

MEMORANDUM FOR THE RECORD (“MFR”)

Event: Interview with Joseph St. Denis

Type of Event: Group Interview

Date of Event: April 23, 2010 10:00 a.m. - 12:00 p.m.

Team Leader: Chris Seefer

Location: FCIC, large conference room

Participants - Non-Commission: Joseph St. Denis, Fiona A. Philip (Howrey, LLP)

Participants - Commission: Chris Seefer, Tom Stanton, Al Crego, Jane Poulin, Clara Morain

Date of MFR: April 30, 2010

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted except where clearly indicated as such.

Summary of the Interview or Submission:

The following are highlights of the interview:

- AIG was developing a valuation model for its Super Senior CDS September 2007 and did not have a valuation model before then. St. Denis explained that AIG simply used a VAR model as an early warning indicator because no one thought there could ever be losses on the SSCDS since AIG was only insuring the tranche that was senior to the AAA tranche.
- In September 2007, AIG received a \$2 billion margin call from Goldman and paid about \$300 million. St. Denis said he was stunned to hear about the margin call and he was stunned to hear that AIG posted collateral.
- St. Denis thought that Cassano’s statements during the December 5, 2007 conference call were inappropriate. Cassano said that collateral calls were illegitimate, which St. Denis found to be ill-advised, especially since AIG had paid a portion of the calls and the company had no model to value the SSCDS.
- St. Denis recalls that compensation at AIG FP was 30% of net operating income, and that losses were not taken into account, so the bonus pool was effectively a CDS sales commission.
- St. Denis stated that Cassano ran everything in AIG FP and was “the absolute ruler” of the company.

Chris Seefer opened the meeting by thanking Mr. St. Denis for his time and explaining the FCIC's mandate, noting specifically its charge to study financial institutions that failed or would have failed but for the receipt of exceptional governmental assistance. He then asked Mr. St. Denis to provide an overview of his professional background.

Mr. St. Denis said that after earning his MBA at the University of Colorado, he worked for five years at Coopers & Lybrand (now PwC). From 1997-1998, he worked for a short-lived tech startup called Superconductor Core Technologies. In 1998, he accepted a position with the SEC in Washington DC. He left the SEC in 2004 at which point he was an Assistant Chief Accountant in the SEC's enforcement division. He then worked for a year in New York as Senior Director of Accounting Research and Policy in the Credit Policy Group at Fitch Ratings. He returned to Washington, DC in 2005 and worked as an Associate Director at the Public Company Accounting Oversight Board (PCAOB). In May of 2006, he said he was contacted by a recruiter about a position at AIG Financial Products (AIG FP). He worked at the Connecticut headquarters for 15 months, and resigned on October 1, 2007. Since his resignation, Mr. St. Denis has worked at PCAOB where he holds the position of Director of Research and Analysis.

Chris asked Mr. St. Denis to summarize his responsibilities at AIG FP, the people with whom he worked at AIG FP, and who among his former colleagues shared some of the concerns he outlined in his October 4, 2008 letter to the then-House Oversight Committee Chairman Henry Waxman. Reiterating what he wrote in the October 4th letter, Mr. St. Denis said that he had responsibility for documenting the accounting for AIG FP's proposed transactions, contributing to accounting policy, and working with AIG FP's Transaction Review Committee, which was responsible for evaluating and documenting the accounting for proposed transactions by customers of AIG FP. He said that during his time at AIG FP, Financial Services Division CEO Elias Habayeb was "functionally" his direct supervisor. He said that Anthony Valoroso led the Office of Accounting Policy, and that he interacted with Patrick Donovan on Mr. Valoroso's staff. He said that "Elias would be a very good person to talk to. We had some pretty candid conversations, and he had some of the same concerns I did. He was on the outside. He looked to me, as did the [Office of Accounting Policy] as the honest broker, the guy who provided transparency. Valoroso said on a couple occasions that I was the reason I could sleep at night. He was head of AIG Inc. Elias said similar things... he's a very smart, very experienced guy who could really -- who knows a lot."

