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
April 27, 2009

Overview

The Board of Governors of the Federal Reserve System (the "Board") is providing the following updates concerning the lending facilities established by the Board under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343). This report is the third periodic report filed by the Board pursuant to section 129(b) of the Emergency Economic Stabilization Act of 2008 ("EESA") and provides an update concerning all of the loans and lending facilities authorized by the Board under section 13(3) since March 1, 2008, that are outstanding. These facilities are the:

(1) Term Securities Lending Facility;
(2) Primary Dealer Credit Facility;
(3) Commercial Paper Funding Facility;
(4) Term Asset-Backed Securities Loan Facility;
(5) Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility;
(6) Loan to Maiden Lane LLC to facilitate the acquisition of The Bear Stearns Companies, Inc. ("Bear Stearns") by JPMorgan Chase & Co., Inc. ("JPMorgan Chase"); and
(7) Lending facilities established for American International Group, Inc. ("AIG").

In addition to the credit facilities discussed in this report, the Board also has authorized the establishment of the following credit facilities under section 13(3) of the Federal Reserve Act: the Money Market Investor Funding Facility ("MMIFF"), and certain residual financing arrangements for Citigroup, Inc., and Bank of America Corporation. No loans have been made under these credit facilities to date. If a loan is made under any of these facilities in the future, the Board will file a report with the Committees concerning the facility in accordance with section 129(b) of the EESA.

To increase public understanding of the important activities that the Federal Reserve has taken to help restore the flow of credit to consumers and businesses and protect the stability of the financial system, the Board has established a new section of its public website – entitled "Federal Reserve Credit and Liquidity Programs and the Balance Sheet" – that makes available, at a single location, a wide range of material and information concerning the Federal Reserve's lending facilities, including those established under section 13(3) of the Federal Reserve Act.[1] This website, for example, includes a detailed explanation of the Federal Reserve's balance sheet; descriptions of all of the Federal Reserve's liquidity and credit facilities; discussions of the Federal Reserve's risk management practices; information on the types and amounts of collateral being pledged at the various lending facilities established by the Federal Reserve; links to the 2008 financial statements of the Reserve Banks; and an extensive set of links to related resources. This report and each of the other reports that the Board has filed pursuant to section 129 of the EESA is available to the public through this website.

A. Term Securities Lending Facility

On March 11, 2008, the Board, in conjunction with the Federal Open Market Committee ("FOMC"), established the Term Securities Lending Facility ("TSLF") and authorized the Federal Reserve Bank of New York (the "New York Reserve Bank") to lend under this program. The TSLF is scheduled to terminate on October 30, 2009, unless extended by the Board and the FOMC.

The TSLF generally is intended to promote liquidity in the financing markets for Treasury and other collateral and, in doing so, foster improved functioning of the financial markets more broadly. Under the TSLF, the Federal Reserve auctions term loans of U.S. Treasury securities to primary dealers[2] and accepts a broad range of other securities as collateral. On July 30, 2008, the Federal Reserve established the TSLF Options Program ("TOP") as an extension of the TSLF. Under the TOP, options to draw shorter-term TSLF loans at future dates are auctioned to the primary dealers. All loans under the facility are collateralized by a pledge of other securities deemed eligible collateral by the New York Reserve Bank. Eligible collateral includes (i) all collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk, such as Treasury obligations and debt obligations (including mortgage-backed securities) for which the payment of the principal and interest is fully guaranteed by an

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[1] See http://www.federalreserve.gov/monetarypolicy/bst.htm.

[2] The term "primary dealers" refers to designated banks and securities broker-dealers with which the New York Reserve Bank trades U.S. government securities in conducting open market operations.

agency of the United States, and (ii) investment-grade corporate, municipal, mortgage-backed and asset-backed securities. Collateral is pledged by winning dealers from their clearing bank custodial accounts and valued daily. Additional information concerning the TSLF and TOP is available in the report provided to the Committees on November 3, 2008.

