The Rescue of American International Group Module F: The AIG Credit Facility Trust[1]

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Abstract

Throughout the summer of 2008, American International Group, Inc. (AIG) faced a flurry of large cash collateral calls from investors and creditors, increasing liquidity pressures on the company. As the insurance giant teetered on the edge of bankruptcy, the Federal Reserve Bank of New York extended an $85 billion emergency secured credit facility to AIG to ease its liquidity stress. In connection with the credit facility AIG would issue 100,000 shares of preferred stock with voting rights equal to, and convertible into 79.9% of the outstanding shares of AIG common stock. The Federal Reserve concluded it did not have the legal authority to hold the controlling shares in a large private company. For that reason, it determined that the preferred stock would be placed under the management of an independent trust (the Trust) which would be headed by three appointed trustees and set up for the sole benefit of the Treasury (i.e., the taxpayer). The Trust would be able to exercise the rights, powers, authorities, discretions, and duties of the preferred stock, act as the beneficial owner of AIG, and to create a Divestiture Plan for the sale or disposition of the preferred stock. On January 14, 2011, the Trust converted the preferred stock into AIG common stock, and, after transferring the common stock to the Treasury's General Fund, the Trust effectively dissolved. Over the next two years, Treasury sold the common stock in a series of six public offerings, completing its disposition in December 2012 and recognizing a $17.6 billion profit. The government's equity investment and the use of an independent Trust to manage it were controversial. The use of a trust was unique to AIG. The Federal Reserve modeled the Trust to be independent, based on what it saw as private-sector best practice. Still, some members of Congress and others criticized the design of the Trust as opaque and expressed concerns about the powers and independence of the Trustees.

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[1] The Yale Program on Financial Stability (YPFS) has written 7 case studies that examine in detail the various elements of the government's rescue of American International Group:
Buchholtz, Alec and Rosalind Z. Wiggins. 2019. "The Rescue of American International Group, Module A: The Revolving Credit Facility."
Engbith, Lily and Alec Buchholtz. 2019. "The Rescue of American International Group, Module B: The Securities Borrowing Facility."
Buchholtz, Alec. 2019. "The Rescue of American International Group, Module C: AIG Investment Program."
Engbith, Lily. 2019. "The Rescue of American International Group, Module D: Maiden Lane II."
Engbith, Lily. 2019. "The Rescue of American International Group, Module E: Maiden Lane III."
Buchholtz, Alec. 2019. "The Rescue of American International Group, Module F: The AIG Credit Facility Trust."
Engbith, Lily. 2019. "The Rescue of American International Group, Module Z: Overview."

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American International Group, Inc.: The AIG Credit Facility Trust

At a Glance

On September 22, 2008, American International Group, Inc. (AIG) signed a Credit Agreement with the Federal Reserve Bank of New York (FRBNY) to access an $85 billion emergency credit line, the Revolving Credit Facility (RCF), secured by AIG's assets, including equity interests in its insurance and other subsidiaries. In addition, AIG was to sell to the government 100,000 shares of AIG Series C Perpetual, Convertible, Participating Preferred Stock, which had dividend and voting rights equal to, and was convertible into, 79.9% of AIG's outstanding common shares. The preferred shares would be held and managed by an independent trust, overseen by three trustees appointed by the FRBNY (the Trustees), in consultation with the Treasury Department, for "the sole benefit of the Treasury." The Trustees were authorized to exercise all "rights, powers, authorities, discretions, and duties" of the preferred stock.

Summary of Key Terms	
Purpose: To "establish an independent trust for the sole benefit of the Treasury," to act as the beneficial owner of AIG and create a divestiture plan for the sale or disposition of the preferred stock.	
Announcement Date	September 22, 2008
Establishment Date	January 16, 2009
Dissolution Date	January 14, 2011
Beneficiary	U.S. Treasury General Fund
# of Trustees	3
Trustees Compensation	$100,000 + Expenses
Funder of Trust	AIG
# of Shares Managed	100,000
Class of Shares Managed	Series C Perpetual, Convertible, Participating Preferred Stock
Share Issuance Date	March 4, 2009
Share Conversion Date	January 14, 2011
Shares Issued on Conversion	562,868,096 common stock
Consideration	$500,000, plus FRBNY lending commitment
Liquidation Preference	$500,000 in aggregate

On March 4, 2009, AIG sold the Trust Stock to the Trust for $500,000. The Trust Stock could only be converted after termination of the RCF, which could only terminate after repayment of all amounts due under the Credit Agreement.

Upon the execution of AIG's Recapitalization Plan on January 14, 2011, AIG repaid to the FBRNY the remaining balance outstanding under the RCF terminating the Credit Agreement. This permitted the Trust to convert the Trust Stock into 563 million shares of common stock and transfer such stock to the Treasury Department on behalf of the Treasury (the U.S. taxpayer), subsequently dissolving the Trust. The common stock received from the conversion of the Trust Stock, plus other AIG common shares that it held, were gradually sold off by the Treasury Department through late 2012.

Summary Evaluation

The FRBNY designed the Trust to be independent, because FRBNY officials concluded the FRBNY did not have the legal authority to own and operate a large private company. Still, at the time it was created, some congressmen and others criticized the Trust's design as opaque and questioned its role. Over the Trust's lifespan, the Trustees nominated and elected eleven out of thirteen members to AIG's Board of Directors. The Trustees met regularly during 2010 to discuss a Divestiture Plan for the Trust Stock and worked alongside a Government Repayment Committee, composed of AIG outside Directors.

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I. Overview

Background

In the midst of the financial crisis in 2008, American International Group (AIG), one of the largest insurance companies in the world, faced a liquidity crisis and multibillion dollars of losses on its mortgage-linked products and investments. (Actions Related to AIG)[3] The Federal Reserve Bank of New York (FRBNY) stepped in on September 16, 2008 to mitigate AIG's liquidity woes by announcing a Revolving Credit Facility (RCF), an emergency $85 billion two-year loan commitment that was secured by AIG's assets, including interests in its domestic and foreign insurance subsidiaries. The Fed said that the government would take a 79.9% equity interest in AIG (FRB PR, 09/16/2008; Credit Agreement - Sec. 2.04(a). pp. 40)

The following week, the Fed and AIG signed a Credit Agreement establishing the RCF that included further details about the structure and governance of the government's equity stake. First, the government would receive 100,000 shares of convertible participating preferred stock, convertible into a number of common shares equal to 79.9% of the shares then outstanding or reserved for issuance (the "Trust Stock").[4] (Credit Agreement - Sec. 5.11, Exhibit D) (see also YPFS AIG Case Series, Module A). After deciding on preferred stock as the method of its equity stake, the government subsequently determined that it would need to create an independent trust to manage its investment in AIG. The Trust Stock carried voting rights and dividend rights proportionate to its convertible share of common stock (originally 79.9%)[5], effectively giving the Trust control over the company. (Credit Agreement - Sec. 5.11 and Exhibit D)

The trust was established "for the purpose of acquiring, holding, and disposing of the Trust Stock," the issuance of which was "intended to provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks" (Trust Agreement - pp. 1). According to the FRBNY's press release, the Trust Stock also "ha[d] the potential to provide a substantial financial return to the American people," so long as the RCF provided AIG with adequate support to sustain itself, (FRBNY PR, 09/29/2008). For more information on terms of the Credit Agreement, please refer to the Buchholtz & Wiggins 2018.