Chris asked if Mr. St. Denis had any responsibility for FP's public reporting, and he said the he did not. He said that Mr. Habayeb expressed that he wanted Mr. St. Denis to work on the financial reporting but that he was unable to because of time constraints, and because he was not with the company long enough. Chris asked if Mr. St. Denis if he talked to others at FP about problems in the company's public reporting. Mr. St. Denis said that the conversations he had about problems with financial reporting were "more along the lines of mechanical problems, problems closing the books, errors in the roll-up -- that generally involved some all nighters for accounting guys."

Chris asked if Mr. St. Denis thought there were problems with the way AIG FP accounted for its super senior CDS book. He said the way the super senior CDS was accounted for prior to FAS 157 was basically at cost. "So what is cost? Well it's zero, so what you do is put the contract on

the books and as premiums flow in, it's recorded as income, and on the balance sheet it's at zero because – and I did a memo on this - the reason is that under EITF02-3 which is the predecessor to 157, if you didn't have a liquid market to get a price, you couldn't book a day-1 gain and create a balance sheet value unless you had a loss. Initially, at least, it was felt that these things were in an aggregate unrealized gain position” so essentially, there wasn't a need to account for the value of the super senior CDS. Chris asked how 157 changed things. Mr. St. Denis said that “on January 1, 2008, FAS157 took effect... the thing about the old [way] was that it created complacency because you couldn't realize a gain. 157 said you really have to figure this out now, to do some modeling. So there was pressure from corporate – Elias and Donovan – to figure this out and get this documented, to get the models working correctly. At the same time, credit markets were falling apart. The first signs of the subprime crisis were becoming apparent -- although no one thought that imminent losses were burgeoning in the super senior tranches -- so there was a push on to get valuations figured out. But no one was thinking we had losses.”

Mr. St. Denis said that it was AIG FP's practice prior to FAS 157 to monitor its super senior CDS “on quarter basis through the VaR model, which isn't really a valuation model, it just tracks ratings migration in the underlying collateral. So when all of the tranches are above AAA, if I run my VaR model, I see things starting to move – that's a warning sign.” Tom Stanton asked if “things started to move” before Mr. St. Denis resigned from the company. He said, “ya, it was starting to move, there wasn't a big, giant move but it was certainly starting to move. The big thing that really changed my entire conception about what was going on was the margin call that came in from Goldman Sachs.” He said that Goldman made a \$2 billion collateral call, and AIG paid about \$300 million. He said that AIG's agreement to pay Goldman was the “most stunning fact.”

Chris asked if it was only Goldman Sachs who made a margin call and Mr. St. Denis said that he wasn't sure. “I know now that it was Goldman Sachs, I'm not sure if I knew that then. I don't remember, but I think I knew then, I'm just not sure now of the details.” He said that “all of the super senior were in place before I got there, or at least there could've been new tranches, but the contracts were already in place. I was the new deal guy, so I never got a chance to dig back into those contracts, but I always heard they were totally bullet proof, really just an arbitrage device. And I didn't have any reason to question that because it was consistent with other low-probability derivatives deals I was involved in. These guys designed those deals so that there was no way anything could go wrong, so I assumed the super senior were designed in a similar way. I was shocked that AIG wouldn't say there was fraud in the offering, I was shocked they would enter into any contract that would obligate them to enter margin calls at all -- I was floored.” He said that it was his understanding that the contracts were entered into by people in AIGFP's London office before he arrived at the company.

Chris asked if it was Mr. St. Denis's understanding that AIG stopped writing new CDS in 2005. Mr. St. Denis said, “yes, there was new business on old contracts though. So what that means is that I've got a contract with Goldman and I've got, say \$100 million in notional in there in this contract, say they're all German mortgages between 250 and 500 Euros, LTVs of 70, etc. I'm going to add another \$200 million on top of that, of all the same stuff – but those would all be new trades on top of the existing agreement.” Chris asked if collateral would change over time pursuant to the new contracts. He said, “that happens with any contract with an amortizing asset

base. It basically is, 'we'll agree on the terms.' What I was concerned with was the original terms. Once the relationship is established and the contract is entered into, it's set. I didn't see the terms, though, I would only see trade records. So I think what you're talking about is that AIG stopped writing super senior CDS protection on subprime, on multi-sector CDO stuff that contained subprime."

Chris asked if there was a report generated within AIG that summarized its CDS positions and how they changed over time. Mr. St. Denis said, "I haven't seen such a report if there is one. The only thing I regularly saw was the VaR analysis – and remember, that did go through each deal, it gave the notional, and any collateral that had fallen out of the super senior. I would imagine that the risk people at corporate were getting some kind of report like that. Andrew Forster would be a good guy to talk to about that. He's in London, he was the chief of the super senior, the big credit guy." He added that Bob Lewis, AIG's Chief Risk Officer, and Kevin McGinn would also be good people to ask.

Tom Stanton asked if Mr. St. Denis ever interacted with people responsible for risk management. "It was pretty minimal," he said. "I never met Kevin McGinn, [I was] on some phone calls with him but I never met him... that was really a separate track I didn't have much interaction with. The only time that it really all came [together] was at the end – before that, the mantra was always that there could never be any losses on the super senior. I'm seeing other low-probability contracts but I never looked at super senior contracts." He added that he became a member of the "Second Loss Committee or something like that – there was a group called the second loss review book committee or something, and I got involved at that in the very end, and that's when we looked at the super senior CDS." He explained that "if you've got a position, say a 100-year swap and you want to book a day-1 gain, you can only do that if you transact 10% of it – and that never happened with super senior. Nobody at AIG had any interest in it, we were making \$250 million in premiums on this stuff and 30 percent [of revenues] went into the bonus – so 30 cents of each dollar in operating profit went into comp – so of course they don't want to mark to market, they didn't want any of that to go into bonus calculation," he said.

Chris asked if Mr. St. Denis had seen written documentation of that compensation structure, and he replied that "That's what I was told. Mark Balfan told me that – just common knowledge. I've seen it in the Washington Post article too. I mean, everyone makes \$125,000 and your bonus was -- you sort of live thrifty and then you get the bonus. Again, I got my understanding of it from the Post. I think Greenberg worked it in the 80s, but only for Financial Products. And there was no equity - 30% straight cash, some of it deferred. To my knowledge, I didn't know of anyone at AIG FP who got options – all cash comp." Chris asked if there was any other stock compensation, and Mr. St. Denis said "not that I know of."

Noting that Mr. St. Denis writes in his October 4, 2008 letter that he was gravely concerned about the margin call from Goldman because the mantra was that there could never be losses on super senior CDS, Chris asked if there were any other reasons for his concerns other than what he had mentioned already. He said, "sort of what was the lore? I can tell you -- you know, Cassano had been telling us that as the collateral underlying the super senior CDS declined, the waterfall accelerated the pay down of the super senior tranches – he was presenting it as a good thing because it gets us off the hook quicker. The way the company negotiated contracts that I

worked on, it just was consistent with that... And I mean, this thing was written such that the moon would have to crash into the Earth to pay out. So it was consistent with my experience, and people talked about it a lot. There were weekly management meetings that Cassano would chair from London, everyone was going through their summaries, I'd go [to the meetings] because that's where I would hear about new deals. And there was lots of talk in spring of 2007 talk about how things are great, how this is a buyer's market, how we stand to make a lot of money, that we should be out there writing protection. It was thought of risk free. So that's why when the margin call came in, I'm just back from vacation, I was walking across the trading floor, William Colberg who I reported to said, 'hey,' and I said 'hey,' and he said 'it's gonna be a crazy week because we have a margin call from Goldman.' I had to sit down – 'we have a what?' I was stunned. And nobody considered there was a mark to be taken until there was a call? I was just... We were starting to work through that and this guy Gary Gorton starting to get involved but I, I was just shocked to receive a margin call. What shocked me even more was that they paid it. I expected them to say, 'margin call? Are you nuts? We're AIG. We don't post margin.' That to me was just bizarre. Put my head into a strange spin for a couple days," he said.

