AIG RMBS LLC Facility: Terms and Conditions

Effective December 16, 2008

On November 10, the Federal Reserve Board and the U.S. Treasury announced the restructuring of the government's financial support to the American International Group, Inc. (AIG) in order to facilitate its ability to complete its restructuring process successfully. As part of this restructuring, under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the Federal Reserve Bank of New York (New York Fed) to lend up to $22.5 billion to a newly formed Delaware limited liability company (LLC) to fund the purchase of residential mortgage-backed securities (RMBS) from the securities lending portfolio of several regulated U.S. insurance subsidiaries of AIG.

Facility

On December 12, the LLC borrowed approximately $19.8 billion from the New York Fed and used the proceeds to purchase RMBS assets from participating domestic AIG insurance company subsidiaries with an estimated fair market value of $20.8 billion as of October 31, 2008. Proceeds to the insurance company subsidiaries, together with an additional $1 billion in funding in the form of a cash contribution from AIG, will be used to return all cash collateral posted by the New York Fed as counterparty under AIG's domestic securities lending program.[1] After all cash collateral is returned, AIG will have repaid in full all of its obligations to the New York Fed under the securities borrowing facility established on October 8, 2008, and AIG's entire domestic securities lending program will be subsequently terminated. The New York Fed has all material control rights under the transaction documents, and will act as the controlling party and managing member of the LLC for so long as the New York Fed is owed any amounts by the LLC.

Terms of the Loan

The senior New York Fed loan is secured by the portfolio of RMBS held by the LLC, which has a par value of approximately $40 billion. The loan will be for a term of 6 years, and may be extended at the New York Fed's discretion.

The interest rate on the loan from the New York Fed is one-month LIBOR plus 100 basis points (currently, a rate of approximately 2.6 percent). After the senior loan to the New York Fed has been repaid in full plus interest, to the extent that there are sufficient remaining cash proceeds, AIG's domestic insurance company subsidiaries will be entitled to receive from the LLC additional deferred consideration in the amount of up to $1.0 billion, plus interest at a rate of one-month LIBOR plus 300 basis points (currently, a rate of approximately 4.6 percent).

Repayment of the loan will begin immediately upon the receipt of proceeds from the RMBS portfolio. Payments from the maturity or liquidation of the assets in the LLC will occur on a monthly basis, and will be made in the following order (each category must be fully paid before proceeding to the next lower category):

- to pay the necessary costs and expenses of the LLC, including those incurred in managing and holding and/or liquidating assets, plus the funding of a cash reserve for future expenses;
- to repay the entire $19.8 billion principal due to the New York Fed;
- to pay all interest due to the New York Fed on its senior secured loan;
- to pay up to $1 billion of deferred consideration to AIG's domestic insurance company subsidiaries;
- to pay interest due in respect of such deferred consideration.

After payment of all of the foregoing, 1/6th of any remaining cash flows from the RMBS assets will be paid as deferred consideration to participating domestic AIG insurance company subsidiaries, and 5/6th will be paid to the New York Fed as contingent interest on the senior loan.

Liquidation of Assets

BlackRock Financial Management Inc. has been retained by the New York Fed to manage and eventually liquidate the assets held in the LLC portfolio.

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[1]Cash collateral posted by other counterparties to AIG's domestic securities lending program has already been returned by AIG using other funds.