

**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
June 26, 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 fourth 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: (i) the Money Market Investor Funding Facility (“MMIFF”); (ii) certain residual financing arrangements for Citigroup, Inc. and Bank of America Corporation; and (iii) up to \$8.5 billion in financing to special purpose vehicles that may be established by the domestic life insurance subsidiaries of AIG to facilitate the securitization of designated blocks of existing life insurance policies held by such life insurance companies. No loans have been

made under these credit facilities to date.¹ 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.

Monthly transparency reports. On June 10, 2009, the Federal Reserve issued the first of an ongoing series of monthly reports that provide considerable new information on the credit and liquidity programs established by the Federal Reserve, including those authorized under section 13(3) of the Federal Reserve Act. The report, entitled *Federal Reserve Credit and Liquidity Programs and the Balance Sheet*, provides Congress and the public a wide range of data concerning borrowing patterns and collateral under these programs, including the number of borrowers and borrowing amounts by type of institution, collateral by type and credit rating, and data on the concentration of borrowing. This monthly report also includes information on liquidity swap usage by country, quarterly income for important classes of Federal Reserve assets, and asset distribution and other information on the limited liability companies created to avert the disorderly failures of Bear Stearns and AIG.

The new report is part of the Federal Reserve's ongoing efforts to enhance the transparency of its credit and liquidity programs to increase public understanding of the actions the Federal Reserve has taken to stabilize the financial system and to help restore the flow of credit to consumers and businesses. This monthly report is available on the portion of the Board's public website dedicated to the Federal Reserve's credit and liquidity facilities. This portion of the website – entitled "Federal Reserve Credit and Liquidity Programs and the Balance Sheet" – 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.² As Chairman Bernanke has stated, the Federal Reserve will continue to look for opportunities to broaden the scope of information and analysis made available to Congress and the public.

¹ The Board notes that, following the release of the results of the Supervisory Capital Assessment Program, Bank of America Corporation announced on May 7, 2009, that it did not plan to move forward with the residual financing arrangement authorized for the company and the related guarantee protections that would be provided by the Department of the Treasury and the Federal Deposit Insurance Corporation with respect to an identified pool of approximately \$118 billion in assets.

² See <http://www.federalreserve.gov/monetarypolicy/bst.htm>.

Recent extensions and modifications to certain liquidity programs. On June 25, 2009, the Federal Reserve announced extensions of, and modifications to, a number of its liquidity programs. Conditions in financial markets have improved in recent months, but market functioning in many areas remains impaired and seems likely to be strained for some time. As a consequence, to promote financial stability and support the flow of credit to households and businesses, the Federal Reserve extended a number of liquidity facilities established under section 13(3) of the Federal Reserve Act through early 2010. At the same time, in light of the improvement in financial conditions and the reduced use of some facilities, the Federal Reserve trimmed the size and changed the terms of some facilities. The Board and Federal Open Market Committee (“FOMC”) will continue to monitor closely the condition of financial markets and the need for and effectiveness of the Federal Reserve’s special liquidity facilities and arrangements. Should the recent improvements in market conditions continue, the Board and the FOMC currently anticipate that a number of these facilities may not need to be extended beyond February 1, 2010. However, if financial stresses do not moderate as expected, the Board and the FOMC are prepared to extend the terms of some or all of the facilities as needed to promote financial stability and economic growth. The public will receive timely notice of planned extensions, discontinuations, or modifications of Federal Reserve programs. Additional information concerning the effect of these changes on the liquidity facilities covered by this report is provided below.³

A. Term Securities Lending Facility

On March 11, 2008, the Board, in conjunction with the 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 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 dealers⁴ 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.

³ Given the overall improvement in market conditions and the continued availability of the AMLF and CPFF, the scheduled expiration date for the MMIFF (October 30, 2009) was not extended.

⁴ 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.

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 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 June 17, 2009:

- The aggregate par value of Treasury securities lent under the TSLF (including the TOP) was \$15.8 billion; and
- The market value of the collateral pledged under the TSLF (including the TOP) was \$18.9 billion.

