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November 21, 2008

VIA HAND DELIVERY

Clerk Helen Foley-Bousquet
Business Litigation Session 1
Suffolk Superior Court
3 Pemberton Square – 13th Floor, Rm. 1309
Boston, MA 02108

RE: Marcia Rhodes, et al v. AIG Domestic Claims f/k/a AIG Technical Services, Inc., et al.
Suffolk Superior Court, Civil Action No.: 05-1360-BLS1

Dear Sir/Madam:

In reference to the above-captioned matter, please find enclosed for filing the *Plaintiffs'* *Emergency Motion for Post-Judgment Security*.

Kindly acknowledge receipt of this filing by date-stamping the attached copy of this letter and returning it to me in the envelope provided herewith. Thank you for your cooperation in this matter.

Very truly yours,

BROWN RUDNICK LLP

By: *Rachel Lipton*
Rachel A. Lipton

RAL:jak
Enclosure

cc: Anthony Zelle, Esq.
Elizabeth Sackett, Esq.
Margaret M. Pinkham, Esq.
M. Frederick Pritzker, Esq.

1615319 v1 - LIPTONRA - 000005/0237

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss.

SUPERIOR COURT DEPARTMENT
OF THE TRIAL COURT
Civil Action No. 05-1360-BLS1

MARCIA RHODES, HAROLD RHODES, REBECCA RHODES)
Plaintiffs,)
v.)
)
AIG DOMESTIC CLAIMS, INC. f/k/a AIG TECHNICAL)
SERVICES, INC., NATIONAL UNION FIRE INSURANCE)
COMPANY OF PITTSBURGH, PA, and)
ZURICH AMERICAN INSURANCE COMPANY)
)
Defendants.)

PLAINTIFFS' EMERGENCY MOTION FOR POST-JUDGMENT SECURITY

Pursuant to Mass. R. Civ. P. 4.1 and M.G.L. c. 223 § 86A, Plaintiffs Marcia Rhodes, Harold Rhodes, and Rebecca Rhodes ("Plaintiffs") hereby move for a reach and apply attachment on all insurance premiums paid to Defendant Nation Union Fire Insurance Company of Pittsburgh, PA ("National Union") in the amount of \$2,750,000, or in the alternative, for an order requiring National Union to identify all real estate, non payroll bank accounts and other streams of income and assets in its name in Massachusetts so Plaintiffs can move to reach and apply those specific assets; or, in the alternative, for the posting of a bond obtained by a AAA-rated company in the amount of \$2,750,000 to ensure that there are sufficient funds to satisfy the judgment awarded to Plaintiffs by this Court. In support of this Motion, the Plaintiffs state as follows:

1. After a 16 day trial on Plaintiffs' claims of violations of M.G.L. c. 176D and M.G.L. c. 93A, this Court entered a judgment in favor of Plaintiffs in the amount of \$896,500 in actual and punitive damages and \$1,000,000 in attorneys fees, for a total of \$1,896,500. See Judgment

(Gants, J.) dated August 20, 2008, attached hereto as Exhibit A. The judgment has been accruing interest at the rate of twelve percent since August 2008. By the time the appeal is concluded, Plaintiffs estimate that interest, costs and fees will increase the value of the judgment to \$2.75 million.

2. A reach and apply attachment is an equitable method to secure and hold property for satisfaction of a judgment. See e.g. DeNadia v. Preferred Capital Markets, Inc., 272 B.R. 21 (D. Mass. 2001) (applying Massachusetts law). It is proper, after entry of a judgment in plaintiff's favor, for plaintiff to move for attachment of defendant's property to secure the judgment, even pending an appeal. See M.G.L. c. 223 § 86A; Sullivan v. First Massachusetts Financial Corp., 409 Mass. 783 (1991); Plastics Color & Compounding, Inc., v. Coz, 2006 Mass. Super. LEXIS 573 (Mass. Super. Ct. December 1, 2006).

3. Although both parties have appealed this judgment, there is a reasonable likelihood that the Plaintiffs will recover, at a minimum, an amount equal to or greater than \$2.75 million as they contend punitive damages should have been measured by using the \$11.3 million judgment in the underlying personal injury action. Should Plaintiffs not prevail on their argument that punitive damages were miscalculated, there remains much higher likelihood that the damage award entered by the trial court will remain at \$1,896,500, with interest, rather than being reduced to \$0, as advanced by the Defendants. Likelihood of success on the merits is the only requirement for an attachment by trustee process and a reach-and-apply injunction. See Mass. R. Civ. P. 4.1(c); Anderson Foreign Motors v. New England Toyota, 475 F. Supp. 973, 977-978 (D. Mass. 1979) (motion for equitable attachment does not require showing of irreparable injury or favorable balance of the harms).

4. Given the current economic crisis and in particular the financial troubles facing the Defendants in this case, Plaintiffs have a good faith basis for seeking post-judgment security so as to obtain satisfaction on the final judgment. The Defendants are both member companies of American International Group, Inc. (“AIG, Inc.”), which financial experts regard as on the brink of collapse. As the result of the unprecedented financial turmoil experienced by AIG, Inc., its member companies are also seeing dramatically reduced ratings and performance. AIG plans to sell many of its operating units to repay a \$150 billion loan from the US government, a loan that is currently almost twice the size of the initial \$85 billion bail out plan announced in September, 2008. See “Meltdown 101: Why did the AIG bailout get bigger?”, attached hereto as Exhibit B. The prospects for a quick sale have dissipated as potential bidders experience their own liquidity and valuation problems. The value of AIG’s commercial property and casualty units are falling as competitors are moving to hire its employees and increase their market shares at the expense of the AIG units, which increases pricing pressure on AIG to retain customers, and hence, affects its profitability.

5. Defendant National Union Fire Insurance Company of Pittsburgh has had its credit rating reduced from AAA to A in September and was assigned a “negative” outlook as of November 10, 2008. See News Release, dated November 10, 2008, attached hereto as Exhibit C. A compilation of articles on AIG’s financial woes is attached hereto as Exhibit D.

6. Mass. R. Civ. Proc. 69 provides that a party may obtain discovery from any person, including the judgment debtor, “in aid of execution” of a judgment. In light of the Defendants’ and their parent company’s deteriorating financial situation, in the event the Court does not grant Plaintiffs’ request for security or order Defendants to disclose assets held in Massachusetts, it is imperative that Plaintiffs be afforded the ability to conduct discovery in order to secure and “aid

of legal and equitable power, see M.G.L. c. 212, § 4, and its inherent authority under common law and equity powers to order the relief requested.

7. There is no known insurance available to satisfy the judgment.

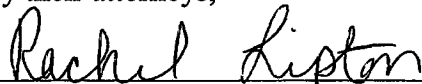
8. For purposes of releasing or avoiding the attachments sought, this Court may order the posting of a security bond by way of substitution. See Borne v. Haverhill Golf & Country Club, Inc., 58 Mass. App. Ct. 306, 326 (2003).

WHEREFORE, Plaintiffs hereby request that this Court enter an Order for a reach and apply attachment on all insurance premiums paid to Defendant Nation Union Fire Insurance Company of Pittsburgh, PA ("National Union") in the amount of \$2,750,000, or for an order requiring National Union to identify within 14 days all real estate, non payroll bank accounts and other streams of income into Massachusetts; or in the alternative, order the Defendants to post a bond from a AAA-rated entity in the amount of \$2,750,000.

Respectfully submitted,

MARCIA RHODES, HAROLD RHODES,
And REBECCA RHODES

By their attorneys,



M. Frederick Pritzker (BBO #406940)

Margaret M. Pinkham (BB0 #561920)

Daniel J. Brown (BBO #654459)

Rachel A. Lipton (BBO #664402)

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Dated: November 21, 2008

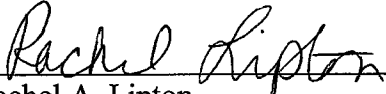
CERTIFICATE OF SERVICE

I hereby certify that on this day, I served a copy of the foregoing "Plaintiff's Emergency

Motion for Post-Judgment Security" upon all interested parties by hand to:

Anthony Zelle, Esq.
Zelle McDonough & Cohen
Four Longfellow Place, 35th Flr.
Boston, MA 02114

Elizabeth Sackett, Esq.
Robinson & Cole LLP
One Boston Place
Boston, Massachusetts 01208-4404



Rachel A. Lipton

Dated: November 21, 2008

1613175 v1 - LIPTONRA - 000005/0237

CIVIL DOCKET# 05-1360-BLS1

MARCIA RHODES, HAROLD RHODES, and REBECCA RHODES

vs.