Update. As of April 15, 2009:[3]

- The aggregate par value of Treasury securities lent under the TSLF (including the TOP) was $54.3 billion; and
- The market value of the collateral pledged under the TSLF (including the TOP) was $68.4 billion.

The Board does not anticipate any losses to the Federal Reserve or the taxpayers as a result of securities lending under the TSLF. The potential for losses are mitigated by haircuts on the value of the collateral, daily revaluation of the collateral, and limits on the participation of individual dealers. Moreover, loans extended under this program are with recourse to the borrower beyond the specific collateral pledged.

B. Primary Dealer Credit Facility

On March 16, 2008, the Board established the Primary Dealer Credit Facility ("PDCF") and authorized the New York Reserve Bank to lend under that facility. The PDCF is scheduled to terminate on October 30, 2009, unless extended by the Board.

The PDCF is an overnight loan facility that provides funding to primary dealers secured by collateral eligible for tri-party repurchase agreements in the systems of the major clearing banks. The facility is intended to help address the liquidity needs of primary dealers and foster improved functioning of financial markets more generally. On September 21, 2008, the Board authorized the London-based broker-dealer subsidiaries of Merrill Lynch & Co., Inc. ("Merrill

[3] In order to provide sufficient lead time for preparation and approval of this report prior to its due date, data for the facilities is provided as of April 15, 2009, and is based largely on the data reported in the Board's weekly H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of the Federal Reserve Banks," ("H.4.1 Statistical Release") released on April 16, 2009.

Lynch"), The Goldman Sachs Group, Inc. ("Goldman Sachs"), and Morgan Stanley to borrow from the New York Reserve Bank under the PDCF. In addition, with the separate approval of the applications of Goldman Sachs and Morgan Stanley to become bank holding companies, the Board authorized the New York Reserve Bank to extend credit to the U.S. broker-dealer subsidiaries of these firms under the PDCF against the types of collateral that may be pledged by depository institutions at the Federal Reserve's primary credit facility. The Board authorized the New York Reserve Bank to extend the same collateral arrangement to the U.S. broker-dealer subsidiary of Merrill Lynch, which was acquired by Bank of America Corporation on January 1, 2009. On November 23, 2008, in connection with the other actions taken by the Treasury Department ("Treasury"), the Federal Deposit Insurance Corporation and the Federal Reserve with respect to Citigroup, Inc., the Board authorized the London-based broker-dealer subsidiary of Citigroup, Inc. to borrow from the New York Reserve Bank under the PDCF.

Collateral eligible to be pledged under the PDCF includes all collateral eligible as of September 12, 2008, for pledge in tri-party repurchase agreement transactions through the major clearing banks. Such collateral includes (i) all collateral eligible for pledge in open market operations, such as Treasury obligations and debt obligations (including mortgage-backed securities) for which the payment of the principal and interest is fully guaranteed by an agency of the United States, and (ii) corporate securities, municipal securities, mortgage-backed securities and asset-backed securities that as of September 12, 2008, were eligible for pledge in tri-party repurchase agreement transactions through the major clearing banks. The U.S. broker-dealer subsidiaries of Merrill Lynch, Goldman Sachs, and Morgan Stanley also may borrow against types of collateral that may be pledged by depository institutions at the discount window. Additional information concerning the PDCF, including the expansions described above, is available in the report provided to the Committees on November 3, 2008.

Update. As of April 15, 2009:

- The amount of loans outstanding under the PDCF was $10.4 billion; and
- The market value of the collateral pledged under the PDCF was $11.3 billion.

The Board does not anticipate that lending under the PDCF will result in any losses to the Federal Reserve or the taxpayers. Any loans made under the PDCF are with recourse to the broker-dealer entity beyond the pledged collateral, and the risk of loss is mitigated by daily revaluation of the collateral and haircuts on the collateral value.

C. Commercial Paper Funding Facility

On October 14, 2008, the Board authorized the creation of the Commercial Paper Funding Facility ("CPFF") and authorized the New York Reserve Bank to extend credit under the facility. The CPFF is scheduled to terminate on October 30, 2009, unless extended by the Board.

