in the sky and not future earnings, but the real value of your enterprise, what it's worth. What have the American people bought for $190 billion?

Mr. LIDDY. Mm-hmm. The assets minus the liabilities, including all the money that we owe, either to the Federal Reserve or to TARP, that number is what's left over, and that's what represented in that 2.7 billion shares at $1.85 or so a share. But that's after you settle all of the obligations.

Mr. ISSA. So your answer today is: We're completely solvent, other than our $40 billion has become 70 percent of $4 billion? That's where we are. That's that answer you're giving me here today when you answer that way, is that assets and liabilities balance in the enterprise value. What's left is the hypothetical market, that the market is saying, which is $4 billion. And that's $40 billion of our money and the rest is the shareholders'.

So that says we have a loss, in your statement, of that delta, call it $38 billion.

If that's what you believe, fine——

Mr. LIDDY. No, no——

Mr. ISSA. But that's what the market is marking your stock for. What I asked you for was your real belief of your enterprises, individual enterprises value.

You know, you can normalize them for multiples of EBIT—what their PEs would be in an orderly market, what their PEs would be on a separate company basis. You know all the ways to value it.

I just think this committee should have an understanding of today what you believe the enterprise, which you're running and the trustees are overseeing, is worth, in a way that we can have some understanding of why you think you'll pay us back over and above what you gave us here today.

And I appreciate the fact that the stock is whatever it is on a given day. What I want to know—and I think the chairman and I both want to know—is just how you value these assets normalized.

We understand you may not realize them for 2 years; but we have been asking for those kinds of numbers since the previous president and previous everybody in this cycle.

Mr. LIDDY. Mm-hmm. And I'll just take one more crack at it. Those assets, if you take the assets that I just talked about earlier and added them all up, they'll add up to, whatever $80 or $90 million. I can't do the math that fast. And that should be enough to satisfy the $83 billion that we actually owe to either the Federal Reserve or the U.S. Treasury now.

To the extent we have to use more of the $30 billion, we hope that we'll be able to get, recover that value by having even higher asset values, because we plug an asset hole, or what have you.

So the asset values should be sufficient to satisfy what all of the obligations of the company are, and keep the taxpayer whole. If the marketplace stays strong. That leaves only the stub residual value, which right now is that $5 or $6 billion. And hopefully this all works out well, and that's worth more and more.

Chairman TOWNS. I thank you very much, Mr. Liddy. Thank you. Thank you very much for your testimony, and you can see, based on the questions here, that we are frustrated. And people—gentlewoman? Yes. Just a moment. I was getting ready to let you go, but we have Congresswoman Maloney.

Mrs. MALONEY. Well, first of all, I want to thank you for your public service and for coming in to help out.

Why did AIG meet the criteria of systemic risk while Lehman Brothers did not?

Mr. LIDDY. Congresswoman, you'd have to ask the Treasury Secretary and the Federal Reserve, the New York Federal Reserve individual that made that decision at the time.

Mrs. MALONEY. Mm-hmm. They made determinations that municipalities and foreign governments were of systemic importance to the U.S. banking system. Do you share that belief?

Mr. LIDDY. I think the totality of AIG represented systemic risk, not just to counterparties, but the guaranteed investment contracts, and all of the policyholders that we have, I think had that failed, I think it would have created a real problem.

Mrs. MALONEY. What proportion of the AIG counterparties would have faced bankruptcy, without Federal bailout of AIG?

Mr. LIDDY. I do not know.

Mrs. MALONEY. And have you seen or could you provide the committee with any analysis of the impact of the ownership of the residential mortgage-backed securities by AIG's life insurance companies, including whether problems in AIG's life insurance business, as a result of their purchase of these played a role in the decision to provide the bailout?

Basically, I have heard that the life insurance portion of AIG was regulated and was solvent. Is that true or not, that the life insurance portion did not receive, nor did it need bailout, that it was properly managed?

Mr. LIDDY. It was regulated and it was solvent. But as values of the residential mortgage-backed securities went down—because that was part of the investment that they had, it created a hole, and that hole has been, we've plugged some of that hole with money from the Federal Reserve.

Mrs. MALONEY. So Federal Reserve money has gone into that?

Mr. LIDDY. Yes.

Mrs. MALONEY. And AIG argued that the bailout was necessary because of potential problems in the life insurance business. And you believe that is true.

Mr. LIDDY. I do.

Mrs. MALONEY. How much went into the life insurance division, roughly?

Mr. LIDDY. It was somewhere between $17 and $20 billion——

Mrs. MALONEY. Really——

Mr. LIDDY. To make up for the loss in asset values.

Mrs. MALONEY. Really?

And going forward—I read in the paper that AIG does not need another infusion of public money. Do you foresee that in the future you will not need any public money, additional public money?

Mr. LIDDY. Congresswoman, I certainly hope so, as I've said many times. We think what we have, we have a good plan that will

enable us to repay the American taxpayer. But it's very dependent upon what happens with the economy and what happens with global financial markets. If they were to go south, the way they did in the fourth quarter, that could change. If they remain stable or improved, the way they appear to be doing, that would be good news for our efforts.

Mrs. MALONEY. Well, let's hope they remain moving in the right direction.

Again, I want to thank you for coming in as public service to help restructure one of America's great businesses.

And finally, some employees of AIG are questioning the breakup of the company. They're saying that this is really not good for the future of a competitive business in America. And could you comment on the breakup and the selling off of assets at AIG?

Mr. LIDDY. I think in many of those companies that are going to receive separate identities and will be spun off company, those people are excited about that prospect. So in an AIA or an ALICO, there's great excitement about those businesses.

With respect to our property casualty business, where we'll sell at least a minority interest in it and will separate from the AIG name, there's great excitement there.

Mrs. MALONEY. Mm-hmm.

Mr. LIDDY. If you work maybe in a technology area or an operations area, in the corporate core, you might have a different thought about it, because your job could be eliminated or you could get picked up by one of those companies as they get spun off.

Mrs. MALONEY. And finally, the insurance division was regulated, but also the risky products division was regulated under the Office of Thrift Supervision, the regulator that AIG selected because they had a small portion of their company that was an S&L.

Could you comment on the quality of regulation coming out of the Office of Thrift Supervision, on the so-called risky products AIG financial products?

Mr. LIDDY. Congresswoman, I can't. Although the last time I was before Congress, there was an individual from the OTS, who if I remember his testimony, said, you know, they just didn't have the wherewithal to be able to regulate something as massive and complicated as AIG Financial Products.

Mrs. MALONEY. Again, thank you for your public service and we appreciate it. Thank you.

Chairman TOWNS. Thank you very much, Congresswoman. And I also thank you, Mr. Liddy, for your time. And of course we appreciate you coming. And thank you so much for the information that you've given us.

But as you can see on this side, there's a tremendous amount of frustration, and that we're trying to answer questions that are being raised, and at the same time, we also are trying to protect the American people's tax dollars, which is also very important.

So we thank you very, very much for coming today.

Mr. LIDDY. Thank you.

Chairman TOWNS. Now I'd like to welcome the second panel. But let me say it's a longstanding tradition here that we swear our witnesses in first. So, if you would please stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Thank you. You may be seated. Let the record reflect that the witnesses all answered in the affirmative.

Let me suggest an order. Why don't we go in this order: Mr. Feldberg will go first, and then of course Ms. Considine, and then Mr. Foshee would be next. And then Professor Verret.

So why don't we just proceed right down the line.

Mr. ISSA. If you could pull the mic up and turn it on, please? Thank you.

Chairman TOWNS. Let me just——

Mr. FELDBERG. How about——

Chairman TOWNS. Just yield for a second. I guess I need to probably talk about your background a little bit for the members of the committee.

Ms. Jill Considine, who currently serves as chairwoman of the Board of Fulcrum Group, a fund administrator for the hedge fund industry. In 2004 Ms. Considine ended her 6-year term as a member of the Board of the Federal Reserve Bank of New York, where she served as chairwoman of the Audit and Operational Risk Committee.

We also have Mr. Chester Feldberg. Mr. Feldberg served for 9 years as Senior Official at the Federal Reserve Bank of New York. He served as chairman of Barclays America from 2000 to 2008.

Mr. Douglas Foshee is currently CEO of El Paso Corp., a natural gas producer. Mr. Foshee served as executive vice president chief operating officer for Halliburton Corp. prior to joining El Paso in 2003. Mr. Foshee also serves as chairman of the Federal Reserve Bank of Dallas, Houston Branch.

Our final witness is Professor J.W. Verret, a senior scholar at the Mercatus Center at George Mason University. Professor Verret will share his concerns about the AIG trust agreement.

So with that, we can move forward. Mr. Feldberg.

STATEMENTS OF CHESTER B. FELDBERG, TRUSTEE, AIG CREDIT FACILITY TRUST; JILL M. CONSIDINE, TRUSTEE, AIG CREDIT FACILITY TRUST; DOUGLAS L. FOSHEE, TRUSTEE, AIG CREDIT FACILITY TRUST; AND PROFESSOR J.W. VERRET, GEORGE MASON UNIVERSITY SCHOOL OF LAW

STATEMENT OF CHESTER B. FELDBERG

Mr. FELDBERG. Chairman Towns, Ranking Member Issa and members of the committee. My name is Chet Feldberg, and I'm a trustee of the AIG Credit Facility Trust. I'm appearing today with Jill Considine and Doug Foshee, my fellow trustees, at the request of the committee, in connection with its hearing on the collapse and Federal rescue of AIG.

We've submitted a joint written statement, which speaks for all of us. As trustees, we operate collectively. While each of us will make brief oral statements addressing different aspects of our work, I would stress the collaborative nature of our efforts and of our decisionmaking process.

I was going to comment next on my background and experience, but the chairman has covered that, so I will move forward. The

chairman's letter to each of us posed the question, "Is the U.S. taxpayer investment in AIG being properly protected?"

This is the critical question. It motivates all of our deliberations, and all of our actions.

Let me now turn to the background of the trust arrangement. The trust was established by the New York Fed for the purpose of acquiring, holding, and ultimately disposing of approximately 77.9 percent of the voting stock of AIG. Under the terms of the trust agreement, we the trustees are charged with exercising the voting rights of the AIG shares held in the trust in the best interests of the U.S. Treasury, and with a view toward maximizing the value of that stock.

As we understand it, the rationale for establishing a trust arrangement administered by independent trustees was concern by the Fed and the Treasury regarding potential conflicts of interest if the controlling interest was held by either governmental entity.

Each of us was contacted last fall by representatives of the New York Fed and asked to serve as a trustee of the proposed trust. After much reflection, each of us ultimately decided to accept this challenge and responsibility.

On January 16, 2009, we were appointed as trustees by the New York Fed and entered into the trust agreement, which we are attaching as part of our written testimony.

We immediately began organizational work in educating ourselves about the task that lay ahead. But it was not until March 4th that AIG issued stock to the trust, and we commenced our formal responsibilities as trustees.

Since then we've been impressed with the extraordinary challenges we face in exercising our responsibilities. In fact, many of the factors relevant to whether the value of the taxpayer's stock can be—maximized are not within our control.

Such factors include what the market and the economy will look like when company assets are sold or restructured, what decisions the Federal Reserve or the Treasury will make concerning ongoing financial assistance to the company, what constraints will be imposed by new legislation or regulation on the company's ability or obtain the people needed to keep the company running and effectively implement the restructuring plan; and finally whether continuing adverse publicity will affect the company's ability to maintain the value of its businesses.

Each of these factors individually or in combination will have great influence on the ultimate value of the enterprise. And no one can confidently predict the final outcome at this time.

The trustees are committed to seeing through the next chapter in the company's history in the best interests of the Treasury and the taxpayers of this nation.

We're under no illusions that our task will be easy. Indeed, it may be the most challenging task any of us has undertaken in our professional careers.

In carrying out our role, we will be guided by our independent assessment and judgment as to what course of action will best protect the interests of the beneficial owners of the trust, the U.S. Treasury, and the U.S. taxpayer.

We know that to be successful, we will need the ongoing support of the Congressman, the administration, and the Federal Reserve. In the end, we are all working toward the same goal.

I appreciate the opportunity to appear before this committee. My colleague, Jill Considine, will not explain our duties and limitations under the trust agreement in more detail.

Thank you.

[The prepared statement of Mr. Feldberg, Mr. Foshee and Ms. Considine follows:]

STATEMENT OF THE TRUSTEES OF THE AIG CREDIT FACILITY TRUST BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM U.S. HOUSE OF REPRESENTATIVES HEARING ON THE COLLAPSE AND FEDERAL RESCUE OF AIG

May 13, 2009

Chairman Towns, Ranking Member Issa and Members of the Committee. We submit this joint statement of Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee as Trustees of the AIG Credit Facility Trust (the "Trust"). We are appearing at the request of the Committee in connection with its hearing on the collapse and federal rescue of AIG.

The Committee has posed this question: "Is the U.S. taxpayer investment in AIG being adequately protected?" This is the critical question; it motivates all of our considerations and all of our actions. Under the Trust Agreement, we are charged with exercising the voting rights of the shares held in the Trust in the best interests of the U.S. Treasury and with a view towards maximizing the value of the AIG stock held by the Trust. Of course, we are not the only actors with this goal. The Federal Reserve Bank of New York (the "FRBNY"), the Federal Reserve Board, the U.S. Treasury Department, this Committee and the U.S. Congress also have as a goal maximizing the value of the taxpayers' stock so that the taxpayers can be paid back for the extraordinary financial assistance given to AIG. Each of these bodies has different responsibilities and powers, different perspectives and different resources. But in the end, we are all working toward the same goal. And we know, from our perspective, that we cannot successfully accomplish the tasks assigned to the Trust without the active support and assistance of the Federal Reserve, the Treasury Department and the Congress.

We understand that frustrations have been expressed and questions raised about the financial support for AIG and the role of the federal government in the uncharted waters we all travel. These are all appropriate subjects for inquiry, analysis and debate. However, it is not the

Trustees' role to analyze the wisdom of the government intervention or to revisit decisions made before we became Trustees that led to the creation of the Trust. Our role is to apply our judgment and experience to the task of maximizing the government's investment in AIG in order to secure the best possible outcome for the taxpayers. We have accepted this responsibility and approach our task with a sense of duty to our nation. As representatives of the majority shareholder — the U.S. Treasury — we have pursued and will continue to pursue our obligation with the utmost vigor and in the public interest.

We welcome the opportunity to discuss with you our role in this effort. What specifically are our duties and powers? And how should they be exercised to maximize the value of the AIG stock held by the Trust?

Background on the Creation of the Trust

First, some history.

In September 2008, the FRBNY, under the authorization of the Board of Governors of the Federal Reserve System and with the support of the Treasury Department, provided an $85 billion credit facility to prevent the imminent collapse of AIG. As part of that transaction, on September 22, 2008, the FRBNY and AIG entered into a Credit Agreement, which required AIG to issue 100,000 shares of convertible preferred stock to the Trust. The Trust was established by the FRBNY for the purpose of acquiring, holding and ultimately disposing of approximately 77.9 percent of the voting stock of AIG.

The Federal Reserve and the Treasury Department made a determination that the Trust was the appropriate vehicle to hold a voting interest in AIG on behalf of the U.S. Treasury. It is our understanding that a trust administered by independent trustees for the benefit of the U.S.

Treasury — in substance, the interest of the U.S. taxpayers — was viewed by Federal Reserve and the Treasury Department as a way to place the government's interest in AIG in the hands of experienced individuals who could act without risk of conflicts of interest that would be present if such controlling interest was held by the FRBNY or the Department of the Treasury.

Each of us was contacted last fall by representatives of the FRBNY and asked to serve as a Trustee of the Trust. Doug Foshee is Chairman and Chief Executive Officer of El Paso Corporation and chairs the board of directors of the Houston branch of the Federal Reserve Bank of Dallas. Jill Considine recently completed a six-year term as a member of the board of directors of the FRBNY and had retired as Chairman of the Depository Trust & Clearing Corporation. Chester Feldberg retired as non-executive Chairman of Barclays Americas in 2008 and previously, until he retired in 2000, was an employee of the FRBNY for 36 years. We each continue to serve as an independent director on the board of at least one company.

As we considered the proposal, both the importance and the urgency of the mission were impressed upon us. The government was required to commit substantial resources to support the company for the sake of avoiding a collapse that could have had a serious destabilizing effect on the U.S. and global economies. Today, it is imperative that we continue to support AIG's efforts for the additional reason that if we do not, billions of dollars in taxpayer money could be lost.

Each of us ultimately decided to accept this challenging responsibility.

On January 16, 2009, we were appointed as Trustees by the FRBNY in consultation with the Treasury Department, and we entered into the Trust Agreement, which we are attaching as part of this testimony. We immediately began organizational work and educating ourselves about the task that lay ahead. But it was not until March 4, 2009 that, as required by the September 22, 2008 Credit Agreement between AIG and the FRBNY, AIG issued to the Trust

100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock (the "Series C Preferred Stock"). These shares are convertible into, and have voting and dividend rights equal to, approximately 77.9 percent of the issued and outstanding shares of the common stock of AIG that would be outstanding after the conversion of the Series C Preferred Stock in full. It took all that time to have these shares issued in large part because of significant technical and regulatory requirements. AIG operates in all 50 states as well as in approximately 140 foreign jurisdictions. Each has its own set of rules concerning the issuance of a significant block of voting stock, change in control of regulated businesses and the like. AIG worked diligently with the FRBNY and the Trust to ensure that all the jurisdictions were addressed appropriately. With the issuance of the stock on March 4, 2009, we commenced our formal responsibilities as Trustees.

Even in this very short period, we have been impressed with the extraordinary challenges in exercising our responsibilities. Many of the factors relevant to whether the value of the taxpayers' stock can be maximized are not within our control — what the market and the economy will look like when company assets are sold or restructured, what decisions the Federal Reserve or the Treasury Department will make concerning ongoing assistance to the company, what constraints will be imposed by new legislation or by the Treasury Department or other regulatory agencies on the company's ability to attract or retain the people needed to keep the company running well and effectively implement the sale of assets, and whether continuing adverse publicity will affect the company's ability to maintain the value of its businesses. Each of these individually or in combination will have great influence on the ultimate value of the enterprise.

In addition, with respect to the particular role we have been assigned, we recognize that we are in uncharted waters. With no history or precedent to which we can look for guidance, our

anchor is the Trust Agreement itself. We have tried as best we can to honor the terms of that agreement. It tells us what our rights and responsibilities are. But, just as significantly, it tells us what our limitations are.

The Trustees' Primary Responsibilities and Limitations

The Trust Agreement defines our duties, responsibilities and obligations, and we have expressed our role as Trustees under the terms of the Trust Agreement in the mission statement, which we are attaching as part of this testimony. Our primary responsibilities are:

- Voting the AIG stock held by the Trust (the "Trust Stock") at all meetings of the stockholders of AIG and at any other time such a vote is required, most importantly in connection with the election of directors of AIG;
- Developing and executing a plan to sell or otherwise dispose of the Trust Stock in a value maximizing manner (any ultimate disposition of the Trust Stock is subject to the prior approval of the FRBNY, after consultation with the Treasury Department); and
- Working with senior management and the board of directors of AIG to ensure corporate governance procedures satisfactory to the Trustees.

Equally important, the Trust Agreement says that we should not:

- Directly or indirectly become directors of AIG;
- Be responsible for directing or managing the day-to-day operations of AIG or any of its subsidiaries; or
- Involve ourselves in the corporate governance of AIG beyond the exercise of our rights as majority stockholder under the Trust Agreement.

Explicitly, by the terms of the Trust, we must leave the day-to-day direction and management of AIG to the senior officers of the company and its board of directors.

In defining our role as Trustees, we recognize that other agencies and instrumentalities of the government have significant roles in AIG's future — especially the Federal Reserve and the Treasury Department. Each is involved in issues that range from AIG's financial performance and evolving restructuring plans to its compensation policies and corporate governance, risk management and control practices. In particular, the FRBNY, as AIG's major creditor, has significant staff working on AIG and residing at the company to monitor financial and other key developments, and they keep us well informed. The Trustees have tried to avoid, to the extent possible, redoing work that had been done. Rather than build our own staff of analysts and advisers at unnecessary cost, we have chosen at least in the first instance to use information gathered by the FRBNY staff, its outside consultants, the Treasury Department, and AIG and its outside consultants. To date, this arrangement has worked well. We have had an open, ongoing dialogue with representatives of the FRBNY on issues of concern to us in our role as majority shareholder. Of course, we have always applied our own independent judgment to the information that we gathered from all sources. And we have engaged our own advisers when we saw a need to do so.

Actions of the Trustees

With respect to our role in the area of corporate governance, one of our most important responsibilities is to satisfy ourselves that the company has an effective, independent and capable board, which is focused on recruiting and maintaining a strong and effective management team. This allocation of responsibility between us on the one hand and the board and management on

the other, in addition to being set forth explicitly in the Trust Agreement, also replicates what is the accepted standard for good corporate governance for public companies in the United States. It also maximizes the potential for AIG ultimately to pay back the taxpayers' investment. The Trustees should not become, in effect, a shadow board or a shadow management team, because that would make it impossible to recruit and maintain talented directors and managers to do what needs to be done in these difficult circumstances. And that, in turn, would make it much more difficult to maximize the value of AIG and pay the taxpayers back.

What have we done to date?

Initially, we sought to listen and learn about AIG's current situation and challenges from its senior management, board members, FRBNY and Treasury Department officials and their outside consultants, and AIG's external and internal auditors. Based on all these sources of information, we determined that our first priority should be to focus on enhancing AIG's corporate governance framework with a view to restoring public confidence in the company.

To this end, we have spent considerable effort focused on AIG's board of directors — how it functions, what are its committees and how they function, who are the members of the board and its most important committees, what skills these board members have and how those skills fit with the needs of a company in AIG's extraordinary circumstances, and how the board interacts with senior managers and important outside firms such as its external auditor. We have attempted to assure ourselves that the board is focused on the crucial corporate objectives of recruiting and retaining a strong management team, developing and maintaining appropriate compensation policies, overseeing the effectiveness of the company's critical financial controls and risk management, and ensuring that there is a plan which maximizes the long-term value of the company and that the plan is in place and properly executed. We are actively seeking new

members of the board who could add important skills and perspectives. In all of this, we have had extensive consultation with and cooperation from the FRBNY, which has representatives that attend board meetings, as well as with AIG board members, senior managers and outside consultants.

We have devoted considerable time and energy to these efforts and have made significant progress. We hope to be able to announce news on this front shortly.

Review and Advice Regarding Governance and Compensation.

We are well aware of the congressional and public concern over bonuses paid to employees of recipients of federal funds in the current environment. We share the concerns about the payment of large bonuses at a time when AIG was failing and being rescued by the taxpayers. We are committed to ensuring that issues of compensation, including bonuses, at AIG going forward are addressed in a thoughtful, prudent and fair manner. It is essential that the board of directors focus on compensation, because a fair and effective compensation system is necessary to ensure the successful restructuring of AIG and the recovery of the taxpayers' investment. It will come as no surprise to you that there are potential investors who would like to purchase AIG's component entities for less than fair value. We will do everything within our authority as Trustees to ensure that this does not happen, including urging the adoption of a compensation policy designed for success. In our view, compensation should be designed to reward long-term, sustainable value creation and align employees' interests with those of shareholders over the long-term. It should not be structured to encourage and reward undue risk-taking or short-term results.

To these ends, we have asked Mr. Liddy, together with senior management at AIG and its board and appropriate committees of the board, to undertake a broad review of the compensation programs currently in place throughout AIG and to develop by year-end a comprehensive compensation program applicable to AIG as a whole. In our view, this program should be based on the following:

- There should be an overarching performance-based compensation philosophy and consistent approach to compensation across the business units and operations of AIG that includes broad oversight by the board of directors;
- The compensation program should be designed to reward long-term, sustainable value creation; it should include clear and consistent metrics designed to align employees' interests with those of shareholders over the long term;
- The compensation program should be designed to encourage appropriate risk-taking within the organization;
- The compensation program should provide for the appropriate balance between short-term and long-term compensation; and
- The company should benchmark AIG's compensation levels against available market data of organizations of similar size and complexity with which AIG competes for talent. These data should be used as a guide in assessing the appropriateness of any compensation plan.

We have expressed these views to Mr. Liddy in a letter which we are attaching as part of this testimony. In that letter, we asked that the Trustees be provided with reports at least quarterly regarding the status of the development of the program.

Review Restructuring/Disposition Plans.

We also have conferred with the management team, the FRBNY and the Treasury Department regarding AIG's restructuring plan. The goal of this plan is to reduce the systemic risk AIG poses to the U.S. economy and to repay the U.S. taxpayer. This restructuring plan includes the disposition of assets and the stabilization and separation of certain businesses from the holding company in order to maximize the enterprise value of the company for all its stakeholders, as well as the orderly wind-down of AIG Financial Products to minimize the financial risk posed by that business unit.

Review of the Company's Financial and Accounting Controls and Financial Reporting Process.

Another important aspect of good corporate governance is the adequacy of a company's financial and accounting controls and financial reporting process. We have met with the current chair of the Audit Committee of the board, the company's independent auditors, the company's Director of Internal Audit and others to review the status of and risks related to AIG's financial and accounting controls and financial reporting. We consider this area central to our responsibility to ensure satisfactory corporate governance procedures at the company and an area inextricably linked to the ongoing restructuring and disposition process at the company. We will continue to focus on these issues and will expect the board to do so as well.

Looking Forward

Since the Trust was formed in January, the amount of money the government has at stake in AIG has grown, and the situation has become more complex and challenging. We are committed to seeing through this chapter in the company's history in the best interests of the

Treasury and the taxpayers of this nation. We are under no illusions that our task will be easy. Indeed, it may be the most challenging task any of us has undertaken in our professional careers. In carrying out our role and responsibilities as Trustees under the Trust Agreement, we will be guided by our independent assessment and judgment as to what course of action will best protect the interests of the beneficial owners of the Trust, the U.S. Treasury and U.S. taxpayers whose interests as shareholders in AIG we were asked to represent. We know that to be successful we will need the support of the Congress, the Administration and the FRBNY.

We appreciate the opportunity to give this statement, which is on behalf of all of us, and we look forward to answering your questions.

ATTACHMENTS TO

THE STATEMENT OF THE TRUSTEES OF THE AIG CREDIT FACILITY TRUST

BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

HEARING ON THE COLLAPSE AND FEDERAL RESCUE OF AIG

MAY 13, 2009

MISSION STATEMENT

LETTER TO EDWARD M. LIDDY

AIG CREDIT FACILITY TRUST AGREEMENT

MISSION STATEMENT OF THE TRUSTEES OF THE AIG CREDIT FACILITY TRUST

Mission

The mission of the Trustees of the AIG Credit Facility Trust (the "Trust") is to oversee the Trust's approximately 77.9% voting interest in American International Group, Inc. ("AIG") for the sole benefit of the U.S. Treasury and, ultimately, the U.S. taxpayers. In administering the Trust, the Trustees will jointly act as the majority stockholder of AIG in the best interests of the U.S. Treasury and with a view towards maximizing the value of the stock of AIG held by the Trust, in each case based upon the independent judgment of the Trustees. The Trust Agreement under which they must act encourages the Trustees to consider the Federal Reserve Bank of New York's (the "FRBNY's") view that (i) maximizing the ability of AIG to repay all amounts it owes to the FRBNY and the U.S. Department of the Treasury (the "Treasury Department") and (ii) having AIG managed in a manner that will not disrupt general financial market conditions are appropriate matters for the Trustees to consider.

Background

The Trust was established by the FRBNY for the purpose of acquiring, holding and disposing of approximately 77.9 percent of the voting stock of AIG. The Trustees were appointed to administer the Trust by the FRBNY, in consultation with the Treasury Department, and entered into the AIG Credit Facility Trust Agreement (the "Trust Agreement") with the FRBNY on January 16, 2009. On March 4, 2009, as required by the Credit Agreement dated as of September 22, 2008 between AIG and the FRBNY, AIG issued to the Trust 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock (the "Series C Preferred Stock"). These shares are convertible into, and have voting and dividend rights equal to, approximately 77.9 percent (but not more than 79.9 percent) of the issued and outstanding shares of the common stock of AIG that would be outstanding after the conversion of the Series C Preferred Stock in full. The Trustees commenced their primary responsibilities as trustees of the Trust upon the issuance of the Series C Preferred Stock on March 4, 2009. All rights, powers and duties of the Trustees are subject to and in accordance with the Trust Agreement.

Responsibilities and Objectives

Under the Trust Agreement, the Trustees' primary responsibilities are:

- Voting the AIG stock held by the Trust (the "Trust Stock") at all meetings of the stockholders of AIG and at any other time such a vote is required, most importantly in connection with the election and removal of directors of AIG;

- Developing and executing a plan to sell or otherwise dispose of the Trust Stock in a value maximizing manner (any ultimate disposition of the Trust Stock is subject to the prior approval of the FRBNY, after its consultation with the Treasury Department); and

- Working with senior management and the board of directors of AIG to ensure corporate governance procedures are satisfactory to the Trustees.

In fulfilling their duties, the Trustees will work closely with the Treasury Department and the FRBNY, each of which has certain oversight responsibilities and authority concerning AIG.

The duties, responsibilities and obligations of the Trustees are limited by the Trust Agreement. The Trust Agreement directs the Trustees to refrain from:

- Directly or indirectly becoming directors or managers of AIG;
- Being responsible for directing or managing the day-to-day operations of AIG or any of its subsidiaries; or
- Involving themselves in the corporate governance of AIG beyond the exercise of their rights as majority stockholder under the Trust Agreement.

In light of the responsibilities and limitations in the Trust Agreement and the goal of maximizing the value of the stock held by the Trust, the Trustees' primary initial focus is to ensure that AIG has a capable and effective board of directors. Such board of directors should be initially focused on the following goals:

- Developing and maintaining appropriate and effective corporate governance procedures;
- Recruiting and retaining a strong senior management team, equipped to address the myriad issues facing AIG in the restructuring of its business;
- Assuring that AIG has appropriate compensation policies in place, including policies related to recruitment and retention;
- Ensuring that the company develops and executes an effective plan which maximizes the long term value of the company; and
- Ensuring the effectiveness of AIG's critical financial controls, financial reporting and risk management.

Actions of the Trustees

In order to achieve the goals outlined above, the Trustees have begun and will continue to:

- Work with their advisers to assess the current board of directors of AIG and assure the selection of appropriate candidates for the board;
- Review management's ongoing plans for the restructuring and/or disposition of AIG's business units and AIG's financial status;

- Review issues of corporate governance at AIG;
- Discuss with members of AIG's board of directors, senior management and AIG's advisers issues of concern to the Trustees;
- Discuss with members of the FRBNY, the Treasury Department and their advisers issues of concern to the Trustees;
- Periodically review with AIG's board of directors, senior management, outside auditors and internal auditors the company's financial and accounting controls and financial reporting processes; and
- Exercise their independent experience and judgment in assessing and voting on all resolutions requiring shareholder approval.

Conclusion

In carrying out their role and responsibilities under the Trust Agreement, the Trustees will be guided by their independent assessment and judgment as to what course of action will best protect the interests of the beneficial owners of the Trust, the U.S. Treasury and U.S. taxpayers.

May 7, 2009

Mr. Edward M. Liddy
Chairman and Chief Executive Officer
American International Group, Inc.
70 Pine Street
New York, New York 10270

Re: Compensation Policies at AIG

Dear Ed,

We have spoken in the past on issues concerning compensation, and we know you appreciate, as we do, how central these issues are to the future of the company. In light of this, we believe that a broad review of AIG's compensation policies is warranted, and we are asking that such a review be undertaken as soon as possible.

We believe that the key goal of these policies must be the recruitment and retention of the people best qualified to lead and staff AIG during this difficult time. Without these people, it will not be possible to maximize the value of AIG for its shareholders and United States taxpayers. At the same time, we all recognize that there are serious constraints on any compensation plan currently in place or contemplated at AIG — not the least of which is the recognition that any compensation program at AIG is dependent upon the unprecedented and continuing financial support provided to AIG by United States taxpayers.

Accordingly, we ask that you, together with senior management at AIG, its board of directors and appropriate committees of the board, undertake a broad review of the compensation programs currently in place throughout AIG with a view to developing a compensation program that will apply to AIG as a whole but recognize the different circumstances of AIG's various business units. In our view, this program should be based on the following:

- There should be an overarching performance-based compensation philosophy and consistent approach to compensation across the business units and operations of AIG that includes broad oversight by the board of directors;

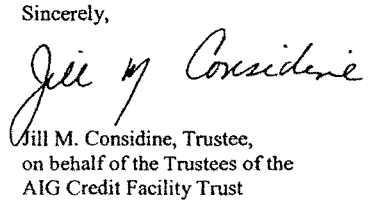
- The compensation program should be designed to reward long-term, sustainable value creation; it should include clear and consistent metrics designed to align employees' interests with those of shareholders over the long term;

- The compensation program should be designed to encourage appropriate risk-taking within the organization;
- The compensation program should provide for the appropriate balance between short-term and long-term compensation; and
- The company should benchmark AIG's compensation levels against available market data of organizations of similar size and complexity with which AIG competes for talent. This data should be used as a guide in assessing the appropriateness of any compensation plan.

We recognize that crafting such a comprehensive plan will be a significant challenge in light of the constraints under which AIG must operate. In spite of the challenges, it is essential that a comprehensive plan be developed by year-end.

We request that you provide us with reports at least quarterly regarding the status of the development of the compensation program. We are committed to working with you and the board of directors in this important endeavor.

Sincerely,



Jill M. Considine, Trustee,
on behalf of the Trustees of the
AIG Credit Facility Trust

cc: Douglas L. Foshee, Trustee, AIG Credit Facility Trust
Chester B. Feldberg, Trustee, AIG Credit Facility Trust

EXECUTION COPY

AIG CREDIT FACILITY TRUST AGREEMENT

dated as of

January 16, 2009,

among

FEDERAL RESERVE BANK OF NEW YORK,

and

JILL M. CONSIDINE, CHESTER B. FELDBERG
AND DOUGLAS L. FOSHEE,

as Trustees

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AIG CREDIT FACILITY TRUST AGREEMENT

THIS AIG CREDIT FACILITY TRUST AGREEMENT (this "**Trust Agreement**") is made this 16th day of January, 2009 by and among the Federal Reserve Bank of New York (the "**FRBNY**"), and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee (each, a "**Trustee**" and collectively, the "**Trustees**").

W I T N E S S E T H:

WHEREAS, pursuant to Section 13(3) of the Federal Reserve Act, 12 U.S.C. § 343(3), the Board of Governors of the Federal Reserve System (the "**Board of Governors**") determined that unusual and exigent circumstances exist both with respect to the financial condition of American International Group, Inc., a Delaware corporation (the "**Company**"), and its likely impact on the nation's economic stability, and the stability of the nation's financial and banking systems, and authorized the FRBNY, subject to certain conditions, to enter into an $85,000,000,000 lending facility with the Company as set forth in the Credit Agreement dated as of September 22, 2008 between the Company and the FRBNY (as amended from time to time, the "**Credit Agreement**");

WHEREAS, as a condition of the Credit Agreement, the Company is obligated to issue to a trust for the sole benefit of the United States Treasury ("**Treasury**") the Series C Perpetual, Convertible, Participating Preferred Stock of the Company described in Exhibit D of the Credit Agreement (the "**Company Preferred Stock**") and convertible into approximately 77.9% of the issued and outstanding shares of common stock of the Company (the "**Company Common Stock**");

WHEREAS, pursuant to Section 13(3) and Section 4 of the Federal Reserve Act, 12 U.S.C. §§ 343(3), 341 (Seventh), the FRBNY entered into the Credit Agreement with the Company to implement the $85,000,000,000 lending facility authorized by the Board of Governors, and is exercising its powers incident thereto to establish the trust created hereunder (the "**Trust**") for the purpose of acquiring, holding, and disposing of the Trust Stock (as defined in Section 2.02 hereof);

WHEREAS, the issuance of the Company Preferred Stock to the Trust is intended to provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks;

WHEREAS, the FRBNY has worked in consultation with the United States Department of the Treasury (the "**Treasury Department**") in structuring the Credit Agreement and this Trust Agreement;

WHEREAS, the FRBNY, in consultation with the Treasury Department, herein appoints the Trustees as trustees of the Trust to have all of the rights, powers and duties set forth herein;

WHEREAS, to avoid any possible conflict with its supervisory and monetary policy functions, the FRBNY does not intend to exercise any discretion or control over the voting and consent rights associated with the Trust Stock;

WHEREAS, the FRBNY wishes the Trustees to have absolute discretion and control over the Trust Stock, subject to the terms of this Trust Agreement;

WHEREAS, the FRBNY anticipates that the Trustees will leave the day-to-day management of the Company to the persons charged with such management, and will limit their involvement in the corporate governance of the Company to the exercise of the rights set forth in this Trust Agreement; and

WHEREAS, the Trustees are willing to accept the appointment and to act as trustees pursuant to the terms of this Trust Agreement.

NOW THEREFORE, the parties hereto do hereby agree as follows:

ARTICLE 1
GENERAL PROVISIONS

Section 1.01. *Creation of Trust.* Subject to the terms and conditions of this Trust Agreement, the FRBNY hereby establishes a trust designated as the AIG Credit Facility Trust for the sole benefit of the Treasury, which, for the avoidance of doubt, means that any property distributable to the Treasury as a beneficiary hereunder shall be paid to the Treasury for deposit into the General Fund as miscellaneous receipts.

Section 1.02. *Appointment and Acceptance of Trustees.* The FRBNY, in consultation with the Treasury Department, hereby appoints the Trustees as trustees of the Trust to have all of the rights, powers, authorities, discretions, and duties set forth herein and, subject to the terms and conditions of this Trust Agreement, as otherwise provided to trustees under the laws governing the administration of the Trust. The Trustees hereby accept said appointment, acknowledge the receipt of the sum of One Dollar ($1.00) (together with any other property, including the Company Preferred Stock, that the Trust may otherwise receive, the "**Trust Assets**"), and covenant that they will hold the Trust Assets in trust upon and subject exclusively to the terms and conditions set forth herein, for the sole benefit of the Treasury.

Section 1.03. *Trust is Irrevocable.* This Trust Agreement and the Trust shall be irrevocable and, except as provided in Section 5.01 hereof, unamendable except that the Board of Governors may terminate or amend its authorization pursuant to Section 13(3) of the Federal Reserve Act, thereby revoking or amending the Trust in accordance with Federal law, provided, however, that a Trustee's rights to resign as a trustee hereunder and to compensation and indemnification with respect to acts or omissions occurring prior to any such revocation or amendment may not be modified without the written consent of that Trustee.

ARTICLE 2
MANAGEMENT

Section 2.01. *Establishment of Accounts.*

(a) The Trustees shall establish (and during the term of this Trust Agreement shall maintain) a custody account (the "**Securities Account**") at a commercial bank selected by, and under an agreement acceptable to, the FRBNY in the name of the Trust bearing a designation clearly indicating that the Trust Stock held therein is held for the sole benefit of the Treasury. Except as expressly provided herein, the Trustees shall possess all right, title, and interest in all Trust Stock held from time to time in the Securities Account for the sole benefit of the Treasury. The Securities Account shall be under the sole dominion and control of the Trustees for the sole benefit of the Treasury.

(b) The Trustees shall establish (and during the term of this Trust Agreement shall maintain) a deposit account (the "**Deposit Account**") at a commercial bank selected by, and under an agreement acceptable to, the FRBNY in the name of the Trust bearing a designation clearly indicating that the funds deposited therein are held for the sole benefit of the Treasury. Except as expressly provided herein, the Trustees shall possess all right, title, and interest in all moneys on deposit from time to time in the Deposit Account for the sole benefit of the Treasury. The Deposit Account shall be under the sole dominion and control of the Trustees for the sole benefit of the Treasury.

(c) Subject to the terms of this Trust Agreement, the Trustees shall receive and hold in the Securities Account or Deposit Account, as applicable, the initial cash contribution of the FRBNY, advances from the Company as provided in Section 3.04(b) hereof, the Trust Stock and all dividends and other cash and non-cash distributions as may be declared and paid upon the Trust Stock, investments permitted under Section 2.06 hereof, as well as the proceeds of any sale or other disposition of the Trust Stock, for the sole benefit of the Treasury.

Section 2.02. *Initial Deposit of Trust Stock.*

(a) In accordance with the Stock Purchase Agreement referred to in Section 2.03(d)(ii) hereof, the Company Preferred Stock shall be delivered to the Securities Account in an amount equal to 100% of the issued and outstanding shares of the Company Preferred Stock registered jointly in the names of the Trustees in their capacities as trustees of the Trust. All shares of Company Preferred Stock delivered to the Securities Account, and all shares of Company Common Stock into which any of the Company Preferred Stock shall have been converted, are referred to herein as the "**Trust Stock.**" Except as expressly provided herein, the FRBNY shall have no ownership interest in the Trust Stock or any of the other Trust Assets.

(b) To the extent that any certificates evidencing the Trust Stock delivered to the Securities Account are not registered jointly in the names of Trustees in their capacities as trustees of the Trust, the Trustees shall present to the Company all certificates evidencing Trust Stock not registered jointly in the names of Trustees in their capacities as trustees of the Trust for surrender and cancellation, and for the issuance and delivery to the Securities Account of new certificates registered jointly in the names of the Trustees in their capacities as trustees of the Trust.

(c) In the event that (i) the Company is merged into or consolidated with another corporation or divided into two or more resulting entities, (ii) all or substantially all of the assets of the Company are transferred to another corporation pursuant to a plan requiring the Company's assets to be distributed in liquidation or (iii) all the shares of the Company are to be exchanged in connection with a reorganization or recapitalization of the Company (each of (i), (ii) and (iii) or any analogous transaction, a "**Trigger Event**"), then in connection with any such Trigger Event, the term "**Company**" for all purposes of this Trust Agreement shall be taken to include any successor entity, and the Trustees shall receive and hold under this Trust Agreement as Trust Stock (and the term Trust Stock as used herein shall include) any stock of, or other interests in, such successor entity received on account of their ownership (as trustees hereunder) of Trust Stock prior to such Trigger Event.

(d) In connection with any Trigger Event, the Trustees are hereby authorized to surrender Trust Stock held by the Trustees hereunder, if the Trustees are of the opinion in the exercise of their independent judgment that such ministerial act is appropriate or required.

Section 2.03. *Actions of Trustees in General.*

(a) Each Trustee shall have equal rights and authority under the terms of this Trust Agreement, and any action taken by the Trustees hereunder shall be a joint action of all of the Trustees. For the avoidance of doubt, the Trustees may not elect to each assume separate responsibility for a portion of the Trust Stock (for example, each vote one-third of the Trust Stock) but must instead jointly decide on a single course of action with respect to the relevant matter under consideration. In the event of a disagreement among the Trustees with respect to any matter, the Trustees shall consult with each other and use their reasonable best efforts to reach agreement with respect to such matter. If, after such consultation (including with legal or financial advisors as appropriate), the Trustees remain unable to reach agreement with respect to such matter, a majority vote of the Trustees shall be sufficient for resolving such matter, after which all of the Trustees shall act in accordance with the majority position.

(b) If fewer than three Trustees are available to vote with respect to any matter, as a result of death, incapacity or any other reason, then no vote shall take place until all three Trustees are available, unless the available Trustee or Trustees determine(s) in the exercise of his or her or their independent judgment that waiting to vote with respect to such matter (and taking the related action) could have significant adverse consequences with respect to the administration of the Trust or the Trust Assets. In the event of any such determination, the available Trustee or Trustees may act and bind the Trust, provided, however, that in the event there are only two available Trustees and those two available Trustees do not agree with one another, such Trustees are authorized and directed to act in a manner consistent with the recommendation(s) of a majority of the independent directors of the Company.

(c) In order to permit the Trustees to administer the Trust and perform their duties under this Trust Agreement, the Trustees may, as they deem appropriate in their independent judgment, (i) engage legal, financial, press and other professional advisers and agents, (ii) hire full-time and part-time administrative, secretarial and clerical staff (or make arrangements to use administrative, secretarial or clerical staff made available to them by their professional advisers or agents) and (iii) lease or sublease office space (or make arrangements to occupy office space made available to them by their professional advisers or agents). Among other things, such professional advisers or agents may be designated as the notice location for all notices and other correspondence relating to the Trust and may, on behalf of the Trustees, maintain the official records of the Trust, schedule meetings of the Trustees, and maintain minutes of such meetings and records of significant actions.

(d) At an appropriate time following the execution and delivery of this Trust Agreement, the Trustees shall execute and deliver in their capacities as trustees hereunder, and not in their individual capacities, the following documents, which shall have been approved in form and substance by the FRBNY:

(i) Multistate Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer;

(ii) Statement Regarding the Acquisition of Control of American International Group, Inc.; and

(iii) Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement between the Trust and the Company.

Section 2.04. *Exercise of Trust Stock Voting Rights.*

(a) At all times prior to the termination of the Trust, the Trustees shall (subject to Section 2.05 hereof and the other provisions of this Section 2.04) exercise all rights, titles, powers, and privileges of a stockholder of the Company, including, to the extent permitted by law, the right to convert the Company Preferred Stock to Company Common Stock and the exclusive right to exercise any and all voting and other rights and benefits attached to, derived from, or otherwise attributable to the Trust Stock, including without limitation the right to vote to amend or cause the amendment of the certificate of incorporation or the by-laws of the Company, and the right to vote to elect and remove, or cause the election or removal of, the directors of the Company, all to the extent permitted by their ownership (as trustees hereunder) of the Trust Stock.

(b) The Trustees shall have the exclusive right to vote the Trust Stock, or give written consent, in person or by proxy, at all meetings of stockholders of the Company, and in all proceedings, votes and actions in which the vote or consent, written or otherwise (any of the foregoing, a "**Vote**"), of the holders of the Trust Stock may be required or authorized, provided, however, that the Trustees shall Vote the Trust Stock in accordance with the other provisions of this Section 2.04.

(c) The Trustees shall take any and all reasonable actions available to them and necessary to cause the actions described in items (i), (ii), (iii) and (iv) of this Subsection (c) to be effected, and shall Vote or cause to be Voted all of the Trust Stock in favor of:

(i) amending Article Four of the Company's Certificate of Incorporation to provide for (w) an increase in number of authorized shares of the Company Common Stock from 5,000,000,000 to 19,000,000,000, (x) a decrease in the par value of the Company Common Stock from $2.50 to $0.000001 per share, (y) an increase in number of authorized shares of the Company Serial Preferred Stock from 6,000,000

to 13,000,000,000, and (z) a decrease in the par value of the Company Serial Preferred Stock from $5.00 to $0.00004 per share;

(ii) amending the Certificate of Designations of the Company Preferred Stock (the "**Certificate of Designations**") such that (A) the number of shares of the Company Preferred Stock outstanding upon the effectiveness of such amendment shall be the Number of Underlying Shares (as defined in the Certificate of Designations) as of the effective date of such amendment, (B) the Conversion Ratio (as defined in the Certificate of Designations) as of any date shall equal the quotient obtained by dividing (x) the Number of Underlying Shares as of such date by (y) the Number of Underlying Shares as of the effective date of such amendment and (C) the liquidation preference per share of the Company Preferred Stock shall be $500,000 divided by the Number of Underlying Shares as of the effective date of such amendment;

(iii) amending Article Eight of the Company's Certificate of Incorporation to eliminate the requirement that the board of directors of the Company obtain the assent or vote of the Company's stockholders in order to authorize or cause to be executed mortgages and liens upon all or substantially all of the Company's assets; and

(iv) amending the Company's Certificate of Incorporation to allow the TARP Preferred Stock to rank senior to the Company Preferred Stock. "**TARP Preferred Stock**" means the Series D Preferred Stock of the Company, par value $5.00 per share, issued to the Treasury Department.

(d) In exercising their discretion hereunder with respect to the Trust Stock, the Trustees are advised that it is the FRBNY's view that (x) maximizing the Company's ability to honor its commitments to, and repay all amounts owed to, the FRBNY or the Treasury Department and (y) the Company being managed in a manner that will not disrupt financial market conditions, are both consistent with maximizing the value of the Trust Stock. With those nonbinding views in mind, with respect to any and all matters (other than matters as to which express instruction is given pursuant to this Section 2.04) to be Voted on by the Trustees as holders of the Trust Stock, the Trustees shall have full discretionary power to Vote the Trust Stock, provided, however, that the Trustees shall exercise all such Voting and other similar rights with respect to the Trust Stock in accordance with the Applicable Standard of Care (as defined in Section 3.03(a) hereof).

(e) The Trustees shall Vote to elect (and, if they shall for any reason be required to nominate, shall nominate for election) as members of the board of directors of the Company only persons who are not, and have not been within one year of their nomination, officers, directors, or senior employees of the FRBNY or the Treasury Department.

(f) In no event shall the Trustees become directors of the Company or otherwise become responsible for directing or managing the day-to-day operations of the Company or any of its subsidiaries.

(g) In exercising their authority under this Section 2.04, the Trustees may request information from the FRBNY that the FRBNY may have as a result of its role as lender to the Company under the Credit Agreement. In no event, however, shall information provided by the FRBNY as lender relieve the Trustees from exercising their independent judgment with respect to any action to be taken under this Section 2.04.

Section 2.05. *Disposition of Trust Stock.*

(a) The Trustees shall, in one or a series of transactions, sell or otherwise dispose of the Trust Stock as follows:

(i) The Trustees shall, in a manner they deem appropriate in their independent judgment to accomplish the goals set forth in clause (ii) of this Subsection (a), develop a written plan (the "**Divestiture Plan**") for the sale or other disposition of the Trust Stock, taking into consideration, among any other factors that the Trustees deem relevant: (1) the effect of any sale or other disposition on repayment of amounts owed to the FRBNY or the Treasury Department; (2) in the case of any conversion of Company Preferred Stock to Company Common Stock (particularly before the full settlement of the Equity Units issued by the Company pursuant to the purchase contract dated May 16, 2008 between the Company and The Bank of New York), the impact of any such conversion on anti-dilution features favorable to the Trust; (3) the financial condition of the Company; (4) the impact of a sale or other disposition of the Trust Stock on general financial market conditions; (5) obtaining full and adequate consideration for the Trust Stock; and (6) the best interests of the Treasury. The Trustees may amend the Divestiture Plan from time to time.

(ii) The goal of the Divestiture Plan shall be to dispose of the Trust Stock in a value maximizing manner. It shall be a further goal of the Divestiture Plan to dispose of the Trust Stock no later than a reasonably practicable time after (x) the Credit Agreement is no longer in effect and (y) the Treasury Department no longer owns any TARP Preferred Stock. It is anticipated that in developing the Divestiture Plan, the Trustees will hire legal, financial and other professionals as necessary. The Trustees may also request information from the FRBNY that the FRBNY may have as a result of its role as lender to the Company under the Credit Agreement.

(iii) The Trustees may sell or otherwise dispose of the Trust Stock, only with the prior approval of the FRBNY, after its consultation with the Treasury Department.

(iv) The Trustees may, but shall not be required to, obtain a "fairness opinion" from an investment bank in connection with the sale or other disposition of Trust Stock.

(b) The cash proceeds of any sale or other disposition of the Trust Stock shall be deposited in the Deposit Account and reinvested and distributed in accordance with the provisions of Section 2.06 hereof.

(c) Except as expressly provided in this Section 2.05 and Section 2.02(d) hereof, the Trustees shall not have the authority to sell, pledge, encumber, hypothecate, lend or otherwise transfer the Trust Stock, and any action in violation of the foregoing shall be null and void.

Section 2.06. *Investment and Distribution of Funds in Deposit Account.*

(a) The Trustees shall distribute amounts held in the Deposit Account to Treasury at least quarterly, subject to Section 2.06(b) hereof.

(b) Prior to any distribution from the Deposit Account to the Treasury under this Section 2.06 or Section 5.02 hereof, the Trustees shall apply the balance of the Deposit Account as follows: first, the Trustees shall reimburse themselves for any outstanding amounts due them from the Trust under the terms of this Trust Agreement; second, the Trustees shall reimburse the FRBNY for any amounts paid by the FRBNY under Section 2.07 or Section 3.03(e) hereof; third, the Trustees shall set aside a reasonable reserve for future amounts to be paid from the Trust under the terms of this Trust Agreement, taking into consideration the value of the other property that will continue to be held in trust hereunder, provided, however, that, during the continuance of the Trust, such reserve shall not be less than One Hundred Thousand Dollars ($100,000); fourth, the Trustees shall reimburse the FRBNY for any amounts advanced on behalf of the Trust in connection with the Trust's acquisition of the Trust Stock; fifth, the Trustees shall reimburse the Company for any amounts advanced by the Company to cover amounts authorized to be paid from the Trust under this Trust Agreement; and sixth, the Trustees shall distribute the remaining balance of the Deposit Account in excess of the reserve, if any, referred to above to the Treasury.

(c) To the extent that the Trustees believe it is necessary or appropriate to invest any balance in the Deposit Account, the Trustees shall have full discretion to invest such balance, in whole or in part in assets that are eligible for use in FRBNY's open market operations. The investments and the proceeds of such investments shall be received and held in the Deposit Account, subject to the terms of this Trust Agreement. Any loss of income or principal on any such investments shall be for the account of the Trust.

Section 2.07. *Control of Trust Litigation.*

(a) The FRBNY shall at its own expense, but with the right to be reimbursed for such expense pursuant to Section 2.06(b) hereof, control the defense of any actual or threatened suit or litigation of any character involving the Trust or any one or more of the Trustees in their capacities as trustees hereunder ("**Trust Litigation**"), including without limitation designating counsel for the Trustee(s) in their capacities as trustee(s) hereunder and controlling all negotiations, litigation, arbitration, settlements, compromises and appeals of any Trust Litigation, provided that (i) the FRBNY may not agree to any settlement involving any Trustee(s) that contemplates any personal liability or obligations of the Trustee(s) or any admission of wrongdoing by the Trustee(s) without the prior written consent of the affected Trustee(s), (ii) if the FRBNY is also a party to any such Trust Litigation, the FRBNY shall engage and pay the expenses of separate counsel for the affected Trustee(s) to the extent that the interests of the FRBNY are in conflict with those of the affected Trustee(s) and (iii) in such event, (x) the affected Trustee(s) shall have the right to approve the separate counsel designated by the FRBNY, which approval shall not unreasonably be withheld or delayed and (y) the FRBNY shall be reimbursed for such expenses pursuant to Section 2.06(b) hereof.

(b) The Trustees shall provide reasonably prompt notice to the FRBNY of any Trust Litigation and may not make any admissions of liability or incur any significant expenses after receiving actual notice of the claim or agree to any settlement without the written consent of the FRBNY, which consent shall not unreasonably be withheld or delayed.

ARTICLE 3
TRUSTEES; TRUST EXPENSES; INDEMNIFICATION

Section 3.01. *Independence of Trustees.* A Trustee may not be an officer or employee of the FRBNY, the Treasury Department or the Company and may not have any material financial interest in the FRBNY (other than a Federal Reserve pension) or the Company (other than an insurance policy or annuity), shall not have a parent, spouse or child employed by or serving as an officer or director of the FRBNY, the Treasury Department, or the Company and shall be compensated for services rendered in connection with the administration of the Trust only as provided in Section 3.04 hereof.

Section 3.02. *Number, Resignation, Succession and Disqualification of Trustees.*

(a) It is the FRBNY's intention that there shall at all times be three trustees acting hereunder, provided, however, that, during any period in which there is a vacancy in the office of Trustee pending an appointment of a successor Trustee by the FRBNY (which shall consult with the Treasury Department regarding such appointment) the remaining Trustees may continue to exercise all of the powers, authorities and discretions granted them hereunder as provided in Section 2.03(b) hereof.

(b) A Trustee may at any time resign by giving 60 days' written notice of resignation to the FRBNY and the other Trustees. The FRBNY, after consultation with the Treasury Department and the other Trustees, shall, at least 15 days prior to the effective date of such resignation, appoint a successor trustee who shall satisfy the requirements of Section 3.01 hereof. If no successor trustee shall have been appointed and shall have accepted such appointment at least 15 days prior to the effective date of such resignation, any of the Trustees may petition any competent authority or court of competent jurisdiction (at the expense of the Trust) for the appointment of a successor trustee.

(c) If at any time a Trustee shall become incapable of acting, or if the other Trustees shall for any reason unanimously determine in good faith that the replacement of such Trustee is in the best interests of the Trust, including without limitation because of a belief that such Trustee is unable to act prudently and effectively with respect to financial matters because of accident, physical or mental illness, substance abuse, deterioration, injury or other similar cause, the other Trustees, after consultation with the FRBNY, may remove such Trustee by written instrument or instruments delivered to the FRBNY, provided, however, that an individual Trustee who dies shall be deemed to have been removed immediately prior to his death.

(d) If at any time any Trustee is (i) the subject of any information, indictment, or complaint, involving the commission of or participation in a crime involving dishonesty or breach of trust that is punishable by imprisonment for a term exceeding one year under state or Federal law, or (ii) reasonably determined by the FRBNY, in consultation with the Treasury Department, to have demonstrated untrustworthiness or to be derelict in the performance of his or her duties under this Trust Agreement, such Trustee shall, absent a determination by the FRBNY, after consulting with the Treasury Department, that such disqualification is not required, become immediately disqualified from acting as trustee hereunder upon the receipt by the other Trustees of written notice from the FRBNY of the occurrence of such an event, and the receipt by such Trustees of such notice shall automatically and immediately constitute the removal of the disqualified Trustee.

(e) In the event of any vacancy in the office of Trustee as a result of removal, the FRBNY, after consultation with the Treasury Department and the Trustees then in office, shall, by written instrument or instruments delivered to the successor Trustee, fill such vacancy by appointing a successor Trustee who shall satisfy the requirements of Section 3.01 hereof.

(f) Upon written assumption by a successor trustee of powers and duties hereunder, a copy of the instrument of assumption shall be delivered by the FRBNY to the other Trustees and the Company, whereupon the successor trustee shall become vested with all of the powers and duties of the resigning, removed or disqualified Trustee, and the term "**Trustee**" as used herein shall mean such successor trustee.

Section 3.03. *Standard of Care and Indemnification of Trustees.*

(a) *Standard of Care.* A Trustee shall have no liability hereunder for any action taken or refrained from or suffered by such Trustee, provided that such Trustee (i) acted in good faith in a manner the Trustee reasonably believed to be in accordance with the provisions of this Trust Agreement and in or not opposed to the best interests of the Treasury and (ii) had no reasonable cause to believe his or her conduct was unlawful (the standard set forth in foregoing clauses (i) and (ii) being the "**Applicable Standard of Care**").

(b) *Reliance on Experts.* The Trustees may act through legal, financial, press and other professional advisers and agents and shall not be answerable for the default, negligence or misconduct of any such professional adviser or agent so long as such professional adviser or agent was selected by the Trustees in accordance with the Applicable Standard of Care. For the avoidance of doubt, the right to act through professional advisers and agents is not an authorization to assign or delegate any rights or obligations under this Trust Agreement. The Trustees may consult with counsel, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken or refrained from or suffered by the Trustees hereunder so long as such legal counsel was selected by the Trustees in accordance with the Applicable Standard of Care.

(c) *Reliance on Certificates.* The Trustees shall not be responsible for the sufficiency or the accuracy of the form, execution, validity or genuineness of the Trust Stock, or of any documents relating thereto, or for any lack of endorsement thereon, or for any description therein, nor shall the Trustees be responsible or liable in any respect on account of the identity, authority or rights of the persons executing or delivering or purporting to execute or deliver any such Trust Stock or document or endorsement or this Trust Agreement, except for the execution and delivery of this Trust Agreement by the Trustees, so long as the Trustees acted in accordance with the Applicable Standard of Care.

(d) *Indemnification.* Each Trustee shall at all times be indemnified and held harmless from the Trust for any loss, cost or expense of any kind or character whatsoever (including taxes other than taxes based upon, measured by or determined by the income of the Trustee) incurred or suffered by such Trustee in connection with the Trust, the Trust Assets or this Trust Agreement so long as such Trustee had no reasonable cause to believe his or her conduct was unlawful, provided, however, that:

(i) neither the Trust nor the FRBNY shall be responsible for the costs and expenses (including settlement amounts) of any suit or litigation that the Trustees (in their individual or fiduciary capacities) shall settle without first obtaining the FRBNY's written consent, which consent shall not unreasonably be withheld or delayed; and

(ii) in order to recover under this indemnity with respect to any Trust Litigation or other claim a Trustee: (x) must provide reasonably prompt notice to the FRBNY of the claim for which indemnification is sought, provided that the failure to provide notice shall only limit the indemnification provided hereby to the extent of any incremental expense or actual prejudice as a result of such failure; and (y) must not make any admissions of liability or incur any significant expenses after receiving actual notice of the claim or agree to any settlement without the written consent of the FRBNY, which consent shall not unreasonably be withheld or delayed.

(e) *Source of Payment.* If the amount due a Trustee or otherwise payable from the Trust under Section 3.03(d) hereof cannot be immediately offset against or paid or reimbursed from the balance in the Deposit Account, for so long as the Credit Agreement is in effect the amount due shall be paid by the FRBNY and the FRBNY shall be entitled to reimbursement from the Company. Upon the FRBNY's receipt of reimbursement from the Company, the amount so reimbursed by the Company to the FRBNY shall thereafter be treated as if it were an amount advanced by the Company to the Trust for costs and expenses under Section 3.04 hereof.

(f) *Survival.* The provisions of this Section 3.03 shall survive the termination of the Trust or this Trust Agreement or the resignation or removal of a Trustee.

Section 3.04. *Payment of Other Trust Expenses.*

(a) Each Trustee shall be entitled to annual compensation in the amount of One Hundred Thousand Dollars ($100,000), payable quarterly in arrears, for all services rendered by such Trustee hereunder. All costs and expenses incurred or paid by the Trustees in their capacities as trustees hereunder (including the reasonable compensation and the expenses and disbursements of the professional advisers and agents of the Trustees in their capacities as trustees) shall be paid or

reimbursed from the Trust, subject to the provisions of Sections 2.07 and 3.03 hereof. In addition, all of the reasonable legal costs and expenses heretofore incurred by the Trustees in their individual capacities in connection with the establishment of the Trust shall be paid or reimbursed from the Trust.

(b) Any amounts due to the Trustees or third parties under Subsection (a) above shall be obligations of the Trust. Until such time as such amounts can be offset against or reimbursed from the balance in the Deposit Account, such amounts shall be paid by the Company and the Company shall be entitled to reimbursement from the Trust therefor, without interest, as provided in Section 2.06(b) hereof. Specifically:

(i) Following the execution of this Trust Agreement and the establishment of the Deposit Account, the Company shall deposit into the Deposit Account the sum of One Hundred Thousand Dollars ($100,000).

(ii) The Trustees may from time to time and at any time pay from the Deposit Account the compensation payable to the Trustees and all of the other costs and expenses payable or reimbursable from the Trust under this Trust Agreement and, in the event that at any time prior to the termination of the Trust the value of property held in the Deposit Account shall be less than Twenty-Five Thousand Dollars ($25,000), the Trustees shall notify the Company in writing as to the amount by which such value is less than the sum of One Hundred Thousand Dollars ($100,000) and, upon receipt of such notification, the Company shall promptly deposit into the Deposit Account an amount of cash equal to such deficiency.

(iii) In addition, the Trustees shall provide to the FRBNY and the Company, within 10 days following the end of every quarter, an accounting of all costs and expenses paid from the Trust during that quarter, together with supporting documentation, and an estimate of the costs and expenses anticipated to be reasonably likely to be paid in the following quarter. In the event that the amount of cash then available in the Deposit Account or which is expected to be available in the Deposit Account shall be insufficient to pay such costs and expenses (it being understood that the Trustees are neither required nor permitted to sell any portion of the Trust Stock for the purpose of obtaining cash to pay such compensation, costs, expenses, disbursements and advances), the Company shall, within 10 days of receipt of a request for funds, contribute to the Deposit Account an amount of cash necessary to pay such costs and expenses.

(iv) The FRBNY shall pay any amounts the Company fails to pay pursuant to this Subsection (b) as long as the Credit Agreement is in effect and the FRBNY shall be entitled to reimbursement from the Company. Upon the FRBNY's receipt of reimbursement from the Company, the amount so reimbursed by the Company to the FRBNY shall

thereafter be treated as if it were an amount advanced by the Company to the Trust for costs and expenses under this Section 3.04.

(c) Except as otherwise provided in this Trust Agreement, all ongoing Trust expenses, including, but not limited to, all investment-related expenses, all fees payable to the Trustees for their services hereunder, including but not limited to staff expenses, legal expenses, financial advisory, auditing and tax preparation expenses, mailing expenses, printing and postage expenses, insurance expenses, external accounting expenses related to the Trust and its investments and extraordinary expenses (such as litigation and indemnification of the Trustees) shall be paid from the Trust as provided in this Section 3.04.

(d) Unless waived in writing by the FRBNY, as condition to the payment from the Trust of expenses arising in connection with the retention by the Trustees on behalf of the Trust of experts and other professional advisers, the Trustees must disclose the material terms of the arrangement in advance to the FRBNY. For the avoidance of doubt, actual approval by the FRBNY of such arrangements shall not be a condition to the payment of costs and expenses of such experts and other professional advisers from the Trust.

(e) The provisions of this Section 3.04 shall survive the termination of the Trust or this Trust Agreement or the resignation or removal of a Trustee.

Section 3.05. *Additional Rights and Obligations of Trustees.*

(a) The duties, responsibilities and obligations of the Trustees shall be limited to those expressly set forth herein and no duties, responsibilities or obligations shall be inferred or implied. The Trustees shall not be subject to, nor required to comply with, any other agreement to which the FRBNY is a party, even though reference thereto may be made herein (unless the Trustees are also parties thereto). The Trustees shall not be required to, and shall not, expend or risk any of their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder. Each Trustee shall devote such time as shall be necessary to carry out his or her duties with respect to the Trust as determined by such Trustee in accordance with his or her independent judgment.

(b) No Trustee shall be obligated to present any business activity, investment opportunity (or so called corporate opportunity) or prospective economic advantage to the FRBNY, the Treasury or the Company, even if the opportunity is of the character that, if presented to the FRBNY, the Treasury or the Company, could be taken by it, and, except as otherwise expressly provided in this Trust Agreement, each Trustee shall have the right to engage in any business activity or to hold any such investment opportunity or prospective economic advantage for his or her own account or to recommend any such opportunity to third parties.

(c) If at any time a Trustee is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process that in any way affects the manner in which the Trustee performs functions in connection with this Trust, the Trust Stock or other Trust Assets (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays), the Trustee is authorized to comply therewith in any manner as the Trustee or its legal counsel deems appropriate, provided that the Trustee shall have given notice thereof to the FRBNY and the Treasury Department and if reasonably practicable shall have consulted with the FRBNY in respect thereof; and if the Trustee complies with any such judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process, the Trustee shall not be liable to any person or entity even though such order, judgment, decree, writ or process may be subsequently modified, vacated or otherwise determined to have been without legal force or effect.

(d) A Trustee shall not be liable for any action taken or refrained from or suffered by such Trustee so long as that Trustee acted in accordance with the Applicable Standard of Care. In no event shall a Trustee be liable for any consequential, punitive or special damages. For the avoidance of doubt, the Trustees are obliged to review, evaluate and make a determination, in accordance with the Applicable Standard of Care, as to the appropriate course of action to take with respect to each Vote or other issue of which notice is provided to the Trust or the Trustees.

(e) So long as a Trustee acts in accordance with the Applicable Standard of Care, a Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee hereunder and any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by the Trustee to be genuine and to have been signed or presented by the proper party or parties hereunder.

(f) In no event shall a Trustee be responsible or liable for any failure or delay in the performance of obligations hereunder arising out of or caused by, directly or indirectly, forces beyond the Trustee's control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes, acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services, it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices to resume performance as soon as practicable under the circumstances.

(g) In the event that, in the independent judgment of the Trustees, there is any ambiguity or uncertainty hereunder or in any notice, instruction or other communication received by the Trustees hereunder, the Trustees may, in their sole discretion and upon notice to the person providing such notice, instruction or

other communication and to the FRBNY, refrain from taking any action other than retaining possession of the Trust Stock, unless the Trustees receive written instructions, signed by the FRBNY, that address such ambiguity or uncertainty, in which instance the Trustees shall act in accordance with such written instructions.

(h) In the event of any dispute or conflicting claims with respect to the Trust, the Trust Assets or this Trust Agreement, the Trustees shall be entitled to refuse to comply with any and all claims, demands or instructions as long as such dispute or conflict shall continue, and the Trustees shall not be or become liable in any way to any person for failure or refusal to comply with such conflicting claims, demands or instructions. The Trustees shall be entitled to refuse to act until either (i) such conflicting or adverse claims or demands shall have been determined by a final order, judgment or decree of a court of competent jurisdiction, which order, judgment or decree as to which all appeals have been exhausted or waived, or settled by agreement between the conflicting parties as evidenced in a writing satisfactory to the Trustees or (ii) the Trustees shall have received security or an indemnity from the Trust or the FRBNY or another entity reasonably satisfactory to them sufficient to hold them harmless from and against any and all losses that they may incur by reason of so acting.