AIG DOMESTIC CLAIMS, INC., NATIONAL UNION FIRE INSURANCE COMPANY
OF PITTSBURGH, PA and ZURICH AMERICAN INSURANCE COMPANY,JUDGMENT

The Court, Judge Ralph D. Gants presiding, having issued its Findings of Fact, Conclusions of Law, and Order for Judgment following a bench trial, hereby declares:

It is **ORDERED** and **ADJUDGED**:

1. That Zurich American Insurance Company ("Zurich") did not violate its duty as the primary insurer under G.L. c. 176D, § 3(9)(f) "to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear." G.L. c. 176D, § 3(9)(f). Consequently, judgment shall enter in favor of the defendant Zurich and against the plaintiffs, with statutory costs only.
2. That National Union Fire Insurance Company of Pittsburgh, PA ("National Union") and AIG Domestic Claims, Inc. ("AIGDC"), prior to the issuance of the final judgment in the underlying case, violated their duty as the excess insurer under G.L. c. 176D, § 3(9)(f) "to effectuate prompt ... settlements of claims in which liability has become reasonably clear," G.L. c. 176D, § 3(9)(f), but their violation did not cause the plaintiffs to suffer any actual damages.
3. That National Union and AIGDC, after the issuance of the final judgment in the underlying case, violated their duty as the excess insurer under G.L. c. 176D, § 3(9)(f) "to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear." G.L. c. 176D, § 3(9)(f). The actual damages caused by this violation are limited to "loss of use" damages in the amount of \$448,250.
4. The violation found in paragraph 3 *supra* was willful and knowing, and doubling the amount of actual damages is an appropriate punitive award for such violation. Therefore, National Union and AIGDC, jointly and severally, shall pay the plaintiffs \$896,500 in actual and punitive damages.
5. That, under G.L. c. 93A, § 9(4), National Union and AIGDC shall pay to the plaintiffs the reasonable attorney's fees and costs incurred in prosecuting this action against National Union and AIGDC, which total \$950,000 in attorney's fees and \$50,000 in costs, for a total of \$1,000,000.

JUDGMENT ENTERED ON DOCKET Aug 22 2009
 PURSUANT TO THE PROVISIONS OF MASS. R. CIV. P. 58(a)
 AND NOTICE SENT TO PARTIES PURSUANT TO THE PRO-
 VISIONS OF MASS. R. CIV. P. 77(d) AS FOLLOWS

TRUE COPY OF JUDGMENT FILED ENTERED ON Aug 22 2009

Commonwealth of Massachusetts
County of Suffolk
The Superior Court

6. That judgment shall enter in favor of the plaintiffs and against the defendants National Union and AIGDC, jointly and severally, for actual and punitive damages in the amount of \$896,500, plus attorney's fees of \$950,000 and costs of \$50,000, for a grand total of \$1,896,500.

Dated at Boston, Massachusetts this 20th of August 2008.

Michael Joseph Donovan,
Clerk of the Court

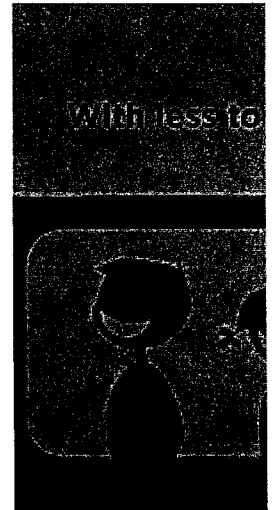
BY: Clare A. Walsh
Assistant Clerk

Form of Judgment Approved:

Ralph D. Gants
Ralph D. Gants
Associate Justice, Superior Court

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Meltdown 101: Why did the AIG bailout get bigger?

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AP foreign, Wednesday November 12 2008

By **JEANNINE AVERSA**

AP Economics Writer= WASHINGTON (AP) - It's a \$150 billion gamble.

That's the size of the newly enlarged financial lifeline the U.S. government threw tottering insurance giant American International Group on Monday, expanding an aid package that's gradually grown since it began as an \$85 billion loan in September.

The big question: Will the bailout be enough to stabilize the firm?

Here are some questions and answers about the rescue plan.

Q: Didn't AIG already get a bailout from the government?

A: Yes. Back on Sept. 16, the Federal Reserve initially provided AIG with a \$85 billion loan, in return for a nearly 80 percent ownership stake. On Oct. 8, the Fed followed up with another, \$37.8 billion loan.

Then, on Oct. 31, AIG was allowed to access another \$20.9 billion through the Fed's "commercial paper" program. That's where the Fed buys mounds of short-term debt from the companies, which often used the money for crucial day-to-day expenses, such as payroll and supplies.

Q: So, the original bailout plan didn't work?

A: Even with the original \$85 billion lifeline, AIG continued to have problems as the country's overall financial and credit conditions worsened. The company was burning through cash and was saddled with risky mortgage-related securities that had fallen sharply in value and continued to deteriorate after the initial bailout.

AIG on Monday reported a massive third-quarter hit. It lost \$24.47 billion, or \$9.05 per share, after a profit of \$3.09 billion, or \$1.19 per share, a year ago. Revenue declined 97 percent to \$898 million from \$29.84 billion in the third quarter of 2007.

"This is the largest quarterly loss we've ever reported," Chief Financial Officer David Herzog told investors on a conference call.

Q: What's different about the new bailout?

A: All told, the new bailout is bigger â□□ providing more than \$150 billion to AIG, up from just over \$140 billion.

In a new twist, the Treasury Department is now stepping in with \$40 billion, which is coming from the \$700 billion financial bailout package enacted last month. It marked the first time any of that bailout money has gone to any company other than a bank.

Monday's restructuring also provides AIG with easier terms on the original



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Fed loan.

The new package reduces the interest rate AIG will pay and will extend the loan term to five years from two, reducing the need for AIG to sell off business lines and other assets at fire-sale prices to repay the government.

In addition, the new arrangement replaced the second \$37.8 billion Fed loan to AIG with a \$52.5 billion aid package. Under that part of the plan, the Fed will fund the purchase of both residential mortgage-backed securities from AIG's portfolio, and collateralized debt obligations, which are complex financial instruments that combine various slices of debt.

By removing these troubled assets from AIG's balance sheet, the bailout should take stress off the company, giving it more breathing room and helping to prevent future losses, Fed officials said. The Fed doesn't believe it will suffer losses because it is hopeful the market for such distressed investments will recover as the economy and financial markets eventually rebound.

Q: Why is it important to keep AIG afloat?

A: AIG is a global colossus, with operations in more than 130 countries. It is so interconnected with other financial firms that its problems have a jolting ripple effect both in the United States and abroad.

AIG was pushed to the brink of bankruptcy in September when its credit rating was downgraded and it could not post the collateral for which it was obligated under the "credit default swap" contracts it had issued. Credit default swaps are a type of corporate debt insurance.

The Fed raced to the rescue at that time to prevent AIG's failure, which could have triggered billions of dollars in losses at other banks and financial firms that bought these swaps from AIG — sending them into failure as well.

However, even after that initial rescue, AIG's troubles cast doubt on some of AIG's debt guarantees, leading to other problems. For instance, a Belgian bank threatened to immediately collect \$43 million on a loan to the transit authority in Washington, D.C., in late October following the credit downgrade of AIG. Transit authorities in other cities feared the same fate.

Q: In exchange for the money, will the government place any restrictions on AIG?

A: Yes. Neel Kashkari, the Treasury Department official who is serving as the interim head of the \$700 billion financial bailout program, said: "AIG must comply with stringent limitations on executive compensation for its top executives, golden parachutes, its bonus pool, corporate expenses and lobbying."

Q: Is this the end of the bailout money for AIG?

A: No one is saying for sure. However, government officials are hopeful the new package will be sufficient to stabilize the company.

Go to: [guardian.co.uk](#)

Q: What company might be next in line for a government bailout?

A: U.S. auto companies â General Motors Corp., Ford Motor Co. and Chrysler LLC â have been pressing the government for more financial assistance. The money would be on top of the \$25 billion in loans Congress passed in September to help retool auto plants to build more fuel-efficient vehicles.

Kashkari, however, was circumspect.

"This morning's action with AIG was a one-off event necessary for financial stability. It is not the establishment of a new program," he said at a financial conference in New York.

AP Business Writers Ieva M. Augstums in Charlotte, N.C., and Stevenson Jacobs in New York contributed to this report.