Chris asked Mr. Denis to elaborate on the conversations he had when he found out first, that a margin call came in, and second, that AIG paid it. "There wasn't a lot of discussion because what happened as soon as I got up from my conversation with William was, I walked to my desk and sitting there was a new org chart which showed that I had been moved down a couple of levels underneath the controller, who was previously a peer. I saw that and I walked back across the floor and said I'm going home. And I spent the weekend drafting my resignation letter, which I fired off on Sunday. Then I get a bunch of phone calls saying 'oh it was a clerical error, etc.'" Chris asked if Mr. St. Denis had copies of the org chart and resignation letters, and he said yes.

Chris asked who signed off on the ultimate super senior accounting. Mr. St. Denis said, "well ya, financing and accounting doesn't necessarily report directly to – there's a huge corporate governance problem in that everyone reported to Cassano. I guess that flowed through the CFO, Elias Habayeb, and he was always in combat with Cassano... I reported to the FP Chief Admin Office. Functionally, I had a dotted line to Elias at big AIG. I wasn't in financial reporting, but of the financial reporting people in FP, I was the most outward facing."

Chris asked who would be the best person to talk to about accounting on the super senior CDS, and Mr. St. Denis said that Mr. Habayeb would be the best resource. "He's an accountant by trade, he had a few accountants in his shop and they were very, very good," he said. "The way the process worked – most what I did was new products. That's what I was there for, it was transactional, prospective stuff. Stuff would come to me, I'd write up a memo when something gained traction, and then Elias would be the first line of review for that. When he was happy with it, it'd go to OAP [Office of Accounting Policy] at corporate. Then they would very, very thoroughly vet it."

Referencing the October 4th letter where Mr. St. Denis writes that AIG FP is developing a valuation model during a time when the company has a material liability position on its super senior CDS, Chris asked if a VaR model was an appropriate model for writing down the CDS.

Mr. St. Denis said, “No, it’s not a valuation model. You use VaR to track assets from a ratings perspective – the question of course is how valuable that is. It’s a risk management tool, used as an early warning. It’s more of a default predictor.” Tom Stanton asked how it’s an early warning indicator if there is a lag. Mr. St. Denis said, “there’s also looking at spreads and credit markets general. Gary Gorton was doing some stuff along those lines. As we were going through this I was in process of being pushed aside. Tensaska was the first shot across the bow. For the first year or so I was there, it was fine. I liked it there, I worked really hard, it was really challenging work but I always felt like we got to the right answer. It was rewarding in that sense. I had gone to Tensaska in December 2006 to do some accounting due diligence. AIG was going to make a \$400 million equity investment there. Immediately, I found significant problems in hedge accounting. AIG had just been through hedge accounting issues of its own. Now a lot of companies wouldn’t go to that level of due diligence but we wanted to do that, to find problems, to talk to Tensaska, talk to auditors, to make sure they understood and were going to fix it all. Never went back to Tensaska to make sure they’d done it. They’d assured us they had, as did auditors. So we made the equity investment in April. [We] go back in June, and they hadn’t fixed it. KPMG had just not done *anything*. It was like they didn’t understand the problem – they didn’t link hedged items to hedge accounting. That caused a dustup but wasn’t that big a deal. An immaterial pickup. So, OK, fine. I come back, everything’s fine, everything’s under control. Cassano calls me into the halo room – HP makes these things calls halo rooms, they’re like a studio, you’re looking across at a bank of plasma TVs, and on the other side is someone in a room looks exactly like yours – it looks like he’s right there. Anyway, Cassano calls me in in August, it’s one of the first times I’ve talked to him – he just *rips* me for about 25 minutes about the Tensaska thing. It was really strange – why does he care about Tensaska? My theory afterwards was that he was starting to feel pressure from Elias on super senior and realized I was a hard link between Elias and FP and he wanted to spook me – to shut off that line of communication. That was a week before the org chart change and the margin call. So a combination of those things made me think it was time to leave.”