In view of the considerable progress to date in deleveraging by primary dealers and dealers' improved access to funding in the market for repurchase agreements, activity at the TSLF has fallen notably. In light of the improvement in financial conditions and the associated reduction in the use of some facilities, on June 25, 2009, the Board, with the approval of the FOMC, approved certain modifications to the TSLF. Effective July 1, 2009, TSLF auctions backed by Schedule 1 collateral (Treasury, agency debt, and agency-guaranteed mortgage-backed securities) will be suspended. The Federal Reserve also suspended the TOP, effective with maturity of the outstanding June TOP loan. TSLF auctions backed by Schedule 2 collateral (Schedule 1 collateral and investment-grade corporate, municipal, mortgage-backed, and asset-backed securities) will be conducted every four weeks, rather than every two weeks as is currently done, and the total amount offered under the TSLF will be reduced to \$75 billion. The Federal Reserve anticipates that the amounts auctioned under the TSLF will be scaled back further over time as permitted by market conditions. However, the Federal Reserve is prepared to resume Schedule 1 TSLF operations and TOP auctions and to increase the frequency of Schedule 2 auctions if warranted by evolving market conditions. The scheduled termination date of the TSLF also was extended from October 30, 2009, to February 1, 2010.

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 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 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. primary 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 also authorized the New York Reserve Bank to extend the same collateral arrangement to the U.S. primary dealer subsidiary of Merrill Lynch.⁵ 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

⁵ Merrill Lynch was acquired by Bank of America on January 1, 2009. In February 2009, Merrill Lynch’s primary dealer subsidiary, Merrill Lynch Government Securities Inc., merged with and into Banc of America Securities LLC and, accordingly, ceased to exist as a separate entity.

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. As noted above, the U.S. primary dealer subsidiaries of certain investment banking firms 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 June 17, 2009, there were no loans outstanding under the PDCF. Despite the current lack of borrowing under the PDCF, the Board believes it appropriate to continue to provide the PDCF as a backstop liquidity facility for primary dealers in the near term, while financial market conditions remain somewhat fragile. Accordingly, on June 25, 2009, the Board extended the scheduled termination date of the PDCF from October 30, 2009, to February 1, 2010.

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 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 June 17, 2009:

- The aggregate amount of outstanding advances under the CPFF was \$127.9 billion; and
- The value of the collateral pledged under the CPFF, as determined on an amortized cost basis, was \$132.0 billion.

In light of the continued fragility in market conditions, the Board on June 25, 2009, determined that it would be appropriate to extend authorization of the CPFF in order to help ensure the access of U.S. businesses to short-term funding. Accordingly, the Board extended the scheduled termination date of the CPFF from October 30, 2009, to February 1, 2010. Interest rates posted on the CPFF are at levels that are increasingly unattractive for many borrowers as market conditions improve, and accordingly use of the CPFF is declining fairly steadily.

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 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 were virtually shuttered after 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 businesses, helping to stimulate the broader economy.

Under the TALF, the New York Reserve Bank will provide up to \$200 billion in 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 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.

On March 3, 2009, the Board and Treasury announced the launch of the initial phase of the TALF. In this initial phase, the New York Reserve Bank will make loans to eligible owners of certain AAA-rated ABS backed by newly or recently originated consumer and small business loans. Fundings occurred in March and April 2009, supporting the issuance of \$11.2 billion of eligible ABS in the aggregate. On March 25, 2009, Treasury purchased \$100 million of subordinated debt of the SPV in support of the TALF.

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 May 1, 2009, the Board announced that, beginning with the June subscription, commercial mortgage-backed securities ("CMBS") and securities backed by insurance premium finance loans will be eligible collateral under the TALF.⁶ The Federal Reserve also authorized TALF loans with

⁶ Prior asset classes authorized as eligible collateral under the TALF include newly or recently originated auto loans, student loans, credit card loans, loans guaranteed by the Small Business Administration, loans or leases relating to business equipment, leases of vehicle fleets, residential mortgage servicing advance receivables, and floorplan loans.

maturities of five years, available for the June funding, to finance purchases of CMBS and ABS backed by student loans or small business loans guaranteed by the Small Business Administration. The Federal Reserve indicated that up to \$100 billion of TALF loans could have five-year maturities and that some of the interest on collateral financed with a five-year loan may be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years.

On May 19, 2009, the Board announced that, beginning with the July subscription, certain high-quality CMBS issued before January 1, 2009 (“legacy CMBS”) would become eligible collateral under the TALF. The Board indicated that eligible newly-issued and legacy CMBS must have at least two AAA ratings from a list of approved rating agencies (DBRS, Fitch, Moody’s Investors Service, Realpoint, or Standard & Poor’s) and must not have a rating below AAA from any of these rating agencies. More broadly, the Board announced that it was formalizing procedures for determining the set of rating agencies whose ratings would be accepted for various types of eligible collateral in the Federal Reserve’s credit programs. The initial subscription date of TALF loans collateralized by newly issued CMBS was June 16, 2009. The subsequent subscription dates for TALF loans collateralized by newly issued and legacy CMBS will be announced in advance. The subscription date for loans collateralized by all other ABS will remain toward the beginning of each month.