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FOR IMMEDIATE RELEASE

November 10, 2008

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**A.M. Best Affirms Ratings of American International Group, Inc.
and Its Subsidiaries; Assigns Negative Outlook**

Ratings Supplement

The ICR of “bbb” has been affirmed, removed from under review with negative implications and assigned a negative outlook for **American International Group, Inc.**

The FSRs of A (Excellent) and ICRs of “a” have been affirmed, removed from under review with negative implications and assigned a negative outlook for the following property/casualty subsidiaries of **American International Group, Inc.:**

American International Group (Commercial Pool and Strategic Affiliates):

- American Home Assurance Company
- American International Insurance Company of Puerto Rico
- American International South Insurance Company
- American International Specialty Lines Insurance Company
- Audubon Indemnity Company
- Audubon Insurance Company
- AIG Casualty Company
- Commerce and Industry Insurance Company
- Commerce and Industry Insurance Company of Canada
- Granite State Insurance Company
- Illinois National Insurance Company
- Insurance Company of the State of Pennsylvania
- National Union Fire Insurance Company of Louisiana
- National Union Fire Insurance Company of Pittsburgh, Pennsylvania
- New Hampshire Insurance Company

Transatlantic Holdings, Inc. Group:

- Putnam Reinsurance Company

—MORE—

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—2—

- **Transatlantic Reinsurance Company**
- **Trans Re Zurich**

Lexington Insurance Pool:

- **Landmark Insurance Company**
- **Lexington Insurance Company**
- **AIG Excess Liability Insurance Company, Ltd.**
- **AIG Excess Liability Insurance International, Ltd.**

The FSR of A (Excellent) and ICR of “a” have been affirmed, removed from under review with negative implications and assigned a negative outlook for **AIU Insurance Company**.

The FSR of A (Excellent) and ICRs of “a” have been affirmed, removed from under review with negative implications and assigned a negative outlook for **Hartford Steam Boiler Group** and its following members:

- **Hartford Steam Boiler Inspection and Insurance Company**
- **Hartford Steam Boiler Inspection and Insurance Company of Connecticut**
- **HSB Engineering Insurance Limited**
- **The Boiler Inspection & Insurance Company of Canada**

The FSR of B+ (Good) and ICRs of “bbb-” have been affirmed, removed from under review with negative implications and assigned a negative outlook for **American General Property Group** and its following members:

- **American General Property Insurance Company**
- **American General Property Insurance Company of Florida**

The FSR of A (Excellent) and ICR of “a” have been affirmed, removed from under review with negative implications and assigned a negative outlook for **Yosemite Insurance Company**.

The FSR of B+ (Good) and ICR of “bbb-” have been affirmed, removed from under review with negative implications and assigned a negative outlook for **American General**

—MORE—

—3—

Indemnity Company.

The ICR of “bbb” has been affirmed, removed from under review with negative implications and assigned a negative outlook for **Transatlantic Holdings, Inc.**

The following debt rating has been affirmed, removed from under review with negative implications and assigned a negative outlook:

Transatlantic Holdings, Inc.—

-- “bbb” on \$750 million 5.75% senior unsecured notes, due 2015

The following indicative debt ratings for securities available under shelf registration have been affirmed, removed from under review with negative implications and assigned a negative outlook:

Transatlantic Holdings, Inc. —

-- “bbb” on senior unsecured debt
-- “bbb-” on subordinated debt

The FSR of A (Excellent) and ICRs of “a” have been affirmed, removed from under review with negative implications and assigned a negative outlook for the following property/casualty subsidiaries of **American International Group, Inc.:**

AIG Personal Lines Pool:

- **AIG Auto Insurance Company of New Jersey**
- **AIG Centennial Insurance Company**
- **AIG Hawaii Insurance Company Inc.**
- **AIG Indemnity Insurance Company**
- **AIG National Insurance Company Inc.**
- **AIG Preferred Insurance Company**
- **AIG Premier Insurance Company**
- **American International Insurance Company**
- **American International Insurance Company of California, Inc**
- **American International Insurance Company of New Jersey**
- **American International Pacific Insurance Company**
- **American Pacific Insurance Company**
- **AIG Advantage Insurance Company**
- **New Hampshire Indemnity Company, Inc.**

—MORE—

Recent News Concerning

A.I.G.'s and National Union's Deteriorating Financial Condition

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A.M. Best Affirms Ratings of American International Group, Inc. and Its Subsidiaries; Assigns Negative Outlook

OLDWICK, N.J.--(BUSINESS WIRE- November 10)--A.M. Best Co. has affirmed the financial strength ratings (FSR) and issuer credit ratings (ICR) of the insurance subsidiaries of American International Group, Inc. (AIG) (New York, NY). In addition, A.M. Best has affirmed the ICR of "bbb" of AIG. All the above ratings have been assigned a negative outlook.

A.M. Best's removal of the ratings from under review reflects the protracted time frame necessary for an orderly sale of AIG's assets, which exceeds the usual near term time frame incorporated in an under review status. Clearly, the issues affecting these ratings continue to be reviewed as they change or emerge, and the ratings could be downgraded at any time if events do not meet expectations. Alternatively, the sale of a business to a higher rated organization could result in an upgrade to the business sold.

A.M. Best's rating affirmations are heavily based on the U.S. Government's intervention and provision of immense capital levels partially without recourse to AIG. All of A.M. Best's future rating considerations are based on continued U.S. Government support as long as support is needed. A.M. Best believes the sale of AIG's businesses will be a lengthy and protracted process absent a near term and significant turn around of market conditions, which is not expected. A.M. Best remains quite guarded regarding the ultimate valuation of the businesses based on a host of factors including: cost and availability of financing for potential acquirers, varied perceptions of value, reduction of competitive bidders, reduced enthusiasm over franchise availability and length of time assets remain on the market generating negative speculation. The negative outlook reflects the interim concern of franchise deterioration during a period of potential disparity between expected and offered valuations. If this materializes beyond expectations, or there is a material deviation from the expected time line, A.M. Best expects to downgrade the ratings of those businesses affected.

The material support provided to AIG from the Federal Reserve Bank of New York and the U.S. Government in its entirety is the underlying impetus to affirm the current ratings. However, A.M. Best views the terms of the preferred stock investment to be significantly less than equity-like, and the capital structure and financial leverage of AIG at September 30, 2008 and estimated to be at December 31, 2008 are outside of the range representative of its ratings. In particular, the \$23 billion of equity reflecting the U.S. Government's 79.9% interest in the company is supporting the \$24.5 billion third quarter net loss. However, A.M. Best views the amortizing asset supporting this equity as less than tangible capital underlying an already strained capital and leverage structure.

These rating actions follow AIG's announcement of its third quarter financial results, restructuring of the company's \$85 billion credit facility with the Federal Reserve Bank of New York and permanent solutions for AIG's U.S. Securities Lending Program (Securities Lending) and Multi-Sector Credit Default Swap exposure. The third quarter net loss of \$24.5 billion was outside of A.M. Best's

expectations and further increases the scale of the required asset sales. Contributing to this loss were after tax net realized capital losses of \$15.1 billion, including other than temporary impairments (OTTI) of \$16.2 billion much of which emanates from valuations or changes in accounting treatment due to AIG's lack of intent to hold such securities to recovery, particularly with respect to Securities Lending collateral. The numbers also reflected a significant \$2.3 billion (after tax) of issuer specific credit write-offs including \$.9 billion (after tax) of Lehman Brothers exposure as well as an additional \$4.6 billion (after tax) of additional AIGFP unrealized market valuation losses. However, the magnitude and capital implications of the net loss continue to be overshadowed by AIG's liquidity issues, which have been fully supported by the Federal Reserve Bank of New York.

The Residential Mortgage Backed Securities (RMBS) held in connection with the Securities Lending program will be monetized through the formation of a special purpose vehicle (SPV) and sale of approximately \$40 billion face value securities for approximately \$23.5 billion. The SPV will be funded with an approximate \$22.5 billion senior loan provided by the Federal Reserve Bank of New York and an approximate \$1 billion junior loan provided by AIG. The senior loan is recourse only to SPV assets. Principal and interest on the RMBS will be used to first repay the senior loan and secondarily the junior loan with any residual cash flows split between the loans. Non-RMBS securities with a market value of \$6.2 billion constitute the remainder of the Securities Lending program and will be disposed in the market or other means to monetize these assets. AIG can now exit Securities Lending domestically and provide more attractive balance sheets to potential acquirers of the domestic life and retirement services businesses.

Reduction of the liquidity drain from AIG's Multi-Sector Credit Default Swaps (CDS) will be accomplished through a similar SPV structure. The SPV will be comprised of a senior loan provided by the Federal Reserve Bank of New York and a junior loan provided by AIG. The senior loan is recourse only to SPV assets. The counterparties to the CDS contracts held approximately \$33 billion of collateral as of September 30, 2008. Any future upside emanating from the SPV will be shared between the loans.

The U.S. Government support continues with a restructure of the current \$85 billion two year credit facility into a new \$60 billion five year credit facility with significantly lower interest carry and a \$40 billion preferred stock investment with a 10% per annum cumulative compounding dividend. In addition to the loans to the SPV and restructure of the credit facility, four AIG affiliates, including subsidiaries of AIG Funding, Inc. and International Lease Finance Corporation, maintain access to the Federal Reserves' Commercial Paper Funding Facility (CPFF), which has been substantially utilized.

