

Minutes of the Financial Stability Oversight Board Meeting November 9, 2008

A meeting of the Financial Stability Oversight Board (“Board”) was held at the offices of the United States Department of the Treasury (“Treasury”) on Sunday, November 9, 2008, at 4:00 p.m. (EST).

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Paulson
Mr. Cox
Mr. Preston
Mr. Lockhart

STAFF PRESENT:

Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

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

Mr. Fromer, Assistant Secretary of the Treasury for Legislative Affairs, Department of the Treasury

Mr. Hoyt, General Counsel, Department of the Treasury

Mr. Albrecht, Counselor to the General Counsel, Department of the Treasury

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

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

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

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

Mr. Greenlee, Associate Director, Division of Banking Supervision & Regulation, Board of Governors of the Federal Reserve System

Mr. Cartwright, General Counsel, Securities and Exchange Commission

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

Mr. Montgomery, Assistant Secretary for Housing and Commissioner of the Federal Housing Administration, Department of Housing and Urban Development

Mr. Borchert, Senior Advisor to the Secretary of the Department of Housing and Urban Development

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 4:05 p.m. (EST).

The Board first considered the proposed minutes for the meeting of the Board held on October 22, 2008, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members unanimously voted to approve the minutes of the meeting held on October 22, 2008, subject to such technical amendments as may be received from the Members.

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

As part of this briefing, agency officials provided certain background information concerning AIG, its business operations, and the size and scope of its relationships with other domestic and international financial institutions. Federal Reserve officials also reviewed the steps previously taken by the Federal Reserve to address the significant liquidity pressures facing AIG and avoid a disorderly failure of AIG. These officials also discussed the reasons why the

Federal Reserve, with the support of the Treasury Department, had taken such actions in light of the conditions prevailing at the time. As part of this discussion, Federal Reserve officials provided an overview of the terms and conditions of the \$85 billion revolving credit facility authorized for AIG on September 16, 2008, and the \$37.8 billion securities borrowing facility authorized for AIG on October 6, 2008.

Members and officials also discussed the effect of the continuing market turbulence and decline in the value of mortgage-related assets on AIG, as well as the continuing potential risks to the financial system and the broader economy that would result from a disorderly failure of AIG. Chairperson Bernanke, Mr. Paulson, and officials of the Federal Reserve and Treasury explained that the actions to be announced were designed to provide AIG a more durable capital structure, address certain pools of assets and exposures that had contributed significantly to the liquidity and capital pressures of the company, and facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner with the least possible disruption to the overall economy. These officials explained that the objective of the package of actions was to provide stability to financial markets, support economic growth and protect American jobs, savings and retirement security. Officials also noted that the form and terms of the package had been crafted to protect the interest of taxpayers to the maximum extent possible.

Federal Reserve officials described the changes that the Federal Reserve expected to announce with respect to the credit facility established

for AIG on September 16, 2008. These actions included a reduction in the maximum amount of credit available under the facility from \$85 billion to \$60 billion, a reduction in the interest rate and fees payable under the facility, and an extension of the term of the facility. Federal Reserve officials also reviewed the collateral arrangements for this credit facility.

In addition, Federal Reserve officials described the scope, terms, and collateral and security arrangements of two new lending facilities the Federal Reserve expected to establish for AIG under section 13(3) of the Federal Reserve Act. The first of these facilities (the “RMBS facility”) would address the ongoing liquidity and capital pressures posed by approximately \$23.5 billion of residential mortgage-backed securities acquired with the cash collateral obtained through the securities lending operations of certain of AIG’s regulated insurance subsidiaries. Federal Reserve officials explained that establishment of the RMBS facility would eliminate the need for the \$37.8 billion securities borrowing facility established on October 8, 2008, and that, accordingly, this securities borrowing facility would be wound down and terminated. The second new facility to be established by the Federal Reserve (the “CDO facility”) would involve up to \$30 billion of senior Federal Reserve financing and would address the liquidity and capital pressures resulting from AIG’s exposure to credit default swaps on multi-sector collateralized debt obligations (“CDOs”).

Treasury officials then described the terms and conditions of the \$40 billion preferred stock investment that Treasury expected to make in AIG using the new

authority granted by the EESA, which authority was not available prior to October 3, 2008. Among other things, Treasury officials reviewed the dividends payable on the preferred stock, as well as restrictions on the ability of AIG to pay dividends on or repurchase other securities. Treasury officials also reviewed the terms of the warrants to purchase common stock of AIG that Treasury would receive in connection with the investment, as required by the EESA. Treasury officials explained that the investment in AIG would be made under guidelines established under the TARP to assist systemically significant failing institutions.

Treasury officials and Members then reviewed and discussed the restrictions that would apply to AIG under the terms of the investment, including restrictions on corporate expenses, restrictions on lobbying, and limitations on executive compensation that would apply under EESA, as well as the additional limitations that would apply to senior executive compensation and bonuses. In addition, AIG would be required to comply with certain corporate governance requirements, including the formation of a risk management committee under the company’s Board of Directors.

Members and officials also discussed the impact of the Treasury investment on the amount of funds available under the TARP, and the timing and prospects of asset purchase and other programs under the TARP. In addition, Members discussed the manner in which investments under the TARP would be sold and the budgetary treatment of the receipts from such sales.

The meeting was adjourned at approximately 5:10 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary