Regulatory Reform

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American International Group (AIG), Maiden Lane II And III

Background
American International Group (AIG) is a large, diversified financial services company that, as of June 30, 2008, reported consolidated total assets of slightly more than $1 trillion. During the months prior to September 2008, short-term funding markets had come under severe stress, placing significant liquidity pressures on AIG that hindered its ability to obtain adequate funding from banking institutions or in the market, and threatened to prompt a default by the firm.

The potential failure of AIG during the financial crisis posed significant systemic risks: AIG's insurance subsidiaries were among the largest in the United States; state and local governments that had lent money to AIG might have suffered losses; retirement plans had purchased insurance from AIG; banks and insurance banks had large exposures to AIG; a default by AIG on its commercial paper likely would have disrupted the entire commercial paper market. These potential disruptions to financial markets and losses by other major financial institutions, at a time when the financial system was already under severe stress, likely would have resulted in a significant further reduction in the availability of credit to businesses and households, worsening the recession.

A range of programs to support AIG were authorized by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, which permitted the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations. The programs are administered by the Federal Reserve Bank of New York (FRBNY). In addition to the programs described below, AIG also obtained funding through the Commercial Paper Funding Facility.

AIG Revolving Credit Facility
On September 16, 2008, the Federal Reserve announced that it would lend to AIG to provide the company with the time and flexibility to execute a plan that would allow it to restructure to maximize its value. Initially, the FRBNY extended a line of credit to AIG for up to $85 billion. The revolving credit facility was established to assist AIG in meeting its obligations as they came due and to facilitate a process under which AIG would sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy.

Initially, under the terms of the agreement, interest was to accrue at a rate of the three-month Libor plus 850 basis points, with a floor of 350 basis points on the three-month Libor. The loan had a two-year maturity, and was collateralized by a substantial portion of the assets of AIG and its primary non-regulated subsidiaries as well as its equity interest in all of the regulated subsidiaries. The loan was expected to be repaid from the proceeds of the sale of the firm's assets. In consideration for the establishment of the credit facility, the AIG Credit Facility Trust, a trust established for the sole benefit of the U.S. Department of the Treasury, received a 79.9 percent equity interest in AIG.

On November 10, 2008, the Federal Reserve and the Treasury announced a restructuring of the government's support for AIG to enhance AIG's ability to repay the credit extension while retaining adequate time to dispose of its assets to achieve favorable returns. As part of the restructuring, the Treasury acquired $40 billion in newly issued preferred stock in AIG, using funding from the Troubled Asset Relief Program (TARP). In addition, the maturity of the loan from the FRBNY was extended to five years, and the maximum amount of credit available under the facility was reduced from $85 billion to $60 billion. The interest rate applicable to outstanding advances on the line was reduced to the three-month Libor plus 300 basis points, and the fee on available, but undrawn funding under the facility was reduced to 75 basis points.

On March 2, 2009, the Federal Reserve and the Treasury announced a second restructuring of the financial assistance to AIG, which included the creation by the Treasury of a new equity capital facility for AIG of up to approximately $30 billion. As part of this restructuring, the terms of the credit facility were again adjusted to remove the 350 basis point floor from the three-month Libor. In addition, the outstanding balance of the credit facility was reduced by approximately $26 billion in exchange for the Federal Reserve's receipt of preferred interest in two of AIG's major life insurance subsidiaries, and the total amount of credit available under the revolving credit facility was reduced from $60 billion to $35 billion.

On September 30, 2010, the FRBNY, AIG, and the Treasury entered into an agreement in principle for a series of integrated transactions to recapitalize AIG, including the repayment of all amounts owed to the FRBNY under the revolving credit facility. In the interim, one of AIG's subsidiaries, American Life Insurance Company (ALICO), was sold to a third party, and another subsidiary, American International Assurance Company Ltd. (AIA), successfully completed an initial public offering (IPO). Initial cash proceeds of these transactions in excess of $26 billion are on deposit in segregated accounts at the FRBNY pending the consummation of the recapitalization plan. The parties are continuing to work on definitive documentation to implement the agreement in principle.