A.M. Best has reviewed the potential liquidity drain from AIG's operations including AIG Financial Products Corp. (FP), the matched investment program, as well as liquidity support offered by AIG to several business segments and debt maturities. While it is not possible to obtain certainty of the cash needs of unwinding FP's varied and complicated products into hesitant and illiquid markets, it appears that remaining capacity under the recast credit facility will be

sufficient for the near term although expectations are quite fluid and changes in ratings and outlook could be made as information is continually reviewed.

A.M. Best has and will continue to review the rate and exposure monitoring reports provided by the Commercial Insurance Group including rate and exposure changes. To date the review does not warrant a rating revision; however, due to the lag in capturing bound policies versus current market quotes some concern remains. In addition, A.M. Best has reviewed employee turnover in key AIG business segments through a specific listing of key employees. While the current review does not indicate significant turnover at this point in the areas reviewed, we expect this issue will continue to evolve, and A.M. Best will continue to focus on this as a measure of the inherent value of the subsidiary businesses.

The rating affirmations of AIG's domestic life and retirement services subsidiaries reflect the individual financial strength and operating performance of the operating subsidiaries organized under AIG's domestic life and retirement services operations. The ratings recognize the life and retirement services estimated modest statutory after tax operating earnings performance presented through third quarter 2008, sufficient risk-adjusted capitalization and its diverse product portfolio. In an effort to maintain the value of the franchise, AIG's domestic life and retirement services entities have benefited from roughly \$16 billion of capital infusions to offset significant losses stemming from its securities lending portfolios.

Partially offsetting these positive rating factors are that AIG's core annuity and spread businesses remain vulnerable to interest rate risk and the effects of the global economic environment. The life and retirement services subsidiaries continue to face challenges due to competitive pressures in its core domestic product lines. Through third quarter 2008, annuity surrenders have increased and sales in its retirement services annuity portfolios have been reduced. Through third quarter 2008, AIG's various initiatives are supportive of its commitment to recapitalize these subsidiaries.

Concurrently, A.M. Best has assigned a category of NR-5 (Not Formally Followed) to the FSR and an "nr" to the ICR of AIG Assurance Canada due to a legal entity merger into AIG Life Insurance Company of Canada (both of Toronto, Ontario) effective October 1, 2008.

For a complete listing of American International Group's FSRs, ICRs and debt ratings, please visit www.ambest.com/press/111001aig.pdf.

AIG Struggling to Sell Off Assets to Raise Capital

Bloomberg News - November 7, 2008. American International Group Inc., the insurer taken over by the U.S. government, may have to renegotiate terms of its \$85 billion rescue as the company struggles to find buyers for some of its units.

"It may make sense and be pragmatic for the government to renegotiate," said David Havens, a UBS credit analyst. The loan's interest rate "makes it extraordinarily difficult for AIG to fix itself," he said.

Chief Executive Officer Edward Liddy has yet to announce the sale of a business after saying in September he might disclose transactions that month. AIG got an \$85 billion loan on Sept. 16 to stave off bankruptcy and two additional U.S. credit lines totaling \$58.7 billion last month to make up for further losses. AIG owed \$83.5 billion on Federal Reserve credit lines as of last week.

AIG probably will report a third-quarter net loss of \$3.84 billion on Monday, the fourth straight unprofitable period, according to five analysts surveyed by Bloomberg. The company, which originates, insures and invests in home loans, was squeezed for cash after posting about \$48 billion of writedowns and unrealized losses from the collapse of the subprime loan market since the beginning of last year. AIG shares have plunged more than 95 percent since Dec. 31.

AIG, once the world's largest insurer, could raise \$115 billion by disposing of all its units, Thomas Gallagher, an analyst at Credit Suisse Group, estimated in September.

Sales prospects fell the next month as shares of U.S. life insurers dropped about 44 percent on fears that investment losses would sap capital.

U.S. Weighs Options to Ease Strain on AIG

Wall Street Journal (November 6) - Federal officials are considering ways to ease the financial pressure on American International Group Inc., including changing the terms of the \$85 billion loan extended to the insurer.

Negotiations remain fluid, but one option under examination is to have the government backstop AIG's credit-default-swap contracts. It also may reduce the interest rate or extend the duration of the two-year loan facility, the people familiar with the matter said.

AIG agreed to the government's terms under duress in mid-September, with the expectation that it would be a short-term bridge until AIG could sell assets to meet its obligations. But it came just hours after Lehman Brothers Holdings Inc. filed for bankruptcy protection, which helped throw world markets into turmoil and complicated the AIG plan.

AIG's role in the credit-default-swap market remains a sensitive issue for the government. AIG counterparties have demanded billions of dollars in collateral to ensure AIG stands behind its commitments to make payments in the event of defaults. If it were unable to meet those obligations, it would prove to be a systemic risk to the global economy, said people involved in the matter. This has become a concern for foreign governments, who are pressuring U.S. officials to find a solution.

A government backstop would lift the pressure off AIG to keep posting tens of billions of dollars in collateral. Some cash may flow back into government coffers if collateral AIG already has posted is returned. Such a guarantee could, however, make the government liable for large future payouts and push the government into the position as a direct participant in markets it also oversees.

AIG, under Chief Executive Edward Liddy, said it will pay back the loan by selling off most businesses outside its core property and casualty lines. But the economic environment and threats to AIG's long-term prospects have made it harder for the 89-year-old firm to find buyers with such large sums of cash.

Those monitoring the sale also are aware of the changed circumstances. The market upheaval has been "unfortunate timing," New York state Insurance Department Superintendent Eric Dinallo said in an interview.

Natural potential buyers "are having a harder time getting the funding," Mr. Dinallo said.

The scarcity is in turn giving potential buyers more pricing leverage, making it harder for AIG to raise the sums it needs. "Asset valuations are dropping and they're drawing down more money," said one person close to the insurer. "You don't need to be a rocket scientist to see that there could be some issues here."

AIG has borrowed \$61.3 billion under the original \$85 billion loan, and an additional \$19.9 billion under a second \$37.8 billion program related to its securities-lending business.

The terms of the original \$85 billion loan call for AIG to pay an interest rate of 8.5% for money it isn't borrowing. It pays a higher rate -- three-month Libor, which is at 2.39%, plus 8.5 percentage points -- for what it actually draws down. (Libor, the London interbank offered rate, is a common short-term benchmark.)

People close to the insurer complain that the terms of AIG's loans are onerous compared with the 5% interest charged by the government to banks and other financial institutions under the \$700 billion Troubled Asset Relief Program.

AIG officials hope these factors will help persuade the government to change its loan terms, since the government would have the most to lose as both AIG's creditor and controlling shareholder.

"It is a tough market, but we have really singular assets for sale," said an AIG spokesman.

He said buyers will find a way to finance purchases, but AIG also is exploring "other potential alternatives."

S&P Changes Credit Ratings Outlook of AIG's P/C Units

NEW YORK (November 6) – The A+ financial strength and counterparty credit ratings outlook of a number of American International Group Inc.'s property/casualty subsidiaries and other units was changed to negative from "developing" by Standard & Poor's Corp. on Wednesday.

AIG is not expected to sell its core property/casualty operations under its restructuring plan, the New York-based rating agency said.

"The ratings on these companies reflect our view of the likelihood of increased pressure on the performance of that business," S&P credit analyst Rodney A. Clark said.

S&P said it revised its outlook on the entire U.S. commercial lines property/casualty sector to negative because of weakening pricing and adverse investment markets in August.

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"We believe AIG is particularly susceptible to these broader market trends, given its somewhat weakened position," Mr. Clark said.

"Although at this point we have not seen clear evidence of long-term damage to AIG's franchise, there have been wide reports that competitors are actively pursuing AIG's accounts and key underwriting personnel, which could pressure operating performance over time given the...market conditions the industry is facing."

The parent company's ratings remain under review with a negative outlook, and the ratings status of most of AIG's life insurance operations, which S&P said AIG is expected to sell, continues as developing.

AIG Property and Casualty Ratings May Be Cut by S&P

Nov. 5 (Bloomberg) -- American International Group Inc., the insurer bailed out by the U.S. government, may have the ratings of its property and casualty units downgraded by Standard & Poor's because of the departure of customers and employees.

AIG's property-casualty subsidiaries are "particularly susceptible" to falling insurance rates industry wide after the government took over the New York-based insurer in September, S&P said today in a statement. The units' ratings may be cut one or two levels next year if their prospects worsen, S&P said.

Chief Executive Officer Edward Liddy said AIG would keep its property-casualty units and sell almost all other businesses, including life insurance units, to repay the \$85 billion government loan that staved off bankruptcy in September. The company got access to an additional \$37.8 billion on Oct. 8 to shore up its securities-lending program.

"There have been wide reports that competitors are actively pursuing AIG's accounts and key underwriting personnel," analysts led by Rodney Clark said in the statement.

AIG Sales May Not Repay U.S. Loan, Forcing New Deal

Nov. 6 (Bloomberg) -- American International Group Inc., the insurer taken over by the U.S. government, may have to renegotiate terms of its \$85 billion rescue as the company struggles to find buyers for some of its units.