The CPFF is designed to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle ("SPV") that purchases three-month unsecured and asset-backed commercial paper ("ABCP") directly from eligible issuers. Loans provided to the SPV have a three-month term to match the term of the commercial paper acquired. Additional information concerning the CPFF is available in the report provided to the Committees on October 14, 2008.

Update. As of April 15, 2009:

- The aggregate amount of outstanding advances under the CPFF was $235.2 billion; and
- The value of the collateral pledged under the CPFF, as determined on an amortized cost basis, was $238.4 billion.

The Board does not anticipate that advances made under the CPFF will result in any losses to the Federal Reserve or the taxpayers. All advances to the SPV are made with full recourse to the SPV and are secured by all the assets of the SPV. In addition, in situations where the obligations acquired by the SPV are ABCP, the Federal Reserve's advances are secured by the assets that support the commercial paper. To use the CPFF, each issuer must pay a proportional fee, and all fees are retained by the SPV to provide an additional cushion against losses. In addition, issuers of commercial paper that is not ABCP pay an additional fee, provide acceptable collateral, or have the paper indorsed.

D. Term Asset-Backed Securities Loan Facility

In November 2008, the Board and the Treasury announced the establishment of the Term Asset-Backed Securities Loan Facility ("TALF"). The TALF is designed to catalyze the securitization markets by providing financing to investors to support their purchases of certain AAA-rated asset-backed securities ("ABS").

These markets have historically been a critical component of lending in our financial system, but they have been virtually shuttered since the worsening of the financial crisis in October 2008. By reopening these markets, the TALF will assist lenders in meeting the borrowing needs of consumers and small businesses, helping to stimulate the broader economy.

Under the TALF, the New York Reserve Bank provides non-recourse funding to eligible borrowers owning ABS that is eligible to be pledged as collateral under the facility. On a fixed day each month, borrowers are able to request one or more three-year TALF loans. Loan proceeds are disbursed to the borrower, contingent on receipt by the New York Reserve Bank's custodian bank of the eligible collateral, an administrative fee, and margin, if applicable. TALF loans are non-recourse to the borrower, except for breaches of representations, warranties and covenants, as further specified in the Master Loan and Security Agreement for the TALF. As a loan is non-recourse, if the borrower does not repay the loan, the New York Reserve Bank will enforce its rights in the collateral and sell the collateral to a special purpose vehicle ("SPV") established specifically for the purpose of managing such assets. In order to provide credit protection to the New York Reserve Bank on TALF loans, Treasury, under the Troubled Asset Relief Program, will purchase up to $20 billion of subordinated debt in the SPV. Residual returns from the SPV will be shared between the New York Reserve Bank and Treasury.

The Federal Reserve has developed and made publicly available extensive information describing the structure of the TALF, the manner in which it operates, borrower and collateral eligibility requirements, and the protections that have been put in place to protect the TALF and the taxpayers against credit losses and fraud. This information – including the detailed terms and conditions governing the facility and Frequently Asked Questions about the facility – is available at http://www.newyorkfed.org/markets/talf_terms.html.

Update. On March 3, 2009, the Board and the Treasury announced the launch of the initial phase of the TALF and also released revised terms and conditions for the facility. In this initial phase, the New York Reserve Bank will make up to $200 billion of three-year loans to eligible owners of certain AAA-rated ABS backed by newly or recently originated consumer and small business loans. As noted above, the Treasury will provide up to $20 billion of credit protection to the New York Reserve Bank to support this phase of the TALF.

On March 17, 2009, the New York Reserve Bank began accepting subscriptions under the TALF for funding from eligible owners of newly or recently originated AAA-rated ABS backed by student loans, auto loans, credit card loans and loans guaranteed by the Small Business Administration. This initial subscription period closed on March 19, 2009. The approved loans were settled on March 25, 2009, and on that date Treasury purchased $100 million of subordinated debt of the SPV. The loans supported the issuance of $8.3 billion of credit card and auto ABS. Additional subscriptions and fundings will continue, on a monthly basis under the TALF, through December 2009, or longer if the Board determines to extend the facility.