The revolving credit facility was established under the authority of Section 13(3) of the Federal Reserve Act, which permitted the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations.

Securities Borrowing Facility for AIG
As of October 1, 2008, AIG had drawn down approximately $62 billion of the revolving credit facility. As expected, these drawdowns had been used, in part, to settle transactions with counterparties returning securities that had been borrowed from AIG in exchange for cash. In light of the expectation that additional securities borrowing counterparties would decide not to renew their securities borrowing positions with AIG, and the continuing fragile position of the financial markets, on October 8, 2008, the FRBNY was authorized to extend credit to certain AIG subsidiaries in exchange for a range of securities. Under this program, the FRBNY could borrow up to $37.8 billion in investment-grade, fixed-income securities from AIG in return for cash collateral. This program allowed AIG to replenish its liquidity, and the securities served as collateral to protect the FRBNY.

The securities borrowing facility for AIG was discontinued after the establishment of the Maiden Lane II facility, which is discussed in greater detail below. All securities were returned to AIG and all cash collateral was returned to FRBNY. As part of the restructuring announced on November 10, 2008, the FRBNY created Maiden Lane II LLC, and the proceeds from the establishment of the LLC were used to repay in full the securities borrowing arrangement and terminate that program.

The securities borrowing facility was established under the authority of Section 13(3) of the Federal Reserve Act, which permitted the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations.

Maiden Lane II LLC and Maiden Lane III LLC

On November 10, 2008, the Federal Reserve and the Treasury announced a restructuring of the government's financial support to AIG. As part of this restructuring, two new limited liability companies (LLCs), Maiden Lane II LLC and Maiden Lane III LLC, were created. On December 12, 2008, the FRBNY began extending credit to Maiden Lane II LLC, which was formed to purchase residential mortgage-backed security (RMBS) assets from AIG subsidiaries. Details of the terms of the loan are published on the FRBNY website . Maiden Lane II LLC was funded with a $19.5 billion senior loan from the FRBNY and $1 billion from AIG through a contingent purchase price adjustment. The loan extended by the FRBNY is collateralized by the asset portfolio. The proceeds from the assets held by Maiden Lane II LLC are used to repay the loan to the FRBNY, including accrued interest. The loan has a stated six-year term that may be extended at the discretion of the FRBNY. The loan has an interest rate of the one-month Libor plus 100 basis points. Under the terms of the deal, proceeds from the portfolio are paid out in the following order: operating expenses of Maiden Lane II LLC, principal to the FRBNY, interest due to the FRBNY, and deferred payment and interest due to AIG. Any remaining funds will be shared by the FRBNY and AIG, with 5/6 going to the FRBNY.

On November 25, 2008, the FRBNY began extending credit to Maiden Lane III LLC, a limited liability company formed to purchase multi-sector collateralized debt obligations (CDOs) on which AIG had written credit default swap and similar contracts in return for the cancellation of those contracts. Details of the terms of the loan were published on the FRBNY website . Maiden Lane III LLC was funded with a $24.3 billion senior loan from the FRBNY and a $5 billion equity contribution from AIG. The loan from the FRBNY is collateralized by the portfolio of assets. The proceeds from the assets held by Maiden Lane III LLC are used to repay the loan to the FRBNY, including accrued interest. The senior loan was issued with a stated term of six years that may be extended by the FRBNY. The interest rate on the loan is the one-month Libor plus 100 basis points. Under the terms of the deal, payments from the proceeds of the portfolio are made in the following order: operating expenses of Maiden Lane III LLC, principal due to the FRBNY, interest due to the FRBNY, principal due to AIG, and interest due to AIG. Any remaining funds will be shared by the FRBNY and AIG, with 67 percent going to the FRBNY.

The loans to Maiden Lane II LLC and Maiden Lane III LLC were extended under the authority of Section 13(3) of the Federal Reserve Act, which permitted the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations.