"It may make sense and be pragmatic for the government to renegotiate," said David Havens, a UBS AG credit analyst in Stamford, Connecticut. The loan's interest rate "makes it extraordinarily difficult for AIG to fix itself," he said.

Chief Executive Officer Edward Liddy has yet to announce the sale of a business after saying in September he might disclose transactions that month. New York-based AIG got an \$85 billion loan on Sept. 16 to stave off bankruptcy and two additional U.S. credit lines totaling \$58.7 billion last month to make up for further losses. AIG owed \$83.5 billion on Federal Reserve credit lines as of last week, a figure scheduled to be updated today.

AIG probably will report a third-quarter net loss of \$3.84 billion on Nov. 10, the fourth straight unprofitable period, according to five analysts surveyed by Bloomberg. The company, which originates, insures and invests in home loans, was squeezed for cash after posting about \$48 billion of writedowns and unrealized losses from the collapse of the subprime loan market since the beginning of last year. AIG shares have plunged more than 95 percent since Dec. 31.

While losses mount at AIG, the company's competitors have less buying power because of lower stock prices and the increased cost of borrowing. The Standard & Poor's 500 Index has dropped 26 percent since the end of August and the cost of borrowing dollars for three months in London was 2.51 percent as of yesterday, 1.5 percentage points more than the Federal Reserve's target interest rate for overnight bank loans.

Life Insurance to Planes

"Clearly, we'd prefer to be doing this asset sale a year ago or two years ago than right now, but there'll be plenty of excellent demand for what are really good assets," Liddy said Oct. 22 in a PBS interview.

AIG spokesman Joe Norton and Andrew Williams, a spokesman for the Federal Reserve Bank of New York, declined to comment.

Liddy, 62, plans to sell life insurance operations in the U.S., Europe and Japan, along with the firm's reinsurer, airplane lessor, consumer finance unit and asset manager, leaving what he called a "nimble" company.

AIG, once the world's largest insurer, could raise \$115 billion by disposing of all its units, Thomas Gallagher, an analyst at Credit Suisse Group AG, estimated in September. Sales prospects fell the next month as shares of U.S. life insurers dropped about 44 percent on concern investment losses would sap capital.

Hank Greenberg

"Confidence in the sector has come under considerable pressure," Nigel Dally, a New York-based analyst at Morgan Stanley, said in an Oct. 27 note.

Taxpayers may lose money unless the AIG bailout is restructured to reduce the need for quick sales, said shareholders including former CEO Maurice "Hank" Greenberg, who controls the largest block of privately held AIG stock.

The current plan "cannot be successfully accomplished" because of the "crippling combination of declining asset values and extremely poor market conditions," Greenberg wrote in an Oct. 30 letter to Liddy.

The government should buy non-voting preferred stock with an annual dividend of 5 percent to 6 percent to replace the loan, Greenberg said in an Oct. 13 letter to Liddy. Under terms of the Sept. 16 credit line, AIG must pay principal, fees and annual interest of more than 8.5 percent within two years.

"If they just let AIG work through their issues over a lengthier period of time, it would provide the government with a greater opportunity to recover its capital," UBS analyst Andrew Kligerman said in an interview. "The current market is putting pressure on AIG's assets, on its insurance properties and on buyers." Kligerman has a "neutral" rating on AIG.

Possible S&P Downgrade

Standard & Poor's said yesterday in a statement that the credit ratings of AIG's property and casualty units, which Liddy intends to keep, may be downgraded because of price competition and possible investment losses.

"Competitors are actively pursuing AIG's accounts and key underwriting personnel," S&P said.

AIG agreed in September to turn over an 80 percent stake to the U.S. after running short of cash because credit-rating downgrades forced the insurer to post more than \$10 billion in collateral to clients who bought protection on bonds.

The contracts, called credit-default swaps, plunged in value as the assets they guaranteed declined. AIG sold protection on \$441 billion of fixed-income investments, including \$57.8 billion in securities tied to subprime mortgages, as of June 30.

The insurer also lost money on investments made using collateral from securities it loaned to third parties. AIG said Oct. 8 it can get as much as \$37.8 billion in cash from the Fed to pay off its securities-lending partners. AIG then got access to another \$20.9 billion under the Federal Reserve's commercial paper program designed to unlock short-term debt markets, the firm said Oct. 30.

AIG Bailout and Questions Continue

NEW YORK, Nov. 3 (UPI) -- The financial plight of American International Group (NYSE:AFF) seems unabated by the company's \$143 billion in U.S. bailout funds, one expert said.

"AIG is nothing more than a pass-through being charged 14 percent interest," said Lee Wolosky, an attorney for AIG's largest shareholder, Starr International, The Washington Post (NYSE:WPO) reported Monday.

"Company assets are eroding on a daily basis; asset sales have not begun and can only be at fire-sale prices in the current market," Wolosky told the Post.

Experts have questioned the strategy of keeping AIG going, instead of allowing it to declare bankruptcy in September, when the company was overrun by demands for it to pay off its guarantees.

But, the company was not so much the focus of the bailout as the potential domino effect that might have occurred had the company collapsed, David Shiff, of Shiff's Insurance Observer said.

"The point isn't to save AIG; it's to save the U.S. financial system," he said.

"I think they were afraid to find out who else goes under if you let AIG fail," he said. "But right now, no one knows if this is going to work."

Market Turmoil Hampers AIG Asset Sales: Analyst

Some of insurer's businesses are losing value, Kligerman says

SAN FRANCISCO (MarketWatch) - Turmoil in equity and credit markets is hampering American International Group's efforts to sell some of its businesses, a crucial part of the insurer's plan to repay billions of dollars in expensive government loans, a leading industry analyst said Friday.

Rival insurers that may be considering bidding for AIG businesses are now facing their own problems as slumping stock prices and wider credit spreads cut into capital, Andrew Kligerman of UBS explained in a note to investors.

That's slowing what investors hoped would be fast asset sales by AIG. That prevents the insurer quickly repaying the Federal Reserve's loan, which stood at about \$72 billion on Oct. 22, the analyst wrote.

As the sales process takes longer, the value of the businesses that AIG wants to retain keeps falling, Kligerman said. **That's especially true of the company's commercial property and casualty unit,** he added.

Rivals are poaching talent and clients may be leaving as insurance brokers offer business to rival insurers, which may be forcing AIG to cut prices on its policies to try to keep customers, Kligerman said.

Wider credit spreads may be triggering more demands for AIG to post collateral to support the credit default swaps it wrote. That likely increases the amount of money the insurer has to borrow from the Fed, which, in turn, means even more asset sales, the analyst explained.

Kligerman downgraded AIG shares to neutral from buy on such concerns.

"There is little visibility on AIG's earnings outlook given uncertainty around asset sales pricing and timing, business erosion, CDS marks, and ultimate repayment of the Fed loan," he wrote.

Kligerman expects AIG to take about \$25 billion in write-downs on its credit default swap exposures when the insurer reports third-quarter results in coming days.

AIG to Pay \$18 Million to N.C. Man

Raleigh News & Observer

American International Group, the major insurance company that received an \$85 billion federal bailout for risky financial practices, has agreed to pay \$18 million to a former North Raleigh man who was completely disabled when a pickup truck hit him in the parking lot of his apartment.

The settlement appears to be one of the largest in the state's history for a personal injury case, local lawyers say, and it was driven by the fact that AIG was already on the hook for a much larger judgment -- \$75 million -- after a subsidiary did not defend the case in Wake Superior Court.

"That's huge," said Dan Hartzog, a veteran civil litigator in Raleigh who was not involved in the case. "It would be a big jury verdict, but it's a really big settlement."

Such settlements rarely become public, but the details were discussed in an open session of U.S. District Court earlier this month with a News & Observer reporter in attendance. Lawyers for both sides had sought to keep the settlement confidential, but U.S. District Judge Terrence Boyle did not take up their request.

They also said they were moving to settle quickly because of AIG's financial straits. In September, the Federal Reserve provided the company with an \$85 billion loan to keep it from going bankrupt.

In settling the case, AIG avoids what would have been one of the largest judgments in North Carolina history. In May, state Superior Court Judge Orlando Hudson granted the request of accident victim Mark Pellegrin's attorneys for damages of \$75 million after no one showed up for trial to defend the company that owned the pickup truck and the employee who drove it.

National Union Fire Insurance Co. of Pittsburgh, the AIG subsidiary, requested the case be moved to U.S. District Court after the judgment and entered into settlement talks with Pellegrin's attorneys.

Fed to Name Trustees for AIG Stake

The Federal Reserve, in its unprecedented role propping up one of the world's largest insurers, is on the verge of appointing trustees to oversee the U.S. government's stake in American International Group Inc.

The central bank plans to select three individuals with business experience to manage the public's nearly 80% stake in AIG. The move sketches one possible blueprint for managing the government's ownership stakes in financial companies during the months ahead.