On March 19, 2009, the Board announced that, beginning with the April 2009 subscription period, the eligible collateral for TALF advances would be expanded to include AAA-rated ABS backed by newly or recently originated mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floorplan loans. The April 2009 subscription period closed on April 7, and the loans were settled on April 14, 2009. The loans supported the issuance of $2.9 billion of credit card and auto ABS.

As of April 15, 2009:

- The amount of loans outstanding under the TALF was $6.4 billion; and
- The value of the collateral pledged under the TALF was $6.9 billion.

In light of the high-credit quality of the ABS collateral that will secure New York Reserve Bank lending under the TALF, the haircuts applied to each type of collateral accepted by the facility, the review that the New York Reserve Bank conducts in connection with TALF lending, and the credit protection provided by the Treasury, the Board currently does not anticipate that lending by the Federal Reserve under the TALF will result in any losses to the Federal Reserve or taxpayers.

<u>Potential Future Expansions</u>. As the Board and the Treasury have announced, the TALF may be further expanded to include new asset categories and to increase the size of the facility to up to $1 trillion. Any expansion of the TALF would be supported by the provision of additional credit protection from the Treasury under the EESA. Teams from the Treasury and Federal Reserve are analyzing the appropriate terms and conditions for accepting commercial mortgage-backed securities ("CMBS") and are evaluating a number of other types of AAA-rated newly issued ABS for possible acceptance under the expanded

program. Other types of securities under consideration include private-label residential mortgage-backed securities, structured financings backed by corporate debt, and other ABS not included in the initial rollout. In addition, the agencies are considering an expansion of the TALF to include "legacy" ABS, that is, ABS that was not newly or recently originated. The expanded program will remain focused on securities that will have the greatest macroeconomic impact and can most efficiently be added to the TALF at a low and manageable risk to the Federal Reserve and Treasury.

E. Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

On September 19, 2008, the Board authorized the creation of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF") and authorized the Federal Reserve Bank of Boston ("Boston Reserve Bank") to lend under the AMLF. The AMLF is scheduled to terminate on October 30, 2009, unless extended by the Board.

The AMLF provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality ABCP from money market mutual funds ("MMMFs") under certain conditions. The program is intended to assist money market funds that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the market for ABCP as well as the market for money market funds more generally. The collateral for loans is the pledged ABCP, which is equal to the amount of the advances. Additional information concerning the AMLF is available in the report provided to the Committees on November 3, 2008.

Update. As of April 15, 2009:

- The aggregate amount of outstanding advances under the AMLF was $2 billion, for which an equal amount of ABCP at amortized cost has been pledged as collateral.

The Board does not expect that advances under the AMLF will result in any realized losses to the Federal Reserve or the taxpayers. The program is limited to ABCP that receives the highest rating from a major credit rating agency. Moreover, the ABCP is supported by the assets backing the paper.

F. Loan to Maiden Lane LLC to facilitate the acquisition by JPMorgan Chase & Company of Bear Stearns

On March 16, 2008, the Board authorized the New York Reserve Bank to make a senior loan to a limited liability company, Maiden Lane LLC ("Maiden Lane"), to acquire $30 billion of identified, less liquid assets of Bear Stearns to facilitate the purchase of Bear Stearns by JPMorgan Chase. As part of the agreement among the parties, JPMorgan Chase lent $1 billion to Maiden Lane that is subordinated for repayment purposes to the New York Reserve Bank's loan. When the loan closed on June 26, 2008, because of adjustments in the values of some of the assets purchased by Maiden Lane from Bear Stearns, the New York Reserve Bank actually lent $28.8 billion to Maiden Lane, and JPMorgan Chase actually lent $1.1 billion to Maiden Lane. The New York Reserve Bank's loan is secured by a first priority security interest in all of the assets of Maiden Lane. Additional information concerning the loan to Maiden Lane is available in the report provided to the Committees on November 3, 2008.[4]

Update. As of April 15, 2009:

- The principal amount of, and accrued interest on, the loan extended by the New York Reserve Bank to Maiden Lane was $28.8 billion and $309 million, respectively; and
- The current fair value of the net portfolio holdings of Maiden Lane as reported on the Board's weekly H.4.1 Statistical Release was $26.4 billion.