(i) The Trustees shall work with the Company and the board of directors of the Company to ensure corporate governance procedures satisfactory to the Trustees.

(j) Referring to Section 3.03(e) and Section 3.04(b)(iv) hereof, the FRBNY shall provide the Trustees with reasonable advance notice of any termination of the Credit Agreement.

ARTICLE 4
BOOKS AND RECORDS; TAX REPORTING

Section 4.01. *Records.* The Trustees shall maintain or cause to be maintained records sufficient to document each significant action taken by the Trustees pursuant to this Trust Agreement and shall provide the FRBNY with the following reports in a format and manner reasonably requested by the FRBNY:

1 Monthly custodial reports;
2 Quarterly summary of significant actions (votes, consents, etc);
3 Quarterly reports summarizing the efforts and activities to effect the sale or other disposition of the Trust Stock or other Trust Assets;
4 Minutes of any meetings of the Trustees; and
5 The Divestiture Plan, as amended from time to time by the Trustees.

So long as the Trust is in existence: (i) on a regular basis, but not less than quarterly, the Trustees shall meet with representatives of the FRBNY to discuss the administration of the Trust and other topics of interest to the parties; and

(ii) the Trustees shall promptly provide the FRBNY with copies of all correspondence or other information received by the Trustees from the Company in their capacity as trustees under this Trust Agreement.

Section 4.02. *Tax Reporting.* The Trustees shall be solely responsible for all tax returns and any other statements, returns or disclosures required to be filed by the Trust.

ARTICLE 5
AMENDMENTS; TERMINATION; GOVERNING LAW

Section 5.01. *Amendment.* Neither the FRBNY nor the Trustees shall have any power to alter, amend, modify or revoke any of the terms and conditions of this Trust Agreement. Notwithstanding the foregoing, the FRBNY and the Trustees may agree to amend, supplement, modify, or restate this Trust Agreement in order to:

(i) cure any ambiguity, omission, formal defect or inconsistency in this Trust Agreement (including to address any circumstance or development the FRBNY and the Trustees reasonably determine was not anticipated as of the Trust's inception); or

(ii) grant to or confer upon the Trustees for the benefit of the Treasury any additional rights, powers, authorities or remedies that may lawfully be granted to or conferred upon the Trustees.

Section 5.02. *Termination.* Unless sooner terminated pursuant to any other provision herein, this Trust Agreement shall terminate (and the Trust shall cease and come to an end) upon the earlier of (i) the sale or other disposition of all of the Trust Stock such that no Trust Stock continues to be held in trust hereunder; or (ii) the Company shall have been liquidated and shall cease to exist or a plan of reorganization or liquidation shall have been confirmed and consummated providing for no distribution in respect of the Trust Stock. Notwithstanding the above, the Trust shall not terminate until the Trustees transfer to the Treasury any moneys in the Deposit Account and liquidate any other Trust Assets and transfer the proceeds to the Treasury, which actions shall be taken expeditiously and promptly upon the occurrence of a termination event described above.

Section 5.03. *Governing Law.* This Trust Agreement and the trust created hereunder shall be construed, regulated and governed in all respects, not only as to administration but also as to validity and effect, by any applicable provisions of Federal law, and, in the absence of applicable Federal law, the laws of the State of New York notwithstanding choice of law provisions thereof.

ARTICLE 6
MISCELLANEOUS

Section 6.01. *Assignments.* The rights and obligations of the parties under this Trust Agreement may not be assigned except as expressly provided for herein.

Section 6.02. *Third Parties.* Nothing in this Trust Agreement, expressed or implied, is intended to confer upon any person (other than the parties hereto), or their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Trust Agreement.

Section 6.03. *Notices.* Any notice which any party hereto may give to the other hereunder shall be in writing and shall be given by hand delivery, first class registered mail, or overnight courier service, sent,

if to the FRBNY, to

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001
Attention: Sarah Dahlgren
Senior Vice President
with a copy to

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001
Attention: Thomas C. Baxter, Jr.
Executive Vice President and General Counsel

if to the Trustees, to the addresses that each Trustee has concurrently herewith provided to the parties to this Trust Agreement in writing.

if to the Treasury Department, to

Fiscal Assistant Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

if to the Company, to

American International Group, Inc.
70 Pine Street, New York, New York 10270
Attention: General Counsel

or to such other address as such party may hereafter specify for the purpose by notice to the other parties.

Section 6.04. *Individuals Authorized to Act for the FRBNY.* The FRBNY shall, from time to time, provide to the Trustees a list of individuals authorized to act on behalf of the FRBNY. Notwithstanding any other provision of this Trust Agreement, the Trustees may not rely on any communications from the FRBNY except for those made by such an authorized individual.

Section 6.05. *Entire Agreement.* This Trust Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, oral and written, among the parties with respect to the subject matter hereof and may not be modified or amended in any manner other than as set forth herein.

Section 6.06. *Successors.* This Trust Agreement shall be binding upon the successors to the parties hereto. The title to all property held hereunder shall vest in any successor Trustee acting pursuant to the provisions hereof without the execution or filing of any further instrument, but a resigning or removed Trustee shall execute all instruments and do all acts necessary to vest title in the successor Trustee. Each successor Trustee shall have, exercise and enjoy all of the powers, both discretionary and ministerial, herein conferred upon his or her predecessors. A successor Trustee shall not be obliged to examine or review the accounts, records, or acts of, or property delivered by, any previous Trustee and shall not be responsible for any action or any failure to act on the part of any previous Trustee.

Section 6.07. *Remedies.* Each of the parties hereto acknowledges and agrees that in the event of any breach of this Trust Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) shall waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to an order compelling specific performance of this Trust Agreement in any action instituted in the United States District Court for the Southern District of New York. Each party hereto consents to personal jurisdiction in any such action brought in the United States District Court for the Southern District of New York.

Section 6.08. *Waiver of Jury Trial.* EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS TRUST AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER.

Section 6.09. *Jurisdiction; Venue or Inconvenient Forum; Consent to Service of Process.*

(a) The parties agree that the United States District Court for the Southern District of New York shall have exclusive jurisdiction over any claims arising under this Trust Agreement, including claims for enforcement of this Trust Agreement. Each party hereby waives any objection to venue or any defense of inconvenient forum or any personal or subject matter jurisdictional defense in connection with such proceedings.

(b) The parties consent to service of process in the manner provided for notices in Section 6.03 hereof. Nothing in this Trust Agreement will affect the right of any party to this Trust Agreement to serve process in any other manner permitted by law.

Section 6.10. *Headings.* The titles to the Articles and the headings of the Sections and Subsections of this Trust Agreement are for convenience of reference only and are not to be considered in construing the terms and provisions of this Trust Agreement.

Section 6.11. *Perpetuities Savings Language.* Unless sooner terminated pursuant to other provisions of this Trust Agreement, the Trust shall terminate not later than the expiration of twenty-one years after the death of the last survivor of the descendants in being on the date of the execution of this Trust Agreement of each of the original Trustees. Notwithstanding the above, the Trust shall not terminate until the Trustees transfer to the Treasury any moneys in the Deposit Account and liquidate any other Trust Assets and transfer the proceeds to the Treasury, which actions shall be taken expeditiously and promptly upon the occurrence of a termination event described above.

Section 6.12. *Severability.* In the event any one or more of the provisions contained in this Trust Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties

shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions to effectuate the intentions of the parties as set forth in this Trust Agreement.

Section 6.13. *Counterparts.* This Trust Agreement may be executed in counterparts, each of which shall constitute an original but all of which together shall constitute one agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed as of the date first above written.

FEDERAL RESERVE BANK OF
NEW YORK

By: /s/ Sarah Dahlgren
Sarah Dahlgren
Senior Vice President

TRUSTEES:

/s/ Jill M. Considine
Jill M. Considine, Trustee

/s/ Chester B. Feldberg
Chester B. Feldberg, Trustee

/s/ Douglas L. Foshee
Douglas L. Foshee, Trustee

Chairman TOWNS. OK.

Ms. Considine, you're recognized for 5 minutes.

STATEMENT OF JILL CONSIDINE

Ms CONSIDINE. Mr. Chairman, ranking member, my name is Jill Considine, and I want to thank you for this opportunity to testify and share information pertaining to the responsibilities as a trustee of the AIG Credit Facility Trust.

I'd like to begin by describing a little bit my experience in both government and in the financial services industry. I served as a banker, a banking regulator and as the chief executive officer of systemically important financial institutions. Each of these experiences has proven invaluable as I participate with the other trustees to execute our responsibilities and maximize the government's investment in AIG, and most importantly, protect the interests of the American taxpayer.

I previously served as CEO of the First Women's Bank, was the New York State Banking Superintendent, and served as president of the New York Clearinghouse Association. In addition, I was the chairman of the CEO of the Depository Trust and Clearing Corp., and as was mentioned, was a member of the board of the Federal Reserve Bank of New York.

I agreed to serve as a trustee, understanding the importance and urgency of the mission we were being asked to undertake, and with a sense of duty to the taxpayers, whose interest to shareholders in AIG we were asked to represent. Now with respect to the particular role we had been assigned, we know that we're in uncharted waters. There is no history, no precedent to which we can look for guidance. Our anchor is the trust agreement itself, which describes our roles, our responsibilities and also our limitations.

The primary responsibility on the trust agreement is to vote the stock that we hold at all meetings of the stockholders, and most importantly in connection with the election of directors of AIG; to develop and execute a plan to sell or otherwise dispose of the trust stock in a value-maximizing manner, and of course to work with senior management and the board of directors of AIG to ensure that corporate governance procedures are satisfactory to us.

However, equally important, the trust agreement says what we should not do, and we cannot directly or indirectly become directors of AIG or be responsible for managing the day-to-day operations of AIG or any of its subsidiaries. Explicitly, by the terms of the trust, we must leave the day-to-day direction and management of AIG to the senior officers of the company and its board of directors.

Now there's been a lot of conversation today and in the past about the congressional and public concern over bonuses paid, and we share these concerns about the payments of large bonuses at the time when AIG was failing and being rescued by the taxpayers. However, we are committed to ensuring that issues of compensation at AIG going forward are addressed in a thoughtful, prudent and fair manner. It is essential that the board of directors focus on compensation because a fair and effective compensation system is truly necessary to ensure the successful restructuring of AIG and the recovery of the taxpayers' investment. In our view, compensation should be designed to be performance-based, to reward long-

term, sustainable value creation, and align employees' compensation with those of the shareholder over the long term. It should not be structured to encourage and reward undue risk taking or short-term results.

To these ends, we've asked Mr. Liddy, together with senior management at AIG, the board and the appropriate committees, to undertake a broad review of the compensation programs currently in place throughout AIG and to develop a comprehensive compensation program that applies to AIG as a whole. I'm honored to serve with my colleagues, Mr. Feldberg and Mr. Foshee in this important role. Mr. Foshee will now describe other aspects of our work, particularly with respect to the board of directors.

Mr. CLAY [presiding]. Mr. Foshee, you're recognized for 5 minutes.

STATEMENT OF DOUGLAS L. FOSHEE

Mr. FOSHEE. Ranking Member Issa and members of the committee, I'm Doug Foshee. I'll begin my testimony by providing you with some brief information on my background and experience. I've spent 27 years in business. I was a banker in Texas for almost a decade, have been employed by two global companies and have served in leadership roles in so-called turnaround situations. I serve on the boards of two Fortune 500 companies, and as mentioned, serve as chair of the Houston branch of the Dallas Federal Reserve Bank.

Perhaps my most relevant experience as it relates to AIG, though, is my current full-time job as chairman and CEO of El Paso Corp. I came to El Paso in the wake of a tumultuous time for the company. Stock prices falling precipitously, employees indicted and convicted, credit downgrades leading to cash collateral calls, and a trading company that included over 40,000 trades, inadequate risk management systems, more than one restated financial statement, rumored bankruptcy, a highly publicized proxy fight that forced a replacement of management, and substantial change in the board, innumerable government investigations, and tragically, the loss of morale of its long-time committed employees, most of whom had nothing to do with the decisions that led to the near demise of this great 80-year-old company.

I joined El Paso in 2003 to try, along with a very committed and talented group of employees to turn all this around. Since then, the team has divested over $17.5 billion in assets, reduced debt by half, returned our pipelines investment grade rating, and the company has been recognized by Fortune magazine as one of its most admired companies in 2008. The statistic we're most proud of, though, is that in our 2008 biennial employee survey, 91 percent of our employees said they're proud to work for our company as relates to 40 percent in 2004.

I'm serving as a trustee simply because I believe that to whom much is given, much is expected. I feel a deep sense of obligation to the U.S. taxpayers to act as a good steward of the investment that has been made in AIG, and I'm honored to serve in this capacity with my two co-trustees.

One of our most important responsibilities as trustees is to ensure that AIG has an effective, independent and capable board, and

that this board is focused on recruiting and maintaining a strong and effective management team dedicated to prosecuting the company's long-term plan. This allocation of responsibility between us on the one hand and the board and management on the other, in addition to being set forth explicitly in the trust agreement, replicates what is the accepted standard for good corporate governance for public companies in America.

For these reasons, we've spent considerable effort focused on AIG's board of directors, how it functions, what skills the board members have, and how those skills fit with the needs of a company in AIG's extraordinary circumstances. We've come to the conclusion that if AIG is to succeed it needs a fresh start, a reset if you will, a reset in the eyes of Congress, the American public and other important constituencies.

We've recommended five new highly competent, highly capable, independent candidates to the board. We expect that the board will approve those candidates soon, that their names will appear in the proxy statement that the company will be issuing within a week, and that they will be elected at the upcoming shareholders meeting. These five additions plus Mr. Dammerman, Ms. Nora Johnson and Mr. Liddy, and another new director proposed by the company, will give the company effectively nine new board members. We believe that this action is wholly consistent with our overriding objective as trustees to maximize the long-term value of the equity held by the AIG trust, and we look forward to supporting the newly constituted board as it carries out its tasks.

In closing, let me say that as trustees, we recognize there are many, many constituencies that have a perspective on, in many cases a stake in, the outcome of AIG. Most of them wish it to succeed. Some do not. In the end, though, our focus is on maximizing the long-term value of the equity that the AIG trust holds. It is through this lens that we see two constituencies to be of significant underappreciated importance—the customers of AIG and the employees of AIG. If we all as taxpayers wish to recover our investment in AIG, then everything begins with them. They watch TV and they read the newspapers. Every day, AIG's employees have a choice about where to work, and every day AIG's customers have a choice about where they buy their insurance and other financial products. If they don't choose AIG, then it is a mathematical certainty that the value of this asset, that we now all own collectively a piece of, will go down. We need to keep these constituencies in mind when the rest of us, the trustees, and respectfully, the Treasury Department, the New York Fed, and the Congress decide how best to proceed.

Thank you, Mr. Chairman.

Mr. CLAY. Thank you.

And Mr. Verret, you're recognized for 5 minutes.

STATEMENT OF PROFESSOR J.W. VERRET

Mr. VERRET. Chairman Towns, Ranking Member Issa and other distinguished members of the committee, I want to thank you for the opportunity to testify today. My name is J.W. Verret. I am an assistant professor of law at George Mason Law School and also a senior scholar at the Mercatus Center Financial Markets Working

Group. I also serve as the lead investigator for the Corporate Federalism Initiative, a network of scholars dedicated to studying the intersection of State and Federal authority in corporate governance.

My focus today will be the trust document set up by the New York Federal Reserve Bank to manage the U.S. taxpayers' investment in AIG. Make no mistake, this document represents a grave risk to the American taxpayers' $180 billion investment in AIG. I'm also concerned by the AIG trust because of the precedent it sets. Secretary Geithner has announced his intention to create another trust to manage the Treasury's investment in Citigroup as well as other TARP participants. If the AIG trust, crafted during the Secretary's tenure as president of the New York Fed, is used as a model for these new entities, the risk to taxpayers will be multiplied many times over.

My concerns are structural and in no way directed at the trustees themselves. By all accounts, they are professionals of the highest caliber, and their nation owes them a debt of gratitude for their generous service in this time of economic crisis. Today my focus will be the three most troubling provisions of the AIG trust. One requires the trustees to manage the trust in the best interest of the Treasury rather than the U.S. taxpayer specifically. Another offers generous protection against liability for the trustees, and a third permits the trustees to invest personally in investment opportunities that may otherwise belong to AIG.

The first dangerous provision is Section 3.03(a). That section defines the fiduciary duty of the trustees as being to manage the investment in AIG, "in or not opposed to the best interests of the Treasury." In other financial entities tasked with managing wealth on behalf of others, the fiduciaries must manage that wealth to maximize value for their beneficiaries. This is true for mutual fund trustees, ERISA retirement plan trustees, and boards of directors of publicly traded companies. This provision threatens the entire purpose of the trust itself, which is to create an independent buffer between the short-term political interests of an administration and the long-term health of the nation's financial system. Maintaining this buffer between short-term political interests and long-term financial soundness is critical.

The economic evidence from around the globe is overwhelmingly clear. Political ownership in private banks and financial companies results in lower GDP growth, increased need for subsequent government bailout, and politicized lending practices. For instance, in Italy, banks with government ownership lend at lower rates in the south since that area is politically important to the ruling coalition in parliament. I am concerned about the temptation that we may someday see TARP banks and other financial companies encouraged to subsidize lending, for instance, in battleground States. This is why requiring the trustees to manage the trust in the best interest of the Treasury and not the U.S. taxpayer is so very dangerous.

A second provision in the trust that I find troubling is the corporate opportunity provision located in Section 3.05(b). Typically, fiduciaries are prohibited from stealing investment opportunities that they learn about through their performance as a fiduciary or trustee and using those opportunities for themselves. The AIG

trust permits the AIG trustees to potentially secretly invest personally in investment opportunities they learn about through their performance as trustees without the necessity to even inform or seek permission from AIG or the Treasury or the Federal Reserve. This strikes me as unnecessary and particularly dangerous given the potential for the AIG trust to serve as a model for other similar documents.

A third threat to the American taxpayer located in this trust document are the indemnity and immunity provisions of Sections 3.03(a) and 3.03(d). These stand out as the most generous liability protections I have ever seen offered to managers of wealth and represent significant deviations from standard and best practice in corporate governance.

Under no circumstances are public companies permitted to indemnify directors for bad faith actions or actions not in the best interests of their beneficiaries. The AIG trust has no such limitation on trustee indemnification. I am aware of no ERISA or mutual fund trustee or director of a public company granted such a generous immunity from liability to their beneficiaries as the AIG trustees are in fact afforded. And I can see no good reason why those best practices should not apply here.

In short, a trust in which the trustees cannot be held accountable by their beneficiaries isn't much of a trust at all. It is vital that when an organization manages wealth on behalf of others, the ship's compass always point in the right direction, no matter who stands at the helm. For this reason, I am recommending that the flaws in this document be revised and at the very least not repeated in future trusts set up by the Treasury. I thank you for the opportunity to testify, and I look forward to answering your questions.

[The prepared statement of Mr. Verret follows:]

MERCATUS CENTER
GEORGE MASON UNIVERSITY

Flaws in the AIG Trust Agreement and Implications for Pending Citigroup and Other TARP Trusts

TESTIMONY

Before the House Committee on Oversight and Government Reform

Dr. J.W. Verret, Assistant Professor
George Mason University School of Law

Wednesday, May 13, 2009 10:00 AM
2154 Rayburn House Office Building

Chairman Towns, Ranking Member Issa, and Distinguished Members of the Committee:

It is a privilege to testify in this forum today. My name is J.W. Verret, and I am an Assistant Professor of Law at George Mason Law School, a Senior Scholar at the Mercatus Center at George Mason University and a member of the Mercatus Center Financial Markets Working Group. I also direct the Corporate Federalism Initiative, a network of scholars dedicated to study of the intersection of state and federal authority in corporate governance.

My focus today will be the Trust Document set up by the New York Federal Reserve Bank to manage the government's investment in AIG.

This document represents a grave risk to the American taxpayer's $125 billion dollar investment in AIG.

I am concerned by the AIG trust because of the precedent it sets. Secretary Geithner has announced his intention to create another trust to manage the Treasury's investment in Citigroup as well as other TARP participants. If the AIG trust, crafted during the Secretary's tenure as President of the New York Fed, is used as a model for these new entities, the risk to taxpayers will be multiplied many times over.

My concerns are structural and in no way directed at the trustees themselves. By all accounts they are professionals of the highest caliber, and their nation owes them a debt of gratitude for their generous service in this time of economic crisis.

Today my focus will be the three most troubling provisions of the AIG trust. One provision requires the trustees to manage the trust in the best interest of the Treasury Department rather than the U.S. taxpayer. Another offers generous protection against liability for the trustees, and a third permits the trustees to invest personally in investment opportunities that may otherwise belong to AIG.

The first dangerous provision is Section 3.03(a). That section defines the fiduciary duty of the trustees as being to manage the investment in AIG "in or not opposed to the best interests of the Treasury."

In other financial entities tasked with managing wealth on behalf of others, the fiduciaries must manage wealth to maximize value for the beneficiaries. This is true for mutual fund trustees, Employee Retirement Income Security Act (ERISA) retirement plan trustees, and boards of directors of publicly traded companies.

This provision threatens the entire purpose of the trust itself, which is to create an independent buffer between the short term political interests of an administration and the health of the nation's financial system.

Maintaining this buffer between short term political interests and long term financial soundness is critical. The economic evidence from around the globe is overwhelmingly clear that political ownership of private banks and financial companies results in lower GDP growth, increased need for government bailout, and politicized lending practices.

For instance, in Italy, banks with government ownership lend at lower interest rates in the South, as that area is politically important to the ruling coalition in parliament. I am concerned about the temptation that we someday may see TARP banks encouraged to subsidize lending in battleground states.

This is why requiring the trustees to manage the trust in the best interest of the Treasury, and not the U.S. taxpayer, is so dangerous.

A second provision in the trust that I find troubling is the corporate opportunity provision located in section 3.05(b). Typically fiduciaries are prohibited from stealing investment opportunities that they learn about through their performance as a trustee from their beneficiaries and using those for themselves.

The AIG trust permits the AIG trustees to, in theory, secretly invest personally in investment opportunities they learn about through their performance as trustees, without the necessity to inform or seek permission from AIG or the Treasury.

This strikes me as unnecessary and particularly dangerous given the potential for the AIG trust to serve as a model for other, similar documents.

A third threat to the American taxpayer located in this trust document are the indemnity and immunity provisions of Sections 3.03(a) and 3.03(d). These stand out as the most generous liability protections I have ever seen offered to managers of wealth and represent significant deviations from standard and best practice in corporate governance.

Under no circumstances are public companies permitted to indemnify directors for actions not undertaken in good faith and in the best interest of their beneficiary shareholders. The AIG Trust has no such limitation on trustee indemnification.

I am aware of no ERISA or mutual fund trustee, or director of a public company granted such a generous immunity from liability to their beneficiaries as the AIG trustees are afforded, and I can see no good reason why those best practices should not apply here.

In short, a trust in which the trustees cannot be held accountable by their beneficiaries isn't much of a trust at all.

It is vital that when an organization manages wealth on behalf of others, the ship's compass must always point in the right direction no matter who stands at the helm. For this reason I am recommending that the flaws in this trust document not be repeated in future trusts set up by Treasury.

I thank you again for the opportunity to testify today and I look forward to answering your questions.

Mr. ISSA. You finished exactly at 5 minutes on the button. Thank you so much, Professor. Let me start this round of questions. Can I ask you, when is your next shareholders' meeting? Mr. Foshee.

Mr. FOSHEE. The shareholders meeting hasn't been set. It's expected that the company will file its preliminary proxy within about the next week, and following that I believe within about 10 days, a final proxy, and then following that, a shareholders' meeting which I think we would expect would be toward the end of June.

Mr. CLAY. Are some of the items that will be discussed at this meeting include your executive compensation proposal and revamping the composition of the board?

Mr. FOSHEE. Certainly the five independent directors that we've recommended to the board and the one new director that the company has recommended to the board will be the subject of a subsequent vote by the board of AIG, and we expect their names to be included in the preliminary proxy filed within about a week.

Mr. CLAY. How about the executive compensation proposal?

Ms. CONSIDINE. If I may address that. The executive compensation, the letter that we sent requested the board and management and the relevant board committees to come up with a well defined compensation program. That does not go before the shareholders. But in it we would want pay for performance, we would want to have an overarching compensation philosophy, reward of long-term, focus on eliminating short-term risk that is rewarded, and also benchmarking the compensation packages that are going to be recommended to other companies that are in similar circumstances, size and complexity and ask for periodic updates to the trustees so that we can track to make certain that we have a comprehensive, well architected compensation program from all of AIG.

Mr. CLAY. Out of curiosity, what is the compensation of current or former board members? And is that in line with other corporations?

Ms. CONSIDINE. Well, let me remark on that. Initially the board members were paid in board fees, retainer and also in shares, and I would say prior to the financial crisis were making between $200,000 and $300,000 a year per director. This year the directors voted to decrease their compensation to $75,000.

Mr. CLAY. I see. Thank you for that.

Mr. FOSHEE. I just would add, which is substantially less, probably less by more than half, than the average Fortune 50 company, public company.

Mr. CLAY. Let me ask the three of you, how do you plan on voting on these matters? And are other issues up for a vote? I mean on the item of revamping the compensation or revamping the composition of the board, how do you—Mr. Feldberg.

Mr. FELDBERG. Essentially, that proposal is our proposal. I mean, we've been working very hard for the last month or two to put together this package of five new exceptional directors for the company, so we will be enthusiastically supporting that at the shareholders meeting.

Mr. CLAY. In your opinion, is AIG too big to fail?

Mr. FELDBERG. If you go back to when the decision was made by the Federal Reserve and the Treasury that it was too big to fail,

I don't have all the information today that they had when they were making that decision. But if you ask me my best judgment as to what the situation was then, I would have said yes, it was too big to fail.

Mr. CLAY. OK.

Mr. FELDBERG. Now whether it should have gotten to that point, you know, is a totally different issue. But where things sat at the point that they felt they had to act, if I had still been in that seat, I think I would have been arguing the same case.

Mr. CLAY. As far as the trustee model that you all operate under, and this is the first time that we can find that this model has been put in place by the U.S. Government, what is your opinion of the trustee model? Is it a well-oiled machine or one that needs to be thoroughly revamped and revisited, and if so, how?

Mr. FELDBERG. I think these are early days and I would emphasize that. I would also say that we didn't have anything to do with the decision by the Fed and the Treasury to develop the trustee model. So, you know, it wasn't invented here. I understand the problem that the Treasury and the Federal Reserve had that gave rise to their looking for a mechanism that would permit the stock to be voted in the best interests of the government but without the potential for conflict of interest. And I think this is a reasonable model to do it.

We've been working together as a team since the end of January, and intensely since we got the stock. I think the three-trustee model and the way the trust authorizes the three trustees to proceed has so far been an exceptional model. It expects us to act through a consensus, and to the maximum extent possible to act in unanimity. It does provide a mechanism so that if we cannot agree, two of the three trustees could go forward. To this point, I think I can say without hesitation that we have been able to talk things out and operate on every decision we've made, and there haven't been all that many, but every decision has been——

Mr. CLAY. I hate to cut you off. Any other panelists?

Ms. CONSIDINE. Yeah. Let me just take up on that because, you know, we were involved in crafting the mission as it was reflected by the trust agreement. You know, we didn't set up the structure initially, but we really believe that it can work. We've been working with it. We've been working under it, and we sometimes ask ourselves what else, what's the alternative? And perhaps if you looked at it, the only alternative would have been direct government control, and that would have been nationalization, and that was not the intent of this.

So we serve as the trustees. We're maximizing the value for the taxpayer, and we believe that it has functioned well, and we're pleased with it so far.

Mr. CLAY. Thank you.

Mr. FOSHEE. I just—I feel some obligation to——

Mr. CLAY. You aren't compelled to answer, Mr. Foshee. If you want to, you can.

Mr. FOSHEE. I just feel like we probably need to rebut some of the things that were said by my colleague to the left, because we disagree with him. The beneficiary of the trust is in fact not the U.S. Treasury Department. It is in fact the U.S. Treasury. Now I'm

not a lawyer, but as a lay person, I can tell you what I believe, and I believe that is the U.S. taxpayer.

Second, with regard to some ability to secretly take a business opportunity, there is in fact a provision in the trust that says that we cannot take a business opportunity away from AIG, but the fact is we all have other jobs, and if I have an opportunity for El Paso Corp., what the trust says is I don't have to share that business opportunity from El Paso with AIG, which I would think most people would think would be pretty reasonable.

And last, we would just respectfully disagree that the indemnification agreement provided in the trust is inappropriate, and in fact it complies with Delaware law and many other States and we're, as trustees, more than happy to put our reputational risk in front of this committee and act on behalf of the U.S. taxpayers. We feel responsible to each other in addition to the taxpayers, and to all of you. And we thought and still believe that the indemnification provided was appropriate.

Mr. CLAY. Thank you for that.

Mr. VERRET. Mr. Chairman, if I may——

Mr. CLAY. Mr. Verret, I'm going to let you have some brief comments, so you may proceed.

Mr. VERRET. Thank you, Mr. Chairman. First, with respect to the definition of what treasury means in this document, unfortunately it's particularly unclear. Treasury Department is a defined term which in corporate legal drafting is something we do to make sure that every time we use a term in a document, the definition is consistent. So we put it in bold, we put it in parentheses, we highlight it as much as possible. So Treasury Department is defined as the U.S. Department of the Treasury. Treasury, though, as mentioned in the applicable standard of care section is not a defined term. It's not in bold, and it's very vague about its definition.

Now I think it is perfectly consistent to understand that might mean the Treasury Department. That might also mean treasury, as in the general fund, in which case it still doesn't necessarily mean the same thing as maximizing shareholder value. Anything that might be good for the general fund, for treasury's expenses, maybe they want to do something discretionary but they can get AIG to fund it instead as a subsidy on AIG's books, could be in the best interests of the treasury, in the general fund, but not in the best interest of maximizing the taxpayers' investment.

Second, with respect to the corporate opportunity provision, I would offer only quickly that it would permit them to take opportunities that would otherwise belong to AIG. It's crafted specifically that way. And third, just with respect to indemnification, as a former clerk for the Delaware Court of Chancery, I can offer my professional opinion with respect to Delaware law that this indemnification in here is not legal under Delaware law. It's not permitted by the Delaware general corporation.

Mr. CLAY. All right. Thank you for that. And we are going to go to Mr. Kucinich. We're going to be a little lopsided for a minute.

Mr. KUCINICH. Thank you very much, Mr. Chairman. Mr. Feldberg, how often do trustees meet? And could you speak into the mic, please?

Mr. FELDBERG. Yes. We have decided as a matter of discipline that we will meet at least once a week, and at least one of those meetings a month will be in person. So the absolute minimum has been a meeting a week.

Mr. KUCINICH. So you meet telephonically then at least——

Mr. FELDBERG. At least a telephonic meeting a week and one in-person meeting a month. However, that's the minimum. Without having numbers, hard numbers I can give you, I would say that we probably met in person at least twice a month since we've been operating.

Mr. KUCINICH. Are minutes kept of your meetings?

Mr. FELDBERG. Yes.

Mr. KUCINICH. Can you make available to this committee the minutes of your meetings?

Mr. FELDBERG. Those minutes, under the terms of the trust agreement I believe, are provided to the Federal Reserve Bank in New York and I think are their property. I suspect that you'd have to go to the Federal Reserve Bank in New York to get them.

Mr. KUCINICH. So the minutes of your meetings are not your property, they're the property of the Federal Reserve Bank of New York?

Mr. FELDBERG. That may be a little strong.

Mr. KUCINICH. Well, that's what you just said.

Mr. FELDBERG. I know, and I may have been a little strong in saying that. But it is my understanding that the minutes belong to the Federal Reserve. I could probably use the advice of counsel to be sure I've got it right, because I don't want to mislead you.

Mr. KUCINICH. Mr. Chairman, I think that in order to be able to evaluate the work of these trustees, I think it's imperative that this committee get the minutes of their meetings and get their phone logs so we can know what they talk about.

Now, Mr. Feldberg, when did you become a trustee?

Mr. FELDBERG. When the trust agreement was first signed in——

Mr. KUCINICH. What was the date?

Mr. FELDBERG [continuing]. In January. The specific date? January 16th of this year.

Mr. KUCINICH. So you never had any discussions, then, with anybody at the New York Fed regarding the $8.5 billion in payments to Barclays as a counterparty?

Mr. FELDBERG. Absolutely none, Mr. Congressman.

Mr. KUCINICH. And do you—so your decisions really are not transparent then? We really don't know what you do as a trustee if we don't get—if you can't produce minutes.

Mr. FELDBERG. Well, I didn't say we can't produce minutes, sir. I said that I think we need to check with the Federal Reserve Bank of New York before committing to something.

Mr. KUCINICH. Well, you worked for the Federal Reserve Bank of New York. Is that correct?

Mr. FELDBERG. I did, yes.

Mr. KUCINICH. And how long did you work for them?

Mr. FELDBERG. Thirty-six years.

Mr. KUCINICH. OK. And were you asked by officials of the Federal Reserve Bank of New York to be a trustee?

Mr. FELDBERG. Yes I was.

Mr. KUCINICH. OK. And Ms. Considine, you worked for the—you were a member of the board of the Federal Reserve Bank of New York. Is that correct?

Ms. CONSIDINE. That's correct.

Mr. KUCINICH. And were you asked by the Federal Reserve Bank of New York to be a trustee?

Ms. CONSIDINE. Yes I was.

Mr. KUCINICH. And who made that request of you?

Ms. CONSIDINE. Tom Baxter, who is the general counsel.

Mr. KUCINICH. And Mr. Feldberg.

Mr. FELDBERG. The same, Tom Baxter.

Mr. KUCINICH. And do you report to the Federal Reserve Bank of New York on a regular basis?

Mr. FELDBERG. I would say that we have conversations with the Federal Reserve Bank of New York on——

Mr. KUCINICH. On a regular basis?

Mr. FELDBERG [continuing]. On a regular basis. I would not characterize it as our reporting to them. It is really a vehicle for us to exchange views and information and analysis. It's very much a two-way street.

Mr. KUCINICH. Isn't it true that Section 4.01 of the trust agreement calls for the trustees to provide the New York Fed with monthly custodial reports, quarterly summary of significant actions, quarterly report summarizing the efforts and activities to effect a sale or distribution of trust stock or other trust asset, minutes of any meeting, divestiture plan as amended time to time by the trustees? Isn't that true?

Mr. FELDBERG. Yes.

Mr. KUCINICH. So would it be fair to assume that the Federal Reserve Bank of New York has a significant role in monitoring the work of the trustees?

Mr. FELDBERG. Yeah. I would say that they have a significant interest in the work of the trustees.