Since the last periodic update report filed under section 129(b) of EESA, two additional TALF subscriptions have closed. The May 2009 subscription closed on May 5, and the loans supported the issuance of eight ABS deals worth a total of approximately \$13.6 billion, of which \$10.6 billion was financed through the TALF. The June 2009 subscription closed on June 9, and the loans supported the primary issuance of 13 ABS deals worth a total of approximately \$16.4 billion, of which approximately \$11 billion was financed through the TALF.

Effective June 23, 2009, the Federal Reserve approved revisions to the TALF that, among other things, established a new TALF loan rate for certain student loan ABS. For TALF loans secured by private student loan ABS bearing a prime-based coupon, the interest rate is the higher of 1 percent and the rate equal to “Prime Rate” (as defined in the Master Loan and Security Agreement) minus 175 basis points. Additional information regarding the updated terms and conditions governing the facility and Frequently Asked Questions about the facility is available at http://www.newyorkfed.org/markets/talf_terms.html.

As of June 17, 2009:

- The amount of loans outstanding under the TALF was \$25.2 billion; and
- The value of the collateral pledged under the TALF was \$28.5 billion.

In light of the high-credit quality of the ABS collateral that will secure Federal Reserve 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 Treasury, the Board currently does not anticipate that the Federal Reserve or taxpayers will incur any net loss on the loans extended by the Federal Reserve under the TALF. The TALF is scheduled to terminate on December 31, 2009, unless extended by the Board.

Potential Future Expansions. As the Board and 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 Treasury under the EESA. Teams from Treasury and Federal Reserve 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 was not newly or recently originated. Any 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 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 June 17, 2009:

- The aggregate amount of outstanding advances under the AMLF was \$18.6 billion, for which an equal amount of ABCP at amortized cost has been pledged as collateral.

Although use of the AMLF has declined considerably as market conditions have improved, the Board on June 25, 2009, determined to extend the scheduled termination date for the AMLF from October 30, 2009, to February 1, 2010, in view of the continued fragility in market conditions. To help ensure that the AMLF is used for its intended purpose of providing a temporary liquidity backstop to MMMFs, the Federal Reserve also established a redemption threshold whereby a MMMF would have to experience material outflows – defined as at least 5 percent of net assets in a single day or at least 10 percent of net assets within the prior five business days – before it can sell ABCP that would be eligible collateral for AMLF loans to depository institutions and bank holding companies. Any eligible ABCP purchased from a MMMF that has experienced redemptions at these thresholds could be pledged to AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

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, 2008.⁷

Update. As of June 17, 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 \$334 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 \$25.9 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 in an orderly market on the measurement date. The fair value reported for June 17, 2009, is based on the revaluations as of March 31, 2009. 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 interest earnings, principal repayments, 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

⁷ 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.

opportunity to dispose of the assets in an orderly manner over time and to collect interest on the assets held by Maiden Lane prior to their sale or other disposition. 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.⁸ 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 2008, AIG's U.S. life and health insurance businesses ranked first in the United States in terms of net premiums written (\$52.7 billion) and third in terms of total assets at year-end (\$309.6 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 (\$31.9 billion) and first in terms of total assets at year-end (\$121.3 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.

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

⁸ September 30, 2008, is the reporting date closest to the date on which the Federal Reserve's involvement with AIG commenced. As of March 31, 2009, the company's reported total consolidated assets were \$820 billion.

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 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, 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;⁹ and

⁹ 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

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.

In March 2009, Treasury and the Federal Reserve announced an additional restructuring of the government’s assistance to AIG to help address the capital and liquidity needs of the company, 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.¹⁰ As part of this restructuring, Treasury established a new equity capital facility for AIG pursuant to which AIG 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.

In conjunction with 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 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

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.

¹⁰ Additional information concerning the actions authorized in March is contained in the report filed by the Board with the Committees on March 9, 2009.

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.