Consistent with generally accepted accounting principles ("GAAP"), the portfolio holdings of Maiden Lane are revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold on the measurement date. The fair value reported for April 15, 2009, is based on the revaluations as of December 31, 2008.[5] The fair value determined through these revaluations may fluctuate over time. The fair value of the portfolio holdings that is reported on the weekly H.4.1 Statistical Release also reflects any accrued

[4] The Federal Reserve also extended a bridge loan under section 13(3) to Bear Stearns on March 14, 2008. This loan was repaid in full and with interest on March 17, 2008. Additional information concerning this bridge loan also is available in the report filed with the Committees on November 3, 2008.

[5] The revaluation of the portfolio holdings as of March 31, 2009, currently is underway and has not yet been completed.

interest earnings, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses.

Despite the decline in the current fair value of the collateral, the Board does not anticipate that the loan to Maiden Lane will result in any net loss to the Federal Reserve or taxpayers. The Maiden Lane loan was extended with the expectation that the value of its portfolio would be realized either by holding the assets to maturity or by selling the assets over an extended period of time during which the full value of the assets could be realized. The ten-year term of the loan provides Maiden Lane's asset manager, BlackRock Financial Management, Inc., an opportunity to dispose of the assets in an orderly manner over time. In addition, JPMorgan Chase will absorb the first $1.1 billion of realized losses, should any occur. Moreover, under the terms of the agreement, the New York Reserve Bank is entitled to receive interest payments on the loan to Maiden Lane as well as any residual cash flow generated by the collateral after the loans to the New York Reserve Bank and JPMorgan Chase are repaid.

G. Loans to American International Group, Inc.

AIG is a large, diversified financial services company that, as of September 30, 2008, reported consolidated total assets of slightly more than $1 trillion.[6] AIG operates in four general business lines through a number of subsidiaries: (i) general insurance; (ii) life insurance and retirement services; (iii) financial services; and (iv) asset management. In 2007, the last year for which annual industry data are available, AIG's U.S. life and health insurance businesses ranked first in the United States in terms of net premiums written ($51.3 billion) and third in terms of total assets at year-end ($364 billion). For the same period, AIG's U.S. property and casualty insurance businesses ranked second in the United States in terms of net premiums written ($35.2 billion) and third in terms of total assets at year-end ($123.5 billion). AIG conducts insurance and finance operations in more than 130 countries and jurisdictions and has more than 74 million individual and corporate customers and 116,000 employees globally. In the United States, it has approximately 30 million customers and 50,000 employees, and provides insurance to approximately 180,000 small businesses and other corporate entities, which employ approximately 106 million people in the United States.

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[6] September 30, 2008, is the reporting date closest to the date on which the Federal Reserve's involvement with AIG commenced. As of December 31, 2008, the company's reported total consolidated assets were $860 billion.

In addition to its on-balance-sheet positions, AIG is a major participant in a wide range of derivatives markets through its Financial Services division, and particularly through its AIG Financial Products business unit ("AIGFP"), and is a significant counterparty to a number of major national and international financial institutions. AIG also is a major provider of protection to municipalities, pension funds, and other public and private entities through guaranteed investment contracts and products that protect participants in 401(k) retirement plans. A significant portion of the guaranteed investment agreements and financial derivative transactions entered into by AIGFP include provisions that require AIGFP, upon a downgrade of AIG's long-term debt ratings, to post additional collateral or, with the consent of the counterparties, assign or repay its positions or arrange a substitute guarantee of its obligations by an obligor with higher debt ratings.