Mr. KUCINICH. Are you trustees on behalf of the Federal Reserve Bank or are you trustees on behalf of the U.S. Treasury?

Mr. FOSHEE. We're trustees on behalf of the trust that holds the 79 percent equity on behalf of the U.S. Treasury.

Mr. KUCINICH. And then can you explain to this committee then why do you respond to the Fed, why is this trust agreement structured so that your accountability is to the Fed?

Ms. CONSIDINE. I don't think that's the reading that I would give to it, because No. 1, in terms of visibility of our responsibility, our responsibility is to act as the shareholder, and that is to vote the shares. Now when the annual meeting occurs of AIG, we will be voting for the directors, we'll vote the trust for the directors, we will vote for the auditors and we will vote for any other proposals that are coming before the shareholders. That will be absolutely open and public. As part of the agreement, yes, we are to provide minutes and of course expenses back to the Fed. But we were selected to be totally independent trustees, and I believe that's the way we function.

Mr. KUCINICH. Mr. Chairman, my time has expired. I'm going to need to ask questions along these lines if I may as a followup. Thank you, Mr. Chairman.

Chairman TOWNS. I'd be delighted. Recognize the gentleman from California, Mr. Issa.

Mr. ISSA. I want to thank you all for being here and I want to thank you for your service. And I said to most of you, or two of you beforehand, this committee is not questioning your honesty and your effort to live under the trust agreement you've been given, which, Mr. Feldberg, you made very clear, you didn't draw it up. You know, this is sort of the job you got hired for, and the conditions of the job were already set.

And I think it's important that the public understand that if there were mistakes made or if we are sending you in the wrong direction, it is not because you made that determination. And since your contract was signed, the trust was created on January 16th, then the previous president was still in place and the previous secretary of the treasury was still in place, so we'll accept for a moment that this is a two-administration decision.

I'm going to go to Mr. Verret first. And specifically about the new administration, President Obama has said that he believes that we should actually have the Iraq and Afghan wars on the books. He thinks that should be part of the national debt. The various TARP injections and particularly the guarantees totally trillions of dollars, what would be the effect if we—should we put those onto the national debt since they are obligations of the Federal Government, and what would be the effect?

Mr. VERRET. Well, I can tell you the effect of when the United Kingdom took—bailed out its two largest banks, when it bailed out the Royal Bank of Scotland and Lloyd's. They put that $2.1 trillion of debt on those banks' private bank budget onto the national budget, and I think this was a consistent decision by Chancellor Darling that under the accounting rules, government accounting or private accounting, when you control an entity and you back up an entity, you're responsible for their debt, so you need to consolidate their debt onto your books.

So when Chancellor Darling consolidated the debt of those two banks onto the U.K.'s national debt, the U.K.'s national debt doubled. It literally doubled overnight. And if we were to put Citigroup, for instance, debt onto the national debt, which I think would be appropriate, because we now own a controlling stake, a 36 percent controlling stake in Citigroup, which even under the Treasury Department's own regulations about reviewing foreign investments in the United States is defined specifically as control—they define it as control at 10 percent. We've got 36 percent under Delaware corporate law, that's control. Under the securities laws, that's control. So we, I think, to be consistent should put Citigroup's national debt—Citigroup's private bank debt—onto our national debt. That would, I think, increase—by back-of-the-envelope calculation—it would increase our national debt by about 15 percent, just Citigroup alone. Other TARP participants, the national debt would increase by significantly more. So right now it's effectively sort of a shadow national debt that we have unrecognized.

Mr. ISSA. OK. Well, I appreciate that and I may send a reminder to the President that he supported that. Ms. Considine, I'm going to ask you, but the others are free to answer, my understanding

is that you represent, you three are for all practical purposes the stockholders for 79.9 percent of the company and you act as prudent stockholders should act in your day-to-day business. That's your charge, when we get past the legal contract. Is that right?

Ms. CONSIDINE. Correct. That's correct.

Mr. ISSA. So regardless of whether it's the Treasury or the treasurer or whoever, do you believe that your job is to maximize the stockholder value on behalf of whoever the owner is?

Ms. CONSIDINE. Absolutely. Absolutely.

Mr. ISSA. You're all saying yes?

Mr. FOSHEE. Yes.

Mr. FELDBERG. Yes. I thought I made that clear in my opening——

Mr. ISSA. OK. And what's important to me to go down this road is, any—well, first of all, the New York Times has said that if they don't like what you're doing, the Fed will fire you. Do you believe you can be fired by the Fed even though you're maximizing the stockholder value?

Mr. FELDBERG. I think the Fed could remove us for cause, but only——

Mr. ISSA. OK. Well, let's go down that for a second. The Fed is sitting there with tens of billions of dollars that it's owed on the other side of the ledger, but if as stockholders you want to maximize stockholder value, wouldn't you consider doing through your board, through the operational, through Mr. Liddy, consider doing a lot of things that maximize value? For example, spinning off the healthy companies into new public companies in which you would have an 80 percent share, and that stock would trade unimpaired and immediately rise to its fair value, and determine that the debt that Treasury put on belongs to the corpus in London, not to the corporation that you're spinning off, and as a result, leave it where it would be. Now wouldn't that be a prudent thing for the board to do on behalf of this money that Mr. Liddy admitted was injected by the Treasury and given to other companies, including ones overseas, because of factors outside the best interest directly of the company? So as stockholders, are you free to do that? Can you do that even though, in fact, you probably would be increasing stockholder value here, and Treasury may not like it because they may have to admit that what they did was—well the term is urinate I guess—we don't say the other word anymore—a whole bunch of the taxpayers' dollars into foreign banks and other corporations that have slid right out of your company, one division of your company, which you did not have an obligation to pay, but if they gave you the money and you paid it out anyway? A complex question. Yes?

Mr. FOSHEE. Congressman Issa, if I could answer that question, I think that you just articulated the primary reason that there is a trust, because the Treasury and the Federal Reserve Bank of New York couldn't be effectively lender——

Mr. ISSA. It couldn't be both fiduciaries.

Mr. FOSHEE [continuing]. Lender, regulator and equity holder. And so the very thing that you're talking about, which is a lender wanting the company to take an act which is not in the best interests of the shareholders, especially to the extent that act required a shareholder vote, is exactly why the three of us are sitting here

in front of you today, and our responsibility would be to act in the long-term best interest of the shareholders.

Mr. ISSA. OK. Ms. Considine, I'll let you all answer if the chairman will indulge me, but the other two parts of the question were, are those other acts which would maximize the value, which are available to you today at your disposal, and would all of those acts be outside what you could be fired for since they may very much leave this corpus with a negative balance while in fact maximizing stockholder value?

Ms. CONSIDINE. They would be outside of what we would be fired for.

Mr. ISSA. So you could do that if it's determined to maximize the value for the company as stockholders, as—and working with your board?

Ms. CONSIDINE. Well, I think there's two issues. No. 1, the cause for which we could be fired, and No. 2, what is the roles, responsibilities and limitations of the trust. And I think it's something that we'd have to think about, and as we said, this is unchartered waters, because we need to respect corporate governance, we need to respect the role of the board of directors, who are duly elected by the shareholders. But that's the balance that we have here. You've got the debt holders on one side, the equity holders on the other. Maximizing long-term value versus trying to get repaid for loans that have been made. And that's why I think this trust is such a unique instrument but is probably perfectly tailored to the situation in which we found ourselves.

Mr. ISSA. Yeah. And Mr. Verret wanted to answer briefly.

Mr. VERRET. I just want to briefly add just to cite Section 2.04(d), if that's useful to the discussion. It says clearly here that in exercising their discretion with respect to the trust, the trustees are advised that it is the Federal Reserve Bank of New York's view that, "the company being managed in a manner that would not disrupt financial market conditions is consistent with maximizing the value of the stock," even though maybe technically that might not be the case. So it seems like they are afforded the discretion, at least as I read the trust, to do things consistent with helping general market conditions even though it might not maximize the value of the stock.

Mr. FELDBERG. I believe that clause was put in by the Federal Reserve to express their desire that issue be considered in the course of the trustees' deliberations. It was explicitly done in a way that it does not direct the trustees to do anything.

Mr. ISSA. So none of you feel bound by that provision if in fact you have to choose between stockholder value and——

Mr. FELDBERG. No.

Mr. ISSA [continuing]. And, "disruption of some market?"

Mr. FOSHEE. We feel bound to consider that, but we don't feel bound to follow that, no.

Mr. ISSA. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much. Let me just take my round. First of all, let me thank you for being here.

Mr. FELDBERG. Yes.

Mr. FOSHEE. Just to be clear, we're responsible for overseeing the equity held by the shareholders, the shares held by the trust.

Chairman TOWNS. Right. I would like to provide a copy, let me put it this way, do you have a plan?

Ms. CONSIDINE. I think you're probably discussing the plan, the disposition plan that we're responsible for putting together.

Chairman TOWNS. Yes. Are you the project, are you involved in Project Destiny?

Ms. CONSIDINE. Oh, no, no.

Chairman TOWNS. You're not involved in that at all?

Ms. CONSIDINE. We've looked at Project Destiny, we've discussed it with the senior staff at AIG, we've given some comments. We've seen it on the high level in terms of the plan.

Chairman TOWNS. Right.

Mr. FELDBERG. If I might add, I think that plan is a good example of the intersections between management, the trustees and the Treasury and the Fed. The plan, which Mr. Liddy talked about earlier today, is AIG's plan. But in order to implement the plan, it will require a buy in by the Treasury and the Federal Reserve and, you know, could conceivably involve a change in, or an increase in the financing provided by the Treasury and the Federal Reserve to AIG.

Chairman TOWNS. Let me ask you, go ahead.

Mr. FELDBERG. The role of the trustees in connection with that plan has been to provide our business judgment and experience in reviewing the plan and telling the Treasury and the Fed where we think the plan could be enhanced if we saw areas where that was possible, and in fact, we have given them positive input in a number of areas in connection with the analysis and review of the plan. But at the end of the day, it's AIG's plan and it will only go into effect if the Federal Reserve and the Treasury buy into it. At least, that's my understanding.

Chairman TOWNS. Right. Let me ask you this, then. What is your view of Project Destiny? What do you think of it?

Ms. CONSIDINE. Let me start off. I think it's a workable plan. There are issues that need to be addressed in terms of the timing of the plan. And also, the timing has to do with many of the risks that are out there in terms of the economy, the capital markets, and the ability to dispose of or get financing for the disposition of these assets.

Mr. FOSHEE. Yes, I think based on what we've seen, Mr. Chairman, the plan makes sense. I think one of the challenges that AIG faces is, you don't want, in this kind of a market to go take these sort of crown jewel assets and sell them in a market where there aren't capital markets for buyers to pay full value. The other problem, of course, is that the AIG brand has been damaged and I think the company views, and we would concur, that taking the three, in particular, the three large insurance assets and making those separate public entities does a number of things. The first thing it does is, of course, get them out from under the negative halo of the AIG brand. It also re-energizes the employees of those companies because they now feel like they have a future with a brand new, very large public company at some point. And then, I think the third thing, as a practical matter, is to the extent there are entities out there that would want to acquire an insurance

company or something like that. It creates a certain amount of valuation that is apparent by issuing it in the public market.

Chairman TOWNS. All right.

Ms. CONSIDINE. And I think, just to followup on that, that was one of the reasons that we, as trustees, sent the letter in terms of having a comprehensive compensation philosophy in place there. Because if you're going to be having different companies, you're going to need management out there, and they need the ability to attract and retain people to come in and be able to manage these and get them into the shape that they're going to be able to maximize the value when they're disposed of, either through sale or an IPO.

Chairman TOWNS. AIG has received billions in tax dollars but continues to post losses with the largest in history—over $60 billion was posted just 2 months ago. What can we do to turn this around? Have you made suggestions or recommendations to them, or are you just, saying, look, that's the way it is and that's what's going to happen. What is your role in trying to turn this around? Or do you have a role in it?

Mr. FOSHEE. Well, I think one of the things, one of the most prominent roles that I believe we can play as trustees, is ensuring that AIG has the best, most qualified, independent board of directors that it can have, overseeing the management team and ensuring that there's a management team there that is properly motivated and can execute the plan. So, I think in that, one of our primary tasks, we feel good about the successes we've had in being able to attract those kind of people to come be the board members of AIG. And it is that group, the board and the management team, that have the responsibility for directing this company and getting it through this mess. I think our input, I believe that it's valued by the company and by the Federal Reserve, to the extent we have conversations with them. And so, I do believe we're playing an active role in that.

Chairman TOWNS. Do you have a plan that you submitted to AIG? I know you get together, you indicated that, but did you submit a plan as a group saying you think this is something that should happen or this is something that we should move forward and that maybe instead of 3 to 5 years, giving the taxpayers their money back, we can do it in a shorter period of time? Do you have a plan? Anything on paper that you can give us?

Mr. FOSHEE. No. In fact, the trust doesn't charge us with creating a plan other than for the disposition, the ultimate disposition of the shares of AIG that we are entrusted to be stewards of. And we would expect, as we sit here today, that's probably years away in terms of maximizing the shareholder value.

Ms. CONSIDINE. And we can't dispose of those shares until the loan that was extended by the Federal Reserve Bank of New York is repaid. Now, that doesn't mean we're going to wait until the "repayment" to come up with a plan. But, I think it's a little premature to be working on a plan for disposition of the shares that we hold at this time.

Mr. FOSHEE. And it really isn't our role to create, nor could we, the three of us, this, one of the largest companies in the world, create our own plan for what AIG should do with its business. What

we do do, though, is we talk to the company's management team, the company's outside advisors, their outside auditor, the head of internal audit, the Federal Reserve, and its outside advisors, and develop our own business judgments so that we can react to plans that are presented by the company.

Chairman TOWNS. You know, I'm just thinking that, if you, a trustee of a company that has set a record in losses, it seems to me that you should have something to say. Should put something somewhere. I mean, if you're not, you should feel extremely guilty. You know, because the point of that, I mean, they've set a record, posted in the last 2 months, in terms of their losses, and so, I mean, seem to be that based on your background and you're being involved in business and, of course, that you should be able to say to them, we need to move in a different direction, let's try this. I mean, I would like to see something on paper that you've given them as a suggestion, a recommendation, knowing that it's not your final decision, but my God, I mean, this kind of loss, somebody ought to say something and somebody ought to do something.

Mr. FOSHEE. Yeah, well, I'm sorry, go ahead.

Mr. FELDBERG. As I think has been said, there is a plan. In the first instance, it was put forth by AIG. It's a massive document. I mean, the number of man-hours that have gone into its preparation——

Chairman TOWNS. Are you referring to Project Destiny?

Mr. FOSHEE. Yes.

Mr. FELDBERG. I'm referring to Project Destiny. And that plan has been submitted to the Federal Reserve and the Treasury for their review and buy in. And the role we have played is to have access to the plan and an opportunity to provide our input. And we have done that informally in discussions with AIG and the Federal Reserve and the Treasury. And those discussions are ongoing.

Chairman TOWNS. So, there's no input in writing. You haven't written anything down.

Mr. FELDBERG. Mr. Chairman, at the moment, we are basically a staff of three, the three trustees. We have opted not to hire our own analytical resources, not to engage outside consultants, investment bankers, or whatever to assist us. There may be a point in the future where we will decide to do that and certainly when we get to the point of having to come up with a plan for the disposition of the stock, we will do that. But at this point, we have a law firm advising us to make sure that we comply with all the legal requirements of the trust and anything else that's relevant. And we've got somebody to help us deal with the press, but that basically is it and there are the three of us. And what we are trying to do, is provide from the top down, our business judgment and experience in reviewing the plans that have been prepared.

Ms. CONSIDINE. I think in this case leverage is good. We are trying to leverage the board, the management, the outside firms that they are using, be they investment banks, auditors, internal auditors and all the resources, and bringing that together and then coming in and offer, based on our collective business judgment, feedback and comments.

Mr. FOSHEE. I think our business judgment is that, frankly, the last thing AIG needs now is another set of outside advisors. The

company has internal staff, it has external advisors, the Federal Reserve Bank has internal staff, it has outside advisors. We've chosen, rather than to spend the taxpayers' dollars on another set of investment bankers at this point, not to do that and leverage what already exists. But we have a, I think, we have had a significant amount of input into the direction of the company and I would say, not only are we not embarrassed, we're proud that from a standing start at the beginning of March, we're able to announce to you today that we've put forward five really capable, really independent directors that we expect to be elected at the shareholders' meeting now close to a month away. Because we know, if AIG has the best board it can get, and that board is directing the best management team it could get, therefore, you're going to end up with the best outcome you can have for the U.S. taxpayer.

Chairman TOWNS. Thank you very much. I yield to Congressman Tierney from Massachusetts.

Mr. TIERNEY. Thank you, Mr. Chairman. Do your minutes reflect conversations you've had amongst yourselves about Project Destiny?

Mr. FOSHEE. To the extent it was during a trustee meeting, I think the answer to that would be yes, though I haven't gone back and reviewed all of those.

Mr. TIERNEY. Are you having conversations amongst yourselves about Project Destiny on occasions when you would not term it a trustee meeting?

Ms. CONSIDINE. I think we've had the conversations on Project Destiny when it's been with the AIG management, with AIG management and the Fed, and AIG management, the Fed and Treasury.

Mr. TIERNEY. Do your minutes reflect those conversations and dialog with those individuals?

Ms. CONSIDINE. Well, they wouldn't be the minutes of the trustees. They would have been the group conversation.

Mr. TIERNEY. Well, but there is no record, in other words, of the trustees, of dialog that they've had with third parties on the issue of Project Destiny?

Ms. CONSIDINE. Project Destiny.

Mr. TIERNEY. You don't go back and make a report or keep any record of what conversations you had or whatever?

Mr. FOSHEE. Probably not.

Ms. CONSIDINE. These are real working sessions.

Mr. TIERNEY. What is the value of the stocks that you hold right now?

Ms. CONSIDINE. Well, if you——

Mr. TIERNEY. Best estimate.

Mr. FOSHEE. I don't think a reasonable person could tell you the answer to that question, given the nature of the complexities that are in front of AIG. I think it is our business judgment that the plan that's been put forth offers up a very credible, very rational way for the U.S. taxpayer to get its money back.

Mr. TIERNEY. You wouldn't just take the number of shares you have and multiply by the dollar per share cost of what's on the market?

Ms. CONSIDINE. Well, I mean, that's what I was going to say. If you want to say 80 percent of what the share price, between $5 and $6 billion, so it's $4.8 billion. I mean, if you're looking for, whether that's real.

Mr. FOSHEE. Whether that's the long term value of those shares is another question.

Ms. CONSIDINE. That's present value.

Mr. TIERNEY. Now, there's conversation that this Project Destiny really looks like a way of selling off bad assets, of restructuring and selling profitable units, in an attempt to wind down the company. There are some people that believe that's what's going on here. And, is that your impression, and if it is, aren't we just looking at bankruptcy by another name?

Ms. CONSIDINE. Well, I would say that it's looking to sell off good assets. And there are some very, very valuable assets within the AIG umbrella: the insurance assets. And I believe, as Mr. Liddy talked about, ALICO, AIU, and AIA are three of, sort of, the gems that are being looked at. Part of the plan is to, you know, continue the wind down of the financial products division. So, I think what you'd be left with would be a much smaller AIG, reconstituted, which would probably be, in some respects, almost an investment company that would be holding the shares in these other companies until they were finally disposed of, whether a total sale, an IPO, or if only portions of it were sold.

Mr. TIERNEY. Couldn't we have kept $185 billion in the Treasury and just gone right to that by having a bankruptcy proceeding at the very outset of this?

Mr. FELDBERG. You probably could have, but that gets into the question of systemic risk and what would the implications of that have been, more broadly.

Ms. CONSIDINE. You know, I was just on another panel last night and when you think back on what was going on that weekend of September 13th, this fall, where you had Merrill Lynch and you had Lehman Brothers and then, you know, within 24 hours, you had an end issue with AIG, I think the impact would have been beyond what we could even imagine, even after what we've all seen. So, I think, you know, maybe 20 years from now, academics can look at it and really have some time and some distance. But I think acting within that 48 hour time span, what was done was probably the thing that had to be done, given the systemic consequences that were out there.

Mr. TIERNEY. You're familiar with the Black Rock contract with the Fed?

Ms. CONSIDINE. Not familiar with it, but aware of it, yeah.

Mr. TIERNEY. I'm sorry?

Mr. FELDBERG. We're aware of it.

Ms. CONSIDINE. We're aware of it.

Mr. TIERNEY. Does that impact your role at all? I mean, that they've actually been, sort of, charged with the oversight and monitoring of what's been, what's going on within the company for a bit. Does that, the impact, are you getting in touch with them at all and sharing notes, or——

Mr. FOSHEE. We have not had conversations either with Black Rock or, I believe, Black Stone, who is also an advisory to the com-

pany or to the Fed. I think our view is that so far as we know, those are good things, not bad things, because as everyone knows, the financial products group in particular, has been under a tremendous amount of stress, still represents a tremendous amount of exposure to the company and having another set of eyes in there to assist, we would view, on its face, as a good thing from the perspective of protecting the taxpayers' interest.

Chairman TOWNS. Will the gentleman yield at this time? We have a vote on and I'd like to move to Congresswoman Marcy Kaptur and then we will be able to conclude. Congresswoman Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman. Mr. Foshee, who is El Paso Corp.'s chief banker?

Mr. FOSHEE. El Paso Corp.'s chief banker, we have relationships with half a dozen of the top, of the largest financial institutions in the world.

Ms. KAPTUR. And they would be?

Mr. FOSHEE. Bank of America, J.P. Morgan, Deutsche Bank, Goldman Sachs, I'm going to get in trouble for leaving one out, by them. Royal Bank of Scotland, a whole litany of banks around the world that are service providers to El Paso.

Ms. KAPTUR. Many and also many of which, most of which, have gotten counter-party funds through the AIG transactions through the Fed. You would agree to that?

Mr. FOSHEE. You know, again, specifically, I'm sure that many of them did, because we do business with many of the banks around the world.

Ms. KAPTUR. Well, J.P. Morgan Chase got $1.6 billion, Bank of American got $12 billion, Citigroup got $2.3 billion. Interesting to look down the list. Let me ask you, when you served as CEO of Halliburton, were you a party to the no-bid contracts that were initiated at the beginning of the Iraq war for the oil security in Iraq?

Mr. FOSHEE. First of all, I was never CEO of Halliburton. I worked for Halliburton for 24 months. I was hired on the heels of the asbestos crisis as a Chief Financial Officer in what would have been characterized as a turnaround mode when the stock went from $56 to $6. Of the 24 months I was there, I spent most of that time as the Chief Financial Officer, so I would not have had a role in that.

Ms. KAPTUR. All right, this says chief operating officer, executive vice president, so.

Mr. FOSHEE. And the last 6, yes, and the last 6 months I was with the company, I was the Chief Operating Officer.

Ms. KAPTUR. All right. Through what years? Through 2003?

Mr. FOSHEE. That would have been, I believe I left in early to middle 2003. So the last 6 months prior to that.

Ms. KAPTUR. All right. So, you would have been there at the beginning of the Iraq war?

Mr. FOSHEE. Yes.

Ms. KAPTUR. All right. Thank you very much. Mr. Feldberg and Ms. Considine, when people wish to write you, in your position as trustees, which address do they write you?

Ms. CONSIDINE. 399 Park Avenue, New York, NY, and the Zip is 10022.

Ms. KAPTUR. All right. And how do they address that?

Ms. CONSIDINE. Care of Arnold and Porter. We have a trust office at Arnold and Porter at 399 Park.

Ms. KAPTUR. All right. Mr. Feldberg, through 2008, you were chairman of Barclays America, is that right?

Mr. FELDBERG. Yes.

Ms. KAPTUR. OK, do you own stock in that bank?

Mr. FELDBERG. Yes, I do.

Ms. KAPTUR. You do? What is the relationship between that and Barclay Capital, that was in receipt of $8.5 billion through the AIG counter-party arrangement with the Fed?

Mr. FELDBERG. Barclays Capital is a business unit of Barclays Bank and——

Ms. KAPTUR. So, they are related.

Mr. FELDBERG. They are related, yes.

Ms. KAPTUR. All right. And when you worked at the Fed, what did you do? You were a senior official. What did you do?

Mr. FELDBERG. Well, I did a number of different things, but——

Ms. KAPTUR. What was your title?

Mr. FELDBERG. Executive vice president at the time I retired.

Ms. KAPTUR. All right.

Mr. FELDBERG. I spent about 10 years running the discount window, the Fed's lending operation. And the last 9 years I was there, I was executive vice president, responsible for bank supervision.

Ms. KAPTUR. Thank you. And where is Barclays that you worked for, headquartered in our country? Where is it?

Mr. FELDBERG. In New York City.

Ms. KAPTUR. And what street?

Mr. FELDBERG. Well, it's moved, but at the time, it was 200, well, when I left it was 200 Park Avenue.

Ms. KAPTUR. Park Avenue. So, you're close neighbors there. And Ms. Considine, I wanted to ask you, Butterfield Fulcrum, it's a hedge fund management industry. Who are your major clients?

Ms. CONSIDINE. Mainly hedge funds, such as, well, very small ones, they wouldn't be on your radar screen, I mean.

Ms. KAPTUR. Could you provide those for the record, please? Just pick one. Pick two. Pick three. You must know who your clients are.

Ms. CONSIDINE. Yes, I am. The thing is, we are a private company and we usually don't come out with our clients' names, so I would just have to check with it. The other thing is, it is not a U.S. company, so I would just like to go and get clearance on that.

Ms. KAPTUR. Uh, Butterfield Fulcrum?

Ms. CONSIDINE. Butterfield Fulcrum.

Ms. KAPTUR. It is based in what country, then?

Ms. CONSIDINE. It's a Bermuda company. It was founded 20 years ago in Bermuda. It was bought out about 2 years ago by a UK company and then in the past year, we merged with the arm of Butterfield Bank, which is a 150 year old Bermuda bank. So, it's a global company. It is incorporated in Bermuda. Its senior management is located in the UK.

Ms. KAPTUR. All right. I thank you for stating that. Mr. Chairman, my time is expired.

Chairman TOWNS. Thank you. We have a vote on, so, we have three votes on, so I'd hope we'd be able to make it——

Ms. KAPTUR. Mr. Chairman, Mr. Chairman, may I just say, you know, as I've listened today, I get more and more concerned when I represent a part of our country that is being devastated by what these New York institutions and New York headquarters institutions have done to America and have done to places like I represent. You have no conceivable idea of the damage you have done and are doing. I could go into a lot of detail here and I know Mr. Chairman will have followup hearings. The way this whole thing is structured, it's an inside deal from the beginning. Every single witness we've had is headquartered in one place. You all know one another, you work together all the time and I'll tell you, what you've done to middle America is a sacrilege. Thank you, Mr. Chairman.

Mr. FOSHEE. For the record, I'm from Texas. Our headquarters are in Texas.

Ms. KAPTUR. Oh, but your bankers aren't. They follow right up the street.

Chairman TOWNS. Let me, you know, it's not clear, to me and other Members here exactly what you do, in terms of the role that you're playing in this. So, if you'll be kind enough to submit to the committee, some minutes of your meetings, so that we can get a feel for what you're doing, because it's not clear to us up here. And we've been sort of like, whispering to ourselves and passing notes, you know, to ourselves, about your real role.

And so, if you could help us with that, well, I'll hold the record open for some minutes to get a feel for what you're doing and maybe we'll understand, why you're doing that.

Thank you so much. We appreciate you coming today.

[Whereupon, at approximately 2 p.m., the committee was adjourned.]

[The prepared statement of Hon. Gerald E. Connolly and additional information submitted for the hearing record follow:]

Opening Statement of Congressman Gerald E. Connolly

Committee on Oversight and Government Reform

May 13th, 2009

"AIG: Where is the Taxpayer's Money Going?"

Thank you, Chairman Towns for holding this series of hearings on AIG. These hearings are a painful demonstration of the hazards of regulatory systems that socialize risk and privatize profit. The federal government's decision to preclude regulation of credit default swaps and other complex financial instruments created a market environment in which short-term profiteering such as that which brought down AIG enabled and indeed made inevitable the destructive behavior that sparked this economic collapse. At the first hearing we heard from AIG's former CEO Hank Greenberg that Congress should be regulating credit default swaps much more tightly. I hope we can build upon these initial findings today.

While we are focusing on AIG, what is most important about these hearings is what we can learn about systemic failures of our regulatory system. As we know, AIG was far from the only company to endanger its solvency with risky investments. Under a regulatory environment in which profit maximization was only possible by making risky investments, those shortsighted investments were inevitable. It was not the imprudence of a few individuals but rather a systematic failure of a former Administration and former Congresses to regulate the financial markets that ensured we would subsequently confront many bankrupted companies such as AIG, and be forced to deal with details such as taxpayer-funded executive compensation.

Now that a prior Administration and Congresses have gotten us into this mess, we must minimize the losses taxpayers will incur as a result of a failure to regulate. We have learned that AIG, which is nearly 80% taxpayer-owned, is paying at least four different public relations firms to conduct various services, including drafting testimony for hearings such as the one we are having today. Moreover, AIG has not provided information to the Committee about "Project Destiny," the company's business plan. Since taxpayers own nearly 80% of AIG's stock, the least we would be entitled to is some information on how AIG plans to rebuild its profitability so that taxpayers can recoup their investment.

This hearing also is an opportunity to learn more about the role of the trustees from the New York Federal Reserve Board who now oversee AIG's investments. These trustees receive generous compensation in return for work commitments that appear, at first glance, undemanding. I also am concerned about having a Federal Reserve from any one state appoint trustees to oversee taxpayers' investments from the whole country. Based on an initial Committee inquiry, all three trustees appear to have been chosen by one person, New York Federal Reserve counsel Tom Baxter. No unelected individual should have such great influence over control of $85 billion of taxpayer investment.

Thank you again, Mr. Chairman for holding this series of hearings on AIG. I hope we can resolve some issues with respect to taxpayer money being used for public relations firms, the role and responsibility of trustees, and most importantly how we can avoid getting into situations like this in the future.

COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM

EXHIBIT BOOK

Full Committee Hearing Entitled

"AIG: Where Is the Taxpayer's Money Going?"

May 13, 2009

A. AIG Trustee Agreement

B. Liddy Project Destiny Memo

C. Credit Agreement AIG

D. Washington Post Article, "Our Mission at AIG: Repairs, and Repayment"

E. New York Times Article, A.I.G. Chief Owns Significant Stake in Goldman

F. New York Times Article, How Geithner Forged ties to finance club

G. Conde Nast Portfolio, Spinmeisters of the Apocalypse

H. Executive Compensation Letter from AIG Trustee to Mr. Liddy

EXECUTION COPY

AIG CREDIT FACILITY TRUST AGREEMENT

dated as of

January 16, 2009,

among

FEDERAL RESERVE BANK OF NEW YORK,

and

JILL M. CONSIDINE, CHESTER B. FELDBERG AND DOUGLAS L. FOSHEE,

as Trustees

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AIG CREDIT FACILITY TRUST AGREEMENT

THIS AIG CREDIT FACILITY TRUST AGREEMENT (this "**Trust Agreement**") is made this 16th day of January, 2009 by and among the Federal Reserve Bank of New York (the "**FRBNY**"), and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee (each, a "**Trustee**" and collectively, the "**Trustees**").

W I T N E S S E T H:

WHEREAS, pursuant to Section 13(3) of the Federal Reserve Act, 12 U.S.C. § 343(3), the Board of Governors of the Federal Reserve System (the "**Board of Governors**") determined that unusual and exigent circumstances exist both with respect to the financial condition of American International Group, Inc., a Delaware corporation (the "**Company**"), and its likely impact on the nation's economic stability, and the stability of the nation's financial and banking systems, and authorized the FRBNY, subject to certain conditions, to enter into an $85,000,000,000 lending facility with the Company as set forth in the Credit Agreement dated as of September 22, 2008 between the Company and the FRBNY (as amended from time to time, the "**Credit Agreement**");

WHEREAS, as a condition of the Credit Agreement, the Company is obligated to issue to a trust for the sole benefit of the United States Treasury ("**Treasury**") the Series C Perpetual, Convertible, Participating Preferred Stock of the Company described in Exhibit D of the Credit Agreement (the "**Company Preferred Stock**") and convertible into approximately 77.9% of the issued and outstanding shares of common stock of the Company (the "**Company Common Stock**");

WHEREAS, pursuant to Section 13(3) and Section 4 of the Federal Reserve Act, 12 U.S.C. §§ 343(3), 341 (Seventh), the FRBNY entered into the Credit Agreement with the Company to implement the $85,000,000,000 lending facility authorized by the Board of Governors, and is exercising its powers incident thereto to establish the trust created hereunder (the "**Trust**") for the purpose of acquiring, holding, and disposing of the Trust Stock (as defined in Section 2.02 hereof);

WHEREAS, the issuance of the Company Preferred Stock to the Trust is intended to provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks;

WHEREAS, the FRBNY has worked in consultation with the United States Department of the Treasury (the "**Treasury Department**") in structuring the Credit Agreement and this Trust Agreement;

WHEREAS, the FRBNY, in consultation with the Treasury Department, herein appoints the Trustees as trustees of the Trust to have all of the rights, powers and duties set forth herein;

WHEREAS, to avoid any possible conflict with its supervisory and monetary policy functions, the FRBNY does not intend to exercise any discretion or control over the voting and consent rights associated with the Trust Stock;

WHEREAS, the FRBNY wishes the Trustees to have absolute discretion and control over the Trust Stock, subject to the terms of this Trust Agreement;

WHEREAS, the FRBNY anticipates that the Trustees will leave the day-to-day management of the Company to the persons charged with such management, and will limit their involvement in the corporate governance of the Company to the exercise of the rights set forth in this Trust Agreement; and

WHEREAS, the Trustees are willing to accept the appointment and to act as trustees pursuant to the terms of this Trust Agreement.

NOW THEREFORE, the parties hereto do hereby agree as follows:

ARTICLE 1
GENERAL PROVISIONS

Section 1.01. *Creation of Trust.* Subject to the terms and conditions of this Trust Agreement, the FRBNY hereby establishes a trust designated as the AIG Credit Facility Trust for the sole benefit of the Treasury, which, for the avoidance of doubt, means that any property distributable to the Treasury as a beneficiary hereunder shall be paid to the Treasury for deposit into the General Fund as miscellaneous receipts.

Section 1.02. *Appointment and Acceptance of Trustees.* The FRBNY, in consultation with the Treasury Department, hereby appoints the Trustees as trustees of the Trust to have all of the rights, powers, authorities, discretions, and duties set forth herein and, subject to the terms and conditions of this Trust Agreement, as otherwise provided to trustees under the laws governing the administration of the Trust. The Trustees hereby accept said appointment, acknowledge the receipt of the sum of One Dollar ($1.00) (together with any other property, including the Company Preferred Stock, that the Trust may otherwise receive, the "**Trust Assets**"), and covenant that they will hold the Trust Assets in trust upon and subject exclusively to the terms and conditions set forth herein, for the sole benefit of the Treasury.

