

From: Jim Mahoney
To: NY Banksup Core Group
Subject: Fw: AIG update
Date: 09/13/2008 07:38 PM

Sent from my Blackberry.
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From: Patricia Mosser
Sent: 09/13/2008 07:26 PM EDT
To: Alejandro LaTorre/NY/FRS@FRS@NY; Richard Charlton; Tobias Adrian; Jim Mahoney; Catherine Voigts; Adam Ashcraft; Michael Schetzel; Christine Cumming; William Dudley; Terrence Checki; Elise Liebers; Meg McConnell; William Rutledge/NY/FRS@FRS@NY; Brian Peters
Subject: AIG update

2 conversations this afternoon with AIG and NYSID:

AIG:

Frenkel spoke with Kohn , who urged AIG to continue to pursue private sector solutions and asset sales. Noted continued reluctance to do 13-3 lending.

AIG has put together a term sheet for NYSID , which they will be discussing this evening. The term sheet would outline all pieces of liquidity plan, and plans for debt and equity injections , plans for asset sales as well as regulatory forbearance to move assets from subs to parent.

AIG asked our views on whether and how to inform Treasury department of their situation. I have not done so, but wanted to get other input on the best way to do this, if it hasn't been done already.

Suggestions? AIG has not contacted Treasury directly (yet).

NYSID:

Dinallo outlined the same plan that AIG gave us earlier --- ie move muni's from P&C subs to parent, and parent send equity in life insurance subs to the P&C subs in return. There are a number of multi-state regulatory hurdles to this, but Dinallo thinks it is possible to do. Dinallo described P&C companies in NY and PA as having very large capital cushions, and so he thinks that they can accommodate this. He also noted negative consequences in insurance markets in general if AIG goes down (ie cost of insurance is likely be much higher if they file) and negative consequences in muni bond market if GICs default,, so regulatory forbearance can be justified politically. They are very happy to speak with our experts (Elise and team) tomorrow with more details. My impression is that while they are comfortable with the capital dilution at the P&C companies, they are less knowledgeable and comfortable about the equity value of the life companies, so they have work to do on that front.

It was clear from the conversation that JD Flowers is actively involved in working with everyone (AIG, regulators, bankers, etc) in putting together both the "term sheet" with AIG, and providing analysis to NYSID on liquidity profile of the parent company. I'm assuming that they will be involved in any kind of equity infusion. Has anyone here been in contact with Flowers' folks? AIG was under the impression they were talking to us.

Elise, are you and your team available to talk with Dinallo's staff after 9 am tomorrow? Also, could you please coordinate with Board BS&R about their availability?

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