

**From:** thomas baxter/ny/frs;nsf;thomas.baxter@ny.frb.org;smtp  
**Sent:** Tue Sep 16 2008 14:15:59 EDT  
**To:** scott.alvarez/board/frs@board;rich.ashton/board/frs@board;  
**Subject:** Fw: Revised AIG Term Sheet

Here it is.

Thomas C. Baxter, Jr.  
General Counsel and Executive Vice President  
Federal Reserve Bank of New York  
----- Forwarded by Thomas Baxter/NY/FRS on 09/16/2008 02:12 PM -----

Helen Ayala/NY/FRS  
09/16/2008 02:14 PM

To  
Thomas Baxter/NY/FRS@FRS  
cc

Subject  
Re: Revised AIG Term Sheet

"Smith, Bradley Y." <bradley.smith@dpw.com>  
09/16/2008 02:08 PM

To  
<Jeremiah.Norton@do.treas.gov>, <bob.scully@morganstanley.com>,  
<ruth.porat@morganstanley.com>, <daniel.simkowitz@morganstanley.com>,  
<kevin.j.ryan@morganstanley.com>, <peter.juhas@morganstanley.com>, <helen.ayala@ny.frb.org>  
cc

"Huebner, Marshall S." <marshall.huebner@dpw.com>, "Bernstein, Donald S."  
<donald.bernstein@dpw.com>, "James, Ethan T." <ethan.james@dpw.com>, "Heckart, Robert L."  
<robert.heckart@dpw.com>, "Kyrwood, Jason" <jason.kyrwood@dpw.com>, "Resnick, Brian M."  
<brian.resnick@dpw.com>  
Subject  
Revised AIG Term Sheet

*Attorney-Client Communication*

Regards,

Bradley Y. Smith  
Davis Polk & Wardwell  
450 Lexington Avenue  
New York, New York 10017  
212-450-4310 (T)  
212-450-3310 (F)

To ensure compliance with requirements imposed by the IRS, we inform you that, unless explicitly provided otherwise, any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

From: Fleming, Elizabeth  
Sent: Tuesday, September 16, 2008 1:59 PM  
To: Smith, Bradley Y.  
Subject: Workshare Professional Document Distribution

Attached are the Clean and Blackline documents.

The following files have been attached to this mail by Workshare Professional...

2008\_09\_16 Term Sheet.doc ( Microsoft Word Document )  
DV\_Comparison\_2008\_09\_16 Term Sheet.080916\_1316-2008\_09\_16 Term Sheet.rtf ( Rich Text Format )



2008\_09\_16 Term Sheet.doc DV\_Comparison\_2008\_09\_16 Term Sheet.080916\_1316-2008\_09\_16 Term Sheet.rtf

**Summary of Terms for  
Senior Bridge Facility  
("Agreement")**

**September [ ], 2008**

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*This Summary of Terms is not intended to be legally binding on any person or entity, nor is it intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Any binding agreement with respect to the matters referred to herein shall be evidenced by appropriate documentation, executed by the applicable parties.*

*This Summary of Terms shall not constitute an offer to sell, nor the solicitation of an offer to buy, any security or instrument referred to herein.*

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**Lender:** The Federal Reserve Bank of New York ("NY Fed" or "Purchaser")

**Borrower:** American International Group, Inc. ("AIG" or the "Borrower")

**Guarantors:** Each of the Borrower's present and future Material Subsidiaries (the "Guarantors" and, together with the Borrower, the "Loan Parties") will guarantee (a "Guarantee") the Borrower's obligations under the Facility, up to the maximum amount possible without violating applicable fraudulent conveyance laws and, in the case of ILFC and AGF entities, without violating their material debt instruments. "Material Subsidiaries" means any subsidiary (other than an Excluded Subsidiary) that owns (i) total assets in excess of \$\_\_\_\_\_ or (ii) equity interests in or indebtedness of any other Material Subsidiary. "Excluded Subsidiary" means any (i) regulated insurance subsidiary, (ii) subsidiary of a regulated insurance subsidiary, (iii) foreign subsidiary or (iv) securitization SPV.

**Facility:** NY Fed will commit (the "Commitment") to make available to AIG, from time to time as set forth below, a revolving credit facility in the amount of [\$85 billion]. In consideration of the Commitment, AIG will issue to [U.S. Treasury] upon entering into the Agreement the Warrants described below.

**Closing Date:** Demand Note / Interim Bridge to be discussed in context of draft Senior Bridge Facility Agreement

**Security Package:** The Facility will be secured by perfected liens on all personal property of the Borrower and each Guarantor, including, but not

limited to, receivables, inventory, equipment, licenses, patents, brand names, trademarks, contracts, securities, except that (i) [no more than 66% of the voting stock of any foreign voting subsidiary will be pledged,] (ii) no voting stock of any Designated Subsidiary (as defined in the Borrower's 1989 Indenture or; the bank credit agreements) will be pledged and (iii) any pledge by ILFC or AGF entities will be subject to the limits in their material debt instruments.