Section 1.03. *Trust is Irrevocable.* This Trust Agreement and the Trust shall be irrevocable and, except as provided in Section 5.01 hereof, unamendable except that the Board of Governors may terminate or amend its authorization pursuant to Section 13(3) of the Federal Reserve Act, thereby revoking or amending the Trust in accordance with Federal law, provided, however, that a Trustee's rights to resign as a trustee hereunder and to compensation and indemnification with respect to acts or omissions occurring prior to any such revocation or amendment may not be modified without the written consent of that Trustee.

ARTICLE 2
MANAGEMENT

Section 2.01. *Establishment of Accounts.*

(a) The Trustees shall establish (and during the term of this Trust Agreement shall maintain) a custody account (the "**Securities Account**") at a commercial bank selected by, and under an agreement acceptable to, the FRBNY in the name of the Trust bearing a designation clearly indicating that the Trust Stock held therein is held for the sole benefit of the Treasury. Except as expressly provided herein, the Trustees shall possess all right, title, and interest in all Trust Stock held from time to time in the Securities Account for the sole benefit of the Treasury. The Securities Account shall be under the sole dominion and control of the Trustees for the sole benefit of the Treasury.

(b) The Trustees shall establish (and during the term of this Trust Agreement shall maintain) a deposit account (the "**Deposit Account**") at a commercial bank selected by, and under an agreement acceptable to, the FRBNY in the name of the Trust bearing a designation clearly indicating that the funds deposited therein are held for the sole benefit of the Treasury. Except as expressly provided herein, the Trustees shall possess all right, title, and interest in all moneys on deposit from time to time in the Deposit Account for the sole benefit of the Treasury. The Deposit Account shall be under the sole dominion and control of the Trustees for the sole benefit of the Treasury.

(c) Subject to the terms of this Trust Agreement, the Trustees shall receive and hold in the Securities Account or Deposit Account, as applicable, the initial cash contribution of the FRBNY, advances from the Company as provided in Section 3.04(b) hereof, the Trust Stock and all dividends and other cash and non-cash distributions as may be declared and paid upon the Trust Stock, investments permitted under Section 2.06 hereof, as well as the proceeds of any sale or other disposition of the Trust Stock, for the sole benefit of the Treasury.

Section 2.02. *Initial Deposit of Trust Stock.*

(a) In accordance with the Stock Purchase Agreement referred to in Section 2.03(d)(ii) hereof, the Company Preferred Stock shall be delivered to the Securities Account in an amount equal to 100% of the issued and outstanding shares of the Company Preferred Stock registered jointly in the names of the Trustees in their capacities as trustees of the Trust. All shares of Company Preferred Stock delivered to the Securities Account, and all shares of Company Common Stock into which any of the Company Preferred Stock shall have been converted, are referred to herein as the "**Trust Stock.**" Except as expressly provided herein, the FRBNY shall have no ownership interest in the Trust Stock or any of the other Trust Assets.

(b) To the extent that any certificates evidencing the Trust Stock delivered to the Securities Account are not registered jointly in the names of Trustees in their capacities as trustees of the Trust, the Trustees shall present to the Company all certificates evidencing Trust Stock not registered jointly in the names of Trustees in their capacities as trustees of the Trust for surrender and cancellation, and for the issuance and delivery to the Securities Account of new certificates registered jointly in the names of the Trustees in their capacities as trustees of the Trust.

(c) In the event that (i) the Company is merged into or consolidated with another corporation or divided into two or more resulting entities, (ii) all or substantially all of the assets of the Company are transferred to another corporation pursuant to a plan requiring the Company's assets to be distributed in liquidation or (iii) all the shares of the Company are to be exchanged in connection with a reorganization or recapitalization of the Company (each of (i), (ii) and (iii) or any analogous transaction, a "**Trigger Event**"), then in connection with any such Trigger Event, the term "**Company**" for all purposes of this Trust Agreement shall be taken to include any successor entity, and the Trustees shall receive and hold under this Trust Agreement as Trust Stock (and the term Trust Stock as used herein shall include) any stock of, or other interests in, such successor entity received on account of their ownership (as trustees hereunder) of Trust Stock prior to such Trigger Event.

(d) In connection with any Trigger Event, the Trustees are hereby authorized to surrender Trust Stock held by the Trustees hereunder, if the Trustees are of the opinion in the exercise of their independent judgment that such ministerial act is appropriate or required.

Section 2.03. *Actions of Trustees in General.*

(a) Each Trustee shall have equal rights and authority under the terms of this Trust Agreement, and any action taken by the Trustees hereunder shall be a joint action of all of the Trustees. For the avoidance of doubt, the Trustees may not elect to each assume separate responsibility for a portion of the Trust Stock (for example, each vote one-third of the Trust Stock) but must instead jointly decide on a single course of action with respect to the relevant matter under consideration. In the event of a disagreement among the Trustees with respect to any matter, the Trustees shall consult with each other and use their reasonable best efforts to reach agreement with respect to such matter. If, after such consultation (including with legal or financial advisors as appropriate), the Trustees remain unable to reach agreement with respect to such matter, a majority vote of the Trustees shall be sufficient for resolving such matter, after which all of the Trustees shall act in accordance with the majority position.

(b) If fewer than three Trustees are available to vote with respect to any matter, as a result of death, incapacity or any other reason, then no vote shall take place until all three Trustees are available, unless the available Trustee or Trustees determine(s) in the exercise of his or her or their independent judgment that waiting to vote with respect to such matter (and taking the related action) could have significant adverse consequences with respect to the administration of the Trust or the Trust Assets. In the event of any such determination, the available Trustee or Trustees may act and bind the Trust, provided, however, that in the event there are only two available Trustees and those two available Trustees do not agree with one another, such Trustees are authorized and directed to act in a manner consistent with the recommendation(s) of a majority of the independent directors of the Company.

(c) In order to permit the Trustees to administer the Trust and perform their duties under this Trust Agreement, the Trustees may, as they deem appropriate in their independent judgment, (i) engage legal, financial, press and other professional advisers and agents, (ii) hire full-time and part-time administrative, secretarial and clerical staff (or make arrangements to use administrative, secretarial or clerical staff made available to them by their professional advisers or agents) and (iii) lease or sublease office space (or make arrangements to occupy office space made available to them by their professional advisers or agents). Among other things, such professional advisers or agents may be designated as the notice location for all notices and other correspondence relating to the Trust and may, on behalf of the Trustees, maintain the official records of the Trust, schedule meetings of the Trustees, and maintain minutes of such meetings and records of significant actions.

(d) At an appropriate time following the execution and delivery of this Trust Agreement, the Trustees shall execute and deliver in their capacities as trustees hereunder, and not in their individual capacities, the following documents, which shall have been approved in form and substance by the FRBNY:

(i) Multistate Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer;

(ii) Statement Regarding the Acquisition of Control of American International Group, Inc.; and

(iii) Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement between the Trust and the Company.

Section 2.04. *Exercise of Trust Stock Voting Rights.*

(a) At all times prior to the termination of the Trust, the Trustees shall (subject to Section 2.05 hereof and the other provisions of this Section 2.04) exercise all rights, titles, powers, and privileges of a stockholder of the Company, including, to the extent permitted by law, the right to convert the Company Preferred Stock to Company Common Stock and the exclusive right to exercise any and all voting and other rights and benefits attached to, derived from, or otherwise attributable to the Trust Stock, including without limitation the right to vote to amend or cause the amendment of the certificate of incorporation or the by-laws of the Company, and the right to vote to elect and remove, or cause the election or removal of, the directors of the Company, all to the extent permitted by their ownership (as trustees hereunder) of the Trust Stock.

(b) The Trustees shall have the exclusive right to vote the Trust Stock, or give written consent, in person or by proxy, at all meetings of stockholders of the Company, and in all proceedings, votes and actions in which the vote or consent, written or otherwise (any of the foregoing, a "**Vote**"), of the holders of the Trust Stock may be required or authorized, provided, however, that the Trustees shall Vote the Trust Stock in accordance with the other provisions of this Section 2.04.

(c) The Trustees shall take any and all reasonable actions available to them and necessary to cause the actions described in items (i), (ii), (iii) and (iv) of this Subsection (c) to be effected, and shall Vote or cause to be Voted all of the Trust Stock in favor of:

(i) amending Article Four of the Company's Certificate of Incorporation to provide for (w) an increase in number of authorized shares of the Company Common Stock from 5,000,000,000 to 19,000,000,000, (x) a decrease in the par value of the Company Common Stock from $2.50 to $0.000001 per share, (y) an increase in number of authorized shares of the Company Serial Preferred Stock from 6,000,000

to 13,000,000,000, and (z) a decrease in the par value of the Company Serial Preferred Stock from $5.00 to $0.00004 per share;

(ii) amending the Certificate of Designations of the Company Preferred Stock (the "**Certificate of Designations**") such that (A) the number of shares of the Company Preferred Stock outstanding upon the effectiveness of such amendment shall be the Number of Underlying Shares (as defined in the Certificate of Designations) as of the effective date of such amendment, (B) the Conversion Ratio (as defined in the Certificate of Designations) as of any date shall equal the quotient obtained by dividing (x) the Number of Underlying Shares as of such date by (y) the Number of Underlying Shares as of the effective date of such amendment and (C) the liquidation preference per share of the Company Preferred Stock shall be $500,000 divided by the Number of Underlying Shares as of the effective date of such amendment;

(iii) amending Article Eight of the Company's Certificate of Incorporation to eliminate the requirement that the board of directors of the Company obtain the assent or vote of the Company's stockholders in order to authorize or cause to be executed mortgages and liens upon all or substantially all of the Company's assets; and

(iv) amending the Company's Certificate of Incorporation to allow the TARP Preferred Stock to rank senior to the Company Preferred Stock. "**TARP Preferred Stock**" means the Series D Preferred Stock of the Company, par value $5.00 per share, issued to the Treasury Department.

(d) In exercising their discretion hereunder with respect to the Trust Stock, the Trustees are advised that it is the FRBNY's view that (x) maximizing the Company's ability to honor its commitments to, and repay all amounts owed to, the FRBNY or the Treasury Department and (y) the Company being managed in a manner that will not disrupt financial market conditions, are both consistent with maximizing the value of the Trust Stock. With those nonbinding views in mind, with respect to any and all matters (other than matters as to which express instruction is given pursuant to this Section 2.04) to be Voted on by the Trustees as holders of the Trust Stock, the Trustees shall have full discretionary power to Vote the Trust Stock, provided, however, that the Trustees shall exercise all such Voting and other similar rights with respect to the Trust Stock in accordance with the Applicable Standard of Care (as defined in Section 3.03(a) hereof).

(e) The Trustees shall Vote to elect (and, if they shall for any reason be required to nominate, shall nominate for election) as members of the board of directors of the Company only persons who are not, and have not been within one year of their nomination, officers, directors, or senior employees of the FRBNY or the Treasury Department.

(f) In no event shall the Trustees become directors of the Company or otherwise become responsible for directing or managing the day-to-day operations of the Company or any of its subsidiaries.

(g) In exercising their authority under this Section 2.04, the Trustees may request information from the FRBNY that the FRBNY may have as a result of its role as lender to the Company under the Credit Agreement. In no event, however, shall information provided by the FRBNY as lender relieve the Trustees from exercising their independent judgment with respect to any action to be taken under this Section 2.04.

Section 2.05. *Disposition of Trust Stock.*

(a) The Trustees shall, in one or a series of transactions, sell or otherwise dispose of the Trust Stock as follows:

(i) The Trustees shall, in a manner they deem appropriate in their independent judgment to accomplish the goals set forth in clause (ii) of this Subsection (a), develop a written plan (the "**Divestiture Plan**") for the sale or other disposition of the Trust Stock, taking into consideration, among any other factors that the Trustees deem relevant: (1) the effect of any sale or other disposition on repayment of amounts owed to the FRBNY or the Treasury Department; (2) in the case of any conversion of Company Preferred Stock to Company Common Stock (particularly before the full settlement of the Equity Units issued by the Company pursuant to the purchase contract dated May 16, 2008 between the Company and The Bank of New York), the impact of any such conversion on anti-dilution features favorable to the Trust; (3) the financial condition of the Company; (4) the impact of a sale or other disposition of the Trust Stock on general financial market conditions; (5) obtaining full and adequate consideration for the Trust Stock; and (6) the best interests of the Treasury. The Trustees may amend the Divestiture Plan from time to time.

(ii) The goal of the Divestiture Plan shall be to dispose of the Trust Stock in a value maximizing manner. It shall be a further goal of the Divestiture Plan to dispose of the Trust Stock no later than a reasonably practicable time after (x) the Credit Agreement is no longer in effect and (y) the Treasury Department no longer owns any TARP Preferred Stock. It is anticipated that in developing the Divestiture Plan, the Trustees will hire legal, financial and other professionals as necessary. The Trustees may also request information from the FRBNY that the FRBNY may have as a result of its role as lender to the Company under the Credit Agreement.

(iii) The Trustees may sell or otherwise dispose of the Trust Stock, only with the prior approval of the FRBNY, after its consultation with the Treasury Department.

(iv) The Trustees may, but shall not be required to, obtain a "fairness opinion" from an investment bank in connection with the sale or other disposition of Trust Stock.

(b) The cash proceeds of any sale or other disposition of the Trust Stock shall be deposited in the Deposit Account and reinvested and distributed in accordance with the provisions of Section 2.06 hereof.

(c) Except as expressly provided in this Section 2.05 and Section 2.02(d) hereof, the Trustees shall not have the authority to sell, pledge, encumber, hypothecate, lend or otherwise transfer the Trust Stock, and any action in violation of the foregoing shall be null and void.

Section 2.06. *Investment and Distribution of Funds in Deposit Account.*

(a) The Trustees shall distribute amounts held in the Deposit Account to Treasury at least quarterly, subject to Section 2.06(b) hereof.

(b) Prior to any distribution from the Deposit Account to the Treasury under this Section 2.06 or Section 5.02 hereof, the Trustees shall apply the balance of the Deposit Account as follows: first, the Trustees shall reimburse themselves for any outstanding amounts due them from the Trust under the terms of this Trust Agreement; second, the Trustees shall reimburse the FRBNY for any amounts paid by the FRBNY under Section 2.07 or Section 3.03(e) hereof; third, the Trustees shall set aside a reasonable reserve for future amounts to be paid from the Trust under the terms of this Trust Agreement, taking into consideration the value of the other property that will continue to be held in trust hereunder, provided, however, that, during the continuance of the Trust, such reserve shall not be less than One Hundred Thousand Dollars ($100,000); fourth, the Trustees shall reimburse the FRBNY for any amounts advanced on behalf of the Trust in connection with the Trust's acquisition of the Trust Stock; fifth, the Trustees shall reimburse the Company for any amounts advanced by the Company to cover amounts authorized to be paid from the Trust under this Trust Agreement; and sixth, the Trustees shall distribute the remaining balance of the Deposit Account in excess of the reserve, if any, referred to above to the Treasury.

(c) To the extent that the Trustees believe it is necessary or appropriate to invest any balance in the Deposit Account, the Trustees shall have full discretion to invest such balance, in whole or in part in assets that are eligible for use in FRBNY's open market operations. The investments and the proceeds of such investments shall be received and held in the Deposit Account, subject to the terms of this Trust Agreement. Any loss of income or principal on any such investments shall be for the account of the Trust.

Section 2.07. *Control of Trust Litigation.*

(a) The FRBNY shall at its own expense, but with the right to be reimbursed for such expense pursuant to Section 2.06(b) hereof, control the defense of any actual or threatened suit or litigation of any character involving the Trust or any one or more of the Trustees in their capacities as trustees hereunder ("**Trust Litigation**"), including without limitation designating counsel for the Trustee(s) in their capacities as trustee(s) hereunder and controlling all negotiations, litigation, arbitration, settlements, compromises and appeals of any Trust Litigation, provided that (i) the FRBNY may not agree to any settlement involving any Trustee(s) that contemplates any personal liability or obligations of the Trustee(s) or any admission of wrongdoing by the Trustee(s) without the prior written consent of the affected Trustee(s), (ii) if the FRBNY is also a party to any such Trust Litigation, the FRBNY shall engage and pay the expenses of separate counsel for the affected Trustee(s) to the extent that the interests of the FRBNY are in conflict with those of the affected Trustee(s) and (iii) in such event, (x) the affected Trustee(s) shall have the right to approve the separate counsel designated by the FRBNY, which approval shall not unreasonably be withheld or delayed and (y) the FRBNY shall be reimbursed for such expenses pursuant to Section 2.06(b) hereof.

(b) The Trustees shall provide reasonably prompt notice to the FRBNY of any Trust Litigation and may not make any admissions of liability or incur any significant expenses after receiving actual notice of the claim or agree to any settlement without the written consent of the FRBNY, which consent shall not unreasonably be withheld or delayed.

ARTICLE 3
TRUSTEES; TRUST EXPENSES; INDEMNIFICATION

Section 3.01. *Independence of Trustees.* A Trustee may not be an officer or employee of the FRBNY, the Treasury Department or the Company and may not have any material financial interest in the FRBNY (other than a Federal Reserve pension) or the Company (other than an insurance policy or annuity), shall not have a parent, spouse or child employed by or serving as an officer or director of the FRBNY, the Treasury Department, or the Company and shall be compensated for services rendered in connection with the administration of the Trust only as provided in Section 3.04 hereof.

Section 3.02. *Number, Resignation, Succession and Disqualification of Trustees.*

(a) It is the FRBNY's intention that there shall at all times be three trustees acting hereunder, provided, however, that, during any period in which there is a vacancy in the office of Trustee pending an appointment of a successor Trustee by the FRBNY (which shall consult with the Treasury Department regarding such appointment) the remaining Trustees may continue to exercise all of the powers, authorities and discretions granted them hereunder as provided in Section 2.03(b) hereof.

(b) A Trustee may at any time resign by giving 60 days' written notice of resignation to the FRBNY and the other Trustees. The FRBNY, after consultation with the Treasury Department and the other Trustees, shall, at least 15 days prior to the effective date of such resignation, appoint a successor trustee who shall satisfy the requirements of Section 3.01 hereof. If no successor trustee shall have been appointed and shall have accepted such appointment at least 15 days prior to the effective date of such resignation, any of the Trustees may petition any competent authority or court of competent jurisdiction (at the expense of the Trust) for the appointment of a successor trustee.

(c) If at any time a Trustee shall become incapable of acting, or if the other Trustees shall for any reason unanimously determine in good faith that the replacement of such Trustee is in the best interests of the Trust, including without limitation because of a belief that such Trustee is unable to act prudently and effectively with respect to financial matters because of accident, physical or mental illness, substance abuse, deterioration, injury or other similar cause, the other Trustees, after consultation with the FRBNY, may remove such Trustee by written instrument or instruments delivered to the FRBNY, provided, however, that an individual Trustee who dies shall be deemed to have been removed immediately prior to his death.

(d) If at any time any Trustee is (i) the subject of any information, indictment, or complaint, involving the commission of or participation in a crime involving dishonesty or breach of trust that is punishable by imprisonment for a term exceeding one year under state or Federal law, or (ii) reasonably determined by the FRBNY, in consultation with the Treasury Department, to have demonstrated untrustworthiness or to be derelict in the performance of his or her duties under this Trust Agreement, such Trustee shall, absent a determination by the FRBNY, after consulting with the Treasury Department, that such disqualification is not required, become immediately disqualified from acting as trustee hereunder upon the receipt by the other Trustees of written notice from the FRBNY of the occurrence of such an event, and the receipt by such Trustees of such notice shall automatically and immediately constitute the removal of the disqualified Trustee.

(e) In the event of any vacancy in the office of Trustee as a result of removal, the FRBNY, after consultation with the Treasury Department and the Trustees then in office, shall, by written instrument or instruments delivered to the successor Trustee, fill such vacancy by appointing a successor Trustee who shall satisfy the requirements of Section 3.01 hereof.

(f) Upon written assumption by a successor trustee of powers and duties hereunder, a copy of the instrument of assumption shall be delivered by the FRBNY to the other Trustees and the Company, whereupon the successor trustee shall become vested with all of the powers and duties of the resigning, removed or disqualified Trustee, and the term "**Trustee**" as used herein shall mean such successor trustee.

Section 3.03. *Standard of Care and Indemnification of Trustees.*

(a) *Standard of Care.* A Trustee shall have no liability hereunder for any action taken or refrained from or suffered by such Trustee, provided that such Trustee (i) acted in good faith in a manner the Trustee reasonably believed to be in accordance with the provisions of this Trust Agreement and in or not opposed to the best interests of the Treasury and (ii) had no reasonable cause to believe his or her conduct was unlawful (the standard set forth in foregoing clauses (i) and (ii) being the "**Applicable Standard of Care**").

(b) *Reliance on Experts.* The Trustees may act through legal, financial, press and other professional advisers and agents and shall not be answerable for the default, negligence or misconduct of any such professional adviser or agent so long as such professional adviser or agent was selected by the Trustees in accordance with the Applicable Standard of Care. For the avoidance of doubt, the right to act through professional advisers and agents is not an authorization to assign or delegate any rights or obligations under this Trust Agreement. The Trustees may consult with counsel, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken or refrained from or suffered by the Trustees hereunder so long as such legal counsel was selected by the Trustees in accordance with the Applicable Standard of Care.

(c) *Reliance on Certificates.* The Trustees shall not be responsible for the sufficiency or the accuracy of the form, execution, validity or genuineness of the Trust Stock, or of any documents relating thereto, or for any lack of endorsement thereon, or for any description therein, nor shall the Trustees be responsible or liable in any respect on account of the identity, authority or rights of the persons executing or delivering or purporting to execute or deliver any such Trust Stock or document or endorsement or this Trust Agreement, except for the execution and delivery of this Trust Agreement by the Trustees, so long as the Trustees acted in accordance with the Applicable Standard of Care.

(d) *Indemnification.* Each Trustee shall at all times be indemnified and held harmless from the Trust for any loss, cost or expense of any kind or character whatsoever (including taxes other than taxes based upon, measured by or determined by the income of the Trustee) incurred or suffered by such Trustee in connection with the Trust, the Trust Assets or this Trust Agreement so long as such Trustee had no reasonable cause to believe his or her conduct was unlawful, provided, however, that:

(i) neither the Trust nor the FRBNY shall be responsible for the costs and expenses (including settlement amounts) of any suit or litigation that the Trustees (in their individual or fiduciary capacities) shall settle without first obtaining the FRBNY's written consent, which consent shall not unreasonably be withheld or delayed; and

(ii) in order to recover under this indemnity with respect to any Trust Litigation or other claim a Trustee: (x) must provide reasonably prompt notice to the FRBNY of the claim for which indemnification is sought, provided that the failure to provide notice shall only limit the indemnification provided hereby to the extent of any incremental expense or actual prejudice as a result of such failure; and (y) must not make any admissions of liability or incur any significant expenses after receiving actual notice of the claim or agree to any settlement without the written consent of the FRBNY, which consent shall not unreasonably be withheld or delayed.

(e) *Source of Payment.* If the amount due a Trustee or otherwise payable from the Trust under Section 3.03(d) hereof cannot be immediately offset against or paid or reimbursed from the balance in the Deposit Account, for so long as the Credit Agreement is in effect the amount due shall be paid by the FRBNY and the FRBNY shall be entitled to reimbursement from the Company. Upon the FRBNY's receipt of reimbursement from the Company, the amount so reimbursed by the Company to the FRBNY shall thereafter be treated as if it were an amount advanced by the Company to the Trust for costs and expenses under Section 3.04 hereof.

(f) *Survival.* The provisions of this Section 3.03 shall survive the termination of the Trust or this Trust Agreement or the resignation or removal of a Trustee.

Section 3.04. *Payment of Other Trust Expenses.*

(a) Each Trustee shall be entitled to annual compensation in the amount of One Hundred Thousand Dollars ($100,000), payable quarterly in arrears, for all services rendered by such Trustee hereunder. All costs and expenses incurred or paid by the Trustees in their capacities as trustees hereunder (including the reasonable compensation and the expenses and disbursements of the professional advisers and agents of the Trustees in their capacities as trustees) shall be paid or

reimbursed from the Trust, subject to the provisions of Sections 2.07 and 3.03 hereof. In addition, all of the reasonable legal costs and expenses heretofore incurred by the Trustees in their individual capacities in connection with the establishment of the Trust shall be paid or reimbursed from the Trust.

(b) Any amounts due to the Trustees or third parties under Subsection (a) above shall be obligations of the Trust. Until such time as such amounts can be offset against or reimbursed from the balance in the Deposit Account, such amounts shall be paid by the Company and the Company shall be entitled to reimbursement from the Trust therefor, without interest, as provided in Section 2.06(b) hereof. Specifically:

(i) Following the execution of this Trust Agreement and the establishment of the Deposit Account, the Company shall deposit into the Deposit Account the sum of One Hundred Thousand Dollars ($100,000).

(ii) The Trustees may from time to time and at any time pay from the Deposit Account the compensation payable to the Trustees and all of the other costs and expenses payable or reimbursable from the Trust under this Trust Agreement and, in the event that at any time prior to the termination of the Trust the value of property held in the Deposit Account shall be less than Twenty-Five Thousand Dollars ($25,000), the Trustees shall notify the Company in writing as to the amount by which such value is less than the sum of One Hundred Thousand Dollars ($100,000) and, upon receipt of such notification, the Company shall promptly deposit into the Deposit Account an amount of cash equal to such deficiency.

(iii) In addition, the Trustees shall provide to the FRBNY and the Company, within 10 days following the end of every quarter, an accounting of all costs and expenses paid from the Trust during that quarter, together with supporting documentation, and an estimate of the costs and expenses anticipated to be reasonably likely to be paid in the following quarter. In the event that the amount of cash then available in the Deposit Account or which is expected to be available in the Deposit Account shall be insufficient to pay such costs and expenses (it being understood that the Trustees are neither required nor permitted to sell any portion of the Trust Stock for the purpose of obtaining cash to pay such compensation, costs, expenses, disbursements and advances), the Company shall, within 10 days of receipt of a request for funds, contribute to the Deposit Account an amount of cash necessary to pay such costs and expenses.

(iv) The FRBNY shall pay any amounts the Company fails to pay pursuant to this Subsection (b) as long as the Credit Agreement is in effect and the FRBNY shall be entitled to reimbursement from the Company. Upon the FRBNY's receipt of reimbursement from the Company, the amount so reimbursed by the Company to the FRBNY shall

thereafter be treated as if it were an amount advanced by the Company to the Trust for costs and expenses under this Section 3.04.

(c) Except as otherwise provided in this Trust Agreement, all ongoing Trust expenses, including, but not limited to, all investment-related expenses, all fees payable to the Trustees for their services hereunder, including but not limited to staff expenses, legal expenses, financial advisory, auditing and tax preparation expenses, mailing expenses, printing and postage expenses, insurance expenses, external accounting expenses related to the Trust and its investments and extraordinary expenses (such as litigation and indemnification of the Trustees) shall be paid from the Trust as provided in this Section 3.04.

(d) Unless waived in writing by the FRBNY, as condition to the payment from the Trust of expenses arising in connection with the retention by the Trustees on behalf of the Trust of experts and other professional advisers, the Trustees must disclose the material terms of the arrangement in advance to the FRBNY. For the avoidance of doubt, actual approval by the FRBNY of such arrangements shall not be a condition to the payment of costs and expenses of such experts and other professional advisers from the Trust.

(e) The provisions of this Section 3.04 shall survive the termination of the Trust or this Trust Agreement or the resignation or removal of a Trustee.

Section 3.05. *Additional Rights and Obligations of Trustees.*

(a) The duties, responsibilities and obligations of the Trustees shall be limited to those expressly set forth herein and no duties, responsibilities or obligations shall be inferred or implied. The Trustees shall not be subject to, nor required to comply with, any other agreement to which the FRBNY is a party, even though reference thereto may be made herein (unless the Trustees are also parties thereto). The Trustees shall not be required to, and shall not, expend or risk any of their own funds or otherwise incur any financial liability in the performance of any of their duties hereunder. Each Trustee shall devote such time as shall be necessary to carry out his or her duties with respect to the Trust as determined by such Trustee in accordance with his or her independent judgment.

(b) No Trustee shall be obligated to present any business activity, investment opportunity (or so called corporate opportunity) or prospective economic advantage to the FRBNY, the Treasury or the Company, even if the opportunity is of the character that, if presented to the FRBNY, the Treasury or the Company, could be taken by it, and, except as otherwise expressly provided in this Trust Agreement, each Trustee shall have the right to engage in any business activity or to hold any such investment opportunity or prospective economic advantage for his or her own account or to recommend any such opportunity to third parties.

(c) If at any time a Trustee is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process that in any way affects the manner in which the Trustee performs functions in connection with this Trust, the Trust Stock or other Trust Assets (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays), the Trustee is authorized to comply therewith in any manner as the Trustee or its legal counsel deems appropriate, provided that the Trustee shall have given notice thereof to the FRBNY and the Treasury Department and if reasonably practicable shall have consulted with the FRBNY in respect thereof; and if the Trustee complies with any such judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process, the Trustee shall not be liable to any person or entity even though such order, judgment, decree, writ or process may be subsequently modified, vacated or otherwise determined to have been without legal force or effect.

(d) A Trustee shall not be liable for any action taken or refrained from or suffered by such Trustee so long as that Trustee acted in accordance with the Applicable Standard of Care. In no event shall a Trustee be liable for any consequential, punitive or special damages. For the avoidance of doubt, the Trustees are obliged to review, evaluate and make a determination, in accordance with the Applicable Standard of Care, as to the appropriate course of action to take with respect to each Vote or other issue of which notice is provided to the Trust or the Trustees.

(e) So long as a Trustee acts in accordance with the Applicable Standard of Care, a Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee hereunder and any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by the Trustee to be genuine and to have been signed or presented by the proper party or parties hereunder.

(f) In no event shall a Trustee be responsible or liable for any failure or delay in the performance of obligations hereunder arising out of or caused by, directly or indirectly, forces beyond the Trustee's control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes, acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services, it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices to resume performance as soon as practicable under the circumstances.

(g) In the event that, in the independent judgment of the Trustees, there is any ambiguity or uncertainty hereunder or in any notice, instruction or other communication received by the Trustees hereunder, the Trustees may, in their sole discretion and upon notice to the person providing such notice, instruction or

other communication and to the FRBNY, refrain from taking any action other than retaining possession of the Trust Stock, unless the Trustees receive written instructions, signed by the FRBNY, that address such ambiguity or uncertainty, in which instance the Trustees shall act in accordance with such written instructions.

(h) In the event of any dispute or conflicting claims with respect to the Trust, the Trust Assets or this Trust Agreement, the Trustees shall be entitled to refuse to comply with any and all claims, demands or instructions as long as such dispute or conflict shall continue, and the Trustees shall not be or become liable in any way to any person for failure or refusal to comply with such conflicting claims, demands or instructions. The Trustees shall be entitled to refuse to act until either (i) such conflicting or adverse claims or demands shall have been determined by a final order, judgment or decree of a court of competent jurisdiction, which order, judgment or decree as to which all appeals have been exhausted or waived, or settled by agreement between the conflicting parties as evidenced in a writing satisfactory to the Trustees or (ii) the Trustees shall have received security or an indemnity from the Trust or the FRBNY or another entity reasonably satisfactory to them sufficient to hold them harmless from and against any and all losses that they may incur by reason of so acting.

(i) The Trustees shall work with the Company and the board of directors of the Company to ensure corporate governance procedures satisfactory to the Trustees.

(j) Referring to Section 3.03(e) and Section 3.04(b)(iv) hereof, the FRBNY shall provide the Trustees with reasonable advance notice of any termination of the Credit Agreement.

ARTICLE 4
BOOKS AND RECORDS; TAX REPORTING

Section 4.01. *Records.* The Trustees shall maintain or cause to be maintained records sufficient to document each significant action taken by the Trustees pursuant to this Trust Agreement and shall provide the FRBNY with the following reports in a format and manner reasonably requested by the FRBNY:

1 Monthly custodial reports;
2 Quarterly summary of significant actions (votes, consents, etc);
3 Quarterly reports summarizing the efforts and activities to effect the sale or other disposition of the Trust Stock or other Trust Assets;
4 Minutes of any meetings of the Trustees; and
5 The Divestiture Plan, as amended from time to time by the Trustees.

So long as the Trust is in existence: (i) on a regular basis, but not less than quarterly, the Trustees shall meet with representatives of the FRBNY to discuss the administration of the Trust and other topics of interest to the parties; and

(ii) the Trustees shall promptly provide the FRBNY with copies of all correspondence or other information received by the Trustees from the Company in their capacity as trustees under this Trust Agreement.

Section 4.02. *Tax Reporting.* The Trustees shall be solely responsible for all tax returns and any other statements, returns or disclosures required to be filed by the Trust.

ARTICLE 5
AMENDMENTS; TERMINATION; GOVERNING LAW

Section 5.01. *Amendment.* Neither the FRBNY nor the Trustees shall have any power to alter, amend, modify or revoke any of the terms and conditions of this Trust Agreement. Notwithstanding the foregoing, the FRBNY and the Trustees may agree to amend, supplement, modify, or restate this Trust Agreement in order to:

(i) cure any ambiguity, omission, formal defect or inconsistency in this Trust Agreement (including to address any circumstance or development the FRBNY and the Trustees reasonably determine was not anticipated as of the Trust's inception); or

(ii) grant to or confer upon the Trustees for the benefit of the Treasury any additional rights, powers, authorities or remedies that may lawfully be granted to or conferred upon the Trustees.

Section 5.02. *Termination.* Unless sooner terminated pursuant to any other provision herein, this Trust Agreement shall terminate (and the Trust shall cease and come to an end) upon the earlier of (i) the sale or other disposition of all of the Trust Stock such that no Trust Stock continues to be held in trust hereunder; or (ii) the Company shall have been liquidated and shall cease to exist or a plan of reorganization or liquidation shall have been confirmed and consummated providing for no distribution in respect of the Trust Stock. Notwithstanding the above, the Trust shall not terminate until the Trustees transfer to the Treasury any moneys in the Deposit Account and liquidate any other Trust Assets and transfer the proceeds to the Treasury, which actions shall be taken expeditiously and promptly upon the occurrence of a termination event described above.

Section 5.03. *Governing Law.* This Trust Agreement and the trust created hereunder shall be construed, regulated and governed in all respects, not only as to administration but also as to validity and effect, by any applicable provisions of Federal law, and, in the absence of applicable Federal law, the laws of the State of New York notwithstanding choice of law provisions thereof.