The three independent trustees, who are expected to be named within the next two weeks, would exercise control of the government's equity stake in AIG, taking over that role from Fed and Treasury officials who executed the bailout.

The government received the AIG equity stake in exchange for lending the insurer as much as \$85 billion last month. The Fed last week extended almost \$38 billion in additional credit to address AIG's latest cash crunch. The new loan underscores the government's expanding role in keeping AIG from bankruptcy, which government officials say would be disastrous for financial markets world-wide.

The bailout puts the U.S. in the unusual position of being both AIG's owner and lender. The two roles generally would favor the company prospering, but could involve conflicts.

As lender, the Fed is responsible for ensuring that AIG pays interest on its loan -- which has a hefty peg of the London interbank offered rate plus 8.5% -- and repays the central bank. A lender's interests would be served by AIG operating conservatively with a primary focus on loan payments.

As the company's controlling shareholder, the government -- which holds a 79.9% ownership stake -- might want to operate more aggressively to maximize AIG's value in both the near and long term. That would ensure that taxpayers, who effectively became shareholders by making the loan, have a better chance of being rewarded. The bailout also effectively makes the government a competitor with private firms in the global insurance business.

The trust arrangement could be one model for how the government manages potential ownership stakes in any financial institutions it might acquire in the months ahead. Trustees can help to insulate a company under government control from political influence and make decisions in the company's economic interest.

The trust structure isn't a first for the government. However, the unique federal involvement in AIG requires independent trustees to protect the interests of the insurer's shareholders, who are now primarily the taxpayers.

The AIG trustees would oversee the government's ownership stake and voting rights in the insurer. Eventually, the trust would sell the government shares, with the profits going into federal coffers. The trustees are expected to hire their own advisers.

AIG will maintain a board of directors, but the loan agreement allows the trustees to direct its makeup. The agreement requires the insurer "to use reasonable efforts" to make its board "satisfactory to the trust" within 10 days of the trust's creation, AIG said in a statement last month.

The Fed thus far has approached its role primarily from the perspective of a lender to ensure that its credit agreement is satisfied. But Fed officials expect to remain involved in discussions about asset sales because they are critical to the AIG loans being repaid.

AIG has two years to repay the loan, a period intended to let the company proceed deliberately and not sell in haste. Still, time isn't on its side. In recent weeks, credit markets have seized up and the stocks of several insurers -- potential asset buyers -- have been hammered. The future of AIG's subsidiaries remains in limbo, leaving them vulnerable to customer and employee defections that could reduce their value. The less AIG can get for its units, the more it may have to sell to repay the loan. Meanwhile, the insurer is on the hook for about \$1 billion a month in interest.

Friday, a person involved in the situation said many firms are interested in AIG's assets but there is essentially no financing and potential buyers are hoarding capital. A few parties interested in big assets were holding preliminary conversations, but those discussions are now on hold, another person familiar with the situation said.

A spokesman for AIG said, "We recognize it's a very difficult market, but we have terrific assets, and our plan is flexible."

After the loan deal was struck four weeks ago, the Federal Reserve Bank of New York, which is overseeing the loan, dispatched personnel across AIG's global empire to evaluate the company's risk-management procedures. AIG's risky financial-products unit triggered the firm's collapse.

The New York Fed has deployed staff inside AIG headquarters to work alongside the company's finance team and assess its cash flows, providing a direct view of how the loan money is being used. AIG's new chief executive, Edward Liddy, meets face to face at least once daily with a senior New York Fed executive to discuss the company's operations.

As of Wednesday, AIG had tapped \$70.3 billion from its \$122.8 billion in credit lines from the Fed.

AIG Is Sued by Shareholder Over Government Bailout

Nov. 5 (Bloomberg) -- American International Group Inc. violated shareholders' rights and Delaware law by accepting the federal government's bailout in exchange for a majority stake in the insurance company, an investor claimed in a lawsuit.

AIG's board violated Delaware corporate law by refusing to allow existing shareholders to vote on a key part of the bailout proposal, which gives a 79.9 percent stake to the government in return for \$85 billion in loans, investor Wilma Walker said in a complaint filed yesterday in Delaware Chancery Court in Wilmington. New York-based AIG, the nation's biggest insurer by assets, is incorporated in Delaware.

"All AIG shareholders stand to be disenfranchised and diluted out of existence as a result of the conduct of AIG's board of directors," Walker, a New York City resident, said in the complaint.

AIG got the \$85 billion in loans on Sept. 16 to stave off bankruptcy, company officials said. AIG needed cash after credit downgrades forced the insurer to post more than \$10 billion in collateral to clients who purchased guarantees on bonds that lost value as the U.S. economy declined.

The company also got access Oct. 8 to an additional \$37.8 billion from the federal government to shore up its securities-lending program. As part of the overall bailout package, senior AIG managers, including Chief Executive Officer Robert Willumstad, agreed to step down.

\$180 Billion Losses

The deal, backed by the U.S. Treasury Department, was designed to avoid wider chaos that threatened other financial companies. Industry losses could have totaled \$180 billion if AIG had collapsed, according to RBC Capital Markets.

Under AIG's deal with the government, a trust will hold shares of convertible preferred stock that represent the 79.9 percent stake, Joel Friedlander and Andre Bouchard, Walker's lawyers, said in the complaint. The government can vote those shares as if they are common stock to exercise control of the company, according to the suit.

AIG officials plan to issue the preferred shares and let them vote with existing common shareholders, according to the complaint.

"Absent judicial intervention, the transaction approved by AIG's board will be crammed down on the company's common stockholders in violation of basic principles of corporate law," Walker said in the complaint.

Shareholder Vote

Under Delaware law, common shareholders get to vote separately whenever a company seeks to increase its authorized shares of common stock, according to the complaint. Delaware judges "assiduously safeguard the voting rights of stockholders," Walker said in the complaint.

AIG's board also violated its legal duties to shareholders by agreeing to the bailout package without having common shareholders vote on the move, according to the complaint.

Walker seeks to have a judge throw out the conversion of the preferred shares into common stock without a shareholder vote, and find that AIG directors erred by agreeing to the deal.

AIG officials said earlier this year that they would consider selling the insurer's assets to repay the \$85 billion in loans and fees imposed by the bailout deal.

"Crippling Combination"

"The crippling combination of declining asset values and extremely poor market conditions make it difficult to consummate any sale of assets at an acceptable price," Greenberg said Oct. 30 in a letter to new CEO Edward Liddy.

The company also agreed to pay more than \$1.6 billion to settle allegations by former New York Attorney General Eliot Spitzer and the U.S. Securities and Exchange Commission that it misled shareholders and cheated workers' compensation programs.

The Delaware case is Wilma Walker v. American International Group Inc., CA4142 Delaware Chancery Court (Wilmington).

Judge Says Loss in AIG Scheme Exceeds \$500 Million

November 3, 2008

NEW HAVEN, Conn. (AP) -- Five former insurance executives tied to American International Group Inc. face up to life in prison under a financial manipulation scheme.

The potential lengthy prison terms are the result of a federal judge's ruling that AIG shareholders lost more than \$500 million under the scheme.

The ruling Friday by Judge Christopher Droney means the executives convicted of the scheme could face up to life in prison under advisory sentencing guidelines.

Four former executives of General Re Corp. and a former executive of AIG were convicted in February of conspiracy, securities fraud, mail fraud and making false statements to the Securities and Exchange Commission.

The guideline range and a sentencing date have not been set yet.

Effectiveness of AIG's \$143 Billion Rescue Questioned

By Carol D. Leonnig, The Washington Post

WASHINGTON - A number of financial experts now fear that the federal government's \$143 billion attempt to rescue troubled insurance giant American International Group may not work, and some argue that company shareholders and taxpayers would have been better served by a bankruptcy filing.

The Treasury Department leapt to keep AIG from going bankrupt on Sept. 16, and in the past seven weeks, AIG has drawn down \$90 billion in federal bailout loans. But some key AIG players argue that bankruptcy would have offered more structure and greater protections during a time of intense market volatility.

Echoing some other experts, Ann Rutledge, a credit derivatives expert and founding principal of R&R Consulting, said she is not sure how badly the financial system would have been rocked if the government had let AIG file for bankruptcy protection. But she fears that the government is papering over the problem with a quick fix that was not well planned.

The deal that the Treasury and the Federal Reserve Bank of New York pressed upon AIG was intended to stop any domino effect of financial institutions falling because of their business ties to AIG. The rescue allowed AIG to provide cash to huge banks and other players who had invested in rapidly souring mortgages insured by the company.

Early this year, investors had begun privately demanding that AIG pay off its billion-dollar guarantees. But in September, when the demands for cash reached a public crescendo, AIG admitted it didn't have enough cash to meet the obligations.