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[3] These were credit default swap contracts sold by its Financial Products division that were exposed to the U.S. housing market, and investments purchased with proceeds from its Securities Lending practice. (cite)

[4] The series of the Trust Stock was not originally designated. However, after Treasury purchased a separate class of AIG preferred stock using TARP funds in November 2008, the preferred stock was then deemed Series C Perpetual, Convertible, Participating Preferred Stock and ranked junior to the newly purchased Series D TARP preferred stock. (Amendment No. 2).

[5] While the Trust Stock was originally designed to be convertible into 79.9% of AIG's common stock, in November 2008 the terms of the Trust Stock were amended to decrease the convertibility to approximately 77.9% of AIG's common. (Amendment No. 2, Sec. 6, (Securities Purchase Agreement: Series D Preferred Stock)). This change was made to adjust for a November 2008 investment by Treasury whereby it purchased $40 billion (4 million shares) of Series D Preferred Stock and also received a ten-year warrant to purchase 2% of AIG's outstanding common stock. (Securities Purchase Agreement: Series D Preferred Stock). The Trust stock was adjusted to keep the government's potential ownership under 80%, the point at which it would have to consolidate AIG onto the government's balance sheet.

Program Description

Consistent with the Credit Agreement, pursuant to a Trust Agreement, dated January 16, 2009, FRBNY established an independent trust (the Trust) to receive, hold and manage the Trust Stock (Trust Agreement - Preamble).[6] The Trust Agreement stated that the trust was "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." (Ibid. - Sec. 1.01, pp. 2). The Trust was revocable only by the Federal Reserve Board of Governors (FRB). (Ibid. Sec. 1.03, - pp. 2 - 3)

The Trustees were appointed by the FRBNY, in consultation with Treasury, on the basis of the trustees having "integrity, impeccable reputations in the marketplace and a unique combination of experience successfully leading major corporations and working in the public sector." (AIG Credit Facility Trust FAQ). Trustees could resign on 60 days' notice and the FRBNY, in consultation with the Treasury, could appoint a successor trustee. (Trust Agreement - pp. 11). A Trustee could also be removed by the other trustees, in consultation with the FRBNY, if they unanimously determined that "replacement of such Trustee [was] in the best interests of the Trust." (Ibid. - pp. 11).

The process of vetting potential trustees began in October 2008, although the Trust was not formally established until January 2009 (Feldberg 2009, p. 3, Trust Agreement - pp. 1). The initial three Trustees appointed at the time are identified in Figure 1 below.

Figure 1: Original Trustees of the AIG Credit Facility Trust (AIG Trustees CVs)

Trustee Name	Previous Positions
Jill M. Considine	Former Chairman of the Depository Trust & Clearing Corporation
Chester B. Feldberg	Former Chairman of Barclays Americas
Douglas L. Foshee	Chair of the Board of Directors of the Federal Reserve Bank of Dallas, Houston Branch, and Central Houston, Inc.

Source: AIG Trust Agreement

[6] While the Trust Stock was originally designed to be convertible into 79.9% of AIG's- common stock, in November 2008 the terms of the Trust Stock were amended to decrease the convertibility to approximately 77.9% of AIG's common. (Amendment No. 2, Sec. 6, (Securities Purchase Agreement: Series D Preferred Stock)). This change was made to adjust for a November 2008 investment by Treasury whereby it purchased $40 billion (4 million shares) of Series D Preferred Stock and also received a ten-year warrant to purchase 2% of AIG's outstanding common stock. (Securities Purchase Agreement: Series D Preferred Stock) The Trust stock was adjusted to keep the government's potential ownership under 80%, the point at which it would have to consolidate AIG onto the government's balance sheet.

AIG issued the Trust Stock to the Trust on March 4, 2009 as described in more detail under the Outcomes section below. The Trust Stock had a perpetual term length and was subject to anti-dilution provisions. (Credit Agreement - Exhibit D) Because of an investment by Treasury in November 2008, which included Treasury receiving a warrant to purchase up to 2% of AIG's common stock, the convertibility of the Trust Stock on issuance had been adjusted downward to equal 77.9% of AIG's common stock (GAO September 2009 - pp. 37 - 38).[7] According to the Trust Agreement, the Trustees had the right to vote the Trust Stock, and had the ability to "exercise all rights, titles, powers, and privileges of a stockholder of the company," which included converting the Trust Stock to AIG common stock (Trust agreement - pp. 6).

Since AIG had five billion authorized shares of common stock at the time the Trust Stock was issued and three billion shares were already issued, the Trust would have been only able to acquire two billion, or 40%, of AIG common stock. (2009 AIG Proxy Statement - pp. B-2). Thus, an increase of the amount of authorized, but unissued shares of common stock was necessary in order for the Trust to receive the full 77.9% of common stock required by the Credit Agreement (Trust Agreement - pp. 1). Thus, the Trustees were directed in the Trust Agreement to vote for certain proposals that would have facilitated making sufficient shares available to support conversion. [8] (Ibid. - pp. 6).

Each trustee was paid an annual compensation of $100,000, with costs and expenses reimbursed. (Ibid. - Sec. 3.04(a), pp. 13) To fund the Trust's operations, AIG deposited $100,000 into an account, and was obligated to continue to fund the costs of the trust. (Ibid. - Sec. 3.04(b), 3.03(e) - pp. 13-14).

Ultimately, the end goal of the Trust was to dispose of the shares to facilitate repayment to Treasury (the U.S. taxpayer) and the Federal Reserve Bank of New York. The purpose of the Trust was to provide the Trust adequate control over the company, while maintaining oversight of AIG Board operations and corporate governance procedures during the time of the government's assistance to AIG. (Ibid. - pp. 3 - 10) To this end, the Trustees met regularly with a committee of the AIG Board charged with monitoring and repayment of the government assistance (AIG Schedule 14C, 12/10/2010).

The Trust Agreement required the Trustees to "develop a written plan (the "Divestiture Plan") for the sale or other disposition of the Trust Stock." (Trust Agreement - pp. 8) In order to create and execute the Divestiture Plan, the Trust Agreement directed the Trustees to consider (Ibid. Sec. 2.05 - pp. 8):

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[7] See Footnote 9.

[8] These provisions were:

- Increase the number of authorized shares of AIG common stock from 5 billion to 19 billion (decreasing the value from $2.50 to $0.000001 per share) and increase the number of authorized shares of AIG preferred stock from 6 million to 13 billion (decreasing the value from $5.00 to $0.00004 per share);
- Amend AIG's Certificate of Incorporation to change the conversion ratio to equal the quotient from dividing the number of underlying shares before the amendment by the number of underlying shares after the amendment; and make the liquidating preference of Series C Preferred Stock to be $500,000 divided by the number of underlying shares; (Trust Agreement, Section 2.04)

1. The effect of any sale or disposition of [Series C Preferred Stock] on any repayments owed to the FRBNY or Treasury
2. The impact of any conversion of AIG preferred stock to AIG common stock on anti-dilution features that affect the Trust (specific to equity units purchased by Bank of New York in May 2008)
3. The financial condition of AIG
4. The impact of any sale or disposition of [Series C Preferred Stock] on general financial market conditions
5. Obtaining full and adequate consideration for the [Series C Preferred Stock]
6. The best interests of Treasury

To help administer the Trust, the Trustees were authorized to hire professional advisers and agents and hire full or part-time administrative, secretarial, and clerical staff, and also to lease office space for any staff. (Trust Agreement - pp. 5).

Outcomes

The Trust acquired the Trust Shares on March 4, 2009. (Certificate of Designations: Series C Preferred Stock). Upon obtaining the Trust Stock, the Trust received the ability to exercise the voting rights and powers attached to the shares, which included receiving any declared dividend payments and converting the preferred stock to common stock (Ibid. - Sec. 2(a)). The conversion could only occur after the RCF was repaid and the adequate amount of authorized AIG common stock became available, which was the case after the 2009 Annual Meeting (Stock Purchase Agreement: Series C Preferred Stock). Following the purchase, less than two months after the trust's formation, the Trust began to develop the Divestiture Plan for the Trust Stock. [Ask about in interview]

All three trustees were present at a May 13, 2009 House Oversight and Government Reform Committee (HOGRC) hearing, where they testified regarding the public rescue of AIG and the details of the Trust. (HOGRC 2009 - Considine and Feldberg Testimony). The HOGRC examined the Trust's relationship with AIG, the FRBNY, and Treasury, as well as their role in managing the Trust Stock and how they were using the powers of said stock (Ibid.). Pursuant to the terms of the Trust Agreement, the purpose of the Trust was to vote the held stock, develop and execute a plan to sell or dispose of the trust's stock, and work with AIG senior management and AIG's Board of Directors to ensure corporate governance procedures were satisfactory, all in the best interest of Treasury, i.e., the taxpayers. (Ibid.) The Trustees also stated that, "When the annual meeting occurs [at] AIG, we will be voting for the directors..." (Ibid.) The Trustees affirmed that they had nominated for election to the board six new members to form a largely new Board of Directors (Ibid.). The FRBNY had previously appointed Ed Liddy as CEO and Chairman.

At the AIG Annual Meeting of Shareholders held on June 25, 2009, the Trust voted on ten of eleven proposals presented to shareholders[9], including a proposal authorizing a 20:1 reverse stock-split of AIG common stock (Form 10-K, 2009). This proposal reduced the number of outstanding AIG shares from approximately 3 billion to 150 million (U.S. Court of Federal Claims, July 2012 - pp. 8). Since there were 4.85 billion shares of AIG common stock authorized but unissued, the effect of the proposal was to make possible the conversion of the Trust Stock. (Ibid. - pp. 8)

During 2009 and 2010, in consultation with the FRBNY, the Trust nominated and elected several new members to AIG's Board of Directors. Following AIG's 2010 Annual Meeting, eleven of AIG's then thirteen-member Board were persons nominated by the Trust. (Ibid.)

To help evaluate and execute the repayment of the RCF, the Trust collaborated with the Government Repayment Committee (GRC), a committee formed in April 2010 by AIG's Board of Directors, and composed of only outside directors. (AIG Schedule 14C, 12/10/2010) The GRC met weekly and participated in the negotiations between AIG and the government to help the two parties find an adequate exit strategy from the ownership relationship between the government and AIG. (Ibid.) These discussions would eventually result in the Recapitalization Plan entered into on September 30, 2010.[10] (Ibid.)

As part of the Recapitalization Plan, on January 14, 2011, AIG fully repaid the FRBNY the outstanding balance under the RCF, effectively terminating the Credit Agreement (AIG, February 2012). On this same day, the Trust converted the Trust Stock into 562,868,096 shares of AIG common stock and transferred the newly issued common stock to the U.S. Treasury General Fund, subsequently dissolving the Trust.[11] (FRBNY PR, 01/14/2011, U.S. Court of Federal Claims, July 2012 – pp. 16)

Over the next two years, through December 2012, Treasury disposed of the AIG common stock through a series of six public offerings (UST PR, 12/11/2012). Treasury reported net proceeds from the stock offerings of over $51.6 billion, a $4.1 billion positive return for taxpayers. (Ibid.) For more information on the disposition of AIG common stock by Treasury, please refer to YPFS AIG Case Series, Module C.

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[9] The proposal that the Trust did not vote on pursuant to a prearranged agreement not to vote due to a court challenge, would have made available enough authorized, but unissued common AIG stock to enable the government to convert the Trust Stock into 77.9% of AIG common stock (Trust Agreement - pp. 1). Ultimately, the shares needed for conversion were achieved through a reverse stock split.

[10] For discussion of the Recapitalization Plan, which provided for a restructuring of the government's assistance to AIG, including *inter alia,* the repayment of the RCF and conversion of the Trust Stock to common, see Buchholtz, 2018 (RCF case).

[11] Upon receipt of the shares resulting from conversion of the Trust Stock, and following the --- Recapitalization, Treasury held over 1.6 billion shares of AIG common stock equal to approximately 92.1% ownership in AIG and consolidated on the government's balance sheet. .[11] (UST PR, 01/14/2011) For details on the other preferred stock Treasury purchased through various TARP investments in AIG, please refer to Buchholtz 2018.

II. Key Design Decisions

1. The AIG Trust was created as part of a multi-faceted intervention by the government.

The AIG Trust was created to hold the Trust Stock, which was issued to the government in connection with the FRBNY entering into the $85 billion RCF with AIG in September 2008 to address its severe liquidity needs (FRB PR, 09/16/2008). The RCF was the first of a series of government interventions for AIG over a number of years (Webel 2017 - Summary) (YPFS AIG Case Series, Module Z). Interventions would be funded by the FRBNY and Treasury, and would include loans, asset purchases, and capital investments, and would become the government's largest intervention for any one entity, totaling $182.3 billion (UST Financial Report (2013) - pp. 14).

2. The Federal Reserve Bank of New York established the Trust pursuant to Section 13(3) of the Federal Reserve Act.

The Revolving Credit Facility (RCF) was established on September 16, 2008 and, after some deliberation, FRBNY settled onthe creation of a Trust to hold the 79.9% (later amended to 77.9%) controlling interest in AIG (US Court of Federal Claims, June 2015 - pp. 20 - 26; Trust Agreement - pp. 1). Section 13(3) specified that, "In unusual or exigent circumstances…" the Federal Reserve could provide emergency liquidity to an institution that was unable to acquire it from private markets (Section 13(3)).

3. The Trust was monitored by the Federal Reserve Bank of New York, though it remained independent and "for the sole benefit of the United States Treasury."

According to the original Credit Agreement for the RCF, the Preferred Stock investment would be issued to a trust established for the benefit of the United States Treasury (Credit Agreement - Exhibit D). The later Trust Agreement clarified that the Trust was established for the "sole" benefit of the Treasury, and explained that "sole benefit…, 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" (Trust Agreement - pp. 2). Three trustees were to be appointed jointly by FRBNY and Treasury (Trust Agreement - pp. 2).

The Trust Stock itself was held in a "Securities Account" at a commercial bank that would be selected by FRBNY (Ibid. - pp. 3). However, the Trustees had sole access.~~, and~~ FRBNY had no ownership interest in any of the Trust Stock or other assets (Ibid. - pp. 4). The Trustees also had a deposit account which was to be used for any compensation and expenses needed to facilitate the operations of the Trust and had a balance of $100,000 (Ibid. - pp. 14). Should the balance fall below $25,000, then AIG was required to inject enough funds in to increase the balance to $100,000 (Ibid. - pp. 14). In addition to these accounts, the Trustees could hire "full-time and part-time administrative, secretarial, and clerical staff", as well as lease or sublease office space needed to perform their duties (Ibid. - pp. 5). Any litigation efforts against the trust would be fought and paid for by FRBNY, though it would be reimbursed for these efforts, if needed (Ibid. - pp. 10).

Finally, Section 4.01 of the Trust Agreement mandated the Trustees meet with FRBNY at least on a quarterly basis to "discuss the administration of the Trust and other topics of interest to the parties (Ibid. - pp. 17)." The same section also required the Trust to provide FRBNY with the following reports (Ibid. - pp. 17 - 18):

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."

4. The Trust was communicated as an independent vehicle for the interests of the Treasury and the taxpayers.

The Federal Reserve's first press release, dated September 16, 2008, regarding the RCF, clearly mentions that in connection therewith, [t]he U.S. government will receive a 79.9 percent equity interest in AIG…" However, the Fed and Treasury had not yet worked out the details of the structure or governance of the equity interest. (FRBNY PR - 09/16/2008). The Fed and AIG signed the Credit Agreement and Pledge Agreements on September 22, 2008, and AIG released those agreements publicly in a Form 8-K filed with the SEC on September 26, 2008, which specified the trust as a part of the agreement.[12]

It was only on January 16, 2009, that the FRBNY issued a release on the creation of the Trust (FRBNY PR - 01/16/2009). The January 2009 press release announced the formation and naming of the Trustees, specifying that, "the Trust has been structured so that the New York Fed cannot exercise any discretion or control over the voting and consent rights associated with the equity interest in AIG" (FRBNY PR - 01/16/2009). Approximately a week later, the FRBNY posted the executed Trustee Agreement providing further information about the Trust's structure and guidelines (FRBNY PR - 02/26/2010).

With respect to the Trust specifically, the three Trustees testified before the House Committee on Oversight and Government Reform on May 13, 2009 in an effort to better explain the purposes of the Trust and the roles and responsibilities of the Trustees. The purpose of the hearing, as expressed by chairman Edolphus Towns of New York, was to investigate "the shroud of secrecy that has blanketed the entire sequence of [the AIG collapse

[12] The 8-K is a summation. References to the Trust in total are these—

"The Credit Facility contains customary affirmative and negative covenants, including a requirement to maintain a minimum amount of liquidity and a requirement to use reasonable efforts to cause the composition of the Board of Directors of AIG to be satisfactory to the trust described below within 10 days after the establishment of the trust.

Under the agreement, AIG will issue a new series of perpetual, non-redeemable Convertible Participating Serial Preferred Stock (the "Preferred Stock") to a trust that will hold the Preferred Stock for the benefit of the United States Treasury."

(AIG Form 8-K, 09/22/2008)
https://www.sec.gov/Archives/edgar/data/5272/000095012308011496/y71452e8vk.htm

and the government's actions]" and to provide answers about the use of funds, AIG's long-term goals, and protection of the taxpayer interest. (HOGRC 2009). This hearing followed significant backlash that AIG received for paying out millions of dollars in bonuses to some of the same employees that were key parts of AIG's difficulties. The most recent set of payments, revealed the week before the hearing, totaled about $454 million (HOGRC 2009).

The trustees also spoke at length about their ability to influence the upper-level management of AIG by "ensuring that AIG has the best, most qualified, independent board of directors that it can have (Ibid.)." They were able to nominate members to the board and, as of the hearing, they had nominated five new candidates to the board, and anticipated that they would all be approved (Ibid. - Foshee Testimony).

5. **The FRBNY established the Trust because it did not have legal authority to own shares in AIG directly and to protect the taxpayers' investment.**

As additional consideration for the RCF extended to AIG, AIG issued the Trust Stock to the Trust, an independent trust established by the FRBNY (Trust Agreement - pp. 2). While capital would be given to AIG by Treasury subsequent to restructuring agreements in November 2008 and March 2009, neither the Treasury nor FRBNY had the authority to own equity, and thus the Trust was a necessary vehicle to hold it. The establishment of the Trust was "for the purpose of acquiring, holding, and disposing of the Trust Stock," the issuance of which was "intended to provide compensation for the assumption of the risks arising from the Credit Agreement and to reduce those risks" (Trust Agreement - Preamble). If the government assistance to AIG was successful and it was able to restructure itself, its stock price would likely increase. Rather than have all that value, funded by the government's lifeline, go only to private stockholder, the Trust Stock would ensure that the taxpayers also received some of that benefit, which they ultimately did to the amount of $17.6 billion dollars profit (Geithner 2014, pp. 196 – 197). Although criticized by the AIG stockholders and others, "the terms of the Federal Reserve credit [including the requirement for the Trust Stock] were modeled on terms prepared for a private sector lender that ultimately decided not to take the risk of lending to AIG after Lehman failed." (Baxter and Dudley 2018 - pp. 19).

Establishment of the Trust was deemed necessary by Fed counsel because although Section 13(3) of the Federal Reserve Act (1934) gave the Federal Reserve the authority to lend to a private company, it did not, nor did any other authority, allow the FRBNY to acquire equity interests and act as a shareholder in a company. (US Court of Federal Claims, June 2015 - pp. 59 - 60; Sec. 13(3)). The Fed also considered "gifting" the Trust Stock to Treasury, and having it own the shares, but this idea was ultimately not pursued; Treasury also lacked the authority to hold voting stock in AIG.[13] (Alvarez Interview, 12 U.S.C. 343, 2007).

[13] According to Alvarez, the Treasury was restricted by the fact that no funds had been appropriated for the purchase of AIG shares. (Alvarez Interview 2019). The Anti-Deficiency Act states that "an officer or employee of the United States Government or of the District of Columbia government may not… (B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law." (31 U.S.C. 1341(a)(1)(B), 2007). Additionally, after its passage in October 2008, the

These conclusions were testified to in a later lawsuit brought by AIG shareholders challenging the Fed's ownership as summarized by the court in its 2015 decision:

> "The legal staffs of FRBNY and the Federal Reserve acknowledged that they could not obtain or hold equity, or acquire voting control, of a commercial entity. FRBNY's General Counsel, Mr. Baxter, noted during an interview on May 11, 2010:
>
> > Neither the Fed nor the [T]reasury had authority to hold the shares. When we saw equity on term sheet – problem of legal ownership and the conflict. Maybe strike that and not take equity. But then thought of taxpayer. Create a trust, put shares in trust. For benefit of American people. We had to decide that right away.
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> PTX 2211 at 10. Mr. Baxter notified the Board of Governors' counsel, Mr. Alvarez, on October 23, 2008, "we agree that there is no power" for the Federal Reserve "to hold AIG shares."[14] PTX 320-U at 1." (U.S. Court of Federal Claims, June 2015 - pp. 60).

Moreover, as Scott Alvarez, the FRB's General Counsel, later testified, there would also have existed a conflict of interest if the FRBNY was both the lender and owner of AIG, because "the owner and the lender don't always have the same interest." (U.S. Court of Federal Claims, June 2015 - pp. 60).

6. **The Trust would be managed by three independent trustees appointed by the FRBNY, in consultation with Treasury.**

On January 16, 2009, the FRBNY, in consultation with Treasury, appointed three individuals to manage the Trust. The Trustees were not involved in the decision to develop the Trust, however they had close ties to the Federal Reserve System. Feldberg had worked at the FRBNY for 36 years; Considine was a former member of the FRBNY's Board, and Foshee was the sitting Chair of the Board of Directors of the Federal Reserve Bank of Dallas, while a Trustee. (Starr Int' order - pp. 30)

During the May 2009 HOGRC hearing, the Trustees testified that the FRBNY wanted to maintain the Trust Stock in a manner that avoided "political interference," or any potential conflict of interest as a lender and shareholder. (HOGRC 2009, Feldberg Statement) The Trustees were also required under the agreement to work with AIG's senior management and the AIG Board of Directors "to ensure that corporate governance procedures are satisfactory." (Ibid. - Considine statement)~~.~~

In a joint statement, the Trustees noted that the use of a trust 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

Emergency Economic Stabilization Act of 2008 (EESA), also did not provide a basis for the Treasury to establish a trust to hold the shares. (Ibid.)

[14] But see Zajac 2014 discussing additional Baxter statements to the FCIC, which indicate that the Fed authority to hold shares was not a crystal clear point.

would be present if such controlling interest was held by the FRBNY or the Department of the Treasury." (HOGRC 2009 - pp. 77)

FRBNY general counsel Baxter also has stated that nominating three Trustees to run the Trust, rather than one, acted as an "additional safeguard" for the oversight of AIG, one of the world's largest insurance companies. (U.S. Court of Federal Claims, 10/02/2014 - pp. 937)

7. **The Trustees would manage the Trust independently, subject to certain limitations.**

The Trust Agreement states that since the Trust aims "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." (Trust Agreement - pp. 2). The purpose of the trust was to exercise these rights, receive dividends, and participate in shareholder meetings and votes, in place of the government entity. (Ibid. - pp 6 - 8) Moreover, the Trust would serve as the shareholder of the Trust Stock, "for the sole benefit of the Treasury," and to provide returns for 'the American people,' any assets held by the Trust that would be transferred to Treasury would be transferred directly to Treasury's General Fund. (Ibid. - pp. 2).

In order to avoid "conflicts and legal impediments that could arise from either the U.S. government or the FRBNY exerting control over the world's largest insurer," the Trust provided that the three Trustees would independently manage the Trust and oversee the Trust Stock. (AIG Credit Facility Trust FAQ).

Prior to the creation of the Trust, the Trustees sent a memorandum to FRBNY General Counsel Baxter, pointing out that there was a potential conflict between the goals described in Section 2.04(d) of the Trust Agreement. (U.S. Court of Federal Claims, June 2015 - pp. 31). The trustees were expected to maximize AIG's ability to repay advances under the Credit Agreement, but they were also expected to avoid disrupting financial market conditions in the "best interests of the stockholders of the Company." The government later clarified that the two goals were "non-binding" on the Trustees' discretionary power to vote the trust stock. (Ibid. - pp. 31)

It is not clear why the FRBNY decided the Trust should have three members. Trustee Feldberg testified that "the three-trustee model… expects us to act through a consensus, and to the maximum extent possible to act in unanimity." (HOGRC 2009) Mr. Feldberg stated that the Trust provided "a mechanism so that if we cannot agree, two of the three trustees could go forward." (Ibid.)

The Trustees were to use their own discretion in managing the shares and exercising the powers and rights of the preferred stock held by the Trust (Trust Agreement - pp. 2). As shareholders, they voted to elect Directors. Trustees did not attend Board meetings but they did have frequent discussions with senior management, members, and Federal Reserve and Treasury officials. (2011 Proxy Statement - pp. 25).[15]

Additionally, there were still some limitations on their independence. According to the Trust Agreement, prior to selling or disposing of the Trust Stock, the Trust required approval from the FRBNY, which would consult with Treasury. (Trust Agreement - pp. 8 - 9).

The Trust was mandated to provide the FRBNY various records, such as: "monthly custodial reports; quarterly summary of significant actions (votes, consents, etc.); quarterly reports summarizing the efforts and activities to effect the sale or other disposition of the Trust Stock or other Trust Assets; minutes of any meetings of the Trustees; and the Divestiture Plan, as amended from time to time." (Ibid. - pp. 17 - 18)

8. The Trust was to create a Divestiture Plan for the Trust Stock.

In order to recoup the investment by the FRBNY and American taxpayers, the Trust was tasked to create a Divestiture Plan, a written plan to sell or otherwise dispose of the Series C Preferred Stock. (Trust Agreement - pp. 8) The Trust Agreement describes that the divestiture of the Trust Stock would have to be done in a value-maximizing manner. Furthermore, the sale or disposition of Trust Stock could only be completed after the FRBNY was fully repaid for funds drawn under the RCF, and after Treasury no longer owned any TARP-related preferred stock of AIG.[16] (Ibid. - pp. 18) Even with a Divestiture Plan, the Trustees could only sell or dispose of any stock after the FRBNY, in consultation with Treasury, granted approval to the Trust. (Ibid. - pp. 8)

9. The Trust Agreement provided an exit plan.

The Trust Agreement provided that the Trust would terminate upon the earlier of "(i) the sale or other disposition of all of the Trust Stock [including any common stock received on conversion, which could only occur after repayment and termination of the RCF] 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." (Trust Agreement - pp. 21). Thus, from its inception, the Trust Agreement anticipated two different outcomes: one where the rescue was successful and the Trustees followed their

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[15] It is interesting to note, that by contrast to the Trustees' lack of attendance at meetings, as former CEO Liddy testified, representatives of the Federal Reserve attended many high-level AIG meetings in their capacity of lender and that the FRBNY also "has in the past been asked by the Treasury to… coordinate Treasury's interaction with [AIG], so that there can be only one organization [interacting with AIG] instead of splitting it."

"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 "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." (HOGRC 2009).

[16] The preferred stock references the more senior Series D Preferred Stock (later Series E Preferred Stock) and Series F Preferred Stock that Treasury acquired through the AIG Investment Program. See Buchholtz 2018 for further discussion.

mandate to transfer the Trust Stock to the Treasury, and a second that likely would have been the result of failure of the intervention.

On January 14, 2011, a Master Transaction Agreement, effectuating the Recapitalization Plan, was entered into by AIG (and certain related entities), the FRBNY, the Treasury and the Trust. (Master Transaction Agreement). The agreement and plan provided for the repayment of all amounts owed to the FRBNY pursuant to the RCF and its termination (Ibid. - Preamble). Following the termination of the RCF, the Trustees converted the Trust Stock and transferred the resulting common stock to the Treasury General Fund (FRBNY PR - 01/14/2011). As discussed above, this had the effect of dissolving the Trust and terminating the Trust Agreement. (Trust Agreement - pp. 21). The Trust Agreement also provided that any additional funds held in the Trust's Deposit Account, or any other assets (or the proceeds thereof), were to be transferred to the Treasury as well. (Ibid. - pp. 21).

III. Evaluation

The Trust was arguably successful in protecting the interests of American taxpayers and the U.S. government. The Trust held the Trust Stock for almost two years, utilizing the "rights, powers, authorities, discretions, and duties" attached to the shares, specifically the voting powers, until January 2011 (Trust Agreement - pp. 5, Webel 2013 - pp. 18). It helped to elect new Board Members, resulting in a board that had been recommended by the government rather than the board that had overseen the firm's troubles (U.S. Court of Federal Claims, July 2012 - pp. 48).

Some of the criticism levied at the Trustee structure was that they did not technically have a fiduciary duty to the U.S. taxpayer, and were allowed to "secretly invest personally in investment opportunities they learn about through their performance as trustees (Ibid. - J.W. Verret testimony)." However, the Trustees repeatedly emphasized that they were acting on behalf of the U.S. taxpayer, and Douglas Foshee even went as far as to say that, "[We], as trustees, [are] more than happy to put our reputational risk in front of this committee and act on behalf of the U.S. taxpayers (Ibid.)."

After the termination of the Credit Agreement, the Trust converted the Trust Stock to AIG common stock and transferred such shares to Treasury's General Fund, which gradually sold the stock publicly, aggregating it with the other AIG shares that Treasury held (FRBNY PR - 01/14/2011). After accounting for all AIG common stock sold, Treasury recorded net proceeds of roughly $53 billion from the offerings, resulting in a $4.1 billion gain. (UST PR, 12/11/2012). More specifically, the 563 million shares of AIG common stock resulting from the conversion of the Trust Stock, accounted for gross cash proceeds of nearly $17.6 billion. (Summary of Terms, 09/30/2010)

At an early hearing on the structure and role of the Trust, Congress expressed a number of concerns about the course of the government's intervention and relationship with AIG. Among these were a request for more transparency, whether the goal of serving a public purpose was being met, and whether the U.S. taxpayer investment in AIG was being adequately protected (HOGRC 2009).

