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Subject: Re: AIG and the discount window7BDE7A7EA83FFF6A852577120067E528

Answers:

AIG will have liquidity stress following downgrade from (a) collateral posting of about $15 billion (b) loss of access to credit lines (c) potential run of investors funding repo positons of $60 billion (d) wider asset spreads as markets anticipate asset sales.

The Citi research piece suggets the could raise $20 billion by selling subs, but this is much less than their true value given distressed markets. Citi also notes that the firm could also hedge CDO risk with little effect on capital as these positions have been written down to fair value. A capital raise now would be highly dilutive given market prices, but I don't think we can justify access to the window based on the fact that shareholders don't want diluiton.

I think that a case can be made to lend to them given the potential market disruptions of the unwind. However, if we do lend to them, it should have covenants requiring they give up all or part of the upside of the CDO exposures, and/or raise capital by selling subs or issuing equity.

Im in the bank if you want to talk about this further.

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