Beginning in September 2008, the Federal Reserve and the Treasury have taken a number of steps to prevent a disorderly failure of AIG. A disorderly failure of AIG would likely have led to a further steep decline in confidence in the global banking system and possibly to the collapse of other major financial institutions. At best, the consequences of AIG's failure would have been a significant intensification of an already severe financial crisis and a further worsening of economic conditions. Conceivably, its failure could have triggered a 1930s-style global financial and economic meltdown, with catastrophic implications for production, incomes, and jobs.

As described in the reports previously filed with the Committees, the Board initially authorized the New York Reserve Bank on September 16, 2008, to lend up to $85 billion to AIG under a secured, revolving credit facility (the "Revolving Credit Facility"). In November 2008, the Treasury acquired $40 billion in newly-issued senior preferred stock of AIG and, in conjunction with this investment, the Board authorized the New York Reserve Bank to –

1. Restructure the Revolving Credit Facility by, among other things, reducing to $60 billion from $85 billion the total amount of credit available under the facility;

2. Provide senior secured credit to a newly formed limited liability company, Maiden Lane II, LLC ("ML-II"), to partially fund the acquisition by ML-II from AIG of residential mortgage-backed securities ("RMBS") purchased by AIG with the cash collateral received through the securities lending operations of AIG's regulated insurance

subsidiaries. ML-II commenced operations on December 12, 2008, through the acquisition from AIG of approximately $39.3 billion (par value) of RMBS;[7] and

3. Provide senior secured credit to a separate, newly formed limited liability company, Maiden Lane III, LLC ("ML-III"), to partially fund the acquisition by ML-III from the counterparties of AIG of multi-sector collateralized debt obligations ("CDOs") protected by credit default swaps and similar contracts written by AIG. ML-III commenced operations on November 25, 2008, through the acquisition of approximately $46.1 billion (par value) of multi-sector CDOs. An additional $16 billion (par value) of multi-sector CDOs were acquired by ML-III through additional closings that occurred on December 18, 2008, and December 22, 2008.

Update.

Revolving Credit Facility. As of April 15, 2009, AIG had $45.4 billion in advances outstanding under the Revolving Credit Facility. As discussed in the report filed on November 17, 2008, AIG is unconditionally obligated to repay the unpaid principal amount of all advances under the Revolving Credit Facility, together with accrued and unpaid interest thereon and any unpaid fees, on the maturity date. Also, all outstanding balances under the Revolving Credit Facility are secured by the pledge of assets of AIG and its primary non-regulated subsidiaries, including AIG's ownership interest in its regulated U.S. and foreign subsidiaries.[8] Furthermore, AIG's obligations to the New York Reserve Bank continue to be guaranteed by many of AIG's domestic, nonregulated subsidiaries

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[7] The proceeds received by AIG and its insurance subsidiaries from the establishment of ML-II were used to terminate the securities lending program operated by certain of AIG's regulated insurance subsidiaries. Accordingly, the $37.8 billion securities borrowing facility authorized by the Board for AIG in October 2008 under section 13(3) of the Federal Reserve Act was terminated on December 12, 2008, and all outstanding balances under that facility were repaid in full. During the term of the facility, the Federal Reserve received interest on the loans provided and, as expected, the securities borrowing facility did not result in any losses to the Federal Reserve or the taxpayers.

[8] In the case of foreign subsidiaries, the equity interest the Reserve Bank will accept as collateral is limited to 66 percent ownership in order to avoid adverse tax consequences for AIG or its subsidiaries.

that have more than $50 million in assets.[9] These guarantees themselves are separately secured by assets pledged to the New York Reserve Bank by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time by signing a short supplemental agreement.