In the first weeks of its federal rescue, AIG has used the loan money to post collateral demanded by these firms, sources close to those deals say.

"No one else benefits," former AIG chief executive and major shareholder Maurice "Hank" Greenberg wrote to AIG's current chief executive on Thursday. "Unless there is immediate change to the structure of the Federal loan, the American taxpayer will likely suffer a significant financial loss."

Another concern is that in this depressed market, AIG, and the taxpayers that now own 80 percent of the company, will lose coming and going.

The company may be forced to borrow additional federal funds for rising payouts to counterparties. Neither the government nor AIG is releasing information about the specific amounts paid to individual firms, but numerous credit experts say that the value of those mortgage assets is probably declining every week. That means AIG has to pay a higher price as part of its guarantees.

The company also may be forced to sell many more assets at low, fire-sale prices. As part of its loan deal, AIG was to sell some assets -

valued at \$1 trillion before the crisis - to raise cash to pay off the loan.

AIG's Financial Products division is the primary villain in the company's free-fall. It made tens of billions of disastrously bad bets on mortgage investments but may not have carefully hedged those bets or properly estimated its risk. The company's rapid burn of \$90 billion also suggests that it grossly undervalued its obligations to counterparties in a worst-case scenario.

In February, internal notes show, board members discussed a growing dispute between AIG Financial Products and Goldman Sachs about the value of those assets when Goldman called for AIG to post collateral. AIG's chief financial officer warned of "Goldman's acknowledged desire to obtain as much cash as possible." But AIG's external accountants warned that it was they who alerted management to the dispute, not AIG Financial Products, and that the division was not properly considering the market in its pricing.

Rutledge warns that because there has been no public disclosure of AIG's payments to counterparties, it is impossible to know whether the pricing it is using now is proper.

The Federal Reserve and its advisers have acknowledged privately that things are not going according to plan. As AIG has rapidly eaten through the loan money, the Fed has twice expanded its original \$85 billion bailout - which itself was the largest government bailout of a private company in U.S. history. Earlier last month, the Fed reluctantly gave AIG \$38 billion more in credit for securities lending to try to keep the firm from drawing down its first Fed loan too quickly.

Then on Thursday, the Fed agreed to let AIG borrow \$20 billion from a larger commercial paper bailout fund it had set up days earlier for all institutions that lend money to each other.

If the company had filed for Chapter 11 bankruptcy protection, AIG could have frozen the crippling collateral calls, and shareholders would have had a chance at recovering some value from the company's 80 percent drop in stock price from earlier this year, said Lee Wolosky, a lawyer for AIG's largest shareholder, Starr International.

"AIG is nothing more than a pass-through being charged 14 percent interest," Wolosky said. "Company assets are eroding on a daily basis; asset sales have not begun and can only be at fire-sale prices in the current market."

But David Schiff of Schiff's Insurance Observer said he could not see how bankruptcy would have been a better solution.

"The point isn't to save AIG; it's to save the U.S. financial system. I think they were afraid to find out who else goes under if you let AIG fail," he said. "But right now, no one knows if this is going to work."

Rivals Snatch AIG Staff as Uncertainty Lingers

Insurer Says Personnel Defections Manageable

NEW YORK — Numerous senior underwriting executives have bolted from American International Group Inc. in recent weeks in an exodus that some departed executives and AIG's competitors expect to continue as many remaining AIG personnel circulate their resumes.

But senior AIG officials and several brokers said the company's 12,500 U.S. employees provide AIG a deep pool of talent from which it can draw replacements.

For example, Ralph Mucerino, the New York-based president of AIG Global Marine & Energy, said he filled two key open positions in his division with "two five-minute phone calls."

While many risk managers said they would not move their business, 30 to 40 AIG underwriting and claims officials have defected to competitors in recent weeks, Mr. Doyle acknowledged. AIG, however, considered only a half dozen of them "key" executives, a small percentage of the company's approximately 200 key personnel, he said.

It's still a talent churn that observers agree is much greater than normal.

Indeed, in several cases, teams of AIG executives have moved to other insurers.

For example, W.R. Berkley Corp. has picked up two teams.

The Greenwich, Conn.-based insurer created a worldwide property unit for energy risks and named former AIG executive Frank Costa as its president. Mr. Costa had been president of the AIG Oil Rig Division. AIG's Mr. Mucerino confirmed that Mr. Costa took three subordinates, including a senior manager, with him. Mr. Mucerino also said that another team of five executives, including three senior managers, left without disclosing where they were headed.

Berkley also established a professional liability underwriting facility and named John Benedetto president. Mr. Benedetto was a key AIG executive in his role as president of AIG Executive Liability's national accounts division. Other executives hired for the facility include Executive VP Steven P. Walsh, who had been the president of corporate accounts at Mr. Benedetto's AIG unit, and Senior VP Paul Brophy, who held the same title with the AIG unit.

Another group of AIG D&O executives recently joined ACE USA's Professional Risk unit in New York. Former AIG key executive Scott A. Meyer, who was president of AIG's Financial Institution Group and M&A Group, was named an executive vp at ACE; Steven F. Goldman, a former executive vp in AIG's Financial Institution Group, was named a senior vp; and former AIG executive Michael Mollica has been named an assistant vp at the ACE unit.

AIG also lost an aviation team to the Atlanta office of Allianz Aviation Managers, a division of Allianz Global Corporate Specialty.

William E. Lovett, another former key AIG executive in his role as president and chief executive officer of AIG Aviation (North America), now is the managing director at the Allianz unit. In addition, former AIG Aviation claims specialists Keith Wright and Peter Guy were named VP's at Allianz Aviation.

New York-based Allianz Aviation CEO Harold Clark said, "We've not gone out to make contact or have hired recruiters" in an effort to hire away AIG personnel. But Mr. Clark noted that he continues to receive resumes from AIG personnel and would consider them.

Berkley and ACE would not comment on whether they targeted AIG executives.

Citing recent discussions with current AIG personnel, a former AIG executive who worked in another area of the company said Mr. Clark's approach is consistent with other AIG competitors.

Many people at AIG are "looking for a new job," said the former executive, who didn't want to be identified.

That former executive and several others said the plunge in AIG stock value was an important factor in their decisions to leave the company.

Some also said that they left in part because they do not see how AIG can service its government debt without selling one or more of its core insurance units.

And even if AIG decides to sell those units, buyers may want to avoid merger problems by buying only renewal rights to books of business and cherry-picking just a few of the executives responsible for that business, observers say.

In addition, even if a buyer was interested in acquiring an AIG company, a deal would be tough to negotiate because portions of AIG units' capital are tied to assets that AIG has said it must sell to pay off the government loans, sources said.

D&O and aviation brokers said risk managers are concerned about the loss of their underwriting contacts at AIG and that some have refused to renew with AIG as a result. A few also have canceled their coverage midterm, brokers said.

But largely, there is no wholesale departure of D&O and commercial aviation policyholders from AIG, brokers said. However, uncertainty over AIG's future has prompted many risk managers for Fortune 500 companies to move corporate fleet coverage to other insurers, aviation brokers said.

AIG's Mr. Doyle said competitors are targeting AIG personnel. "I know for sure that competitors are approaching our people, but that's not a new phenomenon," he said, noting that senior management at many competitors has long included former AIG executives.

Mr. Doyle stressed, though, that AIG is not losing significant business, because departing executives cannot take clients with them.

In addition, many executives that AIG is tapping have more experience than those that have left, he said.

"We're not happy to lose any talented people, but it's not problematic," Mr. Doyle said.

AIG Quickly Using Up Fed's Billions

Analysts believe insurer knew of bigger losses

NEW YORK TIMES NEWS SERVICE
October 30, 2008

The American International Group is rapidly running through \$123 billion in emergency lending provided by the Federal Reserve, raising questions about how a company claiming to be solvent in September could have developed such a big hole by October.

Analysts say at least part of the shortfall must have been there all along, hidden by irregular accounting.

"You don't just suddenly lose \$120 billion overnight," said Donn Vickrey of Gradient Analytics, an independent securities research firm in Arizona.

Vickrey said he believes AIG already must have accumulated tens of billions of dollars in losses by mid-September, when it came close to collapse and received an \$85 billion line of credit from the Fed. That loan later was supplemented by a \$38 billion lending facility.

Losses on that scale do not show up in the company's financial filings. Instead, AIG replenished its capital by issuing \$20 billion in stock and debt in May and reassured investors that it had an ample cushion. It also said that it was making its accounting more precise.

Vickrey and other analysts are examining the company's disclosures for clues that the cushion was threadbare and that company officials knew they had major losses months before the bailout.

Tantalizing support for this argument comes from what appears to have been a behind-the-scenes clash at the company over how to value some of its derivatives contracts. An accountant brought in by the company because of an earlier scandal was pushed to the sidelines on this issue, and the company's outside auditor, PricewaterhouseCoopers, warned of a material weakness months before the government bailout.

