The Rescue of American International Group, Module D: Maiden Lane II[1]

Lily S. Engbith[2]
Devyn Jeffereis[3]

November 15, 2019

Abstract

In September 2008, the American International Group (AIG) faced increasing pressure to return cash collateral to counterparties looking to terminate, rather than roll over, their securities lending agreements as well as collateral calls stemming from CDS contracts (*US COP 2010 – pp. 68*). The company faced difficulty meeting these securities lending obligations because it had invested the collateral into non-agency residential mortgage-backed securities (RMBS), which were becoming illiquid (*McDonald and Paulson 2015 – pp. 86)*. The Revolving Credit Facility and Securities Borrowing Facility, established by the Federal Reserve Bank of New York (FRBNY) in September and October 2008, allowed for the repayment of cash collateral (*US COP 2010 – pp. 68*). However, additional measures had to be taken to address the falling values of the RMBS still held on AIG's books (*US COP 2010 – pp. 71*).

As part of the November 2008 restructuring of government assistance, the Federal Reserve Board authorized the creation of Maiden Lane II (ML II), a special purpose vehicle through which illiquid RMBS could be bought off of AIG life insurance subsidiary balance sheets (*US COP 2010 – pp. 71*). The purchases were funded by a $1 billion equity contribution from the AIG and a $19.5 billion senior loan from the Federal Reserve Bank of New York, which

---

[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, Aidan Lawson and Rosalind Z. Wiggins. 2019. "The Rescue of American International Group, Module A: The Revolving Credit Facility."

Engbith, Lily, Alec Buchholtz, and Devyn Jeffereis. 2019. "The Rescue of American International Group, Module B: The Securities Borrowing Facility."

Buchholtz, Alec and Aidan Lawson 2019. "The Rescue of American International Group, Module C: AIG Investment Program."

Engbith, Lily and Devyn Jeffereis 2019. "The Rescue of American International Group, Module D: Maiden Lane II."

Engbith, Lily and Devyn Jeffereis 2019. "The Rescue of American International Group, Module E: Maiden Lane III."

Buchholtz, Alec and Aidan Lawson 2019. "The Rescue of American International Group, Module F: The AIG Credit Facility Trust."

Wiggins, Rosalind 2019. "The Rescue of American International Group, Module Z: Overview."

[2] Research Associate, Yale Program on Financial Stability.

[3] Research Associate, Yale Program on Financial Stability.

would be repaid using the proceeds from the eventual sale of the RMBS (*US COP 2010 – pp. 71-72*). The establishment of ML II helped to lessen AIG's further exposure to the illiquid RMBS market and avert a downgrade, both of which ultimately contributed to AIG's return to solvency (*Baxter and Dahlgren 2010 – pp. 4*).

Keywords: AIG, Maiden Lane II, Federal Reserve Bank of New York (FRBNY), securities lending, residential mortgage-backed securities (RMBS), asset purchase, senior loan

.

Special thanks for the insightful input and feedback provided by Zachary Taylor (Federal Reserve Bank of New York) and Larry Cordell (Federal Reserve Bank of Philadelphia).

**Please note that any information contained in this study that may be attributed to these two individuals reflect their personal views and not necessarily those of the Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, or the Federal Reserve System*

American International Group, Inc.: Maiden Lane II

At a Glance

Summary of Key Terms	
Purpose: To facilitate the purchase of non-agency RMBS from AIG insurance subsidiaries in order to reduce market exposure and relieve downgrade pressures relating to AIG's reinvestment of cash collateral in the illiquid RMBS market. (*Maiden Lane Transactions*)	
Announcement Date	November 10, 2008
Operational Date	December 12, 2008
Termination Date	November 12, 2014
Legal Authority	Section 13(3) of the Federal Reserve Act
Amount Authorized	Up to $22.5 billion senior loan to ML II from FRBNY
AIG Participation	$1 billion deferred purchase price
Peak Utilization	$19.5 billion from FRBNY to purchase RMBS with a par value of $39.3 billion
Participants	AIG, FRBNY

In September 2008, the American International Group (AIG) faced increasing pressure to return cash collateral to counterparties looking to terminate, rather than roll over, their securities lending agreements (*US COP 2010 – pp. 68*). The company faced difficulty meeting these obligations because it had invested the collateral into non-agency residential mortgage-backed securities (RMBS), which were becoming illiquid (*McDonald and Paulson 2015 – pp. 86*). In October 2008, the Federal Reserve Bank of New York had provided AIG with $20.6 billion in cash through a Securities Borrowing Facility.[4] But AIG's life insurance subsidiaries had retained the distressed and illiquid residential mortgage-backed securities (RMBS) into which AIG had reinvested those counterparties' cash collateral (*US COP 2010 – pp. 68-71*).

On November 10, 2008, the Federal Reserve Board and the U.S. Treasury announced the first restructuring of federal financial support for AIG (*AIG RMBS LLC Facility: Terms and Conditions*). Among other provisions, the updated arrangement allowed for the establishment of a special purpose vehicle (SPV) in the form of a limited liability company to be named "Maiden Lane II" that would purchase those securities from AIG (*AIG RMBS LLC Facility: Terms and Conditions*) (*US COP 2010 – pp. 71*) (*McDonald and Paulson 2015 – pp. 84*).

The Federal Reserve Board (under Section 13(3) of the Federal Reserve Act) authorized the Federal Reserve Bank of New York (FRBNY) to lend a maximum of $22.5 billion to Maiden Lane II to acquire the RMBS (*AIG RMBS LLC Facility: Terms and Conditions*). On December 12, 2008, Maiden Lane II borrowed approximately $19.5 billion from the FRBNY in order to purchase from AIG a bundle of RMBS with a total fair market value of $20.5 billion, a 49% discount to their par value of $39.3 billion (as of October 31, 2008) (*Maiden Lane Transactions*). Proceeds from the establishment of ML II were used to refund the cash collateral posted by the FRBNY in its assumed role as counterparty under the Securities Borrowing Facility (*AIG RMBS LLC Facility: Terms and Conditions*). The AIG securities lending program and the associated Securities Borrowing Facility were thereby terminated (*AIG RMBS LLC Facility: Terms and Conditions*).

[4] See Buchholtz, Engbith, and Jeffereis 2019 for more information on AIG's Securities Borrowing Facility (SBF)

In March 2011, the FRBNY announced it would be offering the purchased assets for sale in a series of competitive auctions, which occurred through February 28, 2012, when sales were completed (*New York Fed to Sell Maiden Lane II Assets… 2011) (Maiden Lane Transactions*). Maiden Lane II and its associated operations were terminated on November 12, 2014 (*Maiden Lane Transactions*). In total, the management of ML II would result in a net gain for the benefit of the public of approximately $2.8 billion (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*).

Summary Evaluation

The establishment of Maiden Lane II as a vehicle for the purchase of illiquid RMBS off AIG's balance sheet (and subsequent sale) proved successful in reducing AIG's exposure to the distressed and illiquid RMBS market and arresting related cash demands, which helped it avert further credit-rating downgrades (*Baxter and Dahlgren 2010 – pp. 4*). Still, the intervention was subject to some questions and criticisms regarding the fit of its structure within Section 13(3) of the Federal Reserve Act and the fiscal soundness of lending for investment in risky RMBS (*US COP 2010 – pp. 228*) (*US COP 2010 – pp. 251*) (*McDonald and Paulson 2015 – pp. 103*). However, the ability to avoid firesale prices through a buy and hold strategy allowed the FRBNY to realize a net gain when the assets were sold.