The New York Reserve Bank's agreement to provide advances under the Revolving Credit Facility also is specifically conditioned on the Reserve Bank being satisfied in its sole discretion with the nature and value of the collateral securing AIG's obligations at the time of the advance, and on the Reserve Bank being reasonably satisfied in all respects with the corporate governance of AIG. Representatives of the New York Reserve Bank are in regular contact with AIG's senior management and attend all AIG board of directors meetings, including committee meetings, as an observer. The New York Reserve Bank also has staff on-site at AIG to monitor the company's funding, cash flows, use of proceeds and progress in pursuing its global divestiture plan. Control and management of the daily business and operations of AIG and its subsidiaries continue to be vested in the new chairman and chief executive officer of AIG and his management team. These and other provisions protect the interests of the Federal Reserve, the Treasury, and taxpayers in providing for full repayment by AIG of all of its Federal Reserve borrowing. As discussed further below, in March 2009, the Federal Reserve and Treasury took additional actions to stabilize the company and enhance the company's ability to fully repay the assistance provided by the government.

In light of the complexities involved in valuing the extremely broad and diverse range of collateral and guarantees securing all advances under the Revolving Credit Facility, the Board believes any estimate at this time of the aggregate value that ultimately will or may be received from the sale of collateral or the enforcement of the guarantees in the future would be speculative and could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the Revolving Credit Facility. Given the substantial assets and operations supporting repayment of the loan, as well as the equity interest in AIG that Treasury has received, the Board does not expect that the Revolving Credit Facility will result in any net loss to the Federal Reserve or taxpayers.

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[9] Regulated subsidiaries, such as insurance companies, typically are not permitted to provide such guarantees.

Maiden Lane II and Maiden Lane III. As of April 15, 2009:

- The principal amount of, and accrued interest on, the loan extended to ML-II by the New York Reserve Bank was $18.3 billion and $107 million, respectively;
- The current fair value of the net portfolio holdings of ML-II as reported on the Board's weekly H.4.1 Statistical Release was $18.2 billion;
- The principal amount of, and accrued interest on, the loan provided to ML-III by the New York Reserve Bank was $23.5 billion and $147 million, respectively; and
- The current fair value of the net portfolio holdings of ML-III as reported on the Board's weekly H.4.1 Statistical Release was $27.4 billion.

Consistent with GAAP, the portfolio holdings of ML-II and ML-III are revalued as of the end of each quarter to reflect an estimate of what would be received if the assets were sold on the measurement date. The fair value reported for April 15, 2009, is based on the revaluations as of December 31, 2008.[10] The fair value determined through these revaluations may fluctuate over time. The fair values of the portfolio holdings of ML-II and ML-III that are reported on the Board's weekly H.4.1 Statistical Release reflect the most recent valuations of the portfolio holdings of ML-II and ML-III adjusted to reflect any accrued interest earnings, expense payments and, to the extent any may have occurred since the most recent valuation date, realized gains and losses.

Because the collateral assets for the loans to ML-II and ML-III are expected to generate cash proceeds and will be sold over time, the current reported fair values of the net portfolio holdings of ML-II and ML-III do not reflect the amount of aggregate proceeds that the Federal Reserve could receive from payments on the assets or from the sale of the assets of these entities over the extended term of the loans. The collateral will be sold over time in a manner that is orderly and designed to reduce the effects of the unnaturally strong downward market pressures that have been associated with the recent liquidity crisis. In addition, AIG has a $1 billion subordinated position in ML-II and a $5 billion subordinated position in ML-III. These subordinated positions are available to absorb first any loss that ultimately is incurred by ML-II or ML-III, respectively. The Federal Reserve also is entitled to receive interest on the loans to ML-II and ML-III while they are outstanding and 5/6ths and 2/3rds of any residual cash flow generated by

[10] The revaluation of the portfolio holdings as of March 31, 2009, currently is underway and has not yet been completed.

the collateral held by ML-II and ML-III, respectively, after the senior note of the New York Reserve Bank and the subordinated note of AIG are repaid.

Given these protections, the Board does not believe that the extensions of credit to ML-II or ML-III will result in any net cost to the taxpayers resulting from the failure to repay the principal and interest of the senior loans provided by the New York Reserve Bank.