The internal auditor resigned and is now in seclusion, a former colleague said. His account, from a prepared text, was read by Rep. Henry A. Waxman, D-Calif. and chairman of the House Committee on Oversight and Government Reform, in a hearing this month.

These accounting questions are of interest not only because taxpayers are footing the bill at AIG but also because the postmortems may point to a fundamental flaw in the Fed bailout: The money is buoying an insurer - and its trading partners - whose cash needs easily could exceed the existing government backstop if the housing sector continues to deteriorate.

Edward M. Liddy, the insurance executive brought in by the government to restructure AIG, already has said that although he does not want to seek more money from the Fed, he may have to do so.

Fear that the losses are bigger and that more surprises are in store is one factor beneath the turmoil in the credit markets, market participants say.

"When investors don't have full and honest information, they tend to sell everything, both the good and bad assets," said Janet Tavakoli, president of Tavakoli Structured Finance, a consulting firm in Chicago.

AIG has declined to provide a detailed account of how it has used the Fed's money. The company said it could not provide more information ahead of its quarterly report, expected next week. The Fed releases a weekly figure, most recently showing that \$90 billion of the \$123 billion available has been drawn down.

AIG has outlined only broad categories: Some is being used to shore up its securities-lending program, some to make good on its guaranteed investment contracts, some to pay for day-to-day operations and - of perhaps greatest interest to watchdogs - tens of billions of dollars to post collateral with other financial institutions, as required by AIG's many derivatives contracts.

No information has been supplied yet about who these counterparties are, how much collateral they have received or what additional tripwires may require even more collateral if the housing market continues to slide.

Tavakoli said she thought that instead of pouring in more and more money, the Fed should bring AIG together with all its derivatives counterparties and put a moratorium on the collateral calls.

Of the two big Fed loans, the smaller one, the \$38 billion supplementary lending facility, was extended solely to prevent further losses in the securities-lending business. So far, \$18 billion has been drawn down for that purpose.

A spokesman for the insurer, Nicholas J. Ashooh, said AIG did not anticipate having to use the entire \$38 billion facility.

For securities lending, an institution with a long time horizon makes extra money by lending out securities to shorter-term borrowers. The borrowers are often hedge funds setting up short trades, betting a stock's price will fall. They typically give AIG cash or cashlike instruments in return. Then, while AIG waits for the borrowers to bring back the securities, it invests the money.

In the past few months, borrowers came back for their money, and AIG did not have enough to repay them because of market losses on its investments. Through the secondary lending facility, the insurer is now sending those investments to the Fed, and getting cash in turn to repay customers.

The biggest portion of the Fed loan apparently is being used as collateral for AIG's derivatives contracts, including credit-default swaps.

The swap contracts are of great interest because they are at the heart of the insurer's near collapse and even AIG does not know how much

could be needed to support them. They are essentially a type of insurance that protects investors against default of fixed-income securities. AIG wrote this insurance on hundreds of billions of dollars' worth of debt, much of it linked to mortgages.

Through spring and summer, the company said it still was gathering information about credit-default swaps and tucked references of widening losses into the footnotes of its financial statements: \$11.4 billion at the end of 2007, \$20.6 billion at the end of March, \$26 billion at the end of June. The company emphasized that the losses were theoretical: No cash had actually gone out the door.

"If these aren't cash losses, why are you having to put up collateral to the counterparties?" Vickrey asked in a recent interview.

The fact that the insurer had to post collateral suggests that the counterparties thought AIG's swaps losses were greater than disclosed, he said. By midyear, the insurer had been forced to post collateral of \$16.5 billion.

New York Allows American International Group to Borrow from Subsidiaries

The Associated Press - September 15, 2008

CHARLOTTE, N.C. - American International Group Inc. will be allowed to use US\$20 billion of assets held by its subsidiaries to provide cash needed for the troubled insurer to stay in business, New York Gov. David Paterson said Monday.

The move comes as AIG reviews its operations and discusses alternatives with outside parties, reportedly including Warren Buffett's Berkshire Hathaway Inc., to shore up its business amid concern the world's largest insurer could need billions of dollars to strengthen its balance sheet.

Paterson asked New York state insurance regulators to essentially allow New York-based AIG to provide a bridge loan to itself. The governor has also asked the head of New York's insurance department to talk with federal regulators about providing an additional bridge loan to AIG.

"AIG still remains financially sound," Paterson said.

The move will allow AIG to use those assets as collateral to borrow cash to fund its day-to-day operations, Paterson explained.

It also helps AIG by "giving them what they need most, which is time," said Keefe Bruyette & Woods analyst Cliff Gallant, who added that the relaxation of insurance regulations is "unprecedented."

Typically, a state insurance commissioner's priority is to protect the policyholder, and that includes making it very difficult for an insurer to access the funds that are used to pay claims.

AIG could face significant claims from Hurricanes Ike and Gustav, which have battered the Gulf Coast. But "AIG is a big company, and I would expect they will be able to meet their claims," Gallant said.

"Those events do not cause an immediate cash problem for the company," he added.

If an insurer cannot pay its claims, the state's insurance fund, which is backed by other insurance companies that do business in the state, would help pay off policyholders.

"If anyone's been put at risk, it's the other insurance companies who do business in the state," Gallant said.

AIG has been battered over the past year by billions of dollars of losses tied to deterioration in the mortgage and credit markets.

On Friday, Standard & Poor's warned that it could cut AIG's credit rating by one to three notches because of concerns that AIG will have difficulty accessing capital in the short term.

AIG is in a precarious position, in part, because of a potential downgrade to its credit ratings and how that would affect its portfolio

of financial instruments known as credit default swaps. The swaps are essentially insurance coverage to protect investors against defaulting bonds or debt.

For the three quarters ended in June, AIG lost about \$25 billion in the value of credit default swaps.

As a seller of the swaps, investors go to AIG to insure bonds or debt they hold. As part of those swaps, AIG must maintain certain credit ratings. If AIG's ratings are cut, the insurer must put up more collateral or repay the contracts. The credit ratings clause is essentially a hedge against failure by AIG to pay out any claims on the swaps.

AIG estimated a one-notch downgrade by both S&P and Moody's Investors Service would force it to post \$13.3 billion in extra collateral to cover swaps, according to a regulatory filing.

Another ratings agency, Fitch Ratings, on Monday night cut its long-term issuer default rating for AIG to "A" from "AA-."

S&P: Ratings on American International Group Lowered and Kept on CreditWatch Negative

NEW YORK, Sept. 15 /PRNewswire/ -- Standard & Poor's Ratings Services said today that it lowered its long-term counterparty rating on American International Group Inc. (NYSE: AIG - News) to 'A-' from 'AA-' and its short-term counterparty credit rating on AIG to 'A-2' from 'A-

Standard & Poor's also said that it lowered its counterparty credit and financial strength ratings on most of AIG's insurance operating subsidiaries to 'A+' from 'AA+'.

All of these ratings remain on CreditWatch with negative implications, where they were placed on Sept. 12, 2008.

"The main reason for the rating actions is the combination of reduced flexibility in meeting additional collateral needs and concerns over increasing residential mortgage-related losses," explained Standard & Poor's credit analyst Rodney A. Clark. Mark-to-market losses from mortgage-related investments and swap exposures have placed significant pressure on AIG's ability to access capital and liquidity. This is happening concurrently with significant dislocation across the financial markets. Despite these factors, the ratings also reflect the group's strong and diversified global competitive position in life and general insurance as well as its historically strong operating results.

This action follows an announcement by the New York Department of Insurance that it would permit some of AIG's regulated insurance subsidiaries to provide the parent with \$20 billion of liquid investments. This will permit the parent company to satisfy immediate liquidity needs, including possible collateral requirements by its AIG Financial Products Corp. (AIG-FP) subsidiary. However, at the same time, it will reduce the insurance subsidiaries' capital resources, at least temporarily. Assuming current market conditions persist, we expect that AIG will continue to pursue additional access to liquidity and the sale of certain businesses to cover potential further investment losses.

The primary source of the strain comes from credit default swaps covering multi-sector collateralized debt obligations with mortgage exposure as well as insurance company holdings of residential mortgage-backed securities (RMBS). Standard & Poor's continues to view the reported market-value losses on CDS of more than \$25 billion and \$12 billion of impairments on RMBS to exceed the ultimate economic loss. Although some recoveries are likely, given continued depressed market values, it is unlikely that any gains will be recorded before late 2009 or 2010.

"The ratings remain on CreditWatch pending the completion of the asset transfer to the parent, the implementation of further liquidity options, and the successful sale of at least a portion of the business assets," Mr. Clark added. "If these steps are successful and if the deterioration in mortgage-related assets appears to be manageable with the newly raised capital, then we could removed the ratings from CreditWatch and affirm them. However, if these steps are not successful or if mortgage-related losses continue to worsen, then we could lower the ratings into the 'BBB' category."