

My current insurance policy is underwritten through an agent who placed my coverages on my PC12 through AIG Aviation. Given recent financial events and the news on AIG should I be concerned?

You have every reason to be concerned about these events and how they relate to AIG being able to back up their promise to pay. If your agent or Broker was not in touch with you immediately you have even bigger concerns. My immediate response to clients was to contact every agency AIG client and review what we had extracted from the company, not from CNN, CNBC or the internet. Many of our clients elected to move their coverage to other markets immediately and some felt that riding things out worked best for them.

AIG was the world's largest insurance company and by some measures still is. AIG Insurance Group as a company is still very strong; as a matter of fact they have more policy holder surpluses on hand to handle claims than any other domestic insurer. Their Parent Company is where the real problem lies, in the financial services sector. The following talking points extracted from an AIG intercompany communiqué will enlighten you. This is lengthy, but if entirely read, its encouraging stuff. What it does not mention is AIG's current premium to surplus ratio (< 1% - 1). If AIG Insurance Group were totally removed from their parent AIG, this ratio alone should give them AAA+ paper.

Summary of AIG's Arrangements with the Federal Reserve Bank of New York

- AIG has three separate arrangements with the New York Fed, each of which provides a distinct benefit to the company.
- First, an \$85 billion credit facility for two years. These funds are used for collateral obligations related to the AIG Financial Products' (AIG FP) credit default swap portfolio and for general corporate purposes. AIG pays interest on this credit facility at a rate based on 3-month Libor (London interbank offered rate) plus 8.50%.
- Second, a \$37.8 billion facility for AIG's Securities Lending program. Under this agreement, the Fed borrows investment grade, fixed income securities from AIG's domestic life insurance companies, on commercial terms and conditions, in exchange for cash. This arrangement provides liquidity to AIG while providing enhanced credit protection to the Fed by giving it possession of third-party investment grade securities.
- Third, a \$20.9 billion Commercial Paper Funding Facility (CPFF). Under this arrangement, the Fed purchases commercial paper from four participating AIG affiliates, thereby providing additional cash to AIG. During normal credit market conditions, companies like AIG could sell short-term debts into the commercial paper market for working capital and other short-term expenses (for example, [inventories](#) and accounts [receivables](#)), but that market has seized up in the current economic environment. The commercial paper facility enables AIG now to sell

short-term notes to the Fed. The proceeds from issuing the commercial paper have already helped AIG reduce its outstanding balance under the original Fed loan, while meeting the company's working capital needs.

\$85 Billion Credit Facility

- AIG has signed a definitive agreement with the Federal Reserve Bank of New York for a two-year, \$85 billion revolving credit facility.
- AIG is using the funds for collateral obligations related to the AIG Financial Products' (AIG FP) credit default swap portfolio and the Securities Lending program, and for general corporate purposes.
- AIG will pay interest on the credit facility at a rate based on 3-month Libor (London interbank offered rate) plus 8.50%.
- AIG will pay an initial gross commitment fee of 2% of the total facility on the closing date. AIG also will pay a commitment fee of 8.50% per year on the undrawn amount. The interest and commitment fees will be payable by increasing the outstanding balance.
- AIG will repay the credit facility, among other things, with funds from the sale of certain assets and by issuing debt or equity. These mandatory repayments permanently reduce the amount available to AIG under the credit facility.
- The credit facility is secured by a pledge of the capital stock and assets of certain of AIG's subsidiaries, subject to exclusions. Those exclusions include certain property which cannot be pledged by AIG because of the terms of its debt instruments. Additionally, the assets of regulated subsidiaries, assets of foreign subsidiaries and assets of special purpose vehicles are excluded.

Equity Participation

- Under the agreement with the Federal Reserve Bank of New York, AIG will issue a new series of Preferred Stock to a trust. The trust will hold the Preferred Stock for the benefit of the U.S. Treasury.
- The Preferred Stock will hold approximately 79.9% of the total shareholder voting power.
- The issuance of the Preferred Stock, convertible into Common Stock following a special shareholders meeting to amend AIG's restated certificate of incorporation, would normally require the approval of shareholders according to the shareholder approval policy of the New York Stock Exchange (NYSE).

- But the Audit Committee of the AIG Board of Directors determined that the delay necessary to secure shareholder approval prior to the issuance of the Preferred Stock would seriously jeopardize AIG's financial viability.
- Therefore, the Audit Committee, pursuant to an exception provided in the NYSE's shareholder approval policy for such a situation, expressly approved AIG's decision not to seek shareholder approval that would be otherwise required under that policy. The NYSE has accepted AIG's application of the exception.
- AIG is mailing all shareholders a letter notifying them of its intention to issue the Preferred Stock without seeking their approval and will proceed to issue the Preferred Stock when it receives all material approvals from governmental authorities required for the issuance.