Contents

I. Overview **1**

II. Key Design Decisions **7**

1. Maiden Lane II was created as part of a multi-faceted intervention. 7

2. The Federal Reserve authorized the loan to Maiden Lane II pursuant to its emergency lending authority under Section 13(3) of the Federal Reserve Act. 7

3. Legal and time constraints led the FRBNY to reject alternative options. 8

4. The Fed decided to purchase non-agency RMBS from AIG insurance subsidiaries to alleviate liquidity pressures and cap AIG's losses associated with its securities lending portfolio. 9

5. The Fed created a special purpose vehicle, to purchase the AIG RMBS assets, rather than acquire them directly. 10

6. The FRBNY retained BlackRock Financial Management Inc. as the investment manager along with other outside vendors for various duties. 10

7. AIG was required to invest $1 billion on a junior basis. 11

8. The interest rates for the FRBNY senior loan and AIG's Fixed Deferred Purchase Price were based on the one-month LIBOR. 11

9. BlackRock Financial Management Inc. conducted mid-market pricing estimates of the RMBS, which were used to negotiate purchase prices. 11

10. The FRBNY did not specify a termination date or schedule for the loan, instead it set the term at 6 years with the option for extension. 11

11. ML II assets were sold off at competitive auctions over the course of an unspecified timeframe. 12

12. The FRBNY followed a plan of transparency in disclosing information regarding ML II. 12

III. Evaluation **14**

IV. References **16**

V. Key Program Documents **18**

I. Overview

Background

Prior to the Global Financial Crisis, AIG operated a securities lending program under which its insurance subsidiaries lent out high-quality securities to counterparties in exchange for cash collateral (*McDonald and Paulson 2015 – pp. 85*). That collateral would then be reinvested by a separate arm of AIG (*McDonald and Paulson 2015 – pp. 85*). When counterparties wanted to exit the contracts, it was expected that the investments would be sold to produce cash to repay the collateral (*McDonald and Paulson 2015 – pp. 86*). In the time leading up to September 2008, AIG, primarily through a non-insurance subsidiary called AIG Global Securities Lending (GSL), had been reinvesting its counterparties' cash collateral primarily in the relatively illiquid residential mortgage-backed securities (RMBS) market (which was experiencing increasing strain) instead of the short-term, highly liquid securities usually relied on by securities lending programs (*McDonald and Paulson 2015 – pp. 85*). This resulted in a significant maturity mismatch as most of the securities lending contracts were for a one-month term (*McDonald and Paulson 2015 – pp. 86*). In mid-2008, AIG's counterparties began withdrawing from lending agreements at an accelerated rate as AIG reported growing losses and was subject to credit rating downgrades (*McDonald and Paulson 2015 – pp. 86*). GSL was unable to meet the growing collateral obligations because of losses on its investments and increasing illiquidity (*McDonald and Paulson 2015 – pp. 86-87*).

In response to the critical liquidity situation stemming from securities lending contract withdrawals and other distressed businesses, on September 16, 2008, the Federal Reserve (under Section 13(3) of the Federal Reserve Act) extended to AIG an $85 billion loan in the form of a Revolving Credit Facility (RCF)[5] (*US COP 2010 – pp. 55-57*). However, the credit line proved insufficient in solving AIG's liquidity dilemma (*Baxter and Dahlgren 2010 – pp. 4*). By October 1, 2008, AIG had utilized approximately $62 billion of the RCF, some of which had been used to settle collateral transactions with counterparties returning (rather than rolling over) securities that had been borrowed through the securities lending program (*US COP 2010 – pp. 137*).

Given volatile market conditions and the expectation that counterparties would not want to renew their securities lending contracts, on October 8, 2008, the Federal Reserve Bank of New York (FRBNY) established the Securities Borrowing Facility (SBF)[6] (*US COP 2010 – pp. 68-69*). As part of the agreement, the FRBNY was authorized to extend to AIG subsidiaries an additional amount of credit, up to $37.8 billion. The FRBNY would effectively provide cash collateral to take over the positions of securities borrowers who were returning

[5] See Buchholtz, Lawson, and Wiggins 2019 for more information on AIG's Revolving Credit Facility (RCF)
[6] See Engbith, Buchholtz, and Jeffereis 2019 for more information on AIG's Securities Borrowing Facility (SBF)

investment-grade, fixed-income securities to AIG's life insurance subsidiaries (*US COP 2010 – pp. 68*). The program would bolster AIG's liquidity and allow the FRBNY to hold the borrowed securities as collateral (*US COP 2010 – pp. 68*). However, while the SBF enabled AIG to return cash collateral to its counterparties, the company still had to contend with the falling values of the illiquid non-agency RMBS into which it had invested the cash collateral (*Baxter and Dahlgren 2010 – pp. 4, McDonald and Paulson 2015 – pp. 87*). If AIG had sold the securities under prevailing market conditions, it would have been forced to accept fire-sale prices, resulting in further losses for the firm (*US COP 2010 – pp. 141*).

Program Description

On November 10, 2008, the Fed and Treasury announced the first restructuring of the AIG rescue package *in order to* "establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers" (*FRB and Treasury announce restructuring of financial support to AIG 2008).* Among other actions, the restructuring included "the New York Fed [lending] up to $22.5 billion to a newly formed limited liability company (LLC) to fund the LLC's purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio." The new LLC would be named Maiden Lane II LLC (ML II), and would be a Delaware-based limited liability company characterized as a special-purpose vehicle (SPV) (*US COP 2010 – pp. 228)*. Using the loan from the FRBNY, ML II would purchase non-agency RMBS assets from AIG subsidiaries and hold them for orderly liquidation (*AIG RMBS LLC Facility: Terms and Conditions) (Maiden Lane Transactions*). AIG would use the proceeds received from Maiden Lane II's purchases of RMBS to return the cash collateral posted by the FRBNY in transactions under the SBF, after which the SBF would terminate (*US COP 2010 – pp. 71*).

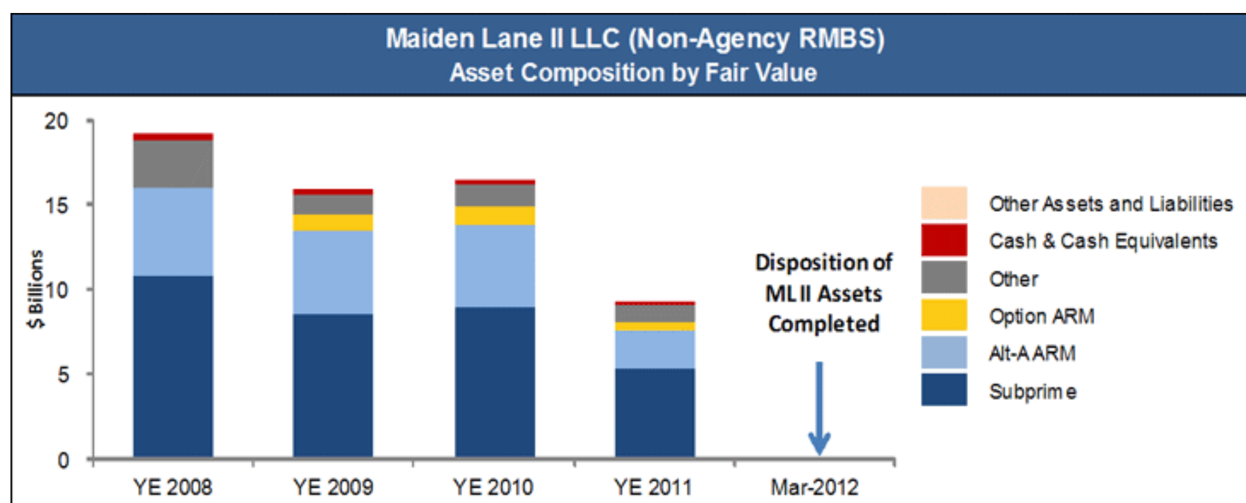
The purchase was financed by a $19.5 billion senior loan[7] from the FRBNY (*Maiden Lane Transactions*). The loan specified a six-year duration that could be extended at the discretion of the FRBNY and an interest rate set at one-month LIBOR plus 100 basis points (2.6% as of December 16, 2008) (*AIG RMBS LLC Facility: Terms and Conditions)*. As part of the agreement, AIG was required to post $1 billion to cover potential losses, also known as the "Fixed Deferred Purchase Price" (*Maiden Lane Transactions*). The AIG contribution would accrue at a rate of one-month LIBOR plus 300 basis points (4.6% as of December 16, 2008) (*AIG RMBS LLC Facility: Terms and Conditions)*.

[7] It was originally thought that a FRBNY loan of $19.8 billion would be needed to purchase the RMBS as the fair market value was first established at $20.8 billion; AIG would contribute $1 billion towards the purchase (the Fixed Deferred Purchase Price) (*Maiden Lane Transactions*). However, due to interest and principal payments occurring between the initial valuation date of October 31, 2008 and the settlement date of December 12, 2008, which inured to AIG, the loan amount was reduced by $.3 billion to $19.5 billion (*Maiden Lane Transactions*).

Payments on the FRBNY loan would be made in monthly installments starting in January 2009, subject to receipt of proceeds from the RMBS portfolio (i.e., the principal interest from amortization of mortgages and other loans underlying the RMBS). Proceeds from the maturity and or sale of the RMBS were to be applied in a waterfall structure starting with any expenses incurred by the LLC, then the outstanding FRBNY loan and interest, and finally AIG's Fixed Deferred Purchase Price and its interest (*AIG RMBS LLC Facility: Terms and Conditions*). Any residual income or remaining funds would be divided among the FRBNY (83%) and AIG (17%) (*AIG RMBS LLC Facility: Terms and Conditions*).

On December 12, 2008, Maiden Lane II purchased RMBS from AIG subsidiaries at an estimated fair market value of $20.5 billion (as of October 31, 2008), par value $39.3 billion (*Maiden Lane Transactions*).