In reference to Section 4.01 of the Trust Agreement, which provides that the trust will provide certain reports to the FRBNY, Committee Representative Dennis Kucinich (D-OH) asked the Trustees "why is this Trust Agreement structured so that [the Trust's] accountability is to the Fed?" (Trust Agreement - pp. 20, HOGRC 2009 - Varret Statement)[17] The Committee was also very critical of the access that the FRBNY had to AIG Board meetings, that the Trustees did not attend (HOGRC 2009). _These provisions caused some Congresspersons to question the Trustees' independence; the Trustees said that they were not accountable to the FRBNY, but consulted with FRBNY officials on significant issues (HOGRC 2009).[18] The FRBNY had a team of about 15 officials stationed at AIG full-time to monitor developments and keep FRBNY management and the Trustees informed.

A May 2010 Congressional Oversight Panel (COP) hearing concluded that the government used a trust structure to manage the Trust Stock not only to avoid conflicts of interest, but "so as to not violate the Government Corporation Control Act… which prohibits the government from owning a corporation without specific Congressional authorization (COP September 2009 - pp. 71)." The COP concluded that the Trust played two roles that benefitted Treasury and the shareholding taxpayers: the role as shareholders, "who want to maximize the return on their investments," and the role as taxpayers, "who want the financial system stabilized." (Ibid.) Congressional Oversight Panel (COP) member J. Mark McWatters supposed that the utilization of a trust structure to manage the Trust Stock "may prolong the disposition process and appear to make government sponsored bailouts somehow more palatable to the taxpayers." (COP June 2010 - pp. 296)

During the May 2009 HOGRC hearing, Professor J.W. Verret, an Assistant Professor of Law at George Mason Law School, testified to discuss the flaws of the Trust and the Trust Agreement and why the government should be careful in using the Trust as a model for other trusts in the future. (HOGRC 2009) Specifically, Verret noted a provision that provides generous protections against liability for each of the Trustees.

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[17] Section 4.01 states that the Trustees have to provide the FRBNY with documents that recorded all actions of the Trustees, including monthly custodial reports, minutes of any meetings of the Trustees, quarterly summaries of significant actions, quarterly reports summarizing efforts to sell or dispose of the Series C Preferred Stock (Trust Stock), and any drafts of a Divestiture Plan. (Trust Agreement)

[18] For example, this exchange: "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… 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."
(HOGRC 2009).

Verret considered the "indemnity and immunity provisions too generous: "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." (Ibid. - pp. 2). Verret recommended that if the government sought to utilize a trust structure, using the Trust Agreement as a model, for other institutions under TARP, Citigroup, or other future cases, the Trust Agreement would require significant modification to account for his concerns. (Ibid. - pp. 3)

Although the Trust had the capability of ensuring that AIG had a responsible, independent, and effective Board of Directors, the question remained whether changing AIG's Board of Directors and nominating new members had any tangible effect on AIG. Nicola Sharpe, Professor of Law at the University of Illinois, College of Law, has argued (Sharpe 2011 - pp. 107):

> "…while having trusted representatives such as the AIG trustees elect skilled and respected board members may pacify the public and appear to protect the large federal investment in the 500 or so corporations it has bailed out, it does not solve the problem of inadequate board monitoring as a contributing factor in corporate ruin and, in fact, creates additional regulatory challenges."

Some literature suggests that there may have been cause for regulatory concerns over the supervision of the Trustees in this respect, given that they were mandated to act independently. (Davidoff 2009) As independent trustees, there were arguments that there was nothing stopping them from acting out (though they had not done anything at this point to warrant such concerns), electing unqualified board members or members that they have pre-existing relationships with, "so long as their decisions are not contrary to the interests of the government." (Ibid.) The only limitations for this role were to elect "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," which it fulfilled. (Ibid.) Otherwise, the Trust was only to act in or not against Treasury's interests and to use its best judgment when making decisions concerning the Trust Stock. However, the indemnity clauses and protections in the Trust Agreement and the Master Transaction Agreement protected the Trustees from further audit, liabilities, or damages at the termination of the Agreements on January 14, 2011. (Trust Agreement - pp. 13)

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V. Key Program Documents

Summary of Program

- AIG Credit Facility Trust Agreement (01/16/2009) – *agreement that established the AIG Credit Facility Trust as announced in the Credit Agreement, and the responsibilities and powers of the Trustees.* https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/2009/AIGCFTAgreement.pdf
- June Oversight Report: The AIG Rescue (Congressional Oversight Panel, 06/10/2010) – *Congressional Oversight Panel releases information on AIG's rescue, highlighting hearing testimonies, government actions, and impacts of government intervention* https://www.gpo.gov/fdsys/pkg/CPRT-111JPRT56698/html/CPRT-111JPRT56698.htm
- Actions Related to AIG – *page on Federal Reserve Bank of New York's website covering highlights, timelines, and documents surrounding the Bank's actions on AIG.* https://www.newyorkfed.org/aboutthefed/aig/index.html#slide1

Implementation Documents

- Credit Agreement (09/22/2008) – *document that authorized the extension of an $85 billion revolving credit facility from the Federal Reserve Bank of New York to AIG and listed the terms of such a facility.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/original_credit_agreement.pdf
- Amendment No. 2 to Credit Agreement (11/09/2008) – *amendment that alters the terms of the preferred stock related to the Credit Agreement, which reduces the voting rights of the 100,000 shares of Series C Preferred Stock from 79.9% to 77.9% following the issuance of the Series D warrant that allows for the purchase of 2% of common stock.*

https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/credit_agreement_2.pdf

- Securities Purchase Agreement: Series D Preferred Stock (11/25/2008) – *purchase agreement entered into by AIG and Treasury to sell 4,000,000 shares of Series D Fixed Rate, Cumulative, Perpetual Preferred Stock and a warrant to purchase 53,798,766 shares of common stock to Treasury for $40,000,000,000 under TARP's Systematically Significant Failing Institutions (SSFI) program.* https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/aig/Documents/AIG_Agreement_11252008.pdf
- AIG Credit Facility Trust Agreement (01/16/2009) – *agreement that established the AIG Credit Facility Trust as announced in the Credit Agreement, and the responsibilities and powers of the Trustees.* https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/2009/AIGCFTAgreement.pdf
- U.S. Government Provides Support for Continued Restructuring of AIG (03/02/2009) – *restructuring plan is announced for AIG, announcing the intent to establish two special purpose vehicles for AIA and ALICO and the issuance of preferred stock within each for the Federal Reserve, who will invest $26 billion in the SPVs. The amount of the Credit Facility is also drawn down to $35 billion.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003740/e74794exv99w2.htm
- Series C Certificate of Designations (03/01/2009) – *document announcing the intent to issue 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock on March 4, 2009, in accordance with the Credit Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv3wiwf.htm
- Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement (03/01/2009) – *purchase agreement entered into by the Federal Reserve Bank of New York and AIG over the 100,000 shares of Series C Stock issued through the Certificate of Designations filed on March 1, 2009. The issuance and purchase occur on March 4, 2009.* https://www.sec.gov/Archives/edgar/data/5272/000095012309003734/y74794exv10w91.htm
- Recapitalization Plan Summary of Terms (09/30/2010) – *document explaining the terms of the full Recapitalization of AIG and the effective termination of the Credit Facility through the net proceeds received from AIA IPO on the Hong Kong Stock Exchange and the sale of ALICO to MetLife, Inc., as well as the repurchase of preferred shares in the AIA and ALICO SPVs by AIG from the Federal Reserve.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/Recapitalization_Summary_Terms.pdf
- AIG 8-K (SEC, 09/30/2010) – *AIG submits a material definitive agreement to the SEC on the Recapitalization Plan for repayment to the FRBNY for loans under the Credit Facility.* https://www.sec.gov/Archives/edgar/data/5272/000095012310090261/y86866e8vk.htm