Preferred interest in AIA Aurora LLC and ALICO Holdings LLC

On December 1, 2009, the FRBNY received preferred interest in two special purpose vehicles, AIA Aurora LLC and ALICO Holdings LLC, that were formed to hold the outstanding common stock of AIG's largest foreign insurance subsidiaries, American International Assurance Company Ltd. (AIA) and American Life Insurance Company (ALICO). In exchange, the outstanding balance of, and the amount of credit available excluding capitalized interest and fees, under the revolving credit facility was reduced. By establishing the AIA and ALICO SPVs as separate legal entities, these transaction positioned AIA and ALICO for future IPOs or sales.

Authorization to extend credit to AIG's domestic life insurance companies

On March 2, 2009, the Federal Reserve and the Treasury announced another restructuring of the government's support for AIG. As part of the restructuring plan, the Federal Reserve Board authorized the FRBNY to lend up to approximately $8.5 billion in credit to special purpose vehicles (SPVs) that would be established by domestic life insurance subsidiaries of AIG. The SPVs would repay the loans from the net cash flows they receive from designated blocks of existing life insurance policies held by the parent insurance companies. The proceeds of this new credit would be used to repay an equivalent amount of borrowing by AIG under the revolving credit facility established by the FRBNY in September 2008. The amounts lent, the size of the haircuts, and other terms of the loans would be determined based on valuations acceptable to the FRBNY. No credit was extended to AIG under this arrangement.

Data

- AIG Revolving Credit Facility: Excel (109 KB) | Accessible (29 KB ZIP)
  CSV Data (55 KB) | CSV Definitions and Notes (1 KB)
- AIG Securities Borrowing Facility: Excel (58 KB) | Accessible (10 KB ZIP)
  CSV Data (18 KB) | CSV Definitions and Notes (4 KB)
- Maiden Lane II LLC: Excel (32 KB) | Accessible (4 KB ZIP)
  CSV Data (3 KB) | CSV Definitions and Notes (2 KB)
- Maiden Lane III LLC: Excel (32 KB) | Accessible (4 KB ZIP)
  CSV Data (3 KB) | CSV Definitions and Notes (2 KB)
- AIA ALICO: Excel (30 KB) | Accessible (4 KB ZIP)
  CSV Data (3 KB) | CSV Definitions and Notes (1 KB)

Visit the Excel viewer for more information. Filter and sort features have been added to the column headers in the Excel spreadsheet to assist you with searching and to allow for the creation of custom datasets. Click on the arrow button in each column header to view and select the different filter and sort features.
Compressed (ZIP) files are available through 7-zip. Download the free 7-zip compression utility

The following information on the AIG revolving credit facility is provided (on a weekly Wednesday basis):

Data Description	
Date	As-of date for data presented
Balance	Total amount of loan outstanding, in millions of dollars
Facility ceiling	Maximum amount available under line of credit, in millions of dollars
Interest rate	The nominal annualized interest rate charged to AIG on the loan amount, in percent
Principal	Component of outstanding balance, in millions of dollars
Capitalized interest	Component of outstanding balance, in millions of dollars
Commitment fees	Fee based on unused amount under line of credit. Component of outstanding balance, in millions of dollars

The following information on AIG Securities Borrowing Facility transactions is provided:

Data Description	
Loan date	The date of the trade
Borrower	AIG Inc. is the borrower in all transactions
Loan amount	The total dollar amount lent by the FRBNY on the particular trade date, in billions of dollars
Interest rate	Interest rate determined pursuant to Master Securities Loan Agreement, which varied according to the type of collateral. The maximum and minimum rates charged on each particular trade date have been included, in percent
Collateral	The total market value with interest of the collateral pledged on the particular trade date, in billions of dollars
UST & Agency	Unsecured debt issued by the U.S. Department of the Treasury, federal government agencies, and government-sponsored enterprises. Includes agency-guaranteed MBS/CMOs, in millions of dollars
Municipal	Securities issued by state and local governments and agencies, in millions of dollars
Corporate	Corporate securities (excluding convertible bonds and equities) and money market instruments, in millions of dollars
MBS/CMO Agency	Mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO) issued by government-sponsored enterprises, in millions of dollars
Funds lent, by entity	Breakdown of dollar amount lent by FRBNY by AIG subsidiary, in millions of dollars

