

## Minutes of the Financial Stability Oversight Board Meeting March 1, 2009

A meeting of the Financial Stability Oversight Board (“Board”) was held telephonically on Sunday, March 1, 2009, at 2:00 p.m. (EST).

### MEMBERS PARTICIPATING:

Mr. Bernanke, Chairperson  
Mr. Geithner  
Mr. Donovan  
Ms. Schapiro  
Mr. Lockhart

### STAFF PARTICIPATING:

Mr. Treacy, Executive Director  
Mr. Fallon, General Counsel  
Mr. Gonzalez, Secretary

### AGENCY OFFICIALS PARTICIPATING:

Mr. Kashkari, Interim Assistant Secretary of the Treasury for Financial Stability and Assistant Secretary of the Treasury for International Economics and Development

Ms. Abdelrazek, Senior Advisor to the Interim Assistant Secretary of the Treasury for Financial Stability and Assistant Secretary of the Treasury for International Economics and Development

Mr. Lambright, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Mr. Knight, Assistant General Counsel, Department of the Treasury

Mr. Alvarez, General Counsel, Board of Governors of the Federal Reserve System

Mr. Ashton, Deputy General Counsel, Board of Governors of the Federal Reserve System

Mr. Wilcox, Deputy Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Ms. Barger, Deputy Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System

Mr. Daly, Assistant General Counsel, Department of Housing and Urban Development

Mr. Scott, Senior Advisor to the Chairman, Securities and Exchange Commission

Mr. Becker, General Counsel and Senior Policy Director, Securities and Exchange Commission

Mr. Sirri, Director, Division of Trading and Markets Regulation, Securities and Exchange Commission

Mr. DeMarco, Chief Operating Officer and Deputy Director for Housing Mission and Goals, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 2:05 p.m. (EST).

Using materials provided, officials from the Department of the Treasury (“Treasury”) provided a briefing on the recent actions taken by Treasury to promote financial stability by strengthening the capital structure of Citigroup, Inc. (“Citigroup”) through the exchange and conversion of certain preferred shares currently held by Treasury under the Troubled Asset Relief Program (“TARP”) for other equity securities of Citigroup. Treasury officials noted that the exchange transactions would increase the company’s tangible common equity - a key financial measure - and would not involve any new outlay of TARP funds. During the briefing, Members and officials reviewed and discussed the terms and conditions of Treasury’s participation in the exchange offering announced by Citigroup on February 27, 2009. For example, Treasury officials noted that, as part of the transaction, certain private holders of Citigroup preferred stock would exchange up to \$27.5 billion in preferred stock for common stock at \$3.25 per share. Treasury officials also noted that Treasury would exchange its securities on terms that were at least as favorable as those offered to private investors.

Under the terms of the exchange, Treasury would convert up to \$25 billion of the Citigroup preferred shares Treasury received under the Capital Purchase Program (“CPP”) into a new security that will convert on a one-to-one basis to common shares, pending a shareholder vote to amend the Citigroup charter to allow for an increase in the number of authorized common shares. Additionally, Treasury would exchange the \$20 billion in Citigroup preferred shares Treasury received under the Targeted Investment Program (“TIP”), as well as the preferred

shares Treasury received under the Asset Guarantee Program (“AGP”), for trust preferred shares that would provide greater structural seniority for the taxpayer and would carry the same 8 percent cash dividend rate as the existing preferred shares. Officials also noted that Citigroup would remain eligible to participate in the Capital Assistance Program (“CAP”) established by Treasury, and would be undergoing stress-testing as part of the program.

Using materials provided, Chairperson Bernanke, Mr. Geithner and other officials from the Board of Governors of the Federal Reserve System (“Federal Reserve”) and Treasury then briefed and discussed with the other Members of the Board certain actions that Treasury and the Federal Reserve expected to announce the following morning to help promote financial stability by restructuring the U.S. government’s financial support to American International Group, Inc. (“AIG”). During the briefing, Members raised and discussed various matters related to AIG, its financial condition, and the terms and conditions of the expected actions.