Figure 1: ML II LLC (Non-Agency RMBS) Asset Composition by Fair Value[8]



Source: FRBNY "Maiden Lane Transactions"

Pursuant to an Amended and Restated Investment management agreement entered into by and among FRBNY, BlackRock Financial Management Inc. (BlackRock) and ML II, originally dated December 12, 2008 (and amended and restated August 23, 2010), the FRBNY retained BlackRock to act as investment manager for the ML II assets (*Investment Management Agreement 2010 – pp. 1, 19*). BlackRock's "objective for ML II LLC's portfolio was to repay the New York Fed's senior loan (including principal and interest) while striving to maximize sales proceeds and refraining from disturbing general financial market conditions" (*Maiden Lane Transactions*). BlackRock was able to advise the FRBNY on the valuations of the assets and assist it in selecting those for purchase (*Maiden Lane Transactions*). In accordance with the Investment Management Agreement, specific

[8] The recategorization of assets likely led the Option ARM RMBS balance appearing in YE 2009

individuals in the Investment Support Office (ISO) of the FRBNY were appointed to manage the ongoing relationship with BlackRock and oversee its management of ML II assets (*Investment Management Agreement 2010 – pp. 2*). The ISO officer's responsibilities included acting as point of contact, assessing BlackRock's performance, modifying investment objectives and risk limits, monitoring the risk composition of assets held, and other functions outlined in the Investment Management Agreement (*Investment Management Agreement 2010 – pp. 2-3*). BlackRock was limited to reinvesting cash proceeds from the sale of assets solely in liquid, short-term securities such as U.S. Treasury or agency securities with a remaining maturity of one year or less, U.S. 2a-7 government money market funds, and reverse repurchase agreements collateralized by U.S. Treasury (*Maiden Lane Transactions*). Moreover, when it came time to sell the assets, BlackRock ran the bid list process that was standard in the industry (*New York Fed to Sell Maiden Lane II Assets… 2011*).

FRBNY also hired Bank of New York Mellon, Deloitte and Touche LLP, and Ernst & Young LLP to perform various functions. Bank of New York Mellon acted as administrator and custodian on behalf of ML II. These services included accounting services, report preparation, reconciliation of cash and asset balances, valuation services, and other actions outlined in the Transaction Documents (*Administration Agreement 2008 – pp. 2-7*). Deloitte and Touche LLP was contracted to perform audit services, performing an audit on the annual financial statements for ML II (*Vendor Information*) (*ML II LLC: Financial Statements 2014 – pp. 4-5*). Ernst & Young LLP provided closing work, performing an assessment on the operational and financial close procedures and assisting with the analysis of accounting matters (*Vendor Information*).

Outcomes

The sales of ML II assets and winding-down of the SPV's operations occurred over a three-year period, beginning in 2011. On March 30, 2011, the FRBNY declined AIG's $15.7 billion offer to buy back all of the ML II assets, instead deciding that it would sell the assets in competitive auctions over time (*Roose 2012*).[9] The FRBNY cited the improved conditions in the market for non-agency RMBS and a high level of interest from investors as justification that this strategy would work to both "maximize sale proceeds while also reducing the likelihood that any one institution ends up with concentrated exposure to the assets" (*New York Fed to Sell Maiden Lane II Assets… 2011*). According to a Reuters report at the time, Wall Street investors were also optimistic about the FRBNY's announcement because of rising scarcity value in the RMBS market "and because RMBS [as a class] at loss-adjusted yields near 7 percent are offering higher returns than junk-rated corporate debt. (*Berkowitz and Cook 2011*).

[9] Despite the FRBNY's refusal to sell the entire RMBS portfolio to AIG, it was announced on February 24, 2012 by AIG chief executive officer Robert H. Benmosche that the company had purchased $2.0 billion in ML II assets from "auction winners." (*Roose 2012*).

The process for selling the ML II assets as described by the FRBNY allowed for broad competitive bidding but also permitted firms to make targeted offers for specific groups of assets:

> "BlackRock Solutions will offer the securities for sale using the standard bid list process in the secondary market for RMBS securities. The bid list process involves marketing a list of securities from the portfolio via multiple broker dealers to obtain the best available price for each security.
>
> Over time, the Federal Reserve will also entertain investor inquiries to acquire specific parcels of securities where these offer superior value, though no such bid will be accepted without being put into competition with other interested investors. In such cases, investors may submit offers for parcels of securities directly (without necessarily going through a dealer.)" (*New York Fed to Sell Maiden Lane II Assets… 2011*).

Between April 1, 2011 and June 30, 2011, Maiden Lane II sold approximately $4.7 billion worth of assets to 22 purchasers over nine separate auctions (*Maiden Lane Transactions – Quarterly Review*). On January 19, 2012[10], the FRBNY sold $7.01 billion (face value) of RMBS assets to Credit Suisse Securities (USA) LLC, as a result of a reverse bid process initiated by Goldman Sachs & Co, which lost in the competitive process that involved 4 broker-dealers (*New York Fed Sells $7.014 Billion…of ML II LLC Assets 2012*). On February 8, 2012, the FRBNY announced that Goldman Sachs won the bid among five other broker-dealers to purchase ML II assets totaling $6.2 billion (face value) (*New York Fed Sells $6.2 Billion…of Maiden Lane II LLC Assets 2012*). The sale enabled the repayment of the entire remaining principal balance of the FRBNY loan to ML II in March 2012 (*New York Fed Sells $6.2 Billion…of Maiden Lane II LLC Assets 2012*).

On February 28, 2012, it was announced that Credit Suisse had purchased the remaining $6.0 billion (face value) of ML II assets (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*). Proceeds from this sale and previous sales, as well as cash flows from the RMBS prior to sale, enabled ML II to repay the accrued interest on the FRBNY loan (totaling approximately $580 million) and the AIG Fixed Deferred Purchase Price plus interest, as well as "provide residual income" to be disbursed according to the guidelines set forth in the original agreement (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*). The FRBNY also reported that the sale of assets and repayment of the loan would result in "a net gain for the benefit of the public of approximately $2.8 billion" (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*).

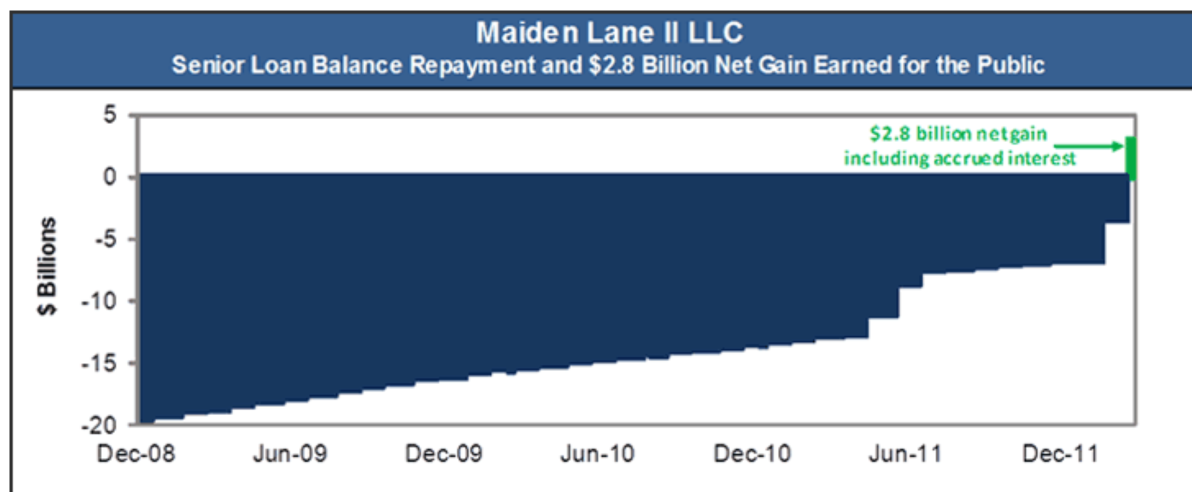
[10] The FRBNY reported no transactions occurring between June 30, 2011 and December 31, 2011.