<b>Warrants:</b>	Warrants for the purchase of common stock of AIG representing 79.9% of the common stock of AIG on a fully-diluted basis
<b>Periodic Commitment Fee:</b>	Prior to Shareholder Approval of the increase in authorized shares, 2.5% payable in kind every 3 months after closing. After Shareholder Approval, 50bp every 3 months after closing.
<b>Drawn Interest Rate:</b>	Floating rate 3M Libor + 850 with a 3.5% Libor floor per annum PIK
<b>Undrawn Fee:</b>	850 bps per annum PIK
<b>Maturity Date:</b>	18 months from closing.
<b>Default Rate:</b>	If a Default has occurred and is continuing, all amounts due under the Facility shall bear interest at 2% above the rate otherwise applicable thereto.
<b>Rate Basis:</b>	All per annum rates shall be calculated on the basis of a year of 360 days for actual days elapsed.
<b>Commitment Fee:</b>	3.00% of the total Facility, payable on the Closing Date.
<b>Contingent Mandatory Prepayments:</b>	<p>The following amounts will be applied to prepay the outstanding principal of the Loans.</p> <ol style="list-style-type: none"><li>1. 100% of the net proceeds from the issuance or other incurrence of indebtedness by the Loan Parties;</li><li>2. 100% of the net proceeds from the issuance of equity or other securities by the Borrower; and</li><li>3. 100% of the net proceeds from asset sales by, and of the proceeds of casualty insurance, condemnation awards and similar recoveries received by, the Loan Parties;</li></ol> <p>subject in each case to customary exceptions and other limitations</p>

and exclusions to be agreed.

**Initial Conditions:**

The availability of the Facility shall be conditioned upon satisfaction of, among other things, the following conditions precedent (the date upon which all such conditions precedent shall be satisfied, the "Closing Date"):

- (a) Payment of fees and expenses.
- (b) The Borrower shall have executed and delivered satisfactory definitive financing documentation with respect to the Facility (the "Credit Documentation").
- (c) The accuracy of all representations and warranties in the Credit Documentation;
- (d) There being no default or event of default in existence at the time of, or after giving effect to the making of, such extension of credit.
- (e) Creation and perfection of security arrangements to the satisfaction of the Lenders.
- (f) All governmental and third party approvals necessary or, in the discretion of the Lenders, advisable in connection with the financing contemplated hereby and the continuing operations of the Borrower and its subsidiaries shall have been obtained and be in full force and effect.
- (g) The Lenders shall have received such legal opinions, documents and other instruments as are customary for transactions of this type or as they may reasonably request.
- (h) Satisfactory corporate governance arrangements.

**Certain Documentation Matters:**

The Credit Documentation shall contain representations, warranties, covenants and events of default customary for financings of this type and other terms deemed appropriate by the Lender, including, without limitation:

**Representations and Warranties:**

Financial statements; absence of undisclosed liabilities; no material adverse change; corporate existence; compliance with law; corporate power and authority; enforceability of Credit Documentation; no conflict with law or contractual obligations; no material litigation; no default; ownership of property; liens; intellectual property; no burdensome restrictions; taxes; Federal Reserve reg-

ulations; ERISA; Investment Company Act; subsidiaries; collateral environmental matters; accuracy of disclosure.

**Affirmative Covenants:** Delivery of financial statements, reports, accountants' letters, projections, officers' certificates and other information requested by the Lenders; payment of other obligations; continuation of business and maintenance of existence and material rights and privileges; compliance with laws and material contractual obligations; maintenance of property and insurance; maintenance of books and records; right of the Lender (and third party experts retained by it at the expense of the Borrower) to inspect property and books and records; notices of defaults, litigation and other material events; future subsidiaries; and compliance with environmental laws.

**Financial Covenants:** TBD.

**Negative Covenants:** Limitations on: indebtedness (including preferred stock of subsidiaries); liens; guarantee obligations; mergers, consolidations, liquidations and dissolutions; sales of assets; leases; dividends and other payments in respect of capital stock (no common dividends); capital expenditures; investments, loans and advances; optional payments and modifications of other debt instruments; transactions with affiliates; sale and leasebacks; changes in fiscal year; negative pledge clauses; and changes in lines of business.

Additional restrictions to be agreed.

**Events of Default:** Nonpayment of principal when due; nonpayment of interest, fees or other amounts; material inaccuracy of representations and warranties; violation of covenants; cross-default; loss of lien perfection or priority or unenforceability of Guarantees; bankruptcy events; certain ERISA events; material judgments; and a change of control (the definition of which is to be agreed).

**Expenses and Indemnification:** The Borrower shall pay (a) all reasonable out-of-pocket expenses of the Lender associated with the preparation, execution, delivery and administration of the Credit Documentation and any amendment or waiver with respect thereto (including the reasonable fees, disbursements and other charges of counsel) and (b) all out-of-pocket expenses of the Lender (including the fees, disbursements and other charges of counsel) in connection with the enforcement of the Credit Documentation.

The Lender (and its affiliates and their respective officers, directors, employees, advisors and agents) will have no liability for, and will be indemnified and held harmless against, any loss, lia-

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bility, cost or expense incurred in respect of the financing contemplated hereby or the use or the proposed use of proceeds thereof (except to the extent resulting from the gross negligence or willful misconduct of the indemnified party).

**Governing Law and  
Forum:**

State of New York.

**Counsel to the  
Lender:**

Davis Polk & Wardwell.

**Summary of Terms of Warrants**

<b>Issuer:</b>	American International Group, Inc. ("AIG")
<b>Exercise Price:</b>	Lowest possible price per share ([ ], subject to ability of the board to determine vs. shareholder vote)
<b>Shares issuable upon exercise:</b>	79.9% of the common stock of AIG subject to Shareholder Approval
<b>Shareholder Approval</b>	Required to issue stock above authorized by unissued shares
<b>Exercise Terms:</b>	The Warrants may be exercised in whole or in part at any time during the period commencing on the date of issuance and ending on the 10th anniversary of the date of the Senior Revolving Bridge Facility.
<b>Anti-Dilution Protections:</b>	Customary and appropriate adjustments to be made to the exercise price and/or number of shares issuable in the event of stock distributions, stock dividends, issuances of common stock below a specified price, and similar corporate events.
<b>Transferable:</b>	[freely transferable]



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("Agreement")**

September [ ], 2008

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