Tom asked if Mr. St. Denis could provide a sense of the implications of the margin call. He said that the implications were that “the company was potentially in serious trouble because they’ve now received a margin call, so the contracts were obviously written to allow for margin calls – how does that happen? So they’ve paid it, and started down a slippery slope, and their fate’s in the hands of their counterparties because they don’t have a valuation system. Goldman Sachs? I bet *they* have a valuation system. So I had a sense it would end badly. I didn’t think it would end that badly but...”

Chris asked if the “early warning VaR models” issued warnings in advance of the margin calls. “People know spreads are widening,” he said. “I don’t know that anyone had a sense of how that translated into super senior though. The VaR models were starting to -- when I first looked at super senior VaR models in July 2006 out of a \$4 or \$5 billion portfolio, there was about \$60-\$70 million that had fallen from super senior to AAA or something, so that doesn’t seem to be a big problem. By the time I left, that may have gone up to something like \$300-\$500 million, but that did not jump out of the water.”

Chris said that what jumps out is that by the time the margin call came in, AIG was just starting to put together a model to assess the value of its super senior CDS book, and the company is

relying totally on the VaR model, which is a flawed early warning model, not a valuation model at that. “This was not on the auditor’s radar,” he said. Although the company had written hundreds of billions in CDS, “it was ‘risk free.’ I’ve seen these products, and you start to think of them as products that really can’t be valued. They’re almost kind of a window dressing, and Gary Gorton, he may have been doing some valuation work I wasn’t aware of, but the only thing I aware of was the VaR. In the summer of 2007 when things started to ruminate with FAS157, corporate was saying, ‘gee we need better models, we started looking through other companies’ Ks that wrote some similar products, [so] we pulled AMBAC and MBIA earnings calls, and they’re doing this binomial expansion technique and the CFO is talking all about that, and I paste that into an email to Cassano and Balfan and Colburn, saying that these guys are doing this. Within two or three days I’m sitting a conference room watching Cassano presenting binomial expansion modeling technique to a meeting on September 26 or something where controller, David Herzog and a bunch of bigwigs -- Roemer, Valoroso – Habayeb didn’t go, but this big summit about super senior valuation. And Pierre Micottis was CRO at AIG FP and he had presented a very thin deck of slides, looked like a façade, but I didn’t get into it and I didn’t understand it that well. Cassano talking about our BET and how, by the way, we’re still in an unrealized gain position.”

Chris asked if the BET model was completed before he left, and Mr. St. Denis said he didn’t know. “My email where I sent the earnings call transcript excerpts to Cassano, I saw in another email that he forwarded it to Gary Gorton.” He said that “at this point, it’s a week or so after the halo room incident. I wasn’t going to stand up and say ‘hey Joe, what you doing?’ I had one foot out the door. One of the auditors raised the question which I thought everyone was thinking – Cassano still said ‘we’re up,’ and one of the auditors said ‘well what were you up last quarter?’ We were down \$500 billion.”

Chris asked how anyone knew that the company was “up” given that there was no way to value the CDS portfolio. “I’m not sure,” he said. Chris asked who was involved in building the valuation model when that effort was finally initiated. “I assume Pierre was involved, he handed it out I think. Gary Gorton.” Tom asked how quickly they could have built the model, and Mr. St. Denis said he didn’t know. “I haven’t built a BET model, but these quants are pretty quick to put things together.”

Jane Poulin asked where Elias was during the meeting about the BET model. “Not at the meeting,” he said. “Ultimately—I mean, he’s being pushed out in that meeting with Cassano – the halo room meeting – the thing is that after his initial outburst at me, he started berating Elias in very severe terms, what he said was that he’s immature, unsupervised, not being properly managed. And my sense was that and I think the meeting confirmed it because Elias wasn’t there, I think Elias was being pushed aside. That’s what Elias told me after – when he was trying to talk me into coming back, he said ‘Cassano’s trying to push me out.’” Chris asked how Elias was able to sign off on the financials, then. “The financial services division of AIG didn’t file separate financials, so I don’t know how the certifications work.” Jane asked if there was an internal certification protocol, and Mr. St. Denis said, “it’s very interesting because prior to the Tenasca blowup, it was very encouraging – Cassano was very encouraging. He’d say, ‘you’re my guy facing corporate, engage them,’ then very suddenly, it turned to full lockdown. It was clear to me that I had to make a decision – get in the boat or try to swim to shore.”