Figure 2: Sales of Maiden Lane II assets in competitive auction over time

Announcement Date	April 1, 2011 – June 30, 2011	January 19, 2012	February 12, 2012	February 28, 2012
Auction winner	22 Individual Counterparties	Credit Suisse Securities (USA) LLC	Goldman Sachs & Co.	Credit Suisse Securities (USA) LLC
Face Value[11]	$9.96 billion	$7.01 billion	$6.22 billion	$6.02 billion
Cash Proceeds	$4.68 billion	$3.18 billion	$3.53 billion	$3.63 billion
Use of proceeds	Pay down balance of the FRBNY senior loan	Pay down balance of the FRBNY senior loan	Pay off remaining balance of the FRBNY senior loan	Repay interest accrued on the FRBNY senior loan and the AIG junior deferred purchase price plus interest; provide "residual income"

Data from FRBNY "Maiden Lane Transactions"

Figure 3: Senior Loan Balance Repayment and $2.8 Billion Net Gain Earned for the Public



Source: FRBNY "Maiden Lane Transactions"

[11] Note that the face value of these transactions will not sum to original face value of $39.3 billion due to write-downs, matured assets, and interest paid on amortized loans.

On September 15, 2014, all residual funds in ML II were distributed to the FRBNY and AIG, with five-sixths going to FRBNY and one-sixth to AIG, according to the original agreement (*Maiden Lane Transactions*). On November 12, 2014, Maiden Lane II LLC formally ceased to exist as a legal entity after final repayment of all trailing expenses (*Maiden Lane Transactions*).

II. Key Design Decisions

1. Maiden Lane II was created as part of a multi-faceted intervention.

Maiden Lane II was one of a set of government interventions assisting AIG to address its liquidity and capital problems. It was announced alongside Maiden Lane III in November 2008 as a restructuring of government financial support (*Maiden Lane Transactions*). These two SPVs were aimed at removing assets from AIG's balance sheet to address continuing, significant liquidity drains and to improve its capital in the interest of avoiding ratings downgrades (*Baxter and Dahlgren 2010 – pp. 4*). Specifically, ML II was the second action taken by the Fed to address the impact of the AIG securities lending program. The first was the establishment of the SBF in November 2008, which allowed the FRBNY to lend up to $37.8 billion on an overnight basis in exchange for fixed income securities (*US COP 2010 – pp. 68-69*). At that time, it was acknowledged that while the SBF addressed the liquidity issues raised by the securities lending program, the RMBS still posed a problem as they continued to lose value. Thus, ML II was seen as an ultimate solution (Interview with Sarah Dahlgren 2018). In all, AIG-targeted government interventions totaling $182 billion would be funded by the FRBNY and Treasury, including loans, asset purchases, and capital investments (*Massad 2012*).

2. The Federal Reserve authorized the loan to Maiden Lane II pursuant to its emergency lending authority under Section 13(3) of the Federal Reserve Act.

The Federal Reserve Board authorized the FRBNY to make a loan of up to $22.5 billion to fund ML II for the purpose of purchasing the RMBS assets (*FRB and Treasury announce restructuring of financial support to AIG 2008*) (*Maiden Lane Transactions*). This authorization was done pursuant to Section 13(3) of the Federal Reserve Act, the board's emergency lending authority, which had three basic requirements: (i) the Board must determine that "unusual and exigent" circumstances exist, by the affirmative vote of at least five members, (ii) the loans must be secured to the satisfaction of the lending reserve bank, and (iii) the lending reserve bank "must have obtained evidence that adequate credit was not available from other banking institutions" (*Title 12 U.S.C. 343 – pp. 112*). There has been little dispute regarding the first and third criteria.

However, ML II "provides a less straightforward fit with the Federal Reserve's authority under Section 13(3), and in particular the second criteria cited above, because of its more complicated structure," compared with the Fed's use of Section 13(3) for the two previous AIG lending facilities (*US COP 2010 – pp. 228*). Although an SPV is a "person" within the terms of Section 13(3) and thus could be eligible for a loan, the Congressional Oversight

Panel (COP)[12] noted that – "In substance, however, FRBNY was lending money to itself under Section 13(3) and then using the funds to purchase RMBS" (*US COP 2010 – pp. 229*). Despite this structure, undertaken for practical administrative purposes, the Fed Board staff defended the transaction as consistent with Section 13(3) (*US COP 2010 – pp. 229*). It argued that looking through the SPV, the Fed was in essence discounting "each RMBS [which] was itself a promissory note or debt obligation so FRBNY was essentially purchasing a note or debt obligation at a discount (a practice that fits more neatly under its 13(3) lending authority)" (*US COP 2010 – pp. 229*). The Board staff also characterized these transactions as involving a "haircut" because of the difference (almost 50%) between the loan amount (used to purchase the RMBS) and their face value (*US COP 2010 – pp. 229*). The COP did not agree with this characterization, arguing that the loan "did not require a 'haircut' in the normal sense of the term," because "securities lending counterparties were not required to take a haircut or make concessions." Still, COP concluded that because of the great difference in the purchase price and face value of the RMBS, which secured the loan, the FRBNY was justified in finding the loan secured to its satisfaction as required by Section 13(3) (*US COP 2010 – pp. 229*).

3. Legal and time constraints led the FRBNY to reject alternative options.

There were a number of alternatives that aimed to resolve the RMBS issues facing AIG which were considered in the lead-up to the creation of ML II (*GAO-11-616 2011 – pp. 47*). One potential strategy included propping up the insurance subsidiaries and maintaining their credit ratings until their sale (*GAO-11-616 2011 – pp. 47*). This would be achieved through "keepwell" agreements and excess-of-loss reinsurance agreements (*GAO-11-616 2011 – pp. 47*). The "keepwell" agreements would require the Fed to maintain minimum measures for each subsidiary such as capital and net worth, while the excess-of-loss reinsurance would cover situations when subsidiaries failed to make a payment on a claim, subject to certain limitations (*GAO-11-616 2011 – pp. 47*). Although this strategy would insulate the credit rating of the subsidiaries from the credit rating of their AIG parent company, it ran into legal hurdles (*GAO-11-616 2011 – pp. 48*). In particular, there were questions regarding whether the government could protect the value of subsidiaries that were currently acting as collateral for the Revolving Credit Facility (*GAO-11-616 2011 – pp. 48*). There were also concerns regarding whether the Fed could prevent the subsidiaries from being seized by state regulators (*GAO-11-616 2011 – pp. 48*).

[12] The Congressional Oversight Panel (COP) was a standing committee established by the U.S Congress following the implementation of the Troubled Asset Relief Program (TARP) on October 3, 2008 and was dissolved in 2011. The COP was charged with the objective to "review the current state of financial markets and the regulatory system." It was able to hold hearings, review official data, and write reports on actions taken by Treasury and financial institutions and their effect on the economy. (more information can be found *here*)

Ring-fencing subsidiaries by segregating specific assets was considered as well (*GAO-11-616 2011 – pp. 48*). However, it was rejected due to time constraints and lack of a legal framework (*GAO-11-616 2011 – pp. 48*).

4. **The Fed decided to purchase non-agency RMBS from AIG insurance subsidiaries to alleviate liquidity pressures and cap AIG's losses associated with its securities lending portfolio.**

The previous creation of the SBF had alleviated liquidity pressures originating from securities lending counterparties terminating rather than rolling over their contracts. But AIG faced continued exposure to "further declines in the value of the RMBS portfolio (par value approximately $40 billion) purchased with the proceeds of these securities lending transactions" (*Section 129 2008 – pp. 7*). By September 30, 2008, AIG had already suffered approximately $16.5 billion in mark-to-market losses on the RMBS portfolio (*Section 129 2008 – pp. 7*).

In considering how to resolve the problem posed by the RMBS related to AIG's Securities Lending Program, the FRBNY consulted BlackRock, whose analysts concluded that the securities would return a higher value if held over a longer time period (*US COP 2010 – pp. 141*). Although these RMBS were distressed, they were rated AAA and senior tranche in their respective capital structure (*US COP 2010 – pp. 35*). This provided substantial interest and principal income over a longer holding period. As a result, the FRBNY decided to purchase the RMBS from AIG, which resulted in the termination of the Securities Borrowing Facility and permanent relief of related liquidity pressures. Unlike AIG or other financial institutions in distress, the FRBNY did not face intense pressures that would necessitate the fire sale of securities (*US COP 2010 – pp. 141*). Thus, it could bear the risk involved in holding the RMBS for a longer period of time until the market hopefully stabilized.[13]

The RMBS purchased were reviewed and selected by the FRBNY in conjunction with its financial advisor BlackRock Financial Management Inc. (*Maiden Lane Transactions*).[14] In addition to limiting AIG's exposure to the falling values of illiquid RMBS, the creation of ML

---

[13] Even following their purchase by and transfer to ML II, the value of the RMBS underlying transactions made by AIG's insurance subsidiaries kept falling at an alarming rate as real estate prices plummeted and foreclosure numbers soared (*McDonald and Paulson 2015 – pp. 86, 97-98*). Additionally, there was widespread and justifiable anxiety that the assets would continue to suffer losses even after government rescue (*US COP 2010 – pp. 77*). Despite this market pessimism, when the assets were sold in February 2012, the government realized a net profit of $2.8 billion (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*).