March Restructuring. Despite the actions taken by Treasury and the Federal Reserve, AIG continued to face strong liquidity and capital pressures in the fourth quarter of 2008. On Monday, March 2, 2009, AIG announced a loss of approximately $62 billion for the fourth quarter of 2008, ending a year in which AIG suffered approximately $99 billion in total net losses. As a consequence of increased economic weakness and market disruption, the insurance subsidiaries of AIG, like many other insurance companies, recorded significant losses on investments in the fourth quarter of 2008. Commercial mortgage-backed securities and commercial mortgages experienced especially severe impairment in market value, requiring a steep markdown on the companies' books, despite a lack of significant credit losses on these assets to date.

In light of these and other facts, and as discussed in the report filed on March 9, 2009, the Treasury and the Federal Reserve on March 2, 2009, announced a restructuring of the government's assistance to AIG to help address the capital and liquidity needs of this systemically important institution, facilitate the execution of AIG's global divestiture program in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers. As part of this restructuring, Treasury agreed to create a new equity capital facility for AIG pursuant to which it may obtain up to $30 billion of capital as needed over the 5-year life of the facility in exchange for newly-issued non-cumulative preferred stock. Treasury also exchanged the $40 billion of cumulative perpetual preferred shares that it acquired in November 2008 for preferred shares with revised terms that more closely resemble common equity.

<u>Authorization of Additional Section 13(3) Credit in Connection with the Securitization of Life Insurance Cash Flows</u>. In conjunction with the Treasury's investment, the Board authorized the New York Reserve Bank under section 13(3) of the Federal Reserve Act to extend up to approximately $8.5 billion in credit to SPVs to 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

total amount of principal and interest due to the Federal Reserve on this credit would represent a fixed percentage of the estimated net cash flow from the underlying policies that would flow to the borrowing SPVs. This "buffer" between the amount of the Federal Reserve's credit extension and the net cash flows from the insurance policies will provide the Federal Reserve with security and provide reasonable assurance of repayment.

The proceeds of the new credit extensions to the SPVs will be used by AIG to pay down an equivalent amount of the company's outstanding borrowings under the Revolving Credit Facility. The amounts lent, the percentage subtracted from the par value of the collateral taken by the New York Reserve Bank, and the other terms of the credit to be extended will be determined based on valuations acceptable to the Reserve Bank following due diligence currently being conducted by the Reserve Bank and its advisors.

As of April 15, 2009, no credit had been extended pursuant to this authorization, and the New York Reserve Bank continued to work with its advisors and the company to implement the securitization structure and value the notes to be received by the New York Reserve Bank. In light of the valuation process being conducted by the New York Reserve Bank and its advisors for this credit facility, the buffer that will exist between the estimated net cash flows from the designated blocks of life insurance policies and other expected features of the securitization structure, the Board does not expect at this time that the credit extended under this authorization will result in any loss to the Federal Reserve or the taxpayer.

<u>Other Federal Reserve Actions</u>. In connection with the March restructuring, the Board also authorized a number of additional actions to reduce and restructure AIG's outstanding debt under the Revolving Credit Facility. As part of these actions, the Revolving Credit Facility will be reduced by up to approximately $26 billion in exchange for preferred interests in two SPVs created to hold all of the outstanding common stock of American Life Insurance Company ("ALICO") and American International Assurance Company Ltd. ("AIA"), two life insurance holding company subsidiaries of AIG. In connection with these exchanges, the total amount available under the Revolving Credit Facility will be reduced from $60 billion to $25 billion. In addition, the interest rate payable on outstanding advances under the Revolving Credit Facility, which is 3-month LIBOR plus 300 basis points, has been modified to remove the floor (3.5 percent) on the 3-month LIBOR rate. These actions did not involve the authorization of any additional extension of credit under section 13(3) of the Federal Reserve Act.

Additional information concerning these actions is contained in the report filed by the Board with the Committees on March 9, 2009.