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. These actions included a reduction in the Revolving Credit Facility in exchange for preferred interests in two SPVs to be 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. These exchanges did not involve the authorization of any additional extension of credit under section 13(3) of the Federal Reserve Act. The Board also announced that, in connection with these exchanges and the securitization of life insurance cash flows described above, and assuming that such transactions occurred at their maximum authorized value, the maximum available amount under the Revolving Credit Facility would be reduced from \$60 billion to \$25 billion.

Update.

Revolving Credit Facility. As of June 17, 2009, the outstanding balance under the Revolving Credit Facility was \$42.5 billion. 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.¹¹ Furthermore, AIG's obligations to the New York Reserve Bank continue to be guaranteed by many of AIG's domestic, nonregulated subsidiaries that have more than \$50 million in assets.¹² 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.

¹¹ 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.

¹² Regulated subsidiaries, such as insurance companies, typically are not permitted to provide such guarantees.

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 chairman and chief executive officer of AIG and his management team.¹³ These and other provisions protect the interests of the Federal Reserve, Treasury, and taxpayers in providing for full repayment by AIG of all of its Federal Reserve borrowing.

In light of the complexities involved in valuing the extremely broad and diverse range of collateral and guarantees securing these advances, any estimate 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 is speculative and disclosure of any such estimate could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the loan. Given the substantial assets and operations supporting repayment of the loan and the equity investment made by Treasury in AIG, and based on the Federal Reserve's most recent review of the security arrangements supporting the Revolving Credit Facility, the Federal Reserve does not expect that the Federal Reserve or taxpayers will incur any net loss on the Revolving Credit Facility.

Announcement Regarding Exchange Involving AIA and ALICO. On June 25, 2009, the New York Reserve Bank entered into agreements with AIG providing for the receipt of preferred equity interests in two SPVs to be formed to

¹³ In May 2009, AIG announced that its Chairman and Chief Executive Officer, Edward Liddy, would step down once the company's board of directors has successfully concluded the search for his successor(s) in these roles. In addition, AIG announced that six new independent director nominees – Harvey Golub, Laurette T. Koellner, Christopher S. Lynch, Arthur C. Martinez, Robert S. (Steve) Miller, and Douglas M. Steenland – will stand for election at the AIG annual meeting of shareholders, scheduled to be held on June 30, 2009.

hold the outstanding common stock of AIA and ALICO, two life insurance subsidiaries of AIG, in exchange for corresponding modifications to AIG's Revolving Credit Facility with the New York Reserve Bank. As noted above, these transactions were previously announced on March 2, 2009, as part of the restructuring of the U.S. government's assistance to AIG.

Upon the closing of each transaction and the resulting issuance of preferred equity, the New York Reserve Bank will reduce the outstanding balance and amount available to AIG under the \$60 billion Revolving Credit Facility by an aggregate amount of \$25 billion, reflecting the value of the preferred interests to be received by the New York Reserve Bank in the AIA SPV (\$16 billion) and the ALICO SPV (\$9 billion). The value of the New York Reserve Bank's preferred interests was determined following an independent due diligence and valuation process undertaken with respect to AIA and ALICO, as well as the application of an appropriate discount. The closing of each transaction is expected to occur by the end of 2009, pending the completion of the necessary regulatory approval processes.

The New York Reserve Bank's preferred interests will accrue a cumulative dividend of 5 percent until the expiration of the Revolving Credit Facility and 9 percent thereafter, and will not vote with the common interests of the SPVs or confer the right to elect SPV board members. The common equity of the SPVs will be held by AIG, which will continue to control the day-to-day management of the companies. The New York Reserve Bank will have the ability to appoint two observers to SPV board meetings, and the New York Reserve Bank's consent will be required for the SPVs, AIA or ALICO to undertake a variety of significant actions. A copy of the agreements may be accessed through http://www.sec.gov/idea/searchidea/companysearch_idea.html.

Maiden Lane II and Maiden Lane III. As of June 17, 2009:

- The principal amount of, and accrued interest on, the loan extended to ML-II by the New York Reserve Bank was \$17.6 billion and \$151 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 \$15.9 billion;
- The principal amount of, and accrued interest on, the loan provided to ML-III by the New York Reserve Bank was \$22.4 billion and \$204 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 \$20 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 in an orderly market on the measurement date. The fair value reported for June 17, 2009, is based on the revaluations as of March 31, 2009. 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, principal repayments, 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 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 over time result in any net loss to the Federal Reserve or taxpayers.

Authorization of Additional Section 13(3) Credit in Connection with the Securitization of Life Insurance Cash Flows. As of June 17, 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.