[14] A tangential issue arose in 2011 when AIG sued Bank of America (acquirer of Countrywide) on claims of fraud relating to the quality of RMBS that AIG had purchased from Countrywide and later were purchased by ML II (*Stempel 2013*). Bank of America claimed that AIG had lost its right to sue when it sold the assets to ML II, and that any recovery would be double-dipping (*McEvoy 2013*). A U.S. District Court determined in May 2013 that AIG had not transferred certain of its litigation rights to ML II and could pursue claims against Bank of America, causing AIG to drop a lawsuit against the FRBNY over the issue (*Stempel 2013*).

II allowed the FRBNY to meet its objective of helping AIG avoid further credit rating downgrades, which likely would have triggered new rounds of collateral calls from counterparties to other AIG businesses (*US COP 2010 – pp. 141*) (*Baxter and Dahlgren 2010 – pp. 3-4*). The FRBNY senior loan was to be repaid using the cash flow proceeds from the RMBS and proceeds from the sale of assets (*AIG RMBS LLC Facility: Terms and Conditions*).

The Fed established ML II as a legally independent entity to facilitate the acquisition of non-agency RMBS from AIG subsidiaries (*AIG RMBS LLC Facility: Terms and Conditions*). On December 12, 2008, ML II, borrowing $19.5 billion from the FRBNY senior loan and utilizing a $1.0 billion cash contribution posted by AIG in the form of a Fixed Deferred Purchase Price (for a total purchase price of $20.5 billion), acquired $39.3 billion (face value) of RMBS from several of AIG insurance subsidiaries (*Maiden Lane Transactions*).

5. **The Fed created a special purpose vehicle, to purchase the AIG RMBS assets, rather than acquire them directly.**

The Federal Reserve did not possess the authority to purchase the RMBS directly off the balance sheets of AIG insurance subsidiaries (*Title 12 U.S.C. 342 – pp. 111*). It was, however, able to facilitate the senior loan to ML II, a SPV and independent legal entity that it created for that purpose (*AIG RMBS LLC Facility: Terms and Conditions*). Holding the RMBS assets in an independent entity made it easier for the FRBNY to isolate and manage the assets, even though they were consolidated onto the Fed's balance sheet (*US COP 2010 – pp. 228-229*). Although a separate entity, the FRBNY retained all authority to manage the SPV as long as its loan was outstanding (*AIG RMBS LLC Facility: Terms and Conditions*).

6. **The FRBNY retained BlackRock Financial Management Inc. as the investment manager along with other outside vendors for various duties.**

As the controlling party of ML II, the FRBNY was tasked with the day-to-day management of ML II's assets and engaged a number of vendors based on their expertise rather than developing internal departments for each need. However, the FRBNY did increase its internal expertise through targeted hiring in order to assist in decision-making and effectively evaluate recommendations from external vendors. The ISO department, which managed vendor relations, grew from just a few staff to a sizable business unit once all three SPVs were being managed. The FRBNY chose to retain BlackRock Financial Management Inc., which was "acknowledged as an expert in mortgages, loans, structured finance and risk management" to act as investment manager (*Investment Management Agreement 2010 – pp. 1*) (*Maiden Lane Transactions*). Prior to being brought on to work on ML II, BlackRock had already been contracted by the FRBNY to manage ML I[15] and ML III assets (*Anantharaman 2008*).

[15] Maiden Lane I (ML I) was an SPV created in March 2008 to facilitate JPMorgan Chase & Co.'s merger with Bear Stearns Companies Inc.

The FRBNY also hired Bank of New York Mellon as administrator and custodian, Deloitte and Touche LLP as external auditor for annual financial statements, and Ernst & Young LLP to perform closing work (*Administration Agreement 2008 – pp. 2-7*) (*Vendor Information*) (*ML II LLC: Financial Statements 2014 – pp. 4-5*). Although the FRBNY devoted significant attention to the implications of engaging outside vendors, there were a number of potential conflicts of interests that arose between the FRBNY and vendors, which were dealt with on an ad hoc basis (*GAO-11-616 2011 – pp. 122*).

7. **AIG was required to invest $1 billion on a junior basis.**

The volatile state of the financial markets and the uncertainty surrounding the performance of the RMBS purchased by ML II compelled the Fed to require an equity contribution by AIG to cover the first billion dollars in potential losses (*Baxter and Dahlgren 2010 – pp. 4-5*). The Fixed Deferred Purchase Price would only be returned to AIG after the payment of all costs associated with the creation of ML II and repayment of the principal and interest on the FRBNY's senior loan (*AIG RMBS LLC Facility: Terms and Conditions*). It was announced on February 28, 2012, that the AIG contribution had been repaid in full, including accrued interest, using proceeds from the sale of remaining ML II securities (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*).

8. **The interest rates for the FRBNY senior loan and AIG's Fixed Deferred Purchase Price were based on the one-month LIBOR.**

The interest rates calculated on the FRBNY senior loan and AIG's Fixed Deferred Purchase Price referenced the one-month LIBOR (*AIG RMBS LLC Facility: Terms and Conditions*). The FRBNY considered a number of factors when deciding how to set rates for their interventions, including risk and characteristics of the assets being purchased (*GAO-11-616 2011 – pp. 90-91*). Since ML II held securities that paid monthly interest based on the one-month LIBOR, officials felt this was an appropriate rate to use for the loan (*GAO-11-616 2011 – pp. 90-91*).

9. **BlackRock Financial Management Inc. conducted mid-market pricing estimates of the RMBS, which were used to negotiate purchase prices.**

In order to value the RMBS that ML II was planning on purchasing, BlackRock provided mid-market pricing estimates based on projected cashflows from those RMBS (*Asset Purchase Agreement 2008 – pp. 9*). These estimates used assumptions that were agreed upon by both parties and were the basis for negotiations that took place between ML II and AIG regarding the actual purchase price (*Asset Purchase Agreement 2008 – pp. 9*). It is important to note that the mid-market pricing estimates provided by BlackRock may not have reflected the mark-to-market price, in the case that there was a market for the product, due to the illiquid nature of the RMBS market at the time (*Asset Purchase Agreement 2008 – pp. 9*).

10. **The FRBNY did not specify a termination date or schedule for the loan, instead it set the term at 6 years with the option for extension.**

The terms of the loan to ML II specify that the senior loan was intended to be repaid from interest and principal payments received from assets if held to maturity, or the proceeds from their sale (*AIG RMBS LLC Facility: Terms and Conditions*). As previously mentioned, the analysts at BlackRock concluded that the securities would realize more value if held for a longer period of time, this alleviated the risk of potential losses to the taxpayer by undertaking a buy and hold strategy (*US COP 2010 – pp. 141*). If it was determined that liquidation was not the profit-maximizing option, ML II would be able to hold these assets to maturity as the hold-to-maturity proceeds were predicted to be greater than the FRBNY's senior loan (*Baxter and Dahlgren 2010 – pp. 6*). The FRBNY announced its intention to begin liquidating the ML II portfolio on March 30, 2011, citing improved market conditions and investor interest. At this time, it also did not announce a fixed timeline for completing the sale. Rather, it allowed for flexibility in order to maximize return – "There will be no fixed timeframe for the sales and at each stage the Federal Reserve will only transact if the best available bid represents good value for the public." (*New York Fed to Sell Maiden Lane II Assets… 2011*). Sales were completed when the remainder of the assets held by ML II were liquidated on February 28, 2012 (*New York Fed to Sell Maiden Lane II Assets… 2011*) (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*).

11. ML II assets were sold off at competitive auctions over the course of an unspecified timeframe.

On March 30, 2011, it was announced that the FRBNY rejected AIG's initial offer to buy back all of the ML II assets (*New York Fed to Sell Maiden Lane II Assets… 2011*). Instead, the FRBNY pursued a strategy of selling ML II securities "individually and in segments rather than as a single block," which would "give a larger set of investors opportunity to bid for the assets [and] maximize sale proceeds while also reducing the likelihood that any one institution ends up with concentrated exposure to the assets" (*New York Fed to Sell Maiden Lane II Assets… 2011*). The result was that while $9.96 billion was sold in a broad competitive bidding process to 22 bidders, the overwhelming majority of the assets were sold in large blocks to major broker-dealers, resulting in some concentrated exposure to the portfolio (See Figure 2: Sales of Maiden Lane II assets in competitive auction over time). The FRBNY discovered that after an initial positive reaction to individual auctions, the market quickly grew weary of this protracted process. Demand was significantly greater if investors had assurances that they could access larger segments of the portfolio. Therefore, the second set of auctions consisted of large blocks, which remained open and competitive but resulted in greater efficiency and better relative pricing.

The FRBNY finished selling the assets during January and February 2012, realizing a total residual profit of $2.8 billion for the US taxpayer once ML II was terminated on November 12, 2014 (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*) (*Maiden Lane Transactions*).

12. The FRBNY followed a plan of transparency in disclosing information regarding ML II.

Knowing that AIG was due to report a substantial loss for the third quarter on November 10, 2008, the FRBNY made the decision to announce their financial support restructuring on the same day (*US COP 2010 – pp. 138*) (*GAO-11-616 2011 – pp. 53*). Credit agencies had notified the FRBNY that they would likely downgrade AIG in the wake of the disappointing earnings announcement and the potential for ensuing market turmoil led the FRBNY to communicate their plans earlier than they might have otherwise (*GAO-11-616 2011 – pp. 53*). At 6:00am EST on November 10, 2008 the Federal Reserve Board of Governors and Treasury Department issued a press release which outlined a restructuring of financial support to AIG (*FRB and Treasury announce restructuring of financial support to AIG 2008*). This restructuring included purchasing $40 billion of preferred shares in AIG using TARP funds, changes to the terms of the Revolving Credit Facility, and the introduction of ML II and ML III (*FRB and Treasury announce restructuring of financial support to AIG 2008*). The release describes these measures as an attempt to "establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers." (*FRB and Treasury announce restructuring of financial support to AIG 2008*). Announcement of the restructuring preceded its actual implementation by weeks.

In general, the FRBNY took a stance of transparency regarding ML II. It announced developments and progress regularly and provided extensive detail on the assets held. For example, in November 2008, it announced the intent to form ML II and purchase the RMBS from AIG, and on March 30, 2011, it announced its intent to begin selling the assets over time (*FRB and Treasury announce restructuring of financial support to AIG 2008*) (*New York Fed to Sell Maiden Lane II Assets… 2011*). Included in that announcement was a commitment to transparency and to provide information "as soon as is practicable", as well as a detailed communication plan:

> "The New York Fed already publishes on its website a list of all the securities in its portfolio. In order to allow the public to track progress on asset dispositions, the New York Fed will provide monthly updates on portfolio holdings and a list of the securities sold within the prior month. In addition, it will provide quarterly updates on total proceeds from sales, and the total amount purchased by each counterparty. Finally, the New York Fed will provide further details regarding these transactions, including an account showing the acquirer and the price paid for each individual security three months after the last asset is sold, ensuring timely accountability without jeopardizing the ability to generate maximum sale proceeds for the public."[16]

(*New York Fed to Sell Maiden Lane II Assets… 2011*).

[16] This reported data can be found *here*

III. Evaluation

The Fed established Maiden Lane II as a temporary facility whose funding (i.e. the FRBNY senior loan) could be extended indefinitely. Its purpose was to remove distressed and illiquid RMBS from AIG's balance sheet in order to address liquidity issues and relieve rating downgrade pressures arising from their falling values (*Baxter and Dahlgren 2010 – pp. 4-5*). The main objective was therefore met, and ML II profitably sold off the assets in a series of competitive auctions after having held them for approximately four years while the markets stabilized, resulting in a net gain of approximately $2.8 billion (*Baxter and Dahlgren 2010 – pp. 5*) (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*). However, there has been much criticism surrounding both the legality and fiscal soundness of its utilization.

Because of its "complicated structure," as discussed in KDD 4, the Congressional Oversight Panel (COP) in hindsight adjudged the creation of the ML II facility to be a "less straightforward fit with the Federal Reserve's authority under Section 13(3)," compared to the Fed's two earlier loans to AIG. The COP noted that the Fed was "lending money to itself" in order to purchase RMBS, each representing "a promissory note or debt obligation," at a discount (*US COP 2010 – pp. 228-229*). Nevertheless, despite its unusual form, the Panel concluded that the facility was within the parameters of the Fed's Section 13(3) authority (*US COP 2010 – pp. 228-229*). Also, the 2011 GAO Report, while critically considering several elements of the Maiden Lane III facility, does not raise issues regarding Maiden Lane II (*GAO-11-616*).

Still, some have questioned the risks the Fed took in establishing Maiden Lane II for the purpose of purchasing RMBS (*US COP 2010 – pp. 251*) (*McDonald and Paulson 2015 – pp. 99-100*). What at first seemed like an "insightful investment opportunity for the taxpayers," reported the Congressional Oversight Panel, was actually a "fortuitous and unanticipated rebound in the markets" (*US COP 2010 – pp. 251*). In other words, because "most of [the assets purchased] were arguably below junk status…there was no reasonable expectation that the RMBS…markets would turn in the near future" (*US COP 2010 – pp. 251*).

The analysis by McDonald and Paulson (2015) reveals that the ML II assets suffered further write-downs *after* the government sold them to Goldman Sachs and Credit Suisse (*McDonald and Paulson 2015 – pp. 99-100*). At the time of the sales in 2012, they show that 17.5% of ML II securities had been written down since the beginning of ML II, representing a loss of 1.8% for ML II. But the securities experienced further losses. As of October 31, 2014, 36% of the Maiden Lane II securities had experienced write-downs, representing a loss of 5.1% since the beginning of ML II. Further losses appeared possible (*McDonald and Paulson 2015 – pp. 100*). They conclude that the fact that ML securities "suffered write-downs means that we can reject the stark claim that they were 'money good'" at the time ML II was created (*McDonald and Paulson 2015 – pp. 100*).

Despite the assets depressed value, BlackRock and FRBNY analysts concluded in 2008 that the strategy of holding the assets to maturity while collecting interest income and principal repayments would return greater proceeds than ML II's debt to the FRBNY. Additionally, the RMBS were previously rated AAA and senior tranche in their respective capital structure (*US COP 2010 – pp. 35*). These assurances provided additional comfort to the FRBNY regarding its decision to lend to ML II (*Baxter and Dahlgren 2010 – pp. 6*). Ultimately, markets did rebound and ML II was able to liquidate its un-matured assets in February 2012, fully paying back the FRBNY and AIG (*New York Fed Sells Remainder of Maiden Lane II LLC Securities 2012*). In short, according to an analysis by two economists, ML II purchased securities in 2008 for $29.3 billion (at less than 50% of their par value), received $17.1 billion in interest and principal, and sold them for $22.6 billion (50 percent of par), resulting in an overall, nonannualized return of 35.1% (*McDonald and Paulson 2015 – p. 98*).

IV. References

Administration Agreement among Maiden Lane II LLC, Federal Reserve Bank of New York, as Managing Member, and The Bank of New York Mellon, as Administrator. December 12, 2008.
https://www.newyorkfed.org/medialibrary/media/aboutthefed/BNY_Mellon.pdf.

Amended and Restated Investment Management Agreement by and among the Federal Reserve Bank of New York and BlackRock Financial Management Inc. and Maiden Lane II LLC. August 23, 2010.
https://www.newyorkfed.org/medialibrary/media/markets/pdf/ml2_contract_blackrock.pdf.

Anantharaman, Muralikumar. "BlackRock to manage fund of AIG mortgage assets." *Reuters*. December 16, 2008.
https://www.reuters.com/article/blackrock-aig-idUSN1627526720081216.

Asset Purchase Agreement among the Sellers Party Hereto AIG Securities Lending Corp., as AIG Agent American International Group Inc., Maiden Lane II LLC., as Buyer and Federal Reserve Bank of New York, as Controlling Party. December 12, 2008.
https://www.sec.gov/Archives/edgar/data/5272/000095012308017611/y73279exv10w1.htm.

Baxter, Jr., Thomas C. and Dahlgren, Sarah J.: The Federal Reserve Bank of New York's Involvement with the American International Group before the Congressional Oversight Panel, House of Representatives, 111th Cong., 1 (2010).
http://www.bis.org/review/r100528e.pdf.

Berkowitz, Ben and Cooke, Kristina. "Fed rejects AIG bond offer, sets auction plan." *Reuters*. March 30, 2011.
http://www.reuters.com/article/us-fed-aig/fed-rejects-aig-bond-offer-sets-auction-plan-idUSTRE72T77S20110330.

Board of Governors of the Federal Reserve System. *Federal Reserve Board and Treasury Department announce restructuring of financial support to AIG*. November 10, 2008.
https://www.federalreserve.gov/newsevents/pressreleases/other20081110a.htm.

Board of Governors of the Federal Reserve System. "Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Restructuring of the Government's Financial Support to the American International Group." November 10, 2008.
https://www.federalreserve.gov/monetarypolicy/files/129aigrestructure.pdf.

Federal Reserve Bank of New York. "AIG RMBS LLC Facility: Terms and Conditions." Accessed August 24, 2017.
https://www.newyorkfed.org/markets/rmbs_terms.html.