Chris asked if Mr. St. Denis learned of other margin calls by Goldman or other counterparties. “Not that I know of,” he said. “But I learned from the Wall Street Journal that they had paid about \$5 billion in margin calls prior to that. So I didn’t know that at the time.” Chris asked if the \$5 billion margin call was public. Mr. St. Denis said “no, and that was my concern with that call. When I saw their earnings release – and I was gone then – I saw they lost \$400 million on super senior in that first quarter. My first thought was that they were truing up to their margin calls, without even doing their valuation. But then I remember thinking my god, what they’re saying is that ‘well, occasionally, some people will say we need to post collateral, we say we don’t agree with your number’ and I remember thinking that would indicate to me as an investor something very different from what was actually happening. What happened was that AIG put its destiny in the hands of counterparties by posting collateral.” He added that “Margin calls were not properly considered and reported up through the chain. Cassano was hiding the ball on margin call from auditors, etc.”

Chris asked who Mr. St. Denis spoke with about his concerns after the margin calls came in. “I talked [AIG Chief Auditor Michael] Roemer and to PwC – Henry Daubeney, who would be a good person to talk to. A week or two after I left, he left me a long voicemail saying ‘we gotta talk to you, so sorry you left,’ so I called him back and we talked for seven or eight minutes.”

Chris asked when the conversation took place in which Mr. Cassano accused Mr. St. Denis of “polluting the valuation process.” Mr. St. Denis said that conversation took place after the first halo meeting. “It went, halo meeting, demotion, margin call, I quit, Cassano calls me back in - a very circumspect meeting, ‘I love you man’ type stuff - then [I was told that Elias wasn’t an accounting policy person, and so I should go straight to Valoroso downtown. So I agree to come back, he [Cassano] agrees to be good. And then we move towards this confrontation three weeks later – the polluting the process meeting. That was the end of the line for me.” He said that Cassano was extremely agitated following a meeting regarding the “SIV analysis” of the Nightingale SIV, that the meeting which was attended by Patrick Donovan “goes very well. I’m with this quant, Tom Ludke, Diane Sensay, the new CFO, and we have this conversation [about the SIV]. The minute we hung up, [Cassano’s] outside the door extremely agitated – a ‘what the f*** is going on’ – one of those things. I said that I’d talked to Patrick Donovan about the SIV. He [Cassano] says ‘Donovan, Donovan? He’s got this thumb up his ass!’ and then he starts boring into me. For some reason he was saying this was supposed to be [done] or something. I said at one point, ‘Joe, this morning was the first time you’d ever mentioned that.’ And he gets right down in my face and he says ‘don’t give me that shit,’ then quiets down a bit, he’s hissing about having intentionally excluded [me] from the valuation of the super senior. And so I took that to mean [that I would] bring transparency, accountability and process to the [valuation] process.”

Chris asked what the concerns were about the Nightingale SIV. He said the concerns were over leverage and future losses, and that “SIVs around the world were falling apart, and what happened was when I was on vacation I started getting emails from London saying ‘tell me it’s OK if we back up all the paper on the SIV - that’s OK, right? Joe says it’s OK,’ but I wasn’t signing off. What ultimately happened was AIG stepped in and bought it to keep the SIV from imploding, we ended up bringing it back on balance sheet.”

Chris asked how those events, including losses from bringing the SIV on balance sheet and posting collateral to Goldman Sachs and other counterparties, impacted compensation within FP. “One thing that came up in Waxman hearing – and you can watch that hearing, if you haven’t done so, and you can look at other records they obtained, including minutes from the Board where, for example, they actually made some changes to comp so they’d get paid despite losses.” He added that the company may have implemented a compensation policy that took into account losses suffered by the company, but that “they suspended it for Sullivan so he could still get a big bonus. Cassano probably made 3 or 4 times what Sullivan made.” Chris asked who “ran the show” at FP, and Mr. St. Denis said, “Cassano. He was the law there, the absolute ruler of AIG FP. There was also a group of senior vice presidents - Doug Poulin was the general counsel when I started, he ran the Wilton office. The transaction development group was run by David Ackert, he left at the end of 2006. And when he left, Doug Poulin went to the transaction development group and William Colburn became Chief Administrative Officer.” Tom asked if there was any back-story about those changes. He said, “the rumor I heard was that he and Cassano didn’t get along.” Mr. St. Denis also said that “Andy Forster in London, a credit guy, he did the super senior CDS, he was the deal guy, the banker. Then there was a marketing group – Rob something, also a well-timed exit. He went to UBS, now he’s running a big UBS division. There was also a Trading Group, though I never did figure out who ran that group. Pierre Micottis in Paris, he was the CRO and he had all kinds of quants working for him. Bill Shirley was the GC after Pouling moved to Transactional Development. Mark Balfam was the CFO. Jim Sheppard was the head of Banc AIG in Paris. But everybody reported to Cassano. I reported to the CFO Balfam initially, but Mark resigned end of 2007 and became part-time and started commuting from Florida. It took almost a year to fill his job. Diane Sensey eventually did. We really didn’t have a CFO for a while there.”

Al Crego asked if there was any corporate oversight beyond Cassano. Mr. St. Denis said that there was “definitely a corporate risk management, that was Bob Lewis. Cassano hated Bob Lewis. He was at 70 Pine in New York. Apparently, he thought he was Cassano’s boss, because Cassano once told me about him – Cassano said ‘you’ve just got to kiss his ass, Bob Lewis thinks he’s my boss, which is ridiculous, but you know, I have planes, so I invite Bob Lewis on my plane. You think I want Bob Lewis on my f***ing plane?’”

Mr. St. Denis added that there was a Super Senior Committee, and that he attended one of the Committee’s meetings. He said that the Committee’s objectives were as much about business opportunities as they were about monitoring the portfolio. He said that no one at the company knew how to price the risk of the super senior CDS. “This is the issue with the financial crisis – a lot of it is that people really didn’t know how to price risk and they didn’t have the systems to price risk.”

Noting press accounts of situations where, for example, Goldman Sachs charges 250 basis points to write protection and then they laid the contract off to AIG for 12 basis points, Chris asked if Mr. St. Denis had any conversations with management about why the company charged what it charged to write protection on the multi-sector CDOs in late 2007 and 2008. “I recall conversations in management meetings saying in effect, ‘hey we could make a killing, spreads are widening,’” but he said that “I think that the reason [they thought] spreads were widening

was because of an irrational panic in the commercial paper market. The residential housing market didn't come on the radar. In fact, there were numerous efforts afoot to further inflate the bubble. There was an AIG FP investment – AIGFP was very confident in the residential market – so Rex Exchange offered the 'Rex Option,' which is [an offer] to a homeowner: 'You want to buy a house? Give me 50% of the gain when you sell it, and we'll give you 100K now' – this has predatory lending and housing bubble written all over it. This is something AIG was investing in in 2007," he said.

Chris asked if Mr. St. Denis said that the residential mortgage market was not on the radar at FP in the summer and fall of 2007, and Mr. St. Denis said yes. Chris asked how that could possibly be given that data was clear at that point. "You'll hear Cassano talk about vintages. 'That's all a vintages.' We stopped writing subprime in 2005. So they didn't see a problem."