ARTICLE 6
MISCELLANEOUS

Section 6.01. *Assignments.* The rights and obligations of the parties under this Trust Agreement may not be assigned except as expressly provided for herein.

Section 6.02. *Third Parties.* Nothing in this Trust Agreement, expressed or implied, is intended to confer upon any person (other than the parties hereto), or their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Trust Agreement.

Section 6.03. *Notices.* Any notice which any party hereto may give to the other hereunder shall be in writing and shall be given by hand delivery, first class registered mail, or overnight courier service, sent,

if to the FRBNY, to

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001
Attention: Sarah Dahlgren
Senior Vice President
with a copy to

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001
Attention: Thomas C. Baxter, Jr.
Executive Vice President and General Counsel

if to the Trustees, to the addresses that each Trustee has concurrently herewith provided to the parties to this Trust Agreement in writing.

if to the Treasury Department, to

Fiscal Assistant Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

if to the Company, to

American International Group, Inc.
70 Pine Street, New York, New York 10270
Attention: General Counsel

or to such other address as such party may hereafter specify for the purpose by notice to the other parties.

Section 6.04. *Individuals Authorized to Act for the FRBNY.* The FRBNY shall, from time to time, provide to the Trustees a list of individuals authorized to act on behalf of the FRBNY. Notwithstanding any other provision of this Trust Agreement, the Trustees may not rely on any communications from the FRBNY except for those made by such an authorized individual.

Section 6.05. *Entire Agreement.* This Trust Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, oral and written, among the parties with respect to the subject matter hereof and may not be modified or amended in any manner other than as set forth herein.

Section 6.06. *Successors.* This Trust Agreement shall be binding upon the successors to the parties hereto. The title to all property held hereunder shall vest in any successor Trustee acting pursuant to the provisions hereof without the execution or filing of any further instrument, but a resigning or removed Trustee shall execute all instruments and do all acts necessary to vest title in the successor Trustee. Each successor Trustee shall have, exercise and enjoy all of the powers, both discretionary and ministerial, herein conferred upon his or her predecessors. A successor Trustee shall not be obliged to examine or review the accounts, records, or acts of, or property delivered by, any previous Trustee and shall not be responsible for any action or any failure to act on the part of any previous Trustee.

Section 6.07. *Remedies.* Each of the parties hereto acknowledges and agrees that in the event of any breach of this Trust Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) shall waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to an order compelling specific performance of this Trust Agreement in any action instituted in the United States District Court for the Southern District of New York. Each party hereto consents to personal jurisdiction in any such action brought in the United States District Court for the Southern District of New York.

Section 6.08. *Waiver of Jury Trial.* EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS TRUST AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER.

Section 6.09. *Jurisdiction; Venue or Inconvenient Forum; Consent to Service of Process.*

(a) The parties agree that the United States District Court for the Southern District of New York shall have exclusive jurisdiction over any claims arising under this Trust Agreement, including claims for enforcement of this Trust Agreement. Each party hereby waives any objection to venue or any defense of inconvenient forum or any personal or subject matter jurisdictional defense in connection with such proceedings.

(b) The parties consent to service of process in the manner provided for notices in Section 6.03 hereof. Nothing in this Trust Agreement will affect the right of any party to this Trust Agreement to serve process in any other manner permitted by law.

Section 6.10. *Headings.* The titles to the Articles and the headings of the Sections and Subsections of this Trust Agreement are for convenience of reference only and are not to be considered in construing the terms and provisions of this Trust Agreement.

Section 6.11. *Perpetuities Savings Language.* Unless sooner terminated pursuant to other provisions of this Trust Agreement, the Trust shall terminate not later than the expiration of twenty-one years after the death of the last survivor of the descendants in being on the date of the execution of this Trust Agreement of each of the original Trustees. Notwithstanding the above, the Trust shall not terminate until the Trustees transfer to the Treasury any moneys in the Deposit Account and liquidate any other Trust Assets and transfer the proceeds to the Treasury, which actions shall be taken expeditiously and promptly upon the occurrence of a termination event described above.

Section 6.12. *Severability.* In the event any one or more of the provisions contained in this Trust Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties

shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions to effectuate the intentions of the parties as set forth in this Trust Agreement.

Section 6.13. *Counterparts.* This Trust Agreement may be executed in counterparts, each of which shall constitute an original but all of which together shall constitute one agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed as of the date first above written.

FEDERAL RESERVE BANK OF
NEW YORK

By: /s/ Sarah Dahlgren
Sarah Dahlgren
Senior Vice President

TRUSTEES:

/s/ Jill M. Considine
Jill M. Considine, Trustee

/s/ Chester B. Feldberg
Chester B. Feldberg, Trustee

/s/ Douglas L. Foshee
Douglas L. Foshee, Trustee

A Message From Edward Liddy
To: ZZALLDomestic1
Sent: Thu Apr 23 17:09:52 2009
Subject: Seize the Future

Web Version: http://webdemo.aig.com/UI/aigtoday_wkinreview/04_23_2009/04_23_2009.htm

April 23, 2009

Dear Colleagues,

This week I have asked Paula Reynolds, AIG Vice Chairman and Chief Restructuring Officer, to provide an update on the critical work that she is leading, which is called Project Destiny.

Paula Reynolds

On March 2, we launched Project Destiny, our effort to redefine the future of most of the major businesses within AIG. Over the last 45 days, nine teams have worked to assess all of the options available to maintain and enhance the vitality of their businesses, thereby creating the most value to satisfy our obligations to the U.S. taxpayers over time. Having just finished eight reviews this week, I must tell you that Ed Liddy and I were exceedingly impressed by the analytical rigor and creativity of the business plans. We were also appreciative of the full participation of the staff of the Federal Reserve Bank of New York and its advisors on the Project Destiny teams. Mostly, we were heartened by the demonstrated commitment of the teams to navigate through myriad complexities and to make meaningful recommendations for their businesses.

Project Destiny and the work that will follow serve three purposes. First, we will have a multi-year roadmap for how all of the businesses of AIG are to be restructured. This roadmap will give us a sense of direction and will lay out the specific steps and timetables for our progress. In doing so, it will build credibility with our business partners, our customers and the public. Second, this roadmap will show that it is possible for us to make meaningful and systematic progress in reducing our indebtedness to the American taxpayer. Third, we can restore hope and forward momentum to our organizations. Simply put, we are going to get our groove back.

You will, over the next few weeks, be learning the specifics of the recommendations being adopted in the various businesses and how these changes will affect the corporate organization as well. I wish we could deliver all the details now. At this juncture, there are several steps that must precede announcements – such as reviewing international securities laws on disclosures and reviewing the plan with the U.S. Treasury.

One of the first measures we have taken as a result of the Project Destiny process was announced this week: accelerating the separation of AIU Holdings as an independent entity by transferring the company to a special purpose vehicle. This is an important step in a process that will result in AIU Holdings establishing itself as a separate business with a distinct

management team, an independent board of directors and its own brand. As we have previously mentioned, we anticipate that we may capitalize AIU Holdings through a public offering of stock in the company in the future.

I look forward to updating you on our progress.

Sincerely,

To send a comment or question to Ed Liddy, send an email to CEOinbox@aig.com. You can access an archive of letters from Ed Liddy and news and announcements related to AIG's restructuring and divestiture efforts by visiting the Seize the Future section of *AIG Today*.

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70 Pine Street, New York, New York 10270

http://www.aig.com/

DEFINITIVE EXECUTION COPY

CREDIT AGREEMENT

dated as of

September 22, 2008,

between

AMERICAN INTERNATIONAL GROUP, INC.,
as Borrower

and

FEDERAL RESERVE BANK OF NEW YORK,
as Lender

(a) The Lender shall have received a favorable written opinion of (i) Sullivan & Cromwell, LLP, external counsel for the Borrower and (ii) Kathleen E. Shannon, Senior Vice President, Secretary and Deputy General Counsel for the Borrower, and such other counsel as may be reasonably acceptable to the Lender, each in form and substance satisfactory to the Lender, (A) dated the Closing Date, (B) addressed to the Lender and (C) covering such matters relating to the Loan Documents and the Transactions as the Lender shall reasonably request, and the Borrower hereby requests such counsel to deliver such opinions.

(b) All legal matters incident to this Agreement, the Loans and extensions of credit hereunder and the other Loan Documents shall be satisfactory to the Lender.

(c) The Lender shall have received (i) a copy of the certificate or articles of incorporation, formation or organization (as applicable), including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State or evidence that such a certificate has been requested; (ii) a certificate of the Secretary or Assistant Secretary of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the bylaws, operating agreement, partnership agreement or other applicable constitutive document of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors or equivalent body of such Loan Party authorizing the execution, delivery and performance of the Loan Documents to which such Person is a party and, in the case of the Borrower, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation, formation or organization (as applicable) of such Loan Party have not been amended since the date of the last amendment thereto furnished pursuant to clause (i) above and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to clause (ii) above; and (iv) such other documents as the Lender may reasonably request.

(d) The Lender shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance, to the actual knowledge of such Financial Officer after such investigation as he or she has deemed to be reasonable and appropriate under the circumstances, with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(e) The Lender shall have received all Fees and other amounts due and payable on or prior to the Closing Date in immediately available funds, including

(i) an amount equal to 2.0% of the aggregate amount of the Commitment on the Closing Date; *provided* that the Borrower shall retain $500,000 as a credit against such fee, such amount to be applied by the Borrower as payment of the aggregate par value of the Trust's Equity Interest and (ii) to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder or under any other Loan Document. The amount payable pursuant to clause (i) above may be paid on the Closing Date by increasing the outstanding principal amount of the Loans on the Closing Date by such amount. Any amount so added to the principal amount of the Loans shall bear interest as provided in Section 2.06 from the date on which such Fee has been so added to the principal amount of the Loans.

(f) The Guarantee and Pledge Agreement and, to the extent required thereby, the other Security Documents shall have been duly executed by each Loan Party that is to be a party thereto and shall be in full force and effect on the Closing Date. The Lender shall have a security interest in the Collateral of the type and priority described in each Security Document.

(g) The Lender shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties in the states (or other jurisdictions) of formation of such Persons as indicated on Schedule 1 of the Guarantee and Pledge Agreement together with copies of the financing statements (or similar documents) disclosed by such search, and, to the extent requested, accompanied by evidence satisfactory to the Lender that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been or will be contemporaneously released or terminated.

(h) Except with respect to the issuance of the Trust Equity, all requisite Governmental Authorities and third parties shall have approved or consented to the Transactions and the other transactions contemplated hereby to the extent required, all applicable appeal periods shall have expired and there shall not be any pending or threatened litigation, governmental, administrative or judicial action that could reasonably be expected to restrain, prevent or impose burdensome conditions on the Transactions or the other transactions contemplated hereby.

(i) The Lender shall have received from the Borrower a cash flow forecast and liquidity analysis in form and substance satisfactory to the Lender setting forth expected cash receipts and cash payments for the period ended December 31, 2008.

Section 4.03. *Certain Consequences of Closing.* On the Closing Date, without any other action being required under this Agreement, the Existing Demand Notes or any other agreement between the Borrower and the Lender (including the giving of a Borrowing Request pursuant to Section 2.03 or a demand for payment by the Lender under the Existing Demand Notes), the

foreign jurisdiction) (including properties acquired subsequent to the Closing Date)). Such security interests and Liens will be created under the Security Documents and other security agreements and other instruments and documents in form and substance satisfactory to the Lender, and the Borrower shall deliver or cause to be delivered to the Lender all such instruments and documents (including legal opinions and lien searches) as the Lender shall reasonably request to evidence compliance with this Section. The Borrower agrees to provide such evidence as the Lender shall reasonably request as to the perfection and priority status of each such security interest and Lien.

(b) Within 25 days following the Closing Date, the Borrower shall deliver to the Lender a detailed list of all real estate owned by the Borrower and its Subsidiaries, identifying the location, owner and estimated value of such real estate, any known liens against such real estate, and such other information with respect to such real estate as the Lender may reasonably request. As soon as reasonably practicable and in any case within 45 days (or such longer period as the Lender may agree in its sole discretion) of receipt of a written request therefor from the Lender (and subject to the applicable restrictions set forth in the Borrower's restated certificate of incorporation), the Borrower shall provide the Lender with Mortgages with respect to owned real estate identified by the Lender in such request (other than real estate owned by an Excluded Subsidiary or Foreign Subsidiary), together with (i) evidence that counterparts of such Mortgages have been duly executed, acknowledged and delivered and are in form reasonably satisfactory to the Lender, (ii) a policy or policies of title insurance or unconditional commitments therefor issued by a nationally recognized title insurance company in form and substance, with endorsements and in an amount reasonably acceptable to the Lender and (iii) such surveys, abstracts, appraisals and legal opinions as the Lender may reasonably request with respect to such real estate.

Section 5.11. *Trust Equity.* Subject to (i) receipt of all material approvals of Governmental Authorities required therefor and (ii) payment in cash (or other consideration having in the judgment of the board of directors of the Borrower at least equivalent value) of the par value thereof, the Borrower shall issue to the Trust Equity Interests in the Borrower having the principal terms and conditions specified in Exhibit D (the "**Trust Equity**"), evidenced by documentation in form and substance satisfactory to the Lender and accompanied by such officers' certificates, opinions of counsel and other customary closing documentation as the Lender may require. In furtherance of the foregoing, the Borrower shall (A) enter into such agreements and take such other actions as shall in the judgment of the Lender be necessary to effect the issuance of the Trust Equity, (B) use its best efforts to obtain all material approvals from Governmental Authorities required for the issuance of the Trust Equity, (C) comply with any instructions or directions provided to the Borrower by the Lender in connection with obtaining the approvals referred to in clause (B) above and (D) not take any actions that are inconsistent with obtaining the approvals referred to in clause (B) above. The

Borrower shall use all reasonable efforts to cause the composition of the board of directors of the Borrower to be, on or prior to the date that is ten days after the formation of the Trust, satisfactory to the Trust in its sole discretion.

ARTICLE 6
NEGATIVE COVENANTS

The Borrower covenants and agrees with the Lender that, so long as this Agreement shall remain in effect and until the Commitment has been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document have been paid in full, unless the Lender shall otherwise consent in writing, the Borrower will not, nor will it cause or permit any Restricted Subsidiary to:

Section 6.01. *Indebtedness.* Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness existing on the date hereof and reflected in the most recent balance sheet of the Borrower referred to in Section 3.05 or incurred after the date hereof under credit facilities in effect on the date hereof, and any extensions, renewals, exchanges or replacements of such Indebtedness to the extent (i) the principal amount of such Indebtedness is not increased (except by an amount equal to unpaid accrued interest and premium thereon plus other reasonable fees and expenses incurred in connection with such extension, renewals or replacement), (ii) neither the final maturity nor the weighted average life to maturity of such Indebtedness is decreased, (iii) such Indebtedness, if subordinated to the Obligations, remains so subordinated on terms no less favorable to the Lender and (iv) the original obligors in respect of such Indebtedness remain the only obligors thereon;

(b) Indebtedness created hereunder and under the other Loan Documents;

(c) intercompany Indebtedness of the Borrower and the Subsidiaries to the extent permitted by Section 6.04(c);

(d) Indebtedness (including Capital Lease Obligations) of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets (other than aircraft and aircraft-related equipment purchased by International Lease Finance Corporation and its subsidiaries), and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; *provided* that (i) such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this Section 6.01(d) shall not exceed $25,000,000 at any time outstanding;

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of November 9, 2008 to the Credit Agreement dated as of September 22, 2008 (as amended from time to time, the "**Credit Agreement**") between AMERICAN INTERNATIONAL GROUP, INC., as Borrower (the "**Borrower**") and FEDERAL RESERVE BANK OF NEW YORK, as Lender (the "**Lender**").

PRELIMINARY STATEMENTS

(1) WHEREAS, Borrower intends to issue 2008 Preferred Stock (as defined below) having an aggregate liquidation preference of $40 billion.

(2) WHEREAS, Borrower has requested Lender to amend the Credit Agreement in connection with such issuance and to make certain other changes as described herein, and Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement to effect such changes as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "this Agreement", "hereof", "hereunder", "herein" and "hereby" and each other similar reference in the Credit Agreement, and each reference in any other Loan Document to "the Credit Agreement", "thereof", "thereunder", "therein" or "thereby" or other similar reference to the Credit Agreement, shall, after the Amendment No. 2 Effective Date (as defined in Section 9 of this Amendment), refer to the Credit Agreement as amended hereby.

Section 2. *Ame ndments to Definitions.* Section 1.01 of the Credit Agreement is amended by adding or amending (as applicable) the following definitions to read in their entirety as follows:

> ""**2008 Preferred Stock**" shall mean the Series D Preferred Stock of the Borrower, par value $5.00 per share, issued to the United States Department of the Treasury.
>
> "**2008 Warrants**" shall mean warrants issued by the Borrower to the United States Department of the Treasury concurrently with the issuance of the 2008 Preferred Stock.

"**Applicable Margin**" shall mean 3.00% per annum.

"**Maturity Date**" shall mean September 13, 2013.

"**Subject Issuer**" shall mean any Person that is a Subject Issuer as defined in the Guarantee and Pledge Agreement, excluding any Person whose Equity Interests are not (and are not required to be) subject to any Lien in favor of the Lender pursuant to the Guarantee and Pledge Agreement."

Section 3. *Amendment to Available Commitment Fee.* Section 2.05(a) of the Credit Agreement is hereby amended by replacing the reference to "8.50%" therein with "0.75%".

Section 4. *Commitment Reduction.* Section 2.10(h) of the Credit Agreement is hereby amended to read in its entirety as follows:

"(h) Simultaneously with any prepayment required by paragraph (b), (c) or (d) of this Section 2.10, the Commitment shall be automatically and permanently reduced (i) in the case of any prepayment from the Net Cash Proceeds of the issuance of 2008 Preferred Stock and the 2008 Warrants, to $60,000,000,000 and (ii) otherwise, in an amount equal to that portion of the Net Cash Proceeds required to be applied to prepay the Original Principal Amount of the Loans pursuant to such paragraphs."

Section 5. *Amendments to Certain Covenants.* The proviso to Section 6.06(a) of the Credit Agreement is hereby amended by replacing "and" where it appears at the end of clause (i) thereof with a semicolon and adding the following new clause (iii) after clause (ii) thereof:

"and (iii) so long as no Default shall have occurred and be continuing or would result therefrom, the Borrower may make payments of cumulative compounding dividends on its 2008 Preferred Stock at a rate not to exceed 10% per annum"

Section 6. *Amendments to Exhibit D.* Exhibit D of the Credit Agreement is hereby amended to read in its entirety as set forth on Exhibit A hereto.

Section 7. *Certain Technical Amendments.* (a) Clause (E) of the proviso to Section 6.06(b) is hereby amended to read in its entirety as follows

"(E) clause (i) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness or secured Swap Contracts permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness or such Swap Contracts, as the case may be".

EXHIBIT A

[See next page].

EXHIBIT D

Summary of Terms of Preferred Stock and Related Issues

Issuer	American International Group, Inc. ("AIG").
Purchaser	AIG Credit Facility Trust, a new trust established for the benefit of the United States Treasury ("Trust").
Securities	100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share ("Preferred Stock").
Consideration	$500,000 plus the lending commitment of the Federal Reserve Bank of New York ("NY Fed"); AIG's board will acknowledge the receipt of value at least equal to the aggregate par value of the shares of Preferred Stock in connection with their issuance.
Voting rights	Except where a class vote is required by law, the Preferred Stock will vote with the common stock on all matters submitted to AIG's stockholders, and will be entitled to an aggregate number of votes equal to (i) the Initial Number of Shares (as defined below), as adjusted pursuant to the anti-dilution provisions, minus (ii) the votes, if any, attributable to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the number of votes attributable to the Preferred Stock shall not exceed 77.9% of the aggregate number of votes of the Preferred Stock and the shares of common stock then outstanding.
Dividends	The Preferred Stock will be entitled to participate in any dividends paid on the common stock, and shall receive (i) the dividends attributable to the Initial Number of Shares, as adjusted pursuant to the anti-dilution provisions, minus (ii) the dividends, if any, paid with respect to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the dividends attributable to the Preferred Stock shall not exceed 77.9% of the aggregate amount of dividends paid on the Preferred Stock and the shares of common stock then outstanding.
Conversion	Upon the effectiveness of the amendment to AIG's restated certificate of incorporation described in clause (i) under "Stockholder vote," the Preferred Stock will be convertible into a number of shares of common stock (the "Initial Number of Shares") equal to the excess of (a) the product of 3.9751244 times the Number of Outstanding Shares over (b) 53,798,766 (the number of shares of common stock underlying the 2008 Warrants). The "Number of Outstanding Shares" means, as of any date, the number of shares of common stock outstanding as of the date of issuance of the Preferred Stock plus the number of shares of common stock, if any, issued on or prior to such date in settlement of AIG's Equity Units.
Anti-Dilution Provisions	The Preferred Stock will have customary anti-dilution provisions.
Term	Perpetual.

Liquidation preference	$500,000 in aggregate.
Stockholder vote	AIG's board will call a meeting of stockholders as soon as practicable after the issuance of the Preferred Stock. At that meeting, the stockholders, with the common stockholders voting as a separate class in the case of the matters in clause (i), will vote on, among other things, (i) amendments to AIG's certificate of incorporation to (a) reduce the par value of AIG's common stock to $0.000001 per share and (b) increase the number of authorized shares of common stock to 19 billion and (ii) any other measures deemed by the NY Fed to be necessary for the conversion of the Preferred Stock or the operation of the Facility, including the pledging of collateral thereunder.
Equity issues	So long as the Trust's equity ownership, determined as the sum of its ownership of common stock and the number of shares of common stock underlying the Preferred Stock (whether or not the Preferred Stock is then convertible), shall equal or exceed 50% of the Initial Number of Shares (as adjusted pursuant to the anti-dilution provisions), AIG shall not issue any capital stock, or any or securities or instruments convertible or exchangeable into, or exercisable for, capital stock, without the written consent of the Trust other than (i)(x) issues of capital stock to satisfy any security or instrument existing on September 16, 2008 that is exercisable for, convertible into or exchangeable for common stock, (y) in respect of equity compensation awards issued in the ordinary course of business under AIG's Amended and Restated 2007 Stock Incentive Plan or AIG's Amended and Restated 2002 Stock Incentive Plan or (z) in respect of any tax-qualified plan approved in the ordinary course of business by the Board of Directors of AIG that meets the requirements of Section 423 of the Internal Revenue Code and (ii) subsequent to written notice from the Trust that AIG's corporate governance arrangements are satisfactory to the trustees (x) in respect of equity compensation awards issued under any equity compensation plan (including any material amendments thereto) approved by shareholders after September 16, 2008 in accordance with the shareholder approval requirements of the NYSE Listed Company Manual or (y) in any one year, up to 0.5% of the outstanding shares of common stock pursuant to any other employee benefit plan, employment contract or similar arrangement that is approved by the Compensation and Management Resources Committee of the Board of Directors of AIG.
Governance	AIG and its board will work in good faith with the trustees of the Trust to ensure corporate governance arrangements satisfactory to the trustees.
Registration rights	AIG will enter into a customary agreement providing for demand registration rights for the Preferred Stock and the underlying common stock, will apply for the listing on the NYSE of the common stock underlying the Preferred Stock, and will take such other steps as the NY Fed may reasonably request to facilitate the transfer of the Preferred Stock or common stock received on conversion of the Preferred Stock.
Regulation	AIG will take all actions necessary or expedient for obtaining any regulatory approvals, notices, waivers or consents related to the issuance and acquisition of the Preferred Stock and will assist the NY Fed in such matters.

NYSE	AIG will take all actions necessary or expedient for obtaining NYSE approval for the issuance and voting of the Preferred Stock, including actions required of the audit committee of the board of AIG to take advantage of the exemption from the NYSE's stockholder approval requirements set forth in Section 312.05 of the NYSE Listed Company Manual.
Takeover laws	AIG will take all actions necessary or expedient in order to exempt the acquisition and ownership of the Preferred Stock and any common stock issued upon conversion of the Preferred Stock from (i) the requirements of any applicable "moratorium", "control share", "fair price" or other anti-takeover laws and regulations of any jurisdiction, including Section 203 of the Delaware General Corporation Law, and (ii) any other applicable provision of the organizational documents of AIG or the comparable organizational documents of any subsidiary of AIG.

The Washington Post

Our Mission at AIG: Repairs, and Repayment

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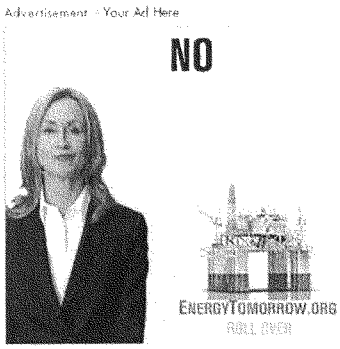

By Edward M. Liddy
Wednesday, March 18, 2009; A13

The government rescue of American International Group (AIG) and other financial firms has produced a palpable wave of anger on the part of Americans and a rising public demand for accountability from corporate and government leaders.

The anger is understandable, and I share it. I have been fortunate in more than three decades in business to see firsthand the wealth creation that well-managed American companies bring to their employees and their communities. I have seen the good side of capitalism. But over the past six months, since agreeing to take the reins of AIG and reviewing how it was run in prior years, I have also seen instances of the bad side of capitalism.

Mistakes were made at AIG, and on a scale that few could have imagined possible. The most egregious of those began in 1987, when the company strayed from its core insurance competencies to launch a credit-default-swaps portfolio, which eventually became subject to massive collateral calls that created a liquidity crisis for AIG. Its missteps have exacted a high price, not only for the company and its employees but for the American taxpayer, the federal government's finances and the global economy. These missteps brought AIG to the brink of collapse and to the government for help.

When I answered the call for help and joined AIG in September 2008, one thing quickly became apparent: The company's overall structure is too complex, too unwieldy and too opaque for its component businesses to be well managed as one entity. So the strategy we continue to pursue, in close cooperation with the Federal Reserve and the U.S. Treasury, is to isolate the value in the company's component parts, capture that value to pay back money owed to the government, and allow AIG's healthy insurance companies to continue to prosper for the benefit of policyholders and taxpayers.

What also became clear is that once AIG's relationship with the government and taxpayers changed, our behavior as a company needed to change. So, of our own initiative, we suspended our federal lobbying activities and halted corporate political contributions. We also restricted executive compensation. In all, total 2008 compensation for the top 47 executives is 56 percent lower than their total 2007 compensation. My annual salary is $1. My only stake is my reputation.

No one knows better than I do that AIG has been the recipient of generous amounts of government financial aid. We are acutely aware not only that we must be good stewards of the public funds we have received but that the patience of America's taxpayers is wearing thin. Where that patience is especially thin is on the question of compensation.

I am mindful of the outrage of the American public and of the president's call for a more restrained compensation system. I am also mindful that every decision we make at AIG has consequences for the American taxpayer. We weigh decisions with one priority in mind: Will this action help or hurt our

ability to pay money back to the government?

Although we have wound down more than $1 trillion in the portfolio of the AIG Financial Products unit that is at the root of the company's troubles, there remains substantial risk in that portfolio. The financial downside for taxpayers is potentially very large, and that's why we're winding down this business.

To prevent undue risk exposure in the meantime, AIG has made a set of retention payments to employees based on a compensation system that prior management put in place. As has been reported, payments were made to employees in the Financial Products unit. Make no mistake, had I been chief executive at the time, I would never have approved the retention contracts that were put in place more than a year ago. It was distasteful to have to make these payments. But we concluded that the risks to the company, and therefore the financial system and the economy, were unacceptably high.

Where does that leave us?

Taxpayers should know that the government's assistance to AIG has had a beneficial effect. The assistance has provided stability to the company and to the entire financial system.

Taxpayers should also know that AIG has a plan to return money to the government, and we are making progress. We have transferred to the government securities or equity interests that have real value and prospects for future appreciation. We are selling assets and significantly reducing our risk exposure. The business unit that was the source of our greatest losses is being shut down. And we have agreed with the Federal Reserve and the Treasury to pay off AIG's existing loan through a combination of asset transfers, securitization of the cash value of certain life insurance businesses, and cash from the sale of businesses.

What lessons can we draw from AIG's experience? There must be safeguards against the systemic consequences of failures of large, interconnected financial institutions. Where safeguards are lacking, such companies need to be restructured or scaled back so they no longer come close to posing a systemic risk. We have seen all too clearly where the brink lies; our corporate structures need to be pulled back from that edge.

In America, when you owe people money, you pay them. We are pressing forward with our plan to return money to taxpayers, protect policyholders, and give employees a vision of success and a path for achieving it. With the understanding and patience of the American people and the continued support of the Federal Reserve and the Treasury, we can resolve AIG's challenges and help its businesses contribute to a global economic recovery.

The writer is chairman and chief executive of American International Group.

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April 17, 2009

A.I.G. Chief Owns Significant Stake in Goldman

By MARY WILLIAMS WALSH

Edward M. Liddy, the dollar-a-year chief executive leading the American International Group since its bailout last fall, still owns a significant stake in Goldman Sachs, one of the insurer's trading partners that was made whole by the government bailout of A.I.G.

Mr. Liddy earned most of his holdings in Goldman, worth more than $3 million total, as compensation for serving on the bank's board and its audit committee until he stepped down in September to take the job at A.I.G. He moved to A.I.G. at the request of Henry M. Paulson Jr., then the Treasury secretary and a former Goldman director.

Details about his holdings were disclosed in Goldman's proxy statement and confirmed by an A.I.G. spokeswoman, who said they constituted "a small percentage of his total net worth." Mr. Liddy had already owned some stock in Goldman Sachs before joining its board in 2003.

He has said that he considers his work at A.I.G. to be a public service, performed on behalf of the taxpayers, who ended up with nearly 80 percent of the insurance company. His goal is to dismantle the company and sell its operating units, using the proceeds to pay back the rescue loans. On Thursday, A.I.G. said it had sold its car insurance unit, 21st Century Insurance, to the Zurich Financial Services Group for $1.9 billion.

Along the way, Mr. Liddy has clearly disclosed that A.I.G. was serving as a conduit, with much of the rescue money passing through and ending up in the hands of A.I.G.'s trading partners.

Goldman has said in the past that it had collateral and hedges to reduce the risk of its exposure to A.I.G.

Still, his stake could represent a potential conflict and is likely to reignite questions about Goldman's involvement in A.I.G., and about why taxpayer money was used to shield A.I.G.'s trading partners from losses, when asset values plunged everywhere and most investors suffered greatly.

Had A.I.G. simply declared bankruptcy, the financial institutions doing business with it would have ended up in court, as they did in the case of Lehman Brothers, fighting to get pennies on the dollar for their claims.

Instead, Goldman Sachs received $13 billion of the Federal Reserve's rescue money to close out various contracts it had outstanding with A.I.G. It was one of the biggest beneficiaries of the government rescue.

A spokeswoman for A.I.G., Christina Pretto, dismissed any suggestion that Mr. Liddy's financial ties to Goldman might have shaped his actions at A.I.G.

"A.I.G. is a large institution that engages in standard commercial activity with companies all over the world," Ms. Pretto said. "These activities are handled in the normal, day-to-day course of business and rarely, if ever, rise to the level of the C.E.O."

She said in particular that Mr. Liddy was not involved in the discussions of how to close out the contracts of A.I.G.'s counterparties in derivatives and other forms of trading.

"Discussions regarding these matters were handled exclusively by the Federal Reserve Bank of New York," Ms. Pretto said.

According to Goldman's proxy, Mr. Liddy holds 18,244 units of restricted stock, which would be worth about $2.2 million if they were sold at today's market price. The rest of his holdings are in common stock. Restricted stock cannot be sold without incurring significant tax penalties, but the proxy said that Mr. Liddy's restricted units would be converted to common shares on May 9.

Officials at the Fed, which initiated the bailout of A.I.G. last September, have said they were not happy about having to pour public resources into private sector companies, but felt that they had to do so to avoid a chain of losses at financial institutions all over the world.

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NYT: How Geithner forged ties to finance club

Treasury secretary's relationships with banking giants raises questions

By Jo Becker and Gretchen Morgenson
The New York Times
updated 4:36 a.m. ET, Mon., April 27, 2009

Last June, with a financial hurricane gathering force, Treasury Secretary Henry M. Paulson Jr. convened the nation's economic stewards for a brainstorming session. What emergency powers might the government want at its disposal to confront the crisis? he asked.

Timothy F. Geithner, who as president of the New York Federal Reserve Bank oversaw many of the nation's most powerful financial institutions, stunned the group with the audacity of his answer. He proposed asking Congress to give the president broad power to guarantee all the debt in the banking system, according to two participants, including Michele Davis, then an assistant Treasury secretary.

The proposal quickly died amid protests that it was politically untenable because it could put taxpayers on the hook for trillions of dollars.

"People thought, 'Wow, that's kind of out there,' " said John C. Dugan, the comptroller of the currency, who heard about the idea afterward. Mr. Geithner says, "I don't remember a serious discussion on that proposal then."

But in the 10 months since then, the government has in many ways embraced his blue-sky prescription. Step by step, through an array of new programs, the Federal Reserve and Treasury have assumed an unprecedented role in the banking system, using unprecedented amounts of taxpayer money, to try to save the nation's financiers from their own mistakes.

And more often than not, Mr. Geithner has been a leading architect of those bailouts, the activist at the head of the pack. He was the federal regulator most willing to "push the envelope," said H. Rodgin Cohen, a prominent Wall Street lawyer who spoke frequently with Mr. Geithner.

Today, Mr. Geithner is Treasury secretary, and as he seeks to rebuild the nation's fractured financial system with more taxpayer assistance and a regulatory overhaul, he finds himself a locus of discontent.

Even as banks complain that the government has attached too many intrusive strings to its financial assistance, a range of critics — lawmakers, economists and even former Federal Reserve colleagues — say that the bailout Mr. Geithner has played such a central role in fashioning is overly generous to the financial industry at taxpayer expense.

An examination of Mr. Geithner's five years as president of the New York Fed, an era of unbridled and ultimately disastrous risk-taking by the financial industry, shows that he forged unusually close relationships with executives of Wall Street's giant financial institutions.

His actions, as a regulator and later a bailout king, often aligned with the industry's interests and desires, according to interviews with financiers, regulators and analysts and a review of Federal Reserve records.

In a pair of recent interviews and an exchange of e-mail messages, Mr. Geithner defended his record, saying that from very early on, he was "a consistently dark voice about the potential risks ahead, and a principal source of initiatives designed to make the system stronger" before the markets started to collapse.

Mr. Geithner said his actions in the bailout were motivated solely by a desire to help businesses and consumers. But in a financial crisis, he added, "the government has to take risk, and we are going to be doing things which ultimately — in order to get the credit flowing again — are going to benefit the institutions that are at the core of the problem."