Federal Reserve Bank of New York. "Maiden Lane Transactions." Accessed July 12, 2017. *https://www.newyorkfed.org/markets/maidenlane.html*.

Federal Reserve Bank of New York. *New York Fed Sells $6.2 Billion in Face Amount of Maiden Lane II LLC Assets; New York Fed Loan to be repaid in full*. February 8, 2012. *https://www.newyorkfed.org/newsevents/news/markets/2012/an120208*.

Federal Reserve Bank of New York. *New York Fed Sells $7.014 Billion in Face Value of ML II LLC Assets.* January 19, 2012. *https://www.newyorkfed.org/newsevents/news/markets/2012/an120119.html*.

Federal Reserve Bank of New York. *New York Fed Sells Remainder of Maiden Lane II LLC Securities; Approximately $2.8 Billion Net Gain Generated for U.S. Public from the Portfolio.* February 28, 2012. *https://www.newyorkfed.org/newsevents/news/markets/2012/an120228*.

Federal Reserve Bank of New York. *New York Fed to Sell Maiden Lane II Assets in Competitive Process over Time*. March 30, 2011. *https://www.newyorkfed.org/newsevents/news/markets/2011/an110330*.

Federal Reserve Bank of New York. *Quarterly Review, June 30, 2011.* Accessed at *https://www.newyorkfed.org/markets/maidenlane.html#tabs-3*. (Quarterly Review).

Federal Reserve Bank of New York. "Vendor Information." Accessed September 10, 2019. *https://www.newyorkfed.org/aboutthefed/vendor_information*.

Government Publishing Office. United States Code, Title 12, Banks and Banking. 2007. *https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf*

Lipkin, Michael. "AIG, Others Escape FCA Suit Over $137B Bailout." *Law360.* March 31, 2014. *https://www.law360.com/articles/523628/aig-others-escape-fca-suit-over-137b-bailout*.

Maiden Lane II LLC. "Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report." March 14, 2014. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual13/AR_ML_II_2013_Financial_Statements.pdf*.

Massad, Timothy. U.S. Department of the Treasury: Treasury Notes. *INFOGRAPHIC: Overall $182 Billion Committed to Stabilize AIG During the Financial Crisis is Now Fully Recovered*. September 11, 2012. *https://www.treasury.gov/connect/blog/Pages/aig-182-billion.aspx*

McDonald, Robert and Paulson, Anna. "AIG in Hindsight," The Journal of Economic Perspectives. 29, no. 2 (2015): 81-105.
http://www.jstor.org/stable/24292124.

McEvoy, Ciaran. "Bailout Terms Kill AIG's $11B MBS Suit, BofA Says". *Law360*. January 29, 2013.
https://www.law360.com/articles/411190?scroll=1

Roose, Kevin. "A.I.G. Buys $2 Billion in Maiden Lane Bonds." *The New York Times*. February 24, 2012.
https://dealbook.nytimes.com/2012/02/24/aig-buys-2-billion-in-maiden-lane-bonds/?mcubz=3.

Stempel, Jonathan. "AIG drops a lawsuit versus New York Fed related to bailout." *Reuters*. May 30, 2013.
http://www.reuters.com/article/us-aig-newyorkfed-maidenlane/aig-drops-a-lawsuit-versus-new-york-fed-related-to-bailout-idUSBRE94T11020130530.

U.S. Congress. Congressional Oversight Panel. *June Oversight Report: The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy.* 111th Cong., 2nd sess., June 10, 2010.
https://www.gpo.gov/fdsys/pkg/CPRT-111JPRT56698/pdf/CPRT-111JPRT56698.pdf.

U.S. Government Accountability Office. *FINANCIAL CRISIS: Review of Federal Reserve System Financial Assistance to American International Group, Inc.* GAO-11-616. Washington, DC, 2011.
https://www.gao.gov/assets/590/585560.pdf.

Yale Program on Financial Stability. Interview with Sarah Dahlgren, Former Head of Supervisory Group the Federal Reserve Bank of New York. Yale Program on Financial Stability, March 22, 2018.

V. Key Program Documents

Summary of Program

Federal Reserve Bank of New York. "Actions Related to AIG." Accessed February 1, 2018. *https://www.newyorkfed.org/aboutthefed/aig*.

Federal Reserve Bank of New York. "AIG RMBS LLC Facility: Terms and Conditions." Accessed August 24, 2017. *https://www.newyorkfed.org/markets/rmbs_terms.html*.

Federal Reserve Bank of New York. "Maiden Lane Transactions." Accessed July 12, 2017. *https://www.newyorkfed.org/markets/maidenlane.html*.

Implementation Documents

Administration Agreement among Maiden Lane II LLC, Federal Reserve Bank of New York, as Managing Member, and The Bank of New York Mellon, as Administrator. December 12, 2008.
https://www.newyorkfed.org/medialibrary/media/aboutthefed/BNY_Mellon.pdf.

Amended and Restated Investment Management Agreement by and among the Federal Reserve Bank of New York and BlackRock Financial Management Inc. and Maiden Lane II LLC. August 23, 2010.
https://www.newyorkfed.org/medialibrary/media/markets/pdf/ml2_contract_blackrock.pdf.

American International Group. SEC Form 8-K. December 15, 2008.
https://www.sec.gov/Archives/edgar/data/5272/000095012308017611/y73279e8vk.htm.

Asset Purchase Agreement among the Sellers Party Hereto AIG Securities Lending Corp., as AIG Agent American International Group Inc., Maiden Lane II LLC., as Buyer and Federal Reserve Bank of New York, as Controlling Party. December 12, 2008.
https://www.sec.gov/Archives/edgar/data/5272/000095012308017611/y73279exv10w1.htm.[17]

Legal/Regulatory Guidance

Government Publishing Office. United States Code, Title 12, Banks and Banking. 2007. *https://www.gpo.gov/fdsys/pkg/USCODE-2007-title12/pdf/USCODE-2007-title12.pdf*

Press Releases/Announcements

Board of Governors of the Federal Reserve System. *Federal Reserve Board and Treasury Department announce restructuring of financial support to AIG*. November 10, 2008.
https://www.federalreserve.gov/newsevents/pressreleases/other20081110a.htm.

Federal Reserve Bank of New York. "Maiden Lane II LLC: Bid List Offering." Accessed September 22, 2017.
https://www.newyorkfed.org/markets/MLII/maidenlane.html.

Federal Reserve Bank of New York. *New York Fed Sells $6.2 Billion in Face Amount of Maiden Lane II LLC Assets; New York Fed Loan to be repaid in full*. February 8, 2012.
https://www.newyorkfed.org/newsevents/news/markets/2012/an120208.

---

[17] YPFS is currently attempting to source the Maiden Lane II LLC Credit Agreement and Maiden Lane II LLC Security Agreement

Federal Reserve Bank of New York. *New York Fed Sells $7.014 Billion in Face Value of ML II LLC Assets.* January 19, 2012.
https://www.newyorkfed.org/newsevents/news/markets/2012/an120119.html.

Federal Reserve Bank of New York. *New York Fed Sells Remainder of Maiden Lane II LLC Securities; Approximately $2.8 Billion Net Gain Generated for U.S. Public from the Portfolio.* February 28, 2012.
https://www.newyorkfed.org/newsevents/news/markets/2012/an120228.

Federal Reserve Bank of New York. *New York Fed to Sell Maiden Lane II Assets in Competitive Process over Time*. March 30, 2011.
https://www.newyorkfed.org/newsevents/news/markets/2011/an110330.

Federal Reserve Bank of New York. *Statement Regarding Recent Maiden Lane II Litigation Matters.* March 1, 2013.
https://www.newyorkfed.org/newsevents/statements/2013/0301_2013.

Federal Reserve Bank of New York. *Statement Related to Offer by AIG to Purchase Maiden Lane II LLC*. March 11, 2011.
https://www.newyorkfed.org/newsevents/statements/2011/0311_2011.

Media Stories

Anantharaman, Muralikumar. "BlackRock to manage fund of AIG mortgage assets." *Reuters*. December 16, 2008.
https://www.reuters.com/article/blackrock-aig-idUSN1627526720081216.

Berkowitz, Ben and Cooke, Kristina. "Fed rejects AIG bond offer, sets auction plan." *Reuters*. March 30, 2011.
http://www.reuters.com/article/us-fed-aig/fed-rejects-aig-bond-offer-sets-auction-plan-idUSTRE72T77S20110330.

McAfee, David. "AIG Sues NY Fed Over Right to Billions in RMBS Claims." *Law360*. January 11, 2013.
https://www.law360.com/articles/406817/aig-sues-ny-fed-over-right-to-billions-in-rmbs-claims.