\$37.8 Billion Securities Lending Agreement

- The Federal Reserve Bank of New York has agreed to provide liquidity to AIG's securities lending program by borrowing investment grade, fixed income securities from AIG's domestic life insurance companies, on commercial terms and conditions, in exchange for cash. In this arrangement, the Fed acts in its traditional capacity as lender of last resort.
- The total amount the Fed is authorized to borrow is \$37.8 billion. The lending agreements were executed on October 8.
- This arrangement is an effective method to provide liquidity to AIG's Securities Lending program while providing enhanced credit protection to the Fed by giving them possession of third-party investment grade securities.
- The arrangement allows additional time for AIG to work toward its current strategy to wind down its Securities Lending program.
- This arrangement is separate and distinct from the \$85 billion credit facility, which is a loan from the Fed. This new arrangement contemplates the Fed stepping in as a counterparty in a traditional commercial financing transaction, on commercial terms and conditions, which reflects the Fed's status as lender of last resort.
- AIG, the Fed and State insurance regulators are working cooperatively to support the interests of the company and its policyholders. This is one example of this cooperative effort.

Outstanding Balance under Fed Arrangements

- Every Wednesday, the Federal Reserve posts on its website AIG's outstanding balance under the Fed agreements.

- Of the \$122.8 billion available—the \$85 billion credit facility plus the \$37.8 billion made available under the securities lending agreement—AIG had an outstanding balance of \$83.5 billion as of October 29.
- \$65.5 billion is under the credit facility. AIG is using the funds from this facility primarily for collateral obligations related to the AIG Financial Products' (AIG FP) credit default swap portfolio and general corporate purposes.
- \$17.7 billion is in cash collateral in exchange for third-party investment grade fixed income securities borrowed by the New York Fed under AIG's Securities Lending program.
- AIG has paid \$331 million in interest and fees on the \$85 billion credit facility.

Commercial Paper Funding Facility

- On October 7, 2008, the Federal Reserve Board announced the creation of the Commercial Paper Funding Facility (CPFF) to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers.
- Beginning on October 29, 2008, four affiliates of AIG registered and began to issue in the New York Fed's CPFF.
- AIG Funding, Inc., International Lease Finance Corporation, Curzon Funding LLC and Nightingale Finance LLC may issue up to approximately \$6.9 billion, \$5.7 billion, \$7.2 billion and \$1.1 billion, respectively, of commercial paper under the CPFF.
- AIG's participation in the CPFF is on the same terms and conditions as other companies that have recently announced plans to participate in this program.
- Proceeds from the issuance of the commercial paper will be used to refinance AIG's outstanding commercial paper as it matures, meet other working capital needs and make voluntary prepayments under AIG's \$85 billion credit facility with the New York Fed.
- The CPFF program expires on April 30, 2009 unless extended by the Federal Reserve Board.

Maurice Greenberg's Proposal for Changes to Fed Credit Terms

- AIG is working in close coordination with the Federal Reserve to consider all serious proposals that can benefit taxpayers and AIG shareholders. AIG's focus is to maximize the value of its businesses and protect its

policyholders, so the company can both repay the Federal Reserve loan and emerge as a vital, ongoing business.

Impact on AIG

- AIG's insurance companies remain financially healthy and are meeting all policyholder obligations.
- Insurance is a regulated business. Regulators ensure that each AIG member insurance company has adequate assets to back each policy and meet all policyholder obligations. Policyholders are protected and their policies are safe.
- AIG companies intend to honor all of their commitments to policyholders and customers.

AIG's Future Direction

- AIG has a number of remarkable businesses with leadership positions in the world's most desirable markets and significant competitive advantages that could not be recreated.
- AIG's renewed focus will be on its core property and casualty insurance business—U.S. property-casualty and foreign general insurance—while also maintaining an ownership interest in foreign life insurance operations.
- AIG expects to generate sufficient liquidity to repay the outstanding balance of its loan from the Federal Reserve Bank of New York and address its capital structure.
- AIG is exploring divestiture opportunities for many high-quality businesses and trophy assets. As these businesses are well-run, attractive operations, they offer prospective buyers the greatest potential for growth and profitability.
- AIG is also considering alternatives for its Financial Products (FP) business and its Securities Lending program. AIG is winding down the FP operations, which are not writing any new business.
- The AIG United Guaranty mortgage guaranty insurance business has stopped writing second-lien mortgages, but continues to write first-lien mortgage business.
- AIG expects to emerge as a smaller, formidable and more nimble enterprise in the future—solidly profitable with good long-term growth prospects and where employees will be proud to work.

Other dynamics should still be factored into ones decision to stay or move from AIG as an insurer. AIG Aviation has recently lost a number of key executives including their

CEO of General Aviation, Senior Underwriters and claims adjusters. Although these recent departures have not impacted our current dealings with AIG Aviation, with regard to dialing servicing one could argue changes may impact normal claims handling being outsourced to independent claims adjustors in the case of catastrophic loss.

It is imperative that your Broker be familiar with each state's insurance statute as it relates to moving business from one company to another or commenting on a company's financial strength. Consider the State of New York's statute as it relates to advice given on insurance companies and policies written in that state. NYS Insurance Law § 2604: False statements as to insurers.

No person shall either (i) willfully make, circulate or transmit to another any statement written, printed or by word of mouth, which is untrue in fact and is directly or by inference derogatory to the financial condition, or affects the solvency or financial standing, of any insurer doing business in this State or (ii) knowingly counsel, aid, procure or induce another to start, transmit or circulate any such statement.