- AIG Schedule 14C (SEC, 12/07/2010) – *AIG files an information statement to the SEC that describes the terms to the upcoming Recapitalization Plan, as well as information on the Government Repayment Committee and the Agreement in Principle.* https://www.sec.gov/Archives/edgar/data/5272/000095012310112612/y87682bdef14c.htm
- Master Transaction Agreement (12/08/2010) – *agreement between AIG, the ALICO SPV, the AIA SPV, Federal Reserve Bank, Treasury, and AIG Credit Facility Trust over the closing of the Recapitalization Plan announced on September 30, 2010. The agreement highlights the completion of repayment transactions of the Credit Facility, the conversion of Treasury preferred stock to common shares, the repurchase of preferred shares in SPVs by AIG, the termination of the AIG Credit Facility Trust, and delivery of any other certificates, agreements, or documents by all parties.* https://www.newyorkfed.org/medialibrary/media/aboutthefed/aig/pdf/master_transaction_agreement.pdf
- Certificate of Elimination (01/14/2011) – *certificate that eliminates all Treasury's Series C Preferred Stock after converting it to common stock, as listed in the Master Transaction Agreement.* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv3w2.htm
- Registration Rights Agreement (01/14/2011) – *agreement between AIG and Treasury to where AIG will issue 1.655 billion shares of common stock to Treasury as part of Recapitalization, through the common stock held by the Trust from the Credit Agreement and the common stock converted from all other preferred stock Treasury received through government aid packages to AIG.* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w4.htm
- Agreement to Amend Warrants (01/14/2011) – *agreement between AIG, the AIA SPV, the ALICO SPV, the Federal Reserve Bank of New York, Treasury, and AIG Credit Facility Trust to issue warrants to purchase common stock from November 25, 2008 (Securities Purchase Agreement) and April 17, 2009 (Securities Exchange Agreement).* https://www.sec.gov/Archives/edgar/data/5272/000095012311003061/y88987exv99w5.htm

Legal/Regulatory Guidance

- Section 13 of the Federal Reserve Act (07/21/1932) – *A law that states what rights the Federal Reserve has in the case of emergency lending, bankruptcy, and recapitalization of financial firms and institutions.* https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf

Press Releases/Announcements

- Statement by the Federal Reserve Bank of New York Regarding AIG Transaction (09/29/2008) – *statement on federal aid to AIG explaining the purpose of the loan, and*

intent to stabilize AIG while maximizing value for taxpayers.
https://www.newyorkfed.org/newsevents/news/markets/2008/an080929.html

- Federal Reserve Board and Treasury Department announce restructuring of financial support to AIG (11/10/2008) – *press release announcing a $40 billion investment through TARP in AIG and changes to the Credit Facility including reduction of the RCF to $60 billion, the reduction of the interest rate, reduction of the commitment fee, and extension to five years.*
https://www.federalreserve.gov/newsevents/press/other/20081110a.htm
- Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act (11/10/2008) – *press release announcing the purchase of $40 billion in Series D Senior Preferred Stock through TARP to help pay down existing loans of the Credit Facility.*
https://www.treasury.gov/press-center/press-releases/Pages/hp1261.aspx
- Statement Regarding Establishment of the AIG Credit Facility Trust (01/16/2009) – *the FRBNY announces that the AIG Credit Facility Trust has been established for the sole benefit of the United States Treasury and will hold the 77.9% equity interest in AIG related to the AIG Credit Facility.*
https://www.newyorkfed.org/newsevents/news/markets/2009/an090116.html
- U.S. Treasury and Federal Reserve Announce Participation in AIG Restructuring Plan (03/02/2009) – *joint press release announcing a restructuring plan for AIG which includes investing in two special purpose vehicles for AIG subsidiaries AIA and ALICO, the removal of the interest rate floor on the Credit Facility, and the issuance of Series C Preferred Stock from the Credit Agreement.*
https://www.federalreserve.gov/newsevents/press/other/20090302a.htm
- Notice of Annual Meeting of Shareholders to be held June 30, 2008 (06/05/2009) – *The AIG Board of Directors release a proxy statement notice to its shareholders to communicate the details of the upcoming annual shareholder meeting, as well as the proposals that will be voted on.*
http://www.aig.com/content/dam/aig/america-canada/us/documents/investor-relations/2009-proxy.pdf
- AIG Credit Facility Trust FAQ (02/21/2010) – *FAQ released by the Federal Reserve that answers common questions about the formation, purpose, and responsibilities of the AIG Credit Facility Trust.*
https://www.newyorkfed.org/medialibrary/media/newsevents/news/markets/2010/Trust_FAQ_Final.pdf
- Treasury Announces the Completion of AIG's Recapitalization (01/14/2011) – *Treasury announces that AIG's Recapitalization Plan is complete, the Credit Agreement has been terminated, and the AIG Credit Facility Trust has been dissolved. Also, Treasury now owns 92% of the company after the conversion of Treasury's and the Trust's preferred stock to AIG common stock.*
https://www.treasury.gov/press-center/press-releases/Pages/tg1024.aspx

- New York Fed Ends AIG Assistance with Full Repayment (01/14/2011) – *The Federal Reserve Bank of New York announces the termination of the financial assistance to AIG, after AIG has fulfilled its repayment of the loans according to the Recapitalization Plan presented in September 2010. The termination of the assistance also means the dissolution of the AIG Trust and transfer of its equity interest in AIG to Treasury.* https://www.newyorkfed.org/newsevents/news/aboutthefed/2011/oa110114.html
- Treasury Sells Final Shares of AIG Common Stock, Positive Return on Overall AIG Commitment Reaches $22.7 Billion (12/11/2012) – *Treasury announces that it has conducted its final IPO of AIG common stock, realizing an overall positive return of $5 billion on the equity interest in AIG.* https://www.treasury.gov/press-center/press-releases/Pages/tg1796.aspx

Media Stories

- 3 Trustees of A.I.G. Are Quiet, Perhaps to a Fault (New York Times – 04/19/2009) – *news article that discusses the goals of the AIG Credit Facility Trust and their role in acting as the beneficiary of Treasury's shares in AIG.* http://www.nytimes.com/2009/04/20/business/20trustees.html
- Short-Term Solutions to Long-Term Problems (New York Times – 03/26/2009) – *Steven M. Davidoff, known for his law work on takeovers and corporate law, describes some of the problems that come with the government's approach in programs and interventions during the financial crisis, specifically with AIG and Citigroup.* https://dealbook.nytimes.com/2009/03/26/short-term-solutions-to-long-term-problems/

Key Academic Papers

- Rethinking Board Function in the Wake of the 2008 Financial Crisis (Sharpe, 06/2011) – https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1856723_code242499.pdf?abstractid=1856723&mirid=1&type=2
- After the Music Stopped (Blinder, Alan, 12/18/2013) – https://www.amazon.com/Alan-S.-Blinder/e/B001ILIB3I