As part of the briefing, Chairperson Bernanke and other Federal Reserve officials reviewed the steps taken by the Treasury and the Federal Reserve since September 2008 to address the significant liquidity and other pressures facing AIG and to prevent a disorderly failure of this systemically significant firm. Members reviewed and discussed, among other things, the situation at AIG and in the financial markets in September 2008, when U.S. Government assistance was first provided to AIG, the deterioration in the

financial markets in the fourth quarter of 2008, and the impact of such deterioration on AIG. Members also discussed the overall capital structure of AIG and the status of AIG's global divestiture program, including the status of AIG's efforts to wind down its financial products unit. Members and officials also reviewed and discussed the harm to policyholders, taxpayers, the financial system and the broader economy that would result from a disorderly failure of the company, and the consideration given to these risks in developing the proposed actions.

Using the materials provided, Federal Reserve officials then described the changes that the Federal Reserve expected to announce with respect to the senior revolving credit facility that initially was established for AIG in September 2008. These changes included, among other things, a reduction of the total amount available under the credit facility from \$60 billion to \$25 billion after the planned restructuring actions, and a modification of the interest rate on the facility through the removal of the existing floor (3.5 percent) on the LIBOR component of the facility's interest rate. Federal Reserve officials also reviewed with the Members the planned transactions under which the Federal Reserve would accept preferred interests in two special purpose vehicles ("SPVs") that AIG would create to hold all of the outstanding common stock of American Life Insurance Company ("ALICO") and American International Assurance Company Ltd. ("AIA"), two insurance subsidiaries of AIG, in return for a reduction in an equivalent amount of AIG's borrowing under the existing revolving credit facility. Officials explained that ultimate valuation for the preferred stock interests, currently

estimated to be approximately \$26 billion, will be a percentage of the fair market value of ALICO and AIA determined based on valuations acceptable to the Federal Reserve.

Officials and Members also reviewed other aspects of the proposed restructuring, including the extension of up to approximately \$8.5 billion in credit by the Federal Reserve to SPVs 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 Federal Reserve's loan would pay down an equivalent amount of outstanding debt under the revolving credit facility. Officials noted that the amounts lent, the size of the haircuts taken by the Federal Reserve, and other terms of the loans would be determined based on valuations acceptable to the Federal Reserve. Officials also noted that the proposed restructuring would facilitate AIG's ongoing restructuring and that the revolving credit facility was expected to remain fully secured after the transactions.

Treasury officials then described the proposed actions that Treasury would take, in connection with the actions taken by the Federal Reserve, to improve AIG's financial leverage and equity capital and facilitate separation of AIG's non-core businesses. Members and officials reviewed and discussed the equity capital facility that Treasury proposed to create under the TARP for AIG, which would permit AIG to obtain up to \$30 billion of new capital as needed over the 5-year life of the facility in exchange for newly-issued non-cumulative preferred stock.

Treasury officials reviewed and discussed the terms of the facility and the steps taken to protect the interests of taxpayers. As required by the Emergency Economic Stabilization Act (“EESA”), Treasury would also receive warrants to purchase AIG common stock as part of the transaction. Treasury officials also explained that, as part of the restructuring, Treasury would exchange the \$40 billion of cumulative perpetual preferred shares that Treasury acquired in November 2008, under the Systemically Significant Failing Institutions Program (“SSFI”), for preferred shares with revised terms that more closely resemble common equity. The new terms would provide for non-cumulative dividends and limit AIG’s ability to redeem the preferred stock except with the proceeds from the issuance of equity capital.

Members and officials also discussed the impact of the proposed actions on the amount of funds available under the TARP, and the current allocation of funds by Treasury among TARP programs, including the CPP, and the timing and prospects of additional asset purchases, investments or other actions under the TARP.

The meeting was adjourned at approximately 2:40 p.m. (EST).

[Electronically Signed]

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Jason A. Gonzalez  
Secretary