McEnvoy, Claran. "Bailout Terms Kill AIG's $11B MBS Suit, BofA Says." *Law360*. January 29, 2013.
https://www.law360.com/articles/411190?scroll=1.

Rizzetta, Kelly. "AIG Buys Back $2B of Maiden Lane Mortgage Assets." *Law360*. February 24, 2012.
https://www.law360.com/articles/313011?scroll=1.

Roose, Kevin. "A.I.G. Buys $2 Billion in Maiden Lane Bonds." *The New York Times*. February 24, 2012.
https://dealbook.nytimes.com/2012/02/24/aig-buys-2-billion-in-maiden-lane-bonds/?mcubz=3.

Sundar, Sindhu. "AIG's Suit Against NY Fed Temporarily Halted." *Law360*. February 26, 2013.
https://www.law360.com/articles/419007?scroll=1.

Walsh, Mary Williams. "A.I.G. Seeks Approval to File More Bank Suits." *The New York Times*. January 15, 2013.
http://www.nytimes.com/2013/01/16/business/aig-seeks-ability-to-sue-more-banks-over-mortgage-securities.html?mcubz=3.

Walsh, Mary Williams. "A Question for A.I.G.: Where Did the Cash Go?" *The New York Times*. October 29, 2008.
http://www.nytimes.com/2008/10/30/business/30aig.html.

Walsh, Mary Williams. "Claiming Fraud in A.I.G. Bailout, Whistle-Blower Lawsuit Names 3 Companies." *The New York Times*.
http://www.nytimes.com/2011/05/05/business/05aig.html?mcubz=3.

Key Academic Papers

Harrington, Scott E. "The Financial Crisis, Systemic Risk, and the Future of Insurance Regulation," The Journal of Risk and Insurance. 76, no. 4 (2009): 785-819.
http://www.jstor.org/stable/20685274.

McDonald, Robert and Paulson, Anna. "AIG in Hindsight," The Journal of Economic Perspectives. 29, no. 2 (2015): 81-105.
http://www.jstor.org/stable/24292124.

Sjostrom Jr., William K. "Afterword to The AIG Bailout," Wash. & Lee L. Rev. 72, no. 2 (2015): 795-827.
http://scholarlycommons.law.wlu.edu/wlulr/vol72/iss2/7.

Sjostrom Jr., William K. "The AIG Bailout," Wash. & Lee L. Rev. 66, no. 3 (2009): 944-991.
http://scholarlycommons.law.wlu.edu/cgi/viewcontent.cgi?article=1062&context=wlulr.

Wiggins, Rosalind and Metrick, Andrew. 2015. "The Federal Reserve's Financial Crisis Response: Lending & Credit Programs – American International Group." YPFS Case Study 2015-XB-v1. Yale Program on Financial Stability, Yale University.

Reports/Assessments

Baxter, Jr., Thomas C. and Dahlgren, Sarah J.: The Federal Reserve Bank of New York's Involvement with the American International Group before the Congressional Oversight Panel, House of Representatives, 111th Cong., 1 (2010). *http://www.bis.org/review/r100528e.pdf*.

Board of Governors of the Federal Reserve System. "Lending in Support of Specific Institutions." Monthly Report on Credit and Liquidity Programs, December 2011. *https://www.federalreserve.gov/monetarypolicy/clbs-lending-in-support-of-specific-instiutions-201112.htm*.

Board of Governors of the Federal Reserve System. "Periodic Report Pursuant to Section 129(b) of the Emergency Economic Stabilization Act of 2008: Update on Outstanding Lending Facilities Authorized by the Board Under Section 13(3) of the Federal Reserve Act." February 25, 2009. *https://www.federalreserve.gov/monetarypolicy/files/129periodicupdate02252009.pdf*.

Board of Governors of the Federal Reserve System. "Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Restructuring of the Government's Financial Support to the American International Group." November 10, 2008. *https://www.federalreserve.gov/monetarypolicy/files/129aigrestructure.pdf*.

Congressional Research Services. *Ongoing Government Assistance for American International Group (AIG)*, by Baird Webel. Report 7-5700. Washington, D.C., March 18, 2010. *https://www.everycrsreport.com/files/20100318_R40438_ba7ad3756e59f0f05d5f8fde6dbbad70e99cd859.pdf*.

Federal Reserve Bank of New York. *Quarterly Review, June 30, 2011.* Accessed at *https://www.newyorkfed.org/markets/maidenlane.html#tabs-3*. (Quarterly Review).

Federal Reserve Bank of New York. "Vendor Information." Accessed September 10, 2019. *https://www.newyorkfed.org/aboutthefed/vendor_information*.

Geithner, Timothy F. "Secretary Written Testimony before the House Committee on Oversight and Government Reform," U.S. Senate, Washington. January 27, 2010. https://www.treasury.gov/press-center/press-releases/Pages/tg514.aspx.

Kohn, Donald. L. "Testimony on American International Group Before the Committee on Banking, Housing, and Urban Affairs," U.S. Senate, Washington. March 5, 2009. *https://www.federalreserve.gov/newsevents/testimony/kohn20090305a.htm*.

Maiden Lane II LLC. "Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report." March 22, 2011. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual10/MLII_31811.pdf*.

Maiden Lane II LLC. “Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors’ Report.” March 20, 2012. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual11/AR_ML_II_2011_Financial_Statements.pdf*.

Maiden Lane II LLC. “Financial Statements as of and for the Years Ended December 31, 2012 and 2011 and Independent Auditors’ Report.” March 14, 2013. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual12/AR_ML_II_2012_Financial_Statements.pdf*.

Maiden Lane II LLC. “Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors’ Report.” March 14, 2014. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual13/AR_ML_II_2013_Financial_Statements.pdf*.

Maiden Lane II LLC. “Financial Statements for the Period October 31, 2008 to December 31, 2008, and Independent Auditors’ Report.” April 2, 2009. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual08/MaidenLaneIIfinstmt2009.pdf*.

Maiden Lane II LLC. “Financial Statements for the Year Ended December 31, 2009, and for the Period October 31, 2008 to December 31, 2008, and Independent Auditors’ Report.” April 21, 2010. *https://www.newyorkfed.org/medialibrary/media/aboutthefed/annual/annual09/ar09_MLII_LLC.pdf*.

Massad, Timothy. U.S. Department of the Treasury: Treasury Notes. *INFOGRAPHIC: Overall $182 Billion Committed to Stabilize AIG During the Financial Crisis is Now Fully Recovered*. September 11, 2012. *https://www.treasury.gov/connect/blog/Pages/aig-182-billion.aspx*

Special Inspector General for the Troubled Asset Relief Program. “AIG Remains in TARP as TARP’s Largest Investment.” Quarterly Report to Congress, July 25, 2012. *https://www.sigtarp.gov/Audit%20Reports/AIG_Remains_in_TARP_Mini_Book.pdf*.

The Financial Crisis Inquiry Commission. *The Financial Crisis Inquiry Report*. Washington, D.C.: U.S. Government Printing Office, 2011. *https://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf*.

U.S. Congress. “AMERICAN INTERNATIONAL GROUP’S IMPACT ON THE GLOBAL ECONOMY: BEFORE, DURING, AND AFTER FEDERAL INTERVENTION.” Serial No. 111-15. Washington, DC, March 18, 2009. https://www.gpo.gov/fdsys/pkg/CHRG-111hhrg48868/pdf/CHRG-111hhrg48868.pdf.

U.S. Congress. Congressional Oversight Panel. *June Oversight Report: The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy.* 111th Cong., 2nd sess., June 10, 2010. *https://www.gpo.gov/fdsys/pkg/CPRT-111JPRT56698/pdf/CPRT-111JPRT56698.pdf*.

U.S. Government Accountability Office. *FEDERAL RESERVE SYSTEM: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance.* GAO-11-696. Washington, DC, 2011.
http://www.gao.gov/new.items/d11696.pdf.

U.S. Government Accountability Office. *FINANCIAL CRISIS: Review of Federal Reserve System Financial Assistance to American International Group, Inc.* GAO-11-616. Washington, DC, 2011.
https://www.gao.gov/assets/590/585560.pdf.

U.S. Government Accountability Office. *TROUBLED ASSET RELIEF PROGRAM: Status of Government Assistance Provided to AIG.* GAO-09-975. Washington, DC, 2009.
http://www.gao.gov/new.items/d09975.pdf.

U.S. Government Accountability Office. *TROUBLED ASSET RELIEF PROGRAM: The Government's Exposure to AIG Following the Company's Recapitalization.* GAO-11-716. Washington, DC, 2011.
http://www.gao.gov/new.items/d11716.pdf.