Reports/Assessments

- House Oversight and Government Reform Committee: AIG Collapse, Rescue, Trustees (05/13/2009) – *Transcript of a hearing of the House Oversight and Government Reform Committee, where the three trustees of the AIG Credit Facility Trust and J.W. Verret, a Professor of Law at George Mason University School of Law, testify to the Committee about the role, responsibilities, and intent of the Trust associated with government financial assistance to AIG.* https://www.gpo.gov/fdsys/pkg/CHRG-111hhrg53019/html/CHRG-111hhrg53019.htm
- J.W. Verret Testimony before the House Oversight Committee Concerning the AIG Trust (05/13/2009) – *J.W. Verret, Professor of Law at George Mason University School*

of Law, submitted a written testimony to the House Oversight and Government Reform Committee, prior to his attendance to the hearing on May 13, 2009, where he presented three flaws in the AIG Trust Agreement.
https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1408188_code410506.pdf?abstractid=1408188&mirid=1&type=2

- Statement of the Trustees of the AIG Credit Facility before the House Oversight Committee on Collapse and Federal Rescue of AIG (05/13/2009) – *The three trustees of the AIG Credit Facility Trust submitted a written statement to the House Oversight and Government Reform Committee, prior to their attendance to the hearing on May 13, 2009, reciting their responsibilities and supporting the idea that the financial assistance to AIG is protected by the use of a trust.*
https://oversight.house.gov/wp-content/uploads/2012/01/20090513AIGTrust.pdf
- AIG 10-Q (SEC, 06/30/2009) – *AIG files its 2009 second quarter financial reports to the SEC stressing that it posted its first profit since Q3 2007, six straight quarters of losses.*
https://www.sec.gov/Archives/edgar/data/5272/000095012309031618/y78668e10vq.htm
- The Use of TARP Funds in Support and Reorganization of the Domestic Automotive Industry (Congressional Oversight Panel, 09/09/2009) – *the Congressional Oversight Panel's report on the TARP support provided to General Motors and Chrysler, where the Panel reflects on some of the decisions made with AIG and how to make similar programs or designs as the government continued to support the automotive industry.*
https://cybercemetery.unt.edu/archive/cop/20110401233736/http://cop.senate.gov/documents/cop-090909-report.pdf
- Written Testimony of Herbert M. Allison Jr., Assistant Secretary for Financial Stability Domestic Policy Subcommittee of the Oversight and Government Reform Committee (12/17/2009) – *Assistant Secretary Herbert Allison provides a written testimony to the House Subcommittee of the Oversight and Government Reform Committee, describing the objectives the government wishes to achieve in exercising its shareholder's rights in AIG.*
https://www.treasury.gov/press-center/press-releases/Pages/tg453.aspx
- June Oversight Report: The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy (Congressional Oversight Panel, 06/10/2010) – *the Congressional Oversight Panel's report on the FRBNY's and Treasury's federal financial assistance to AIG and the options that were provided, as well as the effects of the implemented programs thus far.*
https://cybercemetery.unt.edu/archive/cop/20110401232818/http://cop.senate.gov/documents/cop-061010-report.pdf
- Starr International Co. v. United States and American International Group, Inc. (United States Court of Federal Claims, 06/15/2015) – *An opinion and order from the Court of Federal Claims, stating that the government did conduct an illegal exaction of AIG, but zero damages are awarded as there were no economic consequences to shareholders as a result of actions. Without the government's assistance in the first place, the value for shareholders would have been worthless.*
online.wsj.com/public/resources/documents/StarrvUS06152015.pdf

- Starr International Co. v. United States and American International Group, Inc. (United States Court of Appeals for the Federal Circuit, 08/25/2015) – *Starr International Co. files its opening brief to the United States Court of Appeals for the Federal Circuit, appealing the decision of the U.S. Court of Federal Claims in June 2015.* https://wlflegalpulse.files.wordpress.com/2016/11/2015-08-25-opening-brief-of-plaintiff-appellant-starr-international-comp.pdf
- Starr International Co. v. United States and American International Group, Inc. (United States Court of Appeals for the Federal Circuit, 05/09/2017) – *An opinion filed by Chief Judge Reyna and Circuit Judge Wallach on the lawsuit filed by Starr International Co. against the U.S. government on its acquisition of equity interests in AIG and the actions related to a reverse-stock split at the 2009 annual shareholder meeting.* http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/15-5103.Opinion.5-5-2017.1.PDF

Timeline

September 16, 2008:	The Federal Reserve Bank of New York (FRBNY), with the support of Treasury, authorizes an $85 billion emergency credit line to AIG to prevent AIG's failure by providing sufficient liquidity and "make appropriate dispositions of certain assets over time."
September 22, 2008:	AIG and the FRBNY sign the Credit Agreement and Guarantee and Pledge Agreement that implements the Revolving Credit Facility (RCF), with a maturity date of September 22, 2010. The Agreement also provides that AIG will sell 100,000 shares of Series C Preferred Stock, convertible into 79.9% of AIG's common stock (the Trust Stock), to an independent trust to be created for the sole benefit of the U.S. Treasury.
November 10, 2008:	AIG and Treasury agree in principle, under the Troubled Asset Relief Program (TARP), for Treasury to purchase $40 billion in newly issued Series D Preferred Stock and a warrant to purchase 2% of AIG's common stock outstanding.
November 25, 2008:	The 2nd amendment to the Credit Agreement is implemented and the Series D Warrant is sold to Treasury, effectively reducing the Trust Stock equity stake to 77.9%. The amendment also noted that AIG common stockholders would vote as a separate class on 1st proposal to issue new common shares.
January 16, 2009:	The FRBNY announces the establishment of the independent AIG Credit Facility Trust (the Trust), headed by three appointed trustees, which will hold the Trust Stock.
March 1, 2009:	AIG files a Certificate of Designations agreeing to issue the Trust Stock to the Trust.
March 4, 2009:	AIG and the Trust agree to a Securities Purchase Agreement pursuant to which AIG will sell the Trust Stock to the Trust in exchange for a $500,000 consideration.
June 30, 2009:	The AIG Annual Meeting of Shareholders takes place, where common stockholders vote down the increase the number of authorized AIG common stock. However, a vote approving a 1:20 reverse stock split passes, providing the shares needed to allow the Trust, and Treasury, to convert their preferred stock into AIG common stock.

September 30, 2010: Treasury, the FRBNY, and the Trust announce an agreement on a comprehensive Recapitalization Plan for AIG designed to recoup all loans by the U.S. government, including all loans under the RCF, and to end the ownership relationship between the government and AIG.

December 8, 2010: AIG, the two SPVs of ALICO Holdings and AIA Aurora LLC, the FRBNY, Treasury, and the Trust enter into a Master Transaction Agreement based on the terms set in the September 2010 Recapitalization Plan. The Plan involves AIG repaying any remaining debt under the RCF, the conversion of the Trust's and Treasury's preferred stock into AIG common stock, and the transfer of the common stock received by the Trust on conversion to Treasury, resulting in the dissolution of the Trust.

January 14, 2011: The FRBNY announces that AIG has completed the repayment of all loans provided by the RCF and that the Credit Agreement is subsequently terminated. Treasury exchanges its $49.1 billion of Series E and Series F TARP-related preferred stock into AIG common stock. The Trust also converts the Trust Stock into AIG common stock and transfers the stock over to Treasury's General Fund, thereby dissolving the Trust. Treasury's overall ownership in AIG to roughly 92.1%,

December 10, 2012: Treasury sells the last of its ownership stake in AIG in its sixth and final offering of AIG common stock, netting over $51 billion in gross cash proceeds. $17.6 billion of the proceeds came from the AIG common stock received by the Trust upon conversion of the Trust Stock.