The following information on Maiden Lane II LLC transactions is provided (on a quarterly basis from December 2008 to October 2010):

Data Description	
FRBNY senior loan	Loan from the FRBNY to Maiden Lane II LLC, in millions of dollars
Principal balance (including accrued and capitalized interest)	Total amount of the loan outstanding, including accrued and capitalized interest as of quarter end, in millions of dollars
Accrued and capitalized interest during quarter	Interest on the loan that was accrued and added to the balance of the loan, in millions of dollars
Repayment during quarter	Repayment from proceeds of the portfolio, in millions of dollars
AIG fixed deferred purchase price	As part of the asset purchase agreement, AIG subsidiaries were entitled to receive from Maiden Lane II LLC a fixed deferred purchase price plus interest on the amount. This obligation is subordinated to the senior loan extended by the FRBNY, and it reduced the amount paid by Maiden Lane II LLC for the assets by a corresponding amount Summary of RMBS Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities, Fair Value
Alt-A (ARM)	Residential mortgage-backed securities (RMBS) backed by Alternative-A (Alt-A) adjustable rate mortgages (ARM), in millions of dollars
Subprime	RMBS backed by subprime mortgages, in millions of dollars
Option ARM	RMBS backed by Option ARMs, in millions of dollars
Other	Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of securities in the portfolio, in millions of dollars
Cash and cash equivalents	Holdings of cash or other comparable, short-term, highly liquid assets, in millions of dollars
Other assets	Includes interest and principal receivable and other receivables, in millions of dollars
Other liabilities	Includes accrued expenses and other payables, in millions of dollars
Securities portfolio distribution by credit rating	Based on fair value, and the lowest of all ratings for each security, in percent

The following information on Maiden Lane III LLC transactions is provided (on a quarterly basis from December 2008 to October 2010):

Data Description	
FRBNY senior loan	Loan from the FRBNY to Maiden Lane II LLC, in millions of dollars
Principal balance (including accrued and capitalized interest) as of quarter end	Total amount of the loan outstanding, including accrued and capitalized interest as of quarter end, in millions of dollars
Accrued and capitalized interest during quarter	Interest on the loan that was accrued and added to the balance of the loan, in millions of

	dollars
Repayment during quarter	Repayment from proceeds of the portfolio, in millions of dollars
AIG equity contribution	As part of the asset purchase agreement, AIG purchased a $5 billion equity contribution, which is subordinated to the senior loan extended by FRBNY, in millions of dollars.
Summary of Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities, Fair Value	
High-Grade ABS CDO	High-grade asset-backed security collateralized debt obligations (ABS CDO), in millions of dollars
Mezzanine ABS CDO	Mezzanine asset-backed collateralized debt obligations (ABS CDO), in millions of dollars
Commercial real estate CDO	Commercial real estate-backed collateralized debt obligations (CDO), in millions of dollars
RMBS, CMBS, & Other	Residential mortgage-backed securities (RMBS), commercial mortgage backed securities (CMBS), and other securities, in millions of dollars
Cash and cash equivalents	Holdings of cash or other comparable, short-term, highly liquid asset, in millions of dollars
Other assets	Includes interest and principal receivable and other receivables, in millions of dollars
Other liabilities	Includes accrued expenses and other payables, in millions of dollars
Securities portfolio distribution by credit rating	Based on fair value, and the lowest of all ratings for each security, in percent

The following information on the preferred interest in AIA Aurora LLC and ALICO Holdings LLC is provided:

Data Description	
Date	As-of date for data presented
Preferred interests in AIA Aurora LLC	Book value of preferred interest, in millions of dollars
Accrued dividends on preferred interests in AIA Aurora LLC	Amount of dividends that have been accrued, in millions of dollars
Preferred interests in ALICO Holdings LLC	Book value of preferred interest, in millions of dollars
Accrued dividends on preferred interests in ALICO Holdings LLC	Amount of dividends that have been accrued, in millions of dollars

Last Update: February 12, 2016