

September 17, 2008

Dear IIABA Members:

The Federal Reserve confirmed last night that the Federal Reserve Bank of New York will make an \$85 billion short-term bridge loan for 24 months to American International Group, secured by all the assets of AIG. This important news for the insurance industry and financial market underscores the perspective of the Federal Reserve Board that “a disorderly failure of AIG could add to already significant levels of financial market fragility and lead to substantially higher borrowing costs, reduced household wealth, and materially weaker economic performance,” according to the [news release](#) issued by the Federal Reserve. In return, the government will receive warrants giving it the right to buy a 79.9% stake in the company, and a veto right over the payment of dividends on the company’s common and preferred stock.

The loan is welcome news in the face of the escalating concern about the potential impact of AIG’s economic challenges, which has dominated the news for days, fueling speculation about the future of the company and debate about the public policy of a government bail-out.

The complex corporate structure of AIG has resulted in confusion by some about the distinction between the parent company’s financial strength and the ability of its insurance businesses to meet their obligations to policyholders. The loan provides AIG with needed liquidity, averting a crisis that could have set off a cascade of repercussions across the financial markets. On the other hand, its insurance businesses are separate units or subsidiaries that are restricted from transferring assets to related entities without regulatory approval to facilitate their ability to pay claims.

AIG released a [statement](#) last night on the loan, describing it as “the best alternative for all AIG’s constituencies.” That followed an [earlier statement](#) released in the late afternoon aimed at addressing policy holder concerns that indicated that the insurance company businesses “continue to operate normally and remain adequately capitalized and fully capable of meeting their obligations to policyholders.”

In addition, the NAIC issued a [news release](#) yesterday regarding regulatory safeguards in times of crisis. Additional materials and updates will be published in Insurance News & Views, IIABA’s weekly newsletter about industry developments, and also will be posted for IIABA members at www.independentagent.com under Legal Advocacy, Industry Issues.

IIABA has been closely monitoring the developments on AIG through communications with executives of the company and its subsidiaries, and will continue to do so, providing updates as circumstances warrant.

Sincerely,



Robert A. Rusbuldt
President & CEO