Al asked why there are CDS deals on CDOs with significant subprime exposure as late as 2008 if in fact AIGFP stopped writing CDS on super senior with subprime exposure in 2005. Mr. St. Denis said, "I don't know. Again, and with respect to super senior portfolio, I'm skeptical about anything they said about it because I don't think they had very good control over it, they just didn't have the facts to make a counter-argument about margin calls. But it wasn't thought that this was a credit-induced problem. I mean, they were going to invest in a company that would have put kiosks in Home Depots, and if you agreed at that kiosk to let a real estate agent sell your house, you'd get a \$1,000 gift card on the spot."

Al asked if there were any OTS personnel on site, and Mr. St. Denis said that there were, and he met them "once or twice." He said he didn't recall their names.

Chris asked if Mr. St. Denis could offer his thoughts on any "big picture" issues the FCIC should know about given its charge to investigate the causes of AIG's failure. Mr. St. Denis clarified that all of his views were his own and shouldn't be interpreted as representative of the views of anyone else at AIGFP or related organizations. He then continued that "I see what happened at AIG as a failure in corporate governance, effectively. And I was part of the solution to the corporate governance that Spitzer identified, and it looked good on paper – you had me, Elias, etc. - but when the chips were down, it didn't really work. It was very easy for Cassano to come in and silo everything off. What I see as the crime here, the problem here of not having valuations for super senior is problematic but not as problematic as the efforts to cover that up. If the company had engaged its counterparties and engaged with people within the company to evaluate the contracts, things might've come out differently. When I left, when I walked out the door [at] 8:00 am on October 1 and drove away, at that time the stock was still at \$70-\$75 a share. I sensed that things would go badly and that there would be a crisis but I did feel an obligation to advise the company of my reasons for leaving, I didn't want to throw gasoline on Habayeb. Then I was contacted by Mike Roemer, again, knowing what I know now would've written it all down, but I had a conversation with him and I laid out similar story to what's in that letter - in fact, I have I have my notes for that – there's nothing [in the notes] about the super senior CDS, but we did talk about that. I was under an agreement, and so I didn't go to the press or anything. I wasn't aware of any criminal or fraudulent behavior, but I sensed things were going in a very bad direction even though I was leaving a very significant bonus on the table."

Chris asked what efforts were undertaken at the company to cover up the valuation problems. “Specifically, before the December 6 conference call, rather than the company saying, ‘stop, let’s get everyone in a room with these contracts to figure it out’ if Greenberg would’ve been there, that’s what he would have said. That’s the kind of discussion that needed to happen rather than this ‘let’s pay ‘em off and keep ‘em quiet and let this whole thing blow over.’”

Chris asked if he ever said, “let’s pull the contracts,” and he said, “No – five minutes later, I was looking at this org chart and it became clear to me when I came back in the following Monday, I had a lot of work to do outside of that and I assumed we’d cover that at the summit meeting, I wasn’t aware of the process going on. If you had asked me at the time I probably would’ve said that I expected that I’d be included - when I found out I was being excluded, I had to leave, that was it.”

Chris asked what government agencies had interviewed Mr. St. Denis, and he said that in early 2008 the SEC and DOJ interviewed him with the FBI, Postal Inspectors, and investigators from the Eastern District of New York in attendance. He said that he is not involved in any private litigation.

Chris asked if there are any documents Mr. St. Denis could suggest we look into, and he said that starting with the Oversight Committee documents would be a good start. He said that the documents related to the margin calls are critical, as are the PwC documents about the material weakness in the valuation of the super senior CDS. He also said that “the big bang was the December 5 conference call – that’s where everything converges and so anything prepared in preparation for that would be good. It’s the margin calls – your ship is out of control and you’re not telling people that there’s water pouring in through the hull and that the pirates are aboard. I remember having dinner with my brother saying it doesn’t take much from here to take out AIG because you’ve got \$50 billion in equity and that’s just a percentage of the notional value of these super seniors. It doesn’t take much to take this company down.”

Jane asked if the material weakness finding was the first time PwC mentioned any control risk. Mr. St. Denis said, “my only interaction with PwC was that they’d ask me about my memos. That particular issue, I don’t know.”

Chris thanked Mr. St. Denis for his time and concluded the interview.