The New York Fed is, by custom and design, clubby and opaque. It is charged with curbing banks' risky impulses, yet its president is selected by and reports to a board dominated by the chief executives of some of those same banks. Traditionally, the New York Fed president's intelligence-gathering role has involved routine consultation with financiers, though Mr. Geithner's recent predecessors generally did not meet with them unless senior aides were also present, according to the bank's former general counsel.

By those standards, Mr. Geithner's reliance on bankers, hedge fund managers and others to assess the market's health — and provide guidance once it faltered — stood out.

His calendars from 2007 and 2008 show that those interactions were a mix of the professional and the private.

He ate lunch with senior executives from Citigroup, Goldman Sachs and Morgan Stanley at the Four Seasons restaurant or in their corporate dining rooms. He attended casual dinners at the homes of executives like Jamie Dimon, a member of the New York Fed board and the chief of JPMorgan Chase.

Mr. Geithner was particularly close to executives of Citigroup, the largest bank under his supervision. Robert E. Rubin, a senior Citi executive and a former Treasury secretary, was Mr. Geithner's mentor from his years in the Clinton administration, and the two kept in close touch in New York.

Mr. Geithner met frequently with Sanford I. Weill, one of Citi's largest individual shareholders and its former chairman, serving on the board of a charity Mr. Weill led. As the bank was entering a financial tailspin, Mr. Weill approached Mr. Geithner about taking over as Citi's chief executive.

But for all his ties to Citi, Mr. Geithner repeatedly missed or overlooked signs that the bank — along with the rest of the financial system — was falling apart. When he did spot trouble, analysts say, his responses were too measured, or too late.

In 2005, for instance, Mr. Geithner raised questions about how well Wall Street was tracking its trading of complex financial products known as derivatives, yet he pressed reforms only at the margins. Problems with the risky and opaque derivatives market later amplified the economic crisis.

As late as 2007, Mr. Geithner advocated measures that government studies said would have allowed banks to lower their reserves. When the crisis hit, banks were vulnerable because their financial cushion was too thin to protect against large losses.

In fashioning the bailout, his drive to use taxpayer money to backstop faltering firms overrode concerns that such a strategy would encourage more risk-taking in the future. In one bailout instance, Mr. Geithner fought a proposal to levy fees on banks that would help protect taxpayers against losses.

The bailout has left the Fed holding a vast portfolio of troubled securities. To manage them, Mr. Geithner gave three no-bid contracts to BlackRock, an asset-management firm with deep ties to the New York Fed.

To Joseph E. Stiglitz, a Nobel-winning economist at Columbia and a critic of the bailout, Mr. Geithner's actions suggest that he came to share Wall Street's regulatory philosophy and world view.

"I don't think that Tim Geithner was motivated by anything other than concern to get the financial system working again," Mr. Stiglitz said. "But I think that mindsets can be shaped by people you associate with, and you come to think that what's good for Wall Street is good for America."

In this case, he added, that "led to a bailout that was designed to try to get a lot of money to Wall Street, to share the largesse with other market participants, but that had deeply obvious flaws in that it put at risk the American taxpayer unnecessarily."

But Ben S. Bernanke, the chairman of the Federal Reserve, said in an interview that Mr. Geithner's Wall Street relationships made him "invaluable" as they worked together to steer the country through crisis.

"He spoke frequently to many, many different players and kept his finger on the pulse of the situation," Mr. Bernanke said. "He was the point person for me in many cases and with many individual firms so that we were prepared for any kind of emergency."

An alternate path

A revolving door has long connected Wall Street and the New York Fed. Mr. Geithner's predecessors, E. Gerald Corrigan and William J. McDonough, wound up as investment-bank executives. The current president, William C. Dudley, came from Goldman Sachs.

Mr. Geithner followed a different route. An expert in international finance, he served under both Clinton-era Treasury secretaries, Mr. Rubin and Lawrence H. Summers. He impressed them with his handling of foreign financial crises in the late 1990s before landing a top job at the International Monetary Fund.

When the New York Fed was looking for a new president, both former secretaries were advisers to the bank's search committee and supported Mr. Geithner's candidacy. Mr. Rubin's seal of approval carried particular weight because he was by then a senior official at Citigroup.

Mr. Weill, Citigroup's architect, was a member of the New York Fed board when Mr. Geithner arrived. "He had a baby face," Mr. Weill recalled. "He didn't have a lot of experience in dealing with the industry."

But, he added, "He quickly earned the respect of just about everyone I know. His knowledge, his willingness to listen to people."

At the age of 42, Mr. Geithner took charge of a bank with enormous influence over the American economy.

Sitting like a fortress in the heart of Manhattan's financial district, the New York Fed is, by dint of the city's position as a world financial center, the most powerful of the 12 regional banks that make up the Federal Reserve system.

The Federal Reserve was created after a banking crisis nearly a century ago to manage the money supply through interest-rate policy, oversee the safety and soundness of the banking system and act as lender of last resort in times of trouble. The Fed relies on its regional banks, like the New York Fed, to carry out its policies and monitor certain banks in their areas.

The regional reserve banks are unusual entities. They are private and their shares are owned by financial institutions the bank oversees. Their net income is paid to the Treasury.

At the New York Fed, top executives of global financial giants fill many seats on the board. In recent years, board members have included the chief executives of Citigroup and JPMorgan Chase, as well as top officials of Lehman Brothers and industrial companies like General Electric.

In theory, having financiers on the New York Fed's board should help the president be Washington's eyes and ears on Wall Street. But critics, including some current and former Federal Reserve officials, say the New York Fed is often more of a Wall Street mouthpiece than a cop.

Willem H. Buiter, a professor at the London School of Economics and Political Science who caused a stir at a Fed retreat last year with a paper concluding that the Federal Reserve had been co-opted by the financial industry, said the structure ensured that "Wall Street gets what it wants" in its New York president: "A safe pair of hands, someone who is bright, intelligent, hard-working, but not someone who intends to reform the system root and branch."

Mr. Geithner took office during one of the headiest bull markets ever. Yet his most important task, he said in an interview, was to prepare banks for "the storm that we thought was going to come."

In his first speech as president in March 2004, he advised bankers to "build a sufficient cushion against adversity." Early on, he also spoke frequently about the risk posed by the explosion of derivatives, unregulated insurancelike products that many companies use to hedge their bets.

But Mr. Geithner acknowledges that "even with all the things that we took the initiative to do, I didn't think we achieved enough."

Derivatives were not an altogether new issue for him, since the Clinton Treasury Department had battled efforts to regulate the multitrillion-dollar market. As Mr. Geithner shaped his own approach, records and interviews show, he consulted veterans of that fight at Treasury, including Lewis A. Sachs, a close friend and tennis partner who managed a hedge fund.

Mr. Geithner pushed the industry to keep better records of derivative deals, a measure that experts credit with mitigating the chaos once firms began to topple. But he stopped short of pressing for comprehensive regulation and disclosure of derivatives trading and even publicly endorsed their potential to damp risk.

Nouriel Roubini, a professor of economics at the Stern School of Business at New York University, who made early predictions of the crisis, said Mr. Geithner deserved credit for trying, especially given that the Fed chairman at the time, Alan Greenspan, was singing the praises of derivatives.

Even as Mr. Geithner was counseling banks to take precautions against adversity, some economists were arguing that easy credit was feeding a more obvious problem: a housing bubble.

Despite those warnings, a report released by the New York Fed in 2004 called predictions of gloom "flawed" and "unpersuasive." And as lending standards evaporated and the housing boom reached full throttle, banks plunged ever deeper into risky mortgage-backed securities and derivatives.

The nitty-gritty task of monitoring such risk-taking is done by 25 examiners at each large bank. Mr. Geithner reviewed his examiners' reports, but since they are not public, it is hard to fully assess the New York Fed's actions during that period.

Mr. Geithner said many of the New York Fed's supervisory actions could not be disclosed because of confidentiality issues. As a result, he added, "I realize I am vulnerable to a different narrative in that context."

The ultimate tool at Mr. Geithner's disposal for reining in unsafe practices was to recommend that the Board of Governors of the Fed publicly rebuke a bank with penalties or cease and desist orders. Under his watch, only three such actions were taken against big domestic banks; none came after 2006, when banks' lending practices were at their worst.

The Citigroup challenge
Perhaps the central regulatory challenge for Mr. Geithner was Citigroup.

Cobbled together by Mr. Weill through a series of pell-mell acquisitions into the world's largest bank, Citigroup reached into every corner of the financial world: credit cards, auto loans, trading, investment banking, as well as mortgage securities and derivatives. But it was plagued by mismanagement and wayward banking practices.

In 2004, the New York Fed levied a $70 million penalty against Citigroup over the bank's lending practices. The next year, the New York Fed barred Citigroup from further acquisitions after the bank was involved in trading irregularities and questions about its operations. The New York Fed lifted that restriction in 2006, citing the company's "significant progress" in carrying out risk-control measures.

In fact, risk was rising to dangerous levels at Citigroup as the bank dove deeper into mortgage-backed securities.

Throughout the spring and summer of 2007, as subprime lenders began to fail and government officials reassured the public that the problems were contained, Mr. Geithner met repeatedly with members of Citigroup's management, records show.

From mid-May to mid-June alone, he met over breakfast with Charles O. Prince, the company's chief executive at the time, traveled to Citigroup headquarters in Midtown Manhattan to meet with Lewis B. Kaden, the company's vice chairman, and had coffee with Thomas G. Maheras, who ran some of the bank's biggest trading operations.

(Mr. Maheras's unit would later be roundly criticized for taking many of the risks that led Citigroup aground.)

His calendar shows that during that period he also had breakfast with Mr. Rubin. But in his conversations with Mr. Rubin, Mr. Geithner said, he did not discuss bank matters. "I did not do supervision with Bob Rubin," he said.

Any intelligence Mr. Geithner gathered in his meetings does not appear to have prepared him for the severity of the problems at Citigroup and beyond.

In a May 15, 2007, speech to the Federal Reserve Bank of Atlanta, Mr. Geithner praised the strength of the nation's top financial institutions, saying that innovations like derivatives had "improved the capacity to measure and manage risk" and declaring that "the larger global financial institutions are generally stronger in terms of capital relative to risk."

Two days later, interviews and records show, he lobbied behind the scenes for a plan that a government study said could lead banks to reduce the amount of capital they kept on hand.

While waiting for a breakfast meeting with Mr. Weill at the Four Seasons Hotel in Manhattan, Mr. Geithner phoned Mr. Dugan, the comptroller of the currency, according to both men's calendars. Both Citigroup and JPMorgan Chase were pushing for the new standards, which they said would make them more competitive. Records show that earlier that week, Mr. Geithner had discussed the issue with JPMorgan's chief, Mr. Dimon.

At the Federal Deposit Insurance Corporation, which insures bank deposits, the chairwoman, Sheila C. Bair, argued that the new standards were tantamount to letting the banks set their own capital levels. Taxpayers, she warned, could be left "holding the bag" in a downturn. But Mr. Geithner believed that the standards would make the banks more sensitive to risk, Mr. Dugan recalled. The standards were adopted but have yet to go into effect.

Callum McCarthy, a former top British financial regulator, said regulators worldwide should have focused instead on how undercapitalized banks already were. "The problem is that people in banks overestimated their ability to manage risk, and we believed them."

By the fall of 2007, that was becoming clear. Citigroup alone would eventually require $45 billion in direct taxpayer assistance to stay afloat.

On Nov. 5, 2007, Mr. Prince stepped down as Citigroup's chief in the wake of multibillion-dollar mortgage write-downs. Mr. Rubin was named chairman, and the search for a new chief executive began. Mr. Weill had a perfect candidate: Mr. Geithner.

The two men had remained close. That past January, Mr. Geithner had joined the board of the National Academy Foundation, a nonprofit organization founded by Mr. Weill to help inner-city high school students prepare for the work force.

"I was a little worried about the implications," Mr. Geithner said, but added that he had accepted the unpaid post only after Mr. Weill had stepped down as Citigroup's chairman, and because it was a good cause that the Fed already supported.

Although Mr. Geithner was a headliner with Mr. Prince at a 2004 fundraiser that generated $1.1 million for the

foundation, he said he did not raise money for the group once on the board. He attended regular foundation meetings at Mr. Weill's Midtown Manhattan office.

In addition to charity business, Mr. Weill said, the two men often spoke about what was happening at Citigroup. "It would be logical," he said.

On Nov. 6 and 7, 2007, as Mr. Geithner's bank examiners scrambled to assess Citigroup's problems, the two men spoke twice, records show, once for a half-hour on the phone and once for an hourlong meeting in Mr. Weill's office, followed by a National Academy Foundation cocktail reception.

Mr. Geithner also went to Citigroup headquarters for a lunch with Mr. Rubin on Nov. 16 and met with Mr. Prince on Dec. 4, records show.

Mr. Geithner acknowledged in an interview that Mr. Weill had spoken with him about the Citigroup job. But he immediately rejected the idea, he said, because he did not think he was right for the job.

"I told him I was not the right choice," Mr. Geithner said, adding that he then spoke to "one other board member to confirm after the fact that it did not make sense."

According to New York Fed officials, Mr. Geithner informed the reserve bank's lawyers about the exchange with Mr. Weill, and they told him to recuse himself from Citigroup business until the matter was resolved.

Mr. Geithner said he "would never put myself in a position where my actions were influenced by a personal relationship."

Other chief financial regulators at the Federal Deposit Insurance Company and the Securities and Exchange Commission say they keep officials from institutions they supervise at arm's length, to avoid even the appearance of a conflict. While the New York Fed's rules do not prevent its president from holding such one-on-one meetings, that was not the general practice of Mr. Geithner's recent predecessors, said Ernest T. Patrikis, a former general counsel and chief operating officer at the New York Fed.

"Typically, there would be senior staff there to protect against disputes in the future as to the nature of the conversations," he said.

As Mr. Geithner sees it, most of the institutions hit hardest by the crisis were not under his jurisdiction — some foreign banks, mortgage companies and brokerage firms. But he acknowledges that "the thing I feel somewhat burdened by is that I didn't attempt to try to change the rules of the game on capital requirements early on," which could have left banks in better shape to weather the storm.

By last fall, it was too late. The government, with Mr. Geithner playing a lead role alongside Mr. Bernanke and Mr. Paulson, scurried to rescue the financial system from collapse. As the Fed became the biggest vehicle for the bailout, its balance sheet more than doubled, from $900 billion in October 2007 to more than $2 trillion today.

"I couldn't have cared less about Wall Street, but we faced a crisis that was going to cause enormous damage to the economy," Mr. Geithner said.

The first to fall was Bear Stearns, which had bet heavily on mortgages and by mid-March was tottering. Mr. Geithner and Mr. Paulson persuaded JPMorgan Chase to take over Bear. But to complete the deal, JPMorgan insisted that the government buy $29 billion in risky securities owned by Bear.

Some officials at the Federal Reserve feared encouraging risky behavior by bailing out an investment house that did not even fall under its umbrella. To Mr. Geithner's supporters, that he prevailed in the case of Bear and other bailout decisions is testament to his leadership.

"He was a leader in trying to come up with an aggressive set of policies so that it wouldn't get completely out of control," said Philipp Hildebrand, a top official at the Swiss National Bank who has worked with Mr. Geithner to coordinate an international response to the worldwide financial crisis.

But others are less enthusiastic. William Poole, president of the Federal Reserve Bank of St. Louis until March 2008, said that the Fed, by effectively creating money out of thin air, not only runs the risk of "massive inflation" but has also done an end-run around Congressional power to control spending.

Many of the programs "ought to be legislated and shouldn't be in the Federal Reserve at all," he contended.

In making the Bear deal, the New York Fed agreed to accept Bear's own calculation of the value of assets acquired with taxpayer money, even though those values were almost certain to decline as the economy deteriorated. Although Fed officials argue that they can hold onto those assets until they increase in value, to date taxpayers have lost $3.4 billion. Even these losses are probably understated, given how the Federal Reserve priced the holdings,

said Janet Tavakoli, president of Tavakoli Structured Finance, a consulting firm in Chicago. "You can assume that it has used magical thinking in valuing these assets," she said.

Mr. Geithner played a pivotal role in the next bailout, which was even bigger — that of the American International Group, the insurance giant whose derivatives business had brought it to the brink of collapse in September. He also went to bat for Goldman Sachs, one of the insurer's biggest trading partners.

As A.I.G. bordered on bankruptcy, Mr. Geithner pressed first for a private sector solution. A.I.G. needed $60 billion to meet payments on insurance contracts it had written to protect customers against debt defaults.

A.I.G.'s chief executive at the time, Robert B. Willumstad, said he had hired bankers at JPMorgan to help it raise capital. Goldman Sachs had jockeyed for the job as well, but because the investment bank was one of A.I.G.'s biggest trading partners, Mr. Willumstad rejected the idea. The potential conflicts of interest, he believed, were too great.

Nevertheless, on Monday, Sept. 15, Mr. Geithner pushed A.I.G. to bring Goldman onto its team to raise capital, Mr. Willumstad said.

Mr. Geithner and Mr. Corrigan, a Goldman managing director, were close, speaking frequently and sometimes lunching together at Goldman headquarters. On that day, the company's chief executive, Lloyd C. Blankfein, was at the New York Fed.

A Goldman spokesman said, "We don't believe anyone at Goldman Sachs asked Mr. Geithner to include the firm in the assignment." Mr. Geithner said he had suggested Goldman get involved because the situation was chaotic and "time was running out."

But A.I.G.'s search for capital was fruitless. By late Tuesday afternoon, the government would step in with an $85 billion loan, the first installment of a bailout that now stands at $182 billion. As part of the bailout, A.I.G.'s trading partners, including Goldman, were compensated fully for money owed to them by A.I.G.

Analysts say the New York Fed should have pressed A.I.G.'s trading partners to take a deep discount on what they were owed. But Mr. Geithner said he had no bargaining power because he was unwilling to threaten A.I.G.'s trading partners with a bankruptcy by the insurer for fear of further destabilizing the system.

A recent report on the A.I.G. bailout by the Government Accountability Office found that taxpayers may never get their money back.

The debt guarantee

Over Columbus Day weekend last fall, with the market gripped by fear and banks refusing to lend to one another, a somber group gathered in an ornate conference room across from Mr. Paulson's office at the Treasury.

Mr. Paulson, Mr. Bernanke, Ms. Bair and others listened as Mr. Geithner made his pitch, according to four participants. Mr. Geithner, in the words of one participant, was "hell bent" on a plan to use the Federal Deposit Insurance Corporation to guarantee debt issued by bank holding companies.

It was a variation on Mr. Geithner's once-unthinkable plan to have the government guarantee all bank debt.

The idea of putting the government behind debt issued by banking and investment companies was a momentous shift, an assistant Treasury secretary, David G. Nason, argued. Mr. Geithner wanted to give the banks the guarantee free, saying in a recent interview that he felt that charging them would be "counterproductive." But Ms. Bair worried that her agency — and ultimately taxpayers — would be left vulnerable in the event of a default.

Mr. Geithner's program was enacted and to date has guaranteed $340 billion in loans to banks. But Ms. Bair prevailed on taking fees for the guarantees, and the government so far has collected $7 billion.

Mr. Geithner has also faced scrutiny over how well taxpayers were served by his handling of another aspect of the bailout: three no-bid contracts the New York Fed awarded to BlackRock, a money management firm, to oversee troubled assets acquired by the bank.

BlackRock was well known to the Fed. Mr. Geithner socialized with Ralph L. Schlosstein, who founded the company and remains a large shareholder, and has dined at his Manhattan home. Peter R. Fisher, who was a senior official at the New York Fed until 2001, is a managing director at BlackRock.

Mr. Schlosstein said that while he and Mr. Geithner spoke frequently, BlackRock's work for the Fed never came up.

"Conversations with Tim were appropriately a one-way street. He'd call you and pepper you with a bunch of questions and say thank you very much and hang up," he said. "My experience with Tim is that he makes those kinds of decisions 100 percent based on capability and zero about relationships."

For months, New York Fed officials declined to make public details of the contract, which has become a flash point with some lawmakers who say the Fed's handling of the bailout is too secretive. New York Fed officials initially said in interviews that they could not disclose the fees because they had agreed with BlackRock to keep them confidential in exchange for a discount.

The contract terms they subsequently disclosed to The New York Times show that the contract is worth at least $71.3 million over three years. While that rate is largely in keeping with comparable fees for such services, analysts say it is hardly discounted.

Mr. Geithner said he hired BlackRock because he needed its expertise during the Bear Stearns-JPMorgan negotiations. He said most of the other likely candidates had conflicts, and he had little time to shop around. Indeed, the deal was cut so quickly that they worked out the fees only after the firm was hired.

But since then, the New York Fed has given two more no-bid contracts to BlackRock related to the A.I.G. bailout, angering a number of BlackRock's competitors. The fees on those contracts remain confidential.

Rescues revisited

As Mr. Geithner runs the Treasury and administration officials signal more bailout money may be needed, the specter of bailouts past haunts his efforts.

He recently weathered a firestorm over retention payments to A.I.G. executives made possible in part by language inserted in the administration's stimulus package at the Treasury Department's insistence. And his new efforts to restart the financial industry suggest the same philosophy that guided Mr. Geithner's Fed years.

According to a recent report by the inspector general monitoring the bailout, Neil M. Barofsky, Mr. Geithner's plan to underwrite investors willing to buy the risky mortgage-backed securities still weighing down banks' books is a boon for private equity and hedge funds but exposes taxpayers to "potential unfairness" by shifting the burden to them.

The top echelon of the Treasury Department is a common destination for financiers, and Mr. Geithner has also recruited aides from Wall Street, some from firms that were at the heart of the crisis. For instance, his chief of staff, Mark A. Patterson, is a former lobbyist for Goldman Sachs, and one of his top counselors is Lewis S. Alexander, a former chief economist at Citigroup.

A bill sent recently by the Treasury to Capitol Hill would give the Obama administration extensive new powers to inject money into or seize systemically important firms in danger of failure. It was drafted in large measure by Davis Polk & Wardwell, a law firm that represents many banks and the financial industry's lobbying group. Mr. Geithner also hired Davis Polk to represent the New York Fed during the A.I.G. bailout.

Treasury officials say they inadvertently used a copy of Davis Polk's draft sent to them by the Federal Reserve as a template for their own bill, with the result that the proposed legislation Treasury sent to Capitol Hill bore the law firm's computer footprints. And they point to several significant changes to that draft that "better protect the taxpayer," in the words of Andrew Williams, a Treasury spokesman.

But others say important provisions in the original industry bill remain. Most significant, the bill does not require that any government rescue of a troubled firm be done at the lowest possible cost, as is required by the F.D.I.C. when it takes over a failed bank. Treasury officials said that is because they would use the rescue powers only in rare and extreme cases that might require flexibility. Karen Shaw Petrou, managing director of the Washington research firm Federal Financial Analytics, said it essentially gives Treasury "a blank check."

One year and two administrations into the bailout, Mr. Geithner is perhaps the single person most identified with the enormous checks the government has written. At every turn, he is being second-guessed about the rescues' costs and results. But he remains firm in his belief that failure to act would have been much more costly.

"All financial crises are a fight over how much losses the government ultimately takes on," he said. And every decision "requires we balance how to achieve the most benefits in terms of improving confidence and the flow of credit at the least risk to taxpayers."

This article, Geithner, as Member and Overseer, Forged Ties to Finance Club, first appeared in The New York Times.

More on Timothy Geithner | Citigroup

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Spinmeisters of the Apocalypse

For disgraced executives looking to set their images right, there's nothing like spending up to $60,000 a month on a public-relations man

George Sard
Chairman and CEO,
Sard Verbinnen & Co.

STAR CLIENTS: Dick Fuld; Mark Madoff; Andrew Madoff

THE BIO: With former clients including former New York Governor Eliot Spitzer, his wife, Silda, and Martha Stewart, Sard is known for his wide net of contacts. During Stewart's trial, he created MarthaTalks .com so that she could communicate with her fans.

REACHING OUT: Lehman Brothers called on Sard shortly after the firm's September bankruptcy, and he has worked with Fuld since then. Sard charges as much as $800 an hour if a client is embroiled in a severe crisis. He also bills for transportation and hours in transit.

Richard Schwartz
Co-managing partner,
Source Communications

STAR CLIENT: Hank Greenberg

THE BIO: Schwartz has a background in politics and journalism—he was an adviser to Rudy Giuliani and edited the editorial page at the New York *Daily News*. He represented Carl Icahn during Icahn's 2005 proxy battle to break up Time Warner.

REACHING OUT: Schwartz has been representing former AIG chief executive Hank Greenberg since 2005, when he called Greenberg's lawyer, Ken Bialkin, and expressed disgust at how Greenberg had been treated by the media. Bialkin introduced the two, and Greenberg hired Schwartz.

Eric Starkman
President,
Starkman & Associates

STAR CLIENTS: Stan O'Neal; Shana Madoff; her husband, Eric Swanson

THE BIO: Starkman worked with Richard Grasso, former CEO of the New York Stock Exchange, for four years after Grasso was dismissed with a $139.5 million retirement package.

REACHING OUT: In O'Neal's last days at Merrill Lynch, the bank's communications team hired Owen Blicksilver to represent the troubled CEO. But O'Neal switched to Starkman after being introduced by a mutual friend. Shana Madoff, Bernie Madoff's niece, began working with Starkman in December.

Ken Sunshine
President,
Sunshine Sachs & Associates

STAR CLIENT: John Thain

THE BIO: Sunshine is best known for representing celebrities such as Leonardo DiCaprio, but he's also informally advised Hillary Clinton.

REACHING OUT: Thain, Merrill Lynch's former chief executive, called Sunshine shortly after being ousted from Bank of America in January. Since then, Sunshine advised Thain on a memo he wrote to Merrill Lynch employees explaining that he would repay the bank the $1.2 million he spent decorating his office. Sunshine also helped another of his clients, Maria Bartiromo, nab the first interview with Thain after his ouster. —JOCELYN HANAMIRIAN

Size Matters?

WITH EACH NEW BILLION-DOLLAR *financial scandal comes...publishing contracts for business journalists! Is there a correlation between the size of the loss and the number of books?*

The Scandal	*The Loss*	*The Lowdown*	*The Deals*
BERNIE MADOFF	$64 BILLION	Of the eight or so writers shopping Madoff proposals this year, six got offers. **One big fish:** Erin Arvedlund, who questioned Madoff's returns in 2001 while at *Barron's*.	6
LEHMAN BROTHERS	$45.5 BILLION	Lehman's collapse may have triggered **the economy's decline,** but it has led to just two book contracts, the most recent being *A Colossal Failure of Common Sense*, by a former Lehman exec.	2
COUNTRYWIDE FINANCIAL	$26.2 BILLION	**The lone account** of this now-bankrupt mortgage company: *The Foreclosure of America*, by Adam Michaelson, a former Countrywide marketing exec.	1
BEAR STEARNS	$20.3 BILLION	The smallest loss has generated the second-highest number of contracts. **First out of the gate:** *House of Cards*, by William Cohan. Next up: *Street Fighters*, by Kate Kelly. —CHRISTINA SIMONE	5

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May 7, 2009

Mr. Edward M. Liddy
Chairman and Chief Executive Officer
American International Group, Inc.
70 Pine Street
New York, New York 10270

Re: Compensation Policies at AIG

Dear Ed,

We have spoken in the past on issues concerning compensation, and we know you appreciate, as we do, how central these issues are to the future of the company. In light of this, we believe that a broad review of AIG's compensation policies is warranted, and we are asking that such a review be undertaken as soon as possible.

We believe that the key goal of these policies must be the recruitment and retention of the people best qualified to lead and staff AIG during this difficult time. Without these people, it will not be possible to maximize the value of AIG for its shareholders and United States taxpayers. At the same time, we all recognize that there are serious constraints on any compensation plan currently in place or contemplated at AIG — not the least of which is the recognition that any compensation program at AIG is dependent upon the unprecedented and continuing financial support provided to AIG by United States taxpayers.

Accordingly, we ask that you, together with senior management at AIG, its board of directors and appropriate committees of the board, undertake a broad review of the compensation programs currently in place throughout AIG with a view to developing a compensation program that will apply to AIG as a whole but recognize the different circumstances of AIG's various business units. In our view, this program should be based on the following:

- There should be an overarching performance-based compensation philosophy and consistent approach to compensation across the business units and operations of AIG that includes broad oversight by the board of directors;

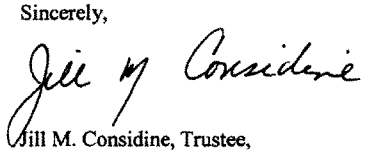
- The compensation program should be designed to reward long-term, sustainable value creation; it should include clear and consistent metrics designed to align employees' interests with those of shareholders over the long term;

- The compensation program should be designed to encourage appropriate risk-taking within the organization;
- The compensation program should provide for the appropriate balance between short-term and long-term compensation; and
- The company should benchmark AIG's compensation levels against available market data of organizations of similar size and complexity with which AIG competes for talent. This data should be used as a guide in assessing the appropriateness of any compensation plan.

We recognize that crafting such a comprehensive plan will be a significant challenge in light of the constraints under which AIG must operate. In spite of the challenges, it is essential that a comprehensive plan be developed by year-end.

We request that you provide us with reports at least quarterly regarding the status of the development of the compensation program. We are committed to working with you and the board of directors in this important endeavor.

Sincerely,



Jill M. Considine, Trustee,
on behalf of the Trustees of the
AIG Credit Facility Trust

cc: Douglas L. Foshee, Trustee, AIG Credit Facility Trust
Chester B. Feldberg, Trustee, AIG Credit Facility Trust

Questions For the Record
Rep. Kaptur
Oversight and Government Reform Committee
Hearing
"AIG: Where is the Taxpayer's Money Going?"

Panel 1: Ed Liddy, CEO of AIG

1. I understand that there is a possibility that AIG's counterparties – the banks like Goldman Sachs and Deutsche – will return some of the billions in collateral that AIG posted late last year. That would, I understand, depend on the market conditions at the time that you terminate the contracts. Specifically, if the market conditions are better when you terminate the contracts than they were when you had to post the collateral, you could get some taxpayer money back. Is this your intention?

2. Do you think we need to rethink the plan of terminating all AIGFP contracts as quickly as possible? Should we wait a little longer to see if markets continue to improve, in the hope of getting taxpayer money back? Is that why relatively few of the contracts have been terminated in the last two months, or is there some other matter affecting the pace, and if so, what?

3. In the eventual downfall of AIG that precipitated the bailout of AIG which was too big to fail, where did AIG's system of "risk management and assessment" break down, and why? Now, how does your testimony today regarding lessening complexity and partnerships address the fundamental breakdowns of control in AIG to assure that this cannot ever occur again? Or do they at all?

4. How do you respond to the criticism that taxpayers are being exposed to the least valuable parts of AIG?

5. Have you, as CEO of AIG, done anything to investigate the potential fraud committed by AIG employees and executives? Although the potential fraud did not occur under your watch, as they say, I'd like to share with you from AIG's SEC filing in January 2008, an audit opinion from Price Waterhouse Cooper: PWC accountants write that AIG did not maintain "effective internal control over financial reporting" related to its credit default swaps. They assert that "there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis." Mr. Liddy, if you are restructuring AIG for success, shouldn't that include investigating such accusations as these? Will you investigate potential fraud at AIG in addition to what the Department of Justice might be doing?

Panel 2 Trustees

1. In your joint testimony you state that the trust ," was viewed by the Federal Reserve and the Treasury Department as a way to place the government's interest in AIG in the hands of experienced individuals who could act without risk of conflicts of interest that would be present if such controlling interest was held by the Federal Reserve Bank of New York or the Department of the Treasury." This sounds good, except in other places your testimony states that some of your activities require the "explicity approval" of the Federal Reserve Bank of New York, such as the ultimate disposition of the Trust Stock). How does this make you independent? It seems to me that you are in many ways just an arm of the FRBNY and the Treasury. Can you explain this to me?
2. Who are the advisors that you have engaged when necessary? Please list them by name, organization, and what compensation, if any, they receive for advising you.

3. In regard to Governance and Compensation, you state that you that you have expressed your views to Mr. Liddy on what a comprehensive compensation program should look like and expressed this in a letter including a requests for reports provided to the Trustees on the status of the development of the program. This sounds to me like you are telling Mr. Liddy what to do in governing AIG, and as much as I like the idea, and it certainly makes it seem like you are working on behalf of the American taxpayers who were so

angry over compensation, but it is not your role to tell Mr. Liddy how to run AIG. Can you explain why you did this?

4. Reviewing the Destiny Plan of Mr. Liddy in restructuring AIG is perhaps your most critical task as representatives of the over 300 million taxpayers whose money saved AIG from destruction. Now, as you are our Trustees, why are you not sharing details of this plan with Congress? We know Treasury, the Fed, the Federal Reserve Bank of New York, and AIG has seen the plan, but what about engaging key members of AIG's largest stockholder and those whom you represent? You speak often of being beholden to Treasury, but it is the American people who fill the Treasury with money, Why have you not share the Destiny Plan with key Members of Congress? You, you are our Trustees, not the Fed, not the Treasury, but the American people.
5. Do you report on your activities to anyone, and in what form? Is Congress on that list and if not, why?

PANEL 3: Examining the Trust agreement

1. In your testimony, you state that one challenge that you have with the trust agreement is that the agreement requires "the trustees to manage the trust in the best interest of the Treasury Department rather than the U.S. taxpayer." However, as you point out, this agreement was crafted while the now Secretary of the Treasury was President of the New York Fed, Mr. Timothy Geithner. During the drafting of the agreement, is it possible that Mr. Geithner knew he was going to be tapped to be Treasury Secretary and be replaced by a Goldman Sachs economist ? Could this agreement have been drafted to create more power or control of the trust placed or secured with the Treasury?
2. I think that you summed it up well when you said in your testimony that a trust in which the trustees cannot be held accountable by their beneficiaries – the AMERICAN PEOPLE – isn't much of a trust at all. As there is a chance that several other such trusts will be drafted for GM and Chrysler, and perhaps others, so what would change to make this a more appropriate trust that actually takes into account that the taxpayers are the beneficiaries? Do you think trusts like this are useful or should other paths be taken to properly tend the taxpayers' investments?

3. Do you have any other concerns with the trust agreement that you did not voice in your testimony?

ARNOLD & PORTER LLP

Jim Turner
Jim.Turner@aporter.com
Former Member of Congress

202.942.5181
202.942.5999 Fax

555 Twelfth Street, NW
Washington, DC 20004-1206

August 14, 2009

Via Electronic Delivery

The Honorable Edolphus Towns
Chairman
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Re: Responses of Trustees of AIG Credit Facility Trust

Dear Chairman Towns:

Please find enclosed the responses of the Trustees of the AIG Credit Facility Trust to Representative Marcy Kaptur's additional questions relating to the hearing of the Committee on Oversight and Government Reform entitled "AIG: Where Is the Taxpayer's Money Going." The Trustees look forward to continuing to work with the Committee and appreciate your ongoing commitment to the success of their work on behalf of the U.S. taxpayers.

Sincerely,

Jim Turner

cc: Jill M. Considine, Trustee, AIG Credit Facility Trust
Douglas L. Foshee, Trustee, AIG Credit Facility Trust
Chester B. Feldberg, Trustee, AIG Credit Facility Trust

QUESTIONS FOR THE RECORD
REPRESENTATIVE KAPTUR
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE HEARING
"AIG: WHERE IS THE TAXPAYER'S MONEY GOING?"

Panel 2: Trustees

1. Question: In your joint testimony you state that the trust "was viewed by the Federal Reserve and the Treasury Department as a way to place the government's interest in AIG in the hands of experienced individuals who could act without risk of conflicts of interest that would be present if such controlling interest was held by the Federal Reserve Bank of New York or the Department of the Treasury." This sounds good, except in other places your testimony states that some of your activities require the "explicit approval" of the Federal Reserve Bank of New York, such as the ultimate disposition of the Trust Stock. How does this make you independent? It seems to me that you are in many ways just an arm of the FRBNY and the Treasury. Can you explain this to me?

   Response: The AIG Credit Facility Trust (the "Trust") was established under the AIG Credit Facility Trust Agreement (the "Trust Agreement") to be administered by three Trustees. The Trust Agreement contemplates that we act for the benefit of the U.S. Treasury (in essence the U.S. taxpayer) and that in doing so we act independently from the Federal Reserve Bank of New York (the "FRBNY") and the Treasury Department. We recognize, of course, that these and other agencies and instrumentalities of the government have significant roles in AIG's future, and we have had an open, ongoing dialogue with representatives of the FRBNY and the Treasury Department on issues of mutual concern. However, as provided in the Trust Agreement, all of our actions have been and will continue to be based on our own independent business judgment.

   In particular, since the voting shares of AIG were placed in the Trust (on March 4, 2009), we have focused attention on corporate governance at AIG and on ensuring that AIG has an effective, independent and capable board. We spent considerable effort recruiting and electing five new highly capable, independent directors to the board of directors to bring fresh perspectives to the company. In addition, we attended AIG's annual meeting of shareholders in June and voted the shares of AIG stock held by the Trust on each proposal based on our collective business judgment.

   Pursuant to the terms of the Trust Agreement, only one action requires us to obtain the prior approval of the FRBNY, the disposition of the AIG stock held by the Trust. In addition, even with regard to this action, the Trust Agreement makes clear that the Trustees will develop a plan for the disposition of the Trust's stock in their independent judgment. Neither the FRBNY nor the Treasury Department is able to initiate the disposition of the Trust's stock or the terms of the plan that the Trustees will propose.

2. Question: Who are the advisors that you have engaged when necessary? Please list them by name, organization, and what compensation, if any, they receive for advising you.

Response: As we noted previously, we have extensive contact with the FRBNY and the Treasury Department. The FRBNY, as AIG's major creditor, has significant staff working on AIG and residing at the company to monitor financial and other key developments, and they keep us well informed. The Trustees have tried to avoid, to the extent possible, replicating work that has already been done by other parties. Rather than build our own staff of financial analysts and advisers at unnecessary cost, we have chosen at least in the first instance to use information gathered by the FRBNY staff, its outside consultants, the Treasury Department, and AIG and its outside consultants. We then engaged the following advisers to the Trust when we saw the need to do so.

- Thacher Proffitt & Wood LLP and, following the dissolution of Thacher Proffitt & Wood LLP, Sonnenschein Nath & Rosenthal LLP were engaged by the Trust as legal counsel to assist in the negotiation and drafting of the Trust Agreement. Thacher Proffitt & Wood LLP billed $72,552 for fees and disbursements for the period from October 27, 2008 through December 31, 2008, and Sonnenschein Nath & Rosenthal LLP billed $19,810 for fees and disbursements for the period from January 1, 2009 through January 16, 2009.
- Arnold & Porter LLP was engaged by the Trust to provide (i) legal services in connection with corporate, transactional, regulatory, and tax matters including, among other things, advice about the issuance of AIG's Series C preferred stock to the Trust, regulatory filings in numerous foreign jurisdictions and the states, issues related to corporate governance and the voting of the Series C preferred stock, and disclosure issues related to AIG's proxy statement and other public filings; and (ii) administrative services related to the ongoing operation of the Trust. Arnold & Porter LLP also has assisted the Trust in providing documents, written responses, interviews and testimony in response to Congressional requests and Congressional hearings. Arnold & Porter LLP billed $2,398,868.66 for fees and disbursements for the period from February 4, 2009 through June 30, 2009.
- Peter Bakstansky was engaged by the Trust as its public information adviser to respond to press inquiries and provide assistance with respect to Trustee communications. Mr. Bakstansky billed $57,394.68 for fees and disbursements for the period from March 31, 2009 through July 31, 2009.
- Spencer Stuart, an executive search firm, was engaged by the Trust to assist in the recruitment of director candidates for the board of directors of AIG. Spencer Stuart billed $719,937 for fees and disbursements for the period from April 8, 2009 through July 31, 2009.

Pursuant to the Trust Agreement, these expenses have been or will be paid by AIG.

3. Question: In regard to Governance and Compensation, you state that you have expressed your views to Mr. Liddy on what a comprehensive compensation program should look like and expressed this in a letter including a request for reports provided to the Trustees on the status of the development of the program. This sounds to me like you are telling Mr. Liddy what to do in governing AIG, and as much as I like the idea, and it certainly makes it seem

like you are working on behalf of the American taxpayers who were so angry over compensation, but it is not your role to tell Mr. Liddy how to run AIG. Can you explain why you did this?

Response: One of our primary tasks has been to work with senior management and the board of directors of AIG to ensure corporate governance procedures satisfactory to us. We believe that compensation is an important element of corporate governance, and we believe that issues of compensation at AIG must be addressed by the board and management in a thoughtful, prudent and comprehensive manner that takes account of evolving best practices in the United States.

In our letter to Mr. Liddy, we expressed our views on certain principles to be considered in setting compensation policy. These principles are similar to those incorporated in a number of proposals by members of Congress and various watchdog groups. We did not direct, nor do we think it is appropriate for us to direct, Mr. Liddy to apply these principles or to adopt any particular compensation program. Rather, we requested that Mr. Liddy, together with senior management at AIG and its board and appropriate committees, undertake a review of the compensation programs currently in place throughout AIG and develop a comprehensive compensation program.

4. Question: Reviewing the Destiny Plan of Mr. Liddy in restructuring AIG is perhaps your most critical task as representatives of over 300 million taxpayers whose money saved AIG from destruction. Now, as you are our Trustees, why are you not sharing details of this plan with Congress? We know Treasury, the Fed, the Federal Reserve Bank of New York, and AIG has seen the plan, but what about engaging key members of AIG's largest stockholder and those whom you represent? You speak often of being beholden to Treasury, but it is the American people who fill the Treasury with money. Why have you not shared the Destiny Plan with key Members of Congress? You are our Trustees, not the Fed, not the Treasury, but the American people.

   Response: As Trustees, we are charged with exercising our duties and responsibilities in the best interests of the beneficiary of the Trust. That beneficiary is the U.S. Treasury — in substance, the U.S. taxpayers — not the Treasury Department, the Fed or the FRBNY.

   AIG's plans for the disposition of its assets — Project Destiny — contains highly sensitive, confidential business information. Public disclosure of these plans would be harmful to the company first, by providing potential purchasers of AIG's assets access to valuable information that they could then use to buy AIG's assets for less than fair value and second, by providing competitors with important proprietary information. Public disclosure of these plans would weaken many of the assets AIG could use to maximize value and pay back the taxpayers, hurting us all. We do not believe it is the role of a shareholder of a company to share confidential business information of the company. It is our understanding that AIG has shared the requested information with Committee staff on a confidential basis.

5. Question: Do you report on your activities to anyone, and in what form? Is Congress on that list and if not, why?

   Response: Section 4.01 of the Trust Agreement sets forth our reporting obligations to the FRBNY, and we have complied with these reporting obligations since the formation of the Trust in January. As you know, we have testified before the Committee on Oversight and Government Reform regarding the creation of the Trust, our responsibilities and limitations as Trustees and our actions as Trustees thus far. We met with senior staff of both the majority and minority. In addition, the Trustees have met with several senior members and/or staff of other relevant House and Senate Committees. We look forward to continuing to work with Congress to achieve our common goal of protecting the U.S. taxpayer's interest in AIG.

PATTON BOGGS LLP
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August 13, 2009

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achopin@pattonboggs.com

DELIVERY BY HAND AND EMAIL

The Honorable Edolphus Towns, Chairman
The Honorable Marcy Kaptur
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515

Re: July 29, 2009 Letter with Supplemental Questions for the Record from Rep. Kaptur.

Dear Mr. Chairman and Representative Kaptur:

On behalf of the American International Group, Inc., and its member companies ("AIG"), we are pleased to provide information and documents responsive to the supplemental Questions for the Record submitted by Representative Kaptur for Mr. Edward Liddy, former Chief Executive Officer of AIG, in connection with the May 13, 2009 Committee hearing entitled "AIG: Where is the Taxpayer's Money Going."[1] These questions were forwarded with your July 29, 2009 letter to Mr. Liddy, and apparently were delayed in transmission to him because of a miscommunication within the Committee. Please note that a copy of Representative Kaptur's questions is attached to this response behind Tab 1.

Responses to Additional Questions for the Hearing Record

As Representative Kaptur's questions acknowledge, Mr. Liddy was not present at AIG during the period referred to in at least some of her questions. AIG consequently submits these responses based on information collected from a variety of sources, including the best efforts and recollection of the persons we have contacted, and from relevant documents.

[1] Mr. Liddy retired from AIG effective August 10, 2009. Mr. Robert Benmosche is now President and CEO of AIG.

Question 1: For a general explanation of AIG Financial Products ("AIGFP") collateral arrangements with counterparties, please see pages 143-144 of the AIG 2008 Form 10-K, marked AIGKAP0001-AIGKAP0003 and included with this submission. For an explanation of AIGFP collateral related to Maiden Lane III transactions, please see the AIG Form 8-K filings on December 2, 2008 and December 24, 2008, marked AIGKAP0004-AIGKAP0011 and included with this submission.

Question 2: The strategy of winding down and de-risking AIGFP is not simply to terminate all contracts as quickly as possible, but to balance the reduction in risk with a number of other factors including, but not limited to, the cost of unwind, the outlook for individual markets, the liquidity impact of unwind and the likelihood that holding onto a position or asset might result in a better price at a later date. These factors change over time; the unwind plan is therefore dynamic. The balancing of these objectives is discussed and reported weekly to AIGFP's Steering Committee, which includes observers from The Federal Reserve Bank of New York and the U.S. Treasury Department.

For example, the proactive decision, early in the year, to delay a reduction in certain credit books has resulted in an opportunity to take advantage of significantly better markets in that area today. There are a variety of metrics by which AIGFP measures its success at de-risking including, without limitation, trade count, notional exposure and various risk metrics. By all of these measures, AIGFP has made steady and significant progress this year in de-risking the portfolio, reducing the positions and risk by over half since AIG accepted federal assistance.

Question 3: The AIGFP transactions that ultimately led to AIG's problems were only a portion of AIGFP's overall CDS portfolio. This portion consisted of CDS on super senior tranches of certain CDO, some of which contained subprime mortgages. These particular CDS required AIGFP to post cash collateral if the value of the underlying CDO declined below established thresholds. Starting in the summer of 2007, markets froze and CDO securities almost entirely stopped trading. Thereafter, unanticipated declines in reported CDO values occurred pursuant to applicable accounting rules (even though losses were unrealized), triggering AIGFP's obligation to post cash collateral. Even under these circumstances, there were virtually no credit losses, *i.e.*, losses of principal and interest, under the CDO covered by AIGFP's CDS transactions. But the extreme nature of the economic conditions and unrealized declines in reported CDO values, exacerbated by parallel downgrades in AIG's own ratings, meant that, without obtaining additional sources of liquidity, the amount of cash that was required to be posted exceeded AIGFP's immediate ability to meet its obligations and AIG's ability to meet corresponding obligations as guarantor of AIGFP. This was one of the factors that contributed to AIG's need to seek financial assistance from the federal government.

The AIG risk management procedures applicable to AIGFP were, in the first instance, contained within AIGFP itself. AIGFP had its own risk management function and its own Chief Risk Officer. That function included responsibility for credit risk, market risk and operational risk. AIGFP also had its own treasury function with responsibility for liquidity risk.

Outside AIGFP, credit risk management on an enterprise-wide basis involved oversight by AIG's Credit Risk Committee (the "CRC"). Approval of credit risks that exceeded AIGFP's allocated authority (which included most super senior CDS transactions) was required from the CRC prior to AIGFP entering into a transaction. The CRC also conducted periodic credit portfolio reviews of AIGFP's credit risk exposures. Other risks were subject to review outside AIGFP as well from time to time.

Since the unexpected and severe credit crisis that swept the financial markets, AIG's risk management team has been working to the best of its abilities to meet these unprecedented challenges. One concrete step is that AIG has created a Liquidity Risk Committee ("LRC"), which is responsible for liquidity policy and implementation at AIG and exercises oversight and control of liquidity policies at each AIG entity, including AIGFP. Notwithstanding that the vast majority of AIGFP's books of business had nothing to do with the losses experienced by AIG, AIGFP is now in the process of being wound down and its books of business sold off. AIG management, including ERM, is actively involved in the wind down of AIGFP. As for the future, the AIG's public filings describe the many risks that AIG continues to face notwithstanding its risk management procedures.

Question 4: As AIG moves forward in its restructuring efforts, ensuring that taxpayers be repaid for their investment remains the company's primary priority. AIG's restructuring plan has four key goals:

- Creation of strong, more independent insurance businesses worthy of investor confidence to stabilize and protect the value of AIG's important franchise businesses.
- Divestment of assets and implementation of restructuring program to enable repayment of loans made by the U.S. government.
- Comprehensive review of AIG's cost structure to significantly reduce operating costs.
- Wind-down of AIG's exposure to certain financial products and derivatives trading activities to reduce excessive risk.

AIG has taken several steps to position its core businesses as more separate, discrete entities worthy of investor confidence. These actions have been taken, first, to ensure that AIG's businesses maintain the highest standards of financial and risk controls, corporate governance and transparency as AIG executes its restructuring, and second, to maximize the value of AIG's businesses over a longer timeframe, so that when overall economic conditions improve, potential

buyers will be able to finance acquisitions and AIG's businesses will be able to directly access the capital markets.

To protect and enhance the value of AIG's global property and casualty insurance businesses, AIG recently formed a General Insurance holding company, called Chartis, Inc., which has a board of directors, management team and brand distinct from AIG. Chartis, Inc. is preparing for the potential sale of a minority stake in the business, which ultimately may include a public offering of shares, depending on market conditions.

In addition, AIG will transfer to The Federal Reserve Bank of New York ("FRBNY") a portion of preferred equity ownership interests in each of AIG's leading international life insurance businesses, "ALICO" and "AIA," in return for a reduction in the outstanding balance of the credit facility with the FRBNY. AIG may position ALICO and AIA for potential initial public offerings in 2010 or later, depending on market conditions. When these debt for equity swaps involving AIA and ALICO close, AIG will see its debt with the FRBNY reduced by $25 billion.

Question 5: With respect to its audit of AIG's 2007 financial statements, AIG's independent auditors, PricewaterhouseCoopers ("PwC"), did not conclude that AIG or any of its employees engaged in fraud or potential fraud. Rather, on February 11, 2008 (not January 2008), AIG reported that PwC had concluded that, as of December 31, 2007, "AIG had a material weakness in its internal control over financial reporting and oversight relating to the fair value valuation of the AIGFP super senior credit default swap portfolio." *See* AIG Form 8-K, Filed February 11, 2008, at 3. The SEC has explained that a weakness in internal controls (even a material one) does not constitute or evidence fraud. *See* Securities Act Release No. 33-8809, File No. S7-24-06 (June 20, 2007). AIG's "material weakness" in its internal control as of December 31, 2007 related to the valuation of AIGFP super senior CDS portfolio, which involved the exercise of management judgment in estimating the losses of complex financial instruments in an illiquid market without comparable transactions. Despite the challenges of such a valuation, to this day AIG has not had to restate any of its financial statements relating to the super senior CDS portfolio, and PwC has provided unqualified audit opinions for each of AIG's year-end reports.[2]

As outlined in AIG's 2008 Form 10-K, AIG has been actively engaged in the implementation of remediation efforts to address the "material weakness" in controls over fair value valuation of the AIGFP super senior credit default swap portfolio and oversight thereof.[3] During 2008, AIG management took the following actions:

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[2] *See* AIG 2007 Form 10-K, at 129; AIG 2008 Form 10-K, at 191.

[3] *See* AIG 2008 Form 10-K, at 324.

- Created a framework, including allocation of roles and responsibilities, for the valuation and oversight of the valuation of the super senior credit default swap portfolio (the "portfolio").
- Designed and implemented enhanced controls over the valuation of the portfolio including assessing the relevance and impact of available third-party information and additional segregation of duties.
- Ensured improved oversight and governance, including increased interaction with Corporate finance and risk management functions.
- Enhanced communication by establishing formal reporting lines between key AIGFP functions and AIG Corporate counterparts.
- Implemented a valuation control group within AIGFP to perform the controls, with appropriate allocation of qualified resources.
- Developed new systems and processes to reduce the reliance on manual controls.
- Documented the process and controls over the valuation approach.
- Assessed the design and tested the operating effectiveness of the key controls over the fair value valuation process.[4]

These efforts were governed by a Steering Committee, under the direction of AIG's Chief Audit Executive and included AIG's Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and Comptroller. The status of these efforts was reviewed with AIG's Audit Committee.[5]

AIG continues to develop further enhancements to its controls over the fair value valuation of the AIGFP super senior credit default swap portfolio. Based upon the steps described above and the testing and evaluation of the effectiveness of the controls, AIG management has concluded that the material weakness in AIG's controls over the AIGFP super senior credit default swap portfolio valuation process and oversight thereof no longer existed as of December 31, 2008.[6]

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[4] *See id.*

[5] *See id.*, at 324.

[6] *See id.*, at 325.

PATTON BOGGS LLP
ATTORNEYS AT LAW

To date, neither AIG nor AIGFP is aware of any fraud or malfeasance in connection with the underwriting and creation of the multi-sector CDS portfolio, as opposed to what with hindsight turned out to be bad business decisions. AIG and AIGFP are, however, aware of ongoing investigations by the Department of Justice and the SEC with respect to the subsequent valuation of the multi-sector CDS portfolio under fair value accounting rules and disclosures relating thereto. AIG has cooperated fully with these investigations and will continue to do so.

Respectfully submitted,

Jeffrey L. Turner
Mitchell R. Berger
Alexandra E. Chopin

Enclosures

cc: Honorable Darrell E. Issa, Ranking Member

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): December 18, 2008

AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1-8787**	**13-2592361**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

70 Pine Street
New York, New York 10270
(Address of principal executive offices)
Registrant's telephone number, including area code: **(212) 770-7000**
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e4(c) under the Exchange Act (17 CFR 240.13e-4(c))

I.

Section 1 — Registrant's Business and Operations
Item 1.01. Entry Into a Material Definitive Agreement.
AIG Financial Products Corp. ("AIGFP"), the Federal Reserve Bank of New York ("NY Fed") and Maiden Lane III LLC ("ML III") have previously entered into agreements with AIGFP counterparties to terminate credit default swaps and other similar instruments ("CDS") written by AIGFP and to have ML III acquire the related multi-sector collateralized debt obligations ("Multi-Sector CDOs"). On December 18, 2008 and December 22, 2008, ML III purchased $16 billion in par amount of additional Multi-Sector CDOs, including approximately $8.5 billion of Multi-Sector CDOs underlying 2a-7 Puts written by AIGFP.
The purchase of these Multi-Sector CDOs was funded with a net payment to counterparties of approximately $6.7 billion and the surrender by AIGFP of approximately $9.2 billion in collateral previously posted by AIGFP to CDS counterparties in respect of the terminated CDS.
The Shortfall Agreement between ML III and AIGFP, dated as of November 25, 2008 (the "Shortfall Agreement"), has been amended as of December 18, 2008 to include approximately $9.4 billion of additional Multi-Sector CDO exposure, which includes a portion of the previously announced approximately $11.2 billion of exposure to Multi-Sector CDOs as to which AIGFP, ML III and the NY Fed had not executed agreements as of November 25, 2008 and for which AIG and the NY Fed had been working to structure the termination of the related CDS and/or the purchase by ML III of the related Multi-Sector CDOs. In accordance with the terms of the Shortfall Agreement, AIGFP received payments aggregating approximately $2.5 billion from ML III in connection with the November and December ML III purchases of Multi-Sector CDOs.
For a further discussion of AIGFP's relationship with ML III, see AIG's Current Report on Form 8-K, dated December 2, 2008.
AIGFP remains exposed to approximately $2.6 billion in physically-settled CDS and approximately $9.7 billion notional amount of "cash-settled" or "pay-as-you-go" CDS in respect of protected baskets of reference credits (which may also include single name CDS in addition to securities and loans). AIGFP continues to analyze possible means of eliminating its exposure to these CDS. Until these exposures are eliminated, AIGFP will continue to bear market risk and the risk of adverse changes in collateral posting requirements relating to these CDS and could incur additional unrealized valuation losses related to these CDS.
The summary of the terms of Amendment No. 1 to the Shortfall Agreement is qualified in its entirety by reference to the terms of Amendment No. 1, which is filed as Exhibit 10.1 to this Form 8-K and incorporated by reference into this Item 1.01.
Section 9 — Financial Statements and Exhibits
Item 9.01. Financial Statements and Exhibits.
(d) Exhibits

Exhibit Number	Description
10.1	Amendment No. 1 to Shortfall Agreement, dated as of December 18, 2008.

II.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

Date: December 24, 2008

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President and Secretary

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of report (Date of earliest event reported): November 25, 2008

AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in charter)

DELAWARE	**1-8787**	**13-2592361**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

70 Pine Street, New York, New York 10270
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (212) 770-7000
Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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I. **Table of Contents**

Item 1.01. Entry into a Material Definitive Agreement

On November 25, 2008, American International Group, Inc. ("AIG") entered into a Master Investment and Credit Agreement (the "Agreement") with the Federal Reserve Bank of New York (the "NY Fed"), Maiden Lane III LLC ("ML III"), and The Bank of New York Mellon, to establish financing arrangements, through ML III, to fund the purchase of multi-sector collateralized debt obligations ("Multi-Sector CDOs") underlying or related to credit default swaps and similar derivative instruments ("CDS") written by AIG Financial Products Corp. ("AIGFP") in connection with the termination of such CDS.

Pursuant to the Agreement, the NY Fed, as senior lender, has made available to ML III a term loan facility (the "Senior Loan") in an aggregate amount up to approximately $30.0 billion. The Senior Loan bears interest at one-month LIBOR plus 1.00 percent and has a six-year expected term, subject to extension by the NY Fed at its sole discretion.

AIG has contributed $5.0 billion for an equity interest in ML III. The equity interest will accrue distributions at a rate per annum equal to one-month LIBOR plus 3.00 percent. Accrued but unpaid distributions on the equity interest will be compounded monthly. AIG's rights to payment from ML III are fully subordinated and junior in right of payment to all principal of, and interest on, the Senior Loan. The creditors of ML III will not have recourse to AIG for ML III's obligations, although AIG will be exposed to losses on the portfolio of Multi-Sector CDOs held by ML III up to the full amount of AIG's equity interest in ML III.

Upon payment in full of the Senior Loan and AIG's equity interest in ML III, all remaining amounts received by ML III will be paid 67 percent to the NY Fed as contingent interest and 33 percent to AIG as contingent distributions on its equity interest.

The NY Fed is the controlling party and managing member of ML III under the transaction documents for so long as the NY Fed is owed any amounts under the transaction documents, and AIG will not have any control rights over ML III or under the transaction documents.

AIGFP, ML III and the NY Fed have entered into agreements with AIGFP's CDS counterparties to terminate approximately $53.5 billion notional amount of CDS and purchase the related Multi-Sector CDOs. Of these, CDOs with a principal amount of approximately $46.1 billion settled on November 25, 2008 and a corresponding notional amount of CDS were terminated. Settlement on the remaining $7.4 billion notional amount of CDS is contingent upon the ability of the related counterparty to obtain the related Multi-Sector CDOs and thereby settle with ML III and terminate such CDS with AIGFP. Pending such settlement, which AIG expects to occur by year-end, the collateral posting provisions relating to these CDS have been suspended such that additional collateral will not be required of AIGFP nor will posted collateral be returned to AIGFP. If a given counterparty is ultimately unable to obtain the related Multi-Sector CDOs, the related CDS will not terminate and the relevant collateral posting provisions will resume. In such a case, AIG will continue to bear market risk and the risk of adverse changes in collateral posting requirements relating to these CDS that do not terminate and could incur additional unrealized market valuation losses.

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With respect to the approximately $11.2 billion of exposure to Multi-Sector CDOs as to which AIGFP, ML III and the NY Fed have not executed agreements, AIG and the NY Fed are working to structure the termination of the related CDS and/or the purchase by ML III of the related Multi-Sector CDOs. Unless this exposure is terminated, AIG will continue to bear market risk and the risk of adverse changes in collateral posting requirements relating to these CDS and could incur additional unrealized market valuation losses with respect to these CDS.

On November 25, 2008, ML III bought approximately $46.1 billion in par amount of Multi-Sector CDOs through a net payment to CDS counterparties of approximately $20.1 billion, and AIGFP terminated the related CDS with the same notional amount. The aggregate cost of the purchases and terminations was funded through approximately $15.1 billion of borrowings under the Senior Loan, the surrender by AIGFP of approximately $25.9 billion of collateral previously posted by AIGFP to CDS counterparties in respect of the terminated CDS and AIG's equity investment in ML III of $5.0 billion.

AIGFP has entered into a Shortfall Agreement, dated November 25, 2008 (the "Shortfall Agreement"), with ML III relating to the approximately $53.5 billion of Multi-Sector CDO exposure covered by agreements with CDS counterparties under which (i) AIGFP must make a payment to ML III to the extent the excess of the notional amount of the CDS being terminated over the market value as of October 31, 2008 of the related Multi-Sector CDOs is greater than the collateral previously posted by AIGFP with respect to such CDS, and (ii) ML III must make a payment to AIGFP to the extent the amount of such posted collateral exceeds such excess. AIGFP was not required to make any payments under the Shortfall Agreement with respect to ML III's initial purchase of the approximately $46.1 billion of Multi-Sector CDOs.

The summary of the terms of the Agreement and the Shortfall Agreement are qualified in their entirety by reference to the terms of the Agreement and the Shortfall Agreement, which are filed as exhibits 10.1 and 10.2 to this Form 8-K and incorporated by reference into this Item 1.01.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Description
10.1	Master Investment and Credit Agreement, dated as of November 25, 2008
10.2	Shortfall Agreement, dated as of November 25, 2008

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

Date: December 2, 2008

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President and Secretary

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
70 Pine Street, New York, New York	**10270**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code (212) 770-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $2.50 Per Share	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	New York Stock Exchange
6.45% Series A-4 Junior Subordinated Debentures	New York Stock Exchange
7.70% Series A-5 Junior Subordinated Debentures	New York Stock Exchange
Corporate Units (composed of stock purchase contracts and junior subordinated debentures)	New York Stock Exchange
NIKKEI 225® Index Market Index Target-Term Securities® due January 5, 2011	NYSE Arca

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant computed by reference to the price at which the common equity was last sold of $26.46 as of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $61,753,000,000.

As of January 30, 2009, there were outstanding 2,690,747,320 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2009 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

reasonably estimate the aggregate amount that it would be required to pay under the super senior credit default swaps in the event of any further downgrade.

Certain super senior credit default swaps written for regulatory capital relief, with a net notional amount of $161.5 billion at December 31, 2008, include triggers that require certain actions to be taken by AIG once AIG's rating level falls to certain levels, which, if not taken, give rise to a right of the counterparties to terminate the CDS. Such actions include posting collateral, transferring the swap or providing a guarantee from a more highly rated entity. In light of the rating actions taken in respect of AIG on September 15, 2008, AIGFP has implemented collateral arrangements in a large majority of these transactions. In the event of a termination of the contract that is caused by AIG's rating downgrade, AIGFP is obligated to compensate the counterparty based on its "loss." As a result of AIGFP posting collateral, AIG eliminated the counterparties' right to terminate under this downgrade provision, thereby avoiding the uncertainty of determining the "loss" from an early termination of a regulatory capital CDS.

Collateral

Most of AIGFP's credit default swaps are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations to date have been associated with arbitrage transactions in respect of multi-sector CDOs.

The collateral arrangements in respect of the multi-sector CDO, regulatory capital and corporate arbitrage transactions are nearly all documented under a Credit Support Annex (CSA) to an ISDA Master Agreement (Master Agreement). The Master Agreement and CSA forms are standardized form agreements published by the ISDA, which market participants have adopted as the primary contractual framework for various kinds of derivatives transactions, including CDS. The Master Agreement and CSA forms are designed to be customized by counterparties to accommodate their particular requirements for the anticipated types of swap transactions to be entered into. Elective provisions and modifications of the standard terms are negotiated in connection with the execution of these documents. The Master Agreement and CSA permit any provision contained in these documents to be further varied or overridden by the individual transaction confirmations, providing flexibility to tailor provisions to accommodate the requirements of any particular transaction. A CSA, if agreed by the parties to a Master Agreement, supplements and forms part of the Master Agreement and contains provisions (among others) for the valuation of the covered transactions, the delivery and release of collateral, the types of acceptable collateral, the grant of a security interest (in the case of a CSA governed by New York law) or the outright transfer of title (in the case of a CSA governed by English law) in the collateral that is posted, the calculation of the amount of collateral required, the valuation of the collateral provided, the timing of any collateral demand or return, dispute mechanisms, and various other rights, remedies and duties of the parties with respect to the collateral provided.

In general, each party has the right under a CSA to act as the "Valuation Agent" and initiate the calculation of the exposure of one party to the other (Exposure) in respect of transactions covered by the CSA. The valuation calculation may be performed daily, weekly or at some other interval, and the frequency is one of the terms negotiated at the time the CSA is signed. The definition of Exposure under a standard CSA is the amount that would be payable to one party by the other party upon a hypothetical termination of that transaction. This amount is determined, in most cases, by the Valuation Agent using its estimate of mid-market quotations (i.e., the average of hypothetical bid and ask quotations) of the amounts that would be paid for a replacement transaction. AIGFP determines Exposure typically by reference to the mark-to-market valuation of the relevant transaction produced by its systems and specialized models. Exposure amounts are typically determined for all transactions under a Master Agreement (unless the parties have specifically agreed to exclude certain transactions, not to apply the CSA or to set a specific transaction Exposure to zero). The aggregate Exposure less the value of collateral already held by the relevant party (and following application of certain thresholds) results in a net exposure amount (Delivery Amount). If this amount is a positive number, then the other party must deliver collateral with a value equal to the Delivery Amount. Under the standard CSA, the party not acting as Valuation Agent for any particular Exposure calculation may dispute the Valuation Agent's calculation of the Delivery Amount. If the parties are unable to resolve this dispute, the terms of the standard CSA provide that the Valuation Agent is required to recalculate Exposure using, in substitution for the disputed Exposure amounts, the average of actual quotations at mid-market from four leading dealers in the relevant market.

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After an Exposure amount is determined for a transaction subject to a CSA, it is combined with the Exposure amounts for all other transactions under the relevant Master Agreement, which may be netted against one another where the counterparties to a Master Agreement are each exposed to one another in respect of different transactions. Actual collateral postings with respect to a Master Agreement may be affected by other agreed CSA terms, including threshold and independent amounts, that may increase or decrease the amount of collateral posted.

Regulatory Capital Relief Transactions

As of December 31, 2008, 68.0 percent of AIGFP's regulatory capital relief transactions (measured by net notional amount) were subject to a CSA. In other transactions, which represent 1.0 percent of the total net notional amount of the outstanding regulatory capital relief transactions, AIGFP is obligated to put a CSA or alternative collateral arrangement in place if AIG's ratings fall below certain levels (typically, A-/A3). At December 31, 2008, 31.0 percent of the regulatory capital relief portfolio is not subject to collateral posting provisions. In general, each regulatory capital relief transaction is subject to a stand-alone Master Agreement or similar agreement, under which the aggregate Exposure is calculated with reference to only a single transaction.

The underlying mechanism that determines the amount of collateral to be posted varies from one counterparty to another, and there is no standard formula. The varied mechanisms resulted from varied negotiations with different counterparties. The following is a brief description of the primary mechanisms that are currently being employed to determine the amount of collateral posting for this portfolio.

Reference to Market Indices — Under this mechanism, the amount of collateral to be posted is determined based on a formula that references certain tranches of a market index, such as either Itraxx or CDX. This mechanism is used for CDS transactions that reference either corporate loans, or residential mortgages. While the market index is not a direct proxy, it has the advantage of being readily obtainable.

Market Value of Reference Obligation — Under this mechanism the amount of collateral to be posted is determined based on the difference between the net notional amount of a referenced RMBS security and the security's market value.

Expected Loss Models — Under this mechanism, the amount of collateral to be posted is determined based on the amount of expected credit losses, generally determined using a rating-agency model.

Negotiated Amount — Under this mechanism, the amount of collateral to be posted is determined based on bespoke terms negotiated between AIGFP and the counterparty, which could be a fixed percentage of the notional amount or present value of premiums to be earned by AIGFP.

The amount of collateral postings by underlying mechanism as described above with respect to the regulatory capital relief portfolio (prior to consideration of transactions other than AIGFP's super senior credit default swap portfolio subject to the same Master Agreements) were as follows (there were no collateral postings on this portfolio prior to March 31, 2008):

	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	February 18, 2009
			(In millions)		
Reference to market indices	$212	$177	$157	$ 667	$417
Market value of reference obligation	—	142	286	380	299
Expected loss models	—	—	—	5	5
Negotiated amount	—	—	—	235	213
Other	—	—	—	—	18
Total	$212	$319	$443	$1,287	$952

Arbitrage Portfolio — Multi-Sector CDOs

In the large majority of the CDS transactions in respect of multi-sector CDOs, the standard CSA provisions for the calculation of Exposure have been modified, with the Exposure amount determined pursuant to an agreed

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