- When the AAA credit rating disappeared in spring 2005, it would have been logical for AIG to have exited or reduced its business of writing credit default swaps. Indeed, AIG acknowledged the new risk it faced of having to post additional collateral to counterparties:

  "The downgrade in AIG's long-term senior debt ratings will adversely affect AIGFP's ability to compete for certain businesses. Credit ratings are very important to the ability of financial institutions to compete in the derivative and structured transaction marketplaces. Historically, AIG's triple-A ratings provided AIGFP a competitive advantage. The downgrades will reduce this advantage and, for specialized financial transactions that generally are conducted only by triple-A rated financial institutions, counterparties may be unwilling to transact business with AIGFP except on a secured basis. This could require AIGFP to post more collateral to counterparties in the future." AIG 2004 10-K, filed 5/31/05, at 90.

- However, despite these acknowledged concerns, AIG -- according to several published reports -- drastically accelerated its credit default swap business for the remainder of 2005. As *Time* magazine pointed out in its March 30, 2009 cover story on AIG:

  "...[AIGFP head Joseph] Cassano's unit doubled down after the spring of 2005, writing more and more subprime-linked swaps as the ratings plunged, which made the possible need for collateral enormous in the event its debt was downgraded. The downgrades occurred in 2008." (*See* "How AIG Became Too Big to Fail," *Time*, March 30, 2009.)

- Significantly, the quality of what AIG wrote protection for deteriorated.

  "The consumer loan piles that Wall Street firms, led by Goldman Sachs, asked AIG FP to insure went from being 2 percent subprime mortgages to being 95 percent subprime mortgages. In a matter of months, AIG FP, in effect, bought $50 billion in triple-B-rated subprime mortgage bonds by insuring them against default. And yet no one said anything about it—not AIG CEO Martin Sullivan, not the head of AIG FP, Joe Cassano, not the guy in AIG FP's Connecticut office in charge of selling his firm's credit default swap services to the big Wall Street firms, Al Frost. The deals, by all accounts, were simply rubber-stamped inside AIG FP, and then again by AIG brass. Everyone concerned apparently assumed they were being paid insurance premiums to take basically the same sort of risk they had been taking for nearly a decade. They weren't. They were now, in

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Subsequent downgrades occurred in 2008. "In the third quarter of 2008, S&P, Moody's, Fitch and A.M. Best Company (A.M. Best) each downgraded the credit ratings of AIG Inc. and most of the Insurer Financial Strength Ratings of AIG's insurance operating subsidiaries. In particular, S&P downgraded AIG's long–term debt rating by three notches, Moody's downgraded AIG's long–term debt rating by two notches, Fitch downgraded AIG's long–term debt rating by two notches and A.M. Best downgraded AIG's issuer credit rating from a+ to bbb and most of AIG's Insurer Financial Strength Ratings from A+ to A." AIG 2008 10-K, filed 3/2